Annual Report 2019

新鴻基有限公司
SUN HUNG KAI & CO. LIMITED
Stock Code: 0086

WHO WE ARE

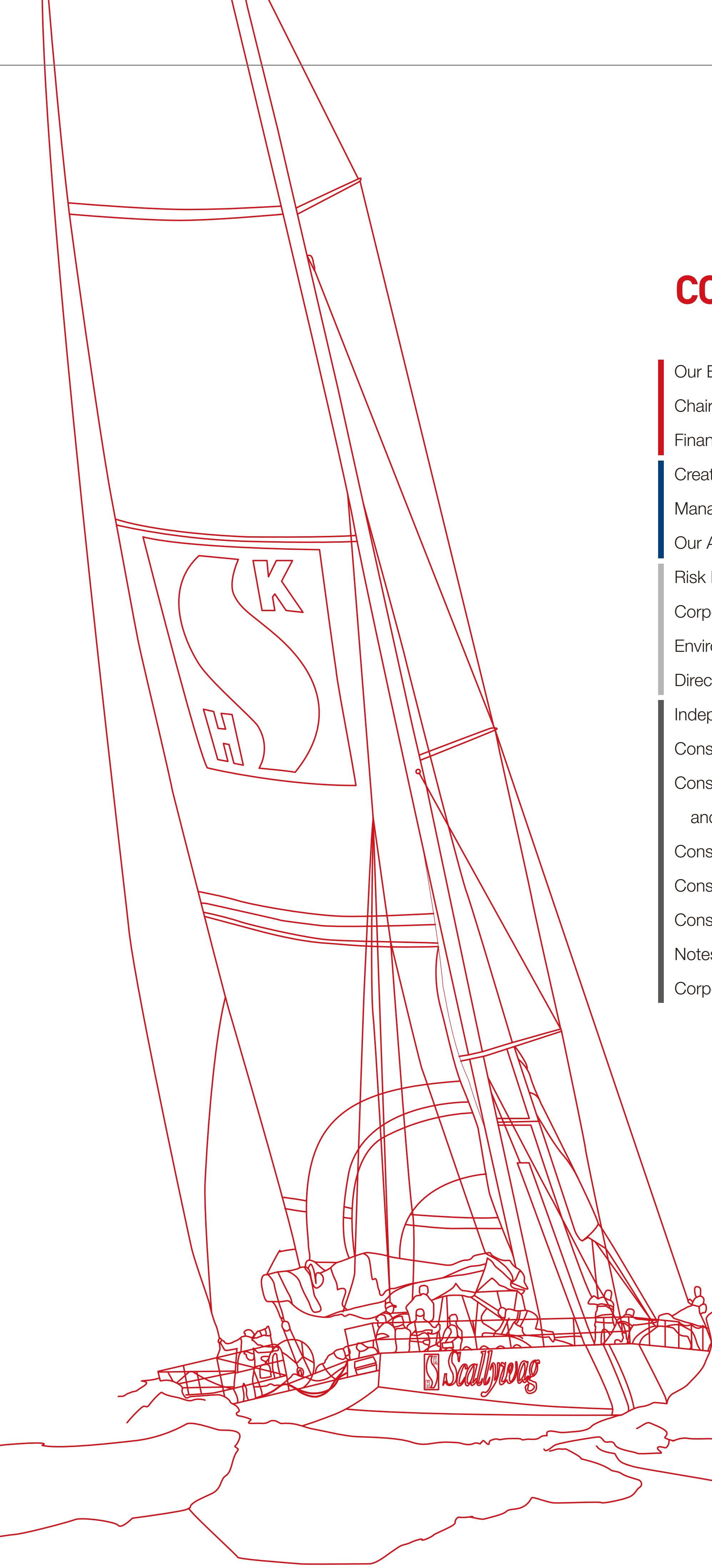
Sun Hung Kai & Co. Limited

Sun Hung Kai & Co. Limited (the "Company" or "SHK & Co.", together with its subsidiaries, the "Group") is a financing and investing 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 Financing and Investment model. It is the major shareholder of leading Consumer Finance firm United Asia Finance Limited, and a substantial shareholder of Everbright Sun Hung Kai Company Limited. The Group currently holds about HK$43 billion* in total assets.

www.shkco.com

*As at 31 December 2019

Endure. Adapt. Excel



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OUR BUSINESS

Our journey started over 50 years ago, with the Company offering brokerage and related services in Hong Kong. The Group then strategically entered the Consumer Finance business in Hong Kong and Mainland China, and eventually expanded into Investment Management, making us a stronger and more diversified player in Financial Services.

Now, the Group is focused on Financing and Investing. The philosophy behind this dual-engine model is that our core Lending business, focused on Greater China, aims to provide stable returns and strong cash flows, while Investing seeks new income streams and opportunities for increased returns across a broad range of sectors, strategies and geographies.

42%

CONSUMER FINANCE

HK Market Leader, Significant Market Presence in the PRC

亞洲聯合財務 UA FINANCE

4%

SPECIALTY FINANCE

9%

MORTAGE LOANS

新鴻基信貸 SUN HUNG KAI CREDIT 您的◆樓按首選

FINANCING BUSINESS

Consumer Finance

United Asia Finance Limited ("UA Finance" or "UAF")

UAF is a licensed money lender providing loans for individuals and businesses through branches and online platforms in Hong Kong and Mainland China. In recent years, UAF has been a pioneer in modern loan offerings, such as Faster Payment System ("FPS") for loan disbursement, "No Show" loans with approvals solely completed by phone, and mobile applications.

Specialty Finance

Structured Finance (previously presented as "Private Credit")

This division provides tailored funding solutions to corporates, investment funds and high net worth individuals. The loan book has primary focus on Greater China markets, with all loans either secured with assets or other guarantees.

Mortgage Loans

Sun Hung Kai Credit Limited ("Sun Hung Kai Credit" or "SHK Credit")

Established in 2015, SHK Credit has a significant market presence in providing mortgage loans in Hong Kong.

31%

INVESTMENT MANAGEMENT

- Diversified portfolio of equity, credit and real assets, both public and private
- Extension to Fund Management

8%

GMS

Liquidity Reserves, Group Services and Unallocated Finance Costs

6%

STRATEGIC INVESTMENTS

Wealth Management & Car Financing

光大新鴻基 EVERBRIGHT SUN HUNG KAI

Group Management and Support ("GMS")

This includes the Group's treasury and other assets, unallocated finance costs and Group services.

Strategic Investments ("SI")

This portfolio consists of our retained 30% equity stake in Everbright Sun Hung Kai Company Limited ("EBSHK") and a strategic interest in LSS Financial Leasing (Shanghai) Limited ("LSS Leasing"). EBSHK is a full-service financial institution that spans wealth management and brokerage, corporate finance and capital markets, asset management, investment, and structured financing. 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.

INVESTING BUSINESS

Investment Management ("IM")

In 2015, the Company established Investment Management division (formerly known as "Principal Investments") which leverages the Group's expertise, network and strong financial position to seek attractive risk-adjusted investment opportunities in Capital markets, Alternatives markets and Real Assets markets.

IM Divisions

Public/Capital Markets

Includes the Company's internally managed APAC long/short strategy, direct equity holdings, our internally managed global credit strategy and cash. We actively manage all sub-portfolios, carefully using derivatives and hedging to increase returns and manage risk.

Alternative Investments

Alternatives include the Company's investments in externally managed private equity and hedge funds, as well as equity direct and co-investments. The portfolio seeks to maximise risk-adjusted returns and diversify exposure by industry and geography.

Real Assets

The Real Assets portfolio includes all the Group's real estate holdings in Hong Kong, the UK and Europe. Real Assets is a core strength of the Group and an area where we expect to grow our portfolio going forward.

CHAIRMAN'S LETTER

> 2019 was one of our strongest years ever and we feel it further validates the strategic transformation we embarked on almost five years ago.

Dear Shareholders,

This has been a meaningful year for SHK & Co. as we celebrated the 50th anniversary of our establishment in 1969, and I am proud to present you with solid results: significant gains to basic earnings per share and total assets of HK$42.6 billion as at 31 December 2019. In a year of market disruptions and uncertainties, the Group achieved growth in loan balances and a higher loan yield from lending, as well as strong investment performance.

The results for this past year showed the strength of the Group's dual-engine growth model. Our diverse yet complimentary business portfolio made 2019 one of our strongest years ever, and we feel it further validates the strategic transformation we embarked on almost five years ago. Our Lending businesses remain our largest in terms of assets and provide steady cash flow and organic growth, while our Investment Management business focuses on higher return strategies across various sectors and geographies. Looking forward, we will continue to expand the Investment Management business by launching a Fund Management platform which will manage external capital and seek additional assets and revenue. As we continue to grow our offerings, we believe the Investment Management business will be a major driver of our future growth.

At SHK & Co., we believe in investing in growth, whether by offering financing to people and companies or by contributing capital through Investment Management. That same philosophy applies to the Company, where we invest in our people to foster their development and provide a welcoming and supportive workplace environment. We invest in our systems and governance controls to assure business continuity at the highest institutional standards. In our communities, we invest through the Sun Hung Kai & Co. Foundation and the Sun Hung Kai Scallywag sailing team, as well as our ESG initiatives. We know these are all the right things to do and believe they will all contribute to making our Company a continued success.

At this time of year, we take a moment to look back and appreciate what we achieved in a challenging year. Unfortunately, the new year has immediately brought new and unprecedented difficulties as the coronavirus outbreak and its widespread effects have caused massive disruptions to the global economy. The effects are being felt here and around the world through travel bans, national lockdowns, and resulting violent swings in the markets only ever seen in historic crashes. Like you, we are constantly watching the news and adjusting to new information and dangers on what seems a daily basis. In the midst of these ongoing challenges and uncertainties, I am proud of how quickly our team at SHK & Co. continues to adapt, and to keep both safe and productive. It is times like this that our Company ethos "Endure. Adapt. Excel" not only expresses our mindset and culture, but also guides us forward. After a year in which we were able to Excel, we now need to Endure and Adapt once more. I am confident that we will successfully navigate these turbulent waters and Excel again.

Financial Highlights, Capital Management and Dividend

In 2019, our combined business portfolio produced a record high of 76% growth on profit attributable to owners of the Company, totalling HK$2,085.2 million (2018: HK$1,183.8 million). Earnings per share surged to HK104.4 cents, an increase of 86% (2018: HK56.2 cents). The book value per share gained 7% to HK$10.2 (2018: HK$9.5). Return on equity and return on assets were 10.6% and 6.0%, respectively (2018: 6.2% and 4.1%, respectively).

Delivering on our strategies and achieving our goals requires maintaining a strong balance sheet. During the year, the Group partially tendered two US dollar-denominated medium term notes (due in 2021 and 2022, respectively) and issued new 5.75% US dollar-denominated medium term notes due in 2024. In addition, the Group maintained our European Commercial Paper programme and bank facilities to fulfil our capital needs.

Since the Company listed in 1983, we have maintained continuous dividends and distributions, returning HK$11.7 billion (including dividends and share buybacks) to our shareholders over the past 13 years. The Board has declared a second interim dividend of HK14 cents bringing the total dividend per share to HK26 cents for 2019, representing a pay-out ratio of 25% (excluding share buybacks).

In 2019, the Company continued to repurchase stock, buying back 9.2 million shares. In addition, the Group's subsidiary, UA Finance bought 7.27% of its then issued shares from a minority shareholder, resulting in the Group's interest in UAF rising from 58% to 63%.

Business Update

Our journey started over 50 years ago, with the Company offering brokerage and related services in Hong Kong. The Group then strategically entered the Consumer Finance business in Hong Kong and Mainland China, and eventually expanded into Investment Management, making us a stronger and more diversified player in financial services.

The Group realigned business segments into two categories: Financing and Investing. The philosophy behind this dual-engine model is that our core Lending business aims to provide stable returns and strong cash flows, while Investing seeks new income streams and opportunities for increased returns.

During the year, both segments delivered strong performance, led by the Lending businesses. UA Finance contributed HK$1,276.0 million to the Group's pre-tax profit and its gross loan balance increased by 7% to HK$11,121.3 million at the end of 2019. Sun Hung Kai Credit contributed a meaningful pre-tax profit of HK$121.4 million in its fourth full year of operation, with gross loan balance reaching HK$3,648.6 million at the end of 2019. Both businesses focused on organically growing the loan books, enhancing profitability and managing risks.

The Group's Investment Management business had a strong year, contributing HK$1,083.2 million of pre-tax profit with assets reaching a total value of HK$13,129.7 million at end of 2019, an increase of 6%. Since the inception of this business almost five years ago, we have built a significant portfolio of diversified investments and staffed a professional team to select and manage them. The next step is the launch of Sun Hung Kai Fund Management, a fully licensed and regulated fund manager, and a series of funds that will be available to accept third party capital. We have received regulatory approval to proceed and have been working to build out the institutional grade infrastructure to support this new business. This evolution will allow the Investment Management business to become a powerful generator of steady revenue and investment profits. The additional assets under management will allow the teams to scale their operations, retain talent and diversify risk.

CHAIRMAN'S LETTER

People and Community

We value our people and are committed to build and promote a flexible, diverse, inclusive and open culture to attract and retain talent. In December 2018, we announced unlimited annual leave for staff, a pioneering move amongst Hong Kong corporates. Over the course of the year, we built out systems to allow our employees to more easily work remotely, which helped us remain productive in the coronavirus outbreak and should continue to add value once business travel begins again. As we celebrate our heritage, we also embrace modern working styles to enhance employee engagement and foster a sense of ownership.

Outside the office, SHK & Co. has a vision to promote sailing, a sport with a rich legacy in Hong Kong, as we believe that sailing exemplifies endurance, adaptability and excellence. We launched the Sun Hung Kai Scallywag Foundation in May 2019, with the mission of making sailing more accessible for the underprivileged youth in Hong Kong. Especially for youngsters, sailing helps nurture important qualities such as resilience, discipline, teamwork and leadership. Since the launch, over 100 young sailors have trained under the programme.

Off the water, we have engaged with the community through the Sun Hung Kai & Co. Foundation. Through our support of eye health (Orbis), Harvard University scholarship and the arts in Hong Kong, we endeavor to enrich our communities.

Outlook

2020 has started with a global coronavirus pandemic unlike anything we have seen before. At this point it is impossible to know how or when this will end and how much damage will be done. We have seen some initial signs of success in China and South Korea and hope to soon see improvement in Italy and the USA. The outlook from here is difficult to predict. Governments are embarking on previously unseen levels of support, with massive stimulus and liquidity measures being approved and rolled out day by day. However, fear and uncertainties continue to run high among investors and ordinary citizens as the trade-off between lockdowns and keeping people working is hashed out in each country and city. We are also trying to maintain a balance, keeping our staff healthy as we try to keep the Company running effectively.

The continued unprecedented economic stress and volatility, together with liquidity shortages, has created broad panic in many markets as investors react to losses. We are confident that these swings will smooth out and that our liquidity and longer-term investment horizon put us in a position to be patient and prudent as we navigate these turbulent markets. We are constantly monitoring the situation and trying to understand the immediate impacts as well as the second and third order effects to best position ourselves to benefit when the world eventually returns to stability. I believe that with the strength of our team, our strong financial position and our dual-engine business model we will weather the storm.

I would like to express my gratitude to our shareholders and business partners for their steadfast support, and to all my fellow Board members and colleagues, past and present, for their commitment and professionalism over the years.

Lee Seng Huang
Group Executive Chairman

Hong Kong, 30 March 2020

FINANCIAL HIGHLIGHTS

Attributable Profit +76%
HK$2,085.2m

Basic EPS +86%
HK104.4c

DPS no change
HK26.0c

BVPS +7%
HK$10.2

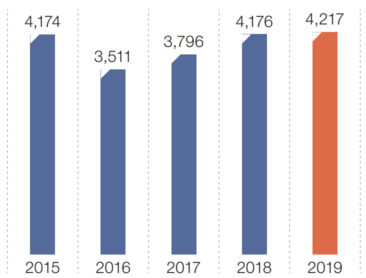
Total Assets +5%
HK$42,561.6m

Total Liabilities +6%
HK$18,985.0m

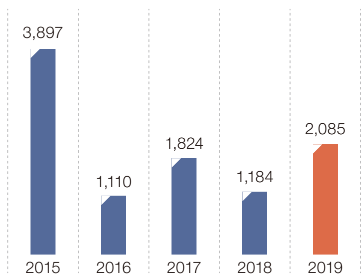
Net Gearing Ratio from 52.4%
54.1%

Interest Cover +22%
4.5x

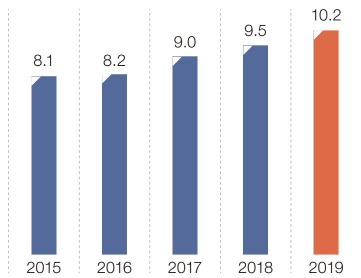
Revenue *(HK$m)*



Attributable Profit *(HK$m)*



Book Value per Share *(HK$)*



Funding Structure

Total Borrowings
HK$16,756m
+12%

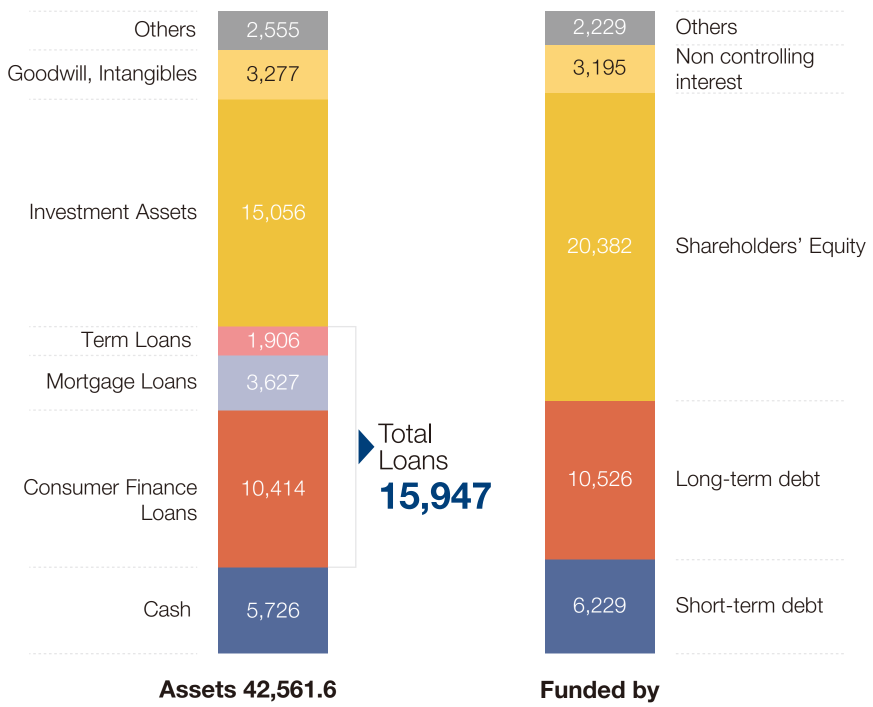
Bank and Other Borrowings
HK$8,157m
+14%

Notes and Paper
HK$8,599m
+10%

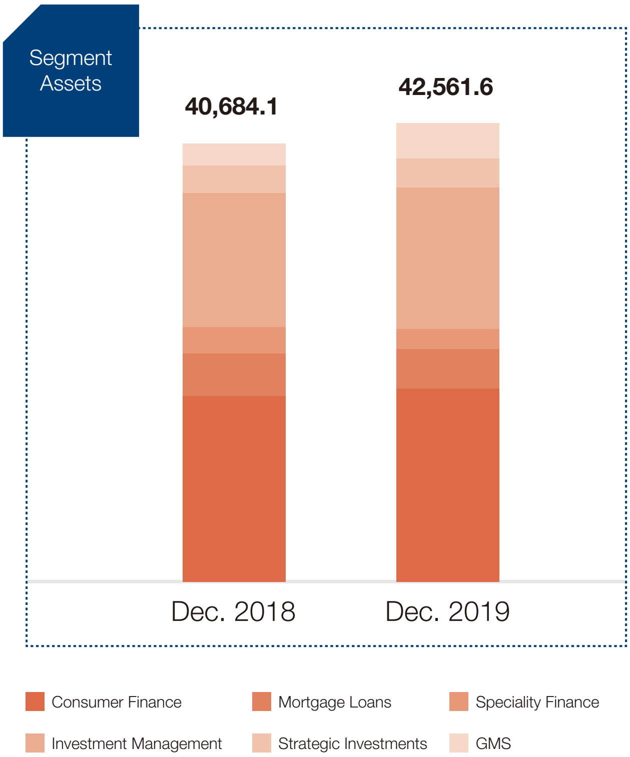
FINANCIAL HIGHLIGHTS

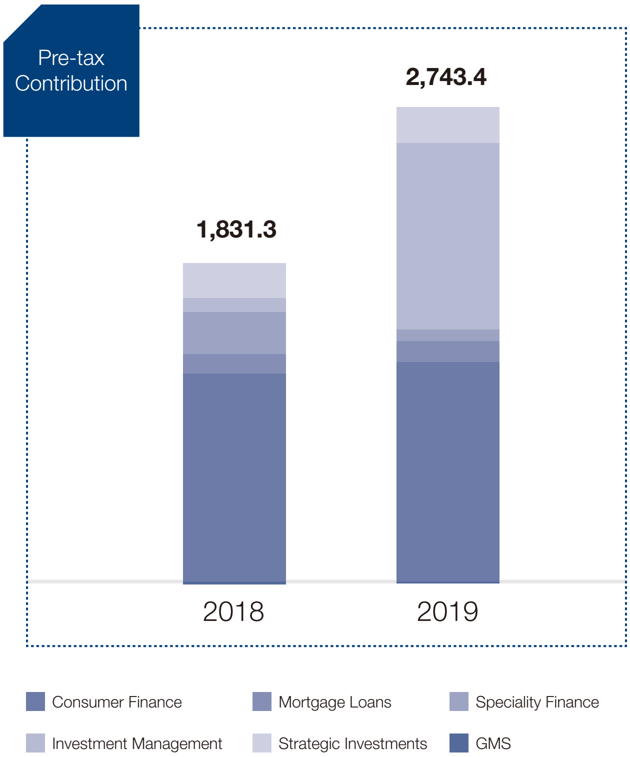
Balance Sheet *(HK$ million)*

The Group's balance sheet remained strong, with a healthy cash position and low gearing. Long-term loans and investment assets are funded by long-term debt and equity, while short-term assets are well-matched with short-term debt.



Segment Breakdown *(HK$ million)*

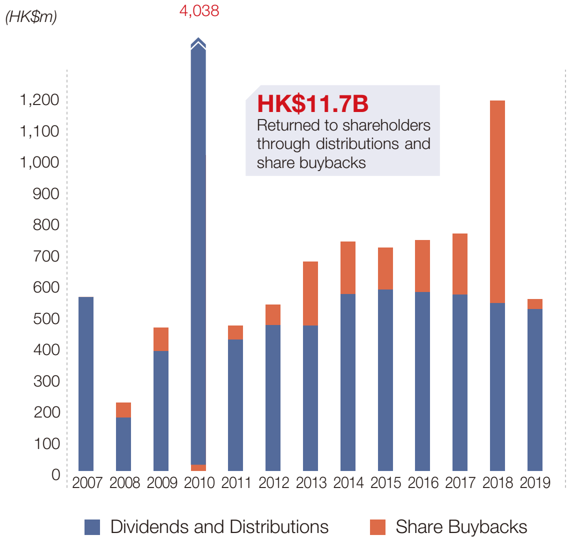




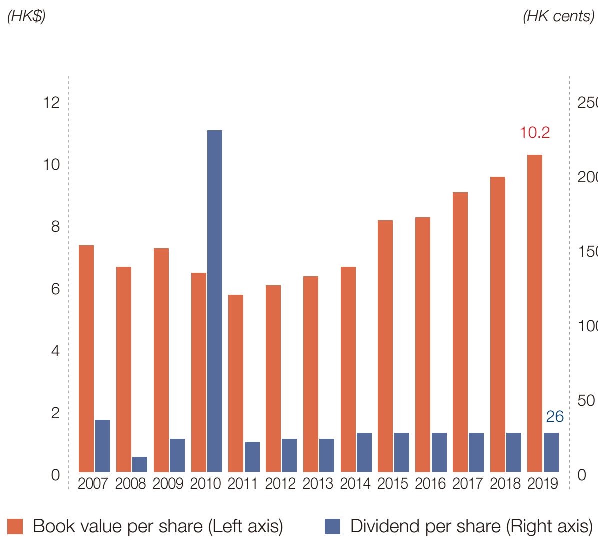
CREATING VALUE FOR SHAREHOLDERS

SHK & 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 13 years ago, the Group has returned over HK$11.7 billion to shareholders in the form of dividends and share buybacks.

Track Record of Capital Return



Value Growth



Five-Year Financial Summary

Results for the year ended 31 Dec *(HK$ Million)*	2015	2016	2017	2018	**2019**	19/18 % change
Revenue	4,174.1	3,511.3	3,795.6	4,175.7	**4,216.8**	1.0%
Profit attributable to owners of the Company	3,896.5	1,109.6	1,824.3	1,183.8	**2,085.2**	76.1%
Balance Sheet data as at 31 Dec *(HK$ Million)*						
Total assets	32,369.1	32,560.9	37,422.2	40,684.1	**42,561.6**	4.6%
Total liabilities	10,778.3	10,905.1	14,023.7	17,839.0	**18,985.0**	6.4%
Shareholders' equity	18,007.6	18,077.0	19,426.7	19,039.2	**20,381.7**	7.1%
Share Data						
Basic EPS *(HK cents)*	173.8	50.3	84.0	56.2	**104.4**	85.8%
Diluted EPS *(HK cents)*	173.8	50.2	83.9	56.1	**104.2**	85.7%
Basic EPS *(HK cents)* – From continuing operations	29.8	50.3	84.0	56.2	**104.4**	85.8%
Diluted EPS *(HK cents)* – From continuing operations	29.8	50.2	83.9	56.1	**104.2**	85.7%
DPS *(HK cents)*	26.0	26.0	26.0	26.0	**26.0**	–
BVPS *(HK$)*	8.1	8.2	9.0	9.5	**10.2**	7.4%
Total number of shares at year end *(Million)*	2,229.0	2,193.0	2,153.0	2,008.0	**1,998.8**	-0.5%

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

(HK$ Million)	Year ended 2019	2018	Change
Revenue	4,216.8	4,175.7	1%
Pre-tax profit	2,743.4	1,831.3	50%
Profit attributable to owners of the Company	2,085.2	1,183.8	76%
Basic earnings per share *(HK cents)*	104.4	56.2	86%
Second interim dividend *(HK cents)*	14.0	14.0	–
Book value per share *(HK$)*	10.2	9.5	7%

The profit attributable to owners of the Company in 2019 was HK$2,085.2 million (2018: HK$1,183.8 million). Basic earnings per share ("EPS") for the year was HK104.4 cents (2018: HK56.2 cents), up 86% year on year. The increase of EPS was attributable to the strong increase in net profit and the results of share buybacks.

The results for the year reflect solid performance which has improved significantly compared with the second half of 2018 primarily as a result of changes in the value of the assets of the Investment Management business. The Consumer Finance business also delivered improved profitability.

The Board has declared a second interim dividend of HK14 cents per share for the year ended 31 December 2019, the same as the previous year.

During the year, the Company repurchased 9.2 million shares for a total consideration of HK$33.0 million. As at 31 December 2019, the Group's book value per share was HK$10.2 with a steady increase of 7% from HK$9.5 at the end of 2018.

Results Analysis

The Group's revenue in 2019 was HK$4,216.8 million (2018: HK$4,175.7 million), of which interest income was the biggest component.

Pre-tax profit for the year increased by 50% to HK$2,743.4 million (2018: HK$1,831.3 million), mainly driven by the significant increase in the marked value of our Investment portfolio. Pre-tax profit of Investment Management for the year substantially increased to HK$1,083.2 million. This solid performance was a result of substantial improvement in Public/Capital Markets and Alternatives though slightly offset by Real Assets. Additionally, the portfolio's liquidity has improved during 2019.

Consumer Finance was the biggest contributor to pre-tax profit for the year, and its contribution increased by 6% over the year.

The Mortgage Loans business contributed a meaningful pre-tax profit, which has increased by 6% compared to 2018 as it enjoyed operating leverage from an expanded scale.

Specialty Finance had a reduced profit as a result of lower loan balance and higher loan impairment expenses.

Pre-tax loss of Group Management and Support decreased from HK$18.6 million in 2018 to HK$11.5 million.

Operating costs slightly decreased by 1% to HK$1,447.5 million.

Business Review

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

	Pre-tax Contribution for the Year ended			Segment Assets as at	
(HK$ Million)	2019	2018	Change	Dec. 2019	Dec. 2018
FINANCING BUSINESS					
Consumer Finance	1,276.0	1,207.9	6%	17,917.7	17,226.8
Specialty Finance	64.8	241.7	–73%	1,865.0	2,488.8
Mortgage Loans	121.4	114.1	6%	3,694.4	3,950.6
INVESTING BUSINESS					
Investment Management	1,083.2	83.2	1,202%	13,129.7	12,398.1
Strategic Investments	209.5	203.0	3%	2,650.1	2,568.2
GMS[1]	(11.5)	(18.6)	–38%	3,304.7	2,051.6
Total	2,743.4	1,831.3	50%	42,561.6	40,684.1

1 Certain treasury assets were reclassified from Investment Management to GMS.

Financing Business

As at 31 December 2019, total loans and advances to customers, net of impairment allowance, was HK$15,828.4 million (31 December 2018: HK$16,109.1 million). Net impairment losses on financial instruments (formerly "impairment and bad debts") increased from HK$901.7 million to HK$975.8 million with additional provisions in mortgage loans and term loans partly offset by reduced provisions in Consumer Finance loans.

Consumer Finance

The Group's Consumer Finance business is conducted via its majority-owned subsidiary UA Finance. Through a well-established branch network and sophisticated online and mobile platforms, UAF primarily offers unsecured loans to individuals and businesses in Hong Kong and Mainland China. UAF is the market leader in the Hong Kong personal loan market. Further, UAF holds money lending licences in major cities in the PRC and internet money lending licences to conduct its online loan business all over the PRC.

On 27 June 2019, UAF completed the repurchase of ordinary shares from ORIX Asia Capital Limited, a then minority shareholder which held 7.27% of the then issued ordinary shares of UAF, at a cash consideration of JPY10 billion. As a result, the Group's beneficial equity interest in UAF increased from 58% to 63%. UAF management believes that the share repurchase will improve the management and operational efficiency of UAF in implementing business decisions and developing strategies, thus enhancing the competitiveness of UAF. The repurchase has been earnings accretive for the Group.

Segment Full Year Results

	Year ended 31 December		
(HK$ Million)	2019	2018	Change
Revenue	3,504.7	3,422.1	2%
Return on loans (% average gross loan balance)	32.5%	33.8%	
Operating costs	(1,124.7)	(1,147.1)	–2%
Cost to income (% revenue)	32.1%	33.5%	
Finance costs	(321.1)	(237.4)	35%
Net impairment losses	(803.9)	(833.6)	–4%
Other gains	20.1	25.4	–21%
Exchange gain (loss)	0.9	(21.5)	N/A
Pre-tax contribution	1,276.0	1,207.9	6%
Loan Book:			
Net loan balance	10,413.5	9,769.7	7%
Gross loan balance^	11,121.3	10,415.3	7%

^ Before impairment allowance

The gross loan balance grew for the 26th year at an annual pace of 7% after rising at 6% in 2018. The pre-tax contribution to the Group amounted to HK$1,276.0 million, an increase of 6% against 2018, and one percentage point smaller than the growth rate in gross loan balance.

The increased share of Hong Kong loan book, which has a lower average yield compared to the PRC loan book, slightly reduced the yield on loans on a consolidated basis. During 2019, Hong Kong accounted for approximately 76% of the average gross loan balance (2018: 71%). The increased proportion of loans from Hong Kong coupled with the decrease in charge-off ratio in the PRC contributed to an improvement in the overall charge-off ratio from 7.8% to 6.9%.

Operating costs reduced as a result of a further reduction in the PRC branch network. Finance costs increased as a result of higher average borrowing rates and an increase in borrowings to support the growth of the loan book in Hong Kong.

Net Impairment Losses on Financial Instruments

(HK$ Million)	2019	2018
Amounts written off[1]	(933.2)	(989.4)
Recoveries[2]	195.4	196.6
Charge off	(737.8)	(792.8)
As % of average gross loan balance	6.9%	7.8%
Charges of impairment allowance[3]	(66.1)	(40.8)
Net impairment losses	(803.9)	(833.6)
As % of average gross loan balance	7.5%	8.2%
Impairment allowance at year end	707.8	645.6
As % of gross loan balance at year end	6.4%	6.2%

1 An impairment constituting a derecognition event which is made if a loan is more than 90 days overdue, borrower deceased, or the borrower has entered bankruptcy proceedings.

2 Reflect recovery/repayment of loans which have previously been impaired and derecognised.

3 An adjustment to reflect changes in expected credit loss in the loan portfolio balance.

Ageing analysis for net loan balance of Consumer Finance customers *(HK$ Million)*

No. of days past due as at:	31 Dec. 2019	Note	31 Dec. 2018	Note
Less than 31	582.9	5.6%	528.6	5.4%
31–60	55.6	0.5%	50.4	0.5%
61–90	20.9	0.2%	11.9	0.2%
91–180	148.4	1.4%	48.2	0.5%
Over 180	61.4	0.6%	109.2	1.1%
Total	869.2	8.3%	748.3	7.7%

Note: amount as a percentage of net loan balance

Hong Kong Business

Key Operating Data	2019	2018	Change
Number of branches	48	49	
Loan data:			
Gross loan balance *(HK$ Million)*	8,576.2	7,803.4	10%
Loan originated for the year *(HK$ Million)*	12,499.1	10,136.3	23%
Number of loans originated	183,354	165,459	11%
Average gross balance per loan *(HK$)*	60,174	59,132	2%
Ratios for the year:			
Total return on loans[1]	32.1%	31.5%	
Charge-off ratio[2]	4.9%	4.4%	
Net impairment losses ratio[3]	6.0%	4.7%	
Impairment allowance ratio[4]	5.7%	5.0%	

1 Revenue/average gross loan balance

2 Charge-off amount/average gross loan balance

3 Net impairment losses/average gross loan balance

4 Impairment allowance at year end/gross loan balance at year end

The social unrest in Hong Kong and the US-Sino trade dispute weighed on the performance of Hong Kong economy in the second half of 2019. As a result, UAF Hong Kong ("UAF HK") was adversely impacted by higher charges for expected credit loss which resulted in higher impairment allowance ratio at year end. However, the negative impact on contribution was partly mitigated by increased revenue from growth in the loan portfolio. Overall, the full year pre-tax contribution compared to 2018 increased as business grew.

The FinTech team, which was set up in January 2019, has completed several initiatives during the year, embracing the challenges and opportunities in the market. UAF HK was a pioneer in launching Faster Payment System services around the clock for loan disbursements, demonstrating our commitment to deliver enhanced customer experience through innovation. The on-line and mobile platforms have been further enhanced with more user-friendly features and adoption of enhanced security measures. Customers can now utilise facial recognition and fingerprint features for log-in in the latest version of mobile applications. As more transactions are conducted on-line, UAF HK will allocate more advertising resources to promote business through on-line media. UAF HK will continue to launch various advertising campaigns using market intelligence tools to raise the efficiency of marketing dollars spent to reach target customers. Leveraging on the strong brand position, market leading role and experienced management team, UAF HK continues its strategy of growing the business while managing credit risk.

Mainland China Business

Key Operating Data	2019	2018	Change
Number of branches	30	46	
Loan data:			
Gross loan balance *(HK$ Million)*	2,545.1	2,611.9	–3%
Loan originated for the year *(HK$ Million)*	4,522.2	5,160.9	–12%
Number of loans originated	104,716	95,635	9%
Average gross balance per loan *(RMB)*	31,937	34,147	–6%
Ratios for the year:			
Total return on loans[1]	33.9%	39.5%	
Charge-off ratio[2]	13.2%	16.2%	
Net impairment losses ratio[3]	12.0%	16.8%	
Impairment allowance ratio[4]	8.6%	9.7%	

1 Revenue/average gross loan balance
2 Charge-off amount/average gross loan balance
3 Net impairment losses/average gross loan balance
4 Impairment allowance at year end/gross loan balance at year end

UAF China adopted a cautious approach during 2019 given uncertainties in the operating and economic environment. The on-going cost-cutting exercises contributed to an improvement in the bottom-line contribution as operating costs trended down year-on-year. Expected credit losses were reduced substantially following a more conservative lending approach. The credit scoring model adopted in the second half of 2018 contributed to lowering the charge-off on new credits in 2019. UAF China will continue to develop its credit scoring system to enhance credit approval effectiveness and improve credit quality.

Prospects

Looking ahead, management is cognizant of many risk factors facing UAF in the coming year. The recent outbreak of coronavirus has impacted business operations in the PRC and Hong Kong, with the operations in Mainland China closed for an extended period after Chinese New Year. UAF HK has set up contingent offices should we need to suspend operations at a given location. Management is closely watching this highly fluid situation to assess the impact on the overall economy and UAF's operations and loans in particular. We will strive to maintain business activities during this uncertain time and resume normal operations once the epidemic subsides. In addition to the epidemic risk, noteworthy risks relating to economic, political, social and environmental may arise from time to time impacting the outlook of the business. UAF remains alert to our on-going risks and will adjust our strategy whilst looking for any new opportunities. With our dedicated teams of experts, we will strive to deliver returns to the satisfaction of all stakeholders.

Specialty Finance

The Group's Specialty Finance business provides tailored funding solutions to corporates, investment funds and high net worth individuals. The net loan balance was HK$1,788.0 million as at 31 December 2019 (31 December 2018: HK$2,485.2 million). After taking into account net impairment losses of HK$159.9 million (2018: HK$64.3 million), the segment's pre-tax contribution was HK$64.8 million (2018: HK$241.7 million). All the loans were either secured by assets or had other guarantees by corporates or high net worth individuals.

MANAGEMENT DISCUSSION AND ANALYSIS

Segment Annual Results

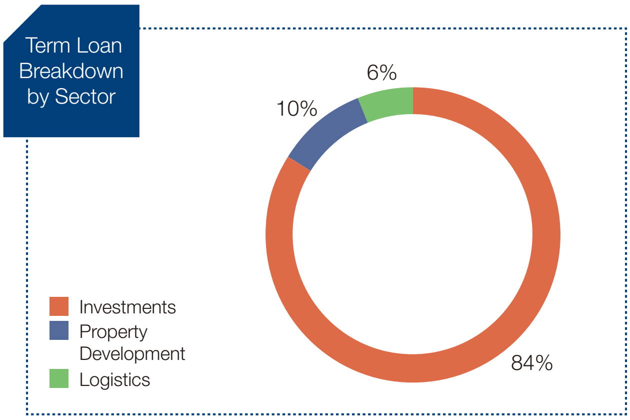
(HK$ Million)	Year ended 31 December 2019	2018	Change
Revenue	340.6	452.3	–25%
Return on loans (% average gross loan balance)	14.4%	15.4%	
Operating costs	(3.7)	(4.9)	–24%
Cost to income (% revenue)	1.1%	1.1%	
Finance costs	(111.5)	(142.1)	–22%
Net impairment losses	(159.9)	(64.3)	149%
Net loss on financial assets and liabilities	(0.7)	–	N/A
Net exchange gain	–	0.7	N/A
Pre-tax contribution	64.8	241.7	–73%
Loan Book:			
Net loan balance	1,788.0	2,485.2	–28%
Gross loan balance^	2,098.8	2,636.0	–20%

^ Before impairment allowance

In 2019, the loan book shrank compared to 2018 mainly due to repayments of outstanding loans and fewer new loans. As the portfolio mainly focused on the Greater China market, we adopted a conservative approach in credit approval considering the impact on the economy from Sino-US trade tensions and social unrest in Hong Kong. We saw a deterioration of credit quality in the form of increased delinquencies and impairments, symptoms of a challenging debt market resulting from slowing business activities over the year.

The outbreak of the coronavirus has affected global markets and management continues our cautious approach to new lending. We are focusing on careful management of existing loans though we remain open to new lending opportunities that may arise. We remain confident in this business's prospects as it leverages the Group's business network and strong financial position at a time when fewer banks and large institutions provide Specialty Finance.

Specialty Finance Portfolio



Mortgage Loans

The Group's Mortgage Loans business is operated by Sun Hung Kai Credit. The business contributed a pre-tax profit of HK$121.4 million during the year, a 6% year on year increase from HK$114.1 million in 2018.

Segment Annual Results

(HK$ Million)	Year ended 31 December 2019	2018	Change
Revenue	295.6	249.5	18%
Return on loans (% average gross loan balance)	7.9%	8.4%	
Operating costs	(43.1)	(45.4)	–5%
Cost to income (% revenue)	14.7%	18.2%	
Finance costs	(119.1)	(86.2)	38%
Net impairment losses	(12.0)	(3.8)	216%
Pre-tax contribution	121.4	114.1	6%
Loan Book:			
Net loan balance	3,626.9	3,854.2	–6%
Gross loan balance^	3,648.6	3,863.9	–6%

^ Before impairment allowance

Revenue increased by 18%, primarily driven by the year-on-year increase in the average loan balance and higher loan yields. The gross loan balance was HK$3,648.6 million as at 31 December 2019 (31 December 2018: HK$3,863.9 million), of which 95% was for first mortgage loans. Average loan size was HK$6.3 million (2018: HK$5.9 million). As the business has reached an effective scale with a solid market position, emphasis was placed on improving profitability, capital efficiency and the margins of the business. In implementing this strategy, Sun Hung Kai Credit underwrote fewer lower margin loans through the second half of the year due to the opportunity cost of capital and credit risks in this segment. Further, management has focused on investing in infrastructure and people.

During the year, finance costs increased from the higher average loan balance and a higher average funding rate. This was offset by better operating leverage with lower cost to income ratio.

The credit quality of the loan book remained satisfactory at the end of 2019 and we continue to monitor it closely. Management is cognisant of the potential volatility in residential property prices in Hong Kong due to the social unrest, coronavirus and eventual economic impact, and hence continues to adopt a prudent underwriting approach. The overall loan-to-valuation ratio of the portfolio was below 65% at the end of the year.

Looking ahead, management will continue to build the business for further profit growth, including diversification to higher margin mortgage loan products.

Investing Business

Investment Management

The Investment Management division leverages the Group's expertise, network and strong financial position to seek attractive risk-adjusted investment opportunities. In 2019, the annual return on the average assets for the segment was 12.4%, compared to 4.1% in 2018. Taking into account operating expenses and funding costs allocation, the segment contributed HK$1,083.2 million to pre-tax profit, an increase of 1,202% from HK$83.2 million achieved in the previous year.

Analysis of Pre-tax Profit by Nature

(HK$ Million)	2019	2018	Change
Realised gain on financial assets^	270.8	204.8	32%
Interest income	–	4.5	N/A
Dividends received	8.7	5.4	61%
Rental income	24.1	21.8	11%
Fees received	–	0.2	N/A
Mark-to-market valuation^	1,262.2	(73.9)	N/A
Net impairment losses on financial instruments	(48.2)	–	N/A
(Loss)/gain from revaluation of investment properties	(42.0)	186.0	N/A
Gain on disposal of subsidiaries	–	132.4	N/A
Others	18.9	13.7	38%
Total gains	1,494.5	494.9	202%
Operating costs	(91.7)	(86.5)	6%
Cost of capital	(319.6)	(325.2)	–2%
Pre-tax contribution	1,083.2	83.2	1,202%

^ Breakdown of net gain on financial assets and liabilities at fair value through profit or loss

2019 provided good investment opportunities in both the equity and credit markets. While there were uncertainties around the Sino-US trade war, moves by the US Federal Reserve ("US Fed" or "Fed") and several events in the Middle East, our active investment strategies in equities and credit produced strong results.

In Alternatives, our focus remained on portfolio management and monetisation as the existing portfolio matures. With our extensive network, we are well placed to make selective new fund and co-investment commitments through 2020, primarily continuing to support managers that have performed well for us over the years.

On the operational side, we continued to strengthen our investment and operating teams while upgrading systems and infrastructure in advance of the launch of our Fund Management platform. During 2019, we added new team members and further formalised our internal processes and compliance systems. We will continue to build out our analytical and investment framework across businesses with a focus on risk management and control. We remain focused on building a world-class team with institutional grade architecture in order to support the planned growth of the Investment Management business.

To explain the nature and strategy of our businesses better, we reclassified or renamed some assets and sub-portfolios.

Segment Assets Breakdown and Annual Return

	2019				Return track record[4]	
(HK$ Million)	Year End Value	Average Value	Gain	Annual Return[4]	2018	2017
Public/Capital Markets[1]	3,106.2	2,732.5	409.6	15.0%	–8.6%	3.3%
Alternatives[2]	7,481.0	6,881.0	1,178.9	17.1%	9.2%	19.7%
Real Assets[3]	2,542.5	2,391.4	(94.0)	–3.9%	9.8%	7.5%
Total	13,129.7	12,004.9	1,494.5	12.4%	4.1%	12.4%

1. Public/Capital Markets include Equity portfolio, Credit portfolio, Direct Equity Holdings and Cash.
2. Alternatives include External Hedge Funds, External Private Equity Funds and Direct and Co-investments.
3. Real Assets include the Group's direct holdings and equity interests in commercial and hospitality properties.
4. Gain before costs/average value.

Public/Capital Markets (24% of IM)

The public/capital markets portfolio achieved a 15.0% annual return in 2019. The portfolio consists of an internally managed equity strategy, direct equity holdings, an internally managed credit strategy and cash.

Breakdown of Public/Capital Market Portfolio as at 31 December 2019

(HK$ Million)	Year End Value	Gain	Annual Return^
Equity	1,588.8	273.8	18.5%
Credit	679.7	120.7	23.5%
Direct Equity Holdings	79.4	15.0	14.3%
Cash	758.3	–	N/A
Total	3,106.2	409.6	15.0%

^ Gain before costs/average value

Public Equity

The equity markets in APAC in 2019 were a story of two quarters, namely Q1 and Q4. A tumultuous last quarter of 2018 sent the S&P 500 index approximately 20% lower, temporarily ending the bull market of the last decade. This abruptly changed in mid-January 2019 with a dovish pivot by US Fed Chairman Powell causing a rebound in equity valuations in Q1 2019. The last quarter of 2019 saw significant progress in trade talks and the Chinese economy continued to show considerable resilience as the year progressed which caused global equities finish the year on a strong footing.

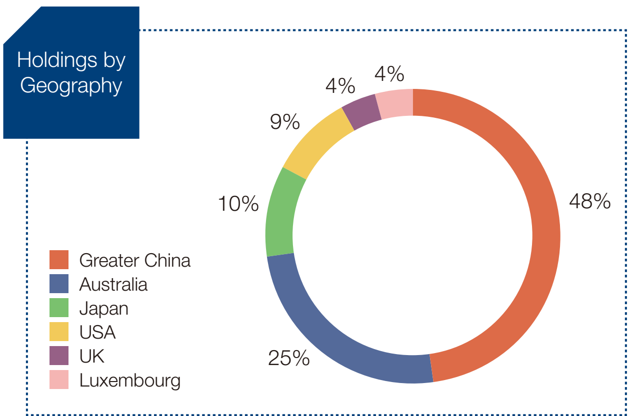
The Company's main active management strategy in equities focuses on companies in Asia Pacific or, in certain cases, companies where Asia Pacific is a key driver for their business. This strategy implements an active long-short investment program, utilising opportunistic event-driven investments and derivatives, with the goal of generating alpha while mitigating downside risk.

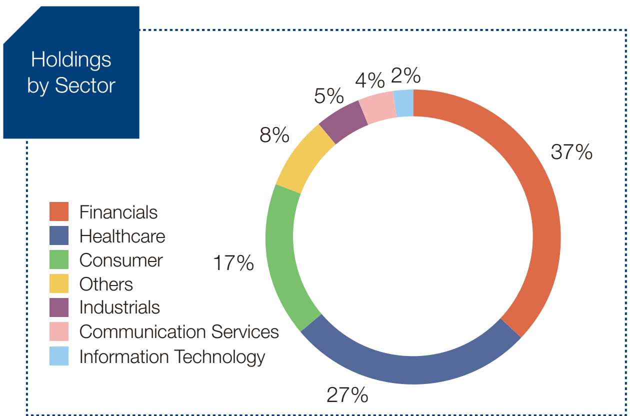
The core long positions in the portfolio are established in high-quality companies with strong cash flow and solid management. These companies are expected to have good growth and provide stability and consistent positive returns for the portfolio over the medium to long term. The short positions are chosen to generate additional returns and are made up of companies with opposite characteristics of the long positions.

In addition to the long and short positions, the team follows companies in the market that could rise or fall sharply if certain events occur and is ready to take advantage if they do. Finally, derivatives and hedging are used both for risk management and enhancing returns.

The team's deep research and understanding of the companies and markets is central to making this strategy effective. In 2020, we plan to move this strategy to the Fund Management platform and begin taking in third party capital.

Public Equity Portfolio





Public Credit

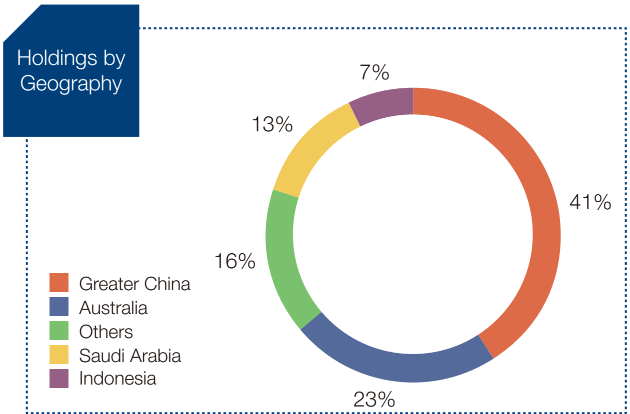
Our credit portfolio returned solid results in 2019. Our strategy was to identify and invest into credit situations globally which presented attractive risk-reward profiles with near-term upside, with a net long notional bias at the portfolio level. Global markets were agitated by the on-going trade war between the United States and China, causing concerns over potential slow-down in global economic growth. In view of those uncertainties and with inflation remaining under control, the US Fed cut the Fed Funds Rate by 25 bps three times in 2019, totaling a 75 bps reduction. A low interest rate environment provided support to global credit markets, including developed and emerging market economies, which provided good investment opportunities.

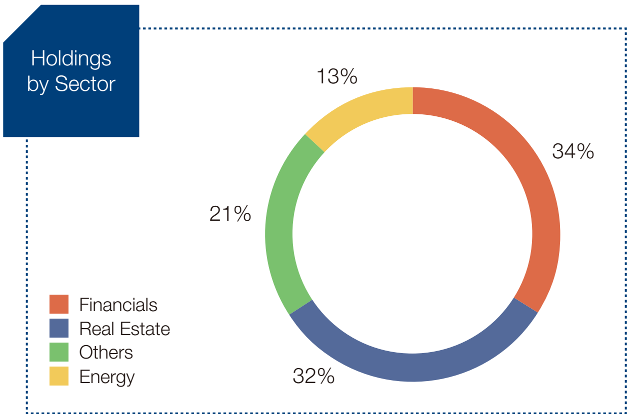
In late 2018, the European banks were hit hard because of Brexit uncertainty. As asset values dropped, we felt there was a good opportunity and bought into them. In Q1 2019, this space rebounded rapidly, and we took advantage of this liquidity to exit and generate solid returns.

In the Middle East, we saw an opportunity in Oman's sovereign debt in early 2019. Markets were concerned about the fiscal sustainability of the nation, but we took comfort in the government's ongoing fiscal reform. The bonds rallied after the country announced the successful results of the measures and we sold our bonds for a profit. Saudi Arabia also faced some difficulties in 2019 but we expected that things would normalise and the debut offering by Saudi Aramco, the largest oil company in the world, would support the government bonds. As these positive developments played out, they provided us with attractive returns.

Going forward, we will continue to look for these kinds of market dislocations and use our network and experience to carefully select investments.

Public Credit Portfolio





Alternatives (57% of IM)

Over the past several years, we have invested the Group's capital prudently and built a portfolio of private equity funds, direct investments and co-investments to maximise risk-adjusted returns and diversify our exposure by industry and geography. The portfolio is invested through a combination of direct or co-investments, and external managers who are selected based on performance, strategic fit, as well as access to markets and sectors. The portfolio benefited from early positioning in growth sectors and companies. Our key direct and co-investments include the Wuxi Pharmaceutical group of companies, and financial and FinTech names such as Fairstone Inc (consumer finance, Canada) and Jefferson Capital Systems, LLC (debt collection, USA). With the Group's expertise and network in the financial services segment, this will continue to be a core theme of the portfolio.

Breakdown of Alternatives Portfolio as at 31 December 2019

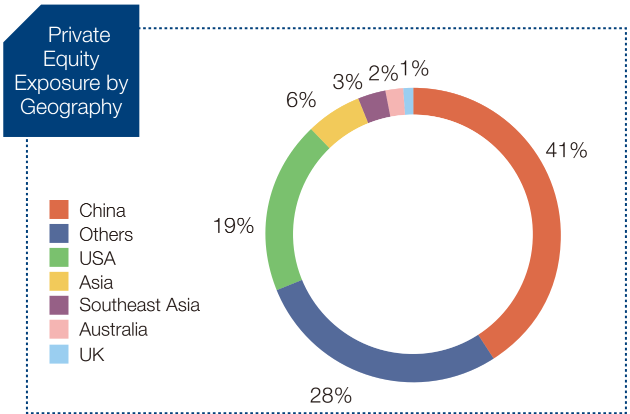
(HK$ Million)	Year End Value	Gain	Annual Return^
External Hedge Funds	1,075.6	90.1	9.4%
External Private Equity Funds	2,337.0	315.8	14.1%
Direct and Co-investments	4,068.4	772.9	21.0%
Total	7,481.0	1,178.8	17.1%

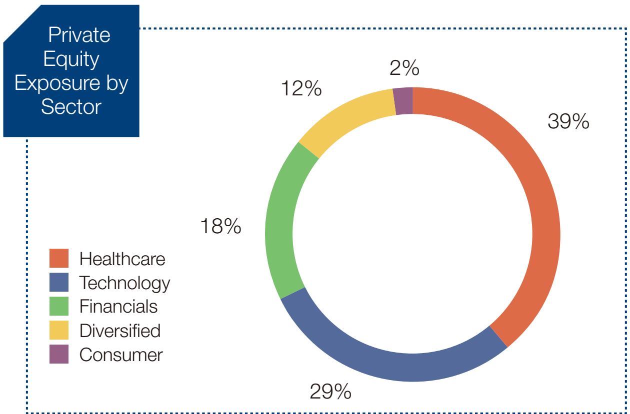
^ Gain before costs/average value

Distributions received in 2019 were HK$746 million (2018: HK$428 million) and HK$1,248 million is anticipated from realised positions in 2020 across co-investments and fund entities, or 16.7% of the entire Alternatives portfolio. Over the course of the year, we made several new investments through committing capital to new funds from existing and new managers, co-investments through existing funds and managers, and our own direct investments. We believe this approach gives us the best chance of seeing good investment opportunities, utilising the networks and expertise of our team and those of the external managers.

We continue to review and analyse several situations across our core areas of Healthcare, Technology and Financials/Fintech, with a geographical focus on Greater China, Australasia, UK and the USA. We remain open to investments in other sectors, however we are cautious about valuations given their current level.

Private Equity Portfolio^

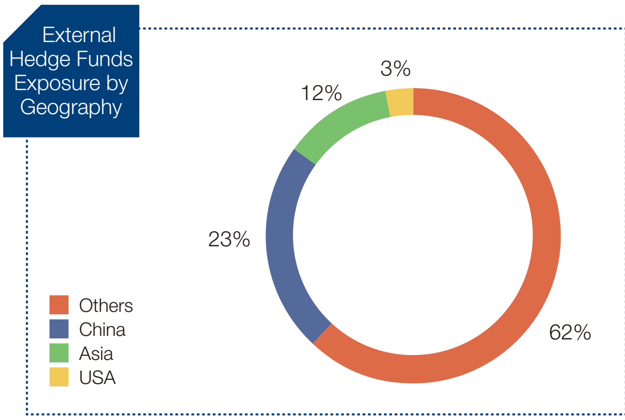


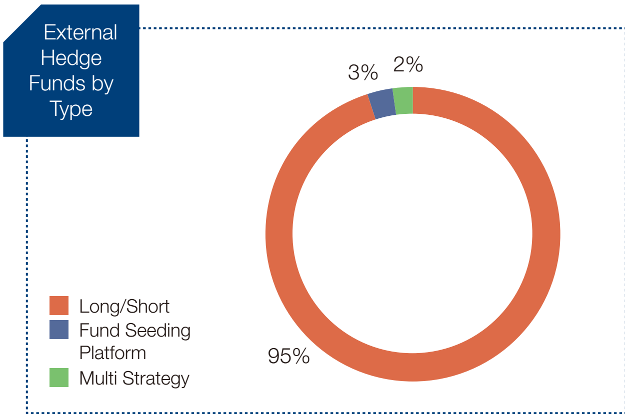


^ Includes investments in externally managed private equity funds, as well as our direct and co-investments.

We invested in a group of selected high-quality external hedge funds that complemented our capabilities and extended our investment networks in the market. The partnerships enabled us to exchange ideas with external managers and these additional resources helped us manage the equity portfolio as well as the broader Investment Management program.

Hedge Funds Portfolio



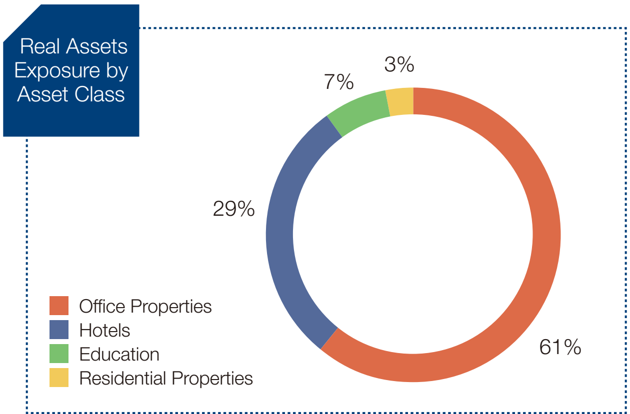


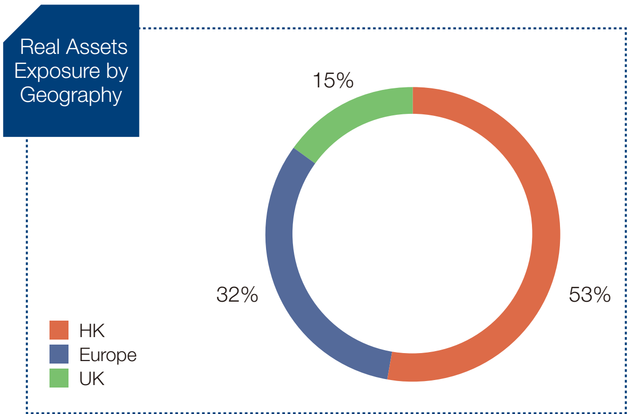
Real Assets (19% of IM)

The real assets portfolio had a valuation of HK$2,542.5 million as at 31 December 2019 (31 December 2018: HK$2,338.0 million). The portfolio includes the Group's interests in Hong Kong commercial real estate as well as hotels and commercial investments in Global markets. During the year, there was a small loss on the portfolio of HK$94.0 million arising from increased provisions on property valuations. We continue to look for opportunities in the real estate space with a focus on the UK and Europe.

On 10 December 2019, the Group formed a joint venture company to acquire a company which held a property situated at 17 Columbus Courtyard, Canary Wharf, London, UK. This acquisition strengthened and diversified our real assets investment portfolio in London and showed the value of the team's expertise and sourcing network.

Real Assets Portfolio





Real estate is a core strength of the Group and an area where we expect to grow our portfolio going forward. In addition to our equity real estate holdings, we plan to launch our first real estate debt fund. With the Group's long track record and strong institutional knowledge of the lending space, we see private debt in real estate as an attractive opportunity to expand and offer our expertise and deal flow to outside investors.

Expansion into Fund Management

Over the last five years, the Company has built our investment platform by leveraging our capital, business expertise and networks in financial services. During this period, we established the Investment Management business through careful and continuous efforts to build a strong and diversified portfolio. We believe our experience and the returns generated by IM put us in a strong position to expand to our next phase, Fund Management. The Company is nearly ready to launch a fully licensed and regulated fund management platform.

Three funds (APAC long/short equity, global unconstrained credit and real estate direct lending) will be launched at the start, with each fund seeded by the Company and able to take in third party capital. The equity and credit funds are the next evolution of the investment program detailed above. The real estate fund will have a focus on direct lending across Australia, Greater China, the UK/Ireland and Europe.

Going forward, we expect Fund Management to be a new driver for sustainable growth in assets under management and revenue. In the first quarter, we have received regulatory approval to proceed and have been working to build out the infrastructure to support this new business. We plan to use the networks and relationships built over the last five years to create specialised and attractive fund offerings which will allow our internal teams to build their investment base, expand their reach and diversify risk.

Strategic Investments

The Group has strategic interests in financial services through a joint venture and an investment in an associated company. These interests are complementary to our Financing and Investment Management businesses, and the Group has benefited from these strategic investments. Pre-tax contribution from this during the year was HK$209.5 million (2018: HK$203.0 million).

In 2015, the Group disposed of a 70% interest in a wholly owned subsidiary, Sun Hung Kai Financial Group Limited ("SHKFGL") to Everbright Securities Financial Holdings Limited, a wholly owned subsidiary of Everbright Securities Company Limited (stock code: 6178.HK). SHKFGL has become an associate of the Group with a carrying value of HK$1,644 million for the retained 30% interest upon completion of the transaction. As part of the sale transaction, the Group received a put right on the retained 30% equity interest of SHKFGL, which owns the business now known as EBSHK. In 2019, the Group maintained its 30% shareholding, amounting to 90,365,142 shares, in SHKFGL. During the year, EBSHK delivered a strong performance with a solid increase in turnover of HK$112 million despite the Hong Kong market's lower average trading volume. In 2019, the business won several prestigious industry awards in Hong Kong and Mainland China. Client assets under management, custody, and/or advice was over HK$124 billion.

The net gain from impairment losses on the Group's 30% stake in EBSHK and change in fair value of the put right of the stake was HK$131.1 million (2018: HK$133.7 million). The total unrealised gain from the associate during the year was recognised as HK$210.5 million (2018: HK$190.6 million), including valuation accretion on equity of HK$79.4 million (2018: HK$56.9 million), impairment losses of HK$135.9 million (2018: reversal of HK$66.7 million) and gain on the put right of HK$267.0 million (2018: HK$67.0 million). No realised gain from the associate was recognised in 2019 (2018: Nil).

As at 31 December 2019, the carrying amount of the Group's 30% equity interest in EBSHK together with fair value of the put right on the 30% stake amounted to HK$2,363 million (2018: HK$2,251 million), representing 5.6% of the Group's total assets and constituting a significant investment of the Group according to the Listing Rules. During the year, the Group received dividends of HK$98.5 million from EBSHK (2018: HK$76.6 million).

LSS Leasing is a B2B and B2C auto leasing business in Mainland China. The business environment continued to be challenging in 2019, with declines in auto sales and production and tight liquidity as the government continued to deleverage the economy. Against this backdrop, LSS Leasing has expanded into the ride-hailing and goods delivery segments, leveraging its network and know-how in the auto leasing sector. In 2019, LSS has formed partnerships with leading platforms such as Lalamove and Deppon to further explore and develop new business initiatives.

Outlook

At the time we present this report to you, we are facing challenging times. The outbreak of the coronavirus and its rapid advance around the globe has disrupted businesses, societies and markets in a way that no one has ever seen nor could have predicted. The effects are being felt here and around the world through travel bans, national lockdowns, and investor panic as markets are repeatedly whipsawed by violent swings. We are closely monitoring the situation and the potential impact on all the Group's businesses and investments and will continue to adjust our strategy and tactics to guide the Group through this turbulent time.

As we look back at 2019, we feel that the results show the strength of the Group's dual-engine growth model. Over the past year, the Group realigned business segments into two categories: Financing and Investing. Our core Financing business aims to provides stable returns and strong cash flows, while the Investment business seeks new income streams and opportunities for increased returns. The results for the past year show the strength of our diverse yet complimentary business portfolio, and we feel it further validates the strategic transformation we embarked on almost five years ago. We believe having these two businesses put us in a stronger position to manage through the current crisis.

The UAF business was the most immediately impacted by the coronavirus when it first broke out in China. Several UAF branches were closed in accordance with quarantine measures and business was disrupted. At this time China is only starting to resume business and we cannot yet know the total impact on the business and loan book. We believe the initiatives to move more of the business online, reduce the physical branches and total staff mitigated some of the impact and may position the business for a quicker recovery through the remainder of 2020. For the Hong Kong business, we remain cautious. The economy had been affected by social unrest in the second half of 2019 even before the recent outbreak. The impact on business from travel bans and social distancing orders could likely produce increased unemployment which in turn could affect the credit quality of consumer finance loans. We have initial indications that delinquencies are starting to rise and loan origination has slowed, both of which we will watch closely. Nonetheless, we are confident in management's capability and capacity to weather these challenges, monitor the situation as it develops and adjust strategy as needed.

The Sun Hung Kai Credit business has maintained its scale and profitability thus far. The cautious underwriting of mortgage loan business through the conservative loan to value ratio and careful credit standards should help position the business to manage the current situation. The ultimate effects on the Hong Kong real estate market are yet to be seen, so management will closely watch the Hong Kong economy and prepare for any adjustments that need to be made.

The Investment Management business has felt the impact of the falling markets after a strong 2019 and been actively managing the investment portfolio through these difficult market conditions. Even as markets and sectors around the world have been sharply impacted by indiscriminate selling, we have maintained liquidity and are managing our assets carefully. We are ready to launch our Fund Management platform this year and believe this will add assets and revenue to the Group. Going forward, the Group will continue to assess the market and utilise our extensive networks to seek out opportunities.

The Group will continue the Financing and Investing business model and aims to deliver strong performance over the long term with sound governance and risk controls through all market conditions. We will also maintain diversified funding sources and liquidity to provide staying power and enable our business expansion. As an investment firm, we treasure our people as valuable assets of the Group. Over the course of the year, we built out systems to allow our employees to more easily work remotely, which helped us remain productive during the coronavirus outbreak and will continue to add value once business recommences. We will further develop our culture and systems to adapt to the current work environment and attract and retain top talent with a commitment to integrity, creativity and teamwork.

Long Term Corporate Strategies

The Group is focused on building sustainable growth to deliver further value to shareholders. To achieve our goals, the Company has set the following long-term strategies:

SHK & Co. Business Objectives

- Produce strong risk-adjusted returns through our Financing and Investing businesses
- Leverage networks to seek new business opportunities
- Build trusted relationships with all stakeholders
- Produce strong financial results through mid-to-long term focus and consistent leadership

Corporate Values

- Reliable, consistent and transparent communication with investors and stakeholders
- Robust risk management culture with regular evaluation of risk factors
- Flexible, diverse, inclusive and open culture to attract and retain talent
- Investing in our communities and protecting the environment

Financial Review

Financial Resources, Liquidity, Capital Structure and Key Performance Indicators

(HK$ Million)	31 December 2019	31 December 2018	Change
Capital Structure			
Equity attributable to owners of the Company	20,381.7	19,039.2	7%
Total cash	5,726.2	4,995.9	15%
Total borrowings[1]	16,755.8	14,983.1	12%
Net debt[2]	11,029.6	9,987.2	10%
Net debt to equity ratio	54.1%	52.4%	
Liquidity			
Interest cover[3]	4.5	3.7	22%
Return Ratios			
Return on assets[4]	6.0%	4.1%	
Return on equity	10.6%	6.2%	
Key Performance Indicator			
Book value per share *(HK$)*	10.2	9.5	7%
Dividend per share *(HK cents)*	26.0	26.0	–

1 Bank and other borrowings and notes/papers payable
2 Total borrowings minus total cash
3 Earnings before interest and tax/interest expense
4 Profit including non-controlling interests/average assets

The Group's return on equity ratio increased from 6.2% of 2018 to 10.6%, mainly driven by strong earnings and results of share buybacks.

The Group's gearing ratio has remained steady at 54.1% at the end of 2019. Interest cover for the year significantly improved to 4.5x, an increase of 22% from 3.7x for 2018.

As at 31 December 2019, total borrowings of the Group amounted to HK$16,755.8 million (31 December 2018: HK$14,983.1 million). Of this amount, 37.2% was repayable within one year (31 December 2018: 39.9%). The Group maintains a balanced mix of funding from various sources. Bank borrowings accounted for 48.7% of total debt (31 December 2018: 47.9%) and are at floating interest rates, denominated in Hong Kong dollars, US dollars and RMB. There were no known seasonal factors in the Group's borrowing profile.

As at 31 December 2019, the following notes were outstanding:

Note	Maturity Date	HK$ Equivalent *(Million)*	% Total
4.75% USD notes^	5/2021	1,927.0	22.4%
4.65% USD notes^	9/2022	3,504.8	40.8%
5.75% USD notes^	11/2024	2,734.3	31.8%
HKD paper/notes	various	432.6	5.0%
Total		8,598.7	100%

^ Listed on The Stock Exchange of Hong Kong Limited

In November 2019, the Group commenced a tender offer to purchase the 4.75% USD medium term notes due in 2021 and the 4.65% USD medium term notes due in 2022. The Group ultimately purchased US$112 million of 4.75% USD medium term notes and US$105 million of 4.65% USD medium term notes in mid-November 2019. At the same time, the Group issued US$350 million new 5.75% USD medium term notes due in 2024.

The Group maintained foreign currency positions to cater for its present and potential investments and operating activities. Most non-US/HK dollar investment assets are hedged against currency fluctuations. Exchange risks are closely monitored by the Group and held within approved limits.

Significant Investments

The Group recognised a significant investment in the securities of EBSHK. The carrying amounts of the Group's interest in the equity stake plus fair value of a put right on the stake was 5.6% of the Group's total assets at end of 2019. A detailed discussion on the investments is stated in the section titled "Strategic Investments" of this report.

Material Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures

On 27 June 2019, UAF completed the repurchase of ordinary shares held by a then minority shareholder for the consideration of JPY10 billion as mentioned in the Consumer Finance section above and the Company's announcements dated 20 and 27 June 2019.

Charges on Group Assets

Properties of the Group with a total book value of HK$1,087.0 million and cash of HK$33.2 million were pledged by subsidiaries to banks for facilities granted to them. HK$550.8 million was drawn down as at 31 December 2019.

Contingent Liabilities

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

Human Resources and Training

As at 31 December 2019, the Group's total staff numbered 2,318 (31 December 2018: 2,719). Out of this, 55 staff (31 December 2018: 50) are corporate and investment staff and the remainder are within the main subsidiaries UAF and Sun Hung Kai Credit. The net decrease in staff numbers is a result of the ongoing branch consolidation in the consumer finance business in Mainland China, as the business migrated further online and its continuous effort in driving cost efficiency. Total staff costs amounted to HK$775.6 million (2018: HK$782.6 million) as a result of higher performance-related compensation.

The Group adopts various compensation structures as relevant to different job roles and functions within the organization. For most staff, compensation comprises base salary with bonus or performance-based incentives, as appropriate. The remuneration packages of employees in a sales function consist of a base pay and commission, bonus or performance-based incentives as appropriate.

Under the Employee Ownership Scheme ("EOS"), selected employees or directors of the Group (the "Selected Grantees") were awarded shares of the Company. Following management's recommendation, a total of 1,788,000 shares were granted to the Selected Grantees during the year subject to various terms. 1,498,000 shares were vested for key management personnel in 2019. As at 31 December 2019, the outstanding award shares under the EOS (excluding shares awarded but subsequently forfeited) amounted to 3,195,000 shares.

The Group values its people as our greatest asset. We believe that a competent and motivated workforce is integral to the sustainable growth of our business. In line with our business strategies and ongoing development, the Group supports employees' professional development and life-long learning in cooperation with their managers by providing sponsorship for their training and development programs in areas such as compliance, regulatory matters, management skills, practical job skills and personal development.

Relevant Laws and Regulations

The Group is committed to complying with laws and regulations that govern our businesses. As the Group's holding company is incorporated in Hong Kong, we are under the jurisdiction of Hong Kong. As a listed company, we abide by the Listing Rules of the Hong Kong Stock Exchange and Securities and Futures Ordinance of Hong Kong Law.

The Group has built strong compliance culture over the years since our establishment as a brokerage firm five decades ago. The Board and its committees may make recommendations to the Group in relation to relevant codes and practice guides in pursuing business integrity and the results are reviewed regularly. A variety of trainings on regulations and compliance matters are also provided internally or through professional institutions.

With establishing the fund management business, the Group strengthened our compliance framework to protect the interests of investors. In the first quarter of 2020, approval for the licensed fund management platform was received from regulators. Additional third-party compliance consultants and fund administrators were contracted to conduct extensive compliance work for the funds.

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.

OUR AWARDS AND RECOGNITION

2018-2019	The Listed Enterprise Excellence Award – Financial Performance *Capital Weekly*
2018-2019	Listed Enterprises of the Year *Bloomberg Businessweek/Chinese Edition*
2019	Corporate Governance, Social Responsibility and Investor Relations – Titanium Award
2013-2018	Excellence in Management and Corporate Governance - Gold Award *The Asset*
2018-2019	Listed Company Awards of Excellence Hong Kong Economic Journal

2019	League of American Communications Professionals LLC (LACP) Awards for Annual Report 2018 • Silver Award • Top 80 Chinese Reports of 2018 • Technical Achievement Award • Outstanding Production Values
	Asian Excellence Award *Corporate Governance Asia*
2016-2019	• 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)
2019	ARC Awards for Annual Report 2018 • Bronze Award for Traditional Annual Report (Financial Services – General)
2016-2020	Caring Company

RISK MANAGEMENT AND PRINCIPAL RISKS IDENTIFICATION

The Risk Management Framework and Process

The Group adopts a comprehensive risk management framework. Risk management policies and procedures are regularly reviewed and updated by the Board to react to changes in market and the Group's business strategy. Risk Management Committee of the Board ("Risk Committee"), a standing committee reporting to the Board, acts to oversee the Group's risk management and monitors internal control systems. The Risk Committee considers the principal risks by identifying the nature and extent of significant risks and ensures critical judgements and decisions on risk control are taken. The internal control framework and strategy are reviewed by the Risk Committee and initiatives are actioned through each tier of the Group to examine the effectiveness of our risk identification and risk control methods. Internal audit is carried out continuously to examine risk management and internal control.

Identifying Principal and Emerging Risks

The Risk Committee identifies the principal risks by considering an array of aspects such as business strategy, financial position, the operating environment of the Group and external risk factors including economic conditions and major regulations and government policies. Relevant risks identified by our peers, individual research reports and market standards are considered to determine our principal risks. The principal risks of the Group are reviewed and updated by the Risk Committee annually, with a focus on identifying those risks that could threaten the business development, operational and financial performance, the Group's treasury management and the liquidity and credit management.

Emerging risks affiliated to principal risks are also monitored regularly to assess any potential impact on the Group and to determine whether any actions are required. Emerging risks include those related to regulatory and legislative changes, macroeconomic and political changes and other factors. The Risk Committee has identified political unrest in Hong Kong, the Sino-US trade war and the COVID – 19 coronavirus to be key emerging risks.

Principal Risks of the Group

In 2019, the Group identified the following principal risks and major risk control initiatives were carried out as set out below:

Strategic and Business Risks

The risk of failing to deliver on our strategic objectives resulting in a negative impact on financial performance and profitability

Impact	*Key Controls*	*Emerging Risks/Risks Movements in 2019*
Principal Risk 1: Loss or missed opportunity as a result of major external changes		
Lowering economic growth of China and Hong Kong could have an adverse impact on the profitability of businesses.	Continuous monitoring of the economic situation and credit risk. Conservative lending policy.	The ongoing Sino-US trade war had some impact on the credit quality of consumer finance loans in China. Further, social unrest in Hong Kong affected business activity in the second half of the year. After the end of the financial year, the outbreak of coronavirus has impacted the business environment.
Tightened regulations by authorities on consumer finance may impact the Group's consumer finance business.	Ongoing monitoring of the regulatory environment.	The risk exposure was unchanged during the year.
Hong Kong's social unrest impacted the Group's businesses operating in HK.	Closely monitoring the situation to respond as appropriate.	The risk emerged in the second half of 2019.

Principal Risk 2: Failure to deliver the Group's business strategy

The Group has been transforming its business since 2015. Since then, the Group launched two new businesses (Mortgage Loans business and Investment Management) and continued to enhance other businesses. The failure to execute strategy may result in the Group underperforming targets.	The Group maintains a disciplined approach to strategy rollout.	This risk level reduced due to stabilization of the Mortgage Loans business and progress in Investments. Further the UAF business continues to grow in a competitive market.
Limited growth opportunities and competition in lending impacts the Company's performance.	Deep management expertise and understanding of markets.	The risk had no material movement in the year. Management continues to observe market developments such as virtual banks in Hong Kong.

Financial Risks (Market, Credit and Liquidity risk)

The risk of an adverse impact on the Group due to market fluctuations, counterparty failure or having insufficient resources to meet financial obligations

Impact	*Key Controls*	*Emerging Risks/ Risks Movements in the Current Year*
Principal Risk 1: Investment loss as a result of adverse market fluctuations		
Volatility in macroeconomic and microeconomic factors leads to changes in the mark-to-market value of investment assets.	Disciplined investment process and risk management monitoring controls	There was no material change during the year. Financial markets have been volatile in the early part of 2020.
Volatility in interest rates potentially narrows the interest spreads of the Group's financing business and reduces its profitability.	Manage diversified funding sources and ability to reprice assets.	Market rates fluctuated during the year. Refinanced and extended maturity of medium term notes ("MTNs").
Principal Risk 2: Investment loss as a result of change in exchange rate		
Volatility in currencies leads to changes in value of the Group's assets and liabilities and, to the extent that these are unhedged, may impact on the financial performance of the Group.	Robust hedging thresholds and monitoring.	The risk had no movements in the year. As the majority of the Group's assets and investments were dominated in HK dollars and US dollars, the risk exposure was relatively low. Exposure to other currencies are largely hedged.

Principal Risk 3: Loss as a result of exposure to a failed counterparty		
The Group's financing businesses relies on the credit quality of borrowers. Credit deterioration jeopardises the Group's profitability.	Conduct careful credit management and approval policies. Where appropriate, use credit data bases and technology.	The credit risk of the Financing business in China improved during the year. The risk emerged in the Hong Kong market due to social unrest. In 2020 the coronavirus outbreak has disrupted markets.
The Group uses derivatives to hedge risks. By entering these derivatives, the Group is exposed to counterparty credit risk.	The Group deals with high credit quality counterparties and manages exposures within limits.	The risk exposure was unchanged during the year.
Principal Risk 4: Failure to meet the Group's financial obligations due to lack of liquidity		
A failure to manage assets and liabilities could result in the Group failing to meet its payment obligations as they fall due.	Treasury manages a variety of funding sources and maintains appropriate levels of liquid assets as a liquidity buffer.	The Group refinanced and extended maturity of MTNs and refinanced other credit facilities.
Potential lack of liquidity in the Group's investments portfolio.	The liquidity and expected realization of investments is continuously monitored. Prior to making new investments, the Group carefully considers the monetization plans for existing investments.	Liquidity of investment portfolio improved during the year as a result of distributions received and this is expected to continue in 2020.

Operational Risks

The risk of loss or missed opportunity, resulting from a regulatory or legislative failure or inadequate or failed internal processes, people or systems

Impact	*Key Controls*	*Emerging Risks/ Risks Movements in the Current Year*
Principal Risk 1: Loss of a "key person" and inability to recruit into key roles		
Loss of a key employee to the Group could impair the Group's ability to deliver its strategic objectives as planned if that role is not filled in a timely manner.	Key roles are identified, and backup plans are in place. The Group is focused on improving human resources management to offer an attractive working environment and benefits to key staff.	The risk exposure was unchanged during the year.
Principal Risk 2: Negative financial or reputational impact arising from regulatory or legislative failing		
Adverse regulatory change could impact the ability of the Group to deliver its strategy such as deploying capital, raising new funds.	Closely monitor the changes on regulatory and governmental policies.	The risk exposure was unchanged during the year.

Principal Risk 3: Loss arising from failure of internal control process		
Failure of internal control procedures.	Clear segregation of duties and responsibilities; conduct reviews and internal audit regularly.	The risk exposure was unchanged during the year.
Principal Risk 4: Technology/information security inadequate or fails to adapt to changing business requirements or external threats		
Failure to manage technology or data resulting in system outage or confidential information leak.	Regularly monitor systems and data. Test system security and continually upgrade system.	The Group upgraded infrastructure and cyber security during the year.
Principal Risk 5: Loss or missed opportunities arising from failure of key business processes, including valuations and external reporting		
Failure of business processes resulting in significant business disruption, financial or reputational damage.	Contingency planning and testing.	The Group improved its contingency planning and upgraded infrastructure during the year.
Principal Risk 6: Loss or reputation damage arising from a failure to ensure financial statements are materially accurate/timely and in line with legislative requirements		
Failure to maintain adequate processes and internal controls over financial reporting and related disclosure which could result in losses, regulatory penalties or other claims.	Control processes are in place to ensure that financial reporting processes are identified, documented and monitored. The effectiveness of controls is monitored by management and internal audit with oversight from the Risk Committee and the Audit Committee of the Board.	The risk exposure was unchanged during the year.

The Group acknowledges that no regulatory and governmental policy changes during the year brought to the Group's attention had a high probability of impairing business operations, financial and investment performance as well as business plans.

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 independence. 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 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), 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 2019, 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 2019 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 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 the Directors and Senior Management" of the Directors' Report.

Board Process

As at the date of this report, the Non-Executive Directors ("NEDs") (four 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 (the "Shareholders").

Throughout the year and up to the date of this report, at least one of the Independent Non-Executive Directors ("INEDs") has 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, Remuneration Committee, Audit Committee, Risk Management Committee and the general meeting of the Company during the year ended 31 December 2019 are set out as follows:

	Number of meetings attended/held				
Name of Directors	**Board**	**Remuneration Committee**	**Audit Committee**	**Risk Management Committee**	**General Meeting**
Executive Directors:					
Lee Seng Huang	4/4				1/1
Simon Chow Wing Charn	4/4			6/7	1/1
Non-Executive Directors:					
Peter Anthony Curry	4/4		3/3		1/1
Jonathan Andrew Cimino	4/4				1/1
Independent Non-Executive Directors:					
Evan Au Yang Chi Chun	4/4	2/2	3/3		0/1
David Craig Bartlett	3/4	2/2	3/3		1/1
Alan Stephen Jones	4/4	2/2	3/3		1/1
Jacqueline Alee Leung	4/4	2/2	3/3		1/1
Peter Wong Man Kong *(deceased on 11 March 2019)*		1/1			

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 such 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") also stipulate that save for the exceptions as provided therein, a Director shall abstain from voting on the relevant Board 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 relevant 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. Directors will be continuously updated on major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices. 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

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:

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)*	N/A	N/A

^ 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 Investment Management ("IM") business with support from the Managing Director of IM, 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 significant 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.

Every newly appointed Director, will receive an induction package from the Company Secretary on the responsibilities and ongoing obligations to be observed by a Director pursuant to the Companies Ordinance, Listing Rules and Securities and Futures Ordinance. The package will also include materials briefly describing the operations and business of the Company, 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) were 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 and educational background, knowledge, professional experience or skills; 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 2019 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. 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 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.

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 2019, no Nomination Committee meeting was held. The committee dealt with matters by way of circulation of written resolutions. The works performed by the Nomination Committee in 2019 and up to the date of this report are summarised as follows:

(i) reviewed the structure, size, composition and diversity of the Board;
(ii) assessed the independence of the INEDs; and
(iii) reviewed the proposed re-election of Directors at the 2019 AGM and 2020 AGM, with a recommendation to the Board for proposal to the Shareholders for approval at each meeting.

Remuneration Committee

The Remuneration Committee has been established since April 1985 and 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. 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 must be in a position to 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 2019 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 2019 is summarised as follows:

(i) reviewed the existing policy and structure for the remuneration of Directors;
(ii) considered the proposal for a compensation review carried out by an independent professional consultant for reviewing remuneration policy, structure, benchmarking and quantum of remuneration for Executive Directors;
(iii) 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 two Executive Directors commencing from January 2019;
(iv) reviewed the bonuses for the year ended 31 December 2018 for the two Executive Directors, with a recommendation to the Board for approval; and
(v) reviewed the remuneration of all Directors (including the NEDs and INEDs), with a note to the Board that the Director's fee of all Directors and annual consultancy fees of the INEDs and a NED remained unchanged since January 2019.

Each Director will be entitled to a Director's fee. Further remuneration payable to Directors (including any consultancy fees to the INEDs or NED) 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 in the Management Discussion and Analysis of this Annual Report.

After the end of the reporting period, a Remuneration Committee meeting was held in March 2020 to review the summary compensation report which includes the information provided by an 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 (where appropriate) by the Board:

(i) the payment of discretionary bonuses for the year 2019 to the two Executive Directors:
   – HK$49,000,000 in cash to Mr. Lee Seng Huang ("Mr. Lee"); and
   – HK$5,500,000 in cash to Mr. Simon Chow Wing Charn ("Mr. Chow").
(ii) the monthly salary for both Mr. Lee and Mr. Chow from January 2020 remains unchanged;
(iii) an increase of 10% to the consultancy fee of the four INEDs and Mr. Peter Anthony Curry, a NED, commencing from the year 2020; and
(iv) the annual directors' fee to all Directors remains unchanged.

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 at the date of this report 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 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 2019 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 2019 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 2019 and the final audit of the Group for the year ended 31 December 2019;
(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 2018 and 2019;
(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 2019;
(iv) reviewed the financial reports of the Company for the years ended 31 December 2018 and 2019, and for the six months ended 30 June 2019, 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 2020 internal audit plans.

Executive Committee

The Executive Committee (the "Exco") has been established since November 1983 and at the date of this report 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 within the overall strategy of the Group as determined by the Board.

Risk Management Committee

The Risk Management Committee (the "RMC") has been established since January 2007. As at the date of this report, it consists of the Group Chief Financial Officer ("Group CFO"), an Executive Director, Managing Director of Investment Management ("IM") 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 not limited to, financial, operational and compliance controls and risk management functions; and
(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. Seven meetings of the RMC of the Company were held in 2019 and meetings were held in January, March, April, May, July and November 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 IM business, UAF and Sun Hung Kai Credit and Operations;
(v) review and assessment of the completed responsibility statements from the relevant business units and department heads regarding their risk management, compliance and internal control procedures for the financial years ended 31 December 2018 and 2019;
(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;
(viii) review of proposed upgrade of systems for IM business;
(ix) review of the terms of reference of the RMC;
(x) review of the risk management framework and process of the Group and identification of principal risks by considering an array of aspects such as business strategy, financial position, the operating environment of the Group and external risk factors including economic conditions and major regulations and government policies; and
(xi) review of risks/business impact of social unrest and coronavirus outbreak.

Risk Management and Internal Control

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

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

The Group's risk management culture is critical to the effectiveness of the risk management framework. The principal risks are determined through a consideration of the strategy, external risk factors, the operating environment of the Group including risks identified by our peers, and an analysis of individual processes and procedures.

The review of the Group's principal risks focuses on identifying those risks that could threaten the business model, future performance, capital or liquidity of the business. In identifying these risks, consideration is given to external developments, regulatory expectations and market standards. Our focus also includes strategic and business risk, financial risk and operational risk.

Emerging risks are regularly considered to assess any potential impact on the Group and to determine whether any actions are required. Emerging risks include those related to regulatory/legislative change and macroeconomic and political change, which in the current year have included social unrest in Hong Kong, US-China trade war and coronavirus outbreak.

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 "Risk Management and Principal Risks Identification" section in this Annual Report and in Note 47 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 and the Audit Committee, 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, the 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.

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 2019, 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	3.7
Non-audit services (taxation and other professional services)	1.6
Total	5.3

Disclosure of Inside Information Policy

The Board has adopted the Disclosure of Inside Information Policy (the "Policy") effective on 1 January 2013 with respect to the procedures and internal controls for the handling and dissemination of inside information. The 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 2019, 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 to 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 2019 AGM was held on 23 May 2019 and seven out of eight Directors attended the meeting. For details of the Directors' attendance at the general meeting, 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 June 2014, November 2016 and November 2019. 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, 30 March 2020

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Sustainability: Our Philosophy and Approach

At Sun Hung Kai & Co. Limited, we believe that the responsibility of delivering long-term, sustainable value to our shareholders also comes with a responsibility to recognise that the choices we make will have an impact on the communities where we carry on our business. This mindset drives our increasing focus on Environmental, Social and Governance ("ESG") issues. Not merely a matter of regulatory compliance, but we are committed to do our part for the sustainable development of society and believe that our efforts on ESG issues magnify the Company's value in the places we operate.

We have adopted a Sustainability Policy (the "Policy") (enacted in 2016) that covers our principles in environmental and social issues. We strive to follow these principles and directives of the Policy in the areas of environmental impact, energy usage, talent retention, workplace and benefits enhancement, supply chain management, data privacy, business integrity and community engagement. Overall stewardship and direction of sustainability issues is provided by the board of directors of the Company ("the Board"), 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.

The priorities are set based on the views of the Board and relevant stakeholders at each tier of the businesses. In 2019, the Board reviewed the results of the ESG initiatives implemented by the Group as well as the updates to the "Environmental, Social and Governance Reporting Guide" (the "ESG Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Upon completing its review, the Board recommended updating the Policy with the aim to meet or exceed the evolving global standard. The Board also agreed to adopt practice guidelines and Key Performance Indicators ("KPIs") for the Group to apply quantitative reporting approach in relation to environmental issues such as greenhouse gas emissions, ideally involving third party assessment in the 2020 report.

This report outlines the Group's sustainability initiatives and selected KPIs that are material to the Group and its stakeholders on ESG issues for the year ended 31 December 2019. This report supplements information disclosed in the annual report 2019 and will also be published on websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.shkco.com).

This report was prepared in accordance with the ESG Guide. Unless otherwise stated, the information in this report covers the operations of the following units and their subsidiaries in Hong Kong and Mainland China for the year ended 31 December 2019:

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

Confirmation and Approval

This report is compiled according to the data and information obtained within the Company and its subsidiaries. The Group's internal control and formal review process are in place to ensure that any information presented in this report is as accurate and reliable as possible. The report has been reviewed and approved by the Board on 30 March 2020.

Opinion and Feedback

Stakeholder opinions are conducive to the continuous improvement of the Group's ESG performance. The Group conducts stakeholder surveys within the Group and from suppliers outside the Group to collect stakeholder's opinions on significance of ESG KPIs and its relevance to the business of the Group. If you have any questions or suggestions regarding the content or format of this report, please contact us at:

Address: Sun Hung Kai & Co. Limited
42/F., Lee Garden One, 33 Hysan Avenue
Causeway Bay, Hong Kong
Tel: (852) 3748 2823
Email: investor.relations@shkco.com

Environmental Initiatives

The Group's updated Policy encompasses our general approach towards environmental issues. We endeavour at a minimum to:

- Observe relevant laws and regulations and aim to go beyond minimum requirements.
- Directly prevent or minimise pollutants and greenhouse gas emissions, discharges into water and onto 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.
- Engage our staff, customers and partners to promote sustainable business practices and constantly re-assess our processes to improve our environmental sustainability performance.

At SHK & Co., our direct environmental impact is limited by the fact that our businesses operate from offices and branches, and we are not directly involved in the manufacturing or construction activities. Certain KPIs regarding environmental disclosure are not considered relevant or are immaterial to the Group's operations. However, we are adopting a quantitative approach and have set up data collection on usage of public utilities as well as kilometers travelled by company vehicles. We have voluntarily broadened our disclosure fields to allow the Group's environmental initiatives to have baseline data for comparison in future years.

Disclosure of environmental KPIs

	Unit	2019
Greenhouse Gas Emissions from mobile combustion sources (scope 1B) (CO_2 equivalent emissions)	kilograms	1,621,950
Greenhouse Gas Emissions from energy indirect emissions (scope 2) (CO_2 equivalent emissions)	kilograms	13,262,110
PM emissions from vehicles	grams	3,035
SOx emission from vehicles	grams	8,967
NOx emission from vehicles	grams	488,370
Water consumption[1]	cubic metre	6,852
Water intensity per employee[1]	cubic metre/ employee	3
Electricity consumption	KWh	3,767,731
Electricity intensity per employee	KWh/employee	1,625
Paper consumption[1]	pages	17,719,121
Paper intensity per employee[1]	pages/employee	7,830
Paper intensity per customer[1]	pages/customer	83

1. Data covers consumption within head offices and branches of UAF and Sun Hung Kai Credit

Energy-saving Efforts

A critical component to environmental stewardship is tracking and minimising energy and resource use, especially of those that can have climate-warming effects. Upon examination, we found that the vast majority of the energy usage and emissions attributable to the Group comes from the physical branch operations of the Group's subsidiary, UAF. We see a positive trend in this area as this company's business was increasingly moving online. In addition to expand their reach and efficiency, the number of physical branches in Mainland China continued to reduce, dropping from 46 to 30 in 2019. In addition to the positive impact of this evolution on the business's profitability, it has also helped reduce the overall environmental impact of the Group's business.

The remainder of the Group's businesses, including the head office of SHK & Co., have established a series of energy and resource conservation initiatives. The Group encourages employees to utilise teleconference solutions in place of business travel to reduce emissions. Our headquarters office is located in a Final Platinum certified building under Hong Kong's BEAM Plus Existing Buildings Certification (Commercial Building) for the green management. The lighting and electrical appliances in the head office area are managed to minimise energy consumption. Several signs and labels have been placed next to electrical switches, sinks and electronic devices to remind users to save energy.

In Hong Kong, UAF has also 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 addition, practical guidance and measures for energy saving is communicated through the UAF Group's internal circular to encourage minimising energy consumption in both head office and branches.

Effective Usage of Resources

The Group is well aware that there is always more that can be done to protect the environment. We are committed to continuing our efforts in improving our environmental performance through timely and regular review of our initiatives and watching trends in the industry. We also seek to work with third parties in green projects in the future.

The Group aims to carefully manage our use of paper, plastic products and electronic devices to minimise waste, recycle when possible, and reduce our environmental impact. At SHK & Co. corporate offices, we continued to push toward a paper-free office by launching an employee self-service (ESS) system which enabled employee procedures like leave and expense reimbursement be completed online.

During 2019, SHK & Co. head office moved to increase the use of online banking and payment approaches to reduce the volume of paper and cheques. Electronic board papers have been implemented since 2013, improving Board efficiency while reducing waste. Our annual reports were printed on wood-free paper and lower "gsm" (grams per square meter). New designs were adopted to enhance readability while reducing the overall number of pages. The Company continues to encourage investors to read soft copies of communication documents by distributing the same through a wide-range channels to make them readily accessible. The Group also actively participates in recycling schemes for old computers, printers, and toner cartridges, and joined one of the biggest green campaigns in Hong Kong ("Enough Plastic") last year to encourage employees to reduce consumption of plastic products. Donations were also directed to the organisations in efforts of promoting the campaign and reducing plastic wastes in Hong Kong. Through these coordinated and consistent programs, we hope to minimise our impact on the environment while we grow our businesses.

In Hong Kong, UAF was the first market player to launch a "No Show" personal loan product which enables customers to conduct loan applications by telephone, removing the paper document approval process. Increasingly, paper usage is being reduced with more use of online or mobile loan application channels. For instance, at UAF (which accounts for the largest proportion of the Group's transactions), 49% of new loans by the number of accounts were originated through these electronic channels in 2019. Since 2016, paper statements have been 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 System ("DMS"), a web-based application system which facilitates the storage, retrieval and management of documents, is used extensively by UAF and Sun Hung Kai Credit, 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 documents can be viewed on screen.

In addition, an electronic platform is used by UAF and Sun Hung Kai Credit for internal administration and effective communication with all staff at head office and our extensive branch network. Staff can easily access company internal circulars, employee handbook, relevant company policies, lending guidelines, as well as e-learning materials. In addition, customised HR information system has been implemented by UAF and Sun Hung Kai Credit for leave application/monitoring, staff performance review and employee profile management. The online e-platform enables staff to complete online enrolment for training/staff activities and evaluation surveys to replace paper usage in connection with such activities.

Retaining Talent

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

- Observe relevant laws and regulations.
- Be 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.
- Provide a safe, healthy and quality workplace and protecting employees from occupational hazards.
- Promote a good work-life balance for staff.
- Invest in training and professional development of our staff for the purpose of improving their knowledge and skills for discharging duties at work.
- Maintaining an open dialogue with our staff, facilitating a transparent two-way communication.
- Prevent child labour and forced labour through inspection of identification documents. The relevant staff will be terminated immediately if there is any child labour and forced labour.

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

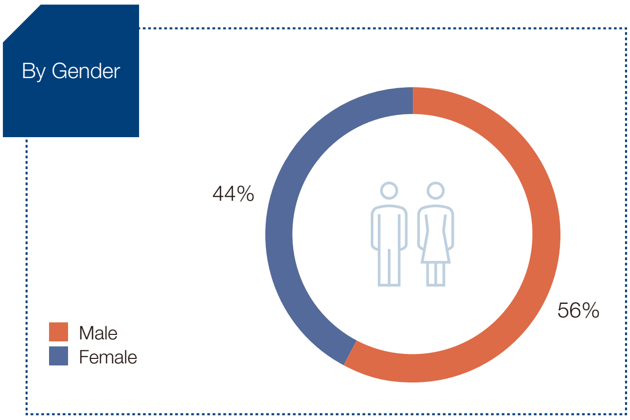
The Group puts a major focus on our employee's compensation and working environment. The core belief of our human resources is that when our employees are trusted with more freedom and flexibility, they will respond with a deeper ownership of their jobs which will result in more creativity, care and productivity. Our staff are in demand, so our compensation and benefits (including working hours, rest periods and staff welfare) must be competitive with our peers in the financial services sector and hence far exceed the minimum required by the relevant laws. In 2019, several new and existing programmes made progress toward the Group's goal of promoting flexibility at work and internal mobility. At the head office, we launched unlimited paid leave scheme in December 2018, with the aim to help employees focus on producing exceptional results through better control over their work-life balance. These innovations address the trend we have seen in recent years, with growing demand for flexibility from employers on leave and working remotely when situations like public exigencies and family emergencies occurred. The Group has invested in the technology infrastructure and office systems to enable working remotely and on flexible schedules.

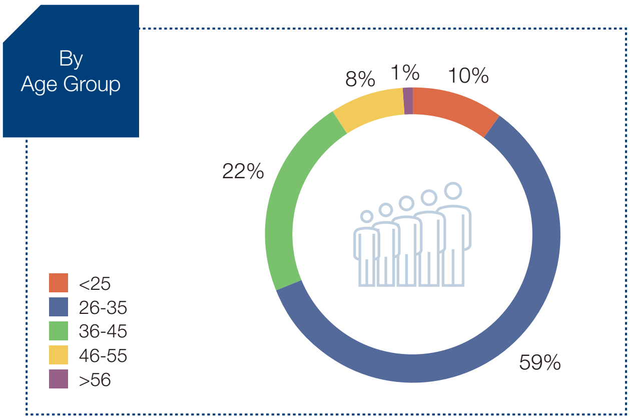
Owing to the nature of our businesses, work-related injuries, occupational health issues and the incurrence of child labour are not significant risk factors. Further information on the Group's human resources is also detailed in the "Management Discussion and Analysis" section of this Annual Report. During the year under review, there were no work-related fatalities and minimal days lost due to work-related injury.

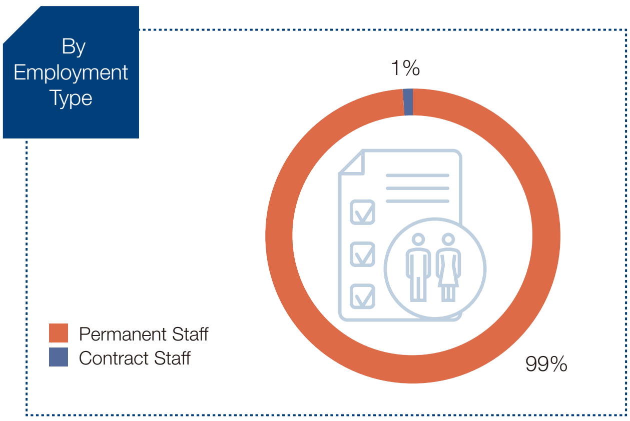
At UAF, various company teams are sponsored and organised for community service. Staff magazines are published by UAF to share company, industry and staff news and to promote internal communication. Newsletters are also circulated by SHK & Co. to employees of the Group and external stakeholders to share with them the Company's achievements and milestones.

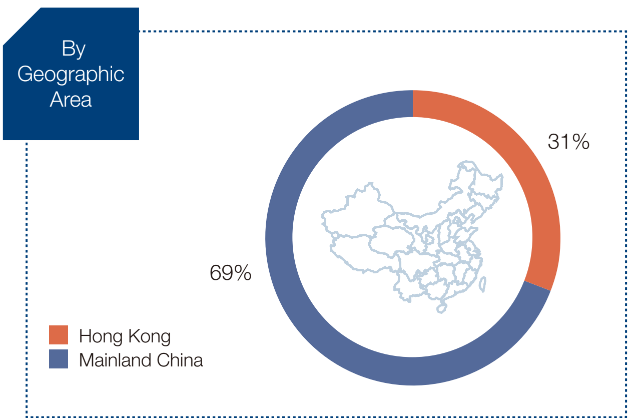
As at 31 December 2019, the Group employed a total of 2,318 staff, compared to 2,719 at the end of 2018 as UAF consolidated its consumer finance branches in Mainland China and increased its online presence. Staff turnover ratio also increased as a result of the closure of UAF's branches in Mainland China.

Staff Breakdown (2019)

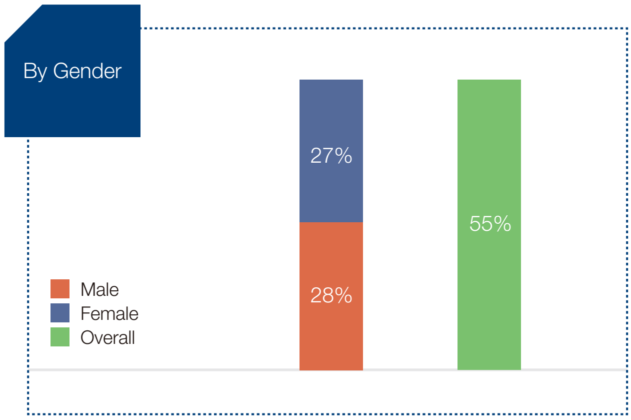


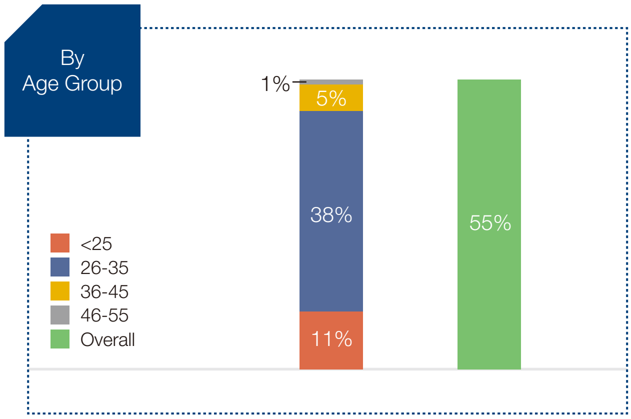


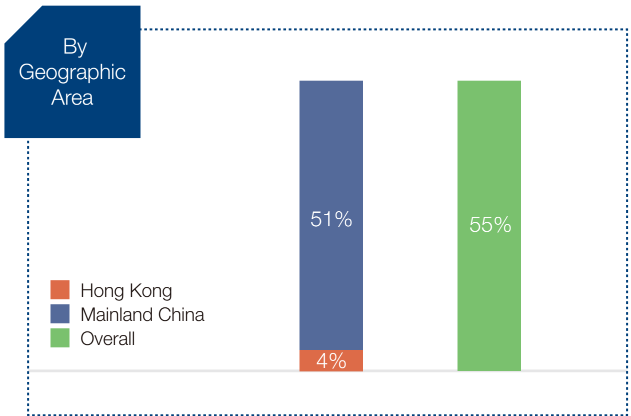




Staff Retention Analysis^ (2019):







^ Calculated as follows: number of permanent staff who left during the year divided by the average total number of staff employed by the Group over the same timeframe.

Note: In 2019, the majority of the staff departures were due to the closure of UAF branches in Mainland China.

Human Resources and sustainability related awards:

- Caring Company Award 2016-2020 (SHK & Co.); 2005-2020 (UAF)
- Good MPF Employer Award 2014-2019 (SHK&Co.)
- ERB Manpower Developer Award Scheme 2012-2022 (UAF)
- Social Capital Builder Award 2016-2022 (UAF)
- Partner Employer Award 2016-2020 (UAF)
- The Hong Kong Corporate Citizenship Logo – Enterprise Category 2016-2020 (UAF)
- The Hong Kong Corporate Citizenship Logo – Volunteer Category 2016-2020 (UAF)
- Environmental Bureau – The Charter on External Lighting Award Ceremony 2016-2020 (UAF)
- Hong Kong Green Organization Certification – Wastewise Certificate 2016-2020 (UAF)
- Happy Company 2016-2020 (UAF)
- Good Employer Charter 2018-2020 (UAF)
- Racial Diversity & Inclusion Charter 2019 –2020 (UAF)
- Family-Friendly Employers Award 2017–2019 (UAF)
- Volunteer Movement Participating Organization (UAF)

Employee Development and Training

The Group is committed to fostering a culture of continuous learning in our organisation. Our primary focus is on staff training which is meant to equip our workforce with the necessary knowledge and skills relevant to their work, as well as to expand skill sets in our talent pool. As most employees working at head office are experts from different specialties, the training policy at head office promotes lifelong self-development. Employees are encouraged to plan their own training schedules and have flexibility in choosing the sources. To further encourage ongoing learning and development, the Group included training in employee performance appraisal and goal setting procedures in 2019. Employees are also encouraged to engage in life-long learning beyond their professional scope as well to better equip themselves for achieving outstanding performance and maintaining intellectual curiosity.

At UAF, management is involved, together with in-house experts and external professional trainers, in designing training programmes that meet the demands of the workplace. Training content and topics are set to cover the key aspects of its operations. These include:

Compliance and regulatory – general compliance, market and regulatory updates, prevention of bribery, bankruptcy laws, data privacy, the Money Lenders Ordinance as well as anti-money laundering policy and counter-terrorist financing.

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

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

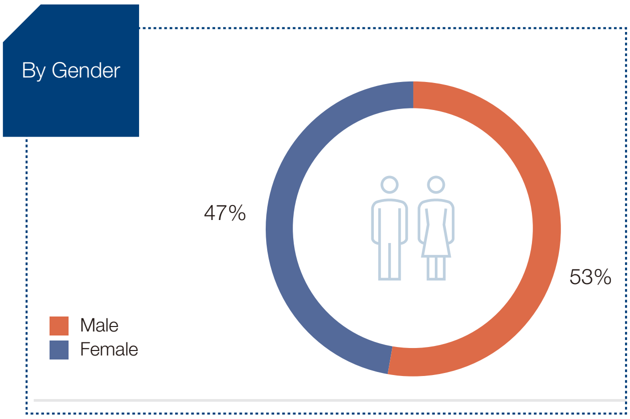
UAF has a comprehensive graduate training programme to train talented university graduates for future advancement to the management team. The 25-month program provides training on their knowledge and skill sets for the consumer finance industry.

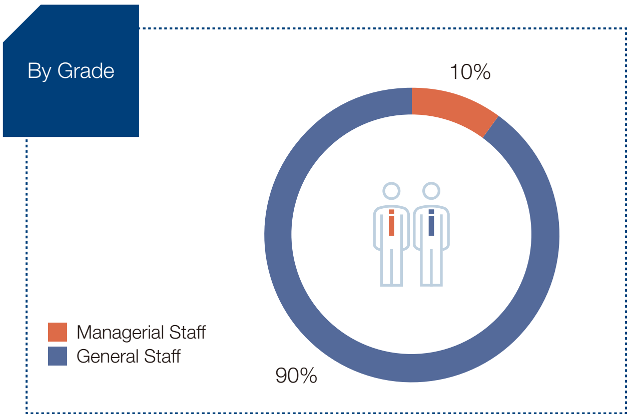
On top of internal training, UAF also provides a study subsidy for staff to advance their education outside of office hours. UAF Hong Kong has received the honour of “Manpower Developer” from the Employees Retraining Board every year since 2012.

The Group emphases not only employee training for current positions, but also skill development to enable internal mobility among business functions. As the business expands and evolves, opportunities arise within the Group and enabling the staff to train outside their current function enables the Group to retain key talent.

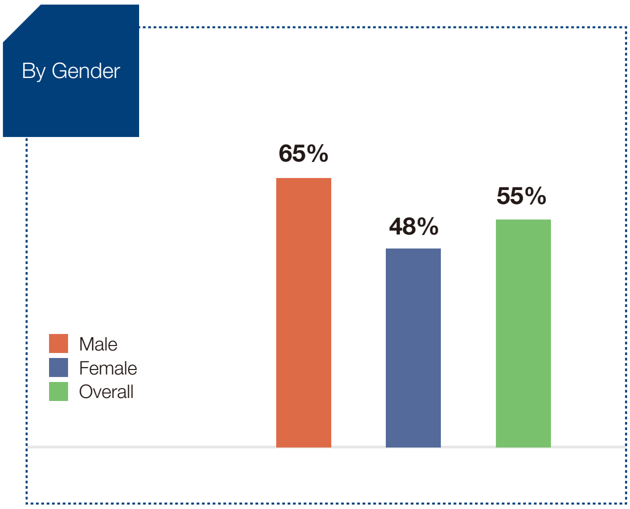
Staff training across the Group amounted to a total of 14,390 hours in total during the year.

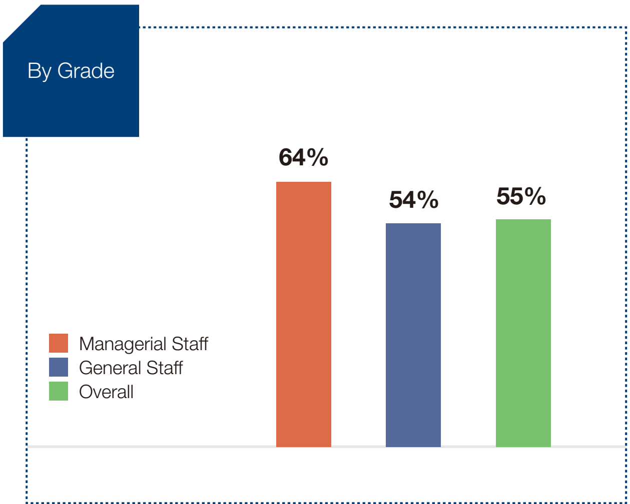
Training Hours Breakdown (2019)

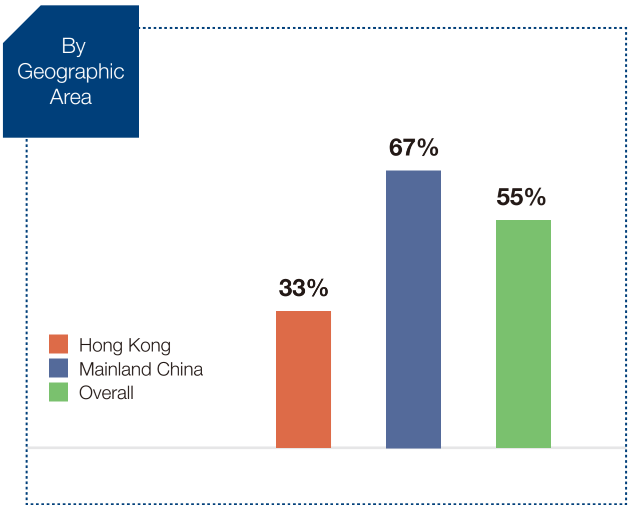




Percentage of Staff Who Received Training







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, delivery time as well as the general reputation and experience 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 2019, 67 of such agents were engaged by the businesses in Hong Kong and Mainland China. 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 retain control over the collection process. Under the Code of Conduct, the agents shall not:

- sub-contract, delegate the whole or any part of their duties under the debt service agreement with UAF and Sun Hung Kai Credit;
- violate 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 2019, the number of complaints received on debt collection was minimal, less than 0.01% of the UAF's customer base. We understand that this is a very low ratio by industry standards. Over the years, UAF maintained its leading role in terms of market share in non-bank sector in Hong Kong as a result of its strong market position.

Product Responsibility

The Group provides loan products to individuals and businesses in Hong Kong, Mainland China and elsewhere. These include private credit extended to corporates under SHK & Co., consumer finance loans through UAF, as well as mortgage loans through Sun Hung Kai Credit.

In Hong Kong, all the relevant loan businesses operate under the Money Lenders Ordinance ("MLO"), being licensed money lenders. In Mainland China, UAF's operations follow the regional guidelines announced by the provincial governments under the Guiding Opinions ("Guiding Opinions") of the China Banking Regulatory Commission and the People's Bank of China ("PBOC") on the Pilot Operation of Small Loan Companies as well as the Special Rectification Documents of their special working group on cash loans, internet loans and P2P loans "關於規範整頓現金貸業務的通知", "關於印發小額貸款公司網絡小額貸款業務風險專項整治實施方案的通知(網貸整治辦函[2017]56號)" and "關於做好P2P網絡借貸風險專項整治整改驗收工作的通知(網貸整治辦函[2017]57號". During the year, there were no known cases of non-compliance with the above laws or regulations.

In Hong Kong, the MLO focuses on borrowers' rights as well as lenders' practices. UAF, as a founding member of the HKSAR Licensed Money Lenders Association Limited ("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 subsidiaries of SHK & Co., UAF and Sun Hung Kai Credit. The Code is a comprehensive framework of market practices and standards, developed based on the Hong Kong Monetary Authority's guidelines to banks, in the various aspects such as customer relationships, know-your-customer, anti-money laundering, credit evaluation, collection and recovery and data privacy. UAF is on the executive committee of LMLA and leads the task force for regular review of the Code. UAF also holds regular dialogues with the Companies Registry (which reviews the licensing matters of money lenders) to discuss best practices and industry trends.

Across the Group, we had approximately 214,000 customers as at 31 December 2019 and the majority of which are from the UAF business in Hong Kong and Mainland China. As a market leader in Hong Kong, UAF runs an extensive advertising and promotion campaign. Customer relationship programs such as "member-get-members" and bonus point schemes are in place. Customers can access UAF's loan services through our extensive branch network, phone application as well as on-line means in Hong Kong such as E-cash Revolving Loans or the mobile app. The Group places a very high priority to uphold customers data privacy. Measures and clear guidelines are in place and observed to ensure customers' data are protected against unauthorised or accidental access, processing or erasure. Appropriate levels of security protection were implemented by adequate physical, electronic and managerial measures to safeguard customers' personal data. In addition, all Hong Kong staff of UAF are required to complete a Personal Data (Privacy) Ordinance e-learning course.

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

Data Privacy

The Group has established its Privacy Policy to ensure measures of data privacy protection are incorporated into its business practices. The Staff Handbook emphasises that employees are responsible for maintaining the confidentiality of sensitive information. In the course of the data collection process, the Group provides persons concerned with a Personal Data Collection Statement, informing them of the purposes of collection, classes of persons to whom the data may be transferred, their rights to access and correct the data, and other relevant information. The Group is dedicated to achieving an appropriate level of data security by restricting access and incorporating security measures for data storage. In addition, disclosure of personal data to any third parties without explicit permission, unless required by law, is not allowed.

Intellectual Property Protection

The Group respects intellectual property rights. Employees are not allowed to possess or use copyrighted materials, including computer software and published materials, without the permission of the copyright owners. The Information Technology Department carries out a regular inspection of employees' computers to assure only legitimate and genuine software is installed. During the year, the Group was not aware of any material non-compliance of laws and regulations that have a significant impact on the Group relating to product responsibility, including the Personal Data (Privacy) Ordinance, and Copyright Ordinance of Hong Kong.

Anti-Corruption Practice

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

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

All relevant staff in Hong Kong are required to complete Anti-Money Laundering & Counter-Terrorist Financing e-learning courses. Key staff from several business functions have attended AML/CTF risk awareness training in 2019. The Group received no complaints or legal cases in relation to corruption during the year.

Community Involvement

We strive to excel for our customers and be a good corporate citizen contributing to the communities in which we carry on our business by encouraging our staff to enrol in charity and social services.

The Group has a long history of participation in volunteering activities to serve our communities. UAF was named a "Caring Company" by the Hong Kong Council of Social Service for 14 consecutive years and SHK & Co. was also named the same for 5 consecutive years. SHK & Co. headoffice employees actively participated in and supported the Charity Walk organised by The Community Chest of Hong Kong. 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. During 2019, UAF had a total of 86 volunteer members and served a total of 1,140 hours in various community activities.

The key activities of UAF in 2019 included the following:

- Po Leung Kuk: Nostalgic Time with Elderly
- Po Leung Kuk: Jogging with Elderly
- St. James Settlement: Happy Summer Holiday with Children
- St. James Settlement: Coffee Grounds Soap with Elderly
- St. James Settlement: Elderly Home Visit
- St. James Settlement: Go Run Together Charity Run 2019
- Hong Kong Family Service Centre: Cookery Challenge with Children

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

Industry Organisations and NGO Participation

Role of Company/ Senior Management	Organisation
SHK & Co.	
Committee Member	The Chamber of Hong Kong Listed Companies Committee Member
Corporate Member	The Malaysian Chamber of Commerce (Hong Kong and Macau) Ltd.
Corporate Member	The Hong Kong Investor Relations Association
Corporate Member and Board Member	The Australian Chamber of Commerce in Hong Kong
Committee Member	The Listing Committee of The Stock Exchange of Hong Kong Limited
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	Dalian Microcredit Association
Director	Nanning Mirco-credit Industry Association
Director	Guangxi Mirco-credit Company Association
Member	Chengdu Microfinance Association
Member	Chongqing Microcredit Association
Member	Chongqing Association of Enterprises with Foreign Investment
Member	Sichuan Association of Microcredit
Member	Beijing Microfinance Industry Association
Member	Liaoning Micro-credit Company Association
Member	Hubei Micro-credit Company Association
Member	Shanghai Association of Micro-Credit
Member	The Chamber of Commerce of Beicai Town, Pudong, Shanghai
Member	Qingdao Micro-Credit Cooperation Development Association
Member	Shandong Micro-Credit Association
Member	Shenyang Micro-Credit Association
Member	Wuhan Association of Microfinance
Member	Shenzhen Internet Finance Association
Member	Liaoning Area Financing Guarantee Association

The Group's total charitable donations during the year amounted to approximately HK$4.5 million, benefiting causes for education, environmental protection, health, charity services for the underprivileged, sailing training for underrepresented youths in Hong Kong and arts activities.

The Group has a vision to build a sailing legacy in Hong Kong and support youth development through sport, as we believe sailing helps nurture important qualities such as resilience, discipline, teamwork and leadership. With the mission of making sailing more accessible for the under-represented youth in Hong Kong, we launched the Sun Hung Kai Scallywag Foundation in May 2019 to offer free introductory courses and provide on-water training on sailing skills. Students keen to pursue sailing further will be considered for scholarships. Since its foundation, through collaboration of our programme partners and the Sun Hung Kai Scallywag sailing team, over 100 young sailors have been trained under the programme and we saw our initial groups of sailors obtain Hong Kong Sailing Federation level 2 certification by year end.

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, Hong Kong's professional offshore sailing 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.

In addition, the Sun Hung Kai & Co. Foundation (the "Foundation"), sponsored by the Company, also served as a platform for the Group and its business associates and partners to support our community, with a focus on improving the lives of the underprivileged. The Foundation's principal interests are in the areas of improving living conditions and supporting personal development for the underprivileged people, sponsoring education and community activities. During the year, the Foundation contributed to Orbis who are focused on reducing blindness in developing countries. It also supported deserving students to pursue prestigious higher education through our sponsorship of the Scholarship Scheme of Harvard University and introduced world-class performances to the local community through our primary sponsorship of Alice Sara Ott's piano recital in Hong Kong.

Looking forward, we will continue to devote our time, resources and capital to fostering a stronger and sustainable society. Sponsored by the Company, the Foundation is an independently registered charity in Hong Kong.

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DIRECTORS' REPORT

The board of directors of the Company (the "Board") are pleased to present the 2019 annual report ("Annual Report") and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019.

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 24 and 25 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 2019 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", the section of "Risk Management and Principal Risks Identification" and "Environmental, Social and Governance Report" of this Annual Report.

Results and Dividends

The results of the Group for the year ended 31 December 2019 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 2019. The Directors has declared a second interim dividend of HK14 cents per share for the year ended 31 December 2019 to the shareholders whose names appear on the register of members of the Company on 29 April 2020, making a total dividend for the year 2019 of HK26 cents per share. Dividend warrants of the second interim dividend are expected to be despatched on 13 May 2020.

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$4.5 million.

Share Capital and Shares Issued

Details of the movements in share capital of the Company during the year are set out in Note 42 to the consolidated financial statements.

Debentures

The Group had the following debentures in issue as at 31 December 2019:

– US$249,768,000 4.75% Guaranteed Notes due May 2021 (the "2021 Notes") under the US$3,000,000,000 Guaranteed Medium Term Note Programme (the "MTN Programme"). The 2021 Notes were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in June 2016 (stock code: 5654). The issuer of this programme is Sun Hung Kai & Co. (BVI) Limited ("SHK BVI", a company incorporated in the British Virgin Islands and a direct wholly–owned subsidiary of the Company).

– US$445,186,000 4.65% Guaranteed Notes due September 2022 (the "2022 Notes") issued by SHK BVI under the MTN Programme. The 2022 Notes were listed on the Stock Exchange in September 2017 (stock code: 5267).

– During the year, US$111,871,000 in the principal amount of 2021 Notes and US$104,814,000 in the principal amount of 2022 Notes were purchased and redeemed by the Company by a tender offer (the "Notes Repurchase") and were cancelled on 15 November 2019.

– US$350,000,000 5.75% Guaranteed Notes due November 2024 (the "2024 Notes") were issued by SHK BVI on 15 November 2019 under the MTN Programme for partial settlement of the Notes Repurchase. The 2024 Notes were listed on the Stock Exchange in November 2019 (stock code: 40065).

– 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 a total of HK$427,000,000 principal amount of commercial paper (the "Commercial Paper") were issued by SHK ECP under the CP Programme during the year. The Commercial Paper was issued for general corporate purposes of the Group.

For further details of the abovementioned issued Guaranteed Notes and Commercial Paper, please refer to Note 41 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 2019 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 51 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
Jonathan Andrew Cimino

Independent Non-Executive Directors ("INEDs")

Evan Au Yang Chi Chun
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, Messrs. Lee Seng Huang, David Craig Bartlett and Jonathan Andrew Cimino, 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 45, 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. Mr. Lee was previously the non-executive chairman of Aveo Group Limited (resigned on 29 November 2019), a company which was listed on the Australian Securities Exchange until it was privatized and delisted in December 2019. 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. Mr. Lee is also a director of United Asia Finance Limited ("UAF"), a subsidiary of the Company and also the Deputy Chairman of Everbright Sun Hung Kai Company Limited ("EBSHK"), an associate of the Company.

Simon Chow Wing Charn, aged 65, was appointed as an Executive Director 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 and EBSHK, an associate of the Company.

Non-Executive Directors

Peter Anthony Curry, aged 67, was appointed as an Executive Director 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 and as a non-executive director of Air Change International Limited on 3 October 2019, a company listed on The National Stock Exchange of Australia Limited.

Jonathan Andrew Cimino, aged 67, was appointed as a Non-Executive Director 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 privatization 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. 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 48, was appointed as an Independent Non-Executive Director 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 54, was appointed as an Independent Non-Executive Director 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 England, 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 77, was appointed as an Independent Non-Executive Director 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 the 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 59, was appointed as an Independent Non-Executive Director 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 Hong Kong Special Administrative Region 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. Ms. Leung is also a member of the Exchange Fund Advisory Committee (EFAC) Financial Infrastructure Sub-Committee of the Hong Kong Monetary Authority and 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 79, 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 50, joined the Company as Group Chief Financial Officer in September 2018. He has 30 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 47, 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. Ms. Li has been appointed as a member of the Listing Committee of the Stock Exchange since 5 July 2019. 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.

Benjamin John Falloon

Managing Director, Investment Management

Mr. Falloon, aged 49, joined the Company as the Managing Director, Principal Investments (now known as Investment Management) in June 2018. Mr. Falloon has over 20 years of experience in Investment Banking in Asia, primarily in Fixed Income. Prior to joining the Company, he was the Managing Director, Head of Fixed Income Asia Pacific at Morgan Stanley from March 2014 to March 2017. Before that, Mr. Falloon was the Managing Director, Head of Fixed Income Sales & Structuring at Morgan Stanley from September 2008. During his time at Morgan Stanley, Mr. Falloon was a member of the Global Fixed Income Operating Committee, the Asia Pacific Executive Committee, a Director of Morgan Stanley Asia Limited and the Chairman of Morgan Stanley Bank International (China) Limited. Prior to his role at Morgan Stanley, Mr. Falloon ran emerging market sales at Credit Suisse across Asia. Mr. Falloon holds a Bachelor of Commerce degree from the University of Otago.

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 2019, 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)*	1,244,782,575 *(Note 2)*	62.26%
Simon Chow Wing Charn ("Mr. Chow")	Beneficial owner	2,031,000 *(Note 3a)*	0.1%
	Beneficial owner	2 *(Note 3b)*	N/A
Peter Anthony Curry	Beneficial owner	1,241,141	0.06%

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 referred to the deemed interests in 1,244,782,575 Shares held by APL.
3. (a) These included 1,498,000 Shares granted to Mr. Chow under the SHK Employee Ownership Scheme ("EOS") that were vested, became unrestricted and the title of which was transferred to him during the year.
   (b) This represented 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.

(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 13 February 2020.
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 referred to the same interests held directly or indirectly by AGL in APL.
4. This referred 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 referred to the same interests held indirectly by AGL in SHK HK Ind.
6. This referred to the interests in 3,082,889,606 shares of SHK HK Ind.

All interests stated above represent long positions. As at 31 December 2019, 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 2019, 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 to 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 1,788,000 Shares (2018: 3,189,000 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 2,526,000 Shares (2018: 533,000 Shares) were vested during the year.

Since its adoption, a total of 21,376,000 Shares have been awarded up to the date of this report, representing about 1.27% of the total number of Shares in issue as at the Adoption Date. As at 31 December 2019, the outstanding awarded but unvested Shares under the EOS amounted to 3,195,000 Shares.

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 2019, 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)*	1,244,782,575 *(Note 2)*	62.26%
AGL	Interests of controlled corporation *(Note 3)*	1,244,782,575 *(Note 4)*	62.26%
Lee and Lee Trust	Interests of controlled corporation *(Note 5)*	1,244,782,575 *(Note 4)*	62.26%
Dubai Ventures LLC ("Dubai Ventures")	Beneficial owner	166,000,000 *(Note 6)*	8.30%
Dubai Ventures Group LLC ("DVG")	Interests of controlled corporation (Note 7)	166,000,000 *(Note 8)*	8.30%
Dubai Group LLC ("Dubai Group")	Interests of controlled corporation *(Note 9)*	166,000,000 *(Note 8)*	8.30%
Dubai Holding Investments Group LLC ("DHIG")	Interests of controlled corporation *(Note 10)*	166,000,000 *(Note 8)*	8.30%
Dubai Holding LLC ("Dubai Holding")	Interests of controlled corporation *(Note 11)*	166,000,000 *(Note 8)*	8.30%
Dubai Group 2024 Limited ("DG 2024")	Interests of controlled corporation *(Note 12)*	166,000,000 *(Note 8)*	8.30%
Dubai Group Limited ("DGL")	Interests of controlled corporation *(Note 13)*	166,000,000 *(Note 8)*	8.30%
HSBC Trustee (C.I.) Limited ("HSBC Trustee")	Trustee *(Note 14)*	166,000,000 *(Note 8)*	8.30%
HH Mohammed Bin Rashid Al Maktoum	Interests of controlled corporation *(Note 15)*	166,000,000 *(Note 8)*	8.30%
Asia Financial Services Company Limited ("AFSC")	Beneficial owner	196,600,000 *(Note 16)*	9.79%
Asia Financial Services Holdings Limited ("AFSH")	Interests of controlled corporation *(Note 17)*	196,600,000 *(Note 18)*	9.79%
Asia Financial Services Group Limited ("AFSG")	Interests of controlled corporation *(Note 19)*	196,600,000 *(Note 18)*	9.79%
Asia Financial Services Group Holdings Limited ("AFSGH")	Interests of controlled corporation *(Note 20)*	196,600,000 *(Note 18)*	9.79%
CVC Capital Partners Asia Pacific III L.P. ("CVC LP")	Interests of controlled corporation *(Note 21)*	196,600,000 *(Note 18)*	9.79%
CVC Capital Partners Asia III Limited ("CVC Capital III")	Interests of controlled corporation *(Note 22)*	196,600,000 *(Note 18)*	9.79%

DIRECTORS' REPORT

Name of Shareholders	Capacity	Number of Shares and underlying Shares	Approximate % of the total number of issued Shares
CVC Capital Partners Finance Limited (“CVC Capital Partners Finance”)	Interests of controlled corporation *(Note 23)*	196,600,000 *(Note 18)*	9.79%
CVC Group Holdings L.P. (“CVC Group Holdings”)	Interests of controlled corporation *(Note 24)*	196,600,000 *(Note 18)*	9.79%
CVC Portfolio Holdings Limited (“CVC Portfolio”)	Interests of controlled corporation *(Note 25)*	196,600,000 *(Note 18)*	9.79%
CVC Management Holdings Limited (“CVC Management”)	Interests of controlled corporation *(Note 26)*	196,600,000 *(Note 18)*	9.79%
CVC MMXII Limited (“CVC MMXII”)	Interests of controlled corporation *(Note 27)*	196,600,000 *(Note 18)*	9.79%
CVC Capital Partners 2013 PCC (acting in respect of its protected cell, CVC Capital Partners Cell H PC) (“CVC Capital Partners 2013”)	Interests of controlled corporation *(Note 28)*	196,600,000 *(Note 18)*	9.79%
CVC Capital Partners SICAV-FIS S.A. (“CVC Capital Partners SA”)	Interests of controlled corporation *(Note 29)*	196,600,000 *(Note 18)*	9.79%
Everbright Sun Hung Kai Structured Solutions Limited (“EBSHK Structured Solutions”)	Entity having a security interest in shares *(Note 30)*	196,600,000 *(Note 31)*	9.79%
Sun Hung Kai Financial Group Limited (“SHKFG”)	Interests of controlled corporation *(Note 32)*	196,600,000 *(Note 33)*	9.79%
Everbright Securities Financial Holdings Limited (“ESFH”)	Interests of controlled corporation *(Note 34)*	196,600,000 *(Note 33)*	9.79%
Everbright Securities Company Limited (“ESCL”)	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 represented an interest in 1,244,782,575 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 referred to the same deemed interests in 1,244,782,575 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 represented 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 referred 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% interest in DHIG and was therefore deemed to have an interest in the Shares in which DHIG was interested.
12. DG 2024 owned 49% interest in Dubai Group and was therefore deemed to have an interest in the Share in which Dubai Group was interested.
13. DGL owned 100% interest in DG 2024 and was therefore deemed to have an interest in the Shares in which DG 2024 was interested.
14. HSBC Trustee owned 100% interest in DGL and was therefore deemed to have an interest in the Shares in which DGL was interested.
15. HH Mohammed Bin Rashid Al Maktoum owned 99% interest in Dubai Holding and was therefore deemed to have an interest in the Shares in which Dubai Holding was interested.
16. This represented an interest in 196,600,000 Shares.
17. AFSH held 100% interest in AFSC and was therefore deemed to have an interest in the Shares in which AFSC was interested.
18. This referred to the same interests in 196,600,000 Shares held by AFSC.
19. AFSG owned 99.06% interest in AFSH and was therefore deemed to have an interest in the Shares in which AFSH was interested.
20. AFSGH held 100% interest in AFSG and was therefore deemed to have an interest in the Shares in which AFSG was interested.
21. CVC LP owned 88% interest in AFSGH and was therefore deemed to have an interest in the Shares in which AFSGH was interested.
22. 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.
23. CVC Capital Partners Finance 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.
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 represented 196,600,000 Shares held by AFSC which were pledged in favour of EBSHK Structured Solutions for a term loan facility.
31. This represented an interest in 196,600,000 Shares.
32. SHKFG, through its wholly-owned subsidiary Everbright Sun Hung Kai Company Limited, owned 100% interest in EBSHK Structured Solutions and was therefore deemed to have an interest in the Shares in which EBSHK Structured Solutions was interested.
33. This referred to the same interest in 196,600,000 Shares held by EBSHK Structured Solutions.
34. ESFH owned 70% interest in SHKFG and was therefore deemed to have an interest in the Shares in which SHKFG was interested.
35. ESCL owned 100% interest in ESFH and was therefore deemed to have an interest in the Shares in which ESFH was interested.

All interests stated above represent long positions. As at 31 December 2019, no short positions were recorded in the SFO Register of the Company.

Save as disclosed above, as at 31 December 2019, the Directors were 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, 2017 and 2018, a renewed sharing of management services agreement (the "2017 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 2017 Sharing of Management Services Agreement for the year ended 31 December 2019 was HK$16.94 million, which was within the annual cap of HK$29.0 million as set for such financial year.

Subsequently, as disclosed in the announcement of the Company dated 2 January 2020, the 2017 Sharing of Management Services Agreement was further renewed on the same date for a term of three years commencing from 1 January 2020 to 31 December 2022 and the relevant annual cap for each of the three financial years ending 31 December 2020, 2021 and 2022 were set at HK$28 million, HK$30.8 million and HK$33.9 million respectively (the "2020 Sharing of Management Services Agreement"). Pursuant to the Listing Rules, details of the continuing connected transactions under the 2020 Sharing of Management Services Agreement shall be disclosed in the next published annual report of the Company.

(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 reports for 2017 and 2018 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 2019 was HK$25.50 million which was within the annual cap of HK$29.62 million as set for such financial year.

2.2 Sub-tenancy Agreement

As disclosed in the announcements dated 31 March 2017 and 29 November 2017 and the annual reports for 2017 and 2018 of the Company, UAF (an indirect non wholly-owned subsidiary of the Company) entered into a renewed sub-tenancy agreement (the "2017 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 2017 Sub-tenancy Agreement for each of the two years ended 31 December 2017 and 2018 and for the three months period ended 31 March 2019 were HK$281,000, HK$290,000 and HK$73,000 respectively.

The total aggregate amount paid to AGL under the 2017 Sub–tenancy Agreement for the three months ended 31 March 2019 were HK$72,300 which was within the aggregate maximum amount of HK$73,000 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 2017 Sharing of Management Services Agreement, the 2018 Master Lease Agreement and the 2017 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 2019 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 Messrs. Evan Au Yang Chi Chun, David Craig Bartlett and 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.

Details of the particulars of the related party transactions or continuing related party transactions (as the case may be), including specification of any connected transactions or continuing connected transactions and the compliance with the disclosure requirements in accordance with Chapter 14A of the Listing Rules are disclosed in Note 38 to the consolidated financial statements under the heading of "Related Party Transactions".

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group are set out in Note 35 to the consolidated financial statements.

Subsidiaries

Particulars regarding the principal subsidiaries are set out in Note 24 to the consolidated financial statements.

Corporate Governance

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

Directors' Interests in Transactions, Arrangements or Contracts

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

Management Contracts

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

Terms of Office for the Non-Executive Directors

All 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 investments in listed and unlisted 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

(1) Repurchase of Shares

During the year ended 31 December 2019, the Company repurchased a total of 9,177,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$32,930,180. All the repurchased Shares were subsequently cancelled. The Directors believe that the repurchases of shares would lead to an enhancement of the net assets value per Share and/or earnings per Share of the Company.

Particulars of the repurchases are as follows:

Month	Number of Shares repurchased	Purchase price Highest *(HK$)*	Purchase price Lowest *(HK$)*	Aggregate consideration (before expenses) *(HK$)*
January	–	–	–	–
February	–	–	–	–
March	2,100,000	3.85	3.81	8,045,480
April	–	–	–	–
May	1,028,000	3.70	3.67	3,798,760
June	2,288,000	3.65	3.50	8,213,220
July	–	–	–	–
August	730,000	3.35	3.30	2,433,070
September	1,270,000	3.39	3.28	4,282,010
October	145,000	3.37	3.33	485,480
November	855,000	3.45	3.40	2,943,360
December	761,000	3.72	3.39	2,728,800
	9,177,000			32,930,180

(2) Repurchase and redemption of Guaranteed Notes of a subsidiary, SHK BVI

During the year, US$111,871,000 in the principal amount of 4.75% Guaranteed Notes due May 2021 under the US$3,000,000,000 MTN Programme and US$104,814,000 in the principal amount of 4.65% Guaranteed Notes due September 2022 issued by SHK BVI under the MTN Programme were purchased and redeemed by the Company (the "Notes Repurchase") by a tender offer and were cancelled on 15 November 2019. Details of the Notes Repurchase were disclosed in the Company's announcements dated 5 November 2019, 14 November 2019 and 17 November 2019 respectively.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's or its subsidiaries' listed securities during the year ended 31 December 2019.

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, 30 March 2020

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

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

Opinion

We have audited the consolidated financial statements of Sun Hung Kai & Co. Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 79 to 156, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments classified as level 3 under fair value hierarchy	
We identified the valuation of financial instruments classified as level 3 under the fair value hierarchy ("Level 3 financial instruments") as a key audit matter due to the degree of complexity involved in valuing the instruments and the significance of the judgements and estimates made by management. In particular, the determination of unobservable inputs is considerably more subjective given the lack of availability of market-based data. At 31 December 2019, HK$8,805.8 million of the Group's total financial assets (including financial assets at fair value through other comprehensive income of HK$8.5 million and financial assets at fair value through profit or loss of HK$8,797.3 million) and HK$18.2 million of the Group's total financial liabilities carried at fair value were classified as level 3 under fair value hierarchy. These mainly 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 and other investments with carrying amount at 31 December 2019 of HK$1,387.0 million, HK$778.7 million, HK$6,292.7 million and HK$338.9 million, respectively.	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 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 specialists, as appropriate: • Evaluating the appropriateness of the methodologies and valuation techniques used by management for Level 3 financial instruments; and • Assessing the reasonableness and relevance of key assumptions and inputs based on our industry knowledge; – In respect of the unlisted put right for shares in an associate and unlisted overseas equity securities with a put right for shares, in addition to the above procedures, testing the mathematical accuracy of the valuation model with the assistance of our internal valuation specialists; – In respect of the unlisted overseas investment funds, checking the net asset value against financial information provided by the fund managers or fund administrators on a sample basis, as appropriate; and – Assessing the adequacy of the Group's fair value disclosures including the valuation techniques, fair value hierarchy and other related disclosures in note 27 to the consolidated financial statements.

Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of goodwill and intangible assets with indefinite useful lives	
We have identified the 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 22 and 21 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 23 to the consolidated financial statements.	Our procedures in relation to the estimated impairment of goodwill and intangible assets with indefinite useful lives included: – Obtaining an understanding of the valuation methodology and the processes with respect to the valuation of the recoverable amount (which represents the value in use) of UAF; – Evaluating the appropriateness of the valuation methodology and the models used by management, with the assistance of our internal valuation specialists; – 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 the current year and future years; – Assessing the reasonableness of other key inputs used by management (e.g. sustainable growth rate and discount rate) based on our knowledge of the business and industry, with the assistance of our internal valuation specialists; 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 25 to the consolidated financial statements, the Group has a 30% equity interest in Sun Hung Kai Financial Group Limited ("SHKFGL"), which is an interest in an associate. At 31 December 2019, the net carrying amount of the interest in SHKFGL is HK$976.0 million, after impairment of HK$641.8 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 11b 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 discounted expected future cash flows of SHKFGL.	Our procedures in relation to the estimated impairment of interest in an associate included: – Obtaining an understanding of the valuation methodology and the processes applied by management with respect to the valuation of the recoverable amount of the 30% equity interest in SHKFGL; – Evaluating the appropriateness of the valuation methodology and the models used by management with the assistance of our internal valuation specialists; – Assessing the reasonableness of key assumptions and inputs (e.g. cash flows, discount rate) used by management based on our knowledge of the business and industry, with the assistance of our internal valuation specialists; and – Testing the mathematical accuracy of the discounted cash flow calculations.

Key Audit Matters *(Continued)*

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"))	
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 ECL. As disclosed in notes 30, 31 and 32 to the consolidated financial statements, the Group has loans and advances to consumer finance customers of HK$10,413.5 million, after recognising an impairment allowance of HK$707.8 million, mortgage loans of HK$3,626.9 million, after recognising an impairment allowance of HK$21.7 million and term loans of HK$1,906.2 million, after recognising an impairment allowance of HK$311.4 million, as at 31 December 2019. 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, 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. 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 an 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 amount and timing of future cash flows, guarantees, value of the 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: – Understanding the approach applied in the determination of ECL for loans and advances to consumer finance customers, mortgage loans and term loans; – Understanding key controls over the way in which management estimates impairment for loans and advances to consumer finance customers, mortgage loans and term loans; – 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 used 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 specialists; – Assessing the appropriateness of the inputs and assumptions applied in the determination of ECL for term loans, including probability of default, loss given default and forward-looking information, with the assistance of our internal specialists; – Reviewing the Group's historical loss experience;

Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
	– Assessing the reasonableness and appropriateness of 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 one of the three stages required by HKFRS 9 by examining loan exposures on a sample basis to evaluate if there has been timely identification of significant increase in credit risk and appropriate classification of loan exposures into one of the three stages required by HKFRS 9; – Testing the mathematical accuracy of the calculation of ECL; – 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 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 of loans and advances to consumer finance customers, mortgage loans and term loans in notes 30, 31, 32 and 47 to the consolidated financial statements.

Other Information

The directors of the Company are responsible for the other information. 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 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

30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

(HK$ Million)	Notes	2019	2018
Interest income		**4,125.1**	4,070.0
Other revenue	5	**91.7**	105.7
Other gains	7	**14.5**	408.9
Total income		**4,231.3**	4,584.6
Brokerage and commission expenses		**(43.9)**	(50.5)
Advertising and promotion expenses		**(147.3)**	(159.2)
Direct cost and operating expenses		**(104.2)**	(89.5)
Administrative expenses	11	**(1,152.1)**	(1,167.2)
Net gain on financial assets and liabilities at fair value through profit or loss	12	**1,807.7**	234.4
Net exchange gain		**82.5**	14.2
Net impairment losses on financial instruments	13	**(1,024.4)**	(901.7)
Finance costs	14	**(777.7)**	(666.8)
Other losses	11	**(179.0)**	(1.6)
		2,692.9	1,796.7
Share of results of associates		**48.6**	30.8
Share of results of joint ventures		**1.9**	3.8
Profit before taxation	11	**2,743.4**	1,831.3
Taxation	15	**(228.8)**	(220.7)
Profit for the year		**2,514.6**	1,610.6
Profit attributable to:			
— Owners of the Company		**2,085.2**	1,183.8
— Non-controlling interests	24	**429.4**	426.8
		2,514.6	1,610.6
Earnings per share	17		
— Basic (HK cents)		**104.4**	56.2
— Diluted (HK cents)		**104.2**	56.1

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

(HK$ Million)	2019	2018
Profit for the year	**2,514.6**	1,610.6
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	**(13.9)**	(110.3)
	(13.9)	(110.3)
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translating foreign operations	**(113.7)**	(335.8)
Reclassification adjustment to profit or loss on disposal of joint ventures	**–**	2.8
Share of other comprehensive income (expenses) of associates	**4.2**	(0.8)
Share of other comprehensive expenses of joint ventures	**(3.5)**	(3.2)
	(113.0)	(337.0)
Other comprehensive expenses for the year	**(126.9)**	(447.3)
Total comprehensive income for the year	**2,387.7**	1,163.3
Total comprehensive income attributable to:		
— Owners of the Company	**1,997.3**	876.7
— Non-controlling interests	**390.4**	286.6
	2,387.7	1,163.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

(HK$ Million)	Notes	31/12/2019	31/12/2018
Non-current Assets			
Investment properties	18	**1,312.5**	1,360.9
Leasehold interests in land		**–**	4.0
Property and equipment	19	**377.2**	412.1
Right-of-use assets	20	**125.5**	–
Intangible assets	21	**893.2**	890.2
Goodwill	22	**2,384.0**	2,384.0
Interest in associates	25	**1,196.1**	1,380.4
Interest in joint ventures	26	**445.5**	240.2
Financial assets at fair value through other comprehensive income	27	**129.5**	174.4
Financial assets at fair value through profit or loss	27	**7,687.2**	6,360.9
Deferred tax assets	28	**780.0**	729.9
Amounts due from associates	29	**261.3**	266.7
Loans and advances to consumer finance customers	30	**2,770.5**	2,618.9
Mortgage loans	31	**1,270.7**	1,956.8
Term loans	32	**49.6**	33.1
Trade receivables, prepayments and other receivables	33	**20.4**	22.9
		19,703.2	18,835.4
Current Assets			
Financial assets at fair value through profit or loss	27	**4,285.6**	4,378.6
Taxation recoverable		**3.7**	5.0
Amounts due from associates	29	**68.6**	97.1
Loans and advances to consumer finance customers	30	**7,643.0**	7,150.8
Mortgage loans	31	**2,356.2**	1,897.4
Term loans	32	**1,856.6**	2,452.1
Trade receivables, prepayments and other receivables	33	**466.8**	364.8
Amounts due from brokers		**451.7**	507.0
Short-term pledged bank deposits and bank balances	34	**33.2**	20.0
Bank deposits	34	**68.1**	353.5
Cash and cash equivalents	34	**5,624.9**	4,622.4
		22,858.4	21,848.7

(HK$ Million)	Notes	31/12/2019	31/12/2018
Current Liabilities			
Financial liabilities at fair value through profit or loss	27	**715.8**	425.3
Bank and other borrowings	35	**5,659.9**	5,221.3
Trade payables, other payables and accruals	36	**338.4**	236.9
Financial assets sold under repurchase agreements	37	**386.2**	1,216.5
Amounts due to fellow subsidiaries and a holding company	38	**35.3**	519.0
Amounts due to associates	38	**–**	1.9
Provisions	39	**152.9**	103.5
Taxation payable		**339.6**	175.7
Lease liabilities	40	**89.9**	–
Notes/paper payable	41	**569.5**	752.7
		8,287.5	8,652.8
Net Current Assets		**14,570.9**	13,195.9
Total Assets less Current Liabilities		**34,274.1**	32,031.3
Capital and Reserves			
Share capital	42	**8,752.3**	8,752.3
Reserves		**11,629.4**	10,286.9
Equity attributable to owners of the Company		**20,381.7**	19,039.2
Non-controlling interests	24	**3,194.9**	3,805.9
Total Equity		**23,576.6**	22,845.1
Non-current Liabilities			
Deferred tax liabilities	28	**143.0**	176.9
Bank and other borrowings	35	**2,497.2**	1,961.8
Provisions	39	**0.3**	0.2
Lease liabilities	40	**27.8**	–
Notes/paper payable	41	**8,029.2**	7,047.3
		10,697.5	9,186.2
		34,274.1	32,031.3

The consolidated financial statements on pages 79 to 156 were approved and authorised for issue by the Board of Directors on 30 March 2020 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 2019

(HK$ Million)	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Shares held for Employee Ownership Scheme	Employee share-based compensation reserve	Exchange reserve	Revaluation reserve	Capital reserves	Retained earnings	Total		
At 1 January 2019	**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**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**2,085.2**	**2,085.2**	**429.4**	**2,514.6**
Other comprehensive expenses for the year (Note 43)	**–**	**–**	**–**	**(72.5)**	**(15.4)**	**–**	**–**	**(87.9)**	**(39.0)**	**(126.9)**
Total comprehensive (expenses) income for the year	**–**	**–**	**–**	**(72.5)**	**(15.4)**	**–**	**2,085.2**	**1,997.3**	**390.4**	**2,387.7**
Transfer of revaluation reserve to retained earnings	**–**	**–**	**–**	**–**	**(19.1)**	**–**	**19.1**	**–**	**–**	**–**
Recognition of equity-settled share-based payments	**–**	**–**	**9.7**	**–**	**–**	**–**	**–**	**9.7**	**–**	**9.7**
Purchase of shares for the SHK Employee Ownership Scheme	**–**	**(4.7)**	**–**	**–**	**–**	**–**	**–**	**(4.7)**	**–**	**(4.7)**
Vesting of shares of the SHK Employee Ownership Scheme	**–**	**11.9**	**(11.9)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Interim dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(521.0)**	**(521.0)**	**–**	**(521.0)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(375.9)**	**(375.9)**
Capital redemption of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(106.0)**	**(106.0)**	**(625.5)**	**(731.5)**
Shares repurchased and cancelled	**–**	**–**	**–**	**–**	**–**	**–**	**(33.0)**	**(33.0)**	**–**	**(33.0)**
Unclaimed dividends forfeited	**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**	**–**	**0.2**
Transfer retained earnings to capital reserves	**–**	**–**	**–**	**–**	**–**	**7.3**	**(7.3)**	**–**	**–**	**–**
At 31 December 2019	**8,752.3**	**(22.5)**	**8.3**	**(360.1)**	**161.4**	**84.8**	**11,757.5**	**20,381.7**	**3,194.9**	**23,576.6**

(HK$ Million)	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Shares held for Employee Ownership Scheme	Employee share-based compensation reserve	Exchange reserve	Revaluation reserve	Capital reserves	Retained earnings	Total		
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 43)	–	–	–	(197.8)	(109.3)	–	–	(307.1)	(140.2)	(447.3)
Total comprehensive (expenses) income 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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(HK$ Million)	2019	2018
Operating activities		
Profit for the year	**2,514.6**	1,610.6
Adjustments for:		
– Share of results of associates	**(48.6)**	(30.8)
– Share of results of joint ventures	**(1.9)**	(3.8)
– Taxation	**228.8**	220.7
– Dividend income	**(10.8)**	(11.3)
– Interest income	**(4,125.1)**	(4,070.0)
– Profit on disposal of subsidiaries	**–**	(132.4)
– Loss on disposal of joint ventures	**–**	0.5
– Decrease (increase) in fair value of investment properties	**42.2**	(185.1)
– Expenses recognised for the SHK Employee Ownership Scheme	**9.7**	8.3
– Amortisation of leasehold interests in land	**–**	0.2
– Amortisation of intangible assets	**1.9**	1.9
– Depreciation of property and equipment	**45.9**	53.5
– Depreciation of right-of-use assets	**84.5**	–
– Net loss on disposal/write-off of equipment	**0.9**	1.1
– Charge (written back) of impairment in an associate	**135.9**	(66.7)
– Net impairment on financial instruments	**1,219.8**	1,098.9
– Interest expenses	**741.0**	637.8
– Interest on lease liabilities	**5.5**	–
– Net fair value gain on financial assets and liabilities	**(1,807.7)**	(179.0)
– Exchange differences	**1.4**	8.3
Operating cash flows before movements in working capital	**(962.0)**	(1,037.3)
Change in financial assets at fair value through profit or loss	**529.4**	1,232.6
Change in amounts due from associates	**28.3**	47.1
Change in loans and advances to consumer finance customers	**(1,691.7)**	(1,806.4)
Change in mortgage loans	**212.3**	(1,722.1)
Change in term loans	**465.5**	605.5
Change in trade receivables, prepayments and other receivables	**(149.0)**	(61.1)
Change in amounts due from brokers	**55.3**	218.9
Change in financial liabilities at fair value through profit or loss	**290.4**	264.1
Change in trade payables, other payables and accruals	**103.4**	1.6
Change in financial assets sold under repurchase agreements	**(830.3)**	145.5
Change in amounts due to a holding company	**(10.9)**	(5.1)
Change in provisions	**44.9**	13.4
Cash used in operations	**(1,914.4)**	(2,103.3)
Dividends received from equity investments	**10.8**	6.3
Interest received	**4,088.4**	4,008.6
Interest paid	**(667.3)**	(525.0)
Taxation paid	**(157.6)**	(270.4)
Net cash from operating activities	**1,359.9**	1,116.2

(HK$ Million)	2019	2018
Investing activities		
Purchase of property and equipment	**(13.5)**	(27.8)
Proceeds on disposal of equipment	**0.3**	0.3
Payment of deposits of right-of-use assets	**(3.2)**	–
Prepaid rental for right-of-use assets	**(13.4)**	–
Purchase of intangible assets	**(5.0)**	(10.1)
Proceeds on disposal of subsidiaries	**–**	70.0
Proceeds on disposal of joint ventures	**–**	3.2
Capital injection to a joint venture	**(207.0)**	(72.1)
Dividends received from associates	**99.2**	84.6
Purchase of long-term financial assets as at fair value through profit or loss	**(717.9)**	(1,326.0)
Proceeds on disposal of long-term financial assets as at fair value through profit or loss	**787.9**	621.9
Proceeds from disposal of financial assets at fair value through other comprehensive incomes	**6.1**	–
Net fixed deposits with banks withdrawal	**270.7**	390.7
Net cash from (used in) investing activities	**204.2**	(265.3)
Financing activities		
Short-term loans due to fellow subsidiaries (repaid) raised	**(481.6)**	388.7
Net short-term bank and other borrowings repaid	**(19,034.0)**	(12,590.2)
New long-term bank and other borrowings raised	**19,967.6**	16,018.8
Proceeds from issue of notes/paper	**3,989.8**	795.1
Redemption of notes/paper	**(1,718.9)**	(576.4)
Repayment of notes/paper	**(1,498.7)**	(616.5)
Purchase of shares for the SHK Employee Ownership Scheme	**(4.7)**	(24.8)
Lease payments	**(77.6)**	–
Shares repurchased and cancelled	**(33.0)**	(650.9)
Capital redemption of non-controlling interests	**(731.5)**	–
Dividends paid	**(521.0)**	(560.0)
Dividends to non-controlling interests	**(375.9)**	(417.9)
Net cash (used in) from financing activities	**(519.5)**	1,765.9
Net change in cash and cash equivalents	**1,044.6**	2,616.8
Cash and cash equivalents at 1 January	**4,622.4**	2,123.7
Effect of foreign exchange rate changes	**(42.1)**	(118.1)
Cash and cash equivalents at the end of the year (Note 34)	**5,624.9**	4,622.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 are the trustees of the 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 24.

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had 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 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected to apply a practical expedient as set out in HKFRS 16 to contracts that were previously identified as leases according to HKAS 17 or HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*. As a result, the Group will not apply these standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- elected not to recognise right-of-use assets and lease liabilities for leases where the lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- applied a single discount rate to a portfolio of leases with similar remaining terms for a similar class of underlying assets in a similar economic environment.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.6%.

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

New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

HKFRS 16 Leases *(Continued)*

As a lessee (Continued)

(HK$ Million)	At 1 January 2019
Operating lease commitments disclosed as at 31 December 2018	**182.8**
Less:	
Recognition exemption – short-term leases	**(42.2)**
Discounting effects using relevant incremental borrowing rates	**(5.5)**
Lease liabilities as at 1 January 2019	**135.1**
Analysed as	
– Current	**72.1**
– Non-current	**63.0**
	135.1

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

(HK$ Million)	Notes	Right-of-use assets
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		135.1
Reclassified from leasehold interests in land	(a)	4.1
Reclassified from rental prepayments	(b)	7.7
Amounts included in property and equipment under HKAS 17		
– Restoration and reinstatement costs	(c)	1.4
		148.3
By class:		
– Leasehold lands		4.1
– Retail shops		144.2
		148.3

Notes:

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$0.1 million and HK$4.0 million respectively were reclassified to right-of-use assets.

(b) Rental prepayments previously included in prepayments, deposits and other receivables amounting to HK$7.7 million were reclassified to right-of-use assets as at 1 January 2019.

(c) In relation to the leases of office properties where the Group acts as lessee, the carrying amount of the estimated costs of reinstating the rented premises previously included in property and equipment amounting to HK$1.4 million as at 1 January 2019 were included as right-of-use assets.

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 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company do not anticipate that the application of any of the new and amendments to HKFRSs will have a material impact on the consolidated financial statements in the foreseeable future.

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 by 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 that are measured at fair values at the end of each reporting period, 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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.

3. Significant Accounting Policies

(Continued)

(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.

– lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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.

3. Significant Accounting Policies
(Continued)

(d) Goodwill *(Continued)*

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. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non – controlling interests according to the Group's and the non-controlling interests' proportionate interests. 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 (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(f) Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing 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 of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. 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. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. 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 of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that 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. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture 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. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

3. Significant Accounting Policies

(Continued)

(g) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Effective 1 January 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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

(h) Property and equipment

Property and equipment are tangible assets that are held for use in the production or supply of goods or services or for administrative purposes. All property and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation commences when the assets are ready for their intended use.

Depreciation is calculated using the straight-line method to write off the cost of each asset less 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 estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 property, 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 or retirement are determined by comparing the disposal proceeds with the carrying amount and are included in profit or loss.

(i) Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in Note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

3. Significant Accounting Policies
(Continued)

(i) Leases *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2) *(Continued)*

Allocation of consideration to components of a contract (Continued)

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of its office properties, outlets and signboards that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use) and are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. Significant Accounting Policies

(Continued)

(i) Leases *(Continued)*

The Group as a lessee (prior to 1 January 2019)

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.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

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

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in Note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

(j) Intangible assets

(i) Club memberships

Represents the right to use the facilities of various clubs, with management considering that the club membership does not have a finite useful life.

(ii) Computer software

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

3. Significant Accounting Policies

(Continued)

(j) Intangible assets *(Continued)*

(iii) Intangible assets acquired in a business combination

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

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

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, 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. 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 (“FVTPL”)) 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 FVTPL 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

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.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting 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.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income 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.

3. Significant Accounting Policies
(Continued)

(k) Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

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 other comprehensive income 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 earnings.

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 and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (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 associates) and other items (loan commitments and financial guarantee contracts)which are subject to impairment under HKFRS 9.

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

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.

3. Significant Accounting Policies

(Continued)

(k) Financial instruments *(Continued)*

(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 (except for term loans where a longer period of "past due" has been applied by the directors of the Company in view of the nature of the operation of the business and practice in managing the credit risk), unless the Group has reasonable and 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 a 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 (except for term loans where a longer period of "past due" has been applied by the directors of the Company in view of the nature of the operation of the business and practice in managing the credit risk) 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; and
- death of the debtor.

(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;
(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.

3. Significant Accounting Policies

(Continued)

(k) Financial instruments *(Continued)*

(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 are recognised in profit or loss.

(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 following basis:

- Nature of financial instruments (i.e. the Group's trade receivables and other receivables, loans and advances to consumer finance customers and mortgage loans are each assessed by using provision matrix for the balances which are not individually significant, grouped by internal credit rating which is determined with reference the past-due status. Term loans, amounts due from associates and brokers are assessed for expected credit losses on an individual basis); 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 47.

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 financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

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.

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 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.

3. Significant Accounting Policies

(Continued)

(k) Financial instruments *(Continued)*

(vi) Derecognition of financial assets

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable 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, the cumulative gain or loss previously accumulated in the revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

(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.

(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. Cash and cash equivalents are assessed for expected credit losses in accordance with Note 3(k)(v).

(m) Financial liabilities

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

(i) 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 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 permits the entire combined contract to be designated as at FVTPL.

3. Significant Accounting Policies

(Continued)

(m) Financial liabilities *(Continued)*

Classification as debt or equity *(Continued)*

(i) Financial liabilities at fair value through profit or loss (Continued)

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 earnings upon derecognition of the financial liability.

(ii) Financial liabilities at amortised cost

Financial liabilities including bank and other borrowings, trade payables, other payables, financial assets sold under repurchase agreements, amounts due to related companies and notes/paper payable are subsequently measured at amortised cost, using the effective interest rate method.

(iii) 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 terms of a debt instrument. Financial guarantee are measured initially at their fair value. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

(iv) Financial assets sold under repurchase agreements

Financial assets sold under repurchase agreements continue to be recognised, (i.e. the repurchase agreements do not result in a 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.

(v) 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

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.

3. Significant Accounting Policies

(Continued)

(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.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Repurchased shares that are not subsequently cancelled are classified as treasury shares and presented as a deduction from total equity.

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

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

(o) Derivative financial instruments

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

Embedded derivatives

Derivatives embedded in 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.

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.

(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 the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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 on property and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

3. Significant Accounting Policies

(Continued)

(q) Impairment on property and equipment, right-of-use assets and intangible assets other than goodwill *(Continued)*

The recoverable amount of property and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) 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 a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(r) Taxation

Income tax expenses represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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 liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences 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 associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to 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.

3. Significant Accounting Policies

(Continued)

(r) Taxation *(Continued)*

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the liability is settled or the assets realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use-assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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 to the same taxable entity by the same taxation authority.

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.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

(s) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

3. Significant Accounting Policies

(Continued)

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for its intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(u) Employee benefits

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

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

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

For the Awarded Shares granted under the SHK Employee Ownership Scheme, the fair value of the employee services received is determined by reference to the fair value of Awarded Shares granted at the grant date and is expensed on a straight-line basis over the vesting period based on the Group's estimate of equity instruments that will eventually vest, 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 vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expenses reflects the revised estimate, with a corresponding adjustment to the employee share-based compensation reserve.

(v) Revenue from contracts with customers

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.

3. Significant Accounting Policies

(Continued)

(v) Revenue from contracts with customers

(Continued)

The group's revenue and other income recognition policies are as follows:

(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) Other service income is recognised over the time or at a point in time when the services are rendered in accordance with contract terms.

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 cost 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.

The provision of ECL is sensitive to changes in estimates. The estimates would include the amount and timing of future cash flows, guarantees 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 47(b). The information about the ECL and the Group's term loans are disclosed in Note 32.

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

The Group uses provision matrices 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 matrices are based on the Group's historical default rates taking into consideration forward-looking information that is reasonably supportable and available without undue cost 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 which are 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, guarantees 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 47(b). The information about the ECL and the Group's loans and advances to consumer finance customers and mortgage loans are disclosed in Note 30 and Note 31 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. The information about the impairment testing on goodwill and intangible assets with indefinite useful lives are disclosed in Note 23.

4. Key Sources of Estimation Uncertainty

(Continued)

(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 derivatives and financial instruments

As at 31 December 2019, a significant amount of the Group's financial assets, including 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 amounts at 31 December 2019 of HK$1,387.0 million, HK$778.7 million and HK$6,292.7 million, respectively (2018: HK$1,120.0 million, HK$856.6 million and HK$5,157.3 million) are measured at fair value with fair value being determined based on significant unobservable inputs using valuation techniques. Judgment and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could result in material adjustments to the fair value of these instruments. See Note 27 to the consolidated financial statements for further disclosures.

(f) Estimated impairment of interest in an associate

The Group disposed of a 70% equity 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 there is a change in facts and circumstances which results in downward revision of future cash flows, an impairment loss may arise.

5. Other Revenue

(HK$ Million)	**2019**	2018
Service income	**55.5**	70.8
Dividends from listed investments	**8.7**	8.9
Dividends from unlisted investments	**2.1**	2.4
Gross rental income from investment properties	**25.4**	23.6
	91.7	105.7

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) Consumer Finance: provision of consumer SME and other financing.
(b) Mortgage Loans: provision of mortgage loans financing.
(c) Specialty Finance: provision of structured and specialty financing.
(d) Investment Management: portfolio investments.
(e) Strategic Investments: investments in financial services.
(f) Group Management and Support: provision of liquidity, supervisory and administrative functions to all business segments.

"Specialty Finance" was previously presented as "Private Credit" within the "Principal Investments" segment. In addition, "Principal Investments" other than "Private Credit" is renamed as "Investment Management" and "Financial Services" is renamed as "Strategic Investments". The directors consider that these changes to segment reporting are in line with the changes of internal reporting reviewed by the chief operating decision maker in 2019. The comparative figures for the business segments were re-presented.

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

	2019						
	Financing Business			Investing Business			
(HK$ Million)	Consumer Finance	Specialty Finance	Mortgage Loans	Investment Management	Strategic Investments	Group Management and Support	Total
Segment revenue	3,504.7	340.6	295.6	31.6	–	273.6	4,446.1
Less: inter-segment revenue	–	–	–	–	–	(229.3)	(229.3)
Segment revenue from external customers	3,504.7	340.6	295.6	31.6	–	44.3	4,216.8
Segment profit or loss	1,276.0	64.8	121.4	1,111.5	130.7	(11.5)	2,692.9
Share of results of associates	–	–	–	(28.3)	76.9	–	48.6
Share of results of joint ventures	–	–	–	–	1.9	–	1.9
Profit (loss) before taxation	1,276.0	64.8	121.4	1,083.2	209.5	(11.5)	2,743.4
Included in segment profit or loss:							
Interest income	3,480.7	305.2	295.2	–	–	44.0	4,125.1
Other gains (losses)	20.1	–	0.3	2.6	0.5	(9.0)	14.5
Net (loss) gain on financial assets and liabilities	–	(0.7)	–	1,533.0	266.8	8.6	1,807.7
Net exchange gain	0.9	–	–	48.4	–	33.2	82.5
Net impairment losses on financial instruments	(803.9)	(159.9)	(12.0)	(48.2)	(0.4)	–	(1,024.4)
Other losses	(1.1)	–	–	(42.0)	(135.9)	–	(179.0)
Amortisation and depreciation	(116.9)	–	(3.5)	–	–	(11.9)	(132.3)
Finance costs	(321.1)	(111.5)	(119.1)	–	–	(439.7)	(991.4)
Less: inter-segment finance costs	–	111.5	102.2	–	–	–	213.7
Finance costs to external suppliers	(321.1)	–	(16.9)	–	–	(439.7)	(777.7)
Cost of capital (charges) income*	–	–	–	(319.6)	–	319.6	–

6. Segment Information *(Continued)*

	2018 (re-presented)						
	Financing Business			Investing Business			
(HK$ Million)	Consumer Finance	Specialty Finance	Mortgage Loans	Investment Management	Strategic Investments	Group Management and Support	Total
Segment revenue	3,422.1	452.3	249.5	32.0	2.4	250.6	4,408.9
Less: inter-segment revenue	–	–	–	–	–	(233.2)	(233.2)
Segment revenue from external customers	3,422.1	452.3	249.5	32.0	2.4	17.4	4,175.7
Segment profit or loss	1,207.9	241.7	114.1	115.6	136.0	(18.6)	1,796.7
Share of results of associates	–	–	–	(32.4)	63.2	–	30.8
Share of results of joint ventures	–	–	–	–	3.8	–	3.8
Profit (loss) before taxation	1,207.9	241.7	114.1	83.2	203.0	(18.6)	1,831.3
Included in segment profit or loss:							
Interest income	3,388.5	409.9	248.8	4.5	–	18.3	4,070.0
Other gains (losses)	25.4	–	0.5	318.6	66.7	(2.3)	408.9
Net gain on financial assets and liabilities	–	–	–	130.9	67.5	36.0	234.4
Net exchange (loss) gain	(21.5)	0.7	–	45.5	–	(10.5)	14.2
Net impairment losses on financial instruments	(833.6)	(64.3)	(3.8)	–	–	–	(901.7)
Amortisation and depreciation	(40.4)	–	(1.9)	–	–	(13.3)	(55.6)
Finance costs	(237.4)	(142.1)	(86.2)	–	–	(429.4)	(895.1)
Less: inter-segment finance costs	–	142.1	86.2	–	–	–	228.3
Finance costs to external suppliers	(237.4)	–	–	–	–	(429.4)	(666.8)
Cost of capital (charges) income*	–	–	–	(325.2)	–	325.2	–

* 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.

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

(HK$ Million)	**2019**	2018
Revenue from external customers by location of operations		
– Hong Kong	**3,338.5**	3,012.6
– Mainland China	**878.3**	1,163.1
	4,216.8	4,175.7

(HK$ Million)	**31/12/2019**	31/12/2018
Non-current assets other than interests in associates and joint ventures, financial assets and deferred tax assets by location of assets		
– Hong Kong	**4,619.8**	4,664.9
– Mainland China	**472.6**	386.3
	5,092.4	5,051.2

7. Other Gains

(HK$ Million)	**2019**	2018
Net realised gain on disposal of subsidiaries	**–**	132.4
Increase in fair value of investment properties	**–**	185.1
Miscellaneous income	**14.5**	24.7
Reversal of impairment in an associate (Note 11)	**–**	66.7
	14.5	408.9

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8. Emoluments of Directors and Senior Employees

(a) Directors

(HK$ Million)	2019 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**	**–**	**9.48**	**49.00**[2]	**0.39**	**58.89**
Simon Chow Wing Charn[1]	**0.02**	**–**	**3.02**	**5.50**[3]	**0.15**	**8.69**
Non-Executive Directors						
Jonathan Andrew Cimino	**0.02**	**–**	**–**	**–**	**–**	**0.02**
Peter Anthony Curry	**0.02**	**0.23**	**–**	**–**	**–**	**0.25**
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**
Evan Au Yang Chi Chun	**0.02**	**0.23**	**–**	**–**	**–**	**0.25**
Peter Wong Man Kong[4]	**0.02**	**0.06**	**–**	**–**	**–**	**0.08**
	0.18	**1.27**	**12.50**	**54.50**	**0.54**	**68.99**

1 1,498,000 shares vested during 2019.

2 The amount represents an actual cash bonus of HK$49.00 million for the year 2019 (2018: HK$37.00 million).

3 The amount represents an actual cash bonus of HK$5.50 million for the year 2019 (2018: HK$3.00 million).

4 In 2019, the director's fee and consultancy fee in the amount of HK$20,000 and HK$57,500 respectively were paid to the late Mr. Peter Wong Man Kong, an Independent Non-Executive Director of the Company. He was deceased on 11 March 2019.

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

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

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

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

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

(a) Directors *(Continued)*

	2018					
(HK$ Million)	Director's fees	Consultancy fees	Salaries, housing and other allowances and benefits in kind	Discretionary bonuses	Contributions to retirement benefit scheme	Total
Executive Directors						
Lee Seng Huang (Group Executive Chairman)	0.02	–	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 Director						
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.

5 The amount represents an actual cash bonus of HK$3.00 million for the year 2018.

(b) Highest paid individuals

The five highest paid individuals of the Group include two Directors (2018: two Directors) of the Company. The emoluments of the remaining three (2018: three) highest paid individuals are analysed below:

(HK$ Million)	2019	2018
Salaries, housing and other allowances, and benefits in kind	**15.4**	14.5
Bonuses	**19.3**	15.3
Contributions to retirement benefit scheme	**1.5**	1.4
	36.2	31.2

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

	Number of employees	
Emoluments band (HK$)	2019	2018
$4,500,001 – $5,000,000	**1**	1
$6,000,001 – $6,500,000	**1**	1
$20,500,001 – $21,000,000	**–**	1
$25,000,001 – $25,500,000	**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) were within the following bands:

Emoluments band (HK$)	Number of employees 2019	2018
$500,001 – $1,000,000	**–**	2
$3,000,001 – $3,500,000	**1**	1
$3,500,001 – $4,000,000	**1**	–
$4,000,001 – $4,500,000	**1**	–
$20,500,001 – $21,000,000	**–**	1
$25,000,001 – $25,500,000	**1**	–

No shares were vested and 471,000 shares were granted for our senior management during year 2019. No dividend payments were paid to senior management during the year (2018: 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$64.0 million (2018: HK$77.8 million). The amount of forfeited contributions utilised in the course of the year ended 31 December 2019 was HK$0.25 million (2018: HK$0.25 million).

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

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

During the year, 1.8 million shares (2018: 3.2 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$7.1 million (2018: HK$15.5 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$9.7 million (2018: HK$8.3 million).

11. Profit Before Taxation

(HK$ Million)	2019	2018
Profit before taxation for the year has been arrived at after charging:		
Administrative expenses (Note a)	**(1,152.1)**	(1,167.2)
Amortisation of leasehold interests in land	**–**	(0.2)
Outgoings in respect of rental-generating investment properties	**(0.3)**	(0.2)
Other losses (Note b)	**(179.0)**	(1.6)
Share of taxation of associates and joint ventures included in share of results of associates and joint ventures	**(4.6)**	(6.8)
(a) Analysis of administrative expenses:		
Staff costs (including Directors' emoluments)	**(701.9)**	(696.5)
Contributions to retirement benefit schemes	**(64.0)**	(77.8)
Expenses recognised for the SHK Employee Ownership Scheme	**(9.7)**	(8.3)
Total staff costs	**(775.6)**	(782.6)
Auditors' remuneration	**(4.8)**	(5.8)
Depreciation of property and equipment	**(45.9)**	(53.5)
Depreciation of right-of-use assets	**(84.5)**	–
Amortisation of intangible assets – computer software	**(1.9)**	(1.9)
Payments for short-term leases and leases of low-value assets	**(28.1)**	–
Operating lease rentals	**–**	(154.7)
Other administrative expenses	**(211.3)**	(168.7)
	(1,152.1)	(1,167.2)
(b) Analysis of other losses:		
Net loss on disposal/write-off of equipment	**(0.9)**	(1.1)
Impairment loss on interest in an associate*	**(135.9)**	–
Decrease in fair value of investment properties	**(42.2)**	–
Loss on disposal of joint ventures	**–**	(0.5)
	(179.0)	(1.6)

* 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 17.5% (2018: 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$267.0 million (2018: HK$67.0 million) classified under net gain on financial assets and liabilities at fair value through profit or loss.

A reversal of impairment in the investment in SHKFGL of HK$66.7 million was recognised in 2018. In 2019, an impairment loss of HK$135.9 million on the interest in SHKFGL was recognised.

The put option period will end within 6 months commencing on 2 June 2020 and the Group shall have the right (but not the obligation) to reinvest into the sold shares within 18 months upon the exercise of put right.

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)	2019	2018
Net realised and unrealised gain (loss) on financial assets and liabilities		
– Held for trading	**627.0**	(225.2)
– Financial assets at fair value through profit or loss	**1,180.7**	459.6
	1,807.7	234.4

13. Net Impairment Losses on Financial Instruments

(HK$ Million)	2019	2018
Loans and advances to consumer finance customers		
– Net impairment losses	**(999.2)**	(1,025.0)
– Recoveries of amounts previously written off	**195.1**	195.1
	(804.1)	(829.9)
Mortgage loans		
– Net impairment losses	**(12.0)**	(4.5)
– Recoveries of amounts previously written off	**–**	0.7
	(12.0)	(3.8)
Term loans		
– Net impairment losses	**(160.6)**	(64.3)
	(160.6)	(64.3)
Amounts due from associates		
– Net impairment losses	**(0.4)**	–
	(0.4)	–
Trade and other receivables		
– Net impairment losses	**(47.6)**	(5.1)
– Recoveries of amounts previously written off	**0.3**	1.4
	(47.3)	(3.7)
	(1,024.4)	(901.7)

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14. Finance Costs

(HK$ Million)	2019	2018
Interest on the following liabilities		
– Bank loans	(355.6)	(249.2)
– Notes/paper payable	(385.4)	(388.6)
	(741.0)	(637.8)
Other borrowing costs	(31.2)	(29.0)
Interest on lease liabilities	(5.5)	–
	(777.7)	(666.8)

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

15. Taxation

(HK$ Million)	2019	2018
Current tax		
– Hong Kong	(250.0)	(205.2)
– PRC	(73.9)	(117.7)
	(323.9)	(322.9)
Over provision in prior years	0.1	13.4
	(323.8)	(309.5)
Deferred tax	95.0	88.8
	(228.8)	(220.7)

Hong Kong profits tax is calculated at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2018: 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 per the consolidated statement of profit or loss as follows:

(HK$ Million)	2019	2018
Profit before taxation	2,743.4	1,831.3
Less: Share of results of associates	(48.6)	(30.8)
Share of results of joint ventures	(1.9)	(3.8)
	2,692.9	1,796.7
Tax at the Hong Kong profits tax rate of 16.5% (2018: 16.5%)	(444.3)	(296.4)
Over provision in prior years	0.1	13.4
Tax effect of non-taxable income	374.6	127.0
Tax effect of non-deductible expenses	(117.3)	(26.9)
Tax effect of unrecognised deductible temporary difference and tax losses	(28.9)	(25.9)
Countries subject to different tax rates	(13.0)	(11.9)
	(228.8)	(220.7)

Deferred tax recognised in other comprehensive income during the year was immaterial (2018: immaterial).

16. Dividends

(HK$ Million)	2019	2018
The aggregate amount of dividends declared and proposed:		
– 2019 interim dividend paid of HK12 cents (2018: HK12 cents) per share	240.3	258.6
– 2019 second interim dividend of HK14 cents per share declared after the reporting date (2018: 2018 second interim dividend of HK14 cents per share)	279.4	281.1
	519.7	539.7
Dividends recognised as distribution during the year:		
– 2018 second interim dividend paid of HK14 cents (2018: 2017 second interim dividend paid of HK14 cents) per share	280.7	301.4
– 2019 interim dividend paid of HK12 cents (2018: HK12 cents) per share	240.3	258.6
	521.0	560.0

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)	2019	2018
Earnings for the purposes of basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	2,085.2	1,183.8
Number of shares (in million)		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,997.2	2,107.8
Effect of dilutive potential ordinary shares:		
– Impact of contingently issuable shares under the SHK Employee Ownership Scheme	3.2	2.0
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,000.4	2,109.8

18. Investment Properties

(HK$ Million)	Hong Kong	PRC	Total
At 1 January 2018	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**
Exchange adjustments	**–**	**(0.8)**	**(0.8)**
Transfer to property and equipment	**–**	**(5.4)**	**(5.4)**
Change in fair value recognised in profit or loss	**(42.0)**	**(0.2)**	**(42.2)**
At 31 December 2019	**1,268.0**	**44.5**	**1,312.5**
Unrealised gains or losses for the year included in profit or loss			
– For 2019	**(42.0)**	**(0.2)**	**(42.2)**
– For 2018	186.0	(0.9)	185.1

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**	**31/12/2019**	31/12/2018
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$66**	HK$51 to HK$69
PRC	Investment method	Term yield	**4.25%**	4.25 to 6.00%
		Reversionary yield	**4.75%**	4.75 to 6.75%
		Monthly market unit rent per gross floor area (sq. m.)	**RMB28 to RMB34**	RMB27 to RMB102

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 2019 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
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$1,087 million (31/12/2018: HK$1,128.0 million) were pledged as security for the Group's banking facilities.

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19. Property and Equipment

(HK$ Million)	Property	Furniture and equipment	Total
Cost			
At 1 January 2018	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**
Impact on initial application of HKFRS 16	**–**	**(3.0)**	**(3.0)**
Exchange adjustments	**(5.7)**	**(3.6)**	**(9.3)**
Transfer from investment properties	**5.4**	**–**	**5.4**
Transfer to right-of-use-assets	**–**	**(2.0)**	**(2.0)**
Additions	**–**	**13.5**	**13.5**
Disposals/write-off	**–**	**(12.3)**	**(12.3)**
At 31 December 2019	**317.9**	**420.3**	**738.2**
Accumulated depreciation and impairment			
At 1 January 2018	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**
Impact on initial application of HKFRS 16	**–**	**(1.6)**	**(1.6)**
Exchange adjustments	**(1.0)**	**(3.0)**	**(4.0)**
Transfer to right-of-use assets	**–**	**(2.0)**	**(2.0)**
Depreciation provided for the year	**9.3**	**36.6**	**45.9**
Eliminated on disposals/write-off	**–**	**(11.1)**	**(11.1)**
At 31 December 2019	**54.9**	**306.1**	**361.0**
Carrying amount			
At 31 December 2019	**263.0**	**114.2**	**377.2**
At 31 December 2018	271.6	140.5	412.1

The useful lives of the properties are same as the remaining term of the leases that are ranging from 24 to 33 years.

20. Right-of-Use Assets

(HK$ Million)	Total
At 31 December 2018	–
Impact on initial application of HKFRS 16	148.3
At 1 January 2019	**148.3**
Additions	**62.4**
Depreciation provided for the year	**(84.5)**
Exchange adjustments	**(0.7)**
At 31 December 2019	**125.5**
Carrying amount at 31 December 2019	**125.5**

The Group leases several assets including leasehold land and retail shops. The average lease term of right-of-use assets at 31 December 2019 is below:

Leasehold land	44.5 years
Retail shops	2.3 years

The analysis of the carrying amount of right-of-use assets by class of underlying asset is as follows:

(HK$ Million)	31/12/2019	1/1/2019
Carrying amount		
– Leasehold lands	**4.0**	4.1
– Retail shops	**121.5**	144.2

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

(HK$ Million)	2019
Amount recognised in profit or loss	
– Depreciation expenses on right-of-use assets	**84.5**
– Interest expense on lease liabilities	**5.5**
– Expense relating to short-term leases and leases of low-value assets	**28.1**

During the year, additions to right-of-use assets were HK$62.4 million.

The total cash outflow for leases amount to HK$111.2 million.

Restrictions or covenants on lease

In addition, lease liabilities of HK$117.7 million are recognised with related right-of-use assets of HK$125.5 million as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

21. Intangible Assets

(HK$ Million)	Club membership	Computer software	Trade mark	Customer relationship	Web domain	Total
Cost						
At 1 January 2018	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**
Exchange adjustments	**–**	**(0.3)**	**–**	**–**	**–**	**(0.3)**
Additions	**5.0**	**–**	**–**	**–**	**–**	**5.0**
At 31 December 2019	**17.2**	**17.5**	**875.0**	**1,154.0**	**78.0**	**2,141.7**
Accumulated amortisation and impairment						
At 1 January 2018	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**
Exchange adjustments	**–**	**(0.2)**	**–**	**–**	**–**	**(0.2)**
Amortisation charged for the year	**–**	**1.9**	**–**	**–**	**–**	**1.9**
At 31 December 2019	**1.0**	**8.5**	**7.0**	**1,154.0**	**78.0**	**1,248.5**
Carrying amount						
At 31 December 2019	**16.2**	**9.0**	**868.0**	**–**	**–**	**893.2**
At 31 December 2018	11.2	11.0	868.0	–	–	890.2

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21. Intangible Assets *(Continued)*

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

22. Goodwill

(HK$ Million)	31/12/2019	31/12/2018
Cost		
At 1 January and 31 December	**2,384.0**	2,384.0

23. 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 2019 were allocated as follows:

	Goodwill		Trade Mark	
(HK$ Million)	**31/12/2019**	31/12/2018	**31/12/2019**	31/12/2018
United Asia Finance Limited ("UAF") in "Consumer Finance" segment	**2,384.0**	2,384.0	**868.0**	868.0

The recoverable amount of UAF, a cash-generating unit, represents the value in use at 31 December 2019 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 10.9% on the profit before tax from 2020 to 2024 (2018: 12.6% from 2019 to 2023), a sustainable growth rate of 2.3% beyond 2024 (2018: 2.4% beyond 2023), and a discount rate of 15.8% (2018: 14.9%). 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.

24. 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 2019 are as follows:

	Profit or loss allocated to non-controlling interests		Accumulated non-controlling interests	
(HK$ Million)	**2019**	2018	**31/12/2019**	31/12/2018
United Asia Finance Limited and its subsidiaries	**421.6**	419.4	**3,172.8**	3,797.9
Other subsidiaries having non-controlling interests	**7.8**	7.4	**22.1**	8.0
	429.4	426.8	**3,194.9**	3,805.9

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)	**31/12/2019**	31/12/2018
Current assets	**10,635.7***	10,210.3*
Non-current assets	**4,030.5#**	3,764.7#
Current liabilities	**(4,588.4)**	(3,790.8)
Non-current liabilities	**(2,476.1)**	(1,915.2)

24. Interest in Subsidiaries *(Continued)*

(HK$ Million)	**2019**	2018
Dividend paid to non-controlling interests	**375.9**	417.9
Revenue	**3,480.9**	3,392.5
Profit for the year	**1,061.1**	1,001.4
Total comprehensive income for the year	**963.1**	680.2
Net change in cash and cash equivalents during the year	**152.1**	1,040.8

* Including loans and advances to consumer finance customers of HK$7,643.0 million (31/12/2018: HK$7,150.8 million)

Including loans and advances to consumer finance customers of HK$2,770.5 million (31/12/2018: HK$2,618.9 million)

Particulars of the Company's principal subsidiaries at 31 December 2019 were as follows:

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital/ registered capital	Proportion of ownership interest 2019	2018	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 (ECP) Limited	British Virgin Islands (place of operation: Hong Kong)	US$1	**100%**	100%	Financing
Sun Hung Kai & Co. (CP) Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
Sun Hung Kai & Co. (BVI) Limited	British Virgin Islands (place of operation: Hong Kong)	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
Razorway Limited	British Virgin Islands	US$1	**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
First Asian Holdings Limited	Hong Kong	HK$2	**63%**	58%	Investment holding
Itso Limited	Hong Kong	HK$2	**100%**	100%	Investment holding, financial services and securities trading
Sun Hung Kai Global Opportunities 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		231,207.6044 (2018: 184,612.1644) US$0.001 shares	**100%**	100%	
– Class B3 participating shares		Nil (2018: 7,581.95 US$0.001 shares)	**Nil**	100%	
Oakfame Investment Limited	Hong Kong	HK$2	**100%**	100%	Investment holding
Onspeed Investments Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding

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24. Interest in Subsidiaries *(Continued)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital/ registered capital	Proportion of ownership interest 2019	2018	Principal activities
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 Bullion Company Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding
SHK Asian Opportunities Holdings Limited	Cayman Islands	US$10,000	**95%**	95%	Investment holding
SHK Asset Management Holding Limited	British Virgin Islands	US$3,400,001	**100%**	100%	Investment holding
SHK Investments (HK) Limited (formerly known as SHK Commodities Limited)	Hong Kong	HK$10,000	**100%**	100%	Investment portfolio
SHK Finance Limited	Hong Kong	HK$150,000,000	**63%**	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 Capital Pte. Ltd.	Singapore	S$1	**100%**	–	Fund management
Sun Hung Kai Credit Limited	Hong Kong	HK$800,000,000	**92%**	92%	Mortgage financing
Sun Hung Kai Fintech Capital Limited	Hong Kong	HK$3,000,000	**100%**	100%	Investment holding
SHK International Limited	Hong Kong	HK$10,000	**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	**63%**	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	**44%**	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$36,000,000	**63%**	58%	Money lending

24. Interest in Subsidiaries *(Continued)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital/ registered capital	Proportion of ownership interest 2019	2018	Principal activities
大連亞聯財信息諮詢有限公司 United Asia Consultancy (Dalian) Limited (d)	People's Republic of China	RMB1,000,000	**–**	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	**63%**	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	**50%**	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	**63%**	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	**63%**	58%	Financial consultancy
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	**63%**	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	**44%**	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	**63%**	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	**63%**	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	**63%**	58%	Financial consultancy
青島亞聯財小額貸款有限公司 (formerly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	**63%**	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	**63%**	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	**63%**	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	**63%**	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	RMB150,000,000	**63%**	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	**63%**	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	**63%**	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	**63%**	58%	Financial consultancy

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24. Interest in Subsidiaries *(Continued)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital/ registered capital	Proportion of ownership interest 2019	2018	Principal activities
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	**63%**	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	**63%**	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	**63%**	58%	Financial consultancy
新聯財信息諮詢(深圳)有限公司 Xinliancai Consultancy (Shenzhen) Limited (d)	People's Republic of China	RMB5,000,000	**–**	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	**63%**	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	**63%**	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	**63%**	58%	Money lending
濟南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	**63%**	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	**63%**	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	**63%**	58%	Money lending
壹融站信息技術(深圳)有限公司 Yirongzhan Fintech (Shenzhen) Limited (c)	People's Republic of China	RMB20,000,000	**63%**	58%	Financial consultancy
天津亞聯財商務信息諮詢有限公司 United Asia Financial Consultancy (Tianjin) Limited (d)	People's Republic of China	–	**–**	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.
(d) Theses companies are deregistered during the year.

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 41 to the consolidated financial statements, none of the other subsidiaries had issued any debt securities at the end of the year.

25. Interest in Associates

(HK$ Million)	**31/12/2019**	31/12/2018
Carrying amount of unlisted associates	**1,838.7**	1,887.1
Less: impairment	**(642.6)**	(506.7)
	1,196.1	1,380.4

Particulars of the Group's material associate at 31 December 2019 were as follows:

Name	**Place of incorporation/operation**	**Proportion of ownership interest 2019**	2018	**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)	**31/12/2019**	31/12/2018
Current assets	**10,655.6**	12,572.9
Non-current assets	**903.6**	1,095.6
Current liabilities	**(6,520.0)**	(4,152.8)
Non-current liabilities	**(1,672.1)**	(6,085.3)

(HK$ Million)	**2019**	2018
Revenue	**1,727.4**	1,602.6
Profit	**248.4**	210.7
Other comprehensive expenses	**–**	(2.8)
Total comprehensive income	**248.4**	207.9

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

(HK$ Million)	**31/12/2019**	31/12/2018
Adjusted net assets of SHKFGL	**3,367.1**	3,430.4
Group's effective interest	**30%**	30%
Group's share of adjusted net assets	**1,010.1**	1,029.2
Goodwill	**607.7**	607.7
Impairment (Note 11)	**(641.8)**	(505.9)
Carrying amount of the Group's interest in SHKFGL	**976.0**	1,131.0

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

(HK$ Million)	**2019**	2018
Share of loss	**(30.9)**	(32.4)
Share of other comprehensive income	**4.2**	–
Share of total comprehensive expenses	**(26.7)**	(32.4)
Share of unrecognised losses for the year	**(0.1)**	(0.7)
Share of cumulative losses	**(26.8)**	(26.7)

26. Interest in Joint Ventures

(HK$ Million)	**31/12/2019**	31/12/2018
Carrying amount of unlisted joint ventures	**445.5**	240.2
Less: impairment	**–**	–
	445.5	240.2

The joint ventures are accounted for using the equity method in these consolidated financial statements. As at 31 December 2019 and 2018, the Group had interests in the following principal joint ventures.

26. Interest in Joint Ventures *(Continued)*

Name	Place of incorporation/operation	Proportion of ownership interest 2019	2018	Principal activities
LSS Financial Leasing (Shanghai) Limited ("LSS")	People's Republic of China	**40.0%**	40.0%	Auto leasing
Isabella Properties Holdings Limited ("Isabella")	England	**47.5%**	–	Investment holding

On 10 December 2019, an indirect wholly-owned subsidiary of the Group entered into the shareholders agreement for the formation of the joint venture Company with 47.5% interest for a consideration of HK$207.0 million.

All joint ventures are accounted for using the equity method.

The summarised financial information in respect of each of the Group's material joint ventures is set out below. The summarised financial information below represents the amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs.

	LSS		Isabella	
(HK$ Million)	**31/12/2019**	31/12/2018	**31/12/2019**	31/12/2018
Current assets	**929.7**	938.0	**88.2**	–
Non-current assets	**525.4**	820.1	**1,151.8**	–
Current liabilities	**(602.2)**	(232.3)	**(56.7)**	–
Non-current liabilities	**(256.5)**	(925.2)	**(761.3)**	–
The above amounts of assets and liabilities include the following:				
Investment properties	**–**	–	**1,129.9**	–

(HK$ Million)	**2019**	2018	**2019**	2018
Revenue	**143.1**	134.1	**1.9***	–
Profit	**4.9**	9.7	**4.5***	–
Total comprehensive income	**4.9**	9.7	**4.5***	–

* Included the result of the joint venture from the date it became joint venture of the Group up to 31 December 2019.

Reconciliation of the above summarised financial information to the carrying amounts of the interests in the joint ventures recognised in these consolidated financial statements:

	LSS		Isabella	
(HK$ Million)	**31/12/2019**	31/12/2018	**31/12/2019**	31/12/2018
Net assets of the joint venture	**596.4**	600.6	**422.0**	–
Carrying amount of the Group's interest in the joint venture	**238.6**	240.2	**206.9**	–

27. Financial Assets and Liabilities

The following table provides analyses of financial assets and liabilities of the Group that are at fair value.

	At 31 December 2019			
	Fair value			
(HK$ Million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income				
Listed equity securities in Hong Kong	41.6	–	–	41.6
Listed equity securities outside Hong Kong	79.4	–	–	79.4
Unlisted overseas equity securities	–	–	8.5	8.5
	121.0	–	8.5	129.5
Financial assets at fair value through profit or loss				
– Listed equity securities in Hong Kong	287.7	–	–	287.7
– Listed equity and debt securities outside Hong Kong	1,553.8	10.1	–	1,563.9
– Over the counter equity currency derivatives	–	0.3	–	0.3
– Forward currency contract	–	79.1	–	79.1
– Quoted options and futures	3.2	30.4	–	33.6
– Unlisted put right for shares in an associate	–	–	1,387.0	1,387.0
– Unlisted call option for club memberships	–	–	13.1	13.1
– Unlisted call option for shares listed outside Hong Kong	–	–	0.1	0.1
– Contracts for difference	–	8.0	–	8.0
– Bonds	–	984.8	–	984.8
– Unlisted convertible preferred and ordinary shares issued by an unlisted company	–	110.3	–	110.3
– Unlisted preferred shares issued by unlisted companies	–	–	60.7	60.7
– Unlisted convertible preferred shares issued by an unlisted company	–	–	19.2	19.2
– Unlisted shares issued by unlisted companies	–	82.8	36.4	119.2
– Unlisted convertible bonds issued by unlisted companies	–	25.0	3.9	28.9
– Unlisted overseas equity securities with a put right for shares	–	–	778.7	778.7
– Unlisted overseas debt securities with redeemable preferred shares and ordinary shares issued by an unlisted company	–	–	177.5	177.5
– Unlisted overseas investment funds	–	–	6,292.7	6,292.7
– Unlisted trust fund	–	–	28.0	28.0
	1,844.7	1,330.8	8,797.3	11,972.8
Analysed for reporting purposes as:				
– Non-current assets				7,687.2
– Current assets				4,285.6
				11,972.8
Financial liabilities at fair value through profit or loss				
Held for trading				
– Quoted futures and options	–	17.6	–	17.6
– Foreign currency contracts	3.4	0.1	–	3.5
– Over the counter equity derivatives	–	–	18.2	18.2
– Short position in listed equity securities under stock borrowing arrangement	667.9	–	–	667.9
– Contracts for difference	–	8.6	–	8.6
Analysed for reporting purposes as current liabilities	671.3	26.3	18.2	715.8

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27. Financial Assets and Liabilities *(Continued)*

	At 31 December 2018			
	Fair value			
(HK$ Million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income				
Listed equity securities in Hong Kong	43.9	–	–	43.9
Listed equity securities 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				
– Listed equity securities in Hong Kong	360.8	–	–	360.8
– Listed equity and debt securities outside Hong Kong	903.7	–	–	903.7
– Forward currency contract	–	44.2	–	44.2
– Quoted options and futures	–	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
– Bonds	–	1,775.5	–	1,775.5
– 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 debt security	–	76.4	–	76.4
– Unlisted overseas investment funds	–	–	5,157.3	5,157.3
– Unlisted trust fund	–	–	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				
– Quoted futures and options	–	61.1	–	61.1
– 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

27. Financial Assets and Liabilities *(Continued)*

On the basis of its analysis of the nature, characteristics and risks of the equity 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.

The fair values of bonds under Level 2 at the reporting date were derived from quoted prices from pricing services. Where Level 1 and 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 2019				
	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)	12.3% 0.1% HK$976 million 17.5%	1,387.0	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. An increase in discount rate would result in a decrease in the fair value.
Unlisted preferred shares issued by an unlisted company	Equity allocation method	Expected volatility	21.4%	54.5	An increase in volatility would result in a decrease in the fair value.
Unlisted overseas equity securities with a put right for shares	Market approach and option model	Expected volatility Risk-free rate Equity growth rate Estimated equity value	5.3% 1.6% 0.1% HK$445 million	778.7	An increase in volatility would result in an increase in the fair value of the put right. An increase in equity growth rate would result in a decrease in the fair value of the put right. An increase in estimated equity value would result in a decrease in fair value of the put right. An increase in risk-free rate would result in a decrease in the fair value of the put right.
Unlisted overseas debt securities with redeemable preferred shares and ordinary shares issued by an unlisted company	Market approach	Enterprise value to earnings before interest, taxes, depreciation and amortisation ratio	8.3	177.5	An increase in enterprise value to earnings before interest, taxes, depreciation and amortisation ratio would result in an increase in the fair value of ordinary shares.
Unlisted overseas investment funds	Net asset value	Note 1	Note 1	4,566.3	Note 1
Unlisted overseas investment funds	Net asset value	Discount for lack of marketability	13.1% – 24.4%	1,726.4	An increase in discount rate of the underlying investment would result in a decrease in the fair value.

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27. Financial Assets and Liabilities *(Continued)*

	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 the fair value.
Unlisted overseas equity securities with a put right for shares	Market approach and option model	Expected volatility Risk-free 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 of the put right. An increase in risk-free rate would result in a decrease in the fair value of the put right. An increase in equity growth rate would result in a decrease in the fair value of the put right.
Unlisted overseas investment funds	Net asset value	Note 1	Note 1	3,940.8	Note 1
Unlisted overseas investment funds	Net asset value	Discount for lack of marketability	18.0% – 22.9%	1,216.5	An increase in discount rate of the underlying investment would result in a decrease in the fair value.

Note 1: The significant unobservable input of the Group's investments in unlisted overseas investment funds is the net assets value of the underlying investments made by the funds. The higher the net assets value of the underlying investments, the higher the fair value of the financial assets at FVTPL will be. The Group has determined that the reported net asset values represent the fair values of the unlisted overseas investment funds.

27. Financial Assets and Liabilities *(Continued)*

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

	2019							
			Recognised gains or losses					
(HK$ Million)	Balance at 1/1/2019	Transfer*	Profit or loss	Other comprehensive income	Purchase	Disposal	Balance at 31/12/2019	Unrealised gain or loss for the year
Financial assets at fair value through other comprehensive income								
Unlisted overseas equity securities	21.6	–	–	11.9	–	(25.0)	8.5	–
Financial assets at fair value through profit or loss								
Unlisted put right for shares in an associate	1,120.0	–	267.0	–	–	–	1,387.0	267.0
Unlisted call option for club memberships	13.3	–	(0.2)	–	–	–	13.1	(0.2)
Unlisted call option for shares listed outside Hong Kong	0.4	–	(0.3)	–	–	–	0.1	(0.3)
Unlisted preferred shares issued by unlisted companies	57.2	–	3.5	–	–	–	60.7	3.5
Unlisted convertible preferred shares issued by an unlisted company	–	12.4	6.8	–	–	–	19.2	6.8
Unlisted shares issued by an unlisted company	42.0	–	(5.6)	–	–	–	36.4	(3.0)
Unlisted convertible bonds issued by unlisted companies	21.0	–	(17.1)	–	–	–	3.9	(17.1)
Unlisted overseas equity securities with a put right for shares	856.6	–	(77.9)	–	–	–	778.7	(77.9)
Unlisted overseas debt securities with redeemable preferred shares and ordinary shares issued by an unlisted company	–	181.4	(3.9)	–	–	–	177.5	(3.9)
Unlisted overseas investment funds	5,157.3	–	1,228.9	–	663.8	(757.3)	6,292.7	950.4
Unlisted trust fund	28.5	–	1.1	–	29.1	(30.7)	28.0	1.1
Financial liabilities at fair value through profit or loss								
Over the counter equity derivatives	(22.9)	–	4.7	–	–	–	(18.2)	4.7

	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 unlisted companies	17.1	3.9	3.8	–	53.4	(21.0)	57.2	(0.1)
Unlisted shares issued by an 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 fund	–	–	(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)

* The Group has transferred the financial assets from Level 2 to Level 3 as no observable inputs are available.

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27. Financial Assets and Liabilities *(Continued)*

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

(HK$ Million)	31/12/2019	31/12/2018
Financial assets at fair value through other comprehensive income	**129.5**	174.4
	129.5	174.4
Financial assets at fair value through profit or loss		
– Investments at fair value through profit or loss	**11,972.8**	10,739.5
	11,972.8	10,739.5
Financial assets measured at amortised cost		
– Amounts due from associates (Note 29)	**329.9**	363.8
– Loans and advances to consumer finance customers (Note 30)	**10,413.5**	9,769.7
– Mortgage loans (Note 31)	**3,626.9**	3,854.2
– Term loans (Note 32)	**1,906.2**	2,485.2
– Trade and other receivables (Note 33)	**381.8**	368.6
– Amounts due from brokers	**451.7**	507.0
– Short-term pledged bank deposit and bank balance (Note 34)	**33.2**	20.0
– Bank deposits (Note 34)	**68.1**	353.5
– Cash and cash equivalents (Note 34)	**5,624.9**	4,622.4
	22,836.2	22,344.4
	34,938.5	33,258.3

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

(HK$ Million)	31/12/2019	31/12/2018
Financial liabilities at fair value through profit or loss		
– Held for trading	**715.8**	425.3
Financial liabilities measured at amortised cost		
– Bank and other borrowings (Note 35)	**8,157.1**	7,183.1
– Trade and other payables (Note 36)	**137.3**	65.7
– Financial assets sold under repurchase agreements (Note 37)	**386.2**	1,216.5
– Amounts due to fellow subsidiaries and a holding company (Note 38)	**35.3**	519.0
– Amounts due to associates (Note 38)	**–**	1.9
– Lease liabilities (Note 40)	**117.7**	–
– Notes/paper payable (Note 41)	**8,598.7**	7,800.0
	17,432.3	16,786.2
	18,148.1	17,211.5

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.

Sale 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 to 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".

27. Financial Assets and Liabilities *(Continued)*

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

	At 31 December 2019		
Analysed by liabilities type (HK$ Million)	**Carrying amount of transferred assets Financial assets at fair value through profit or loss**	**Carrying amount of associated liabilities**	**Net Position**
Financial assets sold under repurchase agreements (Note 37)	**524.9**	**386.2**	**138.7**

	At 31 December 2018		
Analysed by liabilities type (HK$ Million)	Carrying amount of transferred assets Financial assets at fair value through profit or loss	Carrying amount of associated liabilities	Net Position
Financial assets sold under repurchase agreements (Note 37)	1,483.7	1,216.5	267.2

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.

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27. Financial Assets And Liabilities *(Continued)*

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

	At 31 December 2019					
				Related amounts not set off in the consolidated statement of financial position		
(HK$ Million)	**Gross amounts of recognised financial assets and liabilities**	**Gross amounts set off in the consolidated statement of financial position**	**Net amounts presented in consolidated statement of financial position**	**Financial instruments**	**Cash collateral received/ pledged**	**Net amount**
Type of financial assets						
Financial assets at fair value through profit or loss	**1,883.0**	**–**	**1,883.0**	**(715.8)**	**–**	**1,167.2**
Debt securities pledged as collateral for financial assets sold under repurchase agreements (Note 37)	**524.9**	**–**	**524.9**	**(386.2)**	**–**	**138.7**
Type of financial liabilities						
Financial liabilities at fair value through profit or loss	**715.8**	**–**	**715.8**	**(715.8)**	**–**	**–**
Financial assets sold under repurchase agreements	**386.2**	**–**	**386.2**	**(386.2)**	**–**	**–**

	At 31 December 2018					
				Related amounts not set off in the consolidated statement of financial position		
(HK$ Million)	Gross amounts of recognised financial assets and liabilities	Gross amounts set off in the consolidated statement of financial position	Net amounts presented in consolidated statement of financial position	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 37)	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)	–	–

28. 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 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
At 1 January 2018	(12.7)	701.5	(183.0)	(56.1)	0.2	46.2	496.1
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**
Exchange adjustments	**–**	**(12.2)**	**0.2**	**1.2**	**–**	**(0.2)**	**(11.0)**
Recognised in profit or loss	**0.8**	**52.7**	**31.9**	**1.2**	**0.3**	**8.1**	**95.0**
At 31 December 2019	**(14.1)**	**801.4**	**(150.4)**	**(52.8)**	**0.5**	**52.4**	**637.0**

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)	31/12/2019	31/12/2018
Deferred tax assets	**780.0**	729.9
Deferred tax liabilities	**(143.0)**	(176.9)
	637.0	553.0

At the end of the reporting period, the Group had unrecognised tax losses of HK$468.3 million (31/12/2018: HK$485.6 million) available to offset against future profits. The deductible temporary difference and tax losses have not been recognised as it is uncertain that there will be sufficient future taxable profits available for the utilisation of these temporary differences. The unrecognised tax losses included a sum of HK$7.5 million that will expire during 2020 to 2024 (31/12/2018: HK$7.3 million will expire during 2019 to 2023).

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$1,147.9 million at the end of the reporting period (31/12/2018: HK$1,081.6 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.

29. Amounts Due From Associates

(HK$ Million)	31/12/2019	31/12/2018
Amounts due from associates	**347.4**	380.9
Less: impairment allowance	**(17.5)**	(17.1)
	329.9	363.8
Analysed for reporting purposes as:		
– Non-current assets	**261.3**	266.7
– Current assets	**68.6**	97.1
	329.9	363.8

Further details of amounts due from associates are disclosed in Note 38 and Note 47.

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30. Loans and Advances to Consumer Finance Customers

(HK$ Million)	**31/12/2019**	31/12/2018
Loans and advances to consumer finance customers		
– Hong Kong	**8,576.2**	7,803.4
– Mainland China	**2,545.1**	2,611.9
Less: impairment allowance	**(707.8)**	(645.6)
	10,413.5	9,769.7
Analysed for reporting purposes as:		
– Non-current assets	**2,770.5**	2,618.9
– Current assets	**7,643.0**	7,150.8
	10,413.5	9,769.7

The loans and advances to consumer finance customers bear interest rate are as follows:

	31/12/2019	31/12/2018
Fixed rate loan receivables	**6% to 48%**	6% to 48%
Variable rate loan receivables	**P-1% to P+22.6%**	P-1% to P+22.6%

Movement of impairment allowance during the year of 2019 and 2018 are disclosed in Note 47(b).

The Consumer Finance Division uses the 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 or effort. In addition, loans and advances to consumer finance customers with significant balances are assessed for impairment individually based on historical credit information.

The ageing analysis for the loans and advances to consumer finance customers that are past due is as follows:

(HK$ Million)	**31/12/2019**	31/12/2018
Less than 31 days past due	**582.9**	528.6
31–60 days	**55.6**	50.4
61–90 days	**20.9**	11.9
91–180 days	**148.4**	48.2
Over 180 days	**61.4**	109.2
	869.2	748.3

As at 31 December 2019, loans and advances to consumer finance customers with aggregate carrying amount of HK$869.2 million (31/12/2018: HK$748.3 million) are past due. Out of the past due balances, HK$61.8 million (31/12/2018: 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, the financial strength of the borrowers as well as collateral and other credit enhancements.

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$9,510.0 million unsecured (31/12/2018: HK$8,871.9 million) and HK$903.5 million secured (31/12/2018: HK$897.8 million). The Group has not recognised a loss allowance for loans amounting to HK$398.3 million (2018: HK$823.8 million) which are secured by collateral.

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

As at 31 December 2019, the gross carrying amount of loans and advances to consumer finance customers amounts to HK$11,121.3 million (31/12/2018: HK$10,415.3 million). The Group is entitled to sell or repledge collateral when there is default by the borrowers. There has not been any significant changes in the quality of collateral held for loans and advances to consumer finance customers.

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

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 guarantee, charges over residential properties/commercial properties, charges over real estate properties, pledge of shares or debentures over the borrower's assets.

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 2019, no repossessed properties were held by the Group (2018: Nil).

In respect of the secured loans and advances to customers with the carrying amount of HK$143.7 million (2018: HK$183.5 million), the fair value of collateral of such loans and advances can be objectively ascertained to cover the outstanding amount of loan balances based on quoted prices of collateral.

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

31. Mortgage Loans

(HK$ Million)	**31/12/2019**	31/12/2018
Mortgage loans		
– Hong Kong	**3,648.6**	3,863.9
Less: impairment allowance	**(21.7)**	(9.7)
	3,626.9	3,854.2
Analysed for reporting purposes as:		
– Non-current assets	**1,270.7**	1,956.8
– Current assets	**2,356.2**	1,897.4
	3,626.9	3,854.2

The mortgage loans bear interest rate are as follows:

	31/12/2019	31/12/2018
Fixed rate loan receivables	**5.8% to 31.2%**	5.5% to 30.0%
Variable rate loan receivables	**P-2.3% to P+6.8%**	P-2.5% to P+6.6%

Movement of impairment allowance during the year of 2019 and 2018 are disclosed in Note 47(b).

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 or effort.

The ageing analysis for the mortgage loans that are past due is as follows:

(HK$ Million)	**31/12/2019**	31/12/2018
Less than 31 days past due	**148.8**	306.0
31–60 days	**32.0**	285.5
61–90 days	**4.0**	61.4
91–180 days	**–**	22.5
Over 180 days	**143.8**	7.5
	328.6	682.9

31. Mortgage Loans *(Continued)*

At the reporting date, mortgage loans with aggregate carrying amount of HK$328.6 million (31/12/2018: HK$682.9 million) are past due. Out of the past due balances, HK$143.8 million (31/12/2018: HK$30.0 million) has been past due 90 days or more and is considered to be credit-impaired however with collateral. The impairment provision has taken into account the credit quality of the underlying assets, the financial strength of the borrowers as well as collateral and other credit enhancements.

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

At the reporting date, mortgage loans consisted of HK$174.4 million unsecured (31/12/2018: HK$175.1 million) and HK$3,452.5 million secured (31/12/2018: HK$3,679.1 million). The Group has not recognised a loss allowance for loans amounting to HK$3,033.7 million (2018: HK$3,582.7 million) which are secured by collateral.

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 2019, the gross carrying amount of mortgage loans amounts to HK$3,648.6 million (31/12/2018: HK$3,863.9 million). The Group is entitled to sell or repledge collateral when there is a default by the borrowers. 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$1.2 million (2018: HK$7.9 million).

In respect of secured mortgage loans to mortgage loan customers with the carrying amount of HK$3,452.5 million (2018: HK$3,679.1 million), the fair value of collateral of such mortgage loans can be objectively ascertained to cover a substantial portion of the outstanding loan amounts based on valuations conducted by an independent property valuer.

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

32. Term Loans

(HK$ Million)	**31/12/2019**	31/12/2018
Secured term loans	**2,111.6**	1,945.4
Unsecured term loans	**106.0**	690.6
Less: impairment allowance	**(311.4)**	(150.8)
	1,906.2	2,485.2
Analysed for reporting purposes as:		
– Non-current assets	**49.6**	33.1
– Current assets	**1,856.6**	2,452.1
	1,906.2	2,485.2

The term loans bear interest rate are as follows:

	31/12/2019	31/12/2018
Fixed rate loan receivables	**4.0% to 21.6%**	4.0% to 30.0%

Movement of impairment allowance during the year of 2019 and 2018 are disclosed in Note 47(b).

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

32. Term Loans *(Continued)*

As at 31 December 2019, the gross carrying amount of secured term loans amounts to HK$2,111.6 million (31 December 2018: HK$1,945.4 million). The main types of collateral and credit enhancement obtained includes share charges over unlisted and listed equity securities, personal guarantees, assignment of rights and charges over properties. The Group is entitled to sell or repledge collateral when there is default by the borrowers. There has not been any significant changes in the quality of the collateral held for secured term loans. The Group has not recognised a loss allowance amounting to HK$410.1 million (2018: HK$1,535.6 million) which are secured by collateral.

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 the view of the nature of the term loans financing business.

The carrying amounts of the term loans approximate their fair values.

Further details on financial risk management of term loans are disclosed in Note 47.

33. Trade Receivables, Prepayments and Other Receivables

(HK$ Million)	**31/12/2019**	31/12/2018
Other receivables		
– Deposits	**38.0**	38.7
– Others	**391.3**	329.9
Less: impairment allowance	**(47.5)**	–
Trade and other receivables at amortised cost	**381.8**	368.6
Prepayments	**105.4**	19.1
	487.2	387.7
Analysed for reporting purposes as:		
– Non-current assets	**20.4**	22.9
– Current assets	**466.8**	364.8
	487.2	387.7

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

(HK$ Million)	**31/12/2019**	31/12/2018
Less than 31 days	**279.2**	277.8
31-60 days	**–**	2.5
	279.2	280.3
Trade and other receivables without ageing	**102.6**	88.3
	381.8	368.6

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

Further details on financial risk management of trade and other receivables are disclosed in Note 47.

34. Bank Deposits, Cash and Cash Equivalents

(HK$ Million)	**31/12/2019**	31/12/2018
Bank balances and cash	**2,732.2**	2,645.9
Fixed deposits with banks with a term within 3 months	**2,892.7**	1,976.5
Cash and cash equivalents	**5,624.9**	4,622.4
Short-term pledged bank deposits and bank balances	**33.2**	20.0
Fixed deposits with banks with a term between 4 to 12 months	**68.1**	353.5
	5,726.2	4,995.9

The carrying amounts of the 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 47.

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35. Bank and Other Borrowings

(HK$ Million)	31/12/2019	31/12/2018
Bank loans		
– Unsecured term loans	**7,544.2**	6,205.7
– Secured loans	**550.8**	915.3
Total bank borrowings	**8,095.0**	7,121.0
Other borrowings	**62.1**	62.1
	8,157.1	7,183.1
Analysed for reporting purposes as:		
– Current liabilities	**5,659.9**	5,221.3
– Non-current liabilities	**2,497.2**	1,961.8
	8,157.1	7,183.1

At 31 December 2019, bank and other borrowings were repayable as follows:

(HK$ Million)	31/12/2019	31/12/2018
Bank borrowings		
– Within one year	**4,468.7**	3,627.1
– In the second year	**1,483.3**	1,025.1
– Over two years and within five years	**951.7**	874.6
Bank borrowings with a repayment on demand clause		
– Within one year	**1,191.3**	1,594.2
	8,095.0	7,121.0
Other borrowings		
– Over five years	**62.1**	62.1
	8,157.1	7,183.1

As at 31 December 2019, all the bank loans and other borrowings are in Hong Kong dollars except for equivalent amounts of Nil which was denominated in Renminbi (31/12/2018: HK$114.1 million), HK$60.1 million which was denominated in Australian dollar (31/12/2018: Nil), HK$251.2 million which was denominated in British pounds (31/12/2018: Nil) and HK$217.7 million which was denominated in US dollar (31/12/2018: HK$72.7 million). Further details related to financial risk management of such balances are disclosed in Note 47.

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

36. Trade Payables, Other Payables and Accruals

(HK$ Million)	31/12/2019	31/12/2018
Other accounts payable	**137.3**	65.7
Accrued staff costs and other accrued expenses	**201.1**	171.2
	338.4	236.9

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)	31/12/2019	31/12/2018
Less than 31 days/repayable on demand	**125.3**	43.3
31–60 days	**6.3**	10.2
61–90 days	**5.6**	12.8
91–180 days	**0.7**	1.3
	137.9	67.6
Accrued staff costs, other accrued expenses and other payables without ageing	**200.5**	169.3
	338.4	236.9

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

37. Financial Assets Sold Under Repurchase Agreements

(HK$ Million)	31/12/2019	31/12/2018
Analysed by collateral type:		
Debt instruments classified as:		
Financial assets at fair value through profit or loss	**386.2**	1,216.5

As at 31 December 2019, debt instruments which are classified as financial assets at fair value through profit or loss with carrying amount of HK$524.9 million (2018: HK$1,483.7 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 27.

38. Related Party Transactions

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

(HK$ Million)	2019	2018
Associates and joint ventures of a holding company		
Rental and building management fees to an associate of a holding company***	**(2.6)**	(3.5)
Rental and building management fees to a joint venture of a holding company*	**(25.0)**	(25.3)
Interest expense to a joint venture of a holding company on lease liabilities*** @	**(1.4)**	–
Interest expense to an associate of a holding company***	**(5.9)**	(5.5)
Associates and joint ventures		
Loan referral fee and participation fee received from an associate ^	**10.3**	21.6
Management and service fees received from associates and joint ventures ^	**2.9**	3.9
Brokerage expenses to an associate ^	**(0.6)**	(3.8)
Service fees to an associate ^	**(7.2)**	(4.5)
Insurance premiums paid to an associate ^	**(2.0)**	(1.2)
Unlisted redeemable preference shares issued by an associate ^	**–**	(64.6)
Holding company and its subsidiaries		
(Repayment)/loan from a fellow subsidiary***	**(481.6)**	388.7
Finance costs to fellow subsidiaries***	**(36.6)**	(32.2)
Service fee to a fellow subsidiaries***	**–**	(0.5)
Management fees paid/payable to a holding company*	**(16.9)**	(17.7)
Rental and building management fees to a holding company*	**(1.4)**	(0.3)
Other related party		
Interest income from loan to Independent Non-Executive Director**	**5.4**	2.1
Repayment from/(loan to) Independent Non-Executive Director**	**1.2**	(145.0)

* The transactions also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section Continuing Connected Transactions of the Directors' Report.

** The amounts due from a deceased director are secured, interest bearing at market interest rate and repayable within 12 months from the date of drawdown. The transactions also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the announcement of the Company dated 23 October 2018.

*** The transactions also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempt from all disclosure requirements in Chapter 14A of the Listing Rules.

^ The transactions did not fall under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

@ As at 31 December 2019, the Group has lease liabilities of HK$24.1 million to the joint venture of a holding company, of which HK$39.8 million was recognised after date of initial application of HKFRS 16, i.e. 1 January 2019.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

(HK$ Million)	2019	2018
Short-term benefits*	**103.8**	79.7
Post-employment benefits*	**2.0**	1.7
	105.8	81.4

The above table includes HK$4.28 million of short-term benefits and HK$0.14 million of post-employment benefits for one of the Key Management Personnel who falls into the scope of related party transactions but not regarded as a connected person (as defined in the Listing Rules).

* During the year, 957,000 shares were granted under the SHK Employee Ownership Scheme ("EOS") to key management personnel. In addition, 1,498,000 shares with a total amount of HK$5.56 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$0.63 million (2018: HK$0.14 million). Further information of the EOS is disclosed in the "Management Discussion and Analysis" Section and Directors' Report of this Annual Report.

The transactions also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

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38. Related Party Transactions *(Continued)*

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 2019 (2018: 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)	31/12/2019	31/12/2018
Associates		
Amounts due from associates^	**329.9**	363.8
Amounts due to associates^	**–**	(1.9)
	329.9	361.9
Holding company and fellow subsidiaries		
Management fees paid/payable to a holding company*	**(2.4)**	(4.5)
Short-term loan due to fellow subsidiaries***	**(32.9)**	(514.5)
Notes/paper payable held by fellow subsidiaries***	**(395.8)**	(371.5)
Notes/paper payable held by an associate of a holding company***	**(77.9)**	–
Amount due from Independent Non-Executive Director**	**(148.6)**	(147.1)

* The transactions also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section Continuing Connected Transactions of the Directors' Report.

** The amounts due from a deceased director are secured, interest bearing at market interest rate and repayable within 12 months from the date of drawdown. The transactions also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the announcement of the Company dated 23 October 2018.

*** The transactions also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempt from all disclosure requirements in Chapter 14A of the Listing Rules.

^ The transactions did not fall under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

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

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

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

39. 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**
Additional provisions for the year	**95.0**	**3.9**	**–**	**1.1**	**100.0**
Amount written back	**(0.3)**	**–**	**(0.3)**	**–**	**(0.6)**
Amount utilised during the year	**(49.9)**	**–**	**–**	**–**	**(49.9)**
At 31 December 2019	**113.9**	**32.6**	**–**	**6.7**	**153.2**

(HK$ Million)	31/12/2019	31/12/2018
Analysed for reporting purposes as:		
– Current liabilities	**152.9**	103.5
– Non-current liabilities	**0.3**	0.2
	153.2	103.7

40. Lease Liabilities

(HK$ Million)	31/12/2019	1/1/2019
Current liabilities	**89.9**	72.1
Non-current liabilities	**27.8**	63.0
	117.7	135.1

(HK$ Million)	31/12/2019	1/1/2019
Maturity analysis		
Not later than 1 year	**89.9**	72.1
Later than 1 year and not later than 5 years	**27.8**	63.0
Later than 5 years	**–**	–
	117.7	135.1

41. Notes/Paper Payable

(HK$ Million)	31/12/2019	31/12/2018
US dollar denominated notes (the “US$ Notes”)		
– 4.75% US$ Notes maturing in May 2021 (“the “4.75% Notes”)	**1,927.0**	2,801.7
– 4.65% US$ Notes maturing in September 2022 (the “4.65% Notes”)	**3,504.8**	4,362.1
US dollar denominated senior notes (the “US$ Senior Notes”)		
– 5.75% US$ Senior Notes maturing in November 2024 (the “5.75% Notes”)	**2,734.3**	–
HK dollar denominated notes/paper (the “HK$ Notes/Paper”)		
– HK$ Notes/Paper	**432.6**	636.2
	8,598.7	7,800.0
Analysed for reporting purposes as:		
– Current liabilities	**569.5**	752.7
– Non-current liabilities	**8,029.2**	7,047.3
	8,598.7	7,800.0

41. Notes/Paper Payable *(Continued)*

The US$ Notes and US$ Senior Notes were issued by a subsidiary, Sun Hung Kai & Co. (BVI) Limited, under a US$3 billion guaranteed medium term note programme.

The HK$ Notes/Paper 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$249.8 million or equivalent to HK$1,944.9 million (31/12/2018: US$361.6 million or equivalent to HK$2,831.8 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$1,950.6 million (31/12/2018: HK$2,768.2 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 outstanding after eliminating the intra-group holdings was US$444.5 million or equivalent to HK$3,461.2 million (31/12/2018: 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$3,492.1 million (31/12/2018: HK$4,131.2 million) which was categorised as Level 2.

On 5 November 2019, the Group launched a tender offer to purchase for cash the 4.75% Notes and the 4.65% Notes at an offer price of US$1,000 per each US$1,000 in principal amount of the 4.75% Notes and the 4.65% Notes. On 15 November 2019, the Group completed the purchase of the 4.75% Notes and the 4.65% Notes in an aggregate principal amount of US$220.0 million.

The 5.75% Notes are listed on The Stock Exchange of Hong Kong Limited. The nominal value of the 5.75% Notes was US$350.0 million or equivalent to HK$2,725.5 million at the reporting date. The fair value of the 5.75% Notes based on the price quoted from pricing service at the reporting date was HK$2,761.6 million which was categorised as Level 2.

42. Share Capital

	Number of shares		Share capital	
	31/12/2019	31/12/2018	**31/12/2019**	31/12/2018
	Million Shares	Million Shares	**HK$ Million**	HK$ Million
Issued and fully paid				
Balance brought forward	**2,008.0**	2,153.0	**8,752.3**	8,752.3
Shares cancelled after repurchase	**(8.9)**	(145.0)	**–**	–
Shares repurchased but not yet cancelled	**(0.3)**	–	**–**	–
Balance carried forward	**1,998.8**	2,008.0	**8,752.3**	8,752.3

During the year, the trustee of the EOS acquired 1.3 million shares (2018: 5.6 million shares) of the Company through purchases on The Stock Exchange of Hong Kong Limited for the awarded shares of the EOS. The total amount paid to acquire the shares during the period was HK$4.7 million (2018: HK$24.8 million), which has been deducted from the owners' equity. Further information is disclosed in the relevant section of "Management Discussion and Analysis" section of this Annual Report.

During the year, an indirectly owned subsidiary of the Group – UAF repurchased its own shares through a private agreement for HK$731.5 million which increased the Group's ownership interest from 58.18% to 62.74%.

During the year, the Company repurchased a total of 9.2 million shares through purchases on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK$33.0 million. Further information is disclosed in the relevant section of the Directors' Report.

In 2018, the Company repurchased its own shares through an off-market share buy-back from Asia Financial Services Company Limited ("AFSC") purchases on The Stock Exchange of Hong Kong Limited for HK$650.9 million (including expenses). 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.

43. Analysis of Other Comprehensive Expenses

(HK$ Million)	Attributable to owners of the Company: Exchange reserve	Attributable to owners of the Company: Revaluation reserve	Non-controlling interests	Total
For the year ended 31 December 2019				
Financial assets at fair value through other comprehensive income	**–**	**(15.4)**	**1.5**	**(13.9)**
Exchange differences arising on translating foreign operations	**(73.2)**	**–**	**(40.5)**	**(113.7)**
Share of other comprehensive income of associates	**4.2**	**–**	**–**	**4.2**
Share of other comprehensive expenses of joint ventures	**(3.5)**	**–**	**–**	**(3.5)**
	(72.5)	**(15.4)**	**(39.0)**	**(126.9)**
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)

44. Commitments

(a) Operating lease commitments

The Group as lessee

At 31 December 2018, the Group had commitments for future aggregate minimum lease payments under non-cancellable operating leases related to its office premises and office equipment which fall due as follows:

(HK$ Million)	31/12/2018
Within one year	103.6
In the second to fifth year inclusive	79.2
	182.8

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 as at 31 December 2018 and an associate of a holding company of HK$1.2 million.

At 31 December 2019, the Group is committed to HK$6.4 million for short-term leases.

The maturity profile of the lease liabilities are disclosed in Note 40.

(b) Loan commitments

(HK$ Million)	**31/12/2019**	31/12/2018
Within one year	**1,397.0**	1,226.0

(c) Other commitments

(HK$ Million)	**31/12/2019**	31/12/2018
Capital commitments for funds	**751.5**	476.4
Other capital commitments	**–**	3.7
	751.5	480.1

45. Contingent Liabilities

At the end of the reporting period, the Group had guarantees to a joint venture in the amount of HK$105.2 million (2018: HK$107.0 million) and an independent third party of HK$389.3 million (2018: Nil), respectively and the movement is as follows:

(HK$ Million)	**31/12/2019**	31/12/2018
At 1 January	**107.0**	112.7
Additions	**387.7**	–
Exchange adjustments	**(0.2)**	(5.7)
At 31 December	**494.5**	107.0

46. 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 2019 and 31 December 2018.

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/paper 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)	**31/12/2019**	31/12/2018
Bank and other borrowings	**8,157.1**	7,183.1
Notes/paper payable	**8,598.7**	7,800.0
	16,755.8	14,983.1
Less: bank deposits, cash and cash equivalents	**(5,726.2)**	(4,995.9)
Net debts	**11,029.6**	9,987.2
Equity attributable to owners of the Company	**20,381.7**	19,039.2
Gearing ratio	**54.1%**	52.4%

47. 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.

47. Financial Risk Management *(Continued)*

(a) Market Risk

(i) Equity Risk

There are many asset classes available for investment in the marketplace. One of the Group's key business undertakings is investing in equity. Market risk arising from any equity investments is driven by the daily fluctuations in market prices or fair values. The ability to mitigate such risk depends on the availability of any hedging instruments and the diversification level of the investment portfolios undertaken by the Group. More importantly, the knowledge and experience of the trading staff managing the risk are also vital to ensure exposure is being properly hedged and rebalanced in the most timely manner. Proprietary trading across the Group is subject to limits approved by senior management. Valuation of these instruments is measured on a "mark-to-market" and "mark-to-fair-value" basis depending on whether they are listed or unlisted. Value at Risk ("VaR") and stress tests are employed in the assessment of risk. Meanwhile other non-VaR limits such as "maximum loss" and "position" limits are also set out to restrict excessive risk undertakings. VaR and stress tests are approaches which are widely used in the financial industry as tools to quantify risk by combining the size of a position and the extent of a potential market movement into a potential financial impact.

The Group's market-making and proprietary trading positions and their financial performance are reported daily to senior management for review. Internal Audit also performs regular checks to ensure there is adequate compliance in accordance with the established market risk limits and guidelines.

The table below summarises the overall financial impact on the Group arising from market movements in global equity indices. The analysis is based on the assumption that equity indices move ±20% with all other variables being held constant and all equity instruments undertaken by the Group moving simultaneously. Declines in the indices are expressed as negatives.

	At 31 December 2019				At 31 December 2018			
	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	**333.1**	**(324.0)**	**8.3**	**(8.3)**	298.8	(292.7)	8.8	(8.8)
Overseas Index	**1,838.4**	**(1,838.5)**	**17.6**	**(17.6)**	1,469.6	(1,478.6)	26.1	(26.1)

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 2019, assuming that market interest rates moved by ±50 basis points (31/12/2018: ±50 basis points), the profit before tax for the year for the Group would have been HK$13.4 million lower or HK$13.6 million higher respectively (2018: HK$11.4 million lower or HK$11.2 million higher respectively). Assets and liabilities bearing interest below 50 basis points are excluded from 50 basis points downward movement.

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47. Financial Risk Management *(Continued)*

(a) Market Risk *(Continued)*

(ii) Interest Rate Risk *(Continued)*

The exposures of the Group's financial assets (liabilities) bearing variable interest rate to cash flow interest rate risks and the earlier of their contractual repricing dates and contractual maturity dates are as follows:

(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 2019					
Loans and advances to consumer finance customers	133.9	–	–	–	133.9
Mortgage loans	53.7	1,288.4	–	–	1,342.1
Bank deposits, cash and cash equivalents	3,824.3	–	–	–	3,824.3
Bank borrowings	(8,125.3)	–	–	–	(8,125.3)
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)

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 2019						
Loans and advances to consumer finance customers	**2,876.6**	**4,697.8**	**2,699.8**	**5.4**	**–**	**10,279.6**
Mortgage loans	**833.8**	**1,436.4**	**14.6**	**–**	**–**	**2,284.8**
Bonds included in financial assets at fair value through profit or loss	**340.4**	**264.9**	**250.5**	**157.9**	**–**	**1,013.7**
Term loans	**1,027.2**	**827.4**	**51.6**	**–**	**–**	**1,906.2**
Amounts due from associates	**–**	**–**	**–**	**–**	**329.9**	**329.9**
Bank deposits, cash and cash equivalents	**1,682.8**	**68.1**	**–**	**–**	**151.0**	**1,901.9**
Bank borrowings	**(20.0)**	**–**	**–**	**–**	**(11.8)**	**(31.8)**
Lease liabilities	**(22.9)**	**(67.0)**	**(27.8)**	**–**	**–**	**(117.7)**
Notes/paper payable	**–**	**(569.4)**	**(8,029.3)**	**–**	**–**	**(8,598.7)**
Amounts due to fellow subsidiaries and a holding company	**(32.8)**	**–**	**–**	**–**	**(2.5)**	**(35.3)**
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
Amounts due from associates	–	–	–	–	363.8	363.8
Bank deposits, cash and cash equivalents	838.5	353.5	–	–	755.6	1,947.6
Bank borrowings	(22.8)	–	–	–	32.6	9.8
Notes/paper payable	–	(752.7)	(7,047.3)	–	–	(7,800.0)
Amounts due to fellow subsidiaries and a holding company	(514.5)	–	–	–	(4.5)	(519.0)

47. Financial Risk Management *(Continued)*

(a) Market Risk *(Continued)*

(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, private equity investments, loans and advances and bank and other borrowings denominated in foreign currencies, mainly in Australian dollars, British pounds, Euro, Canadian dollar 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 2019, assuming that the foreign exchange rates moved ±5% (31/12/2018: ±5%) with all other variables held constant, the profit before tax for the year for the Group would be HK$92.6 million higher/lower (2018: HK$88.2 million higher/lower).

(b) Credit Risk

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. As at 31 December 2019, the Group performed impairment assessment for financial assets and other items under ECL model. Information about the Group's credit risk management, maximum exposure to credit risk (which for financial assets is represented by their carrying amounts) and the related impairment assessment are summarised in the tables below. In addition, the Group is also exposed to credit risk arising from loan commitments, financial guarantee contracts for which the maximum exposure to credit risk is disclosed in Notes 44(b), 39 and 45. 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$1,662.6 million at 31 December 2019 (2018: HK$3,517.5 million), and is monitored by management according to their geographical locations and industries. Generally, the Group considers that the credit risks associated with loans and advances to consumer finance customers, mortgage loans and term loans is mitigated because they are secured over properties and other securities. For those remaining items that do not have any collateral or other credit enhancements to cover its credit risks associated with its financial assets, loan commitments and financial guarantee contracts, are exposed to credit risk.

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 (if applicable).

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

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, after taking into account any collateral held or other credit enhancements, net of ECL, at 31 December 2019 was HK$1,233.4 million (2018: HK$1,197.4 million) of which 64.6% (2018: 63.3%) was secured by collateral.

47. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

Credit risk and impairment assessment *(Continued)*

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, after taking into account any collateral held or other credit enhancements, net of ECL, at 31 December 2019 was HK$1,176.2 million (2018: HK$1,032.4 million) of which 100% (2018: 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, after taking into account any collateral held or other credit enhancements, net of ECL, at 31 December 2019 was HK$1,770.3 million (2018: HK$2,320.6 million) of which 100% (2018: 73.8%) was secured by collateral.

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 Group's internal credit risk assessment for loans and advances 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

47. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

Credit risk and impairment assessment *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets (including loans and advances 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 and other receivables), loan commitments and financial guarantee contracts, which are subject to ECL assessment:

	Note	Internal credit risk categories	12-month or lifetime ECL	Gross carrying amount	
				2019 HK$ Million	2018 HK$ Million
Loans and receivables at amortised costs and maximum exposure to credit risk without taking into account of any collaterals and other credit enhancements					
Loans and advances to consumer finance customers	30	Low risk/watch list	12-month ECL	**10,501.9**	9,912.9
		Doubtful	Lifetime ECL (not credit impaired)	**464.8**	281.8
		Loss	Lifetime ECL (credit-impaired)	**154.6**	220.6
				11,121.3*	10,415.3*
Mortgage loans	31	Low risk/ watch list	12-month ECL	**3,170.6**	3,487.6
		Doubtful	Lifetime ECL (not credit impaired)	**14.4**	350.7
		Loss	Lifetime ECL (credit-impaired)	**463.6**	25.6
				3,648.6*	3,863.9*
Term loans	32	Note 2	12-month ECL	**1,041.7**	2,228.3
		Note 2	Lifetime ECL (not credit-impaired)	**459.2**	–
			Lifetime ECL (credit-impaired)	**716.7**	407.7
				2,217.6	2,636.0
Amounts due from associates	29	N/A	12-month ECL	**329.9**	363.8
		N/A	Lifetime ECL (credit-impaired)	**17.5**	17.1
				347.4	380.9
Amounts due from brokers		N/A	12-month ECL	**451.7**	507.0
Short-term pledged bank deposits and bank balances	34	N/A	12-month ECL	**33.2**	20.0
Bank deposits	34	N/A	12-month ECL	**68.1**	353.5
Cash and cash equivalents	34	N/A	12-month ECL	**5,611.5**	4,610.7
Trade and other receivables	33	N/A	12-month ECL	**231.4**	368.6
		N/A	Lifetime ECL (credit impaired)	**197.9**	–
				429.3	368.6
Other items					
Loan commitments (Note 1)	44	Low risk/ watch list	12-month ECL	**1,382.4**	1,214.6
		Doubtful	Lifetime ECL (not credit impaired)	**14.6**	11.4
				1,397.0	1,226.0
Contingent liabilities – financial guarantee (Note 3)	45	N/A	12-month ECL	**494.5**	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, mortgage customers and term loans customers granted by the Group under revolving loan facility arrangement.
2. The ECL is assess by reference to the probability of default and loss given default for the relevant credit rating grades published by external credit rating agencies, and adjusted for forward-looking factors that are available.
3. The gross carrying amount of financial guarantee – represents the maximum amount the Group has guaranteed under respective contracts.

47. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

Impairment assessment

To assess the impairment loss on loans and advances to consumer finance customers, the Group groups together all outstanding loan balances, not subject to individual assessment, with common risk characteristics which are ascertained by categories of loan products and are further categorised then into different past due days brackets. ECL is calculated using methodology prescribed under HKFRS 9 (details refer to Note 3 Financial assets – impairment of financial assets) and the resultant impairment loss rate for loans balances which are assessed based on provision matrix within 12-month ECL and lifetime ECL (not credit impaired) are shown below:

Gross carrying amount being assessed based on provision matrix:

Loans and advances to consumer finance customers	**Average loss rate**	**31/12/2019 HK$ Million**	Average loss rate	31/12/2018 HK$ Million
Current (not past due)	**4.2%**	**8,336.7**	4.1%	8,170.9
1 to 30 days past due	**17.0%**	**692.3**	19.3%	594.9
31 to 60 days past due	**59.8%**	**124.0**	60.1%	120.8
61 to 90 days past due	**75.6%**	**73.2**	83.9%	73.9
		9,226.2		8,960.5

Debtors with significant outstanding balances or credit-impaired debts with gross carrying amounts of HK$1,740.5 million and HK$154.6 million respectively (2018: HK$1,234.2 million and HK$220.6 million respectively) on 31 December 2019 were assessed individually for impairment loss allowances.

The following tables show reconciliation of loss allowances that have been recognised for loans and advances to consumer finance customers, mortgage loans, term loans, amounts due from associates, loan commitments and trade and other receivables.

47. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

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**
Changes due to financial instruments recognised as at 1 January/during the year:				
Transfer from 12m ECL to lifetime ECL	**(9.4)**	**9.4**	**–**	**–**
Transfer from lifetime ECL to 12m ECL	**3.1**	**(3.1)**	**–**	**–**
Transfer from 12m ECL to credit-impaired	**(8.9)**	**–**	**8.9**	**–**
Transfer from lifetime ECL to credit-impaired	**–**	**(475.9)**	**475.9**	**–**
Remeasurement of ECL	**(23.9)**	**532.1**	**489.9**	**998.1**
New financial assets originated or purchased	**617.2**	**–**	**–**	**617.2**
Repayment and derecognition	**(552.0)**	**(51.9)**	**(12.2)**	**(616.1)**
	26.1	**10.6**	**962.5**	**999.2**
Movement without impact on profit or loss:				
Written off (Note)	**–**	**–**	**(933.0)**	**(933.0)**
Exchange adjustments	**(2.8)**	**(1.2)**	**–**	**(4.0)**
	(2.8)	**(1.2)**	**(933.0)**	**(937.0)**
As at 31 December 2019	**423.9**	**191.2**	**92.7**	**707.8**

Note: Amount of HK$933.0 million (2018: HK$983.9 million) that were written off during the year are still subject to enforcement activities.

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47. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

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**
Changes due to financial instruments recognised as at 1 January/during the year:				
Transfer from 12m ECL to credit-impaired	**(0.1)**	**–**	**0.1**	**–**
Transfer from lifetime ECL to credit-impaired	**–**	**(2.4)**	**2.4**	**–**
Remeasurement of ECL	**3.6**	**(1.0)**	**11.2**	**13.8**
New financial assets originated or purchased	**0.7**	**–**	**–**	**0.7**
Repayment and derecognition	**(0.7)**	**(0.4)**	**(1.4)**	**(2.5)**
	3.5	**(3.8)**	**12.3**	**12.0**
As at 31 December 2019	**3.5**	**–**	**18.2**	**21.7**

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
Changes due to financial instruments recognised as at 1 January/during the year:				
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**
Changes due to financial instruments recognised as at 1 January/during the year:				
Transfer from 12m ECL to lifetime ECL	**(18.8)**	**18.8**	**–**	**–**
Transfer from 12m ECL to credit-impaired	**(59.9)**	**–**	**59.9**	**–**
Remeasurement of ECL	**81.0**	**13.1**	**65.8**	**159.9**
New financial assets originated or purchased	**0.7**	**–**	**–**	**0.7**
	3.0	**31.9**	**125.7**	**160.6**
As at 31 December 2019	**3.4**	**31.9**	**276.1**	**311.4**

47. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

Amounts due from associates

	12-month ECL	Lifetime ECL (not credit – impaired)	Lifetime ECL (credit – impaired)	Total
	HK$ Million	HK$ Million	HK$ Million	HK$ Million
As at 1 January 2018	–	–	17.1	17.1
Repayment and derecognition	–	–	–	–
	–	–	–	–
As at 31 December 2018	**–**	**–**	**17.1**	**17.1**
Remeasurement of ECL	**–**	**–**	**0.4**	**0.4**
	–	**–**	**0.4**	**0.4**
As at 31 December 2019	**–**	**–**	**17.5**	**17.5**

Loan commitments

	12-month ECL	Lifetime ECL (not credit – impaired)	Lifetime ECL (credit – impaired)	Total
	HK$ Million	HK$ Million	HK$ Million	HK$ Million
As at 1 January 2018	23.1	4.7	–	27.8
Changes due to financial instruments recognised as at 1 January/during the year:				
Transfer from 12m ECL to lifetime ECL	(0.6)	0.6	–	–
Remeasurement of ECL	(0.2)	5.4	–	5.2
New financial assets originated or purchased	23.2	–	–	23.2
Repayment and derecognition	(22.6)	(4.9)	–	(27.5)
As at 31 December 2018	**22.9**	**5.8**	**–**	**28.7**
Changes due to financial instruments recognised during the year:				
Transfer from 12m ECL to lifetime ECL	**(0.7)**	**0.7**	**–**	**–**
Remeasurement of ECL	**1.7**	**6.6**	**–**	**8.3**
New financial assets originated or purchased	**24.7**	**–**	**–**	**24.7**
Repayment and derecognition	**(23.3)**	**(5.8)**	**–**	**(29.1)**
As at 31 December 2019	**25.3**	**7.3**	**–**	**32.6**

47. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

Trade and other receivables

	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	–	–	0.3	0.3
Changes due to financial instruments recognised as at 1 January/during the year:				
Transfer from 12m ECL to credit-impaired	(5.4)	–	5.4	–
Remeasurement of ECL	–	–	0.1	0.1
New financial assets originated or purchased	5.4	–	–	5.4
Repayment and derecognition	–	–	(0.4)	(0.4)
	–	–	5.1	5.1
Movement without impact on profit or loss:				
Written off	–	–	(5.4)	(5.4)
	–	–	(5.4)	(5.4)
As at 31 December 2018	**–**	**–**	**–**	**–**
Changes due to financial instruments recognised as at 1 January/during the year:				
Transfer from 12m ECL to credit-impaired	**(0.1)**	**–**	**0.1**	**–**
Remeasurement of ECL	**–**	**–**	**47.5**	**47.5**
New financial assets originated or purchased	**0.1**	**–**	**–**	**0.1**
Repayment and derecognition	**–**	**–**	**–**	**–**
	–	**–**	**47.6**	**47.6**
Movement without impact on profit or loss:				
Written off	**–**	**–**	**(0.1)**	**(0.1)**
	–	**–**	**(0.1)**	**(0.1)**
As at 31 December 2019	**–**	**–**	**47.5**	**47.5**

47. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

Changes in the loss allowance for loans and advances to consumer finance customers, mortgage loans, term loans, amounts due from associates, loan commitments and trade and other receivables 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**
Changes due to financial instruments recognised as at 1 January/during the year:				
Transfer from 12m ECL to lifetime ECL	**(1,194.7)**	**1,194.7**	**–**	**–**
Transfer from lifetime ECL to 12m ECL	**6.2**	**(6.2)**	**–**	**–**
Transfer from 12m ECL to credit-impaired	**(240.8)**	**–**	**240.8**	**–**
Transfer from lifetime ECL to credit-impaired	**–**	**(735.4)**	**735.4**	**–**
New financial assets originated or purchased	**15,093.5**	**–**	**–**	**15,093.5**
Repayment and derecognition	**(13,031.7)**	**(268.8)**	**(108.9)**	**(13,409.4)**
Written off	**–**	**–**	**(933.0)**	**(933.0)**
Exchange adjustments	**(43.5)**	**(1.3)**	**(0.3)**	**(45.1)**
Gross carrying amount as at 31 December 2019	**10,501.9**	**464.8**	**154.6**	**11,121.3**

As at 31 December 2019, loans and advances to consumer finance customers with a gross carrying amount of HK$89.0 million (2018: HK$89.6 million) classified as lifetime ECL (credit-impaired) is covered by collateral and other credit enhancement measures.

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47. Financial Risk Management *(Continued)*

(b) Credit Risk *(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**
Changes due to financial instruments recognised as at 1 January/during the year:				
Transfer from 12m ECL to lifetime ECL	**(196.8)**	**196.8**	**–**	**–**
Transfer from 12m ECL to credit-impaired	**(7.9)**	**–**	**7.9**	**–**
Transfer from lifetime ECL to 12m ECL	**–**	**–**	**–**	**–**
Transfer from lifetime ECL to credit-impaired	**–**	**(459.1)**	**459.1**	**–**
New financial assets originated or purchased	**2,033.1**	**–**	**–**	**2,033.1**
Repayment and derecognition	**(2,145.4)**	**(74.0)**	**(29.0)**	**(2,248.4)**
Gross carrying amount as at 31 December 2019	**3,170.6**	**14.4**	**463.6**	**3,648.6**

As at 31 December 2019, mortgage loans with a gross carrying amount of HK$463.6 million (2018: 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**
Changes due to financial instruments recognised during the year:				
Transfer from 12m ECL to lifetime ECL	**(459.2)**	**459.2**	**–**	**–**
Transfer from 12m ECL to credit-impaired	**(309.0)**	**–**	**309.0**	**–**
New financial assets originated or purchased	**371.4**	**–**	**–**	**371.4**
Repayment and derecognition	**(789.8)**	**–**	**–**	**(789.8)**
Gross carrying amount as at 31 December 2019	**1,041.7**	**459.2**	**716.7**	**2,217.6**

As at 31 December 2019, term loans with a gross carrying amount of HK$716.7 million (2018: HK$407.7 million) classified as lifetime ECL (credit-impaired) is covered by collateral and other credit enhancement measures.

47. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

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**
Changes due to financial instruments recognised as at 1 January/during the year:				
Advances	**–**	**–**	**0.4**	**0.4**
Repayment and derecognition	**(33.9)**	**–**	**–**	**(33.9)**
Gross carrying amount as at 31 December 2019	**329.9**	**–**	**17.5**	**347.4**

Trade and other receivables

	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	139.8	–	–	139.8
Changes due to financial instruments recognised as at 1 January/during the year:				
New financial assets originated or purchased	242.9	–	–	242.9
Repayment and derecognition	(14.1)	–	–	(14.1)
Gross carrying amount as at 31 December 2018	**368.6**	**–**	**–**	**368.6**
Changes due to financial instruments recognised as at 1 January/during the year:				
Transfer from 12m ECL to credit-impaired	**(242.9)**	**–**	**242.9**	**–**
New financial assets originated or purchased	**105.7**	**–**	**–**	**105.7**
Repayment and derecognition	**–**	**–**	**(45.0)**	**(45.0)**
Gross carrying amount as at 31 December 2019	**231.4**	**–**	**197.9**	**429.3**

47. Financial Risk Management *(Continued)*

(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.

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 2019					
Bank and other borrowings+	**4,892.5**	**877.4**	**2,609.7**	**62.1**	**8,441.7**
Trade and other payables	**137.3**	**–**	**–**	**–**	**137.3**
Financial assets sold under repurchase agreements	**386.2**	**–**	**–**	**–**	**386.2**
Amounts due to fellow subsidiaries and a holding company	**35.5**	**–**	**–**	**–**	**35.5**
Lease liabilities	**24.0**	**68.9**	**28.5**	**–**	**121.4**
Notes/paper payable	**181.9**	**666.1**	**9,126.6**	**–**	**9,974.6**
Loan commitments#	**1,397.0**	**–**	**–**	**–**	**1,397.0**
Guarantees*	**–**	**105.2**	**389.3**	**–**	**494.5**
Total	**7,054.4**	**1,717.6**	**12,154.1**	**62.1**	**20,988.2**
At 31 December 2018					
Bank and other borrowings+	5,181.1	68.9	2,018.9	62.1	7,331.0
Trade payables and other payables	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/paper payable	738.1	234.2	7,928.0	–	8,900.3
Loan commitments#	1,226.0	–	–	–	1,226.0
Guarantees*	–	107.0	–	–	107.0
Total	8,952.8	410.1	9,946.9	62.1	19,371.9

+ Bank and other borrowings with repayment on demand clause are classified as on demand in the above analysis although the demand clause has not been exercised.

The amount represents the maximum 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.

48. 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 38)	Bank and other borrowings (Note 35)	Lease liabilities (Note 40)	Notes/ paper payable (Note 41)	Total
At 31 December 2018	514.5	7,183.1	–	7,800.0	15,497.6
Impact on initial application of HKFRS 16	–	–	135.1	–	135.1
At 1 January 2019	514.5	7,183.1	135.1	7,800.0	15,632.7
Financing cash flows:					
New short-term loans due to fellow subsidiaries repaid	(481.6)	–	–	–	(481.6)
Net short-term bank and other borrowings repaid	–	(19,034.0)	–	–	(19,034.0)
New long-term bank and other borrowings raised	–	19,967.6	–	–	19,967.6
Proceeds from issue of notes/paper	–	–	–	3,989.8	3,989.8
Repurchase of notes/paper	–	–	–	(1,718.9)	(1,718.9)
Repayment of notes/paper	–	–	–	(1,498.7)	(1,498.7)
Accrued interest	–	355.6	5.5	385.4	746.5
Interest paid	–	(314.7)	(5.5)	(347.1)	(667.3)
Lease payments	–	–	(77.6)	–	(77.6)
New lease entered/lease modified	–	–	60.5	–	60.5
Effect on foreign exchange rate changes	–	(0.5)	(0.3)	(11.8)	(12.6)
At 31 December 2019	32.9	8,157.1	117.7	8,598.7	16,906.4
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/paper	–	–	–	795.1	795.1
Redemption of notes/paper	–	–	–	(576.4)	(576.4)
Repayment of notes/paper	–	–	–	(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

49. Post Balance Sheet Event

The outbreak of novel coronavirus (COVID-19) started in Wuhan, the PRC and spread throughout China and since then to countries across the world. The increase in transmission and geographical spread of COVID-19 largely occurred after the year end and, as at 31 December 2019, there were only a limited number of cases concentrated in Wuhan, Hubei. Travel restrictions and quarantine measures adopted by governments, non-governmental organisations, and private entities in relation to COVID-19 that could reasonably have been deemed to affect the Group's financial statements, have substantially all occurred after the year end. Resultant economic and financial effects related to COVID-19 are largely attributed to events that have taken place after the year end, and therefore, the Directors considered that the events resulting from the spread of COVID-19 after 31 December 2019 should be accounted for as non-adjusting events. The Directors will monitor the developments of COVID-19 situation closely, assess and react proactively to its impacts on the financial position and operating results of the Group. A prolonged COVID-19 crisis may have a material effect on our 2020 financial results. Given the dynamic nature of these circumstances, the related impact on our Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and any impact will be reflected in the Group's 2020 financial statements and beyond depending on how the situation evolves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

50. Statement of Financial Position of the Company

(HK$ Million)	31/12/2019	31/12/2018
Non-current Assets		
Property and equipment	**0.8**	1.2
Intangible assets	**6.2**	1.3
Interest in subsidiaries	**4,008.7**	4,008.4
Interest in associates	**700.8**	700.8
Amounts due from subsidiaries	**7,905.4**	7,562.0
Amounts due from associates	**59.8**	60.1
	12,681.7	12,333.8
Current Assets		
Amounts due from subsidiaries	**5,408.3**	4,634.8
Other receivables	**5.0**	2.7
Tax recoverable	**3.4**	4.2
Cash and cash equivalents	**339.8**	73.2
	5,756.5	4,714.9
Current Liabilities		
Amounts due to subsidiaries	**7,045.3**	5,288.2
Amounts due to holding company	**2.4**	4.5
Trade and other payables	**31.4**	15.8
Provisions	**111.8**	83.8
	7,190.9	5,392.3
Net Current Liabilities	**(1,434.4)**	(677.4)
Total Assets less Current Liabilities	**11,247.3**	11,656.4
Capital and Reserves		
Share capital	**8,731.0**	8,731.0
Reserves	**2,516.0**	2,925.2
Equity attributable to owners of the Company	**11,247.0**	11,656.2
Non-current Liabilities		
Provisions	**0.3**	0.2
	11,247.3	11,656.4

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 30 March 2020 and are signed on its behalf by:

Lee Seng Huang	**Simon Chow Wing Charn**
Director	*Director*

51. Reserves of the Company

(HK$ Million)	2019	2018
Retained earnings		
Balance at 1 January	**2,925.2**	3,377.4
Profit and total comprehensive income for the year	**144.6**	758.7
Unclaimed dividends forfeited	**0.2**	–
Dividends paid	**(521.0)**	(560.0)
Shares repurchased	**(33.0)**	(650.9)
Balance at 31 December	**2,516.0**	2,925.2

The distributable reserves of the Company at 31 December 2019 amounted to HK$1,905.9 million (31/12/2018: HK$2,315.0 million), being its net realised profits calculated under Section 291 of the Hong Kong Companies Ordinance.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

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

EXECUTIVE COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

Evan Au Yang Chi Chun *(Chairman)*
(appointed as 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
David Craig Bartlett
Peter Anthony Curry
Jacqueline Alee Leung

RISK MANAGEMENT COMMITTEE

Robert James Quinlivan *(Chairman)*
Simon Chow Wing Charn
Benjamin John Falloon
Alfred Leung Sai Kit

COMPANY SECRETARY

Hester Wong Lam Chun

INVESTOR RELATIONS

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AUDITOR

Deloitte Touche Tohmatsu

SOLICITORS

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

BANKERS

Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
Bank of China (Hong Kong) Limited
OCBC Wing Hang Bank Limited
China Construction Bank (Asia) Corporation Limited
China CITIC Bank International Limited
Chong Hing Bank Limited
Fubon Bank (Hong Kong) Limited
Public Bank (Hong Kong) Limited
Dah Sing Bank, Limited
Taipei Fubon Commercial Bank Co., Ltd.
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
Industrial and Commercial Bank of China (Macau) Limited
Tai Fung Bank Limited
Cathay United Bank Company, Limited,
Hong Kong Branch

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Tricor Secretaries Limited
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