



新鴻基有限公司
SUN HUNG KAI & CO. LIMITED

(Stock Code: 86)



Excellence 卓越 ■ Integrity 誠信 ■ Innovation 創新 ■ Prudence 謹慎 ■ Professionalism 專業

二零一六年中期報告
Interim Report 2016





CONTENTS

2	Corporate Information
3	Management Discussion and Analysis
15	Interim Dividend and Closure of Register of Members
16	Directors' Interests
18	Interests of Substantial Shareholders and Other Persons
21	Corporate Governance and Other Information
23	Purchase, Sale or Redemption of Securities
24	Audit Committee Review
25	Independent Review Report
26	Condensed Consolidated Statement of Profit or Loss
27	Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
28	Condensed Consolidated Statement of Financial Position
30	Condensed Consolidated Statement of Changes in Equity
31	Condensed Consolidated Statement of Cash Flows
33	Notes to the Condensed Consolidated Financial Statements

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Lee Seng Huang
(Group Executive Chairman)
Simon Chow Wing Charn
Peter Anthony Curry

Non-Executive Director

Jonathan Andrew Cimino
(Joseph Kamal Iskander as his alternate)

Independent Non-Executive Directors

David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung
Peter Wong Man Kong

EXECUTIVE COMMITTEE

Lee Seng Huang *(Chairman)*
Simon Chow Wing Charn
Peter Anthony Curry

NOMINATION COMMITTEE

Lee Seng Huang *(Chairman)*
David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung
Peter Wong Man Kong

REMUNERATION COMMITTEE

Peter Wong Man Kong *(Chairman)*
David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung

AUDIT COMMITTEE

Alan Stephen Jones *(Chairman)*
David Craig Bartlett
Jacqueline Alee Leung
Peter Wong Man Kong

RISK MANAGEMENT COMMITTEE

Simon Chow Wing Charn *(Chairman)*
Lee Seng Huang
Peter Anthony Curry

COMPANY SECRETARY

Hester Wong Lam Chun

INVESTOR RELATIONS

investor.relations@shkco.com

AUDITOR

Deloitte Touche Tohmatsu

SOLICITORS

Clifford Chance
King & Wood Mallesons
P. C. Woo & Co.

BANKERS

Standard Chartered Bank
(Hong Kong) Limited
The Bank of East Asia, Limited
Bank of China (Hong Kong) Limited
Oversea-Chinese Banking
Corporation Limited,
Hong Kong Branch
OCBC Wing Hang Bank Limited
China Construction Bank
(Asia) Corporation Limited
China CITIC Bank International Limited

Fubon Bank (Hong Kong) Limited
Public Bank (Hong Kong) Limited
Dah Sing Bank, Limited
Taipei Fubon Commercial Bank Co.
Ltd., Hong Kong Branch
Chong Hing Bank Limited
Wing Lung Bank Limited
Mizuho Bank, Ltd., Hong Kong Branch
Taishin International Bank Co., Ltd.
Mega International Commercial
Bank Co., Ltd., Offshore Banking
Branch
Far Eastern International Bank,
Hong Kong Branch
Bank of China Limited Macau Branch
Industrial and Commercial Bank of
China (Macau) Limited
Tai Fung Bank Limited
First Gulf Bank PJSC, Singapore Branch

REGISTRAR

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

42/F, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

WEBSITES

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

Management Discussion and Analysis

The Group made a profit attributable to owners of the Company for the six months ended 30 June 2016 of HK\$276.2 million, less profitable than the HK\$3,630.6 million for the same period last year when we realised an exceptional gain on sale of HK\$3,033.5 million for 70% of Sun Hung Kai Financial Group Limited (“SHK Financial”) and had the benefit of 100% of SHK Financial’s strong earnings at the time.

Earnings per share for the six-month period were therefore HK12.5 cents (first six months of 2015: HK161.4 cents). The Board has declared an interim dividend of HK12 cents per share. During the period, the Company repurchased and cancelled 22.5 million shares for a total consideration (including expenses) of HK\$102.2 million. As at 30 June 2016, the Group’s book value per share amounted to HK\$8.05.

Based on continuing operations, the profit attributable to owners of the Company declined by 31%. United Asia Finance Limited (“UAF”) is repositioning its Mainland China loan book and lowering its cost structure to adjust to a tougher economic environment. Overall profitability was also impacted by the lower returns from the Group’s Principal Investments business as compared against the strong gains in the last corresponding period.

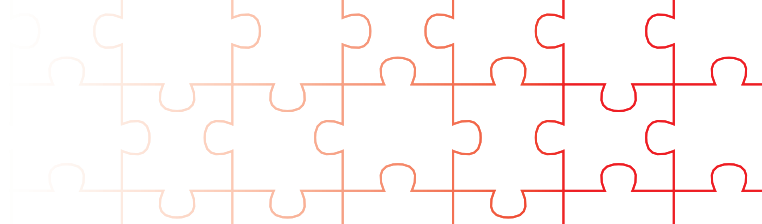
The Group continues to pursue a strategy for long term capital growth for our shareholders, through diverse yet complementary portfolio of investment and finance businesses. During this period, the Group has maintained a conservative balance sheet with the net gearing ratio remaining low at 16.2% as at 30 June 2016 (31 December 2015: 15.2%).

RESULTS ANALYSIS

Based on continuing operations, the Group’s revenue was HK\$1,741.8 million for the first six months of 2016, compared to HK\$2,168.6 million for the first half of 2015. Revenue mainly consists of interest income and the decline was mostly from lower loan balances in our Mainland China Consumer Finance business.

Across the three loan businesses, the Group’s total loans amounted to HK\$11,695.5 million as at 30 June 2016 (31 December 2015: HK\$12,150.8 million) with loans to individuals, small businesses and corporates.

<i>(HK\$ Million)</i>	30 Jun 2016	30 Jun 2015	YoY Change	31 Dec 2015	YTD Change
Loan balances by segment					
Consumer Finance	7,508.4	10,381.0	-28%	8,608.7	-13%
Structured Finance	3,720.8	3,650.3	2%	3,328.8	12%
Mortgage Loans	466.3	–		213.3	119%
Total	11,695.5	14,031.3	-17%	12,150.8	-4%
Interest income by segment for the six-month period					
Consumer Finance	1,486.7	1,931.0	-23%		
Structured Finance	164.1	195.1	-16%		
Mortgage Loans	22.1	–			
Others	7.3	4.3	70%		
Total	1,680.2	2,130.4	-21%		



Operating costs totalled HK\$686.5 million for the period, a reduction of 12% as UAF China consolidated its branch network and rationalised its cost base.

Finance costs were HK\$232.2 million, similar to the same period last year. As at 30 June 2016, total debt of the Group amounted to HK\$10,653.9 million, an 8% increase on a year-on-year basis. However, most of the increase was a result of the net new issuance of 4.75% 2021 US Dollar bonds at the end of May as part of the early lower cost refinancing plan for the 6.375% 2017 US Dollar bonds.

Total bad and doubtful debts declined by 13% to HK\$566.1 million from a reduction in impairment allowance in relation to UAF's Mainland China loan portfolio as well as a write back for a substantial debt recovery in the Structured Finance portfolio.

The Group's Principal Investments business generated lower overall returns on its portfolio during the period with mark-to-market valuations as at the end of the period.

Pre-tax profit of the Group (before taking into account non-controlling interests) amounted to HK\$380.3 million (first half 2015: HK\$670.1 million).

BUSINESS REVIEW

The profit before tax by segment is analysed as:

<i>Six-month results (HK\$ Million)</i>	30 Jun 2016	30 Jun 2015	Change
Structured Finance	119.5	90.2	32%
Consumer Finance	187.1	470.7	-60%
Mortgage Loans	(2.4)	–	
Principal Investments	(8.7)	295.9	
Group Management and Support	84.8	(186.7)	
Profit before tax	380.3	670.1	-43%

The Sun Hung Kai Credit business commenced operations in October 2015. This is presented as a new business segment of the Group under Mortgage Loans to reflect the focus for future development.

Group Management and Support reflects unallocated corporate support and treasury costs or income. The positive result for the first half of 2016 reflects the revised funding cost allocation to the Principal Investments segment; a series of changes to its three portfolios resulted in surplus internal interest income to Group Management and Support. The negative result of the corresponding period in 2015 mainly reflects the former cost allocation of a one-off expense related to the SHK Financial capital markets business which is now part of the Group's discontinued operations.

Management Discussion and Analysis

STRUCTURED FINANCE

The Structured Finance segment provides corporate and high net worth customers with tailored funding solutions. Total loans amounted to HK\$3,720.8 million as at 30 June 2016, a 12% increase from the end of 2015 and a 2% increase year-on-year. Pre-tax contribution increased at a satisfactory level of 32%.

<i>Six-month results (HK\$ Million)</i>	30 Jun 2016	30 Jun 2015	<i>Change</i>
Revenue	191.8	197.8	-3%
Operating costs	(8.2)	(6.6)	24%
<i>Cost to income (% Revenue)</i>	4.3%	3.3%	
Finance costs [^]	(94.0)	(95.4)	-1%
Bad and doubtful debts	35.8	(8.1)	
(Loss) gain from financial assets	(5.9)	2.5	
Pre-tax contribution	119.5	90.2	32%

[^] Include internal

Revenue decreased by 3% year-on-year, on lower average loan balances during the period. Certain loans were repaid and new loans were not written until towards the end of the first half. 77% of the portfolio represents loans to investment holding companies. The remainder is business related loans. 92% of the loan book is secured and 84% is due within one year. An amount of HK\$35.8 million was written back from a bad debt provision made last year.

Looking ahead, pricing may face more pressure generally, in line with some compression seen in the market corporate risk premium. However, demand for short term corporate liquidity should remain healthy. As we continue to develop the Principal Investments business and expand our business reach, future synergies can be also expected by positioning the Group as a provider of liquidity solutions for different parts of the capital structure including debt, mezzanine capital and equity.

CONSUMER FINANCE

The Group conducts its Consumer Finance business through UAF, a 58% indirectly owned subsidiary of the Group. UAF offers both unsecured and secured loan products to individuals and small businesses through an extensive branch network in Hong Kong and Mainland China.

<i>Six-month results (HK\$ Million)</i>	30 Jun 2016	30 Jun 2015	<i>Change</i>
Revenue	1,506.5	1,946.5	-23%
Operating costs	(603.7)	(698.8)	-14%
<i>Cost to income (% Revenue)</i>	40.1%	35.9%	
Finance costs [^]	(127.1)	(143.3)	-11%
Bad and doubtful debts	(600.5)	(643.3)	-7%
Other (expenses) income — net	(0.5)	9.7	
Exchange gain (loss)	12.4	(0.1)	
Pre-tax contribution	187.1	470.7	-60%

[^] Include internal

For the first half of 2016, revenue declined by 23% overall with the fall in total loan balances driven primarily by the decline in UAF's Mainland China loan book. Pre-tax contribution amounted to HK\$187.1 million, a decrease of 60% year-on-year. However, this result was 35% higher than the second half of 2015 due to the improving bad debt situation in the Mainland China business. A HK\$12.4 million exchange gain, compared to an exchange loss of HK\$0.1 million last period, was recorded during the period mainly from the lower translation of RMB denominated debts into Hong Kong dollars.

Bad debts and delinquency

(HK\$ Million)	Jan – Jun 2016	Jan – Jun 2015	Jul – Dec 2015
Amounts written off	(648.1)	(610.6)	(753.1)
Recoveries	<u>77.7</u>	<u>59.8</u>	<u>69.7</u>
Charge off	(570.4)	(550.8)	(683.4)
<i>As annualised % of average gross loans</i>	12.7%	9.4%	13.2%
Charges to impairment allowance ¹	<u>(30.1)</u>	<u>(92.5)</u>	<u>(136.6)</u>
Total charges for bad and doubtful debts	(600.5)	(643.3)	(820.0)
Impairment allowance at period end	946.7	845.6	949.0
<i>As % of period end gross loans</i>	11.2%	7.5%	9.9%

¹ Included HK\$23.4 million provision for guarantee business during the current period (First half of 2015: HK\$3.9 million).

UAF has consistently adopted a policy of writing-off unsecured loans after 180 days delinquency (or in case of bankruptcy or if a borrower is deceased, whichever is earlier), whilst any amounts collected subsequently are taken to the credit of bad debts recoveries. During the period, bad debts written off net of recoveries (the "Charge Off") amounted to HK\$570.4 million, an increase year-on-year but a considerable decrease from the second half of 2015, as UAF reduced its risk in Mainland China.

The charge to the impairment allowance during the period decreased from HK\$92.5 million in the first half of 2015 to HK\$30.1 million which is driven by a lower gross loan balance.

Total bad and doubtful debts expense amounted to HK\$600.5 million for the current interim period, an improvement on a year-on-year basis as well as over the second half of 2015.

Management Discussion and Analysis

Ageing analysis for loans and advances to Consumer Finance customers that were past due but not impaired:

<i>(HK\$ Million)</i>	As at 30 Jun 2016	Note	As at 31 Dec 2015	Note
Under 31 days	494.4	6.6%	562.1	6.5%
31 – 60 days	114.9	1.5%	147.0	1.7%
61 – 90 days	51.6	0.7%	124.7	1.5%
91 – 180 days	217.7	2.9%	397.6	4.6%
Over 180 days	211.6	2.8%	103.5	1.2%
Total	1,090.2	14.5%	1,334.9	15.5%

Note: amount as a % of net loan balance.

Mainland China Business

The economic headwinds in Mainland China started to impact upon our loan business in early 2015 and since then UAF has implemented a revamp of its business strategy. The credit offered to small businesses, which were mostly affected by the downturn of the economic cycle, has been tightened up to reduce our risk. As part of this revised strategy, UAF actively promoted its small loan products to salaried workers, a more resilient customer category. During this period, the result of these campaigns was encouraging with good momentum in loan origination transactions. A total of 39,023 loans were originated, 18% higher than 33,144 in the same period last year. Bad debt levels have also started to decline this year from the peak during the second half of 2015.

Management believes that this strategy will help UAF establish a more sustainable growth model for the market in the medium term. However, refocusing the Mainland China loan book towards smaller loans, causes a short term impact in profitability during this period of adjustment.

For the first half of the year, the gross loan balance declined by 30% compared to the end of 2015, mainly caused by a reduced balance per loan (from RMB34,895 to RMB26,871). However, UAF is confident that once the transition is complete, the downward trend in the loan portfolio should reverse and return to sustained growth while improving overall credit quality.

The cost rationalisation program started in the second half of last year was carried through to this year. During the period, UAF closed 31 underperforming branches in Mainland China. At the same time, UAF also streamlined its loan processes to improve operating efficiency to ensure that customers are still well served with the reduced branch network.

Management Discussion and Analysis

Branch network as at 30 June 2016:

City/Province	Closed during the first half of 2016	Number as at 30 Jun 2016
Hong Kong	–	50
Shenzhen	7	36
Shenyang	2	10
Chongqing	4	6
Tianjin	3	3
Chengdu	5	7
Yunnan province	4	9
Dalian	1	6
Beijing	2	5
Wuhan	2	9
Shanghai	1	9
Fuzhou	–	6
Harbin	–	5
Nanning	–	5
Qingdao	–	4
Jinan	–	2
^Guangzhou	–	3
^Foshan	–	1
^Dongguan	–	1
Total	31	177

^ Loan marketing branches

Hong Kong Business

UAF continued to increase its share of the unsecured personal loans market in Hong Kong during the period and grow its business volume. Despite keen competition in the market, UAF has a strong brand and pioneered the mobile app “One Click to Loan” in September 2015 which was well-received in the market with impressive monthly downloads. A new series of advertising commercial extending our “online-to-offline” theme was also launched in 2016, reinforcing our position as a market leader and a service innovator through the use of financial technology.

Since 2015, UAF Hong Kong has adjusted its strategy and decided to phase out mortgage finance business and focus on unsecured personal loans. Therefore, on the whole, gross loans in Hong Kong declined slightly since the end of 2015. With the increased proportion of unsecured loans, the Hong Kong loan portfolio recorded higher weighted average return yields and charge off ratio compared to the corresponding period last year. However, the underlying trend in charge off ratio was relatively steady during the period. Although the Hong Kong economy faced challenges with drops in property prices, tourist arrivals and consumption, its unemployment rate remained at a low level of 3.4% for the most recent quarter to June this year. This should be the most critical risk metric for the Hong Kong loan business. With an uncertain economic outlook, management will closely monitor the market development and take measures where necessary to balance the risk and growth of the business.

Management Discussion and Analysis

Key Operating Data	Jun 2016	Jun 2015	Dec 2015
Loan book data at period end:			
Net loan balance (<i>HK\$ million</i>)	7,508.4	10,381.0	8,608.7
Gross loan balance (<i>HK\$ million</i>)	8,455.1	11,226.6	9,557.7
– Hong Kong	6,407.1	6,848.6	6,625.4
– Mainland China	2,048.0	4,378.0	2,932.3
Average gross balance per loan	46,943	62,304	51,890
– Hong Kong (<i>HK\$</i>)	55,775	61,549	58,224
– Mainland China (<i>RMB</i>)	26,871	50,809	34,895
Ratios for the six-month period:			
Total return on loans ¹	33.5%	33.3%	33.9%
– Hong Kong	31.3%	28.8%	30.0%
– Mainland China	39.2%	40.0%	41.0%
Charge off ratio ²	12.7%	9.4%	13.2%
– Hong Kong	5.6%	3.8%	4.0%
– Mainland China	31.2%	17.7%	30.1%

¹ Annualised revenue/average gross loan balance

² Annualised on average gross loan balance

Looking ahead, the Hong Kong business is expected to be relatively steady as a whole, barring any rapid deterioration in operating environment. The Mainland China business is likely to see greater stability as Charge Offs continue to decline and we close in on target loan size. However, considerable uncertainties surrounding the economic outlook remain and further downside risk is still a possibility. Nevertheless, the adjusted credit strategy coupled with cost rationalisation in progress should allow UAF to withstand the cyclical challenges until economic conditions recover and stabilise in Mainland China.

MORTGAGE LOANS

Sun Hung Kai Credit Limited (“SHK Credit”) is an 86% owned subsidiary of the Group. Business commenced in October 2015 providing mortgage services and funding solutions to home owners and property investors in Hong Kong. During the first half of 2016, we have continued to strengthen the infrastructure for the business. A new customer service centre was opened in Mongkok and a full service website was also set up, offering detailed product information, free property valuations, repayment estimates, and a base for online applications.

As at 30 June 2016, total loans outstanding amounted to HK\$466.3 million (31 December 2015: HK\$213.3 million). Revenue amounted to HK\$22.2 million. Due to setup investment cost, a small pre-tax loss of HK\$2.4 million was incurred for the six-month period. However, the business has already turned operationally profitable by June.

SHK Credit offers mortgage and property equity loan products to home owners and investors who are seeking flexible and personalised financing options that traditional banks cannot provide. Being a responsible lender with fully transparent fees and charges and a strong household brand name, we are well positioned to be a trusted partner of choice for current and prospective property owners in Hong Kong.

PRINCIPAL INVESTMENTS

Principal Investments is an important part of the Group's growth strategy. It allows us to seek potentially higher returns from a diversified asset portfolio. It is also highly complementary to our loan businesses. The segment made a small pre-tax loss of HK\$8.7 million after operating expenses and cost of capital allocation, as compared to a gain of HK\$295.9 million for the same period last year. The period end carrying value was HK\$8,518.1 million (31 December 2015: HK\$7,593.9 million). Total return on the average value for the first half of 2016 was 1.5%.

During the period, we have closed a number of transactions to reposition the portfolio towards sectors and themes we believe are positive in the longer term. Despite lower overall returns for the period, we remain confident about the underlying investment quality and potential of the portfolio as a whole.

<i>(HK\$ Million)</i>	Period end value	Six-month average value	Gain (loss) (First half 2016)	Return on average value	Gain (loss) (First Half 2015)
Principal Portfolio	5,400.1	4,598.4	(119.1)	-2.6%	285.4
Long Term Investment Portfolio	2,151.0	2,166.7	114.8	5.3%	23.4
Real Estate	967.0	958.5	123.5	12.9%	38.5
	<u>8,518.1</u>	<u>7,723.6</u>	<u>119.2</u>	<u>1.5%</u>	<u>347.3</u>
Less:					
Operating costs			(8.5)		(5.4)
Cost of capital allocation ¹			<u>(119.4)</u>		<u>(46.0)</u>
Pre-tax contribution			<u>(8.7)</u>		<u>295.9</u>

¹ Cost of capital is allocated from the Group Management and Support to Principal Portfolio

Principal Portfolio

The portfolio consists of listed securities (including equity and fixed income) as well as private investments, managed both internally and externally through our partner funds. Our partner funds are chosen based on their long to medium term track records, strategic fit and access to co-investment opportunities for us. This portfolio recorded a 2.6% loss on average value.

The first half of 2016 was a challenging period for investors with market concerns about the Mainland China economy, the timing of US rate hikes as well as political and economic uncertainties in Europe. In the Mainland, the Shanghai Composite Index and the Shenzhen Composite Index dropped 17.2% and 14.5% respectively in the first half of 2016. In Hong Kong, the Hang Seng Index and the Hang Seng China Enterprises Index fell 5.1% and 9.8% respectively. Our public securities portfolio also experienced mark-to-market losses during that period. However, we remain positive about the underlying long term value of our positions and the market started to recover with more signs of stability in the months following this reporting period.

Management Discussion and Analysis

During the period, we have increased the net allocation to unlisted investments, which now represent more than 60% of the principal portfolio as at 30 June 2016. These unlisted investments generated satisfactory gains and reflect our positive view on the health care, consumer and financials sectors, with the latter also having potential synergies with our finance businesses. Special situation investments are also attractive to the Group especially when we can add value from our industry expertise and connections.

In a joint venture with three other investors, the Group invested EUR43.2 million for an effective 50% stake in Sofitel Paris Le Faubourg, a hotel situated in a prime district in Paris. This is a special situation investment as we took an opportunity to acquire a prime asset at an attractive price. The hotel has been recently renovated that should help increase its revenue as well as offer good capital appreciation potential in the longer term.

In December 2015, we invested in the privatisation of WuXi PharmaTech (Cayman) Inc. together with a group of investors. Since then the company has continued to expand its business and a re-listing is being planned. Subsequent to our investment its valuation has risen based on recent private share transactions.

During the period, we sold our minority investment in Sinolending Ltd., the operator of dianrong.com, an investment held for two years that contributed significantly to value appreciation of the principal portfolio in a previous period. The sale proceeds amounted to US\$34.5 million and the investment was a highly successful one where we were able to draw upon our industry knowledge and explore business opportunities for UAF.

Long Term Investment Portfolio

This portfolio consists of associates, joint ventures and available-for-sale investments that have sound investment or strategic value to the Group. The period end carrying value was HK\$2,151.0 million. Most of the associated companies are financial services firms. This portfolio contributed HK\$114.8 million to profit.

SHK Financial has been a 30% owned associate of the Group since June 2015 and accounts for the majority of the value in this portfolio. The business faced a difficult comparison against a very strong first half 2015. For the first six months of 2016, the Hong Kong market daily turnover decreased by 46% year-on-year. Nonetheless SHK Financial achieved a reasonable level of profit through its diversified product mix and the substantial margin loan book. The net effect of valuation change on the Group's 30% stake in SHK Financial resulted in an accounting gain of HK\$114.7 million for the period: An impairment loss of HK\$109.3 million was recorded as Other Expense. On the other hand, a gain of HK\$224.0 million was recognised as Gain from Financial Assets from our put option right.

LSS Financial Leasing (Shanghai) Limited officially commenced business in January 2016, with the launch of corporate auto and auto facilities leasing products and services. It is already turning a small profit. Following this success, the company will be expanding into the retail market and launch consumer car leasing products in the fourth quarter of this year. In May 2016, it was awarded "The Most Promising Financial Enterprise" at the China Auto International Summit 2016 "中國汽車金融2016金鼎獎 — 最具潛力金融企業獎".

The Group divested its 25% stake in China Xin Yongan Futures Company Limited ("China Xin Yongan") and realised total proceeds of HK\$57.9 million including interest on principal. A gain on disposal of HK\$3.9 million was recognised as Other Income.

Real Estate Portfolio

In May 2016, the Group divested its commercial office space in Tian An Centre, Shanghai, and recorded a gain of HK\$18.9 million. The remaining assets in this portfolio comprise commercial office space in Admiralty Centre, Hong Kong and a HK\$98.0 million revaluation gain was recognised during the period.

Including the rental income generated, the real estate portfolio generated a 12.9% return on the average value for the period.

OUTLOOK

The Hong Kong loan businesses are expected to remain relatively stable unless there is an abrupt or further deterioration in the local economy. For Mainland China, recent trends in the UAF business indicate that Charge Off amounts appear to have peaked. In addition, the decline in the Mainland China loan book has stabilised which points to a recovery in profitability in the near term. However, the economic environment remains sluggish in Mainland China which could threaten our projections.

In view of challenges in the macro environment, the Group will continue to maintain a prudent and balanced approach to position our loan and investment assets for long term growth.

FINANCIAL REVIEW

Financial Resources, Liquidity and Capital Structure

<i>(HK\$ Million)</i>	As at 30 Jun 2016	As at 31 Dec 2015	Change
Equity attributable to owners of the Company	17,773.3	18,007.6	-1%
Total cash position	7,775.6	7,149.0	9%
Total borrowings	10,653.9	9,894.4	8%
Net debt	2,878.3	2,745.4	5%
Net debt to equity ratio	16.2%	15.2%	7%
Net asset value per share	HK\$8.05	HK\$8.08	

The Group maintained a conservative balance sheet during the period.

In May 2016 with a view to securing cheaper medium term debt, the Company launched an exchange offer for its US\$350 million 2017 6.375% US dollar notes ("2017 Notes") and issued new 2021 4.75% US dollar notes ("New Notes"). US\$115.5 million of the principal amount of the 2017 Notes were exchanged for the New Notes. Based on an exchange ratio of 1.05375, US\$121.6 million New Notes were issued in the exchange offer. Additional New Notes of US\$240 million were also issued.

The aggregate principal amount of the New Notes amounted to US\$361.6 million (including US\$30.3 million intra-group holdings). These notes will mature on 31 May 2021 and are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

Following the exchange, US\$234.5 million (including US\$8.7 million intra-group holdings) of the 2017 Notes remain outstanding and will mature on 26 September 2017.

Management Discussion and Analysis

As at 30 June 2016, total borrowings of the Group amounted to HK\$10,653.9 million (31 December 2015: HK\$9,894.4 million). Of this amount, 25% is repayable within one year (31 December 2015: 21%). The Group maintains a balanced mix of funding from various sources. Fixed coupon US dollar denominated notes amounted to HK\$4,769.3 million and RMB-denominated notes equivalent to HK\$583.1 million were outstanding at the end of the period. Bank borrowings are at floating interest rates and these are denominated in Hong Kong dollars, US dollars and RMB. 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. Any exchange risks are closely monitored by the Group and held within approved limits.

For the first six months of 2016, the Company repurchased and cancelled 22.5 million shares involving a total consideration (including expenses) of HK\$102.2 million.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the period, the Group made three disposals and one new investment in a joint venture. These transactions reflect a repositioning of assets in the Principal Investments business.

In February, the Group divested its 25% stake in China Xin Yongan and realised total proceeds of HK\$57.9 million including interest on principal. A gain on disposal of HK\$3.9 million was recognised as Other Income.

In March, the sale of the Group's minority interest in Sinolending Ltd. was completed for a consideration of US\$34.5 million. Sinolending is a peer-to-peer lending service company and operates under the name dianrong.com in Mainland China. As the sale price is in line with the revised carrying value as at 31 December 2015, there was no effect on profit or loss from the sale for the period.

In May, the Group disposed of its commercial office space in Tian An Centre, Shanghai for a total consideration of RMB84.3 million (equivalent to HK\$100.7 million). The transaction was carried out through the sale of two wholly-owned subsidiaries of the Group, Hing Yip Holdings Limited and Sing Hing Investment Limited, and the assignment of the respective shareholder's loans to the purchaser, a subsidiary of Tian An China Investments Company Limited. Further details are included in the Company's announcement dated 6 May 2016. A HK\$18.9 million gain was booked from the sale.

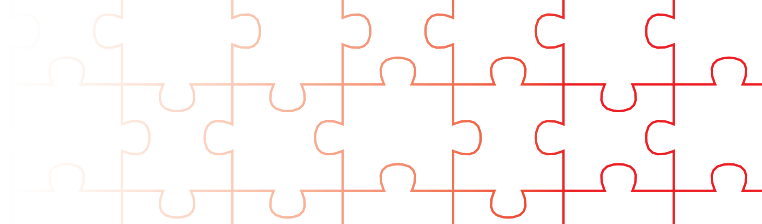
On 11 May 2016, the Group entered into an agreement to form a joint venture with three partners to acquire the holding company of the Sofitel Paris Le Faubourg, a hotel located in the 8th district of Paris near major tourist attractions such as the Louvre Museum. The acquisition consideration was agreed at EUR118.9 million and the enterprise value for the holding company was EUR162.3 million. Taking into account debt financing, deal expenses and pre-funded interest reserves, the amount invested by the Group shall be approximately EUR43.2 million (approximately HK\$382.0 million) for its 50% interest in the joint venture.

Charges on Group Assets

Properties of the Group with a total book value of HK\$842.0 million were pledged by subsidiaries to banks for facilities granted to them but there was no drawdown as at 30 June 2016.

Contingent Liabilities

Details regarding the contingent liabilities are set out in Note 22 to the condensed consolidated financial statements.



HUMAN RESOURCES AND TRAINING

As at 30 June 2016, the Group's headcount (including sales consultants) was 4,529 compared to 5,880 at 31 December 2015. This net decrease reflects a reduction of headcount at UAF from its branch network consolidation in Mainland China.

Staff costs based on continuing operations (including Directors' emoluments), contributions to retirement benefit schemes and expenses recognised for the SHK Employee Ownership Scheme (the "EOS") amounted to approximately HK\$372.0 million (first half of 2015: HK\$430.6 million).

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

Under the EOS, selected employees or directors of the Group (the "Selected Grantees") were awarded shares of the Company. Following management's recommendation, a total of 834,000 shares were granted to the Selected Grantees during the period subject to various terms including, amongst other things, the vesting scale whereby awarded shares will vest and become unrestricted in various vesting periods. As at 30 June 2016, the outstanding awarded shares under the EOS (excluding shares awarded, but subsequently forfeited) amounted to 1,448,000 (including 1,062,000 under the Company and 386,000 under Sun Hung Kai Financial Limited), out of which 893,000 shares were awarded to Directors.

In alignment with the Group's Vision and Mission, its Core Values are integral to the selection, assessment, recognition, remuneration and training of its people. The Group is committed to fostering a supportive and continuous learning environment and its people are encouraged to learn actively through their on-the-job experiences. Effective blended learning solutions are implemented and a comprehensive training curriculum is established, covering a wide spectrum of programmes on the prevention of bribery, bankruptcy laws, data privacy, the Money Lender's Ordinance, debt collection skills, customer service skills, leadership skills, KPI setting skills, supervisory skills, soft skills, market and regulatory updates, technical skills, PC skills, language and wellness.

Interim Dividend and Closure of Register of Members

INTERIM DIVIDEND

The Board has declared an interim dividend of HK12 cents per share (2015: HK12 cents per share) payable to the shareholders whose names appear on the register of members of the Company on 6 September 2016. Dividend warrants for the interim dividend are expected to be dispatched on or around 13 September 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 5 September 2016 and 6 September 2016, during which period no transfer of shares will be registered. The ex-dividend date will be 1 September 2016. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrar, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 2 September 2016.

Directors' Interests

As at 30 June 2016, the interests of Directors in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO were as follows:

(A) INTERESTS IN THE SHARES OF THE COMPANY ("SHARES") AND THE UNDERLYING SHARES

Name of Directors	Capacity	Number of Shares and underlying Shares	Approximate % of the total number of issued Shares
Lee Seng Huang	Interests of controlled corporation <i>(Note 1)</i>	1,233,578,575 <i>(Note 2)</i>	55.90%
Simon Chow Wing Charn	Beneficiary of trust	552,000 <i>(Note 3)</i>	0.03%
Peter Anthony Curry	Beneficiary of trust	341,000 <i>(Note 4(a))</i>	0.02%
	Beneficiary owner	684,141 <i>(Note 4(b))</i>	0.03%

Notes:

1. Mr. Lee Seng Huang, a Director, together with Mr. Lee Seng Hui and Ms. Lee Su Hwei are the trustees of Lee and Lee Trust, being a discretionary trust. Lee and Lee Trust together with Mr. Lee Seng Hui indirectly owned approximately 73.91% of the total number of shares of Allied Group Limited ("AGL") and was therefore deemed to have interests in the Shares in which AGL was interested.
2. This refers to the deemed interest in 1,233,578,575 Shares held by Allied Properties (H.K.) Limited ("APL").
3. This refers to the deemed interests in 552,000 unvested Shares granted to Mr. Simon Chow Wing Charn on 15 April 2016 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 184,000 Shares) shall be vested and become unrestricted from 15 April 2017; another one-third thereof shall be vested and become unrestricted from 15 April 2018; and the remaining one-third thereof shall be vested and become unrestricted from 15 April 2019.
4. (a) These include the deemed interests in:
 - (i) 26,000 unvested Shares out of the total of 78,000 Shares granted to Mr. Peter Anthony Curry ("Mr. Curry") on 16 April 2014 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 26,000 Shares) was vested and became unrestricted from 15 April 2015; another one-third thereof was vested and became unrestricted from 15 April 2016; and the remaining one-third thereof shall be vested and become unrestricted from 15 April 2017;
 - (ii) 78,000 unvested Shares out of the total of 117,000 Shares granted to Mr. Curry on 21 April 2015 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 39,000 Shares) was vested and became unrestricted from 15 April 2016; another one-third thereof shall be vested and become unrestricted from 15 April 2017; and the remaining one-third thereof shall be vested and become unrestricted from 15 April 2018; and
 - (iii) 237,000 unvested Shares granted to Mr. Curry on 15 April 2016 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 79,000 Shares) shall be vested and become unrestricted from 15 April 2017; another one-third thereof shall be vested and become unrestricted from 15 April 2018; and the remaining one-third thereof shall be vested and become unrestricted from 15 April 2019.
- (b) This includes 682,000 Shares granted to Mr. Curry under the EOS that were vested, became unrestricted and the title of which was transferred to him. The balance represents the Shares received by Mr. Curry by the allotment of scrip Shares pursuant to the previous scrip dividend scheme of the Company.

(B) INTERESTS IN THE SHARES AND UNDERLYING SHARES OF ASSOCIATED CORPORATIONS

Name of Directors	Associated corporations	Capacity	Number of shares and underlying shares	Approximate % of the total number of the relevant shares
Lee Seng Huang <i>(Note 1)</i>	AGL	Trustee (other than a bare trustee) <i>(Note 2)</i>	131,706,380	73.90%
	APL	Interests of controlled corporation <i>(Note 3)</i>	5,381,039,521 <i>(Note 4)</i>	78.99%
	SHK Hong Kong Industries Limited ("SHK HK Ind")	Interests of controlled corporation <i>(Note 5)</i>	3,082,889,606 <i>(Note 6)</i>	74.97%

Notes:

- Mr. Lee Seng Huang, by virtue of his interests in AGL and APL, was deemed to be interested in the shares of the subsidiaries of AGL (including SHK HK Ind, a listed subsidiary of AGL) and APL, which are associated corporations of the Company as defined under the SFO.

A waiver application was submitted to the Hong Kong Stock Exchange for exemption from disclosure of Mr. Lee's deemed interests in the shares of such associated corporations of the Company in this report, and a waiver was granted by the Hong Kong Stock Exchange on 21 July 2016.
- Mr. Lee Seng Huang is one of the trustees of Lee and Lee Trust, being a discretionary trust which indirectly owned 131,706,380 shares of AGL.
- This refers to the same interests held directly or indirectly by AGL in APL.
- This includes the interest in (i) 5,108,911,521 shares of APL which were held 968,354,880 directly and 4,140,556,641 indirectly by AGL and (ii) 272,128,000 shares of APL which were held indirectly by certain wholly-owned subsidiaries of the Company as holders of pledged shares.
- This refers to the same interests held indirectly by AGL in SHK HK Ind.
- This refers to the interest in 3,082,889,606 shares of SHK HK Ind.

All interests stated above represent long positions. As at 30 June 2016, none of the Directors held any short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

Save as disclosed above, as at 30 June 2016, neither the Directors nor the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

Interests of Substantial Shareholders and Other Persons

As at 30 June 2016, the following shareholders had interests in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO (the "SFO Register"):

Name of Shareholders	Capacity	Number of Shares and underlying Shares	Approximate % of the total number of issued Shares
APL	Interests of controlled corporation <i>(Note 1)</i>	1,233,578,575 <i>(Note 2)</i>	55.90%
AGL	Interests of controlled corporation <i>(Note 3)</i>	1,233,578,575 <i>(Note 4)</i>	55.90%
Lee and Lee Trust	Interests of controlled corporation <i>(Note 5)</i>	1,233,578,575 <i>(Note 4)</i>	55.90%
Dubai Ventures L.L.C ("Dubai Ventures")	Beneficial owner	166,000,000 <i>(Note 6)</i>	7.52%
Dubai Ventures Group (L.L.C) ("DVG")	Interests of controlled corporation <i>(Note 7)</i>	166,000,000 <i>(Note 8)</i>	7.52%
Dubai Group (L.L.C) ("Dubai Group")	Interests of controlled corporation <i>(Note 9)</i>	166,000,000 <i>(Note 8)</i>	7.52%
Dubai Holding Investments Group LLC ("DHIG")	Interests of controlled corporation <i>(Note 10)</i>	166,000,000 <i>(Note 8)</i>	7.52%
Dubai Holding (L.L.C) ("Dubai Holding")	Interests of controlled corporation <i>(Note 11)</i>	166,000,000 <i>(Note 8)</i>	7.52%
Dubai Group Limited ("DGL")	Interests of controlled corporation <i>(Note 12)</i>	166,000,000 <i>(Note 8)</i>	7.52%
HSBC Trustee (C.I.) Limited ("HSBC Trustee")	Trustee <i>(Note 13)</i>	166,000,000 <i>(Note 8)</i>	7.52%
HH Mohammed Bin Rashid Al Maktoum	Interests of controlled corporation <i>(Note 14)</i>	166,000,000 <i>(Note 8)</i>	7.52%
Asia Financial Services Company Limited ("AFSC")	Beneficial owner	341,600,000 <i>(Note 15)</i>	15.48%
Asia Financial Services Holdings Limited ("AFSH")	Interests of controlled corporation <i>(Note 16)</i>	341,600,000 <i>(Note 17)</i>	15.48%

Interests of Substantial Shareholders and Other Persons

Name of Shareholders	Capacity	Number of Shares and underlying Shares	Approximate % of the total number of issued Shares
Asia Financial Services Group Limited ("AFSG")	Interests of controlled corporation (Note 18)	341,600,000 (Note 17)	15.48%
Asia Financial Services Group Holdings Limited ("AFSGH")	Interests of controlled corporation (Note 19)	341,600,000 (Note 17)	15.48%
CVC Capital Partners Asia Pacific III L.P. ("CVC LP")	Interests of controlled corporation (Note 20)	341,600,000 (Note 17)	15.48%
CVC Capital Partners Asia III Limited ("CVC Capital III")	Interests of controlled corporation (Note 21)	341,600,000 (Note 17)	15.48%
CVC Capital Partners Advisory Company Limited ("CVC Capital Partners Advisory")	Interests of controlled corporation (Note 22)	341,600,000 (Note 17)	15.48%
CVC Capital Partners Finance Limited ("CVC Capital Partners Finance")	Interests of controlled corporation (Note 23)	341,600,000 (Note 17)	15.48%
CVC Group Holdings L.P. ("CVC Group Holdings")	Interests of controlled corporation (Note 24)	341,600,000 (Note 17)	15.48%
CVC Portfolio Holdings Limited ("CVC Portfolio")	Interests of controlled corporation (Note 25)	341,600,000 (Note 17)	15.48%
CVC MMXII Limited ("CVC MMXII")	Interests of controlled corporation (Note 26)	341,600,000 (Note 17)	15.48%
CVC Capital Partners 2013 PCC (acting in respect of its protected cell, CVC Capital Partners Cell E PC) ("CVC Capital Partners 2013")	Interests of controlled corporation (Note 27)	341,600,000 (Note 17)	15.48%
CVC Capital Partners SICAV-FIS S.A. ("CVC Capital Partners SA")	Interests of controlled corporation (Note 28)	341,600,000 (Note 17)	15.48%
Ontario Teachers' Pension Plan Board	Beneficial owner	138,035,002 (Note 29)	6.26%

Interests of Substantial Shareholders and Other Persons

Notes:

1. The interests were held by AP Emerald Limited ("AP Emerald"), a wholly-owned subsidiary of AP Jade Limited which in turn was a wholly-owned subsidiary of APL. APL was therefore deemed to have interests in the Shares in which AP Emerald was interested.
2. This represents an interest in 1,233,578,575 Shares held by APL through AP Emerald.
3. AGL owned approximately 74.99% of the total number of shares of APL and was therefore deemed to have an interest in the Shares in which APL was interested.
4. This refers to the same deemed interests in 1,233,578,575 Shares held by APL.
5. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang (a Director) are the trustees of Lee and Lee Trust, being a discretionary trust. They together owned approximately 73.91% of the total number of shares of AGL (inclusive of Mr. Lee Seng Hui's personal interest) and were therefore deemed to have an interest in the Shares in which AGL was interested.
6. This represents an interest in 166,000,000 Shares.
7. DVG owned 99% interest in Dubai Ventures and was therefore deemed to have an interest in the Shares which Dubai Ventures was interested.
8. This refers to the same interests in 166,000,000 Shares held by Dubai Ventures.
9. Dubai Group owned 99% interest in DVG and was therefore deemed to have an interest in the Shares in which DVG was interested.
10. DHIG owned 51% interest in Dubai Group and was therefore deemed to have an interest in the Shares in which Dubai Group was interested.
11. Dubai Holding owned 99.66% interest in DHIG and was therefore deemed to have an interest in the Shares in which DHIG was interested.
12. DGL, through its wholly-owned subsidiary, owned 49% interest in Dubai Group and was therefore deemed to have an interest in the Shares in which Dubai Group was interested.
13. HSBC Trustee owned 100% interest in DGL and was therefore deemed to have an interest in the Shares in which DGL was interested.
14. HH Mohammed Bin Rashid Al Maktoum owned 97.40% interest in Dubai Holding and was therefore deemed to have an interest in the Shares in which Dubai Holding was interested.
15. This represents an interest in 341,600,000 Shares.
16. AFSH held 100% interest in AFSC and was therefore deemed to have an interest in the Shares in which AFSC was interested.
17. This refers to the same interests in 341,600,000 Shares held by AFSC.
18. AFSG owned 99.1% interest in AFSH and was therefore deemed to have an interest in the Shares in which AFSH was interested.
19. AFSGH held 100% interest in AFSG and was therefore deemed to have an interest in the Shares in which AFSG was interested.
20. CVC LP owned 88% interest in AFSGH and was therefore deemed to have an interest in the Shares in which AFSGH was interested.
21. CVC Capital III, as the general partner of CVC LP, exclusively managed and controlled CVC LP and was therefore deemed to have an interest in the Shares in which CVC LP was interested.
22. CVC Capital Partners Advisory held 100% interest in CVC Capital III and was therefore deemed to have an interest in the Shares in which CVC Capital III was interested.
23. CVC Capital Partners Finance held 100% interest in CVC Capital Partners Advisory and was therefore deemed to have an interest in the Shares in which CVC Capital Partners Advisory was interested.
24. CVC Group Holdings held 100% interest in CVC Capital Partners Finance and was therefore deemed to have an interest in the Shares in which CVC Capital Partners Finance was interested.
25. CVC Portfolio, (i) held 80.83% interest in CVC Group Limited ("CVC Group" which was the sole limited partner of CVC Group Holdings) and was therefore deemed to have an interest in the Shares in which CVC Group Holdings was interested, and (ii) as the general partner of CVC Group Holdings, exclusively managed and controlled CVC Group Holdings and was therefore deemed to have an interest in the Shares in which CVC Group Holdings was interested.
26. CVC MMXII held 100% interest in CVC Portfolio and was therefore deemed to have an interest in the Shares in which CVC Portfolio was interested.
27. CVC Capital Partners 2013 held 100% interest in CVC MMXII and was therefore deemed to have an interest in the Shares in which CVC MMXII was interested.
28. CVC Capital Partners SA held 100% interest in CVC Capital Partners 2013 and was therefore deemed to have an interest in the Shares in which CVC Capital Partners 2013 was interested.
29. This represents an interest in 138,035,002 Shares.

All interests stated above represent long positions. As at 30 June 2016, no short positions were recorded in the SFO Register of the Company.

Save as disclosed above, as at 30 June 2016, the Directors are not aware of any other persons who have interests or short positions in the Shares or underlying Shares which would require to be disclosed to the Company pursuant to Part XV of the SFO.

Corporate Governance and Other Information

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2016, 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 Listing Rules, 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, as well as the Group's 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 other business segments 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.

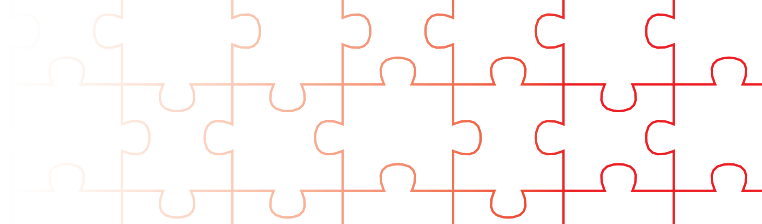
(b) Code Provisions B.1.2 and C.3.3

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 should 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 code provision C.3.3 of the CG Code, except that the Audit Committee should (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) 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) promote (as opposed to ensure under the code provision) co-ordination between the internal audit and external auditor; and (iv) 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 were set out in the Corporate Governance Report contained in the Company's annual report for the financial year ended 31 December 2015. The Board 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.



CHANGES IN DIRECTORS' INFORMATION

The changes in Directors' information as required to be disclosed pursuant to Rules 13.51(2) and 13.51B(1) of the Listing Rules are set out below:

For all Executive Directors

- Change of emoluments of all Executive Directors during the period has been disclosed in the Corporate Governance Report of the 2015 Annual Report.

For all Independent Non-Executive Directors

- Change of annual consultancy fee of all Independent Non-Executive Directors during the period has been disclosed in the Corporate Governance Report of the 2015 Annual Report.

Mr. Lee Seng Huang, Group Executive Chairman and Executive Director

- Ceased to be Chairman of the Risk Management Committee ("RMC") but remains as a member of the RMC on 16 August 2016.

Mr. Simon Chow Wing Charn, Executive Director

- Re-designated as the Chairman of the RMC on 16 August 2016.

Mr. Peter Anthony Curry, Executive Director

- Resigned as an alternate director to Mr. Lee Seng Hui (a non-executive director) of APAC Resources Limited, a company listed on the Hong Kong Stock Exchange with effect from 18 May 2016.

Mr. Jonathan Andrew Cimino ("Mr. Cimino"), Non-Executive Director

- Ratified the appointment as a non-executive director of EFG-Hermes Holdings SAE ("EFG") in an annual general meeting of EFG held on 19 April 2016 and subsequently resigned on 12 August 2016. EFG is a company listed on the Egyptian Exchange.

Mr. Joseph Kamal Iskander (*alternate to Mr. Cimino*)

- Resigned as a non-executive director of EFG on 12 August 2016.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiries being made by the Company, that they have complied with the required standard as set out in the Model Code throughout the period under review.

Purchase, Sale or Redemption of Securities

During the six months ended 30 June 2016, the Company repurchased a total of 22,519,000 Shares on the Hong Kong Stock Exchange at an aggregate consideration (before expenses) of HK\$101,849,500. All the repurchased Shares were subsequently cancelled.

Particulars of the repurchases are as follows:

Month	Number of Shares repurchased	Purchase price		Aggregate consideration (before expenses) (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
January	7,278,000	5.00	4.20	32,883,720
February	114,000	4.44	4.30	500,140
March	269,000	4.65	4.52	1,231,390
April	324,000	4.65	4.41	1,474,620
May	12,015,000	4.60	4.48	54,444,050
June	2,519,000	4.65	4.31	11,315,580
	<u>22,519,000</u>			<u>101,849,500</u>

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the six months ended 30 June 2016.

Audit Committee Review



The Audit Committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited condensed consolidated financial report for the six months ended 30 June 2016. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants as well as reports obtained from management. The Audit Committee has not undertaken detailed independent audit checks.

On behalf of the Board

Lee Seng Huang

Group Executive Chairman

Hong Kong, 18 August 2016

Independent Review Report



TO THE BOARD OF DIRECTORS OF SUN HUNG KAI & CO. LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Sun Hung Kai & Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 58, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of the condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on the condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 18 August 2016

Condensed Consolidated Statement of Profit or Loss

	Notes	Six months ended	
		30/6/2016 Unaudited HK\$ Million	30/6/2015 Unaudited HK\$ Million
Continuing operations			
Revenue	5	1,741.8	2,168.6
Other income	6	123.4	47.0
Total income		1,865.2	2,215.6
Brokerage and commission expenses		(25.9)	(25.2)
Advertising and promotion expenses		(55.7)	(47.1)
Direct cost and operating expenses		(26.8)	(23.1)
Administrative expenses		(578.1)	(684.1)
Net gain on financial assets and liabilities		136.5	239.8
Net exchange loss		(4.1)	(7.3)
Bad and doubtful debts	7	(566.1)	(654.2)
Finance costs		(232.2)	(238.7)
Other expenses		(109.8)	(163.8)
Share of results of associates		403.0	611.9
Share of results of joint ventures		(2.9)	14.4
		(19.8)	43.8
Profit before taxation	8	380.3	670.1
Taxation	9	(29.5)	(105.7)
Profit for the period from continuing operations		350.8	564.4
Discontinued operations			
Profit for the period from discontinued operations		—	3,228.8
		350.8	3,793.2
Profit attributable to:			
— Owners of the Company		276.2	3,630.6
— Non-controlling interests		74.6	162.6
		350.8	3,793.2
Earnings per share	11		
From continuing and discontinued operations			
— Basic (HK cents)		12.5	161.4
— Diluted (HK cents)		12.5	161.4
From continuing operations			
— Basic (HK cents)		12.5	17.9
— Diluted (HK cents)		12.5	17.9

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Six months ended	
	30/6/2016 Unaudited HK\$ Million	30/6/2015 Unaudited HK\$ Million
Profit for the period	350.8	3,793.2
Other comprehensive income (expenses) that may be reclassified subsequently to profit or loss		
Available-for-sale investments		
— Net fair value changes during the period	(2.3)	25.2
— Reclassification adjustment to profit or loss on disposal	—	(18.8)
	(2.3)	6.4
Exchange differences arising on translating foreign operations	(151.0)	3.0
Reclassification adjustment to profit or loss on disposal/liquidation of subsidiaries	(0.2)	(9.1)
Share of other comprehensive expenses of associates	(2.0)	—
Share of other comprehensive expenses of joint ventures	(8.5)	—
	(164.0)	0.3
Other comprehensive income that will not be reclassified subsequently to profit or loss		
Revaluation gain on properties transferred from self-owned properties to investment properties, net of tax	—	111.0
Other comprehensive income (expenses) for the period	(164.0)	111.3
Total comprehensive income for the period	186.8	3,904.5
Total comprehensive income attributable to:		
— Owners of the Company	178.4	3,738.9
— Non-controlling interests	8.4	165.6
	186.8	3,904.5

Condensed Consolidated Statement of Financial Position

	Notes	30/6/2016 Unaudited HK\$ Million	31/12/2015 Audited HK\$ Million
Non-current Assets			
Investment properties		1,018.5	1,027.3
Leasehold interests in land		4.5	4.6
Property and equipment		444.2	478.7
Intangible assets		885.6	884.5
Goodwill		2,384.0	2,384.0
Interest in associates		1,140.6	1,226.3
Interest in joint ventures		260.6	208.2
Available-for-sale investments	12	107.8	104.8
Financial assets at fair value through profit or loss	12	3,127.5	3,484.6
Deferred tax assets		638.8	543.4
Amounts due from associates		258.8	64.9
Loans and advances to consumer finance customers	13	2,706.7	2,741.3
Trade and other receivables	14	623.6	1,604.2
Deposits for acquisition of property and equipment		52.5	0.3
		13,653.7	14,757.1
Current Assets			
Financial assets at fair value through profit or loss	12	2,799.1	2,245.9
Taxation recoverable		6.8	9.6
Amounts due from associates		21.3	118.7
Loans and advances to consumer finance customers	13	5,268.0	6,080.7
Trade and other receivables	14	3,345.4	2,008.1
Bank deposits	15	2,073.6	1,501.4
Cash and cash equivalents	15	5,702.0	5,647.6
		19,216.2	17,612.0
Current Liabilities			
Financial liabilities at fair value through profit or loss	12	79.5	177.9
Bank and other borrowings	16	2,593.6	2,009.1
Trade and other payables	17	509.1	281.3
Amounts due to associates		0.1	0.1
Provisions		18.4	31.8
Taxation payable		137.2	200.1
Notes	19	77.7	79.6
		3,415.6	2,779.9
Net Current Assets		15,800.6	14,832.1
Total Assets less Current Liabilities		29,454.3	29,589.2

Condensed Consolidated Statement of Financial Position

	Notes	30/6/2016 Unaudited HK\$ Million	31/12/2015 Audited HK\$ Million
Capital and Reserves			
Share capital	18	8,752.3	8,752.3
Reserves		9,021.0	9,255.3
Equity attributable to owners of the Company		17,773.3	18,007.6
Non-controlling interests		3,527.2	3,583.2
Total Equity		21,300.5	21,590.8
Non-current Liabilities			
Deferred tax liabilities		171.1	192.5
Bank and other borrowings	16	2,707.9	4,303.6
Provisions		0.1	0.2
Notes	19	5,274.7	3,502.1
		8,153.8	7,998.4
		29,454.3	29,589.2

Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company									
	Share capital HK\$ Million	Shares held for employee ownership scheme HK\$ Million	Employee share-based compensation reserve HK\$ Million	Exchange reserve HK\$ Million	Revaluation reserve HK\$ Million	Capital reserves HK\$ Million	Retained earnings HK\$ Million	Total HK\$ Million	Non-controlling interests HK\$ Million	Total equity HK\$ Million
At 1 January 2016	8,752.3	(12.6)	6.1	(80.3)	556.8	61.3	8,724.0	18,007.6	3,583.2	21,590.8
Profit for the period	—	—	—	—	—	—	276.2	276.2	74.6	350.8
Other comprehensive income (expenses) for the period	—	—	—	(86.4)	(21.6)	—	10.2	(97.8)	(66.2)	(164.0)
Total comprehensive income (expenses) for the period	—	—	—	(86.4)	(21.6)	—	286.4	178.4	8.4	186.8
Formation of subsidiaries	—	—	—	—	—	—	—	—	2.9	2.9
Disposal of subsidiaries	—	—	—	—	—	—	—	—	(1.2)	(1.2)
Purchase of shares held for SHK Employee Ownership Scheme	—	(1.3)	—	—	—	—	—	(1.3)	—	(1.3)
Recognition of equity-settled share-based payments	—	—	1.8	—	—	—	—	1.8	—	1.8
Vesting of shares of the SHK Employee Ownership Scheme	—	4.9	(4.9)	—	—	—	—	—	—	—
Interim dividend paid	—	—	—	—	—	—	(311.0)	(311.0)	—	(311.0)
Shares repurchased and cancelled	—	—	—	—	—	—	(102.2)	(102.2)	—	(102.2)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(66.1)	(66.1)
At 30 June 2016	<u>8,752.3</u>	<u>(9.0)</u>	<u>3.0</u>	<u>(166.7)</u>	<u>535.2</u>	<u>61.3</u>	<u>8,597.2</u>	<u>17,773.3</u>	<u>3,527.2</u>	<u>21,300.5</u>

	Attributable to owners of the Company									
	Share capital HK\$ Million	Shares held for employee ownership scheme HK\$ Million	Employee share-based compensation reserve HK\$ Million	Exchange reserve HK\$ Million	Revaluation reserve HK\$ Million	Capital reserves HK\$ Million	Retained earnings HK\$ Million	Total HK\$ Million	Non-controlling interests HK\$ Million	Total equity HK\$ Million
At 1 January 2015	8,752.3	(20.2)	13.3	121.2	454.4	60.8	5,545.2	14,927.0	3,740.3	18,667.3
Profit for the period	—	—	—	—	—	—	3,630.6	3,630.6	162.6	3,793.2
Other comprehensive income (expenses) for the period	—	—	—	(0.1)	108.4	—	—	108.3	3.0	111.3
Total comprehensive income (expenses) for the period	—	—	—	(0.1)	108.4	—	3,630.6	3,738.9	165.6	3,904.5
Recognition of equity-settled share-based payments	—	—	(0.4)	—	—	—	—	(0.4)	—	(0.4)
Vesting of shares of the SHK Employee Ownership Scheme	—	6.1	(7.1)	—	—	—	1.0	—	—	—
Final dividend paid	—	—	—	—	—	—	(315.5)	(315.5)	—	(315.5)
Shares repurchased and cancelled	—	—	—	—	—	—	(19.9)	(19.9)	—	(19.9)
Transfer retained earnings to capital reserves	—	—	—	—	—	0.1	(0.1)	—	—	—
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(143.7)	(143.7)
At 30 June 2015	<u>8,752.3</u>	<u>(14.1)</u>	<u>5.8</u>	<u>121.1</u>	<u>562.8</u>	<u>60.9</u>	<u>8,841.3</u>	<u>18,330.1</u>	<u>3,762.2</u>	<u>22,092.3</u>

Condensed Consolidated Statement of Cash Flows

	Six months ended	
	30/6/2016 Unaudited HK\$ Million	30/6/2015 Unaudited HK\$ Million
Operating activities		
Cash used in operations		
— Change in trade and other receivables	(320.0)	(1,761.7)
— Change in loans and advances to consumer finance customers	241.2	371.3
— Other operating cash flows	(342.6)	196.7
	(421.4)	(1,193.7)
Dividends received from held for trading investments	2.4	2.4
Interest received	1,664.4	2,240.4
Interest paid	(201.8)	(204.4)
Taxation paid	(193.5)	(179.5)
Net cash from operating activities	850.1	665.2
Investing activities		
Purchase of property and equipment	(5.8)	(37.4)
Proceeds on disposal of equipment	0.1	0.3
Purchase of intangible assets	(5.2)	(7.9)
Proceeds on disposal of a subsidiary (Note 24)	104.1	3,555.7
Acquisition of a subsidiary	(39.4)	—
Proceeds on disposal of associates	57.9	—
Dividend received from associates	27.6	—
Advance to associates	(201.6)	(29.1)
Capital injection to associates	(181.2)	—
Capital injection to a joint venture	(23.5)	(57.7)
Dividends received from joint ventures	11.8	32.5
Advance to joint ventures	—	(1.3)
Dividends received from available-for-sale investments	—	7.3
Purchase of available-for-sale investments	(5.4)	—
Proceeds on disposal of available-for-sale investments	—	113.6
Purchase of long-term financial assets designated as at fair value through profit or loss	(107.9)	(399.0)
Proceeds on disposal of long-term financial assets designated as at fair value through profit or loss	20.6	51.3
Net payment of statutory deposits	—	(5.5)
Payment of deposits for acquisition of property and equipment	(52.4)	(8.6)
Fixed deposits with banks withdrawn (placed)	(615.7)	152.4
Net cash from (used in) investing activities	(1,016.0)	3,366.6

Condensed Consolidated Statement of Cash Flows

	Six months ended	
	30/6/2016 Unaudited HK\$ Million	30/6/2015 Unaudited HK\$ Million
Financing activities		
Net short-term bank and other borrowings repaid	(1,660.0)	(1,754.7)
New long-term bank and other borrowings raised	634.5	941.8
Repayment of long-term bank loans	(14.0)	(58.8)
Proceeds from issue of notes	1,854.9	—
Repurchase of notes	(80.4)	(6.5)
Purchase of shares for the SHK Employee Ownership Scheme	(1.3)	—
Shares repurchased and cancelled	(102.2)	(19.9)
Dividends paid	(311.0)	—
Dividends to non-controlling interests	(66.1)	(143.7)
Net cash from (used in) financing activities	254.4	(1,041.8)
Net increase in cash and cash equivalents	88.5	2,990.0
Cash and cash equivalents at 1 January	5,647.6	4,051.2
Effect of foreign exchange rate changes	(34.1)	3.1
Cash and cash equivalents at 30 June	5,702.0	7,044.3

Notes to the Condensed Consolidated Financial Statements

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

The financial information relating to the financial year ended 31 December 2015 included in this interim report does not constitute the Company's statutory annual financial statements for this financial year 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 is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The Company's auditor has reported on those financial statements for 2015. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair value.

During the period, the Group adopted certain Amendments to Standards that are mandatorily effective for the Group's financial year beginning on 1 January 2016. The adoption of these Amendments has had no material effect on the condensed consolidated financial statements of the Group for the current and prior accounting periods. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2015.

Notes to the Condensed Consolidated Financial Statements

4. SEGMENT INFORMATION

The following is an analysis of the segment revenue and segment profit or loss from continuing operations:

	Six months ended 30 June 2016					Total HK\$ Million
	Structured Finance HK\$ Million	Consumer Finance HK\$ Million	Mortgage Loans HK\$ Million	Principal Investments HK\$ Million	Group Management and Support HK\$ Million	
Segment revenue	191.8	1,506.5	22.2	14.2	108.7	1,843.4
Less: inter-segment revenue	—	—	—	—	(101.6)	(101.6)
Segment revenue from external customers	<u>191.8</u>	<u>1,506.5</u>	<u>22.2</u>	<u>14.2</u>	<u>7.1</u>	<u>1,741.8</u>
Segment profit or loss	119.5	187.1	(2.4)	14.0	84.8	403.0
Share of results of associates	—	—	—	(2.9)	—	(2.9)
Share of results of joint ventures	—	—	—	(19.8)	—	(19.8)
Profit (loss) before taxation	<u>119.5</u>	<u>187.1</u>	<u>(2.4)</u>	<u>(8.7)</u>	<u>84.8</u>	<u>380.3</u>
Included in segment profit or loss:						
Interest income	164.1	1,486.7	22.1	0.2	7.1	1,680.2
Other income	—	—	—	116.3	7.1	123.4
Net gain (loss) on financial assets and liabilities	(5.9)	—	—	140.8	1.6	136.5
Net exchange gain (loss)	—	12.4	—	(16.4)	(0.1)	(4.1)
Bad and doubtful debts	<u>35.8</u>	<u>(600.5)</u>	<u>(1.4)</u>	<u>—</u>	<u>—</u>	<u>(566.1)</u>
Finance costs	(94.0)	(127.1)	(4.0)	—	(106.3)	(331.4)
Less: inter-segment finance costs	<u>94.0</u>	<u>1.2</u>	<u>4.0</u>	<u>—</u>	<u>—</u>	<u>99.2</u>
Finance costs to external suppliers	<u>—</u>	<u>(125.9)</u>	<u>—</u>	<u>—</u>	<u>(106.3)</u>	<u>(232.2)</u>
Cost of capital (charges) income (note)	<u>(6.1)</u>	<u>—</u>	<u>—</u>	<u>(119.4)</u>	<u>125.5</u>	<u>—</u>

Notes to the Condensed Consolidated Financial Statements

4. SEGMENT INFORMATION (CONTINUED)

	Six months ended 30 June 2015					
	Structured Finance 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	197.8	1,946.5	—	17.3	104.7	2,266.3
Less: inter-segment revenue	—	—	—	—	(97.7)	(97.7)
Segment revenue from external customers	<u>197.8</u>	<u>1,946.5</u>	<u>—</u>	<u>17.3</u>	<u>7.0</u>	<u>2,168.6</u>
Segment profit or loss	90.2	470.7	—	237.7	(186.7)	611.9
Share of results of associates	—	—	—	14.4	—	14.4
Share of results of joint ventures	—	—	—	43.8	—	43.8
Profit (loss) before taxation	<u>90.2</u>	<u>470.7</u>	<u>—</u>	<u>295.9</u>	<u>(186.7)</u>	<u>670.1</u>
Included in segment profit or loss:						
Interest income	195.1	1,931.0	—	—	4.3	2,130.4
Other income	—	9.7	—	37.1	0.2	47.0
Net gain (loss) on financial assets and liabilities	2.5	—	—	239.8	(2.5)	239.8
Net exchange loss	—	(0.1)	—	—	(7.2)	(7.3)
Bad and doubtful debts	(8.1)	(643.3)	—	—	(2.8)	(654.2)
Finance costs	(95.4)	(143.3)	—	—	(96.5)	(335.2)
Less: inter-segment finance costs	95.4	1.1	—	—	—	96.5
Finance costs to external suppliers	<u>—</u>	<u>(142.2)</u>	<u>—</u>	<u>—</u>	<u>(96.5)</u>	<u>(238.7)</u>
Cost of capital (charges) income (note)	<u>(4.2)</u>	<u>—</u>	<u>—</u>	<u>(46.0)</u>	<u>50.2</u>	<u>—</u>

Note: Cost of capital (charges) income are intersegment transactions and are charged by the Group Management and Support to Principal Investments and Structured Finance segments.

4. SEGMENT INFORMATION (CONTINUED)

The geographical information of revenue from continuing operations is disclosed as follows:

	Six months ended	
	30/6/2016 HK\$ Million	30/6/2015 HK\$ Million
Revenue from external customers by location of operations		
— Hong Kong	1,244.7	1,199.1
— Mainland China	490.2	946.8
— Others	6.9	22.7
	1,741.8	2,168.6

5. REVENUE

	Six months ended	
	30/6/2016 HK\$ Million	30/6/2015 HK\$ Million
Service and commission income	47.7	17.5
Dividends from listed investments	2.4	6.3
Dividends from unlisted investments	—	3.5
Gross rental income from investment properties	11.5	10.9
Interest income	1,680.2	2,130.4
	1,741.8	2,168.6

6. OTHER INCOME

	Six months ended	
	30/6/2016 HK\$ Million	30/6/2015 HK\$ Million
Net realised gain on disposal of		
— Subsidiaries (Note 24)	18.9	—
— An associate	3.9	—
— Available-for-sale investments	—	18.8
	22.8	18.8
Increase in fair value of investment properties	97.3	27.7
Miscellaneous income	3.3	0.5
	123.4	47.0

Notes to the Condensed Consolidated Financial Statements

7. BAD AND DOUBTFUL DEBTS

	Six months ended	
	30/6/2016 HK\$ Million	30/6/2015 HK\$ Million
Loans and advances to consumer finance customers		
— Impairment loss, net of reversal	(578.5)	(639.4)
Trade and other receivables		
— Reversal of impairment loss	35.8	—
— Impairment loss	(23.4)	(3.9)
— Bad debts written off	—	(10.9)
Bad and doubtful debts recognised in profit or loss	(566.1)	(654.2)

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

	Six months ended	
	30/6/2016 HK\$ Million	30/6/2015 HK\$ Million
Loans and advances to consumer finance customers		
— Amounts written off in allowance of impairment	(648.1)	(610.6)
— Recoveries credited to allowance of impairment	77.7	59.8
Trade and other receivables		
— Amounts written off in allowance of impairment	(59.8)	—

8. PROFIT BEFORE TAXATION

	Six months ended	
	30/6/2016 HK\$ Million	30/6/2015 HK\$ Million
Profit before taxation has been arrived at after crediting (charging):		
Amortisation of leasehold interests in land	(0.1)	(0.1)
Depreciation of property and equipment	(27.6)	(27.2)
Amortisation of intangible assets		
— Computer software (included in administrative expenses)	(0.7)	(0.7)
— Intangible assets acquired in business combination (included in direct cost and operating expenses)	(3.1)	(3.1)
Interest expenses	(228.8)	(232.8)
Impairment loss on interest in an associate (included in other expenses)*	(109.3)	—
Loss on purchase of bonds issued by the Group (included in other expenses)	—	(141.5)
Share of taxation of associates and joint ventures (included in share of results of associates and joint ventures)	0.5	(15.3)
	0.5	(15.3)

* The Group disposed of 70% interest in a wholly-owned subsidiary Sun Hung Kai Financial Group Limited (“SHKFGL”) in June 2015 and classified the remaining 30% equity interest as an associate. Affected by the correction of Hong Kong and China stock markets since the second half of 2015, the carrying amount of the 30% equity interest in SHKFGL exceeded the recoverable amount at the reporting date that led to an impairment loss. The impairment loss was included in Principal Investments segment. 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 18.7%. 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\$224.0 million classified under net gain on financial assets and liabilities.

9. TAXATION

	Six months ended	
	30/6/2016 HK\$ Million	30/6/2015 HK\$ Million
Current tax		
— Hong Kong	87.5	91.9
— PRC	44.0	122.8
	131.5	214.7
Over provision in prior years	(0.2)	(0.3)
	131.3	214.4
Deferred tax	(101.8)	(108.7)
	29.5	105.7

Notes to the Condensed Consolidated Financial Statements

9. TAXATION (CONTINUED)

Hong Kong profits tax is calculated at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the period. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2015: 25%). Taxation arising in other jurisdictions is calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in the relevant jurisdictions.

Deferred tax recognised in other comprehensive income during the period was immaterial (2015: deferred tax of HK\$5.3 million arising from the revaluation gain on properties transferred from self-owned properties to investment properties).

10. DIVIDEND

	Six months ended	
	30/6/2016 HK\$ Million	30/6/2015 HK\$ Million
Dividends recognised as distribution during the period		
— 2015 second interim dividend of HK14 cents per share (2015: 2014 final dividend of HK14 cents per share)	311.0	315.5

Subsequent to the end of the interim reporting period, the Board of Directors has declared an interim dividend of HK12 cents per share amounting to HK\$264.7 million (2015: interim dividend of HK12 cents per share amounting to HK\$269.3 million).

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:

	Six months ended	
	30/6/2016 HK\$ Million	30/6/2015 HK\$ Million
Earnings for the purposes of basic and diluted earnings per share		
Earnings from continuing operations and discontinued operations (profit for the period attributable to owners of the Company)	276.2	3,630.6
Less: earnings from discontinued operations (profit for the period from discontinued operations attributable to owners of the Company)	<u>—</u>	<u>(3,228.8)</u>
Earnings from continuing operations (profit for the period from continuing operations attributable to owners of the Company)	<u>276.2</u>	<u>401.8</u>
	Million	Million
	Shares	Shares
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,216.6	2,249.6
Effect of dilutive potential ordinary shares:		
— Impact of contingently issuable shares under SHK Employee Ownership Scheme	<u>—</u>	<u>0.2</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>2,216.6</u>	<u>2,249.8</u>

There were no basic earnings per share and diluted earnings per share for the discontinued operations in the current period (2015: both HK143.5 cents per share).

Notes to the Condensed Consolidated Financial Statements

12. FINANCIAL ASSETS AND LIABILITIES

The following tables provide analyses of financial assets and liabilities of the Group that are measured at cost less impairment and at fair value subsequent to initial recognition.

	At 30 June 2016				
	Level 1 HK\$ Million	Fair value		Cost less impairment HK\$ Million	Total HK\$ Million
		Level 2 HK\$ Million	Level 3 HK\$ Million		
Available-for-sale investments					
Equity securities listed in Hong Kong	45.7	—	—	—	45.7
Unlisted overseas equity securities	—	—	40.6	21.5	62.1
	<u>45.7</u>	<u>—</u>	<u>40.6</u>	<u>21.5</u>	<u>107.8</u>
Financial assets at fair value through profit or loss					
Held for trading investments					
— Equity securities listed in Hong Kong	284.5	—	—	—	284.5
— Equity securities listed outside Hong Kong	194.1	—	—	—	194.1
— Exchange-traded funds listed in Hong Kong	147.3	—	—	—	147.3
— Over the counter equity derivatives	—	—	0.8	—	0.8
— Forward currency contract	—	32.6	—	—	32.6
— Options listed in Hong Kong	0.7	—	—	—	0.7
— Options listed outside Hong Kong	7.8	—	—	—	7.8
— Unlisted overseas options	—	—	3.1	—	3.1
— Unlisted put right for shares in an associate	—	—	931.0	—	931.0
— Unlisted call option for club memberships	—	—	9.3	—	9.3
— Unlisted call option for shares listed outside Hong Kong	—	—	23.1	—	23.1
— Contracts for difference	—	10.3	—	—	10.3
— Unlisted bonds issued by listed companies	—	57.6	—	—	57.6
— Listed bonds issued by listed companies	—	919.7	—	—	919.7
	<u>634.4</u>	<u>1,020.2</u>	<u>967.3</u>	<u>—</u>	<u>2,621.9</u>
Investments designated as at fair value through profit or loss					
— Unlisted convertible bonds issued by unlisted companies*	—	—	799.1	—	799.1
— Unlisted overseas investment funds	—	—	2,505.6	—	2,505.6
	<u>—</u>	<u>—</u>	<u>3,304.7</u>	<u>—</u>	<u>3,304.7</u>
	<u>634.4</u>	<u>1,020.2</u>	<u>4,272.0</u>	<u>—</u>	<u>5,926.6</u>
Analysed for reporting purposes as:					
— Non-current assets					3,127.5
— Current assets					2,799.1
					<u>5,926.6</u>
Financial liabilities at fair value through profit or loss					
Held for trading					
— Futures and options listed in Hong Kong	2.7	—	—	—	2.7
— Futures and options listed outside Hong Kong	0.2	—	—	—	0.2
— Unlisted overseas options	—	—	3.0	—	3.0
— Over the counter equity derivatives	—	—	6.2	—	6.2
— Over the counter currency derivatives	—	—	1.1	—	1.1
— Stock borrowings	—	34.8	—	—	34.8
— Contracts for difference	—	28.0	—	—	28.0
— Forward currency contract	—	3.5	—	—	3.5
	<u>2.9</u>	<u>66.3</u>	<u>10.3</u>	<u>—</u>	<u>79.5</u>

* The unlisted convertible bonds with a total carrying value of HK\$795.2 million were converted into shares of the unlisted company after the reporting date. Details of the conversion are disclosed in the Company's announcement dated 9 August 2016.

Notes to the Condensed Consolidated Financial Statements

12. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	At 31 December 2015				
	Fair value			Cost less impairment HK\$ Million	Total HK\$ Million
	Level 1 HK\$ Million	Level 2 HK\$ Million	Level 3 HK\$ Million		
Available-for-sale investments					
Equity securities listed in Hong Kong	48.9	—	—	—	48.9
Unlisted overseas equity securities	—	—	39.7	16.2	55.9
	<u>48.9</u>	<u>—</u>	<u>39.7</u>	<u>16.2</u>	<u>104.8</u>
Financial assets at fair value through profit or loss					
Held for trading investments					
— Equity securities listed in Hong Kong	382.5	—	—	—	382.5
— Equity securities listed outside Hong Kong	237.1	—	—	—	237.1
— Exchange-traded funds listed in Hong Kong	88.0	—	—	—	88.0
— Over the counter equity derivatives	—	—	0.7	—	0.7
— Over the counter currency derivatives	—	—	0.1	—	0.1
— Forward currency contract	—	—	6.3	—	6.3
— Options listed outside Hong Kong	3.6	—	—	—	3.6
— Unlisted overseas options	—	—	0.4	—	0.4
— Unlisted put right for shares in an associate	—	—	707.0	—	707.0
— Unlisted call option for club memberships	—	—	9.3	—	9.3
— Unlisted call option for shares listed outside Hong Kong	—	—	25.9	—	25.9
— Contracts for difference	88.1	—	—	—	88.1
— Unlisted bonds issued by listed companies	—	359.6	—	—	359.6
— Listed bonds issued by listed companies	—	488.4	—	—	488.4
	<u>799.3</u>	<u>848.0</u>	<u>749.7</u>	<u>—</u>	<u>2,397.0</u>
Investments designated as at fair value through profit or loss					
— Unlisted convertible preferred shares issued by an unlisted company	—	—	267.8	—	267.8
— Unlisted convertible bonds issued by unlisted companies	—	—	778.9	—	778.9
— Unlisted overseas investment funds	—	—	2,286.8	—	2,286.8
	<u>—</u>	<u>—</u>	<u>3,333.5</u>	<u>—</u>	<u>3,333.5</u>
	<u>799.3</u>	<u>848.0</u>	<u>4,083.2</u>	<u>—</u>	<u>5,730.5</u>
Analysed for reporting purposes as:					
— Non-current assets					3,484.6
— Current assets					2,245.9
					<u>5,730.5</u>
Financial liabilities at fair value through profit or loss					
Held for trading					
— Futures and options listed in Hong Kong	2.0	—	—	—	2.0
— Unlisted overseas options	—	—	1.9	—	1.9
— Over the counter equity derivatives	—	—	22.5	—	22.5
— Over the counter currency derivatives	—	—	0.9	—	0.9
— Stock borrowings	—	120.1	—	—	120.1
— Contracts for difference	30.5	—	—	—	30.5
	<u>32.5</u>	<u>120.1</u>	<u>25.3</u>	<u>—</u>	<u>177.9</u>
Analysed for reporting purposes as current liabilities					

Notes to the Condensed Consolidated Financial Statements

12. FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

Available-for-sale investments are intended to be held for a continuing strategic or long-term purpose. As there are no sufficient market comparables as input to measure the fair value reliably, some of the unlisted equity investments are measured at cost less impairment.

On the basis of its analysis of the nature, characteristics and risks of the securities, the Group has determined that presenting them by nature and type of issuers is appropriate.

Fair values are grouped from Level 1 to 3 based on the degree to which the fair values are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from input other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include input for the assets or liabilities that are not based on observable market data.

The fair values of bonds under Level 2 at the reporting date were derived from quoted prices from pricing services. The fair values of stock borrowings and forward currency contract under Level 2 at the reporting date were derived from observable market prices of the underlying financial assets or liabilities.

The fair value of Level 3 financial assets and liabilities are mainly derived from an unobservable range of data. In estimating the fair value of a financial asset or a financial liability under Level 3, the Group engages external valuers or establishes appropriate valuation techniques internally to perform the valuation which are reviewed by management.

Notes to the Condensed Consolidated Financial Statements

12. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

At 30 June 2016			
Valuation technique	Unobservable inputs	Input values	Fair value HK\$ Million
Available-for-sale investments			
Unlisted overseas equity securities	Discounted cash flow	Weighted average cost of capital Average annual dividend pay-out	5.0% HK\$53.3 million
			40.6
Held for trading investments			
Unlisted put right for shares in an associate	Option model	Volatility Risk free rate Equity growth rate Estimated equity value	67.4% 0.4% 2.6% HK\$960.0 million
			931.0
Unlisted call option for shares listed outside Hong Kong	Option model	Volatility Risk free rate	52.379% -0.308%
			23.1
Financial assets designated as at fair value through profit or loss			
Unlisted convertible bonds issued by unlisted companies	Market comparable approach	Recent transaction price	n/a
			799.1
Unlisted overseas investment funds	Net asset value*	n/a	n/a
			2,505.6

Notes to the Condensed Consolidated Financial Statements

12. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	At 31 December 2015			Fair value HK\$ Million
	Valuation technique	Unobservable inputs	Input values	
Available-for-sale investments				
Unlisted overseas equity securities	Discounted cash flow	Weighted average cost of capital Average annual dividend pay-out	5.0% HK\$54.3 million	39.7
Held for trading investments				
Unlisted put right for shares in an associate	Option model	Volatility Risk free rate Equity growth rate Estimated equity value	66.5% 0.6% 3.1% HK\$1,100.0 million	707.0
Unlisted call option for shares listed outside Hong Kong	Option model	Volatility Risk free rate	63.1% 0.002%	25.9
Financial assets designated as at fair value through profit or loss				
Unlisted convertible preferred shares issued by an unlisted company	Discounted cash flow	Contractual price of an impending sale	HK\$267.8 million	267.8
Unlisted convertible bonds issued by unlisted companies	Market comparable approach	Recent transaction price	n/a	778.9
Unlisted overseas investment funds	Net asset value*	n/a	n/a	2,286.8
Financial liabilities held for trading				
Over the counter equity derivatives	Price quoted by counter parties	n/a	n/a	(22.5)

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

The Group believes that possible changes in the input values and business or economic circumstances would not cause significant change in fair value of the financial assets and liabilities under Level 3.

Notes to the Condensed Consolidated Financial Statements

12. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

	2016							Unrealised gain or loss for six months ended 30/6/2016 HK\$ Million	
	Balance at 1/1/2016 HK\$ Million	Recognised gains or losses			Purchase HK\$ Million	Disposal HK\$ Million	Reclassification to Level 2 HK\$ Million		Balance at 30/6/2016 HK\$ Million
		Profit or loss HK\$ Million	Other comprehensive income HK\$ Million						
Available-for-sale investments									
Unlisted overseas equity securities	39.7	—	0.9	—	—	—	40.6	—	
Held for trading investments									
Over the counter equity derivatives	0.7	0.1	—	—	—	—	0.8	0.1	
Over the counter currency derivatives	0.1	(0.1)	—	—	—	—	—	—	
Forward currency contract	6.3	—	—	—	—	(6.3)	—	—	
Unlisted overseas options	0.4	0.8	—	1.9	—	—	3.1	0.8	
Unlisted put right for shares in an associate	707.0	224.0	—	—	—	—	931.0	224.0	
Unlisted call option for club memberships	9.3	—	—	—	—	—	9.3	—	
Unlisted call option for shares listed outside Hong Kong	25.9	(2.8)	—	—	—	—	23.1	(2.8)	
Investments designated as at fair value									
Unlisted convertible preferred shares	267.8	0.1	—	—	(267.9)	—	—	—	
Unlisted convertible bonds	778.9	20.2	—	—	—	—	799.1	20.2	
Unlisted overseas investment funds	2,286.8	133.3	—	167.0	(81.5)	—	2,505.6	138.8	
Financial liabilities held for trading									
Unlisted overseas options	(1.9)	(1.1)	—	—	—	—	(3.0)	(3.0)	
Over the counter equity derivatives	(22.5)	16.3	—	—	—	—	(6.2)	16.2	
Over the counter currency derivatives	(0.9)	(0.2)	—	—	—	—	(1.1)	(0.2)	

Notes to the Condensed Consolidated Financial Statements

12. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	2015						Unrealised gain or loss for six months ended 30/6/2015 HK\$ Million
	Balance at 1/1/2015 HK\$ Million	Recognised gains or losses		Purchase HK\$ Million	Disposal HK\$ Million	Balance at 31/12/2015 HK\$ Million	
		Profit or loss HK\$ Million	Other comprehen- sive income HK\$ Million				
Available-for-sale investments							
Unlisted overseas equity securities	35.5	—	4.2	—	—	39.7	—
Unlisted overseas investment funds	12.3	—	(0.8)	—	(11.5)	—	—
Held for trading investments							
Over the counter equity derivatives	—	0.7	—	—	—	0.7	—
Over the counter currency derivatives	—	0.1	—	—	—	0.1	—
Forward currency contract	—	6.3	—	—	—	6.3	—
Unlisted overseas options	—	0.4	—	—	—	0.4	—
Unlisted put right for shares in an associate	—	596.0	—	111.0	—	707.0	—
Unlisted call option for club memberships	—	—	—	9.3	—	9.3	—
Unlisted call option for shares listed outside Hong Kong	—	25.9	—	—	—	25.9	62.1
Investments designated as at fair value							
Unlisted convertible preferred shares	39.5	205.2	—	23.1	—	267.8	—
Unlisted convertible bonds	—	—	—	778.9	—	778.9	—
Unlisted overseas investment funds	831.5	134.2	—	1,560.9	(239.8)	2,286.8	46.7
Financial liabilities held for trading							
Unlisted overseas options	—	(1.9)	—	—	—	(1.9)	—
Over the counter equity derivatives	(48.5)	26.0	—	—	—	(22.5)	19.7
Over the counter currency derivatives	(17.8)	16.9	—	—	—	(0.9)	14.4

13. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	30/6/2016 HK\$ Million	31/12/2015 HK\$ Million
Loans and advances to consumer finance customers		
— Hong Kong	6,875.9	6,839.9
— Mainland China	2,048.0	2,932.3
Less: impairment allowance	(949.2)	(950.2)
	<u>7,974.7</u>	<u>8,822.0</u>
Analysed for reporting purposes as:		
— Non-current assets	2,706.7	2,741.3
— Current assets	5,268.0	6,080.7
	<u>7,974.7</u>	<u>8,822.0</u>

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

	30/6/2016 HK\$ Million	31/12/2015 HK\$ Million
Less than 31 days past due	517.3	571.2
31 – 60 days	125.9	147.0
61 – 90 days	52.0	124.7
91 – 180 days	217.7	397.6
Over 180 days	211.6	103.5
	<u>1,124.5</u>	<u>1,344.0</u>

Notes to the Condensed Consolidated Financial Statements

14. TRADE AND OTHER RECEIVABLES

	30/6/2016 HK\$ Million	31/12/2015 HK\$ Million
Secured term loans	3,420.9	3,123.7
Unsecured term loans	300.3	301.0
Less: impairment allowance	(0.4)	(95.9)
	3,720.8	3,328.8
Receivable from brokers	114.4	146.5
Guarantee and consultancy fee receivables	2.0	1.7
Payments on behalf of customers*	48.1	21.3
Less: impairment allowance	(39.4)	(17.0)
	10.7	6.0
Other receivables		
— Deposits	41.7	74.5
— Others	27.6	20.1
	69.3	94.6
Trade and other receivables at amortised cost	3,915.2	3,575.9
Prepayments	53.7	36.3
Current portion of leasehold interests in land	0.1	0.1
	3,969.0	3,612.3
Analysed for reporting purposes as:		
— Non-current assets	623.6	1,604.2
— Current assets	3,345.4	2,008.1
	3,969.0	3,612.3

* 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.

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	30/6/2016 HK\$ Million	31/12/2015 HK\$ Million
Less than 31 days	0.8	0.1
31 – 60 days	—	0.5
	0.8	0.6
Term loans and trade and other receivables without ageing	3,954.2	3,688.2
Less: impairment allowances	(39.8)	(112.9)
Trade and other receivables at amortised cost	<u>3,915.2</u>	<u>3,575.9</u>

15. BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	30/6/2016 HK\$ Million	31/12/2015 HK\$ Million
Bank balances and cash	2,466.2	2,860.6
Fixed deposits with banks with a term within 3 months	3,235.8	2,787.0
Cash and cash equivalents	5,702.0	5,647.6
Fixed deposits with banks with a term between 4 to 12 months	2,073.6	1,501.4
	<u>7,775.6</u>	<u>7,149.0</u>

Notes to the Condensed Consolidated Financial Statements

16. BANK AND OTHER BORROWINGS

	30/6/2016 HK\$ Million	31/12/2015 HK\$ Million
Bank loans		
— Unsecured term loans	5,266.5	6,263.7
— Secured instalment loans	—	14.0
Total bank borrowings	5,266.5	6,277.7
Other borrowings	35.0	35.0
	<u>5,301.5</u>	<u>6,312.7</u>
Analysed for reporting purposes as:		
— Current liabilities	2,593.6	2,009.1
— Non-current liabilities	2,707.9	4,303.6
	<u>5,301.5</u>	<u>6,312.7</u>

At the reporting date, bank and other borrowings were repayable as follows:

	30/6/2016 HK\$ Million	31/12/2015 HK\$ Million
Bank borrowings		
— Within one year	2,593.6	1,995.1
— In the second year	1,742.4	2,240.9
— In the third to fifth year	930.5	2,027.7
Bank borrowings with a repayment on demand clause		
— Within one year	—	4.8
— In the second year	—	9.2
	<u>5,266.5</u>	6,277.7
Other borrowings		
— Over five years	35.0	35.0
	<u>5,301.5</u>	<u>6,312.7</u>

17. TRADE AND OTHER PAYABLES

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

	30/6/2016 HK\$ Million	31/12/2015 HK\$ Million
Less than 31 days	308.5	68.4
31 – 60 days	6.4	8.5
61 – 90 days	5.7	7.1
91 – 180 days	0.8	0.2
Over 180 days	—	0.1
	321.4	84.3
Accrued staff costs, other accrued expenses and other payables without ageing	187.7	197.0
	509.1	281.3

18. SHARE CAPITAL

	Number of shares		Share capital	
	Six months ended 30/6/2016 Million Shares	Year ended 31/12/2015 Million Shares	Six months ended 30/6/2016 HK\$ Million	Year ended 31/12/2015 HK\$ Million
Issued and fully paid				
Balance brought forward	2,229.0	2,253.6	8,752.3	8,752.3
Shares cancelled after repurchase	(22.5)	(24.6)	—	—
Balance carried forward	2,206.5	2,229.0	8,752.3	8,752.3

During the period, the trustee of the SHK Employee Ownership Scheme (the "EOS") acquired 0.3 million shares of the Company through purchases on The Stock Exchange of Hong Kong Limited for the awarded shares of the EOS. The total amount paid to acquire the shares during the period was HK\$1.3 million, which has been deducted from the owners' equity.

During the period, the Company repurchased 22.5 million shares (2015: 2.8 million shares) of the Company through purchases on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$102.2 million (2015: HK\$19.9 million). All the shares were cancelled after the repurchases.

Further details of the EOS and repurchase of shares are disclosed in the Management Discussion and Analysis Section of this interim report.

Notes to the Condensed Consolidated Financial Statements

19. NOTES

	30/6/2016 HK\$ Million	31/12/2015 HK\$ Million
US dollar denominated notes (the "US\$ Notes")		
— 6.375% US dollar denominated notes maturing in September 2017 (the "6.375% Notes")	1,776.1	2,526.7
— 3% US dollar denominated notes maturing in December 2017 (the "3% Notes")	462.3	459.6
— 4.75% US dollar denominated notes maturing in May 2021 (the "4.75% Notes")	2,530.9	—
Renminbi denominated notes (the "RMB Notes")		
— 6.9% Renminbi denominated notes maturing in May 2018 (the "6.9% Notes")	583.1	595.4
	5,352.4	3,581.7
Analysed for reporting purposes as:		
— Current liabilities	77.7	79.6
— Non-current liabilities	5,274.7	3,502.1
	5,352.4	3,581.7

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

During the period, the Group purchased part of the 6.375% Notes with a total nominal value of US\$9.7 million from the market at a total consideration of HK\$80.4 million. In May 2016, the Group made an exchange offer for the exchange of the 6.375% Notes with the 4.75% Notes at an exchange ratio of 1.05375. The holders of the 6.375% Notes with a nominal value of US\$115.5 million (including intra-group holdings of US\$28.8 million) accepted the exchange offer to exchange for the 4.75% Notes with a nominal value of US\$121.6 million (including intra-group holdings of US\$30.3 million). In addition, the Group issued new 4.75% Notes with a nominal value of US\$240 million at par.

The 4.75% Notes are listed on The Stock Exchange of Hong Kong Limited and are issued to professional investors only. The 4.75% Notes are guaranteed by the Company. The nominal value of the 4.75% Notes after eliminating the intra-group holdings was US\$331.3 million or equivalent to HK\$2,570.3 million at the reporting date. The fair value of the 4.75% Notes based on the price quoted from pricing service at the reporting date was HK\$2,597.7 million which was categorised as Level 2.

The nominal value of the 6.375% Notes after eliminating the intra-group holdings was US\$225.8 million or equivalent to HK\$1,751.8 million (31/12/2015: US\$322.2 million or equivalent to HK\$2,497.1 million) at the reporting date. The fair value of the 6.375% Notes based on the price quoted from pricing service at the reporting date was HK\$1,854.5 million (31/12/2015: HK\$2,649.8 million) which was categorised as Level 2.

19. NOTES (CONTINUED)

The nominal value of the 3% Notes was US\$60.0 million or equivalent to HK\$465.5 million (31/12/2015: US\$60 million or equivalent to HK\$465.0 million) at the reporting date. The fair value of the 3% Notes measured by discounted cash flow approach at the reporting date was HK\$471.2 million (31/12/2015: HK\$462.5 million) which was categorised as Level 2.

The RMB Notes were issued by a subsidiary, UA Finance (BVI) Limited, under a US\$3 billion medium term note programme. The nominal value of the 6.9% Notes after eliminating the intra-group holdings was RMB495.0 million or equivalent to HK\$576.9 million at the reporting date (31/12/2015: RMB 495.0 million or equivalent to HK\$590.8 million). The fair value of the 6.9% Notes based on the price quoted from pricing service at the reporting date was HK\$588.6 million (31/12/2015: HK\$595.4 million) which was categorised as Level 2.

20. RELATED PARTY TRANSACTIONS

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

	Six months ended	
	30/6/2016 HK\$ Million	30/6/2015 HK\$ Million
Associates and joint ventures of a holding company		
Rental and building management fees to an associate of a holding company	(2.2)	(2.4)
Rental and building management fees to a joint venture of a holding company	(8.9)	(9.1)
Interest received from an associate of a holding company	—	4.0
Proceeds received on disposal of subsidiaries to an associate of a holding company	100.7	—
Associates and joint ventures		
Interest received from an associate	—	4.9
Loan to an associate	(201.6)	—
Management and service fees received from associates and joint ventures	8.5	1.6
Insurance premiums paid to an associate in the course of provision of insurance brokerage services	(1.1)	—
Service fees paid to an associate	(3.5)	—
Holding company and its subsidiaries		
Insurance premiums received from a holding company and fellow subsidiaries in the course of provision of insurance brokerage services	—	1.2
Finance costs to fellow subsidiaries	(11.1)	(7.0)
Management fees paid to a holding company	(3.4)	(3.0)

Notes to the Condensed Consolidated Financial Statements

20. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Six months ended	
	30/6/2016 HK\$ Million	30/6/2015 HK\$ Million
Short-term benefits	19.5	50.9
Post-employment benefits	0.8	0.9
	20.3	51.8

During the period, 0.79 million shares were granted under the SHK Employee Ownership Scheme ("EOS") to key management personnel. In addition, 0.19 million shares with a total amount of HK\$0.8 million were vested for key management personnel during the period. The total dividend payments paid to the key management personnel during the period is HK\$0.1 million (2015: HK\$0.3 million). Further details of the EOS are disclosed in the Management Discussion and Analysis section of this interim report.

21. COMMITMENTS**(a) Capital commitments**

	30/6/2016 HK\$ Million	31/12/2015 HK\$ Million
Contracted for but not provided in the condensed consolidated financial statements	6.6	1.9

(b) Operating leases commitments

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

	30/6/2016 HK\$ Million	31/12/2015 HK\$ Million
Within one year	133.0	154.0
In the second to fifth years inclusive	109.4	148.5
	242.4	302.5

The lease payments represent rentals payable by the Group for its office premises and office equipment under operating lease arrangements. The lease terms and rentals of properties are fixed at one to five years. The lease commitments include rental payable to a joint venture of a holding company of HK\$21.5 million (31/12/2015: HK\$28.7 million) and an associate of a holding company of HK\$6.5 million (31/12/2015: HK\$1.9 million).

21. COMMITMENTS (CONTINUED)

(c) Loan commitments

	30/6/2016 HK\$ Million	31/12/2015 HK\$ Million
Within one year	1,302.4	953.7
In the second to fifth year inclusive	—	135.7
	<u>1,302.4</u>	<u>1,089.4</u>

22. CONTINGENT LIABILITIES

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

	30/6/2016 HK\$ Million	31/12/2015 HK\$ Million
Financial guarantees under loan guarantee business*	<u>131.1</u>	<u>139.2</u>

* The Group had provided guarantees to lenders of its loan guarantee customers to guarantee the repayment of debts owed by the loan guarantee customers to their lenders.

23. FINANCIAL RISK MANAGEMENT

Risk is inherent in the financial service business and sound risk management is a cornerstone of prudent and successful financial practice. That said, the Group acknowledges that a balance must be achieved between risks control and business growth. The principal financial risks inherent in the Group's business are market risk (includes equity risk, interest rate risk and foreign exchange risk), credit risk and liquidity risk. The Group's risk management objective is to enhance shareholders' value while retaining exposure within acceptable thresholds.

The Group's risk management governance structure is designed to cover all business activities and to ensure all relevant risk classes are properly managed and controlled. The Group has adopted a sound risk management and organisational structure equipped with comprehensive policies and procedures which are reviewed regularly and enhanced when necessary in response to changes in markets, the Group's operating environment and business strategies. The Group's independent control functions including Internal Audit play an important role in the provision of assurance to the Board and senior management that a sound internal risk management mechanism is implemented, maintained and adhered to.

Notes to the Condensed Consolidated Financial Statements

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market Risk

(i) Equity Risk

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

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

(ii) Interest Rate Risk

Interest rate risk is the risk of loss due to changes in interest rates. The Group's interest rate risk exposure arises predominantly from term financing and loans and advances to consumer finance customers. Interest spreads are managed with the objective of maximising spreads to ensure consistency with liquidity and funding obligations.

(iii) Foreign Exchange Risk

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

The Group's foreign exchange risk primarily arises from currency exposures originating from proprietary trading positions, and loans and advances denominated in foreign currencies, mainly in Australian dollars and Renminbi. Foreign exchange risk is managed and monitored by senior management. The risk arises from open currency positions are subject to management approved limits and are monitored and reported daily.

(b) Credit Risk

Credit risk arises from the failure of a customer or counterparty to meet settlement obligations. As long as the Group lends, trades and deals with third parties, there will be credit risk exposure.

The Group's credit procedures, governed by the Executive Committee, sets out the credit approval processes and monitoring procedures, which are established in accordance with sound business practices.

(c) Liquidity Risk

The goal of liquidity management is to mitigate risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss or make the required profit. Another goal is to enable the Group, even under adverse market conditions, to actively manage and match funds inflow against all maturing repayment obligations to achieve maximum harmony on cash flow management.

The Group manages its liquidity position to ensure a prudent and adequate liquidity ratio. This is achieved by a transparent and collective monitoring approach across the Group involving Executive Directors, the Director of Banking & Treasury and the Group CFO.

24. DISPOSAL OF SUBSIDIARIES

During the period, the Group disposed of two wholly-owned property holding subsidiaries to an associate of a holding company for HK\$100.7 million. The Group also disposed of the entire interest in a subsidiary to its non-controlling shareholder for HK\$5.9 million. The net assets of the subsidiaries at the dates of disposal were as follows:

	HK\$ Million
Non-current Assets	
Investment properties	109.0
Equipment	0.1
	<u>109.1</u>
Current Assets	
Trade and other receivables	2.4
Cash and cash equivalents	2.5
	<u>4.9</u>
Current Liabilities	
Trade and other payables	(2.2)
Taxation payable	(0.1)
	<u>(2.3)</u>
Net Current Assets	<u>2.6</u>
Non-current Liabilities	
Deferred tax liabilities	(26.1)
Net assets disposed of	<u>85.6</u>
Net cash inflow arising on disposal	
— Cash consideration	106.6
— Cash and cash equivalents disposed of	(2.5)
	<u>104.1</u>

The profit on disposal of the subsidiaries is as follows:

	HK\$ Million
Cash consideration received	106.6
Net assets disposed of	(85.6)
Non-controlling interests	1.2
Release of reserves on disposal	0.2
Taxation	(3.5)
	<u>18.9</u>

