Business Review

Annual Report **2018**

50TH ANNIVERSARY 1969 - 2019

ENDURE . ADAPT . EXCEL

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$41 billion* in total assets.

*As at 31 December 2018

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Endure. Adapt. Excel

Celebrating our 50th Anniversary

In 2019 we celebrate the 50th anniversary of the establishment of Sun Hung Kai & Co.

From our beginnings offering brokerage and related services, the Group has grown steadily to become an investment and financial services firm with HK$40 billion of assets. The Group forged a path into Mainland China more than 30 years ago and has pioneered an array of financial service offerings.

Through constant innovation and excellence, and the Group's deep understanding of market dynamics, the Company has evolved with the times. The Group has successfully weathered economic cycles, carefully seized opportunities and delivered consistent returns to its shareholders.

1969-2006

A pioneering force in the brokerage industry

From a small team of seven staff, the Company's brokerage business grew exponentially through ground-breaking, market-leading initiatives that included establishing a footprint in Mainland China and launching an online brokerage platform as early as 2000.

- 1969 Brokerage business founded by Hong Kong businessmen Mr. Fung King Hey, Mr. Kwok Tak Seng and Mr. Lee Shau Kei, marked the beginning of Sun Hung Kai Financial
- 1970 The first local broker to have a research department
- 1983 Listed on the Hong Kong Stock Exchange
- 1988 Acted as an advisor to Shenzhen for the development of its capital markets, subsequently licensed as one of the first underwriters in the B-Share market
- 1996 Allied Properties (H.K.) Limited acquired the Fung family's equity interest in the Company
- 2000 SHKOnline.com launched

2006–2015

Taking the lead in consumer finance and wealth management

2006 and 2007 marked a profound turning point for the Company when it successfully entered the consumer finance industry by acquiring a majority stake in market leader UA Finance. The appointment of Mr Lee Seng Huang as Group Executive Chairman transformed the brokerage business into Hong Kong's largest independent wealth management platform, Sun Hung Kai Financial.

- 2006 Acquired a majority stake in UA Finance
- 2007 UA Finance commenced business in Shenzhen and expanded to 15 Chinese cities over the next decade
- 2011 Wealth management premium brand SHK Private launched
- 2012 UA Finance pioneered the "No Show" loan product in Hong Kong, a precursor to its online loan business
- 2014 Online strategy commenced in China

2015 – Today

A full-fledged investment platform with a global reach

The sale in 2015 of 70% of the Sun Hung Kai Financial business to Everbright Securities, consistent with Sun Hung Kai Financial's long-stated strategy to gain greater access to the fast-growing wealth management sector in Greater China, was an important step in the Group's further transformation into a comprehensive finance and investment group. The Group is now focused on a core of financial service offerings as well as principal investments, drawing on a winning combination of its heritage, extensive connections and financial strength.

2015 Everbright Securities Company Limited acquired 70% of the Sun Hung Kai Financial business, (renamed Everbright Sun Hung Kai)

Established mortgage loans business Sun Hung Kai Credit

Formed China car financing leasing joint venture, LSS Leasing

Expanded the Principal Investments platform

2017 UA Finance formed a partnership with China Unionpay to market SME loan products to the latter's point-of-sale terminal users.

UA Finance launched online lending business platform, UA Yirongzhan.

2018 Sun Hung Kai Credit's loan portfolio surpassed HK$3 billion

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.

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.

Our Business

Financial Services

Since the Group's foundation 50 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, the Group acts as a facilitator and provider of liquidity to corporate and retail customers.

UA Finance A market leader in the Hong Kong Consumer Finance market with 25 years of history and a significant presence in Mainland China. Through its branch network and increasing online penetration, UA will continue its online to offline approach which balances the power of online reach, as well as the "last mile" services to its customers.

Sun Hung Kai Credit Building upon the Group's household brand, financial strength and credibility, Sun Hung Kai Credit provides customised financing solutions to home buyers and property investors in Hong Kong. Established in 2015, Sun Hung Kai Credit has already established a leading position in the market.

Structured Finance Complementing the Group's background in lending and capital markets it has a well-established niche business providing specialty funding solutions to corporates, investment funds and high net worth individuals within the Private Credit portfolio of Principal Investments.

Mortgage Lonas	Consumer Finance	Affiliates
新鴻基信貸 SUN HUNG KAI CREDIT 您的•樓按首選	亞洲聯合財務 UA FINANCE	EBSHK $130B client assets
$4B loans	$15B annual loan origination	LSS Leasing 350+ cities in China

Business Portfolio
Core excellence in financial services

Extended Reach

Insights and New Opportunities

Principal Investment Platform
$15B
Multi asset classes including about $3B structured finance lending

Everbright Sun Hung Kai (associated company) A full-service financial institution that spans wealth management and broking, corporate finance and capital markets, asset management, 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 (joint venture) In partnership with the Brilliance China Group and 58.com, LSS Leasing connects financing to traditional and new transport models, from corporates to individual customers.

Since the transformation of the Group in 2015, we have extended our sector reach globally through Principal Investments. Many of our investments were made possible by our industry position and knowledge as investee companies seek connections and insights in addition to capital. Examples of our global investments include consumer finance, online lenders and wealth management platforms.

Over the past three years, this new model has delivered solid results, and we have extended our sector focus to include technology, healthcare and real estate, where we can benefit from the expertise and capabilities of our affiliates and shareholders.

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 investees, we bring expertise, connections and insights from our own operations and business network.

Seamless Partnership and Network

We work with external partners who 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.

Agile, Professional Team

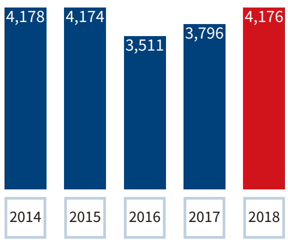
Investments are led and managed by an experienced professional team, with deep understanding of a wide range of industries and markets. The team is supported by exceptional middle and back office talent – all focused on enabling smooth, swift and prudent investment decisions and execution.

Financial Highlights

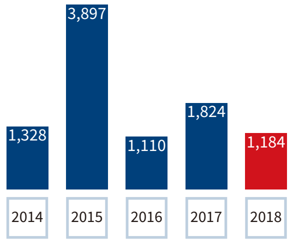
2018 Highlights

Attributable Profit -35%	**HK$1,184 m**
Basic EPS -33%	**HK56.2 c**
DPS no change	**HK26.0 c**
BVPS +5.6%	**HK$9.5**

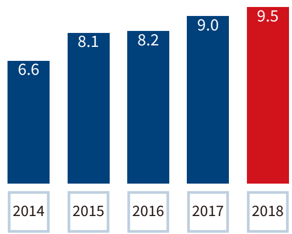
Revenue (HK$m)



Attributable Profit (HK$m)



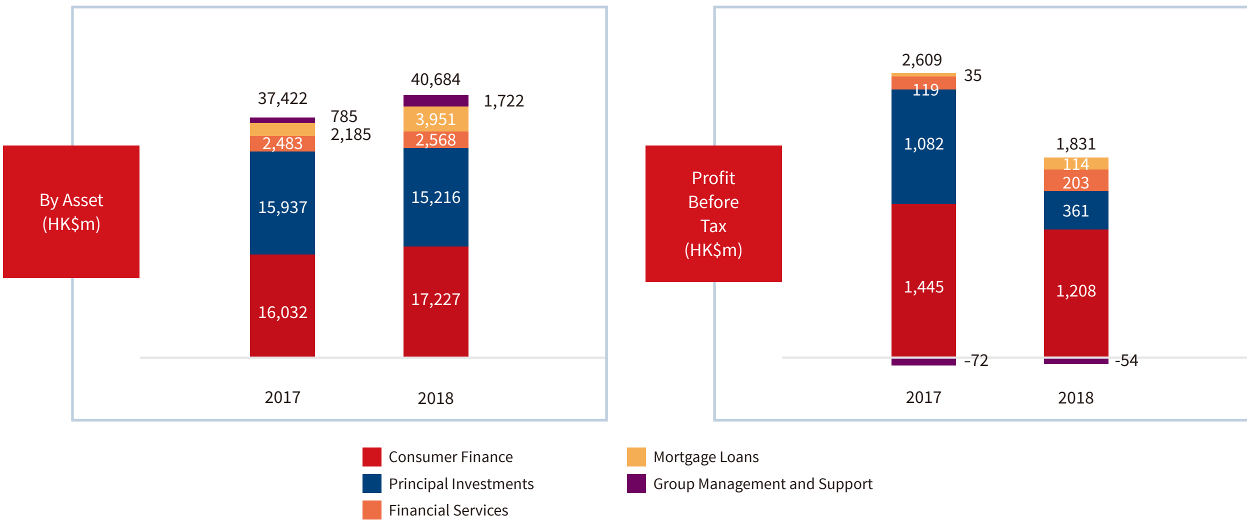
Book Value per Share (HK$)



Five Year Financial Summary

For the year ended 31 December (HK$ Million)	2014	2015	2016	2017	**2018**	18/17 % change
Results						
Revenue	4,178	4,174	3,511	3,796	**4,176**	10.0%
Profit attributable to owners of the Company	1,328	3,897	1,110	1,824	**1,184**	-35.1%
Balance Sheet Data						
Total assets	32,761	32,369	32,561	37,422	**40,684**	8.7%
Total liabilities	14,094	10,778	10,905	14,024	**17,839**	27.2%
Shareholders' equity	14,927	18,008	18,077	19,427	**19,039**	-2.0%
Share Data						
Basic EPS (HK cents)	61.7	173.8	50.3	84.0	**56.2**	-33.1%
Diluted EPS (HK cents)	61.7	173.8	50.2	83.9	**56.1**	-33.1%
Basic EPS (HK cents) – From continuing operations	43.6	29.8	50.3	84.0	**56.2**	-33.1%
Diluted EPS (HK cents) – From continuing operations	43.6	29.8	50.2	83.9	**56.1**	-33.1%
DPS (HK cents)	26.0	26.0	26.0	26.0	**26.0**	–
BVPS (HK$)	6.6	8.1	8.2	9.0	**9.5**	5.6%
Total number of shares at year end (Million)	2,254	2,229	2,193	2,153	**2,008**	-6.7%

Segment Breakdown



Chairman's Letter

> "Since its inception 50 years ago, the Group has had a history of innovation. Following its reinvention, we are now a full-fledged investment platform geared for long-term capital growth".

Dear Shareholders,

In 2019 we celebrate the Group's 50th anniversary and our history of business innovation, and consistent financial performance throughout various economic cycles.

In keeping with our heritage of quickly adapting to ever-evolving market circumstances, capturing profitable opportunities and embracing new technologies, three years ago we embarked on a strategic transformation of the Group into a full-fledged investment firm, taking advantage of our industry expertise, extensive network and financial strength.

The Group's assets are diversified to a portfolio of financial service businesses as well as investments in multiple asset classes. This provides the Group with flexibility to tap into new markets and sectors in a fast-changing business environment while keeping abreast of the latest disruptive technologies.

One consequence of this new business model is the increased short term impact, for good or bad, on our financial results due to changes in the market valuation of our assets, particularly at year end. Since then, market sentiment has improved. We believe short term market volatility should not lead us to change course in our efforts to build a platform for long-term capital growth. Our focus is on increasing earnings over a multi-year period.

The results of the Group for the year ended 31 December 2018, as well as some key highlights for the year are as follows.

Financial Results and Capital Management

The book value per share gained 5% HK$9.48. The Board of Directors has declared a second interim dividend of HK14 cents bringing the total dividend per share to HK26 cents for 2018.

Profit attributable to owners of the Company was HK$1,183.8 million, compared to HK$1,824.3 million in 2017, which had been one of our strongest years. Earnings per share was HK56.2 cents (2017: HK84 cents).

During the year, the Company completed a share repurchase transaction of 145 million shares on an off-market basis. This completed the HK$1 billion share repurchase plan announced by the Board in 2015 to improve capital efficiency. The repurchase reduced the number of shares by 6.7%.

Return on equity and return on assets was 6.2% and 4.1% respectively (2017: 9.7% and 6.6%).

Business Update

UA Finance, a 58% owned subsidiary operating in the Consumer Finance segment contributed HK$1,207.9 million to the Group's pre-tax profit, representing a decline from 2017 when a substantial amount of impairment allowance was written back.

In 2018, UA Finance celebrated its 25th anniversary in Hong Kong, where it has become a market leader in a highly competitive industry due to its customer-centric approach and product innovations to help local consumers with their individual funding needs. During the year, gross loans in Hong Kong increased by 19% to HK$7.8 billion and the business delivered solid profitability.

In Mainland China, UA's business slowed amid challenging market conditions impacted by a regulatory crackdown on peer-to-peer (P2P) lending. With a focus on credit quality and profitability, we implemented tighter credit policies, which reduced the size of the loan portfolio. During this time, we continued to move the business online to build a more efficient model that is easier to scale-up given the right market conditions.

Sun Hung Kai Credit contributed a meaningful pre-tax profit of HK$114.1 million in its third full year of operation, with the Hong Kong based mortgage loans portfolio reaching HK$3.9 billion at the end of 2018. Successfully drawing on the Group's experience in lending and coupled with our household brand name, the business has already become a market leader. This secured mortgage loans business adds another pillar to our loan operations, complementing the consumer finance business which focuses on unsecured loans.

EBSHK, our 30% owned affiliate, reported increases in both revenue and profit in 2018. At 31 December 2018, client assets under management, custody or advice hit a new record exceeding HK$130 billion. In November 2018, EBSHK also made a successful debut in the debt capital markets with an inaugural US$200 million bond issuance that was rated "Baa3" by Moody's. These positive developments were in line with our expectations that the company would continue to flourish with Everbright Securities as its major shareholder. Further benefits from the realisation of the anticipated merger synergies should augur well for this business in the coming years.

LSS Leasing is fast evolving from a traditional car leasing business to a service and financing solutions provider that embraces new transportation models. Partnerships were made with prominent ride-sharing companies and a joint venture with Shanghai Qiang Sheng Group was established to jointly seek further growth opportunities in this sector.

The Principal Investments segment contributed HK$360.6 million in 2018. While the amount was significant, it was lower than the substantial returns achieved in 2017 under more favourable market conditions. In particular, towards the end of 2018 major global markets were influenced by a culmination of negative factors including the threat of interest rate hikes and a Sino-US trade war. Accordingly, our 2018 performance was affected by the mark-to-market of our publicly traded portfolio. Taking into account the steady performance of the non-public portfolio, the segment's investment return was 5.7% in 2018.

Over the past three years, we have established a robust and professional investment platform which has delivered meaningful returns and expanded the Group beyond our core financial services capabilities. As we continue our transformation, we look forward to the next phase of development and aim to create new businesses and value from the platform.

Corporate Citizenship

Our progress over the past three years has earned us wide market recognition. In 2018, the Group was distinguished with several prominent awards, including "Listed Enterprises of the Year 2018" (Bloomberg Businessweek/Chinese Edition), "2018 Listed Company Awards of Excellence" (Hong Kong Economic Journal), "The Listed Enterprise Excellence Award" (Capital Weekly), in addition to being declared "Gold Award Winner" for Excellence in Management and Corporate Governance (The Asset) for the sixth year, and securing an "Asian Excellence Award" (Corporate Governance Asia) for the third year.

Looking to the future, the Group remains committed to upholding sustainable business practices and our corporate social responsibility programs by acting wherever it can to benefit all stakeholders and the community.

As an example, in January 2019 we announced the removal of yearly limits on annual leave for the staff of the Company, a pioneering move amongst Hong Kong corporates supported by global research on innovative and results-oriented workplaces, which will allow employees to focus on producing exceptional results.

The Group also believes that competitive sailing reflects our core values and as such is the main sponsor of the Sun Hung Kai Scallywag race team. We believe the team's spirit of excellence and endurance is a source of inspiration for all our employees, business partners and the community at large. To build on the team's legacy, and focus our Corporate Social Responsibility efforts we will be launching our youth sailing programs in Hong Kong under the Sun Hung Kai & Co. Foundation, the main objectives of which are to improve young lives, nurture future leaders, and promote environmental conservation.

As we celebrate our achievements over the past 50 years and look forward to building on that rich legacy, I would like to express my deepest gratitude to my fellow board members for their invaluable contributions, and to the late Mr. Peter Wong Man Kong, a devoted long-time member of the Board, whose advice and wisdom will be dearly missed. Last but not least, I would like to thank our shareholders for their steadfast support, and all my colleagues, past and present, for their commitment and professionalism over the years.

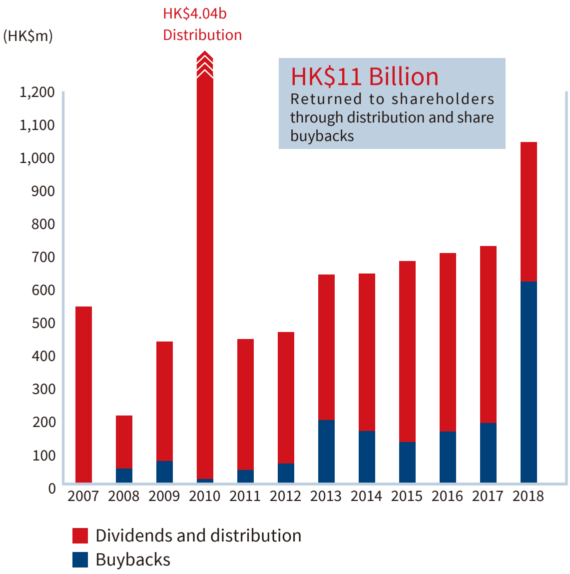
Lee Seng Huang
Group Executive Chairman

Hong Kong, 20 March 2019

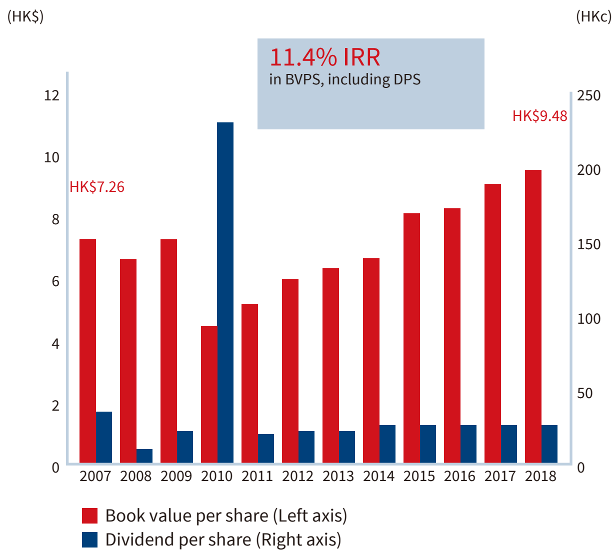
Creating Value for Shareholders

Sun Hung Kai & Co. has a solid track record of delivering returns to shareholders through dividends and distributions, share repurchases and long-term capital growth. Since the current management took the helm 12 years ago, the Group has returned over HK$11 billion to shareholders in the form of dividends and share buybacks. During this period the BVPS IRR[1] reached 11%.

Track Record of Capital Return

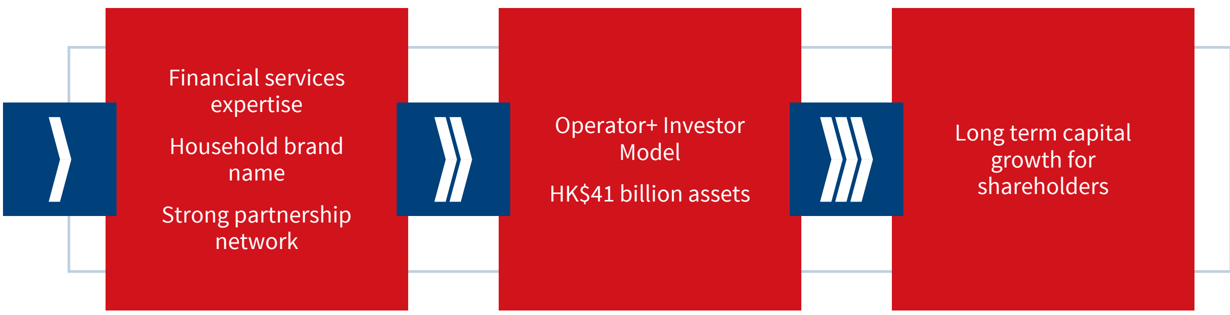


Value Accretion



The Group has demonstrated its ability, when presented with the right opportunity, to crystallize significant value for shareholders, such as when it sold a majority stake in the Sun Hung Kai Financial business in 2015 and embarked on its strategic transformation. Today the Group's operator-investor business model allows it to unlock the full potential afforded by its expertise in financial services and the extensive network it has developed over its long history.

The Group has established leading market positions across its business portfolio. This expertise, combined with longstanding relationships with our trusted business partners give us valuable insights when we invest. In turn, through our investments we generate new opportunities and gain industry insights and know-how for our operations.



1 Shareholders' IRR is calculated with reference to the sum of dividends paid by the Group and variations in the Group's equity book value.

Awards

2018	The Listed Enterprise Excellence Award – Financial Performance *Capital Weekly*
2018	Listed Enterprises of the Year *Bloomberg Businessweek/Chinese Edition*
2013-2018	Excellence in Management and Corporate Governance - Gold Award *The Asset*
2018	Listed Company Awards of Excellence *Hong Kong Economic Journal*
	Asian Excellence Award *Corporate Governance Asia*
2016-2018	• Best Investor Relations Company (Hong Kong)
2018	• Asia's Best CEO for Investor Relations (Hong Kong)
2017-2018	• Asia's Best CFO for Investor Relations (Hong Kong)
2016-2018	• Best Investor Relations Professional (Hong Kong)

2018	The International Annual Report Design Awards (IADA) for Annual Report 2017 • Silver Award for Interior Design (Commercial Banks) • Honors Award for Cover Design(Commercial Banks)
2018	ARC Awards for Annual Report 2017 • Silver Award for Traditional Annual Report (Financial Services –General) • Silver Award for Interior Design (Financial Services – General) • Bronze Award for Interior Design (Financial Services – Consumer & Specialty) • Honors Awards for Cover Photo/ Design (Financial Services – General)
2016-2019	Caring Company
2018-2020	Manpower Developer Award *Employees Retraining Board*
2014-2018	Good MPF Employer Award
2016-2018	e-Contribution Award
2016-2018	Support for MPF Management Award

Management Discussion and Analysis

Results Analysis

The Group's revenue increased 10% in 2018 to HK$4,175.7 million. Consisting mainly of interest income, the growth was driven by an increase in total loans and advances to customers across the different business segments analysed as follows:

By Segment (HK$ Million)	2018	2017	Change
Consumer Finance	9,769.7	9,163.6	7%
Mortgage Loans	3,854.2	2,120.4	82%
Principal Investments (term loans under Private Credit)	2,485.2	3,155.0	–21%
Total loans and advances to customers	16,109.1	14,439.0	12%

Operating costs were HK$1,466.4 million, similar to the previous year.

Finance costs were HK$666.8 million, higher than HK$544.3 million in 2017, as a result of the increase in total debt as we strive to optimise our balance sheet. Cost of funding was also generally higher during the year.

"Impairment and Bad Debts" was HK$901.7 million, compared against HK$386.7 million in 2017. The amounts were mainly incurred in the Consumer Finance segment explained below. With the implementation of HKFRS 9 in 2018, the Group adopted the impairment measurement allowance for loans and receivables without restating comparative information. For the ease of presentation and comparison, the term "Impairment and Bad Debts" is used in this discussion. It refers to "net impairment losses on financial instruments" in 2018 and "bad and doubtful debts" in the 2017 financial statements.

Returns from the Group's Principal Investments segment was lowered by mark-to-market valuations, compared to the strong performance in 2017.

The pre-tax profit of the Group (before non-controlling interests) amounted to HK$1,831.3 million (2017: HK$2,608.5 million).

Business Review

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

	2018			2017	
(HK$ Million)	Pre-tax Contribution	YoY Change	Segment Assets	Pre-tax Contribution	Segment Assets
Consumer Finance	1,207.9	–16%	17,226.8	1,444.7	16,032.2
Principal Investments	360.6	–67%	15,216.0	1,082.3	15,936.8
Financial Services	203.0	71%	2,568.2	118.6	2,482.7
Mortgage Loans	114.1	226%	3,950.6	35.0	2,185.4
GMS	(54.3)	–25%	1,722.5	(72.1)	785.1
Total	1,831.3	-30%	40,684.1	2,608.5	37,422.2

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.

Consumer Finance

United Asia Finance Limited ("UAF") is a 58% indirectly owned subsidiary which operates the Consumer Finance business of the Group and is today one of the largest and most professional personal loan companies in Hong Kong with a significant presence in Mainland China. Through a well-established branch network and online platforms, it primarily offers unsecured loans to individual consumers and small businesses.

Segment Full Year Results

(HK$ Million)	2018	2017	Change
Revenue	3,422.1	3,122.2	10%
Return on loans (% Average gross loans)	33.8%	33.9%	
Operating costs	(1,147.1)	(1,154.5)	−1%
Cost to income (% Revenue)	33.5%	37.0%	
Finance costs	(237.4)	(202.1)	17%
Impairment and Bad Debts	(833.6)	(297.3)	180%
Other income (expenses) – net	25.4	16.9	50%
Exchange (loss)	(21.5)	(40.5)	−47%
Pre-tax contribution	1,207.9	1,444.7	−16%
Loan Book:			
Net loan balance	9,769.7	9,163.6	7%
Gross loan balance^	10,415.3	9,826.9	6%

^ Before impairment allowance

Segment revenue increased by 10%, commensurate with a healthy 14% increase in loan origination to HK$15.3 billion. The net loan balance increased by 7% to HK$9.8 billion. A lower cost to income ratio was achieved as the Mainland China business reduced its branch network. Pre-tax contribution to the Group for 2018 amounted to HK$1,207.9 million, a decrease of 16% against 2017 mainly from Impairment and Bad Debts as explained below.

Impairment, Bad Debts and Delinquency

Impairment and Bad Debts for the year was HK$833.6 million (2017: HK$297.3 million). This increase was largely attributed to the absence of a repeat of impairment write-backs (HK$312.3 million) which occurred in 2017 when credit quality improved significantly year-on-year.

The charge off ratio for the year increased from 6.6% to 7.8%, as credit conditions in Mainland China were challenging during the year. However, the half-year trend showed an improvement from an annualised ratio of 8.3% in the first half of 2018 to 7.7% in the second half with more stringent loan underwriting in Mainland China.

Effective from 1 January 2018, the Group has adopted the HKFRS 9 accounting standard which requires the Group to apply an expected credit loss model for ascertaining impairment allowance of financial assets. The charge off for the majority of loan categories is now recognised at 90 days past due instead of 180 days. The net loan balance was adjusted downwards by HK$77.5 million on 1 January 2018, against the reserves of the Group. The first adoption of HKFRS 9 has marginally increased total impairment charges in 2018.

Analysis of Impairment and Bad Debts

(HK$ Million)	2018	2017
Amounts written off	(989.4)	(772.3)
Recoveries	196.6	162.7
Charge off	(792.8)	(609.6)
As % of average gross loans	7.8%	6.6%
(Charges) written back to impairment allowance	(40.8)	312.3
Total impairment and bad debts	(833.6)	(297.3)
Impairment allowance at year end	645.6	663.3
as % of year end gross loans	6.2%	6.7%

Ageing analysis for loans and advances to consumer finance customers (HK$ Million):

No. of days past due	As at 31 Dec 2018[1]	Note	As at 31 Dec 2017[2]	Note
Less than 31	528.6	5.4%	538.7	5.9%
31–60	50.4	0.5%	100.2	1.1%
61–90	11.9	0.2%	52.9	0.6%
91–180	48.2	0.5%	117.5	1.3%
Over 180	109.2	1.1%	31.4	0.3%
Total	748.3	7.7%	840.7	9.2%

Note: amount as a % of net loan balance.

1 Include impaired amounts.

2 Exclude impaired amounts.

Hong Kong Business

Key Operating Data	2018	2017	Change
Number of branches	49	49	
Loan data:			
Gross loan balance (HK$ Million)	7,803.4	6,544.2	19%
Loans originated (HK$ Million)	10,136.3	8,515.5	19%
Number of loans originated	165,459	154,048	7%
Average gross balance per loan (HK$)	59,132	53,126	11%
Ratios for the year:			
Total return on loans[1]	31.5%	32.9%	
Charge-off ratio[2]	4.4%	4.8%	

1 Revenue/average gross loan balance
2 Charge-off amount/average gross loan balance

The Hong Kong business benefited from a benign economy in 2018 with unemployment rates at a historical low, and increased private consumption led by tourist arrivals and local spending. UAF achieved satisfactory growth and profitability. Its gross loan book increased 19% year-on-year to a new high of HK$7.8 billion. In celebration of its 25th anniversary, UAF launched a new advertising and branding campaign in the second half of the year. The slogan of the campaign is "Let go of your worries and focus on what matters to you most!". It reinforces UAF as a household name that has helped many Hong Kong people with their funding solutions through the years and been a pioneer of many loan products that are popular in the market today.

As UAF continues with the spirit of service and product innovation, a new FinTech department was set up in January 2019 which focused on deploying innovative technological solutions to create new opportunities for the business. In 2019, UAF became the pioneer money lender to launch Faster Payment System ("FPS") services for loan disbursements. FPS is a retail payment service launched by the Hong Kong Monetary Authority which enables instant cross-bank transfers 24/7. This further demonstrates UAF's commitment to innovating services to remain the leader in the market.

Mainland China Business

Key Operating Data	2018	2017	Change
Number of branches	46	85	
Loan data:			
Gross loan balance (HK$ Million)	2,611.9	3,282.7	–20%
Loans originated (HK$ Million)	5,160.9	4,906.9	5%
Number of loans originated	95,635	128,744	–26%
Average gross balance per loan (RMB)	34,147	28,628	19%
Ratios for the year:			
Total return on loans[1]	39.5%	36.5%	
Charge-off ratio[2]	16.2%	11.0%	

1 Revenue/average gross loan balance
2 Charge-off amount/average gross loan balance

The operating and economic environment in 2018 was challenging and sluggish. In particular, economic growth was dampened by Sino-US trade tension and the threat of retaliatory trade tariffs. The consumer finance market has also been adversely affected by a number of failures of P2P operators and a tighter regulatory stance. Lower liquidity in the market contributed to a weak credit environment. UAF's charge offs increased in 2018, but the trend has stabilised towards the end of the year. In this environment, UAF focused on profitability and adopted a conservative lending policy and the gross loan balance declined as a result.

During this period, UAF focused its efforts on building a leaner, more efficient business model which is scalable for the long term:

– A new automated credit scoring system was launched in the second half of 2018. The new system combines UAF's internal loan data with available big data and external credit information, enabling real-time, enhanced credit decisions. The results are encouraging and management believes that the new system has contributed to lowering charge offs and hence the charge off ratio towards the end of 2018.

– Development of our online platforms continued – UAF continued to improve its technology platform Yirongzhan with new apps and functionalities such as the WeChat mini-program. Further, partnership loan programs with point-of-sales machine operators such as China UnionPay Merchant Services Co., Ltd. and All In Pay Network Services Co., Ltd. Loan will continue to expand with the launch of services targeted at consumers planned later this year.

– Further streamlining of physical branches – As loan process automation has gained momentum with our enhanced online capabilities, 39 branches were closed during the year. A total of 46 branches in 15 cities were in operation at the end of 2018.

Although the timing of a recovery in the market is uncertain, this leaner and enhanced operating structure will allow future business expansion while keeping tight control of risk and costs.

Prospects

The Consumer Finance business is sensitive to local economic conditions such as consumption and unemployment. UAF will remain alert to factors which may affect these conditions and make corresponding adjustments to our strategy whilst looking for any opportunities arising. With dedicated teams of experts in the consumer finance market, we will strive to deliver satisfactory returns to all stakeholders.

Principal Investments

The Principal Investments ("PI") division leverages the Group's operating expertise, network and balance sheet to seek out attractive risk-adjusted investment opportunities. The segment contributed HK$360.6 million to profit before tax (2017: HK$1,082.3 million). Return on average assets was 5.7% after a year of very strong gains in 2017. The segment's public portfolio was affected by mark-to-market losses in the second half of 2018. This was balanced by a more steady performance in private asset classes including private equity, private credit and real estate.

The value of the segment's assets was HK$15.2 billion, compared to HK$15.9 billion at the end of 2017.

The main strategy in 2018 was to invest in the human capital of the principal investments business with key hires made across the public and private businesses. 2019 will see a continuation of investment as we look at improving our infrastructure across the public businesses and build out our capabilities and balance sheet in the private credit business, specifically focusing on the opportunity we see in real estate credit. For private equity, 2019 will be a year of consolidation as we focus on managing the existing portfolio and maximising distributions and exits where possible.

	2018				2017	
(HK$ Million)	Period end value	Average Value	Gain	Return[2]	Period end value	Gain
Public Equity	3,405.7	3,247.6	(183.6)	-5.7%	2,767.7	165.4
Private Equity	5,285.8	5,170.3	522.2	10.1%	4,322.9	760.1
Public Credit	1,697.7	2,741.0	(21.9)	-0.8%	3,513.2	102.5
Private Credit	2,488.8	2,863.9	387.1	13.5%	3,222.7	416.0
Real Estate	2,338.0	2,178.5	214.0	9.8%	2,110.3	147.4
	15,216.0	16,201.3	917.8	5.7%	15,936.8	1,591.4
Operating Costs			(89.8)			(62.0)
Cost of capital and finance costs[1]			(467.4)			(447.1)
Pre-tax contribution			360.6			1,082.3

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

Market Review

2018 saw a sharp rise in volatility in the latter half of the year which created a difficult environment for publicly traded markets. On the macro front, continued trade frictions between US and China over trade deficits, technology transfers, government subsidies and intellectual property caused concerns among investors on the health of the world's two largest economies.

In Europe, data releases from key economies such as Germany caused investors to doubt the robustness of Euro-zone economic recovery since the last financial crisis. UK's Brexit also added another layer of uncertainty on the outlook for the region.

Separately, led by US's Fed, global central banks continued with their hiking cycles resulting in tighter financial conditions. A strong US dollar has induced capital outflow from emerging markets which historically have required external funding to fuel their economic growth. Tensions between the US and Iran on terminating their nuclear deal and concerns over global economic slowdown hence potential weakening in oil demand has created volatility in energy pricing. 2018 also witnessed some significant moves in different asset classes from Italian government bonds to the VIX shock, a significant drop in Chinese equities and an equity sell-off on Christmas eve.

All in all, the uncertainties witnessed towards the end of last year on multiple macro/geo-political fronts put investors in a defensive mode with an increasing portion of assets being parked in safe havens notwithstanding valuation of risk assets beginning to show value.

Public Credit (11% of PI)

In our credit business, we stayed defensive in risk management in 2018 acknowledging the deteriorating macro environment and dwindling secondary liquidity. We moved up the credit quality curve and stayed invested in credit names on which we had strong conviction with good credit fundamentals. Appropriate hedging strategies were deployed for the portfolio as secondary market liquidity became sporadic and unpredictable. 2018 was a difficult year for credit market as both core benchmarks, the JP Morgan Asia Credit Index (High Yield) and the Emerging Markets Bond Index, declined 3.5% and 4.5% respectively in 2018.

Looking into 2019, we hold a relatively more constructive view on global credit markets. We believe that macro headlines concerning the economy will start to fade as the US heads towards the next presidential election in 2020. Market dynamics are expected to be more favourable than last year as street inventory remains light and investors are sitting on a large amount of cash that needs to be deployed.

Public Equity (22% of PI)

For equities, 2018 marked the first year since 2011 that most major global stock market indices recorded negative returns in their local currency.

Concentrated exposure to unhedged long cyclical names accounted for much of the year's negative performance. We were cautious on market valuations, threats of rising interest rates, global trade wars and slowing global growth and therefore reduced exposure and increased hedging on the portfolio from the middle of the year. The hedging strategies performed well but were insufficiently sized to offset the mark-to-market losses on long equity positions. While these long positions had performed well for us since inception, we have re-evaluated our positions to decrease portfolio volatility in market downturns going forward.

Looking to the future, we believe that consistent application of our investment process, coupled with ongoing skepticism and hard work by our highly focused Investment team will deliver superior risk-adjusted returns over a multi-year period.

Private Credit (16% of PI)

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. The balance of term loans was HK$2,485.2 million as at 31 December 2018, lower than the end of 2017 (HK$3,155.0 million) due to the timing of loan repayments but average balance was at a similar level. Interest income was HK$409.9 million, similar to 2017.

For the year 2018, Impairment and Bad Debts was HK$64.3 million, equivalent to 2.2% of the average assets (2017: HK$86.2 million; 2.8%). Taking into account the above, the return for Private Credit was 13.5%.

In addition to the traditional private credit business, we see significant opportunity going forward in the real estate credit space and will look to further enhance our capabilities in this area. The focus on lending with real estate as collateral is seen as a core competency of the Group and is a business we will look to develop going forward.

Private Equity (35% of PI)

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. The portfolio is invested though a combination of direct, co-investments and external managers who are selected based on performance, strategic fit, as well as access to markets and sectors.

In 2018, the portfolio delivered a solid overall return of 10.1% for the year, mainly driven by early positioning in the pharmaceutical and technology sectors. The fourth quarter pull back in the public markets had an impact on the valuation assumptions on some of the investments at year end.

During the year, we have started to see partial exits and liquidity for the portfolio. The ongoing focus for private equity will be to actively manage the existing portfolio with an aim to crystallising value. While new investments are less of a priority in 2019, we will continue to selectively look for opportunities that provide strategic value to the Group.

Real Estate (15% of PI)

Our existing portfolio was valued at HK$2,338.0 million as of the end of 2018 and generated a 9.8% return on the average value. The main contributors to performance have been the Hong Kong office portfolio as well as gains on foreign exchange hedges. The main detractor to performance has been an impairment of a UK office investment which was re-valued down due to a temporary vacancy.

In 2018, we were cautious about new investments as the market became competitive with excessive risk appetite. In light of this environment, we remain even more vigilant of excess risk-taking and continue to better calibrate our risk analysis to ensure that we do not over-pay or lend more than is prudent on a through-the-cycle basis. During the year, we added a new investment into Parmaco, a fast-growing Finnish company which specialises in building and renting high quality buildings for schools, daycare providers and nursing homes. We invested alongside Terra Firma and Metric Capital, two leading London-based investors.

For 2019, we will increase our focus on credit and structured investments in niche asset classes where we can seek better risk-adjusted returns.

Mortgage Loans

The Group's Mortgage Loans business is operated under Sun Hung Kai Credit Limited ("Sun Hung Kai Credit"). In its third full year operation, Sun Hung Kai Credit contributed a meaningful pre-tax profit of HK$114.1 million to the Group, tripling from HK$35.0 million in 2017.

Segment Full Year Results

(HK$ Million)	2018	2017	Change
Revenue	249.5	124.4	101%
Operating costs	(45.4)	(43.9)	3%
Cost to income (% revenue)	18.2%	35.3%	
Finance costs	(86.2)	(42.3)	104%
Impairment and Bad Debts	(3.8)	(3.2)	19%
Pre-tax contribution	114.1	35.0	226%

The loan book reached HK$3,854.2 million at the end of 2018, from HK$2,120.4 million in 2017. Our solid reputation and partnerships with real estate agents and property developers resulted in strong growth in the first mortgage business. Based on the latest Land Registry data, Sun Hung Kai Credit was the top ranked non-bank mortgage provider in terms of the number of new loans originated for first mortgages for the year of 2018.

Impairment and Bad Debts was HK$3.8 million (2017: HK$3.2 million), from an additional HK$4.5 million impairment charge on the growing loan book, netting off HK$0.7 million recoveries after the sale of mortgaged properties. There were no write-offs during the year. Although residential real estate prices have softened during the year, the loan-to-value ratio of the portfolio remains healthy. Sun Hung Kai Credit will continue to adopt a prudent underwriting approach in building the loan book.

The business has now reached a satisfactory scale with a solid market position. As we enter the next phase of development, moderate growth in the loan book is anticipated but continued focus will be placed on driving profitability, capital efficiency, and margins of the business. We will also seek diversification to the loan portfolio by devoting more origination resources to second mortgage loans and mortgage credit line products.

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$203.0 million (2017: HK$118.6 million).

The Group maintains a 30% shareholding in the Everbright Sun Hung Kai business ("EBSHK"), a 70% subsidiary of Everbright Securities Company Limited ("Everbright Securities"). EBSHK delivered a solid performance in 2018 with a healthy increase in turnover and profit. Client assets under management, custody, and/or advice was over HK$130 billion. Following its rebranding in December 2017, EBSHK has firmly established itself as a full service domestic and foreign-integrated financial service platform under Everbright Securities. During the year, a strategic partnership with Stifel Financial Corp was formed to help U.S and Chinese clients with advisory and capital markets needs across global markets. In November 2018, EBSHK made its debut in the debt capital markets and successfully issued US$200 million 3-year guaranteed-notes with a coupon of 5.25%, reflecting investors' confidence in its business. EBSHK was rated by Moody's Investor Services as a "Baa3" long-term issuer and "Prime-3" short-term issuer with a stable long-term rating outlook.

The overall effect of valuation change on the Group's 30% stake in EBSHK was a gain of HK$133.7 million (2017: HK$108.6 million). This valuation change results from adding the change in fair value of the associated company and the change in value of the put right of the stake in the EBSHK business to Everbright Securities. An impairment loss of HK$66.7 million on associate was reversed (2017: impairment loss HK$107.6 million was reversed). A gain of HK$67.0 million on the put right was recognised (2017: gain of HK$1.0 million).

LSS Financial Leasing (Shanghai) Limited ("LSS Leasing") was in its third full year of operation and achieved a steady level of profit in 2018. During the year, LSS Leasing formed a joint venture, Qiang Sheng smart-e, with Shanghai Qiangsheng Taxi providing car to management service to ride-sharing companies. Looking ahead, it will continue to focus on developing new opportunities with ride-hailing and goods delivery platforms where market growth remains relatively favourable.

Outlook

We are pleased with the Group's strategic positioning and its current asset allocation, however risks and uncertainties remain given macro factors such as interest rates and the threat of trade war which could lead to further shocks to the Mainland Chinese economy and financial markets.

The Hong Kong market so far remains benign. Barring any disruptive market developments, our Consumer Finance and Mortgage Loans business should continue to deliver a steady contribution. Although uncertainties in the Mainland China market remain, we have restructured the consumer finance business to reduce risk whilst preserving future growth options.

We are positive on the strategic position of our assets in the Principal Investments business, and the year-to-date performance is promising. However, the outlook for the year ahead is subject to mark-to-market volatility.

The Group will continue to maintain a balanced approach to asset allocation to maintain an appropriate risk reward balance and maintain strict oversight of costs.

Financial Review

Financial Resources, Liquidity, Capital Structure and Key Performance Indicators

As at 31 December (HK$ Million)	2018	2017	Change
Capital Structure			
Equity attributable to owners of the Company	19,039.2	19,426.7	–2%
Total cash	4,995.9	2,911.4	72%
Total borrowings[3]	14,983.1	11,928.1	26%
Net debts	9,987.2	9,016.7	11%
Net debt to equity ratio	52.4%	46.4%	
Liquidity			
Interest cover[1]	3.7	5.8	
Return Ratios			
Return on Assets[2]	4.1%	6.6%	
Return on Equity	6.2%	9.7%	
Key Performance Indicators			
Book value per share (HK$)	9.48	9.02	
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
3 Total borrowings included bank and other borrowings and notes/papers payable

In line with the strategy to utilise the balance sheet more efficiently, the Group's net gearing has increased with the growth in the asset base, but the interest cover remained healthy at 3.7x. The return ratios declined as a result of the decline in profit.

As at 31 December 2018, total borrowings of the Group were HK$14,983.1 million (31 December 2017: HK$11,928.1 million). Of this amount, 40% is repayable within one year (31 December 2017: 27.5%). The Group maintains a balanced mix of funding from various sources. Bank borrowings account for 47.9% of total debt (31 December 2017: 31.8%) and are at floating interest rates, with the majority denominated in Hong Kong dollars.

As at 31 December 2018, the following notes/papers are outstanding:

Notes/Papers	Maturity Date	HK$ Equivalent (in Million)
4.75% USD notes^	May 2021	2,801.7
4.65% USD notes^	Sept 2022	4,362.1
HKD notes/papers	various	636.2
Total		7,800.0

^ Listed on The Stock Exchange of Hong Kong Limited

In May 2018, the Group's 6.9% RMB Notes matured. 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.

On 17 September 2018, the Company completed an off-market share buy-back of 145 million shares (6.73% of the total number of issued shares) for a total consideration of HK$650.9 million (including expenses). The details of the buy-back can be found in the Company's circular dated 25 June 2018.

As a finance and investment company, the Group aims to deliver long-term share capital growth and returns to our shareholders. 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

The Group disposed of two wholly-owned subsidiaries, SWAT Securitisation Fund and Maple Shade Limited under the Principal Investments segment for consideration of HK$312.9 million. The objective is to crystallise the value of the Group's investments and create liquidity to seek more favourable risk-adjusted investment opportunities. Further financial details of the transactions are explained in Note 7 to the consolidated financial statements.

Charges on Group Assets

Properties of the Group with a total book value of HK$1,128.0 million and cash of HK$20.0 million were pledged by subsidiaries to banks for facilities granted to them. HK$915.3 million was drawn down as at 31 December 2018.

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 2018, the Group's total staff numbered 2,719 (31 December 2017: 3,589). Out of this, 50 staff (31 December 2017: 44) are from the Principal Investments and corporate staff and the remainder within our subsidiaries, UAF and Sun Hung Kai Credit. The net decrease in staff numbers is a result of the branch consolidation in the consumer finance business in Mainland China, as the business migrated further online.

Staff costs (including Directors' emoluments), contributions to retirement benefit schemes and expenses recognised for the SHK Employee Ownership Scheme ("EOS") amounted to approximately HK$782.6 million (2017: HK$781.0 million).

The Group operates various compensation schemes to reflect job roles within the organisation. All staff receive a base salary and the majority receive performance-based compensation in cash while some staff also receive share-based awards. Certain sales staff may be entitled to commission or other incentives 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 3,189,000 shares were granted to the Selected Grantees during the period subject to various terms including the vesting schedule whereby awarded shares vest and become unrestricted over various time periods. As at 31 December 2018, the outstanding award shares under the EOS amounted to 4,005,000, out of which 1,012,000 shares were awarded to a Director.

The Group values its people as our greatest asset. We believe that a skilled and motivated workforce is integral to the sustainable growth of our business. In line with our business strategies and ongoing development, the Group promotes a culture of continuous learning. We provide comprehensive training and development programs in areas such as compliance, regulatory issues, management skills, practical job skills and personal development.

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 includes market risk, credit risk and liquidity risk. Market risk is the risk 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 probable risk of losses arising from clients or counterparties failing to make payments as contracted. Total loans and advances to customers amounted to HK$16,109.1 million as at 31 December 2018 (31 December 2017 HK$14,439.0 million). Total Impairment and Bad Debts in 2018 were HK$901.7 million (2017: HK$386.7 million).

Liquidity risk is the risk that a given security or asset cannot be traded readily in the market to prevent a loss or realise 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, 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 Loan Companies as well as the Special Rectification Documents of their special working group on cash loans, internet loans and P2P loans including "Notice on Regulation and Rectification of Cash Loan business", "Notice on the Implementation Guideline on Special Rectification of Online Microlenders Risks" [2017] No. 56 and "Notice on Special Rectification and Check of P2P Lending Risk" [2017] No. 57.

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Lee Seng Huang *(Group Executive Chairman)*
Simon Chow Wing Charn

Non-Executive Directors
Peter Anthony Curry (re-designated as a Non-Executive Director on 1 September 2018)
Jonathan Andrew Cimino

Independent Non-Executive Directors
Evan Au Yang Chi Chun (appointed on 22 March 2018)
David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung

EXECUTIVE COMMITTEE

Lee Seng Huang *(Chairman)*
Simon Chow Wing Charn

NOMINATION COMMITTEE

Lee Seng Huang *(Chairman)*
Evan Au Yang Chi Chun (appointed on 22 March 2018)
David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung

REMUNERATION COMMITTEE

Evan Au Yang Chi Chun *(Chairman)* (appointed as a member on 22 March 2018 and became Chairman on 20 March 2019)
David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung

AUDIT COMMITTEE

Alan Stephen Jones *(Chairman)*
Evan Au Yang Chi Chun (appointed on 22 March 2018)
David Craig Bartlet
Peter Anthony Curry (appointed on 1 September 2018)
Jacqueline Alee Leung

RISK MANAGEMENT COMMITTEE

Robert James Quinlivan *(Chairman)* (appointed on 2 October 2018)
Simon Chow Wing Charn
Benjamin John Falloon (appointed on 2 October 2018)
Alfred Leung Sai Kit (appointed on 2 October 2018)

COMPANY SECRETARY

Hester Wong Lam Chun

INVESTOR RELATIONS

investor.relations@shkco.com

AUDITOR

Deloitte Touche Tohmatsu

SOLICITORS

Clifford Chance
Davis Polk & Wardwell
Deacons
King & Wood Mallesons
Ogier
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
CMB 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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WEBSITES

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

* The above information is updated as of 20 March 2019

The 2018 Annual Report consists of two printed booklets with a total of 140 pages

The images in the report feature team Sun Hung Kai Scallywag, Hong Kong's professional off-shore sailing team. The team competed on behalf of Hong Kong in the renowned Volvo Ocean Race 17-18, one of the toughest sailing challenges in the world. The team spent more than eight months sailing over 45,000 nautical miles across four oceans.

The origin of the team is Scallywag, a 100-foot super maxi race yacht sponsored by the Company. 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 – Endure. Adapt. Excel.

Follow the team:
www.scallywaghk.com
ScallywagHK on Facebook/Twitter/Instagram and Youtube

Weibo

WeChat

Concept & Design: iOne Financial Press Limited

Reports and Accounts

Annual Report **2018**

50TH ANNIVERSARY 1969 - 2019
ENDURE . ADAPT . EXCEL

新鴻基有限公司
SUN HUNG KAI & CO. LIMITED

Stock Code: 0086

Contents

The 2018 Annual Report consists of two printed booklets with a total of 140 pages

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 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 2018, except for certain deviations as specified together with considered reasons for such deviations as explained below. The Board has reviewed the practices at least annually and made appropriate changes if considered necessary.

The Board

During the year 2018 and up to the date of this report, the composition of the Board is set out as follows:

Executive Directors:	Lee Seng Huang *(Group Executive Chairman)* Simon Chow Wing Charn
Non-Executive Directors:	Peter Anthony Curry *(retired as an Executive Director and was re-designated as Non-Executive Director on 1 September 2018)* Jonathan Andrew Cimino
Independent Non-Executive Directors:	Evan Au Yang Chi Chun David Craig Bartlett Alan Stephen Jones Jacqueline Alee Leung *Peter Wong Man Kong (deceased on 11 March 2019)*

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 Non-Executive Directors ("NEDs") (five of whom were independent) provided the Company and its subsidiaries (collectively the "Group") with a wide range of expertise and experience. Their active participation in 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, Independent Non-Executive Directors ("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. The Board also meets to review and approve 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, Nomination Committee, Remuneration Committee, Audit Committee, Risk Management Committee and the general meetings of the Company during the year ended 31 December 2018 are set out as follows:

Name of Directors	Number of meetings attended/held Board	Nomination Committee	Remuneration Committee	Audit Committee	Risk Management Committee	General Meetings
Executive Directors:						
Lee Seng Huang	4/4	1/1				2/2
Simon Chow Wing Charn	4/4				4/4	2/2
Non-Executive Directors:						
Peter Anthony Curry[1]	4/4			1/1[1]	3/3[1]	2/2
Jonathan Andrew Cimino	4/4					1/2
Independent Non-Executive Directors:						
Evan Au Yang Chi Chun[2]	3/3[2]		1/1[2]	2/2[2]		2/2
David Craig Bartlett	4/4	1/1	2/2	3/3		1/2
Alan Stephen Jones	4/4	1/1	2/2	3/3		1/2
Jacqueline Alee Leung	4/4	0/1	2/2	3/3		1/2
Peter Wong Man Kong[3]	4/4	0/1	2/2	0/2[3]		0/2

Notes:

1. Mr. Peter Anthony Curry retired as an Executive Director and was re-designated as Non-Executive Director and appointed as a member of the Audit Committee from 1 September 2018. He ceased as a member of the Risk Management Committee from 2 October 2018.
2. Mr. Evan Au Yang Chi Chun was appointed as an Independent Non-Executive Director and a member of each of the Nomination Committee, Remuneration Committee and Audit Committee on 22 March 2018.
3. Mr. Peter Wong Man Kong ceased as a member of the Audit Committee from 1 September 2018 and was deceased on 11 March 2019.

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 policies 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 "Enhancing Hong Kong Listing Framework" 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	✓	✓
Non-Executive Directors:		
Peter Anthony Curry	✓	✓
Jonathan Andrew Cimino	✓	✓
Independent Non-Executive Directors:		
Evan Au Yang Chi Chun	✓	✓
David Craig Bartlett	✓	✓
Alan Stephen Jones	✓	✓
Jacqueline Alee Leung	✓	✓
Peter Wong Man Kong *(deceased on 11 March 2019)*	✓	✓

^ 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 the 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 with support from the management team of the division 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 2019.

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 annual general meeting ("AGM") of the Company and shall be eligible for re-election at that meeting. Furthermore, pursuant to Article 103 of the Articles, 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 as well as the nomination and appointment procedure of directors 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 terms of reference of the Board with effect from 1 April 2012.

The major duties of the Board in respect of performing 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 for compliance with legal and regulatory requirements;
(iv) to develop, review and monitor the code of conduct and compliance manuals 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 2018 and up to the date of this report, the Board has performed its 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 have been adopted for the committee meetings so far as practicable.

Nomination Committee

The Nomination Committee has been established since April 2012 and at the date of this report consists of the Group Executive Chairman and four INEDs, including Messrs. Lee Seng Huang (Chairman), Evan Au Yang Chi Chun, David Craig Bartlett, Alan Stephen Jones and Ms. Jacqueline Alee Leung. The Nomination Committee is provided with sufficient resources to perform its duties, including, where necessary, to seek independent professional advice, at the Company's expense, to perform its responsibilities.

The duties and authorities of the Nomination Committee are contained in its terms of reference, which fully comply with code provision A.5.2 of the CG Code and are available on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company.

The Nomination Committee has formulated and set out its nomination policy ("Nomination Policy") in its terms of reference. The objective of the Nomination Policy is to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's businesses. To ensure changes to the Board composition can be managed without undue disruption, a formal, considered and transparent procedure is in place for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidate by the Nomination Committee.

The criteria to be applied in considering whether a candidate is qualified shall be his or her ability to devote sufficient time and attention to the affairs of the Company, contribution to the diversity of the Board and ability to effectively carry out the Board's responsibilities. Further details of the selection criteria and the procedure are set out in the terms of reference of the Nomination Committee which are available on the websites of the 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 2018, one Nomination Committee meeting was held and the attendance of each member at the meeting is set out in the section headed "Board Process" of this report. In addition, the committee also dealt with matters by way of circulation of written resolutions. The work performed by the Nomination Committee in 2018 and up to the date of this report is summarised as follows:

(i) considered the nomination of Mr. Evan Au Yang Chi Chun as a new INED and with a recommendation to the Board for approval which appointment was approved by the Board effective from 22 March 2018;
(ii) reviewed the structure, size, composition and diversity of the Board;
(iii) assessed the independence of the INEDs;
(iv) reviewed the proposed re-election of Directors at the 2018 AGM and 2019 AGM, with a recommendation to the Board for proposal to Shareholders for approval at each meeting;
(v) reviewed the revised terms of reference of the Nomination Committee with a recommendation to the Board for approval; and
(vi) considered the renewal of the term of appointment of the NEDs (including the INEDs) for two years commencing from 1 January 2019 with a recommendation to the Board for approval.

Remuneration Committee

The Remuneration Committee has been established since April 1985 and at the date of this report consists of four INEDs including Messrs. Evan Au Yang Chi Chun (Chairman), David Craig Bartlett, Alan Stephen Jones and Ms. Jacqueline Alee Leung. The Remuneration Committee is provided with sufficient resources to perform its duties, and, where necessary, to seek independent professional advice, at the Company's expense, to perform its responsibilities.

The duties and authorities of the Remuneration Committee are contained in its terms of reference which are available on the websites of the 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; and
(ii) the Executive Directors supervise and control senior management and thus should be able to control their compensation.

The Remuneration Committee shall meet at least once a year in accordance with its terms of reference. Two Remuneration Committee meetings were held in 2018 and the attendance of each member at each 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 2018 is summarised as follows:

(i) reviewed the policy and structure for the remuneration of Directors;
(ii) reviewed 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 then three Executive Directors commencing from January 2018;
(iii) reviewed the bonuses for the year ended 31 December 2017 for the then three Executive Directors, with a recommendation to the Board for approval;
(iv) reviewed 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 annual consultancy fees of the INEDs commencing from January 2018; and
(v) considered a proposal for a compensation review to be carried out by an independent professional consultant for benchmarking historical compensation and providing information in relation to future arrangements.

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(a) to the consolidated financial statements. In addition, the annual remuneration payable to members of senior management by band and of the five highest paid individuals in the Group are set out in Note 8(b) to the consolidated financial statements. Details of the remuneration policy of the Group are also set out in the "Human Resources and Training" section under "Management Discussion and Analysis" of this Annual Report.

After the end of the reporting period, two Remuneration Committee meetings were held in February and March 2019 to review the compensation report from the independent professional consultant, policy and structure of Directors' remuneration, and remuneration packages of the Directors. The Remuneration Committee recommended the following to the Board and which recommendations were subsequently approved by the Board:

(i) the payment of discretionary bonuses for the year 2018 to the two Executive Directors:
   – HK$37 million in cash to Mr. Lee Seng Huang ("Mr. Lee"); and
   – HK$3 million in cash and such number of shares of the Company to be awarded under the SHK Employee Ownership Scheme ("EOS") equivalent of HK$2 million to Mr. Simon Chow Wing Charn ("Mr. Chow"); and
(ii) an increase of 2% to the monthly salary of each of Mr. Lee and Mr. Chow commencing from January 2019.

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 consists of four INEDs and one NED. To retain independence and objectivity, the Audit Committee is chaired by an INED who possesses appropriate professional qualifications or accounting or related financial management expertise. The current members of the Audit Committee are Messrs. Alan Stephen Jones (Chairman), Evan Au Yang Chi Chun, David Craig Bartlett, Ms. Jacqueline Alee Leung and Mr. Peter Anthony Curry. 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 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 effective risk 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 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 2018 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 2018 and up to the date of this report is summarised as follows:

(i) considered and approved the terms of engagement and fees proposed by the external auditor regarding the interim results review for the six months ended 30 June 2018 and the final audit of the Group for the year ended 31 December 2018;
(ii) reviewed the reports from the external auditor, management representation letters in relation to the final audit of the financial statements of the Group for the years ended 31 December 2017 and 2018;
(iii) reviewed the report from the external auditor and management representation letter in relation to the interim results review of the financial statements of the Group for the six months ended 30 June 2018;
(iv) reviewed the financial reports of the Company for the years ended 31 December 2017 and 2018, and for the six months ended 30 June 2018, and recommended approval by the Board;
(v) reviewed the effectiveness of the risk management and internal control system and recommended action to the Board where appropriate; and
(vi) reviewed internal audit review reports prepared by the internal audit function and the 2019 internal audit plan.

Executive Committee

The Executive Committee (the "Exco") has been established since November 1983 and consists of two Executive Directors, Messrs. Lee Seng Huang (Chairman) and Simon Chow Wing Charn. 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 consists of the Group Chief Financial Officer ("Group CFO"), an Executive Director, Managing Director of the Principal Investments and Head of Operations, being Messrs. Robert James Quinlivan (Chairman), Simon Chow Wing Charn, Benjamin John Falloon and Alfred Leung Sai Kit respectively.

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 the 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 2018 and meetings were held in January and March 2019, 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, credit risk, market risk and reporting approaches;
(iii) review of the foreign exchange exposure of the Group's investment portfolio;
(iv) review of the risk management reports from the Group's Principal Investments business, UAF and Sun Hung Kai Credit Limited;
(v) review and assessment of the completed responsibility statements from the relevant business units and department heads regarding their risk, compliance and internal control procedures for the financial years ended 31 December 2017 and 2018;
(vi) review of the anti-money laundering ("AML")/know your clients guidelines and policies and the adoption of AML Guidance Manual of the Group;
(vii) review of cyber security risk control measures and business continuity plan of the Group; and
(viii) review and approval of the updated Operational Procedures Manual of Principal Investments.

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 2018, 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	6.5
Non-audit services (taxation and other professional services)	1.0
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 Groups' risk management system. The functions and compositions of the RMC are set out in the "Board Committees" section in the earlier part of this report.

The Group's risk management and internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss; to manage prudently but not completely eliminate the risk of system failure. Systems and procedures are put in place to identify, manage and control the risks of different businesses and activities. Risk control limits are established according to the appropriate authorisation hierarchy. More detailed discussions of different types of risks are set out in the "Principal Risks, Relevant Laws and Regulations" section under "Management Discussion and Analysis" and in Note 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 CFO. It applies 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, when necessary.

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 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 2018, 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 relevant 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 2018 AGM was held on 24 May 2018 and seven out of nine Directors attended the meeting. An extraordinary general meeting of the Company was held on 17 July 2018 for considering the off-market share buy-back from a substantial shareholder of the Company. For details of the Directors' attendance at the general meetings, 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 for each substantial issue, 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 the 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 the proposed resolution in written form 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.

Dividend Policy

The Board has adopted the Company's Dividend Policy at its meeting in November 2018. The Company's Dividend Policy aims at providing reasonable and sustainable returns to Shareholders whilst maintaining a position of financial stability which allows the Company to take advantage of any investment and expansion opportunities that may arise from time to time.

The Board may declare or propose dividends on an annual basis and/or may declare interim dividends or special dividends. The proposal or declaration of dividends by the Board is subject to consideration of the Company's and the Group's operating results, accumulated and future earnings, gearing, liquidity position, capital commitment requirement and future expansion plan as well as general economic conditions and external factors that may have impact on the financial performance and position of the Company and the Group. In addition, as the Company is a holding company, the Board will also consider the dividends received from its subsidiaries and associates as the ability to pay dividends by the Company is dependent on the dividends received from those subsidiaries and associates.

The Board will regularly review the dividend policy and will amend and/or modify the dividend policy if necessary.

Corporate Governance Enhancement

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the 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, 20 March 2019

Environmental, Social and Governance Report

Report Overview

This report discloses the Group's sustainability initiatives and developments in accordance with 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") for the year ended 31 December 2018. This report supplements information disclosed in the Annual Report 2018.

While delivering long-term value to our shareholders is our primary aim, we recognise that the choices we make will have an impact on the communities in which we carry out our businesses. To ensure that we leave a positive mark, we have adopted a Sustainability Policy that covers our principles in environmental and social issues. Overall stewardship and direction of sustainability issues is provided by the Board of Directors, with the ESG initiatives implemented by management of various businesses. The investor relations function collaborates with other functional areas throughout the Group on reporting and disclosure of these initiatives.

Unless otherwise stated, the information in this report covers the operations of the following units and their subsidiaries in Hong Kong and Mainland China:

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

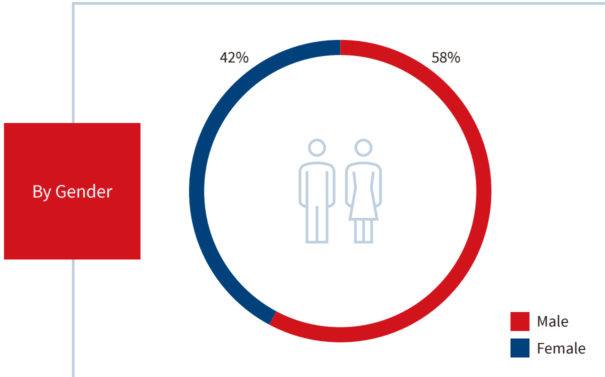
Sustainability Principle and Practices

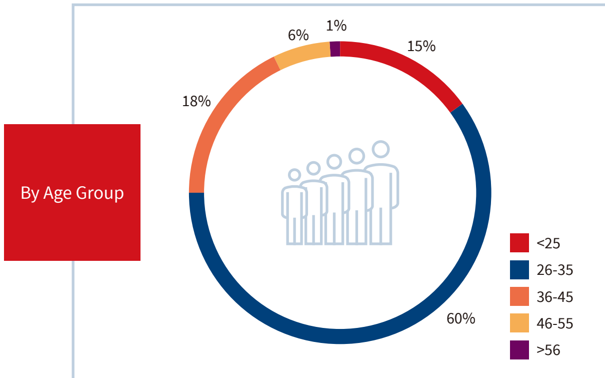
Since the Group's establishment in 1969, we have expanded and evolved with the times, striving to stay at the forefront of the financial services industry through excellence and innovation. Our mission is simple: to create value for our shareholders as an all-weather investment partner. Through the years, we have a steady track record of returns through various economic cycles. This is achieved through an unwavering commitment to our core values.

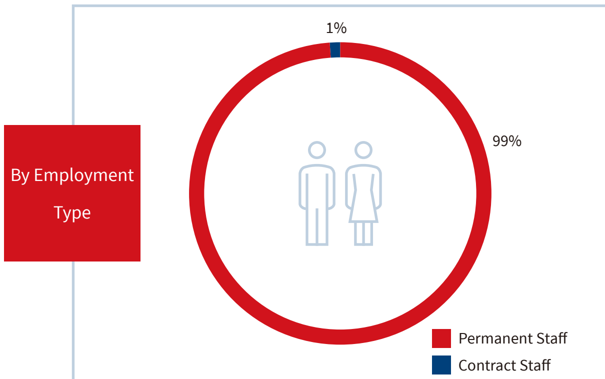
1. Our People

Being in the financial services industry, our people are our most important asset that drives the long-term development and sustainability of the Group. We have a balanced and energetic staff force. Total number of staff was 2,719 at the end of 2018.

Staff Breakdown (2018)







1.1 Welfare, Labour Standards and Safety

We endeavour to provide our employees with competitive remuneration and welfare and our compensation and benefits (including working hours, rest periods, welfare) far exceeds the minimum requirements of relevant regulations. On 1 January 2019, Sun Hung Kai & Co implemented an unlimited leave policy removing the annual limit for staff paid leave and is believed to be a pioneer in Hong Kong launching such policy. The policy allows employees to focus on producing exceptional results through better control over their work schedule while allowing room for creativity and personal growth. The Group organizes various staff engagement functions throughout the year, such as off-site meetings, team building activities, staff voluntary services as well as staff annual dinners.

The Group endeavours to provide a safe and pleasant working environment for our staff. Owing to the nature of our businesses, work-related injuries, occupational health issues and the incurrence of child labour are not significant risk factors.

Well-being programs such as those promoting a good work-life balance are regularly offered to staff, for example, managing stress and parenting skills. The Group also sponsors and organises various company teams across the Group for team sports and community service. Staff magazines are published to share Group, industry and staff news and to promote internal communication.

During the year, both Sun Hung Kai & Co and UAF were named a "Caring Company".

Human Resources and sustainability related awards:

- Good MPF Employer Award 2014-2019 (Sun Hung Kai & Co)
- Caring Company Award 2005-2019 (UAF); 2016-2019 (Sun Hung Kai & Co)
- Partner Employer Award 2016-2019 (UAF)
- ERB Manpower Developer Award Scheme 2012-2020 (UAF); 2018 (Sun Hung Kai & Co)
- Social Capital Builder Award 2016-2019 (UAF)
- The Hong Kong Corporate Citizenship Logo–Enterprise Category 2016-2019 (UAF)
- The Hong Kong Corporate Citizenship Logo–Volunteer Category 2016-2019 (UAF)
- Young Entrepreneurs Development Council–Long-Term Voluntary Service to the School-Company-Parent Program (10 years) 2016-2018 (UAF)
- Family-Friendly Employers Award Scheme 2017-2018 (UAF)
- Corporate Volunteer Long Service Award Five Years Plus 2018 (UAF)
- Environmental Bureau–The Charter on External Lighting Award Ceremony 2016-2019 (UAF)
- Hong Kong Green Organization Certification–Wastewi$e Certificate 2018-2019 (UAF)
- Happy Company 2016-2019 (UAF)
- Good Employer Charter 2018-2020 (UAF)

1.2 Policy on Employment and Labour Practices

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 to improve 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 or 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 Law of the People's Republic of China ("中華人民共和國勞動法"). The Group has no known non-compliance with the above relevant regulations.

1.3 Development and Training

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 external 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, know your customer/anti-money laundering, bankruptcy laws, data privacy, the Money Lenders Ordinance, and the Securities and Futures Ordinance.

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

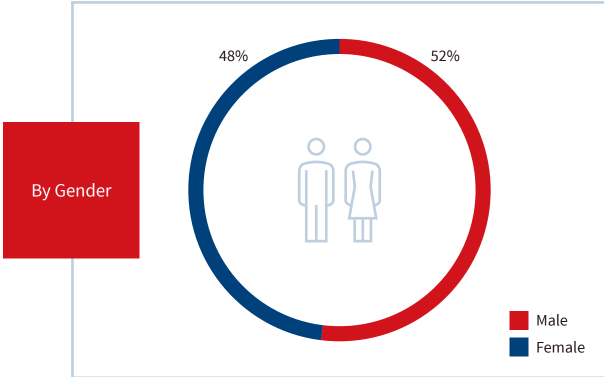
Job skills–language skills, computer skills, debt collection skills, customer service skills.

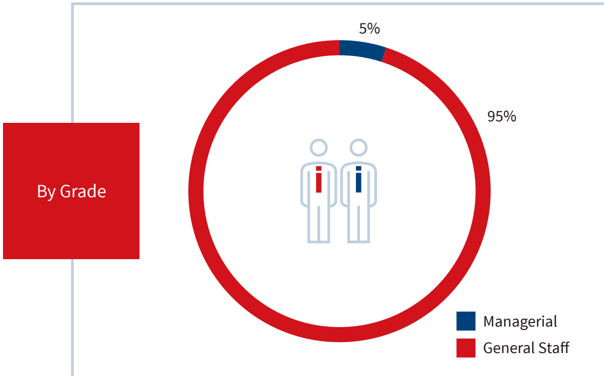
UAF has a comprehensive graduate training programme to train up talented university graduates for future advancement to management. The 25-month program provides training on their knowledge and skill sets for the consumer financing industry.

On top of internal training, UAF and Sun Hung Kai 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.

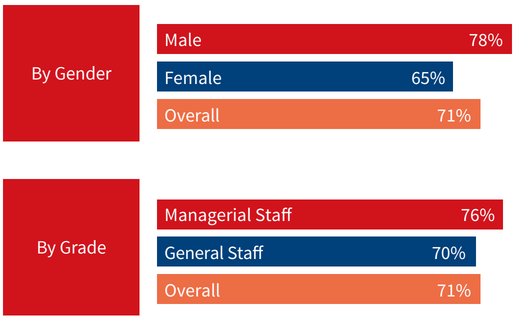
Staff training across the Group amounted to a total of 55,771 hours in total.

Training Hours Breakdown (2018)





Percentage of Staff who Received Training



2. Product Responsibility

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 Sun Hung Kai & 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 are licensed and operate under the Money Lenders Ordinance ("MLO"). In Mainland China, UAF's operations follow the regional guidelines announced by the provincial governments under the Guiding Opinions ("Guiding Opinions") of the China Banking Regulatory Commission and the People's Bank of China ("PBOC") on the Pilot Operation of Small Loan Companies as well as the Special Rectification Documents of their special working group on cash loans, internet loans and P2P loans including "Notice on Regulation and Rectification of Cash Loan business", "Notice on the Implementation Guideline on Special Rectification of Online Microlenders Risks" [2017] No. 56 and "Notice on Special Rectification and Check of P2P Lending Risk" [2017] No. 57. 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 standards, developed based on the Hong Kong Monetary Authority's guidelines to banks, in the various business aspects such as customer relationships, know-your-customer, anti-money laundering, credit evaluation, collection and recovery and data privacy. UAF is on the executive committee of LMLA and leads the task force for regular review of the Code. The revised Code was launched in September 2018. 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 200,000 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 extensive advertising and promotion campaigns. Customer relationship programs such as "member–get-members" and bonus point schemes are in place. Customers can access UAF's loan services through our branch network, phone application as well as on-line means such as E-cash Revolving Loans, mobile apps or WeChat programs (in Mainland China). The Group places a very high priority on upholding customers data privacy. Policies and procedures are in place and regularly reviewed to ensure customers' 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 relevant Hong Kong staff are required to complete a Personal Data Privacy Ordinance e-learning course annually. During the year, IT security awareness courses were also held to alert staff to the importance of cyber security and to provide staff with precautions on business customer data protection.

Owing to the nature of the consumer finance and mortgage loans business, where debt collection is involved, reputational risk monitoring and prevention is 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.

3. Supply Chain Management

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. As at 31 December 2018, 22 and 53 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 and monitoring of their debt collection agents. The agents are selected carefully based on track record of good practices and reputation. They are required to abide by a Code of Conduct and are subject to benchmarking, audits and rotation. As UAF and Sun Hung Kai Credit do not sell their receivables, they can retain control over the collection process. Under the Code of Conduct, the agents shall not:

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

As part of monitoring these agents, regular surveys are conducted with customers and the general public for feedback. During 2018, the number of complaints received relating to 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 (excluding that of banks) in Hong Kong continued to lead as a result of its solid reputation.

4. Anti Corruption

A Whistle Blower Policy is in place, providing a direct channel for employees to report any unlawful conduct, 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 financial controls, Finance department review any irregular expenditure and endeavour 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 other companies.

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

5. Community Investment

We strive to excel for our customers and undertake the responsibility of a good corporate citizen by contributing to the community and by encouraging our staff to enrol in charity and social services.

UAF has a long history of participation in volunteering activities to service our communities. UAF was also named a "Caring Company" by the Hong Kong Council of Social Service for 13 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 with heart diseases etc. As at 31 December 2018, UAF had a total of 78 volunteer members and served a total of 1,056 hours in various community activities during 2018.

The key activities in 2018 included the following:

- Po Leung Kuk: DIY Chinese Lunar New Year Lantern with Elderly
- HK Family Welfare Society: Elderly Visit and Gathering
- HK Family Welfare Society: Easter Egg Making and Gathering with Kindergarten Children
- Po Leung Kuk: Jogging with Elderly
- St. James Settlement: Elderly Home Visit
- St. James Settlement: GOrun Together Charity Run 2018

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

Industry Organisations and NGO Participation

Role of Company/ Senior Management	Organisation
Sun Hung Kai & Co	
Committee Member	The Chamber of Hong Kong Listed Companies
Corporate Member	The Malaysian Chamber of Commerce (Hong Kong and Macau) Ltd.
Corporate Member	The Australian Chamber of Commerce in Hong Kong
Corporate Member	The Hong Kong Investor Relations Association
UAF	
Founding member, Chairman, Executive Committee Member and Secretary	The HKSAR Licensed Money Lenders Association
Trustee member	New Asia College, The Chinese University of Hong Kong
Vice Chairman	Yunnan Province Microcredit Association
Vice Chairman	Heilongjiang Micro-Credit Company Association
Executive Director	Tianjin Association of Micro-credit
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 Association of Microcredit
Director	Nanning Mirco-Credit Industry Association
Member	Sichuan Association of Microcredit
Member	Beijing Microfinance Industry Association
Member	Liaoning Micro-Credit Company Association
Member	Hubei 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	Chongqing Association of Foreign Investment
Member	Shenzhen Internet Finance Association
Member	Liaoning Area Financing Guarantee Association
Member	Shenyang Micro-Credit Company Association
Member	Shandong Micro-Credit Association
Member	Wuhan Association of Microfinance

The Group's total charitable donations during the year amounted to approximately HK$5.2 million, benefiting causes for education, health, and charity services for the underprivileged.

6. Charitable Foundation

Sun Hung Kai & Co. Foundation (the "Foundation") was set up by the Company to serve 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. Sponsored by the Company, the Foundation is an independently registered charity in Hong Kong.

The Foundation's principal interests are in the areas of poverty relief, education and the environment. In the past, the Group has thrived with the rapid development of Hong Kong and China. As we look to the future, we will continue to devote our time, resources and capital to fostering a stronger and more sustainable Hong Kong. In particular, we are avid supporters of institutions that can nurture future leaders who can make a difference, such as The Dalton Foundation and The Harvard Business School.

In conjunction with the Sun Hung Kai Scallywag sailing campaign sponsored by the Company, the Foundation has supported and organised a STEM-themed clean seas awareness education program for children during the 2017-18 Volvo Ocean Race Hong Kong Stopover. The Foundation has also committed to build a long-lasting youth sailing legacy in Hong Kong and to make the sport more accessible to local youth from less advantaged background. The sport builds determination, discipline and teamwork, and advocates environmental awareness. A trial program was launched through the Hong Kong Sailing Federation to explore various options on costs, structure and support. The findings and recommendations will form the foundation for our future program.

7. The Environment

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 moving online. The majority of business transactions are carried out at UAF and the proportion of loan transactions carried out online continued to rise. At the same time, the branch network in Mainland China reduced from 85 to 46. 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 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.

7.1 Emissions

The Group is not involved in any manufacturing activities. Emissions produced directly by the Group only related to 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 marketing and entertainment. Therefore 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 travel 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.

7.2 Use of Resources and Environmental Impact

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 2,700 staff across the Group, we consume reasonable 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 time working outside the office and wherever possible.

Energy efficient office equipment is always preferred in making purchase decisions. During 2018, the Group's total electricity consumption was approximately 4.3 million kWh (2017: 5.2 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 is switched off after midnight. The purpose of the Charter is to minimise light nuisance and energy wastage. In 2018, a total of 27 branches were presented with "Gold Award" for participating in switching off external lighting from midnight to 7 a.m.

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

At UAF (which accounts for the largest proportion of the Group's transactions), 42% of new loans by the number of accounts were originated through electronic channels in 2018.

Since 2016, paper statements are being replaced by electronic statements through either email or mobile apps for all types of revolving loan accounts. Customers requesting monthly paper statements are charged a service fee.

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 Hong Kong, UAF was awarded the «Wastewi$e Certificate» by the Hong Kong Environmental Campaign Committee. The Wastewi$e Certificate is established to encourage companies in adopting measures to reduce the amount of waste generated within their organisation and recognise the waste reduction efforts of those companies. UAF works continuously with the Hong Kong Productivity Council in waste reduction assessment on collection of red pockets, metal cans and glass bottles for recycling as well as in taking measures in encouraging staff to reduce use of paper, plastic bags and photocopying for creating a better environment through waste reduction.

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 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 HR information systems have been implemented by UAF and Sun Hung Kai Credit for leave application/monitoring, staff performance reviews and employee profile management. In addition, a Learning Management System and online e-platform enables staff to complete online enrolment for training/staff activities and evaluation surveys to replace paper usage in connection with such activities.

At Sun Hung Kai & Co corporate offices, a platform was adopted for internal administration workflow. 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 in 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 paper as detailed above.

Materiality Assessment and Stakeholder Engagement

The materiality and relevance of the above environmental and social issues are determined 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 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. Only material and relevant aspects and KPI's are included in the disclosures in this report.

HKEx ESG Guide Reporting Guide Content Index Reference

Indicators		Report Section
A. Environmental		
Aspect A1: Emissions		
General Disclosure	Disclosure statement	7
KPI A1.1	The types of emissions and respective emissions data	Not relevant for detailed disclosure
KPI A1.2	Greenhouse gas emissions in total and intensity	Not relevant for detailed disclosure
KPI A1.3	Total hazardous waste produced	Not relevant for detailed disclosure
KPI A1.4	Total non-hazardous waste produced	Not relevant for detailed disclosure
KPI A1.5	Description of measures to mitigate emissions and results achieved	Not relevant for detailed disclosure
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Not relevant for detailed disclosure
Aspect A2: Use of Resources		
General Disclosure	Disclosure statement	7
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	7.2
KPI A2.2	Water consumption in total and intensity	Not relevant for detailed disclosure
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Not relevant for detailed disclosure
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Not relevant for detailed disclosure
KPI A2.5	Total packaging material used for finished products	Not relevant for detailed disclosure
Aspect A3: The Environment and Natural Resources		
General Disclosure	Disclosure statement	7
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	7.2
B.Social		
Employment and Labour Practices		
Aspect B1: Employment		
General Disclosure	Disclosure statement	1
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	1
KPI B1.2	Employee turnover rate by gender, age group and geographical region	1
Aspect B2: Health and Safety		
General Disclosure	Disclosure statement	1.1
KPI B2.1	Number and rate of work-related fatalities	Not relevant for detailed disclosure
KPI B2.2	Lost days due to work injury	Not relevant for detailed disclosure
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	1.1

Indicators		Report Section
Aspect B3: Development and Training		
General Disclosure	Policy statement	1.3
KPI B3.1	The percentage of employees trained by gender and employee category	1.3
KPI B3.2	The average training hours completed per employee by gender and employee category.	1.3
Aspect B4: Labour Standards		
General Disclosure	Disclosure statement	1.1 and 1.2
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Not relevant for detailed disclosure
KPI B4.2	Description of steps taken to eliminate such practices when discovered	Not relevant for detailed disclosure
Operating Practices		
Aspect B5: Supply Chain Management		
General Disclosure	Policy statement	3
KPI B5.1	Number of suppliers by geographical region	3
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers and implementation and monitoring of the practices	3
Aspect B6: Product Responsibility		
General Disclosure	Disclosure statement	2
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not applicable
KPI B6.2	Number of products and service related complaints received and how they are dealt with	2
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Not Relevant for detailed disclosure
KPI B6.4	Description of quality assurance process and recall procedures	Not applicable
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	2
Aspect B7: Anti-corruption		
General Disclosure	Disclosure statement	4
KPI B7.1	Number of concluded legal cases regarding corrupt practices and outcomes	Not applicable
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	4
Community		
Aspect B8: Community Investment		
General Disclosure	Policy statement	5
KPI B8.1	Focus areas of contribution	5
KPI B8.2	Resources contributed to the focus area	5

Directors' Report

The board of directors of the Company (the "Board") are pleased to present the 2018 annual report ("Annual Report") and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018.

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 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 2018 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 2018 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 12 September 2018. The Directors has declared a second interim dividend of HK14 cents per share for the year ended 31 December 2018 to the shareholders whose names appear on the register of members of the Company on 12 June 2019, making a total dividend for the year 2018 of HK26 cents per share. Dividend warrants of the second interim dividend are expected to be despatched on 20 June 2019.

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$5.2 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 on issue as at 31 December 2018:

– US$361,639,000 4.75% Guaranteed Notes due May 2021 under the US$2,000,000,000 Guaranteed Medium Term Note Programme (the "MTN Programme") were listed on 1 June 2016 (stock code: 5654). The issuer of this programme is Sun Hung Kai & Co. (BVI) Limited ("SHK BVI", a company incorporated in the B.V.I. and a direct wholly-owned subsidiary of SHK).

– US$550,000,000 4.65% Guaranteed Notes due September 2022 issued by SHK BVI under the MTN 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).

– HK$245,500,000 Guaranteed Notes due February 2019 under the MTN Programme were issued by SHK BVI on 5 February 2018.

– In June 2018, Sun Hung Kai (ECP) Limited ("SHK ECP"), a wholly-owned subsidiary of the Company, established a US$1,000,000,000 commercial paper programme ("CP Programme") and as at 31 December 2018, a total of HK$382,000,000 principal amount of commercial paper (the "Commercial Paper") was issued by SHK ECP under the CP Programme.

During the year, the relevant Guaranteed Notes and Commercial Paper were issued for general corporate purposes of the Group. For further details of the abovementioned issued Guaranteed Notes and Commercial Paper, 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 2018 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

Non-Executive Directors

Peter Anthony Curry *(re-designated from Executive Director to Non-Executive Director on 1 September 2018)*
Jonathan Andrew Cimino

Independent Non-Executive Directors ("INEDs")

Evan Au Yang Chi Chun *(appointed on 22 March 2018)*
David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung
Peter Wong Man Kong *(deceased on 11 March 2019)*

In accordance with Article 103 of the Company's Articles of Association (the "Articles"), one-third of the Directors for the time being shall be subject to retirement by rotation, and eligible for re-election, at each Annual General Meeting of the Company ("AGM"). Accordingly, pursuant to Article 103 of the Articles, Mr. Peter Anthony Curry, Mr. Alan Stephen Jones and Ms. Jacqueline Alee Leung, the Directors being the longest in office since their last election, will retire at the forthcoming AGM, and being eligible, offer themselves for re-election at the AGM.

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

Profiles of Directors and Senior Management

Executive Directors

Lee Seng Huang, aged 44, was appointed as an Executive Director and has been the Group 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 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 "Stock Exchange"). Mr. Lee is also a director of United Asia Finance Limited ("UAF"), a subsidiary of the Company.

Simon Chow Wing Charn, aged 64, 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 directorships in various subsidiaries of the Company.

Non-Executive Directors

Peter Anthony Curry, aged 66, was appointed as an Executive Director of the Company on 1 January 2011 and was re-designated as a Non-executive Director on 1 September 2018. He joined the Company as the Group Chief Financial Officer in November 2010 until his retirement on 31 August 2018. Mr. Curry has over 45 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 of Commerce Degree and a Bachelor of Laws Degree 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 appointed as a non-executive director of Tian An Australia Limited on 15 March 2019, a company listed on the Australian Securities Exchange. Mr. Curry was previously an alternate director to Mr. Lee Seng Hui (the then non-executive director of APAC Resources Limited, a company listed on the Stock Exchange).

Jonathan Andrew Cimino, aged 66, was appointed as a Non-Executive Director of the Company on 25 January 2016. He is 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, holds 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 worked extensively on privatisation mandates for the New Zealand Government. Upon leaving UBS in 2001, Mr. Cimino formed his own boutique investment bank Cimino Partners which undertook various M&A and capital market transactions including acting as the lead manager for the IPO of the New Zealand Stock Exchange. He has 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). Mr. Cimino 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

Evan Au Yang Chi Chun, aged 47, was appointed as an Independent Non-Executive Director of the Company on 22 March 2018. Mr. Au Yang is the managing director and head of GLG International ("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 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 also 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.

David Craig Bartlett, aged 53, 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 75, 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 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 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 58, was appointed as an Independent Non-Executive Director of the Company on 1 November 2014. Ms. Leung is 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 Loans 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 honors in Engineering from Brown University in the United States.

Senior Management

Akihiro Nagahara

Managing Director and Chief Executive Officer, UAF

Mr. Nagahara, aged 78, 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 ("SHK Credit"), the subsidiaries of the Company.

Robert James Quinlivan

Group Chief Financial Officer

Mr. Quinlivan, aged 49, joined the Company as Group Chief Financial Officer in September 2018. He has 28 years of experience in the fields of financial markets, public accounting and audit. Prior to joining the Company, he was Chief Financial Officer, Asia for Macquarie Group Limited and has worked in senior finance and assurance roles with Barclays and Merrill Lynch. Prior to Hong Kong, Mr. Quinlivan worked in Seoul, Tokyo, London and New York. He commenced his career with KPMG in Australia. Mr. Quinlivan is a CFA Charterholder and a member of the CFA Institute, and is a Fellow of the Institute of Chartered Accountants in Australia. He obtained a Bachelor of Commerce Degree majoring in accounting and finance from The University of Western Australia. He is also a director of various subsidiaries of the Company.

Elsy Li Chun

Group Treasurer and Head of Corporate Development

Ms. Li, aged 46, joined the Company in May 2017 and is the Group Treasurer and Head 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's Degree in Business Administration from the University of Michigan. She is also a director of certain subsidiaries of the Company.

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 2018, 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)*	1,233,690,575 *(Note 2)*	61.43%
Simon Chow Wing Charn	Beneficial owner	533,000	0.02%
	Beneficiary of trust	1,012,000 *(Note 3a)*	0.05%
	Beneficial owner	2 *(Note 3b)*	n/a
Peter Anthony Curry	Beneficial owner	1,241,141	0.06%
	Beneficial owner	1 *(Note 4)*	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 1,233,690,575 Shares held by APL.
3. (a) These include the deemed interests in:
   (i) 184,000 unvested Shares out of the total of 552,000 Shares granted to Mr. Simon Chow Wing Charn ("Mr. Chow") on 15 April 2016 under the SHK Employee Ownership Scheme ("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 was vested and became unrestricted from 15 April 2018; and the remaining one-third thereof shall be vested and become unrestricted from 15 April 2019;
   (ii) 330,000 unvested Shares out of the total of 495,000 Shares granted to Mr. Chow on 13 April 2017 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 165,000 Shares) was vested and became 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; and
   (iii) 498,000 unvested Shares granted to Mr. Chow on 20 April 2018 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 166,000 Shares) shall be vested and become unrestricted from 20 April 2019; another one-third thereof shall be vested and become unrestricted from 20 April 2020; and the remaining one-third thereof shall be vested and become unrestricted from 20 April 2021.

   (b) 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. This represents the interests held by Mr. Peter Anthony 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)*	5,108,911,521 *(Note 4)*	74.99%
	SHK Hong Kong Industries Limited ("SHK HK Ind")	Interests of controlled corporation *(Note 5)*	3,082,889,606 *(Note 6)*	74.97%

Notes:

1. Mr. Lee Seng Huang, by virtue of his interests in AGL and APL, was deemed to be interested in the shares of the subsidiaries of AGL (including SHK HK Ind, a listed subsidiary of AGL) and APL, which are associated corporations of the Company as defined under the SFO.
   A waiver application was submitted to the Stock Exchange 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 Stock Exchange on 18 February 2019.
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 refers to the interests in 5,108,911,521 shares of APL which were held 968,354,880 directly and 4,140,556,641 indirectly by AGL.
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 2018, 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 2018, 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SHK Employee Ownership Scheme

On 18 December 2007 (the "Adoption Date"), the Company adopted the 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 which are 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 3,189,000 Shares (2017: 1,170,000 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 533,000 Shares (2017: 1,192,000 Shares) were vested during the year.

Since its adoption, a total of 19,588,000 Shares have been awarded up to the date of this report, representing about 1.16% per cent of the total number of Shares in issue as at the Adoption Date. As at 31 December 2018, the outstanding awarded but unvested Shares under the EOS amounted to 4,005,000 Shares, out of which 1,012,000 Shares were awarded to a director of the Company.

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 2018, 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)*	1,233,690,575 *(Note 2)*	61.43%
AGL	Interests of controlled corporation *(Note 3)*	1,233,690,575 *(Note 4)*	61.43%
Lee and Lee Trust	Interests of controlled corporation *(Note 5)*	1,233,690,575 *(Note 4)*	61.43%
Dubai Ventures LLC ("Dubai Ventures")	Beneficial owner	166,000,000 *(Note 6)*	8.27%
Dubai Ventures Group LLC ("DVG")	Interests of controlled corporation *(Note 7)*	166,000,000 *(Note 8)*	8.27%
Dubai Group LLC ("Dubai Group")	Interests of controlled corporation *(Note 9)*	166,000,000 *(Note 8)*	8.27%
Dubai Holding Investments Group LLC ("DHIG")	Interests of controlled corporation *(Note 10)*	166,000,000 *(Note 8)*	8.27%
Dubai Holding LLC ("Dubai Holding")	Interests of controlled corporation *(Note 11)*	166,000,000 *(Note 8)*	8.27%
Dubai Group Limited ("DGL")	Interests of controlled corporation *(Note 12)*	166,000,000 *(Note 8)*	8.27%
HSBC Trustee (C.I.) Limited ("HSBC Trustee")	Trustee *(Note 13)*	166,000,000 *(Note 8)*	8.27%
HH Mohammed Bin Rashid Al Maktoum	Interests of controlled corporation *(Note 14)*	166,000,000 *(Note 8)*	8.27%
Asia Financial Services Company Limited ("AFSC")	Beneficial owner	196,600,000 *(Note 15)*	9.79%
Asia Financial Services Holdings Limited ("AFSH")	Interests of controlled corporation *(Note 16)*	196,600,000 *(Note 17)*	9.79%
Asia Financial Services Group Limited ("AFSG")	Interests of controlled corporation *(Note 18)*	196,600,000 *(Note 17)*	9.79%
Asia Financial Services Group Holdings Limited ("AFSGH")	Interests of controlled corporation *(Note 19)*	196,600,000 *(Note 17)*	9.79%
CVC Capital Partners Asia Pacific III L.P. ("CVC LP")	Interests of controlled corporation *(Note 20)*	196,600,000 *(Note 17)*	9.79%
CVC Capital Partners Asia III Limited ("CVC Capital III")	Interests of controlled corporation *(Note 21)*	196,600,000 *(Note 17)*	9.79%

Name of Shareholders	Capacity	Number of Shares and underlying Shares	Approximate % of the total number of issued Shares
CVC Capital Partners Advisory Company Limited ("CVC Capital Partners Advisory")	Interests of controlled corporation *(Note 22)*	196,600,000 *(Note 17)*	9.79%
CVC Capital Partners Finance Limited ("CVC Capital Partners Finance")	Interests of controlled corporation *(Note 23)*	196,600,000 *(Note 17)*	9.79%
CVC Group Holdings L.P. ("CVC Group Holdings")	Interests of controlled corporation *(Note 24)*	196,600,000 *(Note 17)*	9.79%
CVC Portfolio Holdings Limited ("CVC Portfolio")	Interests of controlled corporation *(Note 25)*	196,600,000 *(Note 17)*	9.79%
CVC Management Holdings Limited ("CVC Management")	Interests of controlled corporation *(Note 26)*	196,600,000 *(Note 17)*	9.79%
CVC MMXII Limited ("CVC MMXII")	Interests of controlled corporation *(Note 27)*	196,600,000 *(Note 17)*	9.79%
CVC Capital Partners 2013 PCC (acting in respect of its protected cell, CVC Capital Partners Cell G PC) ("CVC Capital Partners 2013")	Interests of controlled corporation *(Note 28)*	196,600,000 *(Note 17)*	9.79%
CVC Capital Partners SICAV-FIS S.A. ("CVC Capital Partners SA")	Interests of controlled corporation *(Note 29)*	196,600,000 *(Note 17)*	9.79%
Everbright Sun Hung Kai Structured Solutions Limited ("Everbright SHK Structured Solutions")	Entity having a security interest in shares *(Note 30)*	196,600,000 *(Note 31)*	9.79%
Sun Hung Kai Financial Group Limited ("SHK Financial Group")	Interests of controlled corporation *(Note 32)*	196,600,000 *(Note 33)*	9.79%
Everbright Securities Financial Holdings Limited ("Everbright Securities Financial")	Interests of controlled corporation *(Note 34)*	196,600,000 *(Note 33)*	9.79%
Everbright Securities Company Limited	Interests of controlled corporation *(Note 35)*	196,600,000 *(Note 33)*	9.79%

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 1,233,690,575 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 1,233,690,575 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, 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 196,600,000 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 196,600,000 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 approximately 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 196,600,000 Shares held by AFSC which were pledged in favour of Everbright SHK Structured Solutions for a term loan facility.
31. This represents an interest in 196,600,000 Shares.
32. SHK Financial Group, through its wholly-owned subsidiary Everbright Sun Hung Kai Company Limited, owned 100% interest in Everbright SHK Structured Solutions and was therefore deemed to have an interest in the Shares in which Everbright SHK Structured Solutions was interested.
33. This refers to the same interest in 196,600,000 Shares held by Everbright SHK Structured Solutions.
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 2018, no short positions were recorded in the SFO Register of the Company.

Save as disclosed above, as at 31 December 2018, 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 have 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 reports for 2016 and 2017, 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 provided by the senior management and 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 2017, 2018 and 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 2018 was HK$17.73 million, which was within the annual cap of HK$26.5 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 dated 29 November 2017 and the annual report for 2017 of the Company, the Company as the lessee entered into a master lease agreement (the "2018 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 2018 to 31 December 2020 in accordance with the terms of the 2018 Master Lease Agreement.

The maximum agreement amount set for the transaction contemplated under the 2018 Master Lease Agreement for each of the three financial years ending 31 December 2018, 2019 and 2020 were set at HK$27.03 million, HK$29.62 million and HK$29.62 million respectively.

The total amount paid to Art View under the 2018 Master Lease Agreement for the year ended 31 December 2018 was HK$24.31 million which was within the annual cap of HK$27.03 million as set for such financial year.

2.2 *Sub-tenancy Agreement*

As disclosed in the announcement dated 31 March 2017 and the annual report for 2017 of the Company, UAF (an indirect non wholly-owned subsidiary of the Company) entered into a renewed sub-tenancy agreement (the "Renewed Sub-tenancy Agreement") with AGL on 31 March 2017 to renew a sub-tenancy agreement relating to the sub-lease of a portion of 24th floor of Allied Kajima Building by AGL to UAF 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 under the Renewed Sub-tenancy Agreement for each of the two years ended 31 December 2017 and 2018 and for the three months period ending 31 March 2019 were HK$281,000, HK$290,000 and HK$73,000 respectively.

The total aggregate amount paid to AGL under the Renewed Sub-tenancy Agreement for the year ended 31 December 2018 was HK$289,200 which was within the aggregate maximum amount of HK$290,000 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 2018 Master Lease Agreement and the Renewed Sub-tenancy Agreement constituted continuing connected transactions for the Company (the "Continuing Connected Transactions") under Chapter 14A of the Listing Rules. In accordance with the requirements of Rules 14A.49 and 14A.71 of the Listing Rules, details of the said Continuing Connected Transactions are included in this report.

The Company's auditor was engaged to report on the Group's Continuing Connected Transactions for the year ended 31 December 2018 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 Stock Exchange.

Pursuant to Rule 14A.55 of the Listing Rules, the INEDs as at the date of this report, being Mr. Evan Au Yang Chi Chun, Mr. David Craig Bartlett, Mr. Alan Stephen Jones and Ms. Jacqueline Alee Leung, have reviewed the above Continuing Connected Transactions and confirmed that they were entered into:

(i) in the ordinary and usual course of business of the Group;
(ii) on normal commercial terms or better; and
(iii) according to the respective agreements governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

Connected Transactions

(1) Share Buy-back

As disclosed in the announcements of the Company dated 4 May 2018, 24 July 2018 and 17 September 2018 (the "Share Buy-back Announcements") and the Company's circular dated 25 June 2018 (the "Share Buy-back Circular"), on 4 May 2018, a deed of undertaking was executed by AFSC in favour of the Company conditionally undertaking to execute a share buy-back contract (the "Buy-back Contract") relating to an off-market share buy-back by the Company of 145,000,000 Shares held by AFSC ("Share Buy-back"). The buy-back price per Share was reduced from HK$4.75 to HK$4.49 after adjusting for the 2017 second interim dividend of HK$0.14 per share and 2018 interim dividend of HK$0.12 per share respectively paid to AFSC on 28 June 2018 and 12 September 2018. The agreed form of the Buy-back Contract was approved by the independent shareholders at the extraordinary general meeting of the Company held on 17 July 2018 and the Buy-back Contract was entered into between AFSC and the Company on 20 July 2018. Completion of the Share Buy-back took place on 17 September 2018 and the Shares bought back by the Company were subsequently cancelled on 19 September 2018. The aggregate consideration (before expenses) for the Share Buy-back was HK$651,050,000.

Prior to the completion of the Share Buy-Back, AFSC was a substantial shareholder of the Company as defined under the Listing Rules. AFSC was therefore a connected person of the Company and the Share Buy-back constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. After completion of the Share Buy-back, AFSC's shareholding in the Company was reduced from 15.87% to 9.79% and thus ceased to be a connected person of the Company as such.

(2) Term Loan

As disclosed in the joint announcement of the Company, APL and AGL dated 23 October 2018, on 23 October 2018, SHK Credit (an indirect non-wholly owned subsidiary of the Company) as lender entered into a loan agreement (the "Loan Agreement") with Mr. Peter Wong Man Kong ("Mr. Wong", then an independent non-executive director of the Company) as borrower, pursuant to which SHK Credit agreed to make available to Mr. Wong loan facilities including (i) a short term loan in the amount of HK$10,000,000 for a term of six months from the date of drawdown with an interest rate of 18% per annum; (ii) an instalment loan in the amount of HK$115,000,000 for a term of twelve months from the date of drawdown with an interest rate of 19.625% per annum for the first instalment and 7.625% per annum for the second to twelfth instalment; and (iii) a term loan in the amount of HK$30,000,000 for a term of twelve months from the date of drawdown with an interest rate of 7.625% per annum, on the terms and subject to the conditions therein ("Loan Transaction").

As Mr. Wong was an independent non-executive director of the Company, Mr. Wong was therefore a connected person of the Company and the Loan Transaction 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 aforesaid transactions are 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

Save for the Term Loan Transaction as disclosed in the section headed "Connected Transactions" above, 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 2020 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"), Tian An China Investments Company Limited ("TACI") and Asiasec Properties Limited ("Asiasec") 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 fulfill 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

As disclosed under the paragraph "Share Buy-back" in the section headed "Connected Transactions" above, on 17 September 2018, the Company has completed the Share Buy-back of 145,000,000 Shares from AFSC at an adjusted buy-back price of HK$4.49 per Share pursuant to the Buy-back Contract. The Shares bought back by the Company were subsequently cancelled on 19 September 2018. The aggregate consideration (before expenses) for the Share Buy-back was HK$651,050,000. Details of the Share Buy-back are also set out in the Company's announcements dated 4 May 2018, 24 July 2018, 17 September 2018 and the Company's circular dated 25 June 2018 respectively.

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 2018.

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, 20 March 2019

Independent Auditor's Report

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 69 to 140, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Valuation of financial instruments classified as level 3 under fair value hierarchy</td></tr>
<tr><td>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 the management. In particular, the determination of unobservable inputs is considerably more subjective given the lack of availability of market-based data.

At 31 December 2018, HK$7,317.9 million of the Group's total financial assets (including financial assets at fair value through other comprehensive income of HK$21.6 million and financial assets at fair value through profit or loss of HK$7,296.3 million) and HK$22.9 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 overseas investment funds with carrying amount at 31 December 2018 of HK$1,120.0 million, HK$856.6 million and HK$5,157.3 million, respectively.</td><td>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 the 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.</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of goodwill and intangible assets with indefinite useful lives	
We have identified the estimated impairment of goodwill and intangible assets with indefinite useful lives as a key audit matter due to the inherent subjectivity arising from the significant management judgement involved as stated in note 4. As shown in notes 21 and 20 to the consolidated financial statements, the Group has goodwill and trade mark of HK$2,384.0 million and HK$868.0 million respectively arising from the acquisition of United Asia Finance Limited ("UAF"). The recoverable amount of UAF, a cash-generating unit (consumer finance segment), represents the value in use based on discounted estimated future cash flows over a five-year period. The recoverable amount of UAF was determined to be in excess of its net carrying amount. Further details are shown in note 22 to the consolidated financial statements.	Our procedures in relation to the estimated impairment of goodwill and intangible assets with indefinite useful lives included: – Obtaining an understanding of the valuation methodology and the processes with respect to the valuation of the recoverable amount (which represents the value in use) of UAF; – Evaluating the appropriateness of the valuation methodology and the models used by the management, with the assistance of our internal valuation specialist; – Comparing the current year actual cash flows with the prior year cash flow projections and assessing the reasonableness for the changes of those assumptions (e.g. average growth rate on the profit before tax) used in current year; – Assessing the reasonableness of other key inputs used by the 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.
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 2018, the net carrying amount of SHKFGL is HK$1,131.0 million, after impairment of HK$505.9 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 the 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 the management, with the assistance of our internal valuation specialist; – Assessing the reasonableness of key assumptions and inputs used by the 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.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to consumer finance customers, mortgage loans and term loans (loss allowance for expected credit losses ("ECL") upon application of HKFRS 9)	
We identified the impairment of loans and advances to consumer finance customers, mortgage loans and term loans as a key audit matter due to significant management judgement involved in identification and measurement of loss allowance for expected credit losses. The key changes arising from the adoption of HKFRS 9 are that the Group's credit losses are now estimated based on an expected loss model rather than an incurred loss model. 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$9,769.7 million, after recognising an impairment allowance of HK$645.6 million, mortgage loans of HK$3,854.2 million, after recognising an impairment allowance of HK$9.7 million and term loans of HK$2,485.2 million, after recognising an impairment allowance of HK$150.8 million, as at 31 December 2018. As explained in note 2 to the consolidated financial statements, in the current year, the Group adopted Hong Kong Financial Reporting Standard 9 "Financial Instruments" (HKFRS 9) and recognised an additional impairment of HK$105.5 million as at 1 January 2018 in accordance with the transitional provisions of HKFRS 9. The assessment of impairment for loans and advances to consumer finance customers, mortgage loans and term loans involves significant management judgements and estimates on the amount of expected credit loss at the reporting date. At each reporting date, the management assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The management considers reasonably supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis. In assessing the lifetime ECL on credit-impaired financial assets classified as stage 3, the Group performs the assessment based on the Group's historical credit loss experience, adjusted for factors specific to the borrowers, general economic conditions, the current conditions at the reporting date and forward-looking analysis. The Group also reviews the value of collateral received from the customers in measuring impairment. The methodology and assumptions used for estimating the impairment amount are reviewed regularly to reduce any differences between loss estimates and actual loss experience.	Our procedures in relation to the impairment of loans and advances to consumer finance customers, mortgage loans and term loans included: – Inquiring the management to understand the approach applied on ECL model of loans and advances to consumer finance customers, mortgage loans and term loans; – Understanding key controls on how the management estimates impairment for loans and advances to consumer finance customers, mortgage loans and term loans; – Testing the accuracy of the ECL adjustment made by the Group as at 1 January 2018 on initial adoption of HKFRS 9; – Testing the integrity of information used by management to develop the provision matrix on a sample basis, by comparing individual items in the analysis with the relevant loan agreements and other supporting documents; – Challenging management's basis and judgement in determining the appropriateness of management's grouping of the loans and advances to consumer finance customers and mortgage loans into different categories in the provision matrix, the inputs and assumptions applied on the ECL model, including probability of default, loss given default, the Group's historical loss experience and forward-looking information, with the assistance of our internal specialist; – Assessing the appropriateness of the inputs and assumptions applied on the ECL model of term loans, including probability of default, loss given default and forward-looking information, with the assistance of our internal specialist; – Reviewing the Group's historical loss experience; – Assessing the reasonableness and appropriateness of the management's judgement on staging criteria for determining if a significant increase in credit risk has occurred and the basis for classification of exposures into the 3 stages as required by HKFRS 9 and examining loan exposures on a sample basis to evaluate if there has been timely identification and classification of loan exposures into the 3 stages as required by HKFRS 9; – Testing the mathematical accuracy of the loss allowance for ECL.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to consumer finance customers, mortgage loans and term loans (loss allowance for expected credit losses (“ECL”) upon application of HKFRS 9)	
	– For loans and advances to consumer finance customers, mortgage loans and term loans classified at stage 3, we examined underlying documentation supporting the value of collateral, if any, and the management’s key estimations used in the individual impairment assessment for loans and advances to consumer finance customers, mortgage loans and term loans on a sample basis; and – Evaluating the disclosures regarding the impairment measurement of loans and advances to consumer finance customers, mortgage loans and term loans in notes 29, 30, 31 and 44 to the consolidated financial statements.

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

20 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

(HK$ Million)	Notes	2018	2017
Interest income		**4,070.0**	3,641.1
Other revenue	5	**105.7**	154.5
Other gains	7	**408.9**	250.1
Total income		**4,584.6**	4,045.7
Brokerage and commission expenses		**(50.5)**	(46.7)
Advertising and promotion expenses		**(159.2)**	(145.6)
Direct cost and operating expenses		**(89.5)**	(61.5)
Administrative expenses	11	**(1,167.2)**	(1,208.1)
Net gain on financial assets and liabilities at fair value through profit or loss	12	**234.4**	1,229.4
Net exchange gain (loss)		**14.2**	(126.9)
Net impairment losses on financial instruments	13	**(901.7)**	–
Bad and doubtful debts	13	**–**	(386.7)
Finance costs	14	**(666.8)**	(544.3)
Other losses	11	**(1.6)**	(177.7)
		1,796.7	2,577.6
Share of results of associates		**30.8**	59.6
Share of results of joint ventures		**3.8**	(28.7)
Profit before taxation	11	**1,831.3**	2,608.5
Taxation	15	**(220.7)**	(294.6)
Profit for the year		**1,610.6**	2,313.9
Profit attributable to:			
— Owners of the Company		**1,183.8**	1,824.3
— Non-controlling interests	23	**426.8**	489.6
		1,610.6	2,313.9
— Basic (HK cents)		**56.2**	84.0
— Diluted (HK cents)		**56.1**	83.9

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

(HK$ Million)	2018	2017
Profit for the year	**1,610.6**	2,313.9
Other comprehensive (expenses) income:		
Items that will not be reclassified to profit or loss		
Fair value loss on investments in equity instrument of fair value through other comprehensive income	**(110.3)**	–
Items that may be reclassified subsequently to profit or loss		
Available-for-sale investments		
— Net fair value changes during the year	**–**	(175.5)
— Reclassification adjustment to profit or loss on impairment	**–**	176.2
	(110.3)	0.7
Exchange differences arising on translating foreign operations	**(335.8)**	466.2
Reclassification adjustment to profit or loss on disposal of joint ventures	**2.8**	–
Share of other comprehensive (expenses) income of associates	**(0.8)**	3.5
Share of other comprehensive (expenses) income of joint ventures	**(3.2)**	2.2
Other comprehensive (expenses) income for the year	**(447.3)**	472.6
Total comprehensive income for the year	**1,163.3**	2,786.5
Total comprehensive income attributable to:		
— Owners of the Company	**876.7**	2,112.7
— Non-controlling interests	**286.6**	673.8
	1,163.3	2,786.5

Consolidated Statement of Financial Position

At 31 December 2018

(HK$ Million)	Notes	31/12/2018	31/12/2017
Non-current Assets			
Investment properties	18	**1,360.9**	1,178.6
Leasehold interests in land		**4.0**	4.4
Property and equipment	19	**412.1**	456.2
Intangible assets	20	**890.2**	882.6
Goodwill	21	**2,384.0**	2,384.0
Interest in associates	24	**1,380.4**	1,365.8
Interest in joint ventures	25	**240.2**	280.2
Available-for-sale investments	26	**–**	324.0
Financial assets at fair value through other comprehensive income	26	**174.4**	–
Financial assets at fair value through profit or loss	26	**6,360.9**	5,033.7
Deferred tax assets	27	**729.9**	649.6
Amounts due from associates	28	**266.7**	275.2
Loans and advances to consumer finance customers	29	**2,618.9**	2,322.8
Mortgage loans	30	**1,956.8**	1,243.1
Term loans, trade receivables, prepayments and other receivables	31	**56.0**	505.8
		18,835.4	16,906.0
Current Assets			
Financial assets at fair value through profit or loss	26	**4,378.6**	6,188.4
Taxation recoverable		**5.0**	5.4
Amounts due from associates	28	**97.1**	143.6
Loans and advances to consumer finance customers	29	**7,150.8**	6,840.8
Mortgage loans	30	**1,897.4**	877.3
Term loans, trade receivables, prepayments and other receivables	31	**2,816.9**	2,823.5
Amounts due from brokers		**507.0**	725.8
Short-term pledged bank deposits and bank balances	32	**20.0**	–
Bank deposits	32	**353.5**	787.7
Cash and cash equivalents	32	**4,622.4**	2,123.7
		21,848.7	20,516.2

(HK$ Million)	Notes	31/12/2018	31/12/2017
Current Liabilities			
Financial liabilities at fair value through profit or loss	26	**425.3**	161.1
Bank and other borrowings	33	**5,221.3**	2,196.8
Trade payables, other payables and accruals	34	**236.9**	329.1
Financial assets sold under repurchase agreements	35	**1,216.5**	1,071.0
Amounts due to fellow subsidiaries and holding company	36	**519.0**	135.3
Amounts due to associates	36	**1.9**	1.9
Provisions	37	**103.5**	69.5
Taxation payable		**175.7**	146.0
Notes/papers payable	38	**752.7**	1,079.1
		8,652.8	5,189.8
Net Current Assets		**13,195.9**	15,326.4
Total Assets less Current Liabilities		**32,031.3**	32,232.4
Capital and Reserves			
Share capital	39	**8,752.3**	8,752.3
Reserves		**10,286.9**	10,674.4
Equity attributable to owners of the Company		**19,039.2**	19,426.7
Non-controlling interests	23	**3,805.9**	3,971.8
Total Equity		**22,845.1**	23,398.5
Non-current Liabilities			
Deferred tax liabilities	27	**176.9**	181.5
Bank and other borrowings	33	**1,961.8**	1,600.4
Provisions	37	**0.2**	0.2
Notes/papers payable	38	**7,047.3**	7,051.8
		9,186.2	8,833.9
		32,031.3	32,232.4

The consolidated financial statements on pages 69 to 140 were approved and authorised for issue by the Board of Directors on 20 March 2019 and are signed on its behalf by:

Lee Seng Huang
Director

Simon Chow Wing Charn
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(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
	Attributable to owners of the Company									
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**
Impact on initial application of HKFRS 9	**-**	**-**	**-**	**-**	**(240.9)**	**-**	**204.1**	**(36.8)**	**(34.6)**	**(71.4)**
At 1 January 2018	**8,752.3**	**(7.6)**	**4.9**	**(89.8)**	**305.2**	**75.1**	**10,349.8**	**19,389.9**	**3,937.2**	**23,327.1**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**1,183.8**	**1,183.8**	**426.8**	**1,610.6**
Other comprehensive expenses for the year (Note 40)	**-**	**-**	**-**	**(197.8)**	**(109.3)**	**-**	**-**	**(307.1)**	**(140.2)**	**(447.3)**
Total comprehensive income (expenses) for the year	**-**	**-**	**-**	**(197.8)**	**(109.3)**	**-**	**1,183.8**	**876.7**	**286.6**	**1,163.3**
Recognition of equity-settled share-based payments	**-**	**-**	**8.3**	**-**	**-**	**-**	**-**	**8.3**	**-**	**8.3**
Purchase of shares for the SHK Employee Ownership Scheme	**-**	**(24.8)**	**-**	**-**	**-**	**-**	**-**	**(24.8)**	**-**	**(24.8)**
Vesting of shares of the SHK Employee Ownership Scheme	**-**	**2.7**	**(2.7)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interim dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**(560.0)**	**(560.0)**	**-**	**(560.0)**
Dividends paid to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(417.9)**	**(417.9)**
Shares repurchased and cancelled	**-**	**-**	**-**	**-**	**-**	**-**	**(650.9)**	**(650.9)**	**-**	**(650.9)**
Transfer retained earnings to capital reserves	**-**	**-**	**-**	**-**	**-**	**2.4**	**(2.4)**	**-**	**-**	**-**
At 31 December 2018	**8,752.3**	**(29.7)**	**10.5**	**(287.6)**	**195.9**	**77.5**	**10,320.3**	**19,039.2**	**3,805.9**	**22,845.1**

(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
	Attributable to owners of the Company									
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 for the year (Note 40)	-	-	-	283.4	5.0	-	-	288.4	184.2	472.6
Total comprehensive income 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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

(HK$ Million)	2018	2017
Operating activities		
Profit for the year	**1,610.6**	2,313.9
Adjustments for:		
— Share of results of associates	**(30.8)**	(59.6)
— Share of results of joint ventures	**(3.8)**	28.7
— Taxation	**220.7**	294.6
— Dividend income	**(11.3)**	(10.8)
— Interest income	**(4,070.0)**	(3,641.1)
— Profit on disposal of subsidiaries	**(132.4)**	–
— Loss on disposal of joint ventures	**0.5**	–
— Increase in fair value of investment properties	**(185.1)**	(120.4)
— Expenses recognised for the SHK Employee Ownership Scheme	**8.3**	6.4
— Amortisation of leasehold interests in land	**0.2**	0.1
— Amortisation of intangible assets	**1.9**	1.8
— Depreciation of property and equipment	**53.5**	55.2
— Net loss on disposal/write-off of equipment	**1.1**	1.5
— Impairment loss on available-for-sale investments	**–**	176.2
— Reversal of impairment in an associate	**(66.7)**	(107.6)
— Loss on redemption of notes payable	**–**	0.8
— Bad and doubtful debts	**–**	386.7
— Net impairment on financial instruments	**1,098.9**	–
— Interest expenses	**637.8**	530.8
— Net fair value gain on financial assets and liabilities	**(179.0)**	(1,093.6)
— Exchange differences	**8.3**	56.4
Operating cash flows before movements in working capital	**(1,037.3)**	(1,180.0)
Change in financial assets at fair value through profit or loss	**1,232.6**	(3,003.8)
Change in amounts due from associates	**47.1**	(79.2)
Change in loans and advances to consumer finance customers and mortgage loans	**(3,528.5)**	(3,071.2)
Change in term loans, trade receivables, prepayments and other receivables	**544.4**	(470.0)
Change in amounts due from brokers	**218.9**	333.7
Change in financial liabilities at fair value through profit or loss	**264.1**	45.0
Change in trade payables, other payables and accruals	**1.6**	89.1
Change in financial assets sold under repurchase agreements	**145.5**	1,071.0
Change in amounts due to a holding company	**(5.1)**	7.8
Change in provisions	**13.4**	11.5
Cash used in operations	**(2,103.3)**	(6,246.1)
Dividends received from equity investments	**6.3**	9.4
Interest received	**4,008.6**	3,604.3
Interest paid	**(525.0)**	(470.7)
Taxation paid	**(270.4)**	(266.7)
Net cash from (used in) operating activities	**1,116.2**	(3,369.8)

(HK$ Million)	2018	2017
Investing activities		
Purchase of property and equipment	**(27.8)**	(20.8)
Proceeds on disposal of equipment	**0.3**	–
Purchase of intangible assets	**(10.1)**	–
Proceeds on disposal of subsidiaries	**70.0**	–
Proceeds on disposal of joint ventures	**3.2**	–
Capital injection to associates	**–**	(128.0)
Capital injection to a joint venture	**(72.1)**	(69.7)
Dividends received from associates	**84.6**	20.7
Purchase of available-for-sale investments	**–**	(390.0)
Purchase of long-term financial assets as at fair value through profit or loss	**(1,326.0)**	(603.4)
Proceeds on disposal of long-term financial assets as at fair value through profit or loss	**621.9**	90.2
Net fixed deposits with banks withdrawal	**390.7**	541.0
Net cash used in investing activities	**(265.3)**	(560.0)
Financing activities		
Short-term loans due to fellow subsidiaries raised	**388.7**	86.5
Net short-term bank and other borrowings repaid	**(12,590.2)**	(2,169.6)
New long-term bank and other borrowings raised	**16,018.8**	1,150.0
Proceeds from issue of notes/papers	**795.1**	4,729.0
Redemption of notes/papers	**(576.4)**	(60.5)
Repayment of notes/papers	**(616.5)**	(2,300.8)
Disposal of notes held by subsidiaries of the Company	**–**	334.9
Purchase of shares for the SHK Employee Ownership Scheme	**(24.8)**	(4.8)
Shares repurchased and cancelled	**(650.9)**	(196.2)
Dividends paid	**(560.0)**	(567.3)
Dividends to non-controlling interests	**(417.9)**	(208.4)
Repayment of capital contributions by non-controlling interest	**–**	(66.9)
Net cash from financing activities	**1,765.9**	725.9
Net change in cash and cash equivalents	**2,616.8**	(3,203.9)
Cash and cash equivalents at 1 January	**2,123.7**	5,194.5
Effect of foreign exchange rate changes	**(118.1)**	133.1
Cash and cash equivalents at the end of the year (Note 32)	**4,622.4**	2,123.7

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")

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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.

HKFRS 9 Financial Instruments and the related amendments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets, loan commitments and financial guarantee contracts and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

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

HKFRS 9 Financial Instruments and the related amendments *(Continued)*

The table below illustrates the classification and measurement (including the measurement of ECL) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

Summary of effects arising from initial application of HKFRS 9

(HK$ Million)	Available-for-sale investments	Interest in associates	Financial assets designated at FVTPL	Financial assets at FVTPL required by HKAS 39/ HKFRS9	Equity instruments at FVTOCI	Amortised cost (previously classified as loans and receivables)	Financial liabilities measured at amortised cost	Provisions	Deferred tax assets	Revaluation reserve	Retained earnings	Non-controlling interests
Closing balance at 31 December 2017 - HKAS 39	324.0	1,365.8	5,436.3	5,785.8	-	18,635.0	13,286.4	69.7	649.6	546.1	10,145.7	3,971.8
Effect arising from initial application of HKFRS 9:												
Reclassification												
From available-for-sale (a)	(324.0)	-	-	41.4	282.6	-	-	-	-	(240.9)	240.9	-
From designated at FVTPL (b)	-	-	(5,436.3)	5,436.3	-	-	-	-	-	-	-	-
Remeasurement												
Impairment under ECL model (c)/(e)	-	(5.4)	-	-	-	(77.7)	-	27.8	28.0	-	(48.3)	(34.6)
Non-substantial modification of financial liabilities (d)	-	-	-	-	-	-	(11.5)	-	-	-	11.5	-
Opening balance at 1 January 2018	**-**	**1,360.4**	**-**	**11,263.5**	**282.6**	**18,557.3**	**13,274.9**	**97.5**	**677.6**	**305.2**	**10,349.8**	**3,937.2**

(a) Available-for-sale investments ("AFS")

From AFS equity investments to fair value through other comprehensive income ("FVTOCI")

The Group elected to present in other comprehensive income ("OCI") the fair value changes of some of its equity investments previously classified as AFS investments, of which unquoted equity investments of HK$21.6 million were previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, investments of HK$282.6 million were reclassified from AFS investments to equity instruments at FVTOCI. The net fair value gains of HK$2.3 million relating to those investments previously carried at fair value Continued to accumulate in revaluation reserve. In addition, impairment losses previously recognised of HK$212.3 million were transferred from retained earnings to revaluation reserve as at 1 January 2018.

From AFS investments to fair value through profit or loss ("FVTPL")

At the date of initial application of HKFRS 9, some of the Group's equity investments of HK$41.4 million were reclassified from AFS to financial assets at FVTPL. The fair value gains of HK$28.6 million relating to those investments previously carried at fair value were transferred from revaluation reserve to retained earnings.

(b) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the convertible notes and the portfolio of financial assets categorised in FVTPL which is managed and its performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under HKFRS 9. As a result, the fair value of these investments of HK$5,436.3 million were reclassified from financial assets designated at FVTPL to financial assets at FVTPL. There was no impact on the amounts recognised in relation to other financial assets at FVTPL from the application of HKFRS 9.

(c) Impairment under ECL model

Loss allowances for other financial assets at amortised cost comprising mainly of amounts due from associates, loans and advances to consumer finance customers, mortgage loans, term loans, trade and other receivables, bank deposits, short-term pledged bank deposits and bank balances and cash and cash equivalents, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition, except for certain loans and advances to consumer finance customers, mortgage loans and term loans which are measured on lifetime ECL basis as for those credit risk had increased significantly since initial recognition. For undrawn loan commitments, an ECL of HK$27.8 million which is included in provisions has been recognised.

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

HKFRS 9 Financial Instruments and the related amendments *(Continued)*

Summary of effects arising from initial application of HKFRS 9 *(Continued)*

(c) Impairment under ECL model (Continued)

As at 1 January 2018, the additional credit loss allowance of HK$105.5 million and deferred tax assets of HK$28.0 million have been recognised against retained earnings and non-controlling interests. The additional loss allowance is charged against the respective asset.

All loss allowances for financial assets (including loans and advances to consumer finance customers, mortgage loans and payments on behalf of customers) and loan commitments as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

(HK$ Million)	Loans and advances to consumer finance customers	Loan commitments	Mortgage loans	Payments on behalf of customers (included in trade receivables)	Total
At 31 December 2017 – HKAS 39	663.3	–	5.0	6.6	674.9
Amounts remeasured through opening retained earnings and non-controlling interests	77.5	27.8	0.2	–	105.5
Amounts written off (Note)	(122.7)	–	–	(6.3)	(129.0)
At 1 January 2018	618.1	27.8	5.2	0.3	651.4

Note: Amounts written off resulted from the refinement of the write-off policy on the initial application of HKFRS 9.

(d) Financial liabilities with non-substantial modification

Under HKAS 39, the Group revised the effective interest rates for non-substantial modification with no gain or loss being recognised in profit or loss. At the date of initial application, the carrying amounts of financial liabilities previously modified were adjusted downward by HK$11.5 million to reflect the change in accounting policies as stated in Note 3, with corresponding adjustments credited to the retained earnings as at 1 January 2018.

(e) Interest in associates

The net effects arising from the initial application of HKFRS 9 resulted in a decrease in the carrying amounts of interest in associates of HK$5.4 million with corresponding adjustments to retained earnings by HK$5.4 million.

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

HKFRS 9 Financial Instruments and the related amendments *(Continued)*

As a result of the changes in the entity's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

(HK$ Million)	31/12/2017 Audited	Reclassification	Remeasurement/ Impairment allowances	**1/1/2018 Restated**
Non-current Assets				
Investment properties	1,178.6	–	–	**1,178.6**
Leasehold interests in land	4.4	–	–	**4.4**
Property and equipment	456.2	–	–	**456.2**
Intangible assets	882.6	–	–	**882.6**
Goodwill	2,384.0	–	–	**2,384.0**
Interest in associates	1,365.8	–	(5.4)	**1,360.4**
Interest in joint ventures	280.2	–	–	**280.2**
Available-for-sale investments	324.0	(324.0)	–	**–**
Financial assets at fair value through other comprehensive income	–	282.6	–	**282.6**
Financial assets at fair value through profit or loss	5,033.7	41.4	–	**5,075.1**
Deferred tax assets	649.6	–	28.0	**677.6**
Amounts due from associates	275.2	–	–	**275.2**
Loans and advances to consumer finance customers	2,322.8	–	90.0	**2,412.8**
Mortgage loans	1,243.1	–	1.5	**1,244.6**
Term loans, trade receivables, prepayments and other receivables	505.8	–	–	**505.8**
	16,906.0	–	114.1	**17,020.1**
Current Assets				
Financial assets at fair value through profit or loss	6,188.4	–	–	**6,188.4**
Taxation recoverable	5.4	–	–	**5.4**
Amounts due from associates	143.6	–	–	**143.6**
Loans and advances to consumer finance customers	6,840.8	–	(167.5)	**6,673.3**
Mortgage loans	877.3	–	(1.7)	**875.6**
Term loans, trade receivables, prepayments and other receivables	2,823.5	–	–	**2,823.5**
Amounts due from brokers	725.8	–	–	**725.8**
Bank deposits	787.7	–	–	**787.7**
Cash and cash equivalents	2,123.7	–	–	**2,123.7**
	20,516.2	–	(169.2)	**20,347.0**

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

HKFRS 9 Financial Instruments and the related amendments *(Continued)*

(HK$ Million)	31/12/2017 Audited	Reclassification	Remeasurement/ Impairment allowances	**1/1/2018 Restated**
Current Liabilities				
Financial liabilities at fair value through profit or loss	161.1	–	–	**161.1**
Bank and other borrowings	2,196.8	–	–	**2,196.8**
Trade payables, other payables and accruals	329.1	–	–	**329.1**
Financial assets sold under repurchase agreements	1,071.0	–	–	**1,071.0**
Amounts due to fellow subsidiaries and holding company	135.3	–	–	**135.3**
Amounts due to associates	1.9	–	–	**1.9**
Provisions	69.5	–	27.8	**97.3**
Taxation payable	146.0	–	–	**146.0**
Notes payable	1,079.1	–	–	**1,079.1**
	5,189.8	–	27.8	**5,217.6**
Net Current Assets	15,326.4	–	(197.0)	**15,129.4**
Total Assets less Current Liabilities	32,232.4	–	(82.9)	**32,149.5**
Capital and Reserves				
Share capital	8,752.3	–	–	**8,752.3**
Reserves	10,674.4	–	(36.8)	**10,637.6**
Equity attributable to owners of the Company	19,426.7	–	(36.8)	**19,389.9**
Non-controlling interests	3,971.8	–	(34.6)	**3,937.2**
Total Equity	23,398.5	–	(71.4)	**23,327.1**
Non-current Liabilities				
Deferred tax liabilities	181.5	–	–	**181.5**
Bank and other borrowings	1,600.4	–	–	**1,600.4**
Provisions	0.2	–	–	**0.2**
Notes payable	7,051.8	–	(11.5)	**7,040.3**
	8,833.9	–	(11.5)	**8,822.4**
	32,232.4	–	(82.9)	**32,149.5**

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
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 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after a date to be determined.

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

HKFRS 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. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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. Upon application of 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.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, 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 2018, the Group has non-cancellable operating lease commitments of HK$182.8 million as disclosed in note 41(a). A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, 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.

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

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

HKFRS 16 "Leases" *(Continued)*

In addition, the Group currently considers refundable rental deposits paid of HK$29.1 million and refundable rental deposits received of HK$7.5 million as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application.

3. Significant Accounting Policies

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap. 622).

(b) Basis of preparation and consolidation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

Non-controlling interest in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

(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.

3. Significant Accounting Policies *(Continued)*

(c) Business combinations *(Continued)*

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 or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

(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.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

(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 interest 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.

3. Significant Accounting Policies *(Continued)*

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

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 Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

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

(g) Investment properties

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

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

(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.

3. Significant Accounting Policies *(Continued)*

(i) Property and equipment *(Continued)*

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.

(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) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Significant Accounting Policies *(Continued)*

(k) Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling 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.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit – impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other revenue" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "net gain on financial assets and liabilities at fair value through profit or loss" line item.

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, bank deposits, short-term pledged bank deposits and bank balances, cash and cash equivalents, loans and advances to consumer finance customers, mortgage loans, term loans, amounts due from brokers and amounts due from related parties), loan commitments and financial guarantee contracts.

The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

3. Significant Accounting Policies *(Continued)*

(k) Financial instruments *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) *(Continued)*

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonably supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in (1) regulatory, economic or technological environments; (2) business or financial conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- financial re-organisation/restructuring entered by the debtors.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonably supportable information that demonstrates otherwise.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonably supportable information to demonstrate that a more lagging default criterion is more appropriate. In particular, the following qualitative indicators are taken into account in determining the risk of a default occurring:

- probable bankruptcy entered by the borrowers;
- death of the debtor, and
- disappearance of active market of the collateral or repossessed properties.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;

3. Significant Accounting Policies *(Continued)*

(k) Financial instruments *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(iii) Credit-impaired financial assets *(Continued)*

(c) the lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider;
(d) probable bankruptcy or other financial reorganisation entered by the debtor;
(e) probable shortfall that expected cash inflows from the realisation of collateral is below the carrying amount of financial assets; or
(f) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off the gross carrying amount of a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate.

A write-off constitutes a derecognition event. Any subsequent recoveries will result in an impairment gain and is included in "Net impairment losses on financial instruments" in Note 13.

For the year ended 31 December 2018, the measurement of the expected credit loss under HKFRS 9 is included in "Net impairment losses on financial instruments" as presented in Note 13. Prior period amount determined adopting the incurred loss model under HKAS 39 is not restated and presented as "Bad and doubtful debts" in Note 13.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the loan commitments draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

For ECL on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Where ECL is measured on a collective basis or caters for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the below basis:

- Nature of financial instruments (i.e. the Group's trade receivables, prepayments and other receivables, loans and advances to consumer finance customers, mortgage loans and term loans are each assessed as a separate group. Amounts due from associates and brokers are assessed for expected credit losses on an individual basis);
- Past-due status; and
- Nature, size and industry of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics in accordance with the internal credit risk categories as disclosed in note 44.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For undrawn loan commitments, the loss allowances are the present value of the difference between:

(a) the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan: and
(b) the cash flows that the Group expects to receive if the loan is drawn down.

3. Significant Accounting Policies *(Continued)*

(k) Financial instruments *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(v) Measurement and recognition of ECL *(Continued)*

Except for loan commitments and financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of term loans, trade receivables, prepayments and other receivables, loans and advances to consumer finance customers and mortgage loans where the corresponding adjustment is recognised through a loss allowance account. For loan commitments and financial guarantee contracts, the loss allowances are recognised as provisions.

(vi) 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.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

(vii) 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.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

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 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 receivables, prepayments 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.

3. Significant Accounting Policies *(Continued)*

(k) Financial instruments *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) *(continued)*

(i) 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.

(ii) 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).

"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.

(iii) 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.

(iv) 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.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previous accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

(v) Fair value measurement principles

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

3. Significant Accounting Policies *(Continued)*

(k) Financial instruments *(Continued)*

(vi) Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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.

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.

(vii) Impairment

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.

3. Significant Accounting Policies *(Continued)*

(m) Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

"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.

"Financial liabilities at fair value through profit or loss"

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

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 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, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL 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 HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, 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 recognised 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 that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Prior to application of HKFRS 9 on 1 January 2018, 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 "Net gain on financial assets and liabilities at fair value through profit or loss" line item in the consolidated financial statement of profit or loss.

Financial liabilities at amortised cost

Financial liabilities including bank and other borrowings, trade payables, other payables and accruals, financial assets sold under repurchase agreements, amounts due to fellow subsidiaries and a holding company, amounts due to associates and notes/papers payable are subsequently measured at amortised cost, using the effective interest rate method.

"Financial guarantee contracts"

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 HKFRS 9 (since 1 January 2018)/ HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (before application of HKFRS 9 on 1 January 2018); and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee periods.

3. Significant Accounting Policies *(Continued)*

(m) Financial liabilities *(Continued)*

Financial liabilities at amortised cost *(Continued)*

"Financial assets sold under repurchase agreements"

Financial assets sold under 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/papers payable, 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.

Derecognition/non-substantial modification of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

"Non-substantial modifications of financial liabilities (under HKFRS 9 since 1 January 2018)"

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 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.

(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.

"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.

3. Significant Accounting Policies *(Continued)*

(n) Equity instruments *(Continued)*

***"Share capital"** (Continued)*

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.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts 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.

Embedded derivatives (under HKFRS 9 since 1 January 2018)

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 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.

Embedded derivatives (before application of HKFRS 9 on 1 January 2018)

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.

(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.

3. Significant Accounting Policies *(Continued)*

(q) Impairment of non-financial assets *(Continued)*

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.

(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 interest 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

3. Significant Accounting Policies *(Continued)*

(s) Foreign currencies *(Continued)*

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

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

(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.

3. Significant Accounting Policies *(Continued)*

(w) Revenue from contracts with customers (upon application of HKFRS 15)

Under HKFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. The Group shall consider indicators of the transfer of control, which include, but are not limited to, the following:

- The Group has a present right to payment for the asset and a customer is presently obliged to pay for an asset.
- The Group has transferred physical possession of the asset and the customer has obtained physical possession of an asset.
- The customer has accepted the good or service.
- Other indicators of the transfer of control of the good or service to the customer.

Revenue recognition (Prior to 1 January 2018)

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.
(v) Other service fee income is recognised upon the provision of the relevant services or on a time apportionment basis over the contractual period of the guarantee or loan.

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

The ECL for term loans is based on the Group's historical default rates taking into consideration forward-looking information that is reasonably supportable and available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. Term loans with significant balances and credit impaired are assessed for ECL individually.

4. Key Sources of Estimation Uncertainty *(Continued)*

(a) Impairment allowances on term loans *(Continued)*

The provision of ECL is sensitive to changes in estimates. The estimates would include the amount and timing of future cash flows, guarantee and collateral values when determining impairment allowances. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group considers reasonably supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis. Details of expected credit loss are set out in note 44(b). The information about the ECL and the Group's term loans are disclosed in note 31.

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

The Group uses provision matrix to calculate ECL for the loans and advances to consumer finance customers and mortgage loans. The provision rates are based on ageing of different consumer finance loan products and based on groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonably supportable and available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. Loans and advances to consumer finance customers and mortgage loans with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The estimates would include the amount and timing of future cash flows, guarantee and collateral values when determining impairment allowances. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group considers reasonably supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis. Details of expected credit loss are set out in note 44(b). The information about the ECL and the Group's loans and advances to consumer finance customers and mortgage loans are disclosed in note 29 and note 30 respectively.

(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. Tables regarding the valuation of material financial assets under Level 3 in 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. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss/further impairment loss may arise.

5. Other Revenue

(HK$ Million)	2018	2017
Service income	70.8	120.9
Dividends from listed investments	8.9	10.8
Dividends from unlisted investments	2.4	–
Gross rental income from investment properties	23.6	22.8
	105.7	154.5

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.

	2018					
(HK$ Million)	Financial Services	Consumer Finance	Mortgage Loans	Principal Investments	Group Management and Support	Total
Segment revenue	2.4	3,422.1	249.5	484.3	250.6	4,408.9
Less: inter-segment revenue	–	–	–	–	(233.2)	(233.2)
Segment revenue from external customers	2.4	3,422.1	249.5	484.3	17.4	4,175.7
Segment profit or loss	136.0	1,207.9	114.1	393.0	(54.3)	1,796.7
Share of results of associates	63.2	–	–	(32.4)	–	30.8
Share of results of joint ventures	3.8	–	–	–	–	3.8
Profit before taxation	203.0	1,207.9	114.1	360.6	(54.3)	1,831.3
Included in segment profit or loss:						
Interest income	–	3,388.5	248.8	414.4	18.3	4,070.0
Other gains (losses)	66.7	25.4	0.5	318.6	(2.3)	408.9
Net gain on financial assets and liabilities	67.5	–	–	166.6	0.3	234.4
Net exchange (loss) gain	–	(21.5)	–	46.2	(10.5)	14.2
Net impairment losses on financial instruments	–	(833.6)	(3.8)	(64.3)	–	(901.7)
Amortisation and depreciation	–	(40.4)	(1.9)	–	(13.3)	(55.6)
Finance costs	–	(237.4)	(86.2)	(142.1)	(429.4)	(895.1)
Less: inter-segment finance costs	–	–	86.2	142.1	–	228.3
Finance costs to external suppliers	–	(237.4)	–	–	(429.4)	(666.8)
Cost of capital (charges) income *	–	–	–	(325.2)	325.2	–

6. Segment Information *(Continued)*

	2017					
(HK$ Million)	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 (charges) income *	–	–	–	(289.5)	289.5	–

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

6. Segment Information *(Continued)*

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

(HK$ Million)	2018	2017
Revenue from external customers by location of operations		
– Hong Kong	**3,012.6**	2,792.8
– Mainland China	**1,163.1**	999.2
– Others	**–**	3.6
	4,175.7	3,795.6

(HK$ Million)	31/12/2018	31/12/2017
Non-current assets other than interests in associates and joint ventures, financial assets and deferred tax assets by location of assets		
– Hong Kong	**4,664.9**	4,483.1
– Mainland China	**386.3**	422.7
	5,051.2	4,905.8

7. Other Gains

(HK$ Million)	2018	2017
Net realised gain on disposal of subsidiaries #	**132.4**	–
Increase in fair value of investment properties	**185.1**	120.4
Miscellaneous income	**24.7**	22.1
Reversal of impairment in an associate *	**66.7**	107.6
	408.9	250.1

* 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. The recoverable amount was measured at fair value less cost of disposal of SHKFGL. The fair value was measured by discounted cash flow approach at the reporting date using a discount rate of 17.0%. As part of the disposal, 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$67.0 million (2017: HK$1.0 million) classified under net gain on financial assets and liabilities at fair value through profit or loss.

\# On 1 August 2018, the Group disposed of its wholly owned subsidiary, SWAT Securitisation Fund. The details of SWAT Securitisation Fund at the date of disposal were as follows:

	HK$ Million
Consideration received:	
Total consideration received	55.0

	1 August 2018 HK$ Million
Analysis of assets and liabilities over which control was lost:	
Net assets disposed of	**–**
Gain on disposal of a subsidiary:	
Consideration received and receivable	**55.0**
Net assets disposed of	**–**
Gain on disposal	**55.0**
Net cash inflow arising on disposal:	
Cash consideration	**55.0**

On 17 December 2018, the Group disposed of its wholly owned subsidiary, Maple Shade Limited. The details of Maple Shade Limited at the date of disposal were as follows:

	HK$ Million
Consideration received:	
Cash received	15.0
Deferred cash consideration	242.9
Consideration received	257.9

	17 December 2018 HK$ Million
Analysis of assets and liabilities over which control was lost:	
Financial assets at fair value through profit or loss	**180.5**
Net assets disposed of	**180.5**
Gain on disposal of a subsidiary:	
Consideration received and receivable	**257.9**
Net assets disposed of	**(180.5)**
Gain on disposal	**77.4**
Net cash inflow arising on disposal:	
Cash consideration	**15.0**

According to the sales and purchase agreement, the deferred consideration will be settled in cash by the purchaser on or before 30 April 2019 and is included in "other receivables" per Note 31.

8. Emoluments of Directors and Senior Employees

(a) Directors

(HK$ Million)	2018 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	–	9.16	37.00[4]	0.38	46.56
Simon Chow Wing Charn [1]	0.02	–	2.96	3.00[5]	0.15	6.13
Non-Executive Directors						
Jonathan Andrew Cimino	0.02	–	–	–	–	0.02
Peter Anthony Curry [2]	0.02	0.08	2.02	–	–	2.12
Independent Non-Executive Directors						
David Craig Bartlett	0.02	0.23	–	–	–	0.25
Alan Stephen Jones	0.02	0.29	–	–	–	0.31
Jacqueline Alee Leung	0.02	0.23	–	–	–	0.25
Peter Wong Man Kong	0.02	0.23	–	–	–	0.25
Evan Au Yang Chi Chun[3]	0.02	0.18	–	–	–	0.20
	0.18	1.24	14.14	40.00	0.53	56.09

1 In March 2019, Awarded Shares with fair value at grant date of HK$2.00 million under the SHK Employee Ownership Scheme was granted to the director in relation to his performance in 2018. In addition, 349,000 shares vested during 2018.

2 Mr. Peter Anthony Curry retired as an executive director and has been re-designated as a non-executive director with effect from 1 September 2018.

3 Mr. Evan Au Yang Chi Chun was appointed as an Independent Non-Executive Director of the Company on 22 March 2018.

4 The amount represents an actual cash bonus of HK$37.00 million for the year 2018 (2017: HK$48.50 million).

5 The amount represents an actual cash bonus of HK$3.00 million for the year 2018 (2017: HK$3.75 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 directors' emoluments shown above were for their services as directors 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)*

(HK$ Million)	2017 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 Director						
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 was granted to the director in relation to his performance in 2017. In addition, 184,000 shares vested during 2017.
2 557,000 shares under the SHK Employee Ownership Scheme vested during 2017.
3 The amount represents an actual cash bonus of HK$3.75 million for the year 2017.
4 The amount represents an actual cash bonus of HK$48.50 million for the year 2017.
5 The amount represents an actual cash bonus of HK$3.75 million for the year 2017.

(b) Highest paid individuals

The five highest paid individuals of the Group include two Directors (2017: three Directors) of the Company. The emoluments of the remaining three (2017: two) highest paid individuals are analysed below:

(HK$ Million)	**2018**	2017
Salaries, housing and other allowances, and benefits in kind	**14.5**	11.1
Bonuses	**15.3**	20.2
Contributions to retirement benefit scheme	**1.4**	1.1
	31.2	32.4

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

Emoluments band (HK$)	**Number of employees** **2018**	2017
$4,500,001 – $5,000,000	**1**	–
$5,500,001 – $6,000,000	**–**	1
$6,000,001 – $6,500,000	**1**	–
$20,500,001 – $21,000,000	**1**	–
$26,500,001 – $27,000,000	**–**	1

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

(c) Senior Management

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

Emoluments band (HK$)	Number of employees 2018	2017
$500,001 – $1,000,000	**2**	–
$1,000,001 – $1,500,000	**–**	1
$3,000,001 – $3,500,000	**1**	–
$3,500,001 – $4,000,000	**–**	1
$20,500,001 – $21,000,000	**1**	–
$26,500,001 – $27,000,000	**–**	1

No shares was vested and granted for our senior management during year 2018. No dividend payments were paid to senior management during the year (2017: nil).

9. Information About Material Interests of Directors in Transactions, Arrangements or Contracts

Except loan to independent non-executive director as disclosed in the relevant section of the Directors' Report, 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$77.8 million (2017: HK$79.8 million). The amount of forfeited contributions utilised in the course of the year ended 31 December 2018 was HK$0.25 million (2017: HK$0.19 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, 3.2 million shares (2017: 1.2 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$15.5 million (2017: HK$6.1 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$8.3 million (2017: HK$6.4 million).

11. Profit Before Taxation

(HK$ Million)	2018	2017
Profit before taxation for the year has been arrived at after charging:		
Administrative expenses (Note a)	**(1,167.2)**	(1,208.1)
Amortisation of leasehold interests in land	**(0.2)**	(0.1)
Outgoings in respect of rental generating investment properties	**(0.2)**	(0.7)
Other losses (Note b)	**(1.6)**	(177.7)
Share of taxation of associates and joint ventures included in share of results of associates and joint ventures	**(6.8)**	(6.3)
(a) Analysis of administrative expenses:		
Staff costs (including Directors' emoluments)	**(696.5)**	(694.8)
Contributions to retirement benefit schemes	**(77.8)**	(79.8)
Expenses recognised for the SHK Employee Ownership Scheme	**(8.3)**	(6.4)
Total staff costs	**(782.6)**	(781.0)
Auditors' remuneration	**(5.8)**	(5.2)
Depreciation of property and equipment	**(53.5)**	(55.2)
Amortisation of intangible assets – computer software	**(1.9)**	(1.8)
Operating lease rentals	**(154.7)**	(160.6)
Other administrative expenses	**(168.7)**	(204.3)
	(1,167.2)	(1,208.1)
(b) Analysis of other losses:		
Net loss on disposal/write-off of equipment	**(1.1)**	(1.5)
Impairment loss on available-for-sale investment measured at fair value	**–**	(176.2)
Loss on disposal of joint ventures	**(0.5)**	–
	(1.6)	(177.7)

12. Net Gain on Financial Assets and Liabilities at Fair Value through Profit or Loss

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

(HK$ Million)	2018	2017
Net realised and unrealised (loss) gain on financial assets and liabilities		
– Held for trading	**(225.2)**	297.4
– Financial assets at fair value through profit or loss	**459.6**	932.0
	234.4	1,229.4

13. Net Impairment Losses on Financial Instruments/Bad and Doubtful Debts

(HK$ Million)	2018	2017
Loans and advances to consumer finance customers		
– Net impairment losses before recoveries	**(1,025.0)**	–
– Recoveries of amounts previously written off	**195.1**	–
– Bad and doubtful debts	**–**	(277.3)
	(829.9)	(277.3)
Mortgage loans		
– Net impairment losses before recoveries	**(4.5)**	–
– Recoveries of amounts previously written off	**0.7**	–
– Bad and doubtful debts	**–**	(3.2)
	(3.8)	(3.2)
Term loans, trade and other receivables		
– Net impairment losses before recoveries	**(69.4)**	–
– Recoveries of amounts previously written off	**1.4**	–
– Bad and doubtful debts	**–**	(106.2)
	(68.0)	(106.2)
	(901.7)	(386.7)

14. Finance Costs

(HK$ Million)	2018	2017
Interest on the following liabilities		
– Bank loans and overdrafts	**(249.2)**	(182.2)
– Notes/papers payable	**(388.6)**	(348.6)
	(637.8)	(530.8)
Other borrowing costs	**(29.0)**	(13.5)
	(666.8)	(544.3)

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

15. Taxation

(HK$ Million)	2018	2017
Current tax		
– Hong Kong	**(205.2)**	(196.7)
– PRC	**(117.7)**	(52.6)
	(322.9)	(249.3)
Over (under) provision in prior years	**13.4**	(19.0)
	(309.5)	(268.3)
Deferred tax	**88.8**	(26.3)
	(220.7)	(294.6)

Hong Kong profits tax is calculated at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2017: 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)	2018	2017
Profit before taxation	**1,831.3**	2,608.5
Less: Share of results of associates	**(30.8)**	(59.6)
Share of results of joint ventures	**(3.8)**	28.7
	1,796.7	2,577.6
Tax at the Hong Kong profits tax rate of 16.5% (2017: 16.5%)	**(296.4)**	(425.3)
Over/(under) provision in prior years	**13.4**	(19.0)
Tax effect of non-taxable income	**127.0**	234.3
Tax effect of non-deductible expenses	**(26.9)**	(32.9)
Tax effect of unrecognised deductible temporary difference and tax losses	**(25.9)**	(26.9)
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	**(11.9)**	(31.5)
	(220.7)	(294.6)

Deferred tax recognised in other comprehensive income during the year was immaterial (2017: immaterial).

16. Dividends

(HK$ Million)	2018	2017
The aggregate amount of dividends declared and proposed:		
– 2018 interim dividend paid of HK12 cents (2017: HK12 cents) per share	**258.6**	260.7
– 2018 second interim dividend of HK14 cents per share declared after the reporting date (2017: 2017 second interim dividend of HK14 cents per share)	**281.1**	301.4
	539.7	562.1
Dividends recognised as distribution during the year:		
– 2017 second interim dividend paid of HK14 cents (2017: 2016 final dividend of HK14 cents) per share	**301.4**	306.6
– 2018 interim dividend paid of HK12 cents (2017: HK12 cents) per share	**258.6**	260.7
	560.0	567.3

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)	2018	2017
Earnings for the purposes of basic and diluted earnings per share		
Profit for the year from attributable to owners of the Company	**1,183.8**	1,824.3
Number of shares (in million)		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,107.8**	2,172.5
Effect of dilutive potential ordinary shares:		
– Impact of contingently issuable shares under the SHK Employee Ownership Scheme	**2.0**	1.0
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,109.8**	2,173.5

18. Investment Properties

(HK$ Million)	Hong Kong	PRC	Total
At 1 January 2017	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
Exchange adjustments	–	(2.8)	(2.8)
Change in fair value recognised in profit or loss	186.0	(0.9)	185.1
At 31 December 2018	1,310.0	50.9	1,360.9
Unrealised gains or losses for the year included in profit or loss			
– For 2018	186.0	(0.9)	185.1
– For 2017	119.0	1.4	120.4

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**	**2018**	2017
Hong Kong	Investment method	Term yield	**2%**	2%
		Reversionary yield	**2.1%**	2.1%
		Monthly market unit rent per gross floor area (sq. ft.)	**HK$51 to HK$69**	HK$45 to HK$65
PRC	Investment method	Term yield	**4.25 to 6.00%**	4.25 to 6.00%
		Reversionary yield	**4.75 to 6.75%**	4.75 to 6.75%
		Monthly market unit rent per gross floor area (sq. m.)	**RMB27 to RMB102**	RMB27 to RMB108

An increase in market unit rent would result in an increase in fair value of the investment properties while an increase in term yield and reversionary yield would result in a decrease 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 2018 were as follows:

Location	Classification	Term of lease
20-1, 20-2, 20-3, 20-4, 19-1, 19-2 & 19-3 in Block 2 of No. 101 building, Cuibai Road, Chunhuilu Street, Dadukou District, Chongqing, the PRC	Industrial	2061
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$1,128.0 million (31/12/2017: HK$974.0 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 2017	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
Exchange adjustments	(17.3)	(11.8)	(29.1)
Additions	–	27.8	27.8
Disposals/write-off	–	(9.7)	(9.7)
At 31 December 2018	318.2	427.7	745.9
Accumulated depreciation and impairment			
At 1 January 2017	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
Exchange adjustments	(2.4)	(9.7)	(12.1)
Depreciation provided for the year	9.4	44.1	53.5
Eliminated on disposals/write-off	–	(8.3)	(8.3)
At 31 December 2018	46.6	287.2	333.8
Carrying amount at 31 December 2018	271.6	140.5	412.1
Carrying amount at 31 December 2017	295.9	160.3	456.2

The useful lives of the properties are same as the remaining term of the leases that are ranging from 25 to 34 years.

20. Intangible Assets

(HK$ Million)	Club membership	Computer software	Trade mark	Customer relationship	Web domain	Total
Cost						
At 1 January 2017	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
Exchange adjustments	–	(0.9)	–	–	–	(0.9)
Additions	10.0	0.1	–	–	–	10.1
At 31 December 2018	12.2	17.8	875.0	1,154.0	78.0	2,137.0
Accumulated amortisation and impairment						
At 1 January 2017	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
Exchange adjustments	–	(0.3)	–	–	–	(0.3)
Amortisation charged for the year	–	1.9	–	–	–	1.9
At 31 December 2018	1.0	6.8	7.0	1,154.0	78.0	1,246.8
Carrying amount at 31 December 2018	11.2	11.0	868.0	–	–	890.2
Carrying amount at 31 December 2017	1.2	13.4	868.0	–	–	882.6

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
Customer relationship	5.4 years
Web domain	10 years

21. Goodwill

(HK$ Million)	2018	2017
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 2018 were allocated as follows:

	Goodwill		Trade Mark	
(HK$ Million)	**31/12/2018**	31/12/2017	**31/12/2018**	31/12/2017
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 2018 based on a business valuation report on the UAF group prepared by an independent qualified professional valuer, Norton Appraisals Holdings 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 12.6% on the profit before tax from 2019 to 2023 (2017: 12.8% from 2018 to 2022), a sustainable growth rate of 2.4% beyond 2023 (2017: 2.7% beyond 2022), and a discount rate of 14.9% (2017: 15.6%). The recoverable amount of UAF was determined to be in excess of its net carrying amount.

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

23. Interest in Subsidiaries

The consolidated profit or loss allocated to non-controlling interests during the year and the accumulated non-controlling interests in the consolidated statement of financial position as at 31 December 2018 are as follows:

	Profit or loss allocated to non-controlling interests		Accumulated non-controlling interests	
(HK$ Million)	**2018**	2017	**31/12/2018**	31/12/2017
United Asia Finance Limited and its subsidiaries	**419.4**	488.3	**3,797.9**	3,971.2
Other subsidiaries having non-controlling interests	**7.4**	1.3	**8.0**	0.6
	426.8	489.6	**3,805.9**	3,971.8

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

	United Asia Finance Limited and its subsidiaries	
(HK$ Million)	**31/12/2018**	31/12/2017
Current assets	**10,210.3***	9,456.3*
Non-current assets	**3,764.7#**	3,443.2#
Current liabilities	**(3,790.8)**	(2,648.2)
Non-current liabilities	**(1,915.2)**	(1,585.6)

(HK$ Million)	**2018**	2017
Dividend paid to non-controlling interests	**417.9**	208.4
Revenue	**3,392.5**	3,096.2
Profit for the year	**1,001.4**	1,163.7
Total comprehensive income for the year	**680.2**	1,604.0
Net change in cash and cash equivalents during the year	**1,040.8**	(1,527.8)

* Including loans and advances to consumer finance customers of HK$7,150.8 million (31/12/2017: HK$6,840.8 million)

\# Including loans and advances to consumer finance customers of HK$2,618.9 million (31/12/2017: HK$2,322.8 million)

23. Interest in Subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries at 31 December 2018 were as follows:

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital/ registered capital	Proportion of ownership interest 2018	2017	Principal activities
Shares held directly:					
Boneast Assets Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
Shipshape Investments Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
Sun Hung Kai & Co. (CP) Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
Sun Hung Kai & Co. (BVI) Limited	British Virgin Islands	US$1	**100%**	100%	Financing
Sun Hung Kai Capital Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
Swan Islands Limited	British Virgin Islands	US$503,000,001	**100%**	100%	Investment holding
Wah Cheong Development Company, Limited	Hong Kong	HK$25,100,000	**100%**	100%	Investment holding
Shares held indirectly:					
Abbey Dale Ventures Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
Admiralty Eight Limited	Hong Kong	HK$1	**100%**	100%	Property investment
Admiralty Eleven Limited	Hong Kong	HK$1	**100%**	100%	Property investment
Bronwood Holdings Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
Dagenham Investments Limited	British Virgin Islands	US$1	**100%**	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		184,612.1644 (2017: 182,255.1444) 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%**	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
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 (ECP) Limited	British Virgin Islands	US$1	**100%**	100%	Financing

23. Interest in Subsidiaries *(Continued)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital/ registered capital	Proportion of ownership interest 2018	2017	Principal activities
Sun Hung Kai Credit Limited	Hong Kong	HK$800,000,000 (2017: HK$450,000,000)	**92%**	92%	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
Swanwick Global Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
Texgulf Limited	Hong Kong	HK$20	**100%**	100%	Property investment
Treasure Rider Limited	Cayman Islands	US$19,800	**92%**	92%	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
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 United Asia Finance (ShanghaiPudong) Limited #(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 United Asia Finance (DaLian F.T.Z) Limited (b)	People's Republic of China	US$50,000,000	**58%**	58%	Money lending
大連亞聯財信息諮詢有限公司 United Asia Consultancy (Dalian) Limited (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 United Asia Finance (Tianjin) Limited (b)	People's Republic of China	HK$130,000,000	**58%**	58%	Money lending
北京亞聯財小額貸款有限公司 United Asia Finance (Beijing) Limited #(a)	People's Republic of China	RMB200,000,000	**47%**	47%	Money lending
成都亞聯財小額貸款有限公司 United Asia Finance (Chengdu) Limited (b)	People's Republic of China	HK$230,000,000	**58%**	58%	Money lending
成都亞聯財經濟信息諮詢有限公司 United Asia Financial Consultancy (Chengdu) Limited (c)	People's Republic of China	RMB1,000,000	**58%**	58%	Financial consultancy

23. Interest in Subsidiaries *(Continued)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital/ registered capital	Proportion of ownership interest 2018	2017	Principal activities
亞洲第一信息諮詢(深圳)有限公司 First Asian Financial Consultancy (Shenzhen) Limited (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 United Asia Consultancy (Shanghai) Limited #(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 UA Financial Consultancy (Shenzhen) Limited (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 United Asia Finance (Wuhan) Limited (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 United Asia Financial Consultancy (Wuhan) Limited (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 United Asia Finance (Qingdao) Limited (b)	People's Republic of China	RMB300,000,000	**58%**	58%	Money lending
青島亞聯財信息諮詢有限公司 United Asia Financial Consultancy (Qingdao) Limited (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 United Asia Finance (Nanning) Limited (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 United Asia Finance Investment Management (Nanning) Limited (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 United Asia Finance (Harbin) Limited (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 United Asia Financial Consultancy (Harbin) Limited (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 United Asia Finance (Chongqing) Limited (b)	People's Republic of China	US$20,000,000	**58%**	58%	Money lending
重慶亞聯財信息諮詢有限公司 United Asia Financial Consultancy (Chongqing) Limited (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 United Asia Finance (Shenzhen) Limited (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 United Asia Finance (Yunnan) Limited (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 UA Financial Consultancy (Yunnan) Limited (c)	People's Republic of China	RMB1,000,000	**58%**	58%	Financial consultancy

23. Interest in Subsidiaries *(Continued)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital/ registered capital	Proportion of ownership interest 2018	Proportion of ownership interest 2017	Principal activities
新聯財信息諮詢(深圳)有限公司 Xinliancai Consultancy (Shenzhen) Limited (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 Sun Hung Kai (Tianjin) Equity Fund Management Company Limited (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 Sun Hung Kai Financing Guarantee (Shenyang) Limited (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 United Asia Financial Consultancy (Fuzhou) Limited (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 United Asia Finance (Fuzhou) Limited (b)	People's Republic of China	RMB200,000,000	**58%**	58%	Money lending
濟南市亞聯財小額貸款有限公司 (formerly known as濟南市歷下區亞聯財小額貸款有限公司) United Asia Finance (JiNan) Limited (b)	People's Republic of China	RMB300,000,000	**58%**	58%	Money lending
瀋陽亞聯財卓越信息諮詢有限公司 Shenyang UAF Excellent Information Consulting Limited (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 United Asia Finance (Shenhe District Shenyang) Limited (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) Yirongzhan Fintech (Shenzhen) Limited (c)	People's Republic of China	RMB20,000,000	**58%**	58%	Financial consultancy
天津亞聯財商務信息諮詢有限公司 United Asia Financial Consultancy (Tianjin) Limited	People's Republic of China	–	**58%**	58%	Financial consultancy

\# The companies are non-wholly owned subsidiaries of a non-wholly owned subsidiary.
(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 names of People's Republic of China incorporated companies above are English translations.

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. Interest in Associates

(HK$ Million)	31/12/2018	31/12/2017
Carrying amount of unlisted associates	1,887.1	1,939.1
Less: impairment	(506.7)	(573.3)
	1,380.4	1,365.8

Particulars of the Group's material associate at 31 December 2018 were as follows:

Name	Place of incorporation/operation	Proportion of ownership interest 2018	2017	Principal activities
Sun Hung Kai Financial Group Limited ("SHKFGL")	British Virgin Islands/ Hong Kong	30%	30%	Wealth management and brokerage business

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

(HK$ Million)	31/12/2018	31/12/2017
Current assets	12,572.9	11,995.9
Non-current assets	1,095.6	1,827.7
Current liabilities	(4,152.8)	(5,805.9)
Non-current liabilities	(6,085.3)	(4,521.3)

(HK$ Million)	2018	2017
Revenue	1,602.6	1,328.2
Profit	210.7	127.5
Other comprehensive (expenses)/income	(2.8)	11.8
Total comprehensive income	207.9	139.3

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

(HK$ Million)	31/12/2018	31/12/2017
Adjusted net assets of SHKFGL	3,430.4	3,496.4
Group's effective interest	30%	30%
Group's share of adjusted net assets	1,029.2	1,048.9
Goodwill	607.7	607.7
Impairment (Note 7)	(505.9)	(572.6)
Carrying amount of the Group's interest in SHKFGL	1,131.0	1,084.0

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)	2018	2017
Share of profit or loss	(32.4)	21.3
Share of other comprehensive income	–	–
Share of total comprehensive (expenses) income	(32.4)	21.3
Share of unrecognised losses for the year	(0.7)	(0.7)
Share of cumulative losses	(26.7)	(26.0)

25. Interest in Joint Ventures

(HK$ Million)	31/12/2018	31/12/2017
Carrying amount of unlisted joint ventures	240.2	280.2
Less: impairment	–	–
	240.2	280.2

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

(HK$ Million)	2018	2017
Share of profit or loss	3.8	(28.7)
Share of other comprehensive (expenses) income	(3.2)	2.2
Share of total comprehensive income (expenses)	0.6	(26.5)
Share of unrecognised losses for the year	–	–
Share of cumulative losses	–	–

26. Financial Assets and Liabilities

The following table provides analyses of financial assets and liabilities of the Group that are at fair value (subsequent to initial recognition upon application of HKFRS 9).

	At 31 December 2018			
	Fair value			
(HK$ Million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income				
Equity securities listed in Hong Kong	43.9	–	–	43.9
Equity securities listed outside Hong Kong	108.9	–	–	108.9
Unlisted overseas equity securities	–	–	21.6	21.6
	152.8	–	21.6	174.4
Financial assets at fair value through profit or loss				
– Equity securities listed in Hong Kong	360.8	–	–	360.8
– Equity securities listed outside Hong Kong	903.7	–	–	903.7
– Forward currency contract	–	44.2	–	44.2
– Options and futures listed outside Hong Kong	–	42.2	–	42.2
– Unlisted put right for shares in an associate	–	–	1,120.0	1,120.0
– Unlisted call option for club memberships	–	–	13.3	13.3
– Unlisted call option for shares listed outside Hong Kong	–	–	0.4	0.4
– Contracts for difference	–	9.9	–	9.9
– Unlisted bonds issued by unlisted companies	–	1,483.7	–	1,483.7
– Listed bonds and notes issued by listed companies	–	253.5	–	253.5
– Listed bonds and notes issued by unlisted companies	–	38.3	–	38.3
– Unlisted convertible preferred and ordinary shares issued by an unlisted company	–	56.3	–	56.3
– Unlisted preferred shares issued by an unlisted company	–	–	57.2	57.2
– Unlisted convertible preferred shares issued by an unlisted company	–	93.0	–	93.0
– Unlisted redeemable preferred shares issued by an unlisted company	–	64.6	–	64.6
– Unlisted shares issued by unlisted companies	–	16.6	42.0	58.6
– Unlisted convertible bonds issued by unlisted companies	–	–	21.0	21.0
– Unlisted overseas equity securities with a put right for shares	–	–	856.6	856.6
– Unlisted overseas equity security	–	76.4	–	76.4
– Unlisted overseas investment funds	–	–	5,157.3	5,157.3
– Unlisted trust issued by an unlisted company	–	–	28.5	28.5
	1,264.5	2,178.7	7,296.3	10,739.5
Analysed for reporting purposes as:				
– Non-current assets				6,360.9
– Current assets				4,378.6
				10,739.5
Financial liabilities at fair value through profit or loss				
Held for trading				
– Futures and options unlisted in Hong Kong	–	25.2	–	25.2
– Futures and options listed outside Hong Kong	–	3.0	–	3.0
– Futures and options unlisted outside Hong Kong	–	32.9	–	32.9
– Foreign currency contracts	–	10.4	–	10.4
– Over the counter equity derivatives	–	–	22.9	22.9
– Short position in equity securities under stock borrowing arrangement	288.2	–	–	288.2
– Contracts for difference	–	42.7	–	42.7
Analysed for reporting purposes as current liabilities	288.2	114.2	22.9	425.3

26. Financial Assets and Liabilities *(Continued)*

The following table provide analysis of financial assets and liabilities of the Group that are measured at cost less impairment and at fair value subsequent to initial recognition (before application of HKFRS 9 on 1 January 2018).

	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)*

Available-for-sale investments were 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 carry the fair value reliably, some of the unlisted equity investments were measured 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. Where Level 2 inputs are not available, the Group engages external valuers to perform the valuation for certain complex or material financial assets and liabilities.

The fair values of Level 3 financial assets and liabilities are mainly derived from valuation technique using 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 valuations which are reviewed by management.

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

	At 31 December 2018				
	Valuation technique	**Unobservable inputs**	**Input values**	**Fair value HK$ Million**	**Sensitivity analysis**
Financial assets at fair value through profit or loss					
Unlisted put right for shares in an associate	Option model	Expected volatility Equity growth rate Estimated equity value Discount rate (for estimated equity value)	10.4% 1.4% HK$1,131.0 million 17%	1,120.0	An increase in volatility would result in an increase in the fair value. An increase in equity growth rate would result in a decrease in the fair value. An increase in estimated equity value would result in a decrease in fair value.
# Unlisted overseas equity securities with a put right for shares	Market approach and option model	Expected volatility Discount rate Equity growth rate	4.7% 2.5% –0.9%	856.6	An increase in volatility would result in an increase in the fair value. An increase in discount rate would result in a decrease in the fair value. An increase in equity growth rate would result in a decrease in the fair value.
Unlisted overseas investment funds	Net asset value*	n/a	n/a	5,157.3	n/a

26. Financial Assets and Liabilities *(Continued)*

	At 31 December 2017				
	Valuation technique	Unobservable inputs	Input values	Fair value HK$ Million	Sensitivity analysis
Held for trading investments					
Unlisted put right for shares in an associate	Option model	Expected volatility Equity growth rate Estimated equity value Discount rate (for estimated equity value)	8.9% 0.5% HK$1,084.0 million 16.6%	1,053.0	An increase in volatility would result in an increase in the fair value. An increase in equity growth rate would result in a decrease in the fair value. An increase in estimated equity value would result in a decrease in fair value.
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 Expected volatility Discount rate Equity growth rate	1.06x 5.1% 2.1% 0.1%	811.5	An increase in volatility would result in an increase in the fair value. An increase in equity growth rate would result in a decrease in the fair value.
Unlisted overseas investment funds	Net asset value*	n/a	n/a	4,302.2	n/a

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

Except for #, there has been no change in the valuation technique during the year. During the year, the major subsidiary of CM International Holding Pte Ltd ("CMIG") was listed on The New York Stock Exchange. Therefore, a market approach was used instead of a market comparable approach for the valuation of this subsidiary.

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

	2018							
			Recognised gains or losses					
(HK$ Million)	Balance at 1/1/2018	Transfer	Profit or loss	Other comprehensive income	Purchase	Disposal	Balance at 31/12/2018	Unrealised gain or loss for the year
Financial assets at fair value through other comprehensive income								
Unlisted overseas equity securities	21.6	-	-	-	-	-	21.6	-
Financial assets at fair value through profit or loss								
Over the counter equity derivatives	0.7	-	(0.7)	-	-	-	-	(0.7)
Unlisted put right for shares in an associate	1,053.0	-	67.0	-	-	-	1,120.0	67.0
Unlisted call option for club memberships	10.9	-	2.4	-	-	-	13.3	2.4
Unlisted call option for shares listed outside Hong Kong	10.9	-	(10.5)	-	-	-	0.4	(10.5)
Unlisted preferred shares issued by an unlisted company	17.1	3.9	3.8	-	53.4	(21.0)	57.2	(0.1)
Unlisted shares issued by unlisted company	41.4	-	(1.9)	-	2.5	-	42.0	(1.9)
Unlisted convertible bonds issued by unlisted companies	21.0	-	-	-	-	-	21.0	-
Unlisted overseas equity securities with a put right for shares	811.5	-	45.1	-	-	-	856.6	45.1
Unlisted overseas investment funds	4,302.2	(3.9)	443.4	-	1,047.8	(632.2)	5,157.3	302.8
Unlisted trust issued by an unlisted company	-	-	(1.0)	-	29.5	-	28.5	(1.0)
Financial liabilities at fair value through profit or loss								
Over the counter equity derivatives	(8.8)	-	(14.1)	-	-	-	(22.9)	(14.1)

26. Financial Assets and Liabilities *(Continued)*

(HK$ Million)	Balance at 1/1/2017	Transfer	2017 Recognised gains or losses: 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

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

(HK$ Million)	**31/12/2018**	31/12/2017
Available-for-sale investments	**–**	324.0
Financial assets at fair value through other comprehensive income	**174.4**	–
	174.4	324.0
Financial assets at fair value through profit or loss		
– Held for trading investments	**–**	5,785.8
– Investments at fair value through profit or loss	**10,739.5**	5,436.3
	10,739.5	11,222.1
Amortised cost/Loans and receivables		
– Amounts due from associates (Note 28)	**363.8**	418.8
– Loans and advances to consumer finance customers (Note 29)	**9,769.7**	9,163.6
– Mortgage loans (Note 30)	**3,854.2**	2,120.4
– Term loans, trade and other receivables (Note 31)	**2,853.8**	3,295.0
– Amounts due from brokers	**507.0**	725.8
– Short-term pledged bank deposit and bank balance (Note 32)	**20.0**	–
– Bank deposits (Note 32)	**353.5**	787.7
– Cash and cash equivalents (Note 32)	**4,622.4**	2,123.7
	22,344.4	18,635.0
	33,258.3	30,181.1

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)	**31/12/2018**	31/12/2017
Financial liabilities at fair value through profit or loss		
– Held for trading	**425.3**	161.1
Financial liabilities measured at amortised cost		
– Bank and other borrowings (Note 33)	**7,183.1**	3,797.2
– Trade and other payables (Note 34)	**65.7**	150.1
– Financial assets sold under repurchase agreements (Note 35)	**1,216.5**	1,071.0
– Amounts due to fellow subsidiaries and a holding company (Note 36)	**519.0**	135.3
– Amounts due to associates (Note 36)	**1.9**	1.9
– Notes/papers payable (Note 38)	**7,800.0**	8,130.9
	16,786.2	13,286.4
	17,211.5	13,447.5

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 assets sold under 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.

Analysed by liabilities type (HK$ Million)	**As at 31 December 2018** Carrying amount of transferred assets Financial assets at fair value through profit or loss	**Carrying amount of associated liabilities**	**Net Position**
Financial assets sold under repurchase agreements (Note 35)	**1,483.7**	**1,216.5**	**267.2**

Analysed by liabilities type (HK$ Million)	As at 31 December 2017 Carrying amount of transferred assets Financial assets at fair value through profit or loss	Carrying amount of associated liabilities	Net Position
Financial assets sold under 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.

26. Financial Assets and Liabilities *(Continued)*

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

(HK$ Million)	As at 31 December 2018 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	Cash collateral received/ pledged	Net amount
Type of financial assets						
Financial assets at fair value through profit or loss	**1,438.9**	**(11.4)**	**1,427.5**	**(425.3)**	**–**	**1,002.2**
Debt securities pledged as collateral for financial assets sold under repurchase agreements (Note 35)	**1,483.7**	**–**	**1,483.7**	**(1,216.5)**	**–**	**267.2**
Type of financial liabilities						
Financial liabilities at fair value through profit or loss	**436.7**	**(11.4)**	**425.3**	**(425.3)**	**–**	**–**
Financial assets sold under repurchase agreements	**1,216.5**	**–**	**1,216.5**	**(1,216.5)**	**–**	**–**

(HK$ Million)	As at 31 December 2017 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	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 collateral for financial assets sold under 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 assets sold under repurchase agreements	1,071.0	–	1,071.0	(1,071.0)	–	–

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 2017	(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
Impact on initial application of HKFRS 9	–	28.0	–	–	–	–	28.0
Exchange adjustments	–	(36.0)	0.5	4.0	–	(0.4)	(31.9)
Recognised in profit or loss	(2.2)	95.4	–	(3.1)	–	(1.3)	88.8
At 31 December 2018	(14.9)	760.9	(182.5)	(55.2)	0.2	44.5	553.0

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)	**31/12/2018**	31/12/2017
Deferred tax assets	**729.9**	649.6
Deferred tax liabilities	**(176.9)**	(181.5)
	553.0	468.1

At the end of the reporting period, the Group had unrecognised tax losses of HK$485.6 million (31/12/2017: HK$216.8 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$7.3 million that will expire during 2019 to 2023 (31/12/2017: HK$11.2 million will expire during 2018 to 2022).

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$1,081.6 million at the end of the reporting period (31/12/2017: HK$1,026.5 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

(HK$ Million)	**31/12/2018**	31/12/2017
Amounts due from associates	**380.9**	435.9
Less: impairment allowance	**(17.1)**	(17.1)
	363.8	418.8
Analysed for reporting purposes as:		
– Non-current assets	**266.7**	275.2
– Current assets	**97.1**	143.6
	363.8	418.8

(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)
– Balance carried forward	(17.1)
Net carrying amount of impaired advances	0.2

Further details of amounts due from associates are disclosed in Note 36 and Note 44.

29. Loans and Advances to Consumer Finance Customers

(HK$ Million)	**31/12/2018**	31/12/2017
Loans and advances to consumer finance customers		
– Hong Kong	**7,803.4**	6,544.2
– Mainland China	**2,611.9**	3,282.7
Less: impairment allowance	**(645.6)**	(663.3)
	9,769.7	9,163.6
Analysed for reporting purposes as:		
– Non-current assets	**2,618.9**	2,322.8
– Current assets	**7,150.8**	6,840.8
	9,769.7	9,163.6

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

Movements of impairment allowance during the year of 2017 were as follows:

(HK$ Million)	2017
At 1 January	(906.3)
Exchange adjustments	(17.7)
Amounts written off	700.8
Amounts recognised in profit or loss	(440.1)
At 31 December	(663.3)

The information for 2018 is disclosed in note 44(b).

All the loans and advances bear interest at market interest rates.

The Consumer Finance Division uses a provision matrix to calculate the impairment allowance for loans and advances to consumer finance customers. The provision rates are based on ageing of different consumer financing loan products as groupings of various debtors that have similar loss patterns and different factors, including historical default rates and collectability, being adjusted by forward-looking information that is available without undue cost. In addition, loans and advances to consumer finance customers with significant balances are assessed for impairment individually based on historical credit information.

As at 31 December 2018, the ageing analysis for the loans and advances to consumer finance customers that are past due is as follows:

(HK$ Million)	**31/12/2018**
Less than 31 days past due	**528.6**
31–60 days	**50.4**
61–90 days	**11.9**
91–180 days	**48.2**
Over 180 days	**109.2**
	748.3

As at 31 December 2017, the ageing analysis for the loans and advances to consumer finance customers that are past due but not impaired is as follows:

(HK$ Million)	31/12/2017
Less than 31 days past due	538.7
31–60 days	100.2
61–90 days	52.9
91–180 days	117.5
Over 180 days	31.4
	840.7

As at 31 December 2018, loans and advances to consumer finance customers with aggregate carrying amount of HK$748.3 million are past due. Out of the past due balances, HK$157.4 million has been past due 90 days or more and is considered to be credit-impaired. The impairment provision has taken into account the credit quality of the underlying assets and the financial strength of the borrowers.

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$8,871.9 million unsecured (31/12/2017: HK$8,881.3 million) and HK$897.8 million secured (31/12/2017: HK$282.3 million). The table below summarises its credit quality (gross balances net of impairment allowances) at the end of 2017:

(HK$ Million)	31/12/2017
Credit quality	
Neither past due nor individually impaired	8,266.4
Past due but not impaired	840.7
Individually impaired	56.5
	9,163.6

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

As at 31 December 2018, the gross carrying amount of loans and advances to consumer finance customers amounts to HK$10,415.3 million (31 December 2017: HK$9,826.9 million). The Group is entitled to sell or repledge collateral when there is default by the borrower. There has not been any significant changes in the quality of collateral held for loans and advances to consumer finance customers.

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

– for personal lending, charges over residential properties/commercial properties; and

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

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

In general, secured loans and advances are made to 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.

Estimates of the fair value of collateral are 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. As at 31 December 2018, no repossessed properties were held by the Group (2017: Nil).

In respect of the secured loans and advances to customers with the carrying amount of HK$183.5 million (2017: HK$266.6 million), the fair value of collateral of such loans and advances can be objectively ascertained to cover the outstanding amount of the loan balances based on quoted prices of collateral.

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

30. Mortgage Loans

(HK$ Million)	**31/12/2018**	31/12/2017
Mortgage loans		
– Hong Kong	**3,863.9**	2,125.4
Less: impairment allowance	**(9.7)**	(5.0)
	3,854.2	2,120.4
Analysed for reporting purposes as:		
– Non-current assets	**1,956.8**	1,243.1
– Current assets	**1,897.4**	877.3
	3,854.2	2,120.4

Movements of impairment allowance during the year of 2017 were as follows:

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

The information for 2018 is disclosed in note 44(b).

The mortgage loans bear interest at market interest rates.

The mortgage loans have been reviewed by the mortgage loans division to assess impairment allowances which are based on an evaluation of collectability, ageing analysis of accounts, fair value of collateral and on management's judgement, including the current creditworthiness and the past collection statistics of individual accounts and are adjusted for forward-looking information that is available without undue cost.

As at 31 December 2018, the ageing analysis for the mortgage loans that are past due is as follows:

(HK$ Million)	**31/12/2018**
Less than 31 days past due	**306.0**
31–60 days	**285.5**
61–90 days	**61.4**
91–180 days	**22.5**
Over 180 days	**7.5**
	682.9

As at 31 December 2017, the ageing analysis for the mortgage loans that are past due but not impaired is as follows:

(HK$ Million)	31/12/2017
Less than 31 days past due	218.0
31–60 days	6.5
61–90 days	4.1
91–180 days	8.3
Over 180 days	0.5
	237.4

As at 31 December 2018, mortgage loans with aggregate carrying amount of HK$682.9 million are past due. Out of the past due balances, HK$30.0 million has been past due 90 days or more and is considered to be credit-impaired. The impairment provision has taken into account the credit quality of the underlying assets and the financial strength of the borrowers.

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

At the reporting date, mortgage loans consisted of HK$175.1 million unsecured (31/12/2017: HK$230.1 million) and HK$3,679.1 million secured (31/12/2017: HK$1,890.3 million). The table below summarises its credit quality (gross balances net of impairment allowances) at the end of 2017:

(HK$ Million)	31/12/2017
Credit quality	
Neither past due nor individually impaired	1,827.5
Past due but not impaired	237.4
Individually impaired	55.5
	2,120.4

30. Mortgage Loans *(Continued)*

The amount and type of collateral required depends on an assessment of the credit risk of the customer. The main types of collateral and credit enhancement obtained are mortgages over residential properties/commercial properties.

As at 31 December 2018, the gross carrying amount of mortgage loans amounts to HK3,863.9 million (31 December 2017: HK$2,125.4 million). The Group is entitled to sell or repledge collateral when there is a default by the borrower. There has not been any significant change in the quality of collateral held for mortgage loans.

In general, mortgage loans are granted on a secured basis with sufficient amount of collateral provided by the borrower. 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.

Estimates of the fair value of collateral are based on 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. At the end of the reporting period, the net realisable value of the repossessed properties held by Mortgage Loans Division is HK$7.9 million (2017: Nil).

In respect of secured mortgage loans to mortgage loan customers with the carrying amount of HK$3,679.1 million (2017: HK$1,890.3 million), the fair value of collateral of such mortgage loans can be objectively ascertained to cover the outstanding amount of the loan balances based on quoted prices of collateral.

The unsecured mortgage loans include second mortgage loans in respect of which the Group are not entitled to a first charge of relevant mortgage properties. 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 amounts of the mortgage loans approximate their fair values.

The Group's mortgage loans carried an average interest rate of 8.50% (2017: 10.15%).

31. Term Loans, Trade Receivables, Prepayments and Other Receivables

(HK$ Million)	**31/12/2018**	31/12/2017
Secured term loans	**1,945.4**	2,125.7
Unsecured term loans	**690.6**	1,115.9
	2,636.0	3,241.6
Less: impairment allowance	**(150.8)**	(86.6)
	2,485.2	3,155.0
Guarantee and consultancy fee receivables	**–**	0.5
Payments on behalf of customers *	**–**	6.3
Less: impairment allowance	**–**	(6.6)
	–	0.2
Other receivables		
– Deposits	**38.7**	43.8
– Others	**329.9**	96.0
	368.6	139.8
Term loans, trade and other receivables at amortised cost	**2,853.8**	3,295.0
Prepayments	**19.1**	34.3
	2,872.9	3,329.3
Analysed for reporting purposes as:		
– Non-current assets	**56.0**	505.8
– Current assets	**2,816.9**	2,823.5
	2,872.9	3,329.3

* The Group has provided guarantees to guarantee the repayment of debts owed by the loan guarantee customers to their lenders. At 31 December 2018, the outstanding guarantee amount was HK$0.3 million (31/12/2017: HK$19.2 million). 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.

It is the Group's policy to dispose of repossessed collateral in an orderly fashion.

As at 31 December 2018, the gross carrying amount of secured term loans amounts to HK$1,945.4 million (31 December 2017: HK$2,125.7 million). The Group is entitled to sell or repledge collateral when there is default by the borrower. There has not been any significant changes in the quality of the collateral held for secured term loans.

31. Term Loans, Trade Receivables, Prepayments and Other Receivables *(Continued)*

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

(HK$ Million)	31/12/2018	31/12/2017
Less than 31 days	**277.8**	1.7
31-60 days	**2.5**	–
	280.3	1.7
Term loans, trade and other receivables without ageing *	**2,724.3**	3,386.5
Less: impairment allowances	**(150.8)**	(93.2)
Term loans, trade and other receivables at amortised cost	**2,853.8**	3,295.0

* 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 end of 2017 and the movement of impairment allowances during the year of 2017 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

As at 31 December 2018, the ageing analysis for trade receivables, prepayments and other receivables that are past due is as follows:

(HK$ Million)	31/12/2018
Less than 31 days	**–**
31–60 days	**–**
61–90 days	**–**
91–180 days	**–**
Over 180 days	**–**
	–

As at 31 December 2017, the ageing analysis for trade receivables, prepayments and other receivables that are past due but not impaired is as follows:

(HK$ Million)	31/12/2017
Less than 31 days	**0.2**
31–60 days	**–**
61–90 days	**–**
91–180 days	**–**
Over 180 days	**–**
	0.2

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

Further details on financial risk management of term loans, trade and other receivables are disclosed in Note 44.

32. Bank Deposits, Cash and Cash Equivalents

(HK$ Million)	31/12/2018	31/12/2017
Bank balances and cash	**2,645.9**	1,745.4
Fixed deposits with banks with a term within 3 months	**1,976.5**	378.3
Cash and cash equivalents	**4,622.4**	2,123.7
Short-term pledged bank deposits and bank balances	**20.0**	–
Fixed deposits with banks with a term between 4 to 12 months	**353.5**	787.7
	4,995.9	2,911.4

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)	31/12/2018	31/12/2017
Bank loans		
– Unsecured term loans	**6,205.7**	3,363.2
– Secured instalment loans	**915.3**	399.0
Total bank borrowings	**7,121.0**	3,762.2
Other borrowings	**62.1**	35.0
	7,183.1	3,797.2
Analysed for reporting purposes as:		
– Current liabilities	**5,221.3**	2,196.8
– Non-current liabilities	**1,961.8**	1,600.4
	7,183.1	3,797.2

33. Bank and Other Borrowings *(Continued)*

At 31 December 2018, bank and other borrowings were repayable as follows:

(HK$ Million)	31/12/2018	31/12/2017
Bank borrowings		
– Within one year	**3,627.1**	1,747.8
– In the second year	**1,899.7**	1,255.8
– In the third to fifth year	**–**	309.6
Bank borrowings with a repayment on demand clause		
– Within one year	**1,594.2**	435.0
– In the second year	**–**	14.0
	7,121.0	3,762.2
Other borrowings		
– Over five years	**62.1**	35.0
	7,183.1	3,797.2

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$114.1 million which was denominated in Renminbi (31/12/2017: nil) and HK$72.7 million which was denominated in US dollar (31/12/2017: HK$206.5 million in US 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 Payables, Other Payables and Accruals

(HK$ Million)	31/12/2018	31/12/2017
Other accounts payable	**65.7**	150.1
Accrued staff costs and other accrued expenses	**171.2**	179.0
	236.9	329.1

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

(HK$ Million)	31/12/2018	31/12/2017
Less than 31 days/repayable on demand	**43.3**	46.7
31–60 days	**10.2**	8.1
61–90 days	**12.8**	9.2
91–180 days	**1.3**	–
	67.6	64.0
Accrued staff costs, other accrued expenses and other payables without ageing	**169.3**	265.1
	236.9	329.1

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

35. Financial Assets Sold Under Repurchase Agreements

(HK$ Million)	2018	2017
Analysed by collateral type:		
Debt instruments classified as:		
Financial assets at fair value through profit or loss	**1,216.5**	1,071.0

As at 31 December 2018, debt instruments which are classified as financial assets at fair value through profit or loss with carrying amount of HK$1,483.7 million (2017: HK$1,280.2 million) 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)	2018	2017
Associates and joint ventures of a holding company		
Rental and building management fees to an associate of a holding company	**(3.5)**	(3.9)
Rental and building management fees to a joint venture of a holding company *	**(25.3)**	(18.5)
Interest expense to an associate of a holding company	**(5.5)**	(8.3)
Associates and joint ventures		
Loan referral fee and participation fee received from an associate	**21.6**	36.7
Management and service fees received from associates and joint ventures	**3.9**	5.0
Brokerage expenses to an associate	**(3.8)**	(2.6)
Service fees to an associate	**(4.5)**	(5.0)
Consultancy fee received from associates	**–**	2.5
Insurance premiums paid to an associate	**(1.2)**	(2.8)
Unlisted redeemable preference shares issued by an associate	**(64.6)**	–
Holding company and its subsidiaries		
Loan from a fellow subsidiary	**388.7**	86.5
Finance costs to fellow subsidiaries	**(32.2)**	(22.8)
Service fee to a fellow subsidiary	**(0.5)**	(14.9)*
Management fees paid/payable to a holding company *	**(17.7)**	(15.6)
Other related party		
Interest income from loan to Independent Non-Executive Director * #	**2.1**	–
Loan to Independent Non-Executive Director * #	**(145.0)**	–

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

On 23 October 2018, Sun Hung Kai Credit Limited as lender entered into a loan agreement with Mr. Peter Wong Man Kong, an independent non-executive director of the Company. He was deceased on 11 March 2019.

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)	2018	2017
Short-term benefits	**79.7**	102.5
Post-employment benefits	**1.7**	1.7
	81.4	104.2

During the year, 498,000 shares were granted under the SHK Employee Ownership Scheme ("EOS") to key management personnel. In addition, 349,000 shares with a total amount of HK$1.65 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$0.14 million (2017: HK$0.2 million). Further information of the EOS is disclosed in the relevant section under "Management Discussion and Analysis" 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 interest 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 2018 (2017: 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)	31/12/2018	31/12/2017
Associates of a holding company		
Notes payable held by an associate of a holding company	**–**	(116.5)
	–	(116.5)
Associates		
Amounts due from associates	**363.8**	418.8
Amounts due to associates	**(1.9)**	(1.9)
	361.9	416.9
Holding company and fellow subsidiaries		
Management fees paid/payable to a holding company	**(4.5)**	(9.5)
Short-term loan due to fellow subsidiaries	**(514.5)**	(125.8)
Notes/paper payable held by fellow subsidiaries	**(371.5)**	(378.5)
	(890.5)	(513.8)
Amount due from a director#	**(147.1)**	–

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

37. Provisions

(HK$ Million)	Employee benefits	Loan commitments	Financial guarantee contracts	Others	Total
At 1 January 2018	55.7	–	10.0	4.0	69.7
Impact on initial application of HKFRS 9	–	27.8	–	–	27.8
Exchange adjustments	–	–	(0.1)	–	(0.1)
Additional provisions for the year	84.5	0.9	(9.6)	10.4	86.2
Amount written back	–	–	–	(8.8)	(8.8)
Amount utilised during the year	(71.1)	–	–	–	(71.1)
At 31 December 2018	69.1	28.7	0.3	5.6	103.7

(HK$ Million)	**31/12/2018**	31/12/2017
Analysed for reporting purposes as:		
– Current liabilities	**103.5**	69.5
– Non-current liabilities	**0.2**	0.2
	103.7	69.7

38. Notes/Papers Payable

(HK$ Million)	**31/12/2018**	31/12/2017
US dollar denominated notes (the “US$ Notes”)		
– 4.75% US dollar denominated notes maturing in May 2021 (“the “4.75% Notes”)	**2,801.7**	2,793.1
– 4.65% US dollar denominated notes maturing in September 2022 (the “4.65% Notes”)	**4,362.1**	4,353.1
HK dollar denominated notes/papers (the “HK$ Notes/Papers”)		
– HK dollar denominated notes/papers	**636.2**	448.2
Renminbi denominated notes (the “RMB Notes”)		
– 6.9% Renminbi denominated notes maturing in May 2018 (the “6.9% Notes”)	**–**	536.5
	7,800.0	8,130.9
Analysed for reporting purposes as:		
– Current liabilities	**752.7**	1,079.1
– Non-current liabilities	**7,047.3**	7,051.8
	7,800.0	8,130.9

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

The HK$ Notes/Papers were issued by a subsidiary, Sun Hung Kai (ECP) Limited, under a US$1 billion guaranteed commercial paper programme.

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$2,831.8 million (31/12/2017: US$361.6 million or equivalent to HK$2,827.3 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$2,768.2 million (31/12/2017: HK$2,937.0 million) which was categorised as Level 2.

The 4.65% Notes are listed on The Stock Exchange of Hong Kong Limited. The nominal value of the 4.65% Notes was US$550.0 million or equivalent to HK$4,306.8 million at the reporting date. The fair value of the 4.65% Notes based on the price quoted from pricing service at the reporting date was HK$4,131.2 million (31/12/2017: HK$4,364.1 million) which was categorised as Level 2.

39. Share Capital

	Number of shares		Share capital	
	2018	2017	**2018**	2017
	Million Shares	Million Shares	**HK$ Million**	HK$ Million
Issued and fully paid				
Balance brought forward	**2,153.0**	2,193.0	**8,752.3**	8,752.3
Shares cancelled after repurchase	**(145.0)**	(40.0)	**–**	–
Balance carried forward	**2,008.0**	2,153.0	**8,752.3**	8,752.3

During the year, the trustee of the EOS acquired 5.6 million shares (2017: 0.9 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$24.8 million (2017: HK$4.8 million), which has been deducted from the owners' equity. Further information is disclosed in the relevant section under "Management Discussion and Analysis" of this Annual Report.

During the year, the Company repurchased its own shares through an off-market share buy-back from Asia Financial Services Company Limited ("AFSC") for HK$650.9 million (including expenses) (2017: HK$196.2 million). Further information is disclosed in the relevant section of the Directors' Report.

As announced by the Company on 4 May 2018, AFSC executed a Deed of Undertaking in favour of the Company conditionally undertaking to execute a buy-back contract (the "Buy-back Contract") relating to an off-market share buy-back by the Company of 145,000,000 Shares held by AFSC ("Share Buy-back"). The Buy-back price had been reduced from HK$4.75 per Share to HK$4.61 per Share after adjusting for the 2017 second interim dividend of HK$0.14 per Share paid to AFSC on 28 June 2018. The Buy-back price had been further reduced to HK$4.49 per Share subsequent to the 2018 interim dividend of HK$0.12 per Share declared by the Board on 15 August 2018 which was paid on 12 September 2018. The agreed form of the Buy-back Contract was approved by the independent Shareholders at the extraordinary general meeting of the Company held on 17 July 2018 and the Buy-back Contract was entered into between AFSC and the Company on 20 July 2018. Completion of the Share Buy-back took place on 17 September 2018.

40. Analysis of Other Comprehensive Income (Expenses)

(HK$ Million)	**Attributable to owners of the Company** Exchange reserve	Revaluation reserve	Non-controlling interests	Total
For the year ended 31 December 2018				
Financial assets at fair value through other comprehensive income	–	(108.9)	(1.4)	(110.3)
Exchange differences arising on translating foreign operations	(197.0)	–	(138.8)	(335.8)
Transfer of revaluation surplus upon disposal of joint ventures	–	2.8	–	2.8
Share of other comprehensive expenses of associates	(0.8)	–	–	(0.8)
Share of other comprehensive expenses of joint ventures	–	(3.2)	–	(3.2)
	(197.8)	(109.3)	(140.2)	(447.3)
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 income of associates	0.7	2.8	–	3.5
Share of other comprehensive income of joint ventures	–	2.2	–	2.2
	283.4	5.0	184.2	472.6

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)	31/12/2018	31/12/2017
Within one year	**103.6**	120.4
In the second to fifth year inclusive	**79.2**	120.1
	182.8	240.5

The lease payments represent rentals payable by the Group for its office premises and office equipment under operating lease arrangements. The lease terms and rentals of properties are fixed at one to five years. The lease commitments include rental payable to a joint venture of a holding company of HK$41.6 million (2017: HK$62.5 million) and an associate of a holding company of HK$1.2 million (2017: HK$1.6 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)	31/12/2018	31/12/2017
Within one year	**17.9**	14.9
In the second to fifth year inclusive	**19.5**	3.5
	37.4	18.4

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

(b) Loan commitments

(HK$ Million)	31/12/2018	31/12/2017
Within one year	**1,226.0**	1,074.8

(c) Other commitments

(HK$ Million)	31/12/2018	31/12/2017
Capital commitments for funds	**476.4**	332.9
Other capital commitments	**3.7**	0.8
	480.1	333.7

42. Contingent Liabilities

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

(HK$ Million)	31/12/2018	31/12/2017
Indemnities on banking facility made available to joint venture		
At 1 January	**112.7**	104.7
Exchange adjustments	**(5.7)**	8.0
Indemnities on banking facility made available to joint venture	**107.0**	112.7

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 2018 and 31 December 2017.

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/papers payable 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)	31/12/2018	31/12/2017
Bank and other borrowings	**7,183.1**	3,797.2
Notes/papers payable	**7,800.0**	8,130.9
	14,983.1	11,928.1
Less: bank deposits, cash and cash equivalents	**(4,995.9)**	(2,911.4)
Net debts	**9,987.2**	9,016.7
Equity attributable to owners of the Company	**19,039.2**	19,426.7
Gearing ratio	**52.4%**	46.4%

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 2018				At 31 December 2017			
	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	298.8	(292.7)	8.8	(8.8)	352.9	(306.5)	9.4	(9.4)
Overseas Index	1,469.6	(1,478.6)	26.1	(26.1)	1,259.2	(1,246.4)	55.3	(55.3)

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 2018, assuming that market interest rates moved by ±50 basis points (31/12/2017: ±50 basis points), the profit before tax for the year for the Group would have been HK$11.4 million lower or HK$11.2 million higher respectively (2017: HK$9.1 million lower or HK$9.4 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 2018					
Loans and advances to consumer finance customers	182.1	–	–	–	182.1
Mortgage loans	1,644.9	–	–	–	1,644.9
Bank deposits, cash and cash equivalents	3,048.3	–	–	–	3,048.3
Bank borrowings	(3,597.0)	(1,638.9)	(1,957.0)	–	(7,192.9)
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)

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 2018						
Loans and advances to consumer finance customers	2,403.4	4,664.9	2,393.9	125.4	–	9,587.6
Mortgage loans	668.9	1,129.1	411.3	–	–	2,209.3
Bonds included in financial assets at fair value through profit or loss	312.8	–	106.7	1,377.0	–	1,796.5
Term loans	1,075.4	1,396.1	13.7	–	–	2,485.2
Bank deposits, cash and cash equivalents	838.5	353.5	–	–	755.6	1,947.6
Bank borrowings	(22.8)	–	–	–	32.6	9.8
Notes/papers payable	–	(752.7)	(7,047.3)	–	–	(7,800.0)
Amounts due to fellow subsidiaries	(125.8)	–	–	–	–	(125.8)
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 payable	–	(1,079.2)	(7,051.7)	–	–	(8,130.9)
Amounts due to fellow subsidiaries	(125.8)	–	–	–	–	(125.8)

(iii) Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from movements in foreign exchange rates.

The Group's foreign exchange risk primarily arises from currency exposures originating from proprietary trading positions, and loans and advances denominated in foreign currencies, mainly in Australian dollars and Renminbi ("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 2018, assuming that the foreign exchange rates moved ±5% (31/12/2017: ±5%) with all other variables held constant, the profit before tax for the year for the Group would be HK$88.2 million higher/lower (2017: HK$45.3 million higher/lower).

(b) Credit Risk

Credit risk and impairment assessment

As at 31 December 2018, the carrying amounts of financial assets at amortised cost, as disclosed in Note 26 represent the maximum credit exposure. In addition, the Group is also exposed to credit risk arising from loan commitments and financial guarantee contracts as disclosed in Notes 41(b) and 37. The maximum exposure to credit risk of the investment securities at FVTPL which are exposed to credit risk is their carrying amount, which amounts to HK$2,033.8 million at 31 December 2018 (2017: HK$3,578.4 million), and is monitored by management according to their geographic locations and industries. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, loan commitments and financial guarantee contracts, except that the credit risks associated with term loans, loans and advances to consumer finance customers and mortgage loans, is mitigated because they are secured over properties and other securities.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits. The Group evaluates the credit risk for each loan application on the basis of the repayment abilities of the customers having regard to their financial position, employment status, past due record and credit reference checking result.

44. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

Credit risk and impairment assessment *(Continued)*

Credits are granted according to the hierarchy of approval authorities within the Group, including the front-line approval officers, central credit officers, Credit Committees and the Boards of Directors of the respective companies within the Group.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions and interviews with customers to update the credit risk of customers. Credit review checking and approval processes are properly segregated to ensure effective internal control over credit risk and monitoring in the respective companies within the Group. Dedicated teams of operations staff independent from the credit approval authorities are assigned for recovery of overdue debts. The credit quality review process enables the Group to assess the potential loss as a result of the risk to which it is exposed and take appropriate corrective actions.

The Group adopts a prudent approach to credit risk management framework. Its credit policy is timely revised to align with the prevailing credit environment which is continuously affected by changes in business, economy, regulatory requirements, money market, and social conditions.

Internal Audit Department and Risk Management Department of respective companies within the Group periodically conducts internal control reviews and compliance checking over all aspects of credit processes to ensure that the established credit policies and procedures are complied with and sufficient controls are in place to mitigate credit risk.

The credit risks on bank balances are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

Other than the concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Loans and advances to consumer finance customers, mortgage loans and term loans consist of a large number of customers who are spread across diverse industries.

Concentration risk of loans and advances to consumer finance customers is managed by reference to individual customers. The aggregate credit exposure in relation to the ten largest outstanding consumer finance customers, including corporate entities and individuals, before taking into account any collateral held or other credit enhancements, at 31 December 2018 was HK$1,197.4 million (2017: HK$343.6 million) of which 63.3% (2017: 32.5%) was secured by collateral.

Concentration risk of mortgage loans is managed by reference to individual mortgage finance customers. The aggregate credit exposure in relation to the ten largest outstanding mortgage finance customers, including corporate entities and individuals, before taking into account any collateral held or other credit enhancements, at 31 December, 2018 was HK$1,032.4 million (2017: HK$877.1 million) of which 100% (2017: 100%) was secured by collateral.

Concentration risk of term loans is managed by reference to individual term loan customers. The aggregate credit exposure in relation to the ten largest outstanding term loan customers, including corporate entities and individuals, before taking into account any collateral held or other credit enhancements, at 31 December, 2018 was HK$2,320.6 million (2017: HK$2,552.0 million) of which 73.8% (2017: 63.4%) was secured by collateral.

The Group's internal credit risk assessment for loans and advance to consumer finance customers and mortgage loans comprises the following categories:

Internal credit risk categories	**Description**	**Loans and receivables at amortised costs**	**Loan commitments/ financial guarantee contracts**
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL	12-month ECL
Watch list	Debtor usually settles overdue balances after due date	12-month ECL	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition based on information from internal or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery of debts	Amount is written off against the allowance account	N/A

44. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

Credit risk and impairment assessment (Continued)

The Group takes into consideration forward-looking information that is available without undue cost or effort in its assessment of significant increase in credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not changed in the estimation techniques or significant assumptions during the reporting period.

The tables below detail the credit risk exposures of the Group's financial assets including loans and advance to consumer finance customers, mortgage loans, term loans, amounts due from associates, amounts due from brokers, short-term pledged bank deposits and bank balances, bank deposits, cash and cash equivalents, other receivables, loan commitments and financial guarantee contracts, which are subject to ECL assessment:

2018	**Note**	**Internal credit risk categories**	**12-month or lifetime ECL**	**Gross carrying amount**	
				HK$ Million	HK$ Million
Loans and receivables at amortised costs					
Loans and advances to consumer finance customers	29	Low risk/watch list	12-month ECL	9,912.9	
		Doubtful	Lifetime ECL (not credit-impaired)	281.8	
		Loss	Lifetime ECL (credit-impaired)	220.6	10,415.3*
Mortgage loans	30	Low risk/watch list	12-month ECL	3,487.6	
		Doubtful	Lifetime ECL (not credit-impaired)	350.7	
		Loss	Lifetime ECL (credit-impaired)	25.6	3,863.9*
Term loans	31	N/A	12-month ECL	2,228.3	
		N/A	Lifetime ECL (credit-impaired)	407.7	2,636.0*
Amounts due from associates	28	N/A	12-month ECL	363.8	
		N/A	Lifetime ECL (credit-impaired)	17.1	380.9
Amounts due from brokers		N/A	12-month ECL	507.0	507.0
Short-term pledged bank deposits and bank balances	32	N/A	12-month ECL	20.0	20.0
Bank deposits	32	N/A	12-month ECL	353.5	353.5
Cash and cash equivalents	32	N/A	12-month ECL	4,610.7	4,610.7
Other receivables	31	Low risk	12-month ECL	368.6	368.6
Other items					
Loan commitments (Note 1)	41	Low risk/watch list	12-month ECL	1,214.6	
		Doubtful	Lifetime ECL (not credit-impaired)	11.4	1,226.0
Financial guarantee contracts (Note 2)	37	Loss	Lifetime ECL (credit-impaired)	0.3	0.3
Contingent liabilities	42	N/A	12-month ECL	107.0	107.0

* The gross carrying amounts disclosed above include the relevant interest receivables.

Notes:

1. Loan commitments represent undrawn loan commitments to consumer finance customers granted by the Group under revolving loan facility arrangement.
2. The gross carrying amount of financial guarantee contracts represents the maximum amount the Group has guaranteed under the respective contracts.

44. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

Credit risk and impairment assessment *(Continued)*

The following tables show reconciliation of loss allowances that has been recognised for loans and advances to consumer finance customers, mortgage loans and term loans.

Loans and advances to consumer finance customers

	12-month ECL HK$ Million	Lifetime ECL (not credit-impaired) HK$ Million	Lifetime ECL (credit-impaired) HK$ Million	Total HK$ Million
As at 1 January 2018	382.4	148.5	87.2	618.1
Changes due to financial instruments recognised as at 1 January/during the year:				
Transfer from 12m ECL to lifetime ECL	(50.1)	50.1	–	–
Transfer from lifetime ECL to 12m ECL	9.0	(9.0)	–	–
Transfer from 12m ECL to credit-impaired	(7.1)	–	7.1	–
Transfer from lifetime ECL to credit-impaired	–	(559.4)	559.4	–
Remeasurement of ECL	29.0	610.3	396.8	1,036.1
New financial assets originated or purchased	589.9	–	–	589.9
Repayment and derecognition	(543.3)	(54.6)	(3.1)	(601.0)
	27.4	37.4	960.2	1,025.0
Movement without impact on profit or loss:				
Written off (Note)	–	–	(983.9)	(983.9)
Exchange adjustments	(9.2)	(4.1)	(0.3)	(13.6)
	(9.2)	(4.1)	(984.2)	(997.5)
As at 31 December 2018	400.6	181.8	63.2	645.6

Note: Amount of HK$983.9 million that were written off during the year are still subject to enforcement activities.

Mortgage loans

	12-month ECL HK$ Million	Lifetime ECL (not credit-impaired) HK$ Million	Lifetime ECL (credit-impaired) HK$ Million	Total HK$ Million
As at 1 January 2018	0.8	2.8	1.6	5.2
Changes due to financial instruments recognised as at 1 January/during the year:				
Transfer from 12m ECL to lifetime ECL	(0.2)	0.2	–	–
Transfer from lifetime ECL to 12m ECL	0.2	(0.2)	–	–
Remeasurement of ECL	(1.8)	1.8	5.7	5.7
New financial assets originated or purchased	1.8	–	–	1.8
Repayment and derecognition	(0.8)	(0.8)	(1.4)	(3.0)
	(0.8)	1.0	4.3	4.5
As at 31 December 2018	–	3.8	5.9	9.7

44. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

Credit risk and impairment assessment *(Continued)*

Term loans

	12-month ECL HK$ Million	Lifetime ECL (not credit-impaired) HK$ Million	Lifetime ECL (credit-impaired) HK$ Million	Total HK$ Million
As at 1 January 2018	0.4	–	86.2	86.6
Remeasurement of ECL	–	–	64.8	64.8
Repayment and derecognition	–	–	(0.6)	(0.6)
	–	–	64.2	64.2
As at 31 December 2018	0.4	–	150.4	150.8

Amounts due from associates

	12-month ECL HK$ Million	Lifetime ECL (not credit-impaired) HK$ Million	Lifetime ECL (credit-impaired) HK$ Million	Total HK$ Million
As at 1 January 2018	–	–	17.1	17.1
Repayment and derecognition	–	–	–	–
As at 31 December 2018	–	–	17.1	17.1

Changes in the loss allowance for loans and advances to consumer finance customers, mortgage loans and term loans are mainly due to changes in expected credit loss rate at each stage and changes in gross carrying amounts of respective loans and receivables are as follows:

Loans and advances to consumer finance customers

	12-month ECL HK$ Million	Lifetime ECL (not credit-impaired) HK$ Million	Lifetime ECL (credit-impaired) HK$ Million	Total HK$ Million
Gross carrying amount as at 1 January 2018	9,281.6	246.5	176.1	9,704.2
Changes due to financial instruments recognised as at 1 January/during the year:				
Transfer from 12m ECL to lifetime ECL	(1,033.3)	1,033.3	–	–
Transfer from lifetime ECL to 12m ECL	18.2	(18.2)	–	–
Transfer from 12m ECL to credit-impaired	(194.5)	–	194.5	–
Transfer from lifetime ECL to credit-impaired	–	(879.1)	879.1	–
New financial assets originated or purchased	13,724.6	–	–	13,724.6
Repayment and derecognition	(11,741.4)	(96.2)	(44.2)	(11,881.8)
Written off	–	–	(983.9)	(983.9)
Exchange adjustments	(142.3)	(4.5)	(1.0)	(147.8)
Gross carrying amount as at 31 December 2018	9,912.9	281.8	220.6	10,415.3

As at 31 December 2018, loans and advances to consumer finance customers of HK$90.4 million classified as lifetime ECL (credit-impaired) is covered by collateral.

44. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

Credit risk and impairment assessment *(Continued)*

Mortgage loans

	12-month ECL HK$ Million	Lifetime ECL (not credit-impaired) HK$ Million	Lifetime ECL (credit-impaired) HK$ Million	Total HK$ Million
Gross carrying amount as at 1 January 2018	2,048.5	68.0	8.9	2,125.4
Changes due to financial instruments recognised as at 1 January/during the year:				
Transfer from 12m ECL to lifetime ECL	(401.6)	401.6	–	–
Transfer from lifetime ECL to 12m ECL	14.3	(14.3)	–	–
Transfer from lifetime ECL to credit-impaired	–	(29.1)	29.1	–
New financial assets originated or purchased	3,340.8	–	–	3,340.8
Repayment and derecognition	(1,514.4)	(75.5)	(12.4)	(1,602.3)
Gross carrying amount as at 31 December 2018	3,487.6	350.7	25.6	3,863.9

As at 31 December 2018, mortgage loans of HK$25.6 million classified as lifetime ECL (credit-impaired) is covered by collateral.

Term loans

	12-month ECL HK$ Million	Lifetime ECL (not credit-impaired) HK$ Million	Lifetime ECL (credit-impaired) HK$ Million	Total HK$ Million
Gross carrying amount as at 1 January 2018	2,835.0	–	406.6	3,241.6
Changes due to financial instruments recognised as at 1 January/during the year:				
New financial assets originated or purchased	590.9	–	1.1	592.0
Repayment and derecognition	(1,197.6)	–	–	(1,197.6)
Gross carrying amount as at 31 December 2018	2,228.3	–	407.7	2,636.0

As at 31 December 2018, term loans of HK$407.7 million classified as lifetime ECL (credit-impaired) is covered by collateral.

Amounts due from associates

	12-month ECL HK$ Million	Lifetime ECL (not credit-impaired) HK$ Million	Lifetime ECL (credit-impaired) HK$ Million	Total HK$ Million
Gross carrying amount as at 1 January 2018	418.8	–	17.1	435.9
Changes due to financial instruments recognised as at 1 January/during the year:				
Repayment and derecognition	(55.0)	–	–	(55.0)
Gross carrying amount as at 31 December 2018	363.8	–	17.1	380.9

(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 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 2018					
Bank and other borrowings +	5,243.2	68.9	2,018.9	–	7,331.0
Trade payables, other payables and accruals	65.7	–	–	–	65.7
Financial assets sold under repurchase agreements	1,216.5	–	–	–	1,216.5
Amounts due to fellow subsidiaries and a holding company	523.5	–	–	–	523.5
Amounts due to associates	1.9	–	–	–	1.9
Notes/papers payable	738.1	234.2	7,928.0	–	8,900.3
Loan commitments #	1,226.0	–	–	–	1,226.0
Guarantees *	0.2	0.1	–	–	0.3
Total	9,015.1	303.2	9,946.9	–	19,265.2
At 31 December 2017					
Bank and other borrowings +	1,786.3	512.3	1,610.8	–	3,909.4
Trade payables, other payables and accruals	150.1	–	–	–	150.1
Financial assets sold under 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 payable	100.0	1,243.1	8,190.1	–	9,533.2
Loan commitments #	1,074.8	–	–	–	1,074.8
Guarantees *	10.2	8.6	0.6	–	19.4
Total	4,449.6	1,764.0	9,801.5	–	16,015.1

\+ 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 amount represents the maximum undrawn loan commitments under the loan facilities arrangement and the Group could be required to provide loan disbursements upon demand from the consumer finance customers. Based on the expectation at the end of the reporting period, the Group considers that it is remote for such whole loan commitments to be fully drawn down in any significant respect.

* 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 HK$ Million	Bank and other borrowings Note 33 HK$ Million	Notes/ papers payable Note 38 HK$ Million	Total HK$ Million
At 31 December 2017	125.8	3,797.2	8,130.9	12,053.9
Impact on initial application of HKFRS 9	–	–	(11.5)	(11.5)
At 1 January 2018	125.8	3,797.2	8,119.4	12,042.4
Financing cash flows:				
New short-term loans due to fellow subsidiaries raised	388.7	–	–	388.7
Net short-term bank and other borrowings repaid	–	(12,590.2)	–	(12,590.2)
New long-term bank and other borrowings raised	–	16,018.8	–	16,018.8
Proceeds from issue of notes/papers	–	–	795.1	795.1
Redemption of notes/papers	–	–	(576.4)	(576.4)
Repayment of notes/papers	–	–	(616.5)	(616.5)
Accrued interest	–	241.0	396.8	637.8
Interest paid	–	(157.0)	(368.0)	(525.0)
Effect on foreign exchange rate changes	–	(6.6)	49.6	43.0
Others	–	(120.1)	–	(120.1)
At 31 December 2018	514.5	7,183.1	7,800.0	15,497.6
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)	31/12/2018	31/12/2017
Non-current Assets		
Property and equipment	**1.2**	2.7
Intangible assets	**1.3**	1.4
Interest in subsidiaries	**4,008.4**	3,992.7
Interest in associates	**700.8**	700.8
Amounts due from subsidiaries	**7,562.0**	7,044.9
Amounts due from associates	**60.1**	59.9
	12,333.8	11,802.4
Current Assets		
Amounts due from subsidiaries	**4,634.8**	3,994.6
Other receivables	**2.7**	4.0
Tax recoverable	**4.2**	1.5
Cash and cash equivalents	**73.2**	140.2
	4,714.9	4,140.3
Current Liabilities		
Amounts due to subsidiaries	**5,288.2**	3,756.1
Amounts due to holding company	**4.5**	9.6
Trade and other payables	**15.8**	14.9
Provisions	**83.8**	53.5
	5,392.3	3,834.1
Net Current (Liabilities) Assets	**(677.4)**	306.2
Total Assets less Current Liabilities	**11,656.4**	12,108.6
Capital and Reserves		
Share capital	**8,731.0**	8,731.0
Reserves	**2,925.2**	3,377.4
Equity attributable to owners of the Company	**11,656.2**	12,108.4
Non-current Liabilities		
Provisions	**0.2**	0.2
	11,656.4	12,108.6

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 20 March 2019 and are signed on its behalf by:

Lee Seng Huang
Director

Simon Chow Wing Charn
Director

47. Reserves of the Company

(HK$ Million)	2018	2017
Retained earnings		
Balance at 1 January	**3,377.4**	4,083.2
Profit and total comprehensive income for the year	**758.7**	57.7
Dividends paid	**(560.0)**	(567.3)
Shares repurchased	**(650.9)**	(196.2)
Balance at 31 December	**2,925.2**	3,377.4

The distributable reserves of the Company at 31 December 2018 amounted to HK$2,315.0 million (31/12/2017: HK$2,767.2 million), being its net realised profits calculated under Section 291 of the Hong Kong Companies Ordinance.

新鴻基有限公司
SUN HUNG KAI & CO. LIMITED