新鴻基有限公司

SUN HUNG KAI & CO. LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 86)

ANNOUNCEMENT OF 2018 FINAL RESULTS

CHAIRMAN'S LETTER

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

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

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

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

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

Financial Results and Capital Management

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

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

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

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

Business Update

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

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

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

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

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

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

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

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

Corporate Citizenship

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

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

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

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

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

Lee Seng Huang
Group Executive Chairman

Hong Kong, 20 March 2019

GROUP RESULTS

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2018 as set out below:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 HK$ Million	2017 HK$ Million
Interest income		**4,070.0**	3,641.1
Other revenue	*4*	**105.7**	154.5
Other gains	*5*	**408.9**	250.1
Total income		**4,584.6**	4,045.7
Brokerage and commission expenses		**(50.5)**	(46.7)
Advertising and promotion expenses		**(159.2)**	(145.6)
Direct cost and operating expenses		**(89.5)**	(61.5)
Administrative expenses		**(1,167.2)**	(1,208.1)
Net gain on financial assets and liabilities at fair value through profit or loss	*6*	**234.4**	1,229.4
Net exchange gain (loss)		**14.2**	(126.9)
Net impairment losses on financial instruments	*7*	**(901.7)**	–
Bad and doubtful debts	*7*	**–**	(386.7)
Finance costs		**(666.8)**	(544.3)
Other losses		**(1.6)**	(177.7)
		1,796.7	2,577.6
Share of results of associates		**30.8**	59.6
Share of results of joint ventures		**3.8**	(28.7)
Profit before taxation	*8*	**1,831.3**	2,608.5
Taxation	*9*	**(220.7)**	(294.6)
Profit for the year		**1,610.6**	2,313.9
Profit attributable to:			
– Owners of the Company		**1,183.8**	1,824.3
– Non-controlling interests		**426.8**	489.6
		1,610.6	2,313.9
Earnings per share	*11*		
– Basic (HK cents)		**56.2**	84.0
– Diluted (HK cents)		**56.1**	83.9

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Notes	**31/12/2018** ***HK$ Million***	31/12/2017 *HK$ Million*
Non-current Assets			
Investment properties		**1,360.9**	1,178.6
Leasehold interests in land		**4.0**	4.4
Property and equipment		**412.1**	456.2
Intangible assets		**890.2**	882.6
Goodwill		**2,384.0**	2,384.0
Interest in associates		**1,380.4**	1,365.8
Interest in joint ventures		**240.2**	280.2
Available-for-sale investments		**–**	324.0
Financial assets at fair value through other comprehensive income		**174.4**	–
Financial assets at fair value through profit or loss		**6,360.9**	5,033.7
Deferred tax assets		**729.9**	649.6
Amounts due from associates		**266.7**	275.2
Loans and advances to consumer finance customers	*12*	**2,618.9**	2,322.8
Mortgage loans	*13*	**1,956.8**	1,243.1
Term loans, trade receivables, prepayments and other receivables	*14*	**56.0**	505.8
		18,835.4	16,906.0
Current Assets			
Financial assets at fair value through profit or loss		**4,378.6**	6,188.4
Taxation recoverable		**5.0**	5.4
Amounts due from associates		**97.1**	143.6
Loans and advances to consumer finance customers	*12*	**7,150.8**	6,840.8
Mortgage loans	*13*	**1,897.4**	877.3
Term loans, trade receivables, prepayments and other receivables	*14*	**2,816.9**	2,823.5
Amounts due from brokers		**507.0**	725.8
Short-term pledged bank deposits and bank balances		**20.0**	–
Bank deposits		**353.5**	787.7
Cash and cash equivalents		**4,622.4**	2,123.7
		21,848.7	20,516.2
Current Liabilities			
Financial liabilities at fair value through profit or loss		**425.3**	161.1
Bank and other borrowings		**5,221.3**	2,196.8
Trade payables, other payables and accruals	*15*	**236.9**	329.1
Financial assets sold under repurchase agreements		**1,216.5**	1,071.0
Amounts due to fellow subsidiaries and holding company		**519.0**	135.3
Amounts due to associates		**1.9**	1.9
Provisions		**103.5**	69.5
Taxation payable		**175.7**	146.0
Notes/papers payable		**752.7**	1,079.1
		8,652.8	5,189.8
Net Current Assets		**13,195.9**	15,326.4
Total Assets less Current Liabilities		**32,031.3**	32,232.4

	31/12/2018	31/12/2017
	HK$ Million	*HK$ Million*
Capital and Reserves		
Share capital	**8,752.3**	8,752.3
Reserves	**10,286.9**	10,674.4
Equity attributable to owners of the Company	**19,039.2**	19,426.7
Non-controlling interests	**3,805.9**	3,971.8
Total Equity	**22,845.1**	23,398.5
Non-current Liabilities		
Deferred tax liabilities	**176.9**	181.5
Bank and other borrowings	**1,961.8**	1,600.4
Provisions	**0.2**	0.2
Notes/papers payable	**7,047.3**	7,051.8
	9,186.2	8,833.9
	32,031.3	32,232.4

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 2018 and 2017 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 2017 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 2018 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 sections 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")

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

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

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

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

2.1 HKFRS 9 Financial Instruments and the related amendments

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

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

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

2.1.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2.1.2)

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

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

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 collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

(i) Amortised cost and interest income

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

(ii) Equity instruments designated as at FVTOCI

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

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

(iii) Financial assets at FVTPL

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

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

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2.1.2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, prepayments and other receivables, bank deposits, cash and cash equivalents, loans and advances to consumer finance customers, mortgage loans, amounts due from brokers and amounts due from related parties), loan commitments and financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in (1) regulatory, economic or technological environments; (2) business or financial conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; or

- financial re-organisation/restructuring entered by the debtors.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has 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 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 collaterals held by the Group).

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

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

(iii) Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lenders of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider;

(d) probable bankruptcy or other financial reorganisation entered by the debtor;

(e) probable shortfall that expected cash inflows from the realisation of collateral is below the carrying amount of financial assets; or

(f) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

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

A write-off constitutes a derecognition event. Any subsequent recoveries will result in an impairment gain and is included in "Net impairment losses on financial instruments" in Note 7.

For the year ended 31 December 2018, the measurement of the expected credit loss under HKFRS 9 is included in "Net impairment losses on financial instruments" as presented in Note 7. Prior period amount determined adopting the incurred loss model under HKAS 39 is not restated and presented as "Bad and doubtful debts" in Note 7.

(v) Measurement and recognition of ECL

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

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

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

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

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

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

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

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

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

(a) the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan: and

(b) the cash flows that the Group expects to receive if the loan is drawn down.

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 trade receivables, prepayments and other receivables, loans and advances to consumer finance customers and mortgage loans where the corresponding adjustment is recognised through a loss allowance account. For loan commitments and financial guarantee contracts, the loss allowances are recognised as provisions.

(vi) Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

(vii) Fair value measurement principles

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

Classification and measurement of financial liabilities

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

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

2.1.2 Summary of effects arising from initial application of HKFRS 9

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

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

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

From AFS equity investments to FVTOCI

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

From AFS investments to FVTPL

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

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

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

(c) Impairment under ECL model

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

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

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

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

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

(d) Financial liabilities with non-substantial modification

Under HKAS 39, the Group revised the effective interest rates for non-substantial modification with no gain or loss being recognised in profit or loss. At the date of initial application, the carrying amounts of financial liabilities previously modified were adjusted downward by HK$11.5 million to reflect the change in accounting policies as stated in Note 2.1.1, with corresponding adjustments credited to the retained earnings as at 1 January 2018.

(e) Interest in associates

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

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

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

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

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 consolidated financial statements are as follows:

(a) Financial Services: provision of financial services.

(b) Consumer Finance: provision of consumer financing.

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

(d) Principal Investments: portfolio investments.

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

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

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

	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	38.3	–	–	21.3	–	59.6
Share of results of joint ventures	(28.7)	–	–	–	–	(28.7)
Profit before taxation	118.6	1,444.7	35.0	1,082.3	(72.1)	2,608.5
Included in segment profit or loss:						
Interest income	–	3,074.8	124.0	424.6	17.7	3,641.1
Other gains	107.6	16.9	–	119.8	5.8	250.1
Net (loss) gain on financial assets and liabilities	(1.2)	–	–	1,231.8	(1.2)	1,229.4
Net exchange loss	–	(40.5)	–	(62.8)	(23.6)	(126.9)
Bad and doubtful debts	–	(297.3)	(3.2)	(86.2)	–	(386.7)
Amortisation and depreciation	–	(43.3)	(1.3)	–	(12.5)	(57.1)
Impairment loss on available-for-sale investment measured at fair value	–	–	–	(176.2)	–	(176.2)
Finance costs	–	(202.1)	(42.3)	(157.6)	(343.0)	(745.0)
Less: inter-segment finance costs	–	0.8	42.3	157.6	–	200.7
Finance costs to external suppliers	–	(201.3)	–	–	(343.0)	(544.3)
Cost of capital (charges) income *(Note)*	–	–	–	(289.5)	289.5	–

Note: 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:

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

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

4. OTHER REVENUE

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

5. OTHER GAINS

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

* The Group disposed of 70% interest in a wholly-owned subsidiary Sun Hung Kai Financial Group Limited ("SHKFGL") in June 2015 and classified the remaining 30% equity interest as an associate. The recoverable amount was measured at fair value less cost of disposal of SHKFGL. The fair value was measured by discounted cash flow approach at the reporting date using a discount rate of 17.0%. As part of the disposal, the Group was awarded a put right on the 30% equity interest of SHKFGL. This put right recorded a valuation gain during the period of HK$67.0 million (2017: HK$1.0 million) classified under net gain on financial assets and liabilities at fair value through profit or loss.

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

	HK$ Million
Consideration received:	
Total consideration received	55.0

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

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

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

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

* The deferred consideration will be settled in cash by the purchaser on or before 30 April 2019 and is included in "other receivables" per note 14.

6. 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:

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

7. NET IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS/BAD AND DOUBTFUL DEBTS

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

8. PROFIT BEFORE TAXATION

	2018	2017
	HK$ Million	*HK$ Million*
Profit before taxation for the year has been arrived at after charging:		
Administrative expenses	**(1,167.2)**	(1,208.1)
Amortisation of leasehold interests in land	**(0.2)**	(0.1)
Outgoings in respect of rental generating investment properties	**(0.2)**	(0.7)
Other losses	**(1.6)**	(177.7)
Share of taxation of associates and joint ventures included in share of results of associates and joint ventures	**(6.8)**	(6.3)

9. TAXATION

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

Hong Kong profits tax is calculated at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2017: 25%). Taxation arising in other jurisdictions is calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in the relevant jurisdictions.

10. DIVIDENDS

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

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:

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

12. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

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

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

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

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

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

13. MORTGAGE LOANS

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

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

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

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

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

14. TERM LOANS, TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

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

* The Group has provided guarantees to guarantee the repayment of debts owed by the loan guarantee customers to their lenders. At 31 December 2018, the outstanding guarantee amount was HK$0.3 million (31/12/2017: HK$19.2 million). Payments on behalf of customers represented payments made by the Group to reimburse the beneficiaries of the guarantees (the "Holders") for losses the Holders incurred because the customers failed to make payments when due in accordance with the term of the corresponding debt instruments.

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

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

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

15. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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:

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS ANALYSIS

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

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

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

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

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

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

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

BUSINESS REVIEW

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

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

Group Management and Support ("GMS") reflects unallocated corporate support and treasury costs and income. Cost of capital and finance cost are charged to the other segments to account for its capital usage as well as internal borrowings.

CONSUMER FINANCE

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

Segment Full Year Results

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

^ Before impairment allowance

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

Impairment, Bad Debts and Delinquency

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

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

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

Analysis of Impairment and Bad Debts

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

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

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

Note: amount as a % of net loan balance.

1 Include impaired amounts.
2 Exclude impaired amounts.

Hong Kong Business

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

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

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

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

Mainland China Business

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

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

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

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

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

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

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

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

Prospects

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

PRINCIPAL INVESTMENTS

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

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

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

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

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

Market Review

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

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

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

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

Public Credit (11% of PI)

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

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

Public Equity (22% of PI)

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

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

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

Private Credit (16% of PI)

The private credit strategy represents the Group's structured and specialty finance business, which provides tailored funding solutions to corporates, investment funds, and high net worth individuals. The balance of term loans was HK$2,485.2 million as at 31 December 2018, lower than the end of 2017 (HK$3,155.0 million) due to the timing of loan repayments but average balance was at a similar level. Interest income was HK$409.9 million, similar to 2017.

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

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

Private Equity (35% of PI)

Through the private equity portfolio, we seek to invest the Group's capital prudently, to maximise risk-adjusted returns, and diversify our exposure by industry and geography. The portfolio is invested though a combination of direct, co-investments and external managers who are selected based on performance, strategic fit, as well as access to markets and sectors.

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

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

Real Estate (15% of PI)

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

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

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

MORTGAGE LOANS

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

Segment Full Year Results

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

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

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

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

FINANCIAL SERVICES

The segment consists of the Group's strategic interests in financial services companies through joint ventures and associated companies. These interests are complementary to our loan and investment strategies. Pre-tax contribution from this segment was significant at HK$203.0 million (2017: HK$118.6 million).

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

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

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

OUTLOOK

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

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

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

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

FINANCIAL REVIEW

Financial Resources, Liquidity, Capital Structure and Key Performance Indicators

As at 31 December (HK$ Million)	**2018**	**2017**	***Change***
Capital Structure			
Equity attributable to owners of the Company	19,039.2	19,426.7	*–2%*
Total cash	4,995.9	2,911.4	*72%*
Total borrowings[3]	14,983.1	11,928.1	*26%*
Net debts	9,987.2	9,016.7	*11%*
Net debt to equity ratio	52.4%	46.4%	
Liquidity			
Interest cover[1]	3.7	5.8	
Return Ratios			
Return on Assets[2]	4.1%	6.6%	
Return on Equity	6.2%	9.7%	
Key Performance Indicators			
Book value per share *(HK$)*	9.48	9.02	
Dividend per share *(HK cents)*	26.0	26.0	

1 Earnings before interest and tax/interest expense
2 Profit including non-controlling interests/average assets
3 Total borrowings included bank and other borrowings and notes/papers payable

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

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

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

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

^ Listed on The Stock Exchange of Hong Kong Limited

In May 2018, the Group's 6.9% RMB Notes matured. There are no known seasonal factors in the Group's borrowing profiles.

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

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

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

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

The Group disposed of two wholly-owned subsidiaries, SWAT Securitisation Fund and Maple Shade Limited under the Principal Investments segment for consideration of HK$312.9 million. The objective is to crystallise the value of the Group's investments and create liquidity to seek more favourable risk-adjusted investment opportunities. Further financial details of the transactions are explained in Note 5 under the "Group Results" in this announcement.

Charges on Group Assets

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

Contingent Liabilities

At the end of year the Group had guarantees as follows:

(HK$ Million)	2018	2017
Indemnities on banking facility made available to joint venture	107.0	112.7

HUMAN RESOURCES

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

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

The Group operates various compensation schemes to reflect job roles within the organisation. All staff receive a base salary and the majority receive performance-based compensation in cash while some staff also receive share-based awards. Certain sales staff may be entitled to commission or other incentives as appropriate.

SECOND INTERIM DIVIDEND

The Board has declared a second interim dividend of HK14 cents per share for the year ended 31 December 2018 to shareholders of the Company whose names appear on the register of members of the Company on 12 June 2019, making a total dividend for the year 2018 of HK26 cents (2017: HK26 cents) per share. Dividend warrants for the second interim dividend is expected to be despatched on 20 June 2019.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "2019 AGM") is scheduled to be held on Thursday, 23 May 2019. The Notice of the 2019 AGM will be published on the website of the Company (www.shkco.com) and the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk), and dispatched to the shareholders around mid-April 2019.

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	:	10 June 2019–12 June 2019 (both days inclusive) (Ex-dividend date being 5 June 2019) (Record date being 12 June 2019)
For attendance to 2019 AGM	:	20 May 2019–23 May 2019 (both days inclusive) (Record date being 23 May 2019)

In order to qualify for entitlement to the second interim dividend and/or attendance to the 2019 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	:	6 June 2019
For attendance to 2019 AGM	:	17 May 2019

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2018, 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 Stock Exchange of Hong Kong Limited, 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 the chairman and chief executive should be separate and should not be performed by the same individual. Under the current organisational structure of the Company, the functions of a chief executive are performed by the Group Executive Chairman, Mr. Lee Seng Huang, in conjunction with the Group Deputy Chief Executive Officer, Mr. Simon Chow Wing Charn. The Group Executive Chairman oversees the Group's Principal Investments with support from the management team of the division as well as its interest in 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 2018 annual report which will be issued before end of April 2019.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

A share buy-back contract (the "Buy-back Contract") was entered into between the Company and Asia Financial Services Company Limited ("AFSC", the then substantial shareholder of the Company) on 20 July 2018 in relation to an off-market share buy-back by the Company of 145 million Shares held by AFSC ("Share Buy-back"). The Buy-back price per Share was reduced from HK$4.75 per Share to HK$4.49 per Share after adjusting for the 2017 second interim dividend of HK$0.14 per Share and the 2018 interim dividend of HK$0.12 per Share respectively paid to AFSC on 28 June 2018 and 12 September 2018. The agreed form of the Buy-back Contract was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 17 July 2018. Completion of the Share Buy-back took place on 17 September 2018 and the Shares bought back by the Company were subsequently cancelled on 19 September 2018. The aggregate consideration (before expenses) for the Share Buy-back was HK$651.05 million. Details of the Share Buy-back are set out in the Company's announcements dated 4 May 2018, 24 July 2018, 17 September 2018 and the Company's circular dated 25 June 2018 respectively.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year ended 31 December 2018.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with management of the Company the Group's financial statements for the year ended 31 December 2018, 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 2018 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, 20 March 2019

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

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

Non-Executive Directors:
Messrs. Peter Anthony Curry and Jonathan Andrew Cimino

Independent Non-Executive Directors:
Mr. Evan Au Yang Chi Chun, Mr. David Craig Bartlett, Mr. Alan Stephen Jones and Ms. Jacqueline Alee Leung