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

# ANNOUNCEMENT OF 2017 FINAL RESULTS

## LETTER FROM THE CHAIRMAN

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

### Financial Results and Capital Management

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

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

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

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

## Seeking Long Term Capital Growth

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

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

## Business Portfolio

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

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

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

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

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

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

**Established Investment Platform**

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

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

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

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

**Lee Seng Huang**
*Group Executive Chairman*

Hong Kong, 21 March 2018

## GROUP RESULTS

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2017 as set out below:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2017*

| | *Notes* | **2017** **HK$ Million** | 2016 *HK$ Million* |
|---|---|---|---|
| Revenue | *4* | **3,795.6** | 3,511.3 |
| Other gains | *5* | **250.1** | 178.9 |
| Total income | | **4,045.7** | 3,690.2 |
| Brokerage and commission expenses | | **(46.7)** | (51.0) |
| Advertising and promotion expenses | | **(145.6)** | (120.3) |
| Direct cost and operating expenses | | **(61.5)** | (37.0) |
| Administrative expenses | | **(1,208.1)** | (1,158.3) |
| Net gain on financial assets and liabilities | *6* | **1,229.4** | 749.9 |
| Net exchange (loss) gain | | **(126.9)** | 9.7 |
| Bad and doubtful debts | *7* | **(386.7)** | (895.7) |
| Finance costs | | **(544.3)** | (488.3) |
| Other losses | | **(177.7)** | (142.8) |
| | | **2,577.6** | 1,556.4 |
| Share of results of associates | | **59.6** | 0.5 |
| Share of results of joint ventures | | **(28.7)** | (55.3) |
| Profit before taxation | *8* | **2,608.5** | 1,501.6 |
| Taxation | *9* | **(294.6)** | (131.9) |
| Profit for the year | | **2,313.9** | 1,369.7 |
| Profit attributable to: | | | |
| – Owners of the Company | | **1,824.3** | 1,109.6 |
| – Non-controlling interests | | **489.6** | 260.1 |
| | | **2,313.9** | 1,369.7 |
| Earnings per share | *11* | | |
| – Basic (HK cents) | | **84.0** | 50.3 |
| – Diluted (HK cents) | | **83.9** | 50.2 |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2017*

| | **2017** | 2016 |
|---|---|---|
| | ***HK$ Million*** | *HK$ Million* |
| **Profit for the year** | **2,313.9** | 1,369.7 |
| **Other comprehensive income (expenses) that may be reclassified subsequently to profit or loss** | | |
| Available-for-sale investments | | |
| – Net fair value changes during the year | **176.9** | (0.7) |
| – Reclassification adjustment to profit or loss on impairment | **(176.2)** | – |
| | **0.7** | (0.7) |
| Exchange differences arising on translating foreign operations | **466.2** | (490.9) |
| Reclassification adjustment to profit or loss on disposal/ liquidation of subsidiaries | **–** | (0.1) |
| Share of other comprehensive income (expenses) of associates | **3.5** | (4.9) |
| Share of other comprehensive income (expenses) of joint ventures | **2.2** | (1.5) |
| | **472.6** | (498.1) |
| **Other comprehensive income (expenses) for the year** | **472.6** | (498.1) |
| Total comprehensive income for the year | **2,786.5** | 871.6 |
| Total comprehensive income attributable to: | | |
| – Owners of the Company | **2,112.7** | 811.1 |
| – Non-controlling interests | **673.8** | 60.5 |
| | **2,786.5** | 871.6 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2017*

| | Notes | **31/12/2017 HK$ Million** | 31/12/2016 HK$ Million |
|---|---|---|---|
| **Non-current Assets** | | | |
| Investment properties | | **1,178.6** | 1,054.5 |
| Leasehold interests in land | | **4.4** | 4.2 |
| Property and equipment | | **456.2** | 421.9 |
| Intangible assets | | **882.6** | 883.4 |
| Goodwill | | **2,384.0** | 2,384.0 |
| Interest in associates | | **1,365.8** | 1,086.5 |
| Interest in joint ventures | | **280.2** | 227.1 |
| Available-for-sale investments | | **324.0** | 109.5 |
| Financial assets at fair value through profit or loss | | **5,033.7** | 3,632.9 |
| Deferred tax assets | | **649.6** | 652.5 |
| Amounts due from associates and joint ventures | | **275.2** | 248.8 |
| Loans and advances to consumer finance customers | *12* | **2,322.8** | 2,190.8 |
| Mortgage loans | *13* | **1,243.1** | 330.4 |
| Trade and other receivables | *14* | **505.8** | 359.9 |
| Deposits for acquisition of property and equipment | | **–** | 44.8 |
| | | **16,906.0** | 13,631.2 |
| **Current Assets** | | | |
| Financial assets at fair value through profit or loss | | **6,188.4** | 2,979.1 |
| Taxation recoverable | | **5.4** | 1.9 |
| Amounts due from associates and joint ventures | | **143.6** | 64.5 |
| Loans and advances to consumer finance customers | *12* | **6,840.8** | 5,469.5 |
| Mortgage loans | *13* | **877.3** | 282.7 |
| Trade and other receivables | *14* | **2,823.5** | 2,620.3 |
| Amounts due from brokers | | **725.8** | 1,059.5 |
| Bank deposits | | **787.7** | 1,257.7 |
| Cash and cash equivalents | | **2,123.7** | 5,194.5 |
| | | **20,516.2** | 18,929.7 |
| **Current Liabilities** | | | |
| Financial liabilities at fair value through profit or loss | | **161.1** | 115.3 |
| Bank and other borrowings | | **2,196.8** | 2,092.6 |
| Trade and other payables | *15* | **329.1** | 239.1 |
| Financial liabilities for repurchase agreements | | **1,071.0** | – |
| Amounts due to fellow subsidiaries and a holding company | | **135.3** | 41.0 |
| Amounts due to associates | | **1.9** | 1.9 |
| Provisions | | **69.5** | 54.7 |
| Taxation payable | | **146.0** | 135.3 |
| Notes issued | | **1,079.1** | 2,264.5 |
| | | **5,189.8** | 4,944.4 |
| **Net Current Assets** | | **15,326.4** | 13,985.3 |
| **Total Assets less Current Liabilities** | | **32,232.4** | 27,616.5 |

| | Notes | **31/12/2017** | 31/12/2016 |
|---|---|---|---|
| | | ***HK$ Million*** | *HK$ Million* |
| **Capital and Reserves** | | | |
| Share capital | | **8,752.3** | 8,752.3 |
| Reserves | | **10,674.4** | 9,324.7 |
| Equity attributable to owners of the Company | | **19,426.7** | 18,077.0 |
| Non-controlling interests | | **3,971.8** | 3,578.8 |
| Total Equity | | **23,398.5** | 21,655.8 |
| **Non-current Liabilities** | | | |
| Deferred tax liabilities | | **181.5** | 195.4 |
| Bank and other borrowings | | **1,600.4** | 2,717.7 |
| Provisions | | **0.2** | 0.2 |
| Notes issued | | **7,051.8** | 3,047.4 |
| | | **8,833.9** | 5,960.7 |
| | | **32,232.4** | 27,616.5 |

*Notes:*

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

The financial information relating to the financial years ended 31st December 2017 and 2016 included in this announcement of annual results does not constitute the company's statutory annual financial statements for those financial years but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31st December 2016 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31st December 2017 in due course. The Company's auditor has reported on those financial statements for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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

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

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

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 | As part of the Annual Improvements to HKFRSs 2014-2016 Cycle |

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

***Amendments to HKAS 7 Disclosure Initiative***

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

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

## 3. SEGMENT INFORMATION

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

The main reportable and operating segments presented in these financial statements are as follows:

(a) Financial Services: provision of financial services.

(b) Consumer Finance: provision of consumer financing.

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

(d) Principal Investments: portfolio investments.

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

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

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | **Financial Services** *HK$ Million* | **Consumer Finance** *HK$ Million* | **Mortgage Loans** *HK$ Million* | **Principal Investments** *HK$ Million* | **Group Management and Support** *HK$ Million* | **Total** *HK$ Million* |
| Segment revenue | 4.0 | 3,122.2 | 124.4 | 527.7 | 224.4 | 4,002.7 |
| Less: inter-segment revenue | – | – | – | – | (207.1) | (207.1) |
| Segment revenue from external customers | 4.0 | 3,122.2 | 124.4 | 527.7 | 17.3 | 3,795.6 |
| Segment profit or loss | 109.0 | 1,444.7 | 35.0 | 1,061.0 | (72.1) | 2,577.6 |
| Share of results of associates | 59.6 | – | – | – | – | 59.6 |
| Share of results of joint ventures | (28.7) | – | – | – | – | (28.7) |
| Profit before taxation | 139.9 | 1,444.7 | 35.0 | 1,061.0 | (72.1) | 2,608.5 |
| Included in segment profit or loss: | | | | | | |
| Interest income | – | 3,074.8 | 124.0 | 424.6 | 17.7 | 3,641.1 |
| Other gains | 107.6 | 16.9 | – | 119.8 | 5.8 | 250.1 |
| Net gain on financial assets and liabilities | (1.2) | – | – | 1,231.8 | (1.2) | 1,229.4 |
| Net exchange loss | – | (40.5) | – | (62.8) | (23.6) | (126.9) |
| Bad and doubtful debts | – | (297.3) | (3.2) | (88.2) | – | (388.7) |
| Amortisation and depreciation | – | (43.3) | (1.3) | – | (12.5) | (57.1) |
| Impairment loss on available-for-sale investment measured at fair value | – | – | – | (176.2) | – | (176.2) |
| Finance costs | – | (202.1) | (42.3) | (157.6) | (343.0) | (745.0) |
| Less: inter-segment finance costs | – | 0.8 | 42.3 | 157.6 | – | 200.7 |
| Finance costs to external suppliers | – | (201.3) | – | – | (343.0) | (544.3) |
| Cost of capital income (charges)* | – | – | – | (289.5) | 289.5 | – |

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

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

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

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

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

## 4. REVENUE

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

## 5. OTHER GAINS

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

* The Group disposed of 70% interest in a wholly-owned subsidiary Sun Hung Kai Financial Group Limited ("SHKFGL") in June 2015 and classified the remaining 30% equity interest as an associate. Affected by the slow recovery of Hong Kong and China stock markets in 2016 after the stock market correction in the second half of 2015, the carrying amount of the 30% equity interest in SHKFGL exceeded the recoverable amount at the reporting date that led to a further impairment loss for the year ended 31 December 2016. The impairment loss was included in Financial Services segment.

The recoverable amount was measured at fair value less cost of disposal of SHKFGL. There was an improvement of the stock market in 2017 and resulted in a partial reversal of impairment loss for the year ended 31 December 2017. The fair value was measured by discounted cash flow approach at the reporting date using a discount rate of 16.6% (2016: 19.7%). As part of the disposal in 2015, the Group was awarded a put right on the 30% equity interest of SHKFGL. This put right recorded a valuation gain during the period of HK$1.0 million (2016: HK$345.0 million gain) classified under net gain on financial assets and liabilities.

## 6. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES

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

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

## 7. BAD AND DOUBTFUL DEBTS

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

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

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

## 8. PROFIT BEFORE TAXATION

| | **2017** | 2016 |
|---|---|---|
| | ***HK$ Million*** | *HK$ Million* |
| Profit before taxation for the year has been arrived at after charging: | | |
| Dividends from listed investments | **10.8** | 13.7 |
| Dividends from unlisted investments | **–** | 3.6 |
| Amortisation of leasehold interests in land | **(0.1)** | (0.2) |
| Depreciation of property and equipment | **(55.2)** | (55.8) |
| Amortisation of intangible assets | | |
| – Intangible assets acquired in business combination included in direct cost and operating expenses | **–** | (4.1) |
| – Computer software (included in administrative expenses) | **(1.8)** | (1.5) |
| Net loss on disposal/write-off of equipment included in other losses | **(1.5)** | (1.1) |
| Impairment loss on interest in an associate | **–** | (141.5) |
| Impairment loss on available-for-sale investment measured at fair value | **(176.2)** | – |

## 9. TAXATION

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

Hong Kong profits tax is calculated at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2016: 25%). Taxation arising in other jurisdictions is calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in the relevant jurisdictions.

## 10. DIVIDENDS

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

## 11. EARNINGS PER SHARE

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

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

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

## 12. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

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

The following is an ageing analysis for the loans and advances to consumer finance customers that were past due at the end of the reporting period but not impaired:

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

## 13. MORTGAGE LOANS

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

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

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

## 14. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

## 15. TRADE AND OTHER PAYABLES

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS ANALYSIS

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

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

Operating costs increased 7% to HK$1,461.9 million, less than the corresponding increase in turnover.

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

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

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

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

## BUSINESS REVIEW

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

| | 2017 | | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| (HK$ Million) | ROA* | Pre-tax Contribution | *YoY Change* | Segment Assets | ROA* | Pre-tax Contribution | Segment Assets |
| Consumer Finance | *9.0%* | 1,444.7 | *98.8%* | 16,032.2 | *4.4%* | 726.6 | 16,479.9 |
| Principal Investments | *6.7%* | 1,061.0 | *124.5%* | 15,936.8 | *4.4%* | 472.6 | 10,845.1 |
| Financial Services | *5.6%* | 139.9 | *-23.3%* | 2,482.7 | *7.9%* | 182.3 | 2,302.2 |
| Mortgage Loans | *1.6%* | 35.0 | *1844.4%* | 2,185.4 | *0.3%* | 1.8 | 639.7 |
| GMS | *-9.2%* | (72.1) | *n.a.* | 785.1 | *5.2%* | 118.3 | 2,294.0 |
| **Total** | ***7.0%*** | **2,608.5** | ***73.7%*** | **37,422.2** | ***4.6%*** | **1,501.6** | **32,560.9** |

* Return on assets ratio based on pre-tax contribution and period end segment assets

The pre-tax return on assets for the Group was 7.0% in 2017, compared to 4.6% for the whole year of 2016.

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

### *Consumer Finance*

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

**Full year results**

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

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

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

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

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

**Half yearly trend analysis on key profitability metrics from 2016 – 2017**

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

* Annualised on the average gross loan balance

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

* On average gross loan balance

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

**Bad debts and delinquency**

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

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

| **No. of days of past due** | **As at 31 Dec 2017** | *Note* | **As at 31 Dec 2016** | *Note* |
|---|---|---|---|---|
| Less than 31 | 538.7 | *5.9%* | 499.6 | *6.5%* |
| 31 – 60 | 100.2 | *1.1%* | 91.8 | *1.2%* |
| 61 – 90 | 52.9 | *0.6%* | 55.2 | *0.7%* |
| 91 – 180 | 117.5 | *1.3%* | 139.8 | *1.9%* |
| Over 180 | 31.4 | *0.3%* | 169.6 | *2.2%* |
| **Total** | **840.7** | **9.2%** | **956.0** | **12.5%** |

Note: amount as a % of net loan balance.

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

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

**Branch network**

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

* Loan marketing branches

**Mainland China Business**

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

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

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

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

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

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

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

**Hong Kong Business**

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

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

***Mortgage Loans***

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

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

**Mortgage Loans Segment Full Year Results**

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

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

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

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

***Financial Services***

The segment consists of the Group's strategic interests in financial services companies through joint ventures and associated companies. These interests are complementary to our loan and investment strategies. Pre-tax contribution from this segment was significant at HK$139.9 million (2016: HK$182.3 million). The decline was mainly due to lower net accounting gains from our stake in the Everbright Sun Hung Kai business ("EBSHK", previously Sun Hung Kai Financial).

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

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

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

### *Principal Investments*

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

As at 31 December 2017, total investment assets of the segment increased 48.5% to HK$15,936.8 million (31 December 2016: HK$10,730.1 million). The investment gain was HK$1,570.1 million, with satisfactory performance across all asset classes.

Taking into account the investment gain less operating costs, interest and cost of capital allocated to GMS, the segment contributed HK$1,061.0 million to pre-tax profit, a 125% increase over 2016.

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

**2017 Principal Investments Asset Breakdown**

| (HK$ Million) | Year-end value | Average value | Gain | Return[2] |
|---|---|---|---|---|
| Public Equities | 2,767.7 | 2,113.5 | 165.4 | *7.8%* |
| Private Equities | 4,322.9 | 3,841.1 | 760.1 | *19.8%* |
| Public Credit | 3,513.2 | 2,667.1 | 102.5 | *3.8%* |
| Private Credit | 3,222.7 | 3,097.9 | 416.0 | *13.4%* |
| Real Estate | 2,110.3 | 1,954.6 | 126.1 | *6.4%* |
| | **15,936.8** | **13,674.1** | **1,570.1** | ***11.5%*** |
| Operating Costs | | | (62.0) | |
| Cost of Capital and finance costs[1] | | | (447.1) | |
| **Pre-tax contribution** | | | **1,061.0** | |

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

**2016 Principal Investments Asset Breakdown**

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

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

**Public Equities (17%)**

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

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

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

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

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

**Private Equities (27%)**

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

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

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

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

**Public Credit (22%)**

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

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

Total public credit portfolio was valued at HK$3,513.2 million as at 31 December 2017, a big increase from 2016. Since 2017, the portfolio includes cash management products as part of the Group's liquidity management. The overall public credit portfolio recorded a 3.8% return on the average portfolio value. Excluding the liquidity management portion, the public credit investment portfolio returned 5.5%. The emphasis of the portfolio was investments in Asian public credit, as well as investments in credit with higher quality risk weighting and defensive market positions.

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

**Private Credit (20%)**

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

The private credit portfolio amounted to HK$3,222.7 million as at 31 December 2017, an 11% increase from the end of 2016. Interest income increased 26% year-on-year to HK$424.6 million from the loan growth and a more profitable loan mix. The interest generated was equivalent to an annualised return of approximately 13.4% on the loan balance. 73% of the portfolio represented loans to investment holding companies, while the remainder represented business-related loans. Almost all the loans were either secured by assets or had other guarantees by corporate or high network individuals. The provision for bad credit of HK$88.2 million recorded in 2017 is equivalent to 2.8% of the private credit loan portfolio. We are working towards possible future recovery by helping one of the borrowers on their business restructuring.

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

**Real Estate (13%)**

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

– Hong Kong commercial real estate

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

– Special situation investments in the international hospitality sector

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

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

The real estate portfolio was valued at HK$2,110.3 million as of the end of December 2017, generated a 6.4% return on the average value. The main contributor to performance has been rental income from our Hong Kong office portfolio, while foreign exchange hedges have detracted from returns in our hospitality portfolio. We expect to receive liquidity for some of our positions in residential properties during 2018 at or above book value. While we have not written up the value of our hospitality investments, the underlying assets performed well operationally with improving metrics across the UK and continental Europe. We expect this momentum to continue in the next one to two years with the upgraded asset and the management drive to improve margins by tackling operating efficiencies.

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

## OUTLOOK

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

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

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

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

## FINANCIAL REVIEW

### Financial Resources, Liquidity, Capital Structure and Key Performance Indicator

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

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

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

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

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

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

^ Listed on the Hong Kong Stock Exchange

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

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

During the year, the Group 6.375% Notes and 3% Notes matured in September and December 2017, the total redemption amount was HK$1,965.9 million. There are no known seasonal factors in the Group's borrowing profiles.

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

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

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

**Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures**

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

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

**Charges on Group Assets**

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

### Contingent Liabilities

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

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

* The Group has provided guarantees to lenders of its loan guarantee customers to guarantee the repayment of debts owed by the loan guarantee customers to their lenders. At 31 December 2017, the outstanding guarantee amount was HK$19.2 million (31/12/2016: HK$81.9 million).

## HUMAN RESOURCES AND TRAINING

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

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

## SECOND INTERIM DIVIDEND

The Board has declared a second interim dividend of HK14 cents per share (in lieu of a final dividend) for the year ended 31 December 2017 to shareholders of the Company whose names appear on the register of members of the Company on 22 June 2018, making a total dividend for the year 2017 of HK26 cents (2016: HK26 cents) per share. Dividend warrants for the second interim dividend is expected to be despatched on 28 June 2018.

## ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "2018 AGM") is scheduled to be held on Thursday, 24 May 2018. The Notice of the 2018 AGM will be published on the website of the Company (www.shkco.com) and the website of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (www.hkexnews.hk), and dispatched to the shareholders around mid-April 2018.

## CLOSURES OF REGISTER OF MEMBERS

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

| Events | | Book close period |
|---|---|---|
| For entitlement to the second interim dividend | : | 21 June 2018 and 22 June 2018<br>(Ex-dividend date being 19 June 2018)<br>(Record date being 22 June 2018) |
| For attendance to 2018 AGM | : | 18 May 2018 – 24 May 2018<br>(both days inclusive)<br>(Record date being 24 May 2018) |

In order to qualify for entitlement to the second interim dividend and/or attendance to the 2018 AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrar, Tricor Secretaries Limited, for registration not later than 4:30 p.m. on the following dates:

| Events | | Last date of lodgment of transfer documents |
|---|---|---|
| For entitlement to the second interim dividend | : | 20 June 2018 |
| For attendance to 2018 AGM | : | 17 May 2018 |

## CORPORATE GOVERNANCE CODE

During the year ended 31 December 2017, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, except for certain deviations which are summarised below:

**(a) Code Provision A.2.1**

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Under the current organisational structure of the Company, the functions of a chief executive are performed by the Group Executive Chairman, Mr. Lee Seng Huang, in conjunction with the Group Deputy Chief Executive Officer, Mr. Simon Chow Wing Charn. The Group Executive Chairman oversees the Group's Principal Investments which are managed by the Chief Investment Officer as well as its interest in UAF whose day-to-day management lies with its designated Managing Director. Mr. Simon Chow assists the Group Executive Chairman in driving the performance of Mortgage Loans and the other operating businesses of the Group as well as exploring new areas of growth.

The Board believes that this structure spreads the workload that would otherwise be borne by an individual chief executive, allowing the growing businesses of the Group to be overseen by appropriately qualified and experienced senior executives in those fields. Furthermore, it enhances communications and speeds up the decision-making process across the Company. The Board also considers that this structure will not impair the balance of power and authority between the Board and management of the Company. An appropriate balance can be maintained by the operation of the Board, which holds at least four regular meetings a year to discuss business and operational issues of the Group.

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

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

The terms of reference of the Remuneration Committee adopted by the Company are in compliance with the code provision B.1.2 of the CG Code, except that the Remuneration Committee 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 terms of reference of the Audit Committee adopted by the Company are in compliance with the code provision C.3.3 of the CG Code, except that the Audit Committee shall (i) recommend (as opposed to implement under the code provision) the policy on the engagement of the external auditor to supply non-audit services; (ii) only possesses the effective ability to scrutinise (as opposed to ensure under the code provision) whether management has performed its duty to have effective risk management and internal control systems; (iii) can promote (as opposed to ensure under the code provision) co-ordination between the internal and external auditors; and (iv) can check (as opposed to ensure under the code provision) whether the internal audit function is adequately resourced and has appropriate standing within the Company.

The reasons for the above deviations had been set out in the Corporate Governance Report contained in the Company's annual report for the financial year ended 31 December 2017. The Board has reviewed the terms during the year under review and considers that the Remuneration Committee and the Audit Committee should continue to operate according to their respective terms of reference as adopted by the Company. The Board will review the terms of reference at least annually and would make appropriate changes if considered necessary.

Further information on the Company's corporate governance practices during the year under review will be set out in the Corporate Governance Report to be contained in the Company's 2017 annual report which will be issued before end of April 2018.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2017, the Company repurchased a total of 39,418,000 shares on the Hong Kong Stock Exchange at an aggregate consideration (before expenses) of HK$195,648,230. All the repurchased shares were subsequently cancelled.

Particulars of the repurchases are as follows:

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

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year ended 31 December 2017.

## AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with management of the Company the Group's financial statements for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu ("Deloitte"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte on the preliminary announcement.

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

Hong Kong, 21 March 2018

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

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

*Non-Executive Director:*
Mr. Jonathan Andrew Cimino

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