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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The Board of Directors (the "Board" or the "Directors") of Sun Hung Kai & Co. Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 as set out below:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended	
		30/6/2017	30/6/2016
		Unaudited	Unaudited
	Notes	***HK$ Million***	*HK$ Million*
Revenue	*4*	**1,783.6**	1,741.8
Other gains	*5*	**10.7**	123.4
Total income		**1,794.3**	1,865.2
Brokerage and commission expenses		**(22.1)**	(25.9)
Advertising and promotion expenses		**(48.0)**	(55.7)
Direct cost and operating expenses		**(28.4)**	(26.8)
Administrative expenses		**(594.7)**	(578.1)
Net gain on financial assets and liabilities		**635.5**	136.5
Net exchange loss		**(43.2)**	(4.1)
Bad and doubtful debts	*6*	**(197.4)**	(566.1)
Finance costs		**(252.9)**	(232.2)
Other losses		**(119.4)**	(109.8)
		1,123.7	403.0
Share of results of associates		**11.1**	(2.9)
Share of results of joint ventures		**(19.2)**	(19.8)
Profit before taxation	*7*	**1,115.6**	380.3
Taxation	*8*	**(123.6)**	(29.5)
Profit for the period		**992.0**	350.8

	Notes	Six months ended 30/6/2017 Unaudited *HK$ Million*	30/6/2016 Unaudited *HK$ Million*
Profit attributable to:			
– Owners of the Company		**780.1**	276.2
– Non-controlling interests		**211.9**	74.6
		992.0	350.8
Earnings per share	*10*		
– Basic (HK cents)		**36.0**	12.5
– Diluted (HK cents)		**36.0**	12.5

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended	
	30/6/2017	30/6/2016
	Unaudited	Unaudited
	HK$ Million	*HK$ Million*
Profit for the period	**992.0**	350.8
Other comprehensive income (expenses) that may be reclassified subsequently to profit or loss		
Available-for-sale investments		
– Net fair value changes during the period	**0.8**	(2.3)
	0.8	(2.3)
Exchange differences arising on translating foreign operations	**193.0**	(151.0)
Reclassification adjustment to profit or loss on disposal/ liquidation of subsidiaries	**–**	(0.2)
Share of other comprehensive income (expenses) of associates	**3.0**	(2.0)
Share of other comprehensive income (expenses) of joint ventures	**2.3**	(8.5)
Other comprehensive income (expenses) for the period	**199.1**	(164.0)
Total comprehensive income for the period	**1,191.1**	186.8
Total comprehensive income attributable to:		
– Owners of the Company	**894.9**	178.4
– Non-controlling interests	**296.2**	8.4
	1,191.1	186.8

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30/6/2017 Unaudited** ***HK$ Million***	31/12/2016 Audited *HK$ Million*
Non-current Assets			
Investment properties		**1,056.6**	1,054.5
Leasehold interests in land		**4.3**	4.2
Property and equipment		**462.6**	421.9
Intangible assets		**882.9**	883.4
Goodwill		**2,384.0**	2,384.0
Interest in associates		**1,090.4**	1,086.5
Interest in joint ventures		**214.7**	227.1
Available-for-sale investments		**109.6**	109.5
Financial assets at fair value through profit or loss		**4,652.2**	3,632.9
Deferred tax assets		**642.4**	652.5
Amounts due from associates and joint ventures		**265.9**	248.8
Loans and advances to consumer finance customers	*11*	**2,684.7**	2,521.2
Trade and other receivables	*12*	**481.3**	359.9
Deposits for acquisition of property and equipment		**–**	44.8
		14,931.6	13,631.2
Current Assets			
Financial assets at fair value through profit or loss		**4,389.4**	2,979.1
Taxation recoverable		**3.3**	1.9
Amounts due from associates and joint ventures		**57.4**	64.5
Loans and advances to consumer finance customers	*11*	**6,161.4**	5,752.2
Trade and other receivables	*12*	**2,547.7**	3,679.8
Bank deposits		**1,140.0**	1,257.7
Cash and cash equivalents		**3,349.7**	5,194.5
		17,648.9	18,929.7
Current Liabilities			
Financial liabilities at fair value through profit or loss		**117.1**	115.3
Bank and other borrowings		**2,401.5**	2,092.6
Trade and other payables	*13*	**214.4**	239.1
Amount due to fellow subsidiaries and a holding company		**124.1**	41.0
Amounts due to associates		**1.9**	1.9
Provisions		**39.1**	54.7
Taxation payable		**145.3**	135.3
Notes		**2,832.7**	2,264.5
		5,876.1	4,944.4
Net Current Assets		**11,772.8**	13,985.3
Total Assets less Current Liabilities		**26,704.4**	27,616.5

	Notes	**30/6/2017 Unaudited** ***HK$ Million***	31/12/2016 Audited *HK$ Million*
Capital and Reserves			
Share capital		**8,752.3**	8,752.3
Reserves		**9,810.8**	9,324.7
Equity attributable to owners of the Company		**18,563.1**	18,077.0
Non-controlling interests		**3,593.2**	3,578.8
Total Equity		**22,156.3**	21,655.8
Non-current Liabilities			
Deferred tax liabilities		**195.7**	195.4
Bank and other borrowings		**1,593.7**	2,717.7
Provisions		**0.2**	0.2
Notes		**2,758.5**	3,047.4
		4,548.1	5,960.7
		26,704.4	27,616.5

Notes:

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

   The financial information relating to the financial year ended 31 December 2016 included in this announcement of interim results 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 2016 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The Company's auditor has reported on those financial statements for 2016. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. **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 2017. 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 2016.

3. SEGMENT INFORMATION

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

	Six months ended 30 June 2017					
	Financial Services *HK$ Million*	Consumer Finance *HK$ Million*	Mortgage Loans *HK$ Million*	Principal Investments *HK$ Million*	Group Management and Support *HK$ Million*	Total *HK$ Million*
Segment revenue	**3.8**	**1,474.7**	**48.3**	**246.7**	**109.0**	**1,882.5**
Less: inter-segment revenue	**–**	**–**	**–**	**–**	**(98.9)**	**(98.9)**
Segment revenue from external customers	**3.8**	**1,474.7**	**48.3**	**246.7**	**10.1**	**1,783.6**
Segment profit or loss	**70.0**	**623.2**	**12.3**	**432.3**	**(14.1)**	**1,123.7**
Share of results of associates	**11.1**	**–**	**–**	**–**	**–**	**11.1**
Share of results of joint ventures	**(19.2)**	**–**	**–**	**–**	**–**	**(19.2)**
Profit (loss) before taxation	**61.9**	**623.2**	**12.3**	**432.3**	**(14.1)**	**1,115.6**
Included in segment profit or loss:						
Interest income	**–**	**1,450.9**	**48.3**	**200.6**	**10.4**	**1,710.2**
Other gains	**–**	**6.1**	**–**	**0.7**	**3.9**	**10.7**
Net gain on financial assets and liabilities	**184.9**	**–**	**–**	**449.2**	**1.4**	**635.5**
Impairment loss: interest in an associate	**(118.7)**	**–**	**–**	**–**	**–**	**(118.7)**
Net exchange loss	**–**	**(17.8)**	**–**	**(9.0)**	**(16.4)**	**(43.2)**
Bad and doubtful debts	**–**	**(197.0)**	**(0.4)**	**–**	**–**	**(197.4)**
Finance costs	**–**	**(105.0)**	**(15.5)**	**(81.1)**	**(148.7)**	**(350.3)**
Less: inter-segment finance costs	**–**	**0.8**	**15.5**	**81.1**	**–**	**97.4**
Finance costs to external suppliers	**–**	**(104.2)**	**–**	**–**	**(148.7)**	**(252.9)**
Cost of capital allocation *(note)*	**–**	**–**	**–**	**(147.3)**	**147.3**	**–**

	Six months ended 30 June 2016					
	Financial Services* *HK$ Million*	Consumer Finance *HK$ Million*	Mortgage Loans *HK$ Million*	Principal Investments* *HK$ Million*	Group Management and Support *HK$ Million*	Total *HK$ Million*
Segment revenue	2.4	1,506.5	22.2	203.6	108.7	1,843.4
Less: inter-segment revenue	–	–	–	–	(101.6)	(101.6)
Segment revenue from external customers	2.4	1,506.5	22.2	203.6	7.1	1,741.8
Segment profit or loss	121.1	187.1	(2.4)	12.4	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	98.4	187.1	(2.4)	12.4	84.8	380.3
Included in segment profit or loss:						
Interest income	–	1,486.7	22.1	164.3	7.1	1,680.2
Other gains	–	–	–	116.3	7.1	123.4
Net gain (loss) on financial assets and liabilities	224.0	–	–	(89.1)	1.6	136.5
Impairment loss: interest in an associate	(109.3)	–	–	–	–	(109.3)
Net exchange gain (loss)	–	12.4	–	(16.4)	(0.1)	(4.1)
Bad and doubtful debts	–	(600.5)	(1.4)	35.8	–	(566.1)
Finance costs	–	(127.1)	(4.0)	(94.0)	(106.3)	(331.4)
Less: inter-segment finance costs	–	1.2	4.0	94.0	–	99.2
Finance costs to external suppliers	–	(125.9)	–	–	(106.3)	(232.2)
Cost of capital allocation *(note)*	–	–	–	(125.5)	125.5	–

Note: Cost of capital is allocated from Group Management and Support to Principal Investments.

* The comparative figures for Finance Services segment and Principal Investments segment were restated to align with the changes to segment reporting adopted in the 2016 annual consolidated financial statements.

The geographical information of revenue is disclosed as follows:

	Six months ended	
	30/6/2017 ***HK$ Million***	30/6/2016 *HK$ Million*
Revenue from external customers by location of operations		
– Hong Kong	**1,344.8**	1,244.7
– Mainland China	**435.4**	490.2
– Others	**3.4**	6.9
	1,783.6	1,741.8

4. REVENUE

	Six months ended 30/6/2017 HK$ Million	Six months ended 30/6/2016 HK$ Million
Service and commission income	**56.0**	47.7
Dividends from listed investments	**6.6**	2.4
Gross rental income from investment properties	**10.8**	11.5
Interest income	**1,710.2**	1,680.2
	1,783.6	1,741.8

5. OTHER GAINS

	Six months ended 30/6/2017 HK$ Million	Six months ended 30/6/2016 HK$ Million
Net realised gain on disposal of		
– Subsidiaries	**–**	18.9
– An associate	**–**	3.9
	–	22.8
Increase in fair value of investment properties	**0.6**	97.3
Miscellaneous income	**10.1**	3.3
	10.7	123.4

6. BAD AND DOUBTFUL DEBTS

	Six months ended 30/6/2017 HK$ Million	Six months ended 30/6/2016 HK$ Million
Loans and advances to consumer finance customers		
– Impairment loss	**(185.8)**	(578.5)
Trade and other receivables		
– Reversal of impairment loss	**–**	35.8
– Impairment loss	**(11.6)**	(23.4)
Bad and doubtful debts recognised in profit or loss	**(197.4)**	(566.1)

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	
	30/6/2017	30/6/2016
	HK$ Million	*HK$ Million*
Loans and advances to consumer finance customers		
– Amounts written off in allowance of impairment	**(369.5)**	(648.1)
– Recoveries credited to allowance of impairment	**75.2**	77.7
Trade and other receivables		
– Amounts written off in allowance of impairment	**(30.1)**	(59.8)

7. PROFIT BEFORE TAXATION

	Six months ended	
	30/6/2017	30/6/2016
	HK$ Million	*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	**(29.1)**	(27.6)
Amortisation of intangible assets		
– Computer software (included in administrative expenses)	**(0.9)**	(0.7)
– Intangible assets acquired in business combination (included in direct cost and operating expenses)	**–**	(3.1)
Interest expenses	**(250.5)**	(228.8)
Impairment loss on interest in an associate*	**(118.7)**	(109.3)
Share of taxation of associates and joint ventures (included in share of results of associates and joint ventures)	**0.2**	0.5

* The Group disposed of 70% interest in a wholly-owned subsidiary Sun Hung Kai Financial Group Limited ("SHKFGL") in June 2015 and classified the remaining 30% equity interest as an associate. The recoverable amount was measured at fair value less cost of disposal of SHKFGL. The fair value was measured by discounted cash flow approach at the reporting date using a discount rate of 15.6%. 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$186.0 million classified under net gain on financial assets and liabilities.

8. TAXATION

	Six months ended	
	30/6/2017	30/6/2016
	HK$ Million	*HK$ Million*
Current tax		
– Hong Kong	**83.0**	87.5
– PRC	**14.7**	44.0
	97.7	131.5
Over provision in prior years	**–**	(0.2)
	97.7	131.3
Deferred tax	**25.9**	(101.8)
	123.6	29.5

Hong Kong profits tax is calculated at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the period. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2016: 25%). Taxation arising in other jurisdictions is calculated on the estimated assessable profits for the 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 in both periods presented.

9. DIVIDEND

	Six months ended	
	30/6/2017	30/6/2016
	HK$ Million	*HK$ Million*
Dividends recognised as distribution during the period		
– 2016 second interim dividend of HK14 cents per share (2016: 2015 second interim dividend of HK14 cents per share)	**306.6**	311.0

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$260.7 million (2016: interim dividend of HK12 cents per share amounting to HK$264.7 million).

10. 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	
	30/6/2017	30/6/2016
	HK$ Million	*HK$ Million*
Earnings for the purposes of basic and diluted earnings per share	**780.1**	276.2
	Million Shares	*Million Shares*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,168.5**	2,216.6
Effect of dilutive potential ordinary shares:		
– Impact of contingently issuable shares under SHK Employee Ownership Scheme	**0.5**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**2,169.0**	2,216.6

11. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	30/6/2017	31/12/2016
	HK$ Million	*HK$ Million*
Loans and advances to consumer finance customers		
– Hong Kong	**7,413.1**	6,989.8
– Mainland China	**2,240.9**	2,193.1
Less: impairment allowance	**(807.9)**	(909.5)
	8,846.1	8,273.4
Analysed for reporting purposes as:		
– Non-current assets	**2,684.7**	2,521.2
– Current assets	**6,161.4**	5,752.2
	8,846.1	8,273.4

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.

	30/6/2017	31/12/2016
	HK$ Million	*HK$ Million*
Less than 31 days past due	**491.7**	519.6
31 – 60 days	**203.0**	129.7
61 – 90 days	**51.7**	58.1
91 – 180 days	**111.6**	139.8
Over 180 days	**164.5**	169.8
	1,022.5	1,017.0

12. TRADE AND OTHER RECEIVABLES

	30/6/2017	31/12/2016
	HK$ Million	*HK$ Million*
Secured term loans	**2,250.4**	2,618.0
Unsecured term loans	**481.0**	230.3
Less: impairment allowance	**(0.4)**	(0.4)
	2,731.0	2,847.9
Receivable from brokers	**135.4**	1,059.5
Guarantee and consultancy fee receivables	**0.9**	1.5
Payments on behalf of customers*	**40.3**	59.4
Less: impairment allowance	**(38.9)**	(56.1)
	2.3	4.8
Other receivables		
– Deposits	**38.6**	40.1
– Others	**56.2**	43.1
	94.8	83.2
Trade and other receivables at amortised cost	**2,963.5**	3,995.4
Prepayments	**65.5**	44.3
	3,029.0	4,039.7
Analysed for reporting purposes as:		
– Non-current assets	**481.3**	359.9
– Current assets	**2,547.7**	3,679.8
	3,029.0	4,039.7

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

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

	30/6/2017	31/12/2016
	HK$ Million	*HK$ Million*
Less than 31 days	**–**	17.0
	–	17.0
Term loans and trade and other receivables without ageing	**3,002.8**	4,034.9
Less: impairment allowances	**(39.3)**	(56.5)
Trade and other receivables at amortised cost	**2,963.5**	3,995.4

13. 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:

	30/6/2017	31/12/2016
	HK$ Million	*HK$ Million*
Less than 31 days	**43.9**	40.0
31 – 60 days	**5.7**	8.4
61 – 90 days	**5.3**	8.3
91 – 180 days	**–**	1.7
Over 180 days	**0.8**	0.5
	55.7	58.9
Accrued staff costs, other accrued expenses and other payables without ageing	**158.7**	180.2
	214.4	239.1

MANAGEMENT DISCUSSION AND ANALYSIS

The Group delivered commendable results for the first six months of 2017, with all business segments performing satisfactorily. Profit attributable to owners of the Company for the six months ended 30 June 2017 was HK$780.1 million, a 2.8x multiple of the same period last year (HK$276.2 million).

Earnings per share for the period was HK36.0 cents (first six months of 2016: HK12.5 cents). The Board has declared an interim dividend of HK12 cents per share (2016: HK12 cents per share). As at 30 June 2017, after taking into account the shares repurchased and cancelled, the Group's book value per share amounted to HK$8.55, compared with HK$8.24 at the end of 2016.

Since 2015, the Group has been actively repositioning its capital across diverse and complementary finance and investment businesses. The initial results have been encouraging.

The strong performance was a result of:

- the continued turnaround and stabilisation of the Group's Consumer Finance business in Mainland China operated under United Asia Finance Limited ("UAF");

- higher investment gains in our Principal Investments business, with 5.9% six-month return on average value; and

- the Mortgage Loans business under Sun Hung Kai Credit Limited ("Sun Hung Kai Credit") becoming profitable, after the initial start-up loss in the previous period.

During this period, the Group has maintained a conservative balance sheet and the net gearing ratio remained low at 27.5% as at 30 June 2017 (31 December 2016: 20.3%).

RESULTS ANALYSIS

The Group's revenue was HK$1,783.6 million for the first six months of 2017, compared to HK$1,741.8 million for the first half of 2016. Consisting mainly of interest income, the revenue was steady with total loans and advances to customers tracking well as a whole on a year-on-year basis.

Operating costs totalled HK$693.2 million, similar to the first half of 2016.

Finance costs were HK$252.9 million, HK$20.7 million higher than the same period last year. Most of the year-on-year increase resulted from the issue of new 4.75% 2021 US Dollar bonds at the end of May 2016 (issued to refinance 6.375% US Dollar bonds maturing in September 2017).

The total bad and doubtful debts expense was HK$197.4 million in the first half of 2017, 65% lower on a year-on-year basis. UAF's Mainland China business continued its steady improvement in credit quality, reducing total bad debts expense significantly.

The Group's Principal Investments business generated strong returns during the period across its various asset strategies.

The pre-tax profit of the Group (before non-controlling interests) amounted to HK$1,115.6 million (first half 2016: HK$380.3 million).

BUSINESS REVIEW

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

	Jan – Jun 2017				Jan – Jun 2016		
(HK$ Million)	Six-month ROA*	Pre-tax Contribution	*YoY Change*	Segment Assets	Six-month ROA*	Pre-tax Contribution	Segment Assets
Consumer Finance	4.0%	623.2	*233%*	15,699.9	1.1%	187.1	16,943.0
Principal Investments	3.5%	432.3	*34x*	12,194.8	0.1%	12.4	10,048.2
Financial Services	2.6%	61.9	*-37%*	2,347.8	4.3%	98.4	2,279.6
Mortgage Loans	1.1%	12.3	*n.a.*	1,159.7	-0.5%	(2.4)	474.8
GMS	-1.2%	(14.1)	*n.a.*	1,178.3	2.7%	84.8	3,124.3
Total	**3.4%**	**1,115.6**	***193%***	**32,580.5**	**1.2%**	**380.3**	**32,869.9**

* Six-month return on assets ratio based on pre-tax contribution and period end segment assets

The six-month pre-tax return on assets for the Group was 3.4%, compared to 1.2% for the first half of 2016 and 4.6% for the whole year of 2016.

The two largest contributors, Consumer Finance and Principal Investments, both performed well. Group Management Support ("GMS") amounted to a cost of HK$14.1 million (first half 2016: a surplus of HK$84.8 million). Finance costs charged to the private debt business in Principal Investments were lower because of the lower average balance. Unallocated group support costs have also increased during the period.

CONSUMER FINANCE

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

Six-month results (HK$ Million)	**2017**	**2016**	***Change***
Revenue	**1,474.7**	**1,506.5**	***-2%***
Operating costs	(532.5)	(603.7)	*-12%*
Cost to income (% revenue)	*36.1%*	*40.1%*	
Finance costs	(105.0)	(127.1)	*-17%*
Bad and doubtful debts	(197.0)	(600.5)	*-67%*
Other income (expenses) – net	0.8	(0.5)	
Exchange (loss) gain	(17.8)	12.4	
Pre-tax contribution	**623.2**	**187.1**	***233%***

As the table above shows, UAF delivered a strong contribution in the first half of 2017. Even though revenue decreased slightly by 2% reflecting the lower average loan portfolio balance of UAF's Mainland China business, the pre-tax contribution to the Group was HK$623.2 million, an increase of 233% year-on-year, primarily as a result of its turnaround of the Mainland China business. A HK$17.8 million exchange loss, compared to a HK$12.4 million exchange gain during the corresponding period of last year, was recorded mainly from translating RMB denominated debts in Hong Kong dollar terms at a higher exchange rate at the period end.

The restructuring program in the UAF Mainland China business launched in mid-2015 in response to the economic downturn was completed during the period. The operating costs in Mainland China continued to decrease as a result of cost savings from closing underperforming branches and an increase in online business. Total bad debts expense reduced further as credit risks have been diversified and controlled, with a focus on smaller consumer loans to salaried workers.

Trend Analysis on Half-yearly Key Profitability Metrics

(HK$ Million)	**Jan - Jun 2017**	**Jul - Dec 2016**	**Jan - Jun 2016**	**Jul - Dec 2015**
Revenue	1,474.7	1,517.7	1,506.5	1,759.9
Pre-tax contribution	623.2	539.5	187.1	138.8
Operating costs	(532.5)	(565.3)	(603.7)	(674.4)
Cost to income (% revenue)	*36.1%*	*37.2%*	*40.1%*	*38.3%*
Charge off	(324.6)	(335.1)	(570.4)	(683.4)
*Charge-off ratio**	*7.6%*	*7.9%*	*12.7%*	*13.2%*
Total bad and doubtful debts	(197.0)	(328.0)	(600.5)	(820.0)

* Annualised on average gross loan balance

Key Operating Data	**Jun 2017**	**Jun 2016**	**Dec 2016**
Loan book data at period/year end:			
Net loan balance *(HK$ million)*	7,726.4	7,508.4	7,660.3
Gross loan balance *(HK$ million)*	8,530.9	8,455.1	8,566.6
– Hong Kong	6,290.0	6,407.1	6,373.5
– Mainland China	2,240.9	2,048.0	2,193.1
Average gross balance per loan	43,182	46,943	45,202
– Hong Kong *(HK$)*	53,299	55,775	54,654
– Mainland China *(RMB)*	24,474	26,871	26,941
Ratios for the period/year:			
Total return on loans[1]	34.5%	33.5%	33.4%
– Hong Kong	32.8%	31.3%	31.8%
– Mainland China	39.3%	39.2%	37.3%
Charge Off ratio[2]	7.6%	12.7%	10.0%
– Hong Kong	5.3%	5.6%	5.6%
– Mainland China	14.3%	31.2%	21.2%

[1] Annualised revenue/average gross loan balance
[2] Annualised on average gross loan balance

At the period end, the consolidated gross loan balance amounted to HK$8.5 billion, a marginal 1% increase year-on-year. The loan balance in Hong Kong declined as UAF continued to phase out its mortgage business. Excluding this, the gross personal loan balance in Hong Kong grew by approximately 4% year-on-year and 1% since the end of 2016. The loan balance in Mainland China increased by 9% year-on-year and 2% since the end of 2016. Transaction volume has gradually picked up following an improvement in the Chinese economy.

Bad debts and delinquency

(HK$ Million)	**Jan – Jun 2017**	**Jan – Jun 2016**	**Jul – Dec 2016**
Amounts written off	(399.8)	(648.1)	(417.6)
Recoveries	75.2	77.7	82.5
Charge off	(324.6)	(570.4)	(335.1)
As annualised % of average gross loans	*7.6%*	*12.7%*	*7.9%*
Write back (Charges) of impairment allowance	127.6	(30.1)	7.1
Total charges for bad and doubtful debts	**(197.0)**	**(600.5)**	**(328.0)**
Impairment allowance at period end	804.5	946.7	906.3
As % of period end gross loans	*9.4%*	*11.2%*	*10.6%*

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

No. of days of past due	**As at 30 Jun 2017**	**Note**	**As at 31 Dec 2016**	**Note**
Under 31	472.3	6.1%	499.6	6.5%
31 – 60	133.0	1.7%	91.8	1.2%
61 – 90	42.8	0.6%	55.2	0.7%
91 – 180	111.6	1.4%	139.8	1.9%
Over 180	162.5	2.1%	169.6	2.2%
Total	**922.2**	**11.9%**	**956.0**	**12.5%**

Note: amount as a % of net loan balance.

Compared to the same period in 2016, total bad and doubtful debts expense decreased by 67% to HK$197.0 million. The expense comprises:

– HK$324.6 million bad debts written off net of recoveries ("Charge Off"). This was 43% lower year-on-year because of the improvement in Mainland China business.

– HK$127.6 million write back of the impairment allowance, which was calculated based on the trailing Charge Off ratio and loan growth amount. The impairment allowance was much lower at the end of the period with the lowering of the Charge Off ratio.

As the Charge Off ratio has stabilised at a lower level, a substantial write back of the impairment allowance is unlikely to occur in second half of 2017.

Branch network

City/Province	**Closed during the first half of 2017**	**Number as at 30 Jun 2017**
Hong Kong	(1)	49
Shenzhen	(7)	21
Shenyang	(1)	8
Chongqing	(2)	4
Tianjin	–	3
Chengdu	–	4
Yunnan province	–	7
Dalian	–	6
Beijing	–	4
Wuhan	(2)	5
Shanghai	(1)	7
Fuzhou	–	5
Harbin	(1)	3
Nanning	–	5
Qingdao	–	4
Jinan	–	2
Guangzhou*	(2)	1
Foshan*	–	1
Dongguan*	–	1
Total	**(17)**	**140**

* Loan marketing branches

Mainland China Business

During the first half year of 2017, UAF closed 16 underperforming branches in Mainland China. UAF operated a total of 91 branches at the end of June 2017. Significant savings have been made since implementing the cost rationalisation program in the second half of 2015. Although this process is now complete, UAF will continue to be vigilant on costs and will adjust the branch network if appropriate to ensure maximum efficiency and productivity of its origination and service capability.

To diversify credit risk, UAF's sales and marketing efforts have focused on promoting smaller consumer loans to salaried workers. The number of loan origination transactions continued to increase to 51,929, 33% more from the same period last year. At the end of June 2017, the average loan outstanding balance per account was RMB24,474 (June 2016: RMB26,871). The proportion of loans to salaried workers has increased over the period reaching the level targeted by management.

UAF China will maintain its exposure to SME customers selectively, with the same credit and diversification principals as individual customers. In May 2017, UAF launched the "UAF POS Loan" (天天富"亞聯財POS貸") jointly with China UnionPay Merchant Service Ltd ("UnionPay"). Through an online platform, "UAF POS Loan" offers secure, convenient and transparent loan products to the 6.5 million SME users of the UnionPay POS terminals. The entire loan process including application, credit evaluation, credit checking, approval, completion of loan agreement and disbursement of loan proceeds is conducted online. A satisfactory volume of business was generated since the program launch. This cooperation may extend to other customer segments in future.

In addition, UAF has been granted an internet loan licence which authorises UAF to conduct internet loan business nationally and it is now in the process of upgrading its technology platform. The development of its pilot mobile app has been completed and will be launched in the second half of the year. This is another initiative to strengthen UAF's online presence. Various promotion campaigns are in the pipeline designed to appeal to targeted customer segments. Furthermore, UAF proposes to continue to explore new business opportunities through cooperation with other online partners: this will be an important strategy going forward to expand our business in a cost efficient manner.

The economic environment in Mainland China is likely to remain challenging and very competitive, resulting in continued uncertainties for the consumer finance industry. UAF will maintain a balanced approach to growth and credit risk. 2017 marks the tenth anniversary of the launch of our Mainland China business. With the wealth of experience accumulated and our dedicated and professional management team in Mainland China, UAF is confident that it can navigate through challenging conditions.

Hong Kong Business

UAF's Hong Kong business consistently delivers steady returns to the Group and again achieved promising results for its operations in the first half of 2017. Despite keen competition, UAF was able to maintain its leadership position and market share, capitalising on its expertise and knowledge of the consumer finance market. The advertising theme for 2017 is "With UA O2O All-round Loan Services, all goes your way" promoting UAF's commitment to providing premier customer service and tailor-made financing products, utilising its well-established online and offline presence. During the remaining period of 2017, advertising channels and marketing capabilities will be expanded, to reach out to a wider customer base.

UAF has benefitted from a solid economy with low unemployment in Hong Kong. However, challenges might arise from external factors such as China economic risk and interest rate hikes. Domestically, the uncertainty around property prices, which affects a broad spectrum of economic activities, continues to be an overhang. Given these uncertainties, UAF will when pursuing business growth, endeavour to balance risk and optimise the return of Consumer Finance business.

We remain positive about UAF's underlying businesses, noting though that given the progress to date, for the rest of the year there is unlikely to be further substantial write backs of the impairment allowance in relation to Mainland China loan portfolio.

PRINCIPAL INVESTMENTS

As at 30 June 2017, total investment assets of the segment increased 12.4% to HK$12,194.8 million (31 December: HK$10,845.1 million). For the first half of 2017, Principal Investments achieved 5.9% six-month return on the average assets deployed, reflecting our continuing efforts to improve the quality of the investments, our professional team and infrastructure as well as our ability to leverage the Group's network to create synergies.

Taking into account the 5.9% six-month investment return less operating costs, interest and cost of capital allocated to GMS, the segment contributed HK$432.3 million to pre-tax profit, compared to HK$12.4 million last period.

(HK$ Million)	Jan – Jun 2017 Period end value	Average Value	Gain	Return[2]	Jan – Jun 2016 Period end value	Average Value	Gain	Return[2]
Equities	5,554.5	5,093.5	425.5	*8.4%*	3,999.6	3,661.0	(114.5)	*-3.1%*
Debt and Fixed Income	4,626.3	4,674.4	247.5	*5.3%*	4,707.4	4,449.6	254.3	*5.7%*
Real Estate	2,014.0	1,783.5	14.0	*0.8%*	1,341.2	1,283.7	104.9	*8.2%*
	12,194.8	**11,551.4**	**687.0**	*5.9%*	**10,048.2**	**9,394.3**	**244.7**	*2.6%*
Operating costs			(26.3)				(12.8)	
Cost of capital and finance costs[1]			(228.4)				(219.5)	
Pre-tax contribution			**432.3**				**12.4**	

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

Equities Portfolio

The Equities Portfolio achieved a 8.4% six-month return on average assets during the period, consisting of both private (69%) and public (31%) equity securities.

Private Equity

Through the private equity portfolio we seek to invest the Group's capital prudently, to maximise risk-adjusted returns and diversify industry and geographic exposures. At the end of the period, the value of the portfolio invested approximately 66% in Technology (including fintech); 11% in Healthcare; 7% in Financials; 1% in Consumers; and the remaining 15% in diversified funds based. Greater China investments represent approximately 43%; rest of Asia 15%; North America 16%; and Global 27%.

We have established a good track record on our partner fund strategy. The partner funds are evaluated on a regular basis ensuring their strategic fit, performance and value-add to our origination efforts. One highly successful co-investment was the WuXi PharmaTech (Cayman) Inc. ("WuXi Pharmaceutical") privatisation. Subsequent to the privatisation, the business has continued to grow, and in June 2017, it successfully listed one of its subsidiaries WuXi Biologics (Cayman) Inc. on the Hong Kong Stock Exchange. Such listing and growth in the overall business have further enhanced our investment return to 2.5x cost as of 30 June 2017.

During the period, we have invested directly, or through co-investments in a number of companies for a total sum of approximately HK$374 million. Examples of our competencies in the financial services sector and our ability to explore new synergies with investee companies are:

Social Finance, Inc. – a market leading online consumer lending company in U.S. focused on rising affluent young professional customers.

Fairstone Financial Inc. – formerly known as CitiFinancial Canada, it is the leading non-bank consumer lender in Canada. It has over 200 branches and 90 years of operating history providing secured and unsecured personal loans, retail sales finance, and mortgages. This investment was made alongside J.C. Flowers, a renowned financial services focused investment firm.

GEvent Financial Services – a leading third-party platform providing financial services and wealth management products for the 2400+ rural and agricultural banks and their customers in China.

Public Equity

We revamped our public equity portfolio in the second half of 2016 and had repositioned it focusing on global mid and large cap companies.

In addition to our proprietary public equity investments, we have also invested in a selected group of high-quality external managers that bring synergies to our investment strategy.

As a whole, the public equity portion of the portfolio performed well during the period as it benefitted from buoyant capital markets and a refocused investment strategy.

Debt Portfolio

The portfolio includes both public debt (fixed income securities) as well as private debt investments.

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

Total loans amounted to HK$2,731.0 million as at 30 June 2017, a 4% decrease from the end of 2016 and a 27% decrease year-on-year. However, interest income increased 22% year-on-year to HK$200.6 million because of a more profitable loan mix. The interest generated was equivalent to an annualised return of approximately 14.7% on the loan balance. 59% of the portfolio represents loans to investment holding companies, while the remainder represents business related loans. 82% of the loan book is secured.

Although the market for private debt remains competitive, we believe our approach to this business should allow us to seek profitable financing opportunities in the future. Even though corporate risk premium, pricing and margins may face more pressure going forward, we believe demand for short term corporate liquidity and floating rate instruments will remain healthy.

After merging our Structured Finance business with the Principle Investments business, we are creating considerable synergies in deal structuring and origination. This has enabled us to position the Group as a nimble provider of liquidity across the capital structure and generate additional fee income and investment opportunities, in addition to loan interest income.

In terms of investments in public debt during the first half of 2017, we focused on identifying credit situations where we believed the underlying instruments were mispriced or undervalued due to macro, geo-political, industry and company-specific events. In terms of geographical exposure, we took a global investing approach with exposure in corporate and sovereign bonds across different locations including Asia Pacific, Europe, the Middle East, and Latin America. Our portfolio consists of issuers operating in different industries including property, bank and non-bank financial, oil and gas, and metals and mining.

For the rest of the year, we intend to maintain a conservative approach, as credit markets continue to be influenced by macro and geo-political events as well as global central bank policies.

Real Estate

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

– Legacy Hong Kong commercial real estate

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

– Special situation investments in the hospitality sector, including the new investment in the hostel portfolio below

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

During the period, we have invested approximately HK$340.0 million in two projects, including commercial office space at a prime location in London, as well as interest in a contemporary hospitality operator-owner with assets across 13 marquee cities mainly in Europe. These two non-US dollar investments are hedged to cover current fluctuation risks.

The real estate portfolio was valued at HK$2,014.0 million as of end of June 2017, a 0.8% return on the average value was generated for the period.

Investment Outlook

Overall, we remain positive for the remainder of the year. We plan to seek out further interesting investment opportunities with attractive risk-adjusted return profiles.

MORTGAGE LOANS

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

During its 21 months in operation, we have passed significant milestones, with the loan portfolio surpassing the HK$1 billion mark in June 2017. Based on the latest data available from the Land Registry, Sun Hung Kai Credit is the top ranked non-bank mortgage provider in terms of the number of new loans originated for first mortgages.

Six-month results *(HK$ Million)*	**2017**	**2016**
Revenue	48.3	22.2
Operating costs	(20.1)	(19.2)
Cost to income (% revenue)	*41.6%*	*86.5%*
Finance costs	(15.5)	(4.0)
Bad and doubtful debts	(0.4)	(1.4)
Pre-tax contribution	**12.3**	**(2.4)**

As at 30 June 2017, total loans to customers amounted to HK$1,119.8 million, increasing 140% on a year-on-year basis and 83% since the end of 2016. The annualised charge-off ratio for the portfolio remained healthy at about 0.04%, in line with our expectations for this business. During the period, we opened a second branch in Wanchai, Hong Kong. Overall profitability improved significantly compared to the previous corresponding period when the business was still in start-up phase.

With steady demand for second mortgages and home equity loans from existing home owners, we have actively expanded the target market to first mortgages and prime customers. Our marketing and sale channels have expanded to online and through alliances with estate agents in addition to print media and branches. First mortgages account for 78% of the portfolio and will be an important growth driver in the near term. Since the beginning of the year, we have also developed joint promotional programs with mid-tier property developers to provide mortgage financing to their prospective home buyers.

Sun Hung Kai Credit has growth plans but will remain prudent with credit quality control, targeting stable and gradual enhancement of return on equity for the Group.

FINANCIAL SERVICES

The segment consists of the Group's strategic interests in financial services companies through joint ventures and associated companies. These interests are complementary to our loan and investment strategy. Pre-tax contribution from this segment was significant at HK$61.9 million (first half 2016: HK$98.4 million). The decrease was mainly due to lower net accounting gains from our stake in Sun Hung Kai Financial Holdings Limited ("SHK Financial").

The Group maintains a 30% shareholding in SHK Financial, a 70% subsidiary of Everbright Securities Company Limited ("Everbright") which was the biggest contributor to this segment. SHK Financial delivered a satisfactory performance for the first half of 2017 on improved market conditions as well as from additional revenue opportunities through its integration with Everbright. During the period, the average daily turnover increased by 13% year-on-year on the Hong Kong Stock Exchange. With a healthy growth in revenue from wealth management products as well as client asset growth, SHK Financial has out-performed the market substantially and produced satisfactory results.

For the first half of 2017, the net effect of valuation change on the Group's 30% stake in SHK Financial resulted in an accounting gain of HK$67.3 million (first half 2016: HK$114.7 million): An impairment loss of HK$118.7 million on associate was recorded. On the other hand, a gain of HK$186.0 million was recognised as gain from financial assets from our put option right.

LSS Financial Leasing (Shanghai) Limited ("LSS Leasing") entered its second year of operation and had successfully expanded its business lines from corporate to consumer auto leasing through a network of more than 150 partner dealerships in more than 80 cities. In June 2017, we formed a strategic collaborative platform with its other shareholders, Brilliance China Group and 58.com through its "58 Car" (58車) and "58 Suyun" (58速運) units. The platform draws on the expertise of all the partners to offer a total solution to entrepreneurial drivers entering the on-demand delivery business.

OUTLOOK

Management is optimistic about the fundamentals of our businesses; the Consumer Finance business in Mainland China has been stabilised and its restructuring to focus the business on consumers was satisfactory, enabling management to focus on longer term growth opportunities and obtain benefits from synergies with the Group's other businesses.

Notwithstanding the absence of large write backs from the Consumer Finance impairment allowance in the second half, the Group had a solid start to the year and as a whole in 2017 should perform satisfactorily. However, given the nature of our business and possible 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, Capital Structure and Key Performance Indicator

(HK$ Million)	**30 June 2017**	**31 Dec 2016**	*Change*
Capital Structure			
Equity attributable to the owners of the Company	18,563.1	18,077.0	*3%*
Total cash	4,489.7	6,452.2	*-30%*
Total borrowings	9,586.4	10,122.2	*-5%*
Net debt	5,096.7	3,670.0	*39%*
Net debt to equity ratio	27.5%	20.3%	
Key Performance Indicator			
Book value per share *(HK$)*	8.55	8.24	*4%*

The Group maintained a conservative balance sheet during the period.

As at 30 June 2017, total borrowings of the Group amounted to HK$9,586.4 million (31 December 2016: HK$10,122.2 million). Of this amount, 55% is repayable within one year (31 December 2016: 43%), including HK$2,294.7 million equivalent of US dollar notes which are due for repayment in the second half of 2017. The Group maintains a balanced mix of funding from various sources. Bank borrowings are at floating interest rates and these are denominated in Hong Kong dollars, US dollars and RMB.

As at 30 June 2017, the following notes are outstanding:

Note	**Maturity Date**	**HK$ Equivalent**	***% Total***
6.375% USD notes^	Sep 2017	1,825.0	*33%*
3% USD notes	Dec 2017	469.7	*8%*
4.75% USD notes^	May 2021	2,782.3	*50%*
6.9% RMB notes	May 2018	514.2	*9%*
Total		**5,591.2**	

^ Listed on the Hong Kong Stock Exchange

There are no known seasonal factors in the Group's borrowing profiles.

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

For the first six months of 2017, the Company repurchased and cancelled approximately 20.6 million shares involving a total consideration (including expenses) of HK$99.3 million.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the period, the Principal Investments business invested in a number of companies and assets in their course of business as outlined earlier. However, these were not of a material nature.

Charges on Group Assets

Properties of the Group with a total book value of HK$873.0 million were pledged by subsidiaries to banks for facilities granted to them. HK$116.4 million was drawn down as at 30 June 2017.

Contingent Liabilities

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

	30/6/2017	31/12/2016
	HK$ Million	*HK$ Million*
Indemnities on banking facility made available to joint venture	**108.5**	104.7
Financial guarantees under loan guarantee business*	**51.2**	81.9
	159.7	186.6

* 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.

HUMAN RESOURCES

As at 30 June 2017, the Group's total staff numbered 3,839 (31 December 2016: 4,317). The net decrease in staff numbers is a result of the cost rationalisation in the consumer finance business in Mainland China since 2015.

Staff costs (including Directors' emoluments), contributions to retirement benefit schemes and expenses recognised for the SHK Employee Ownership Scheme (the "EOS") amounted to approximately HK$375.5 million (first half 2016: HK$372.0 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.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK12 cents per share for the six months ended 30 June 2017 (2016: HK12 cents per share) payable to the shareholders whose names appear on the register of members of the Company on 6 September 2017. Dividend warrants for the interim dividend are expected to be dispatched on 13 September 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 5 September 2017 and 6 September 2017, during which period no transfer of shares will be registered. The ex-dividend date will be 1 September 2017. 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 4 September 2017.

CHANGE OF COMPOSITION OF THE RISK MANAGEMENT COMMITTEE

On 15 August 2017, Mr. Lee Seng Huang ceased to be a member and Ms. Elsy Li Chun, executive director of Corporate Development, has been appointed as a member of the Risk Management Committee ("RMC"). After the change, the RMC comprises of Mr. Simon Chow Wing Charn (Chairman), Mr. Peter Anthony Curry and Ms. Elsy Li Chun.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2017, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the 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 which are managed by the Chief Investment Officer as well as its interest in UAF whose day-to-day management lies with its designated Managing Director. Mr. Simon Chow assists the Group Executive Chairman in driving the performance of Mortgage Loans and the other operating businesses of the Group as well as exploring new areas of growth.

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

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

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

The terms of reference of the Remuneration Committee adopted by the Company are in compliance with the code provision B.1.2 of the CG Code except that the Remuneration Committee shall make recommendations to the Board on the remuneration packages of the Executive Directors only and not senior management (as opposed to executive directors and senior management under the code provision).

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

The reasons for the above deviations were set out in the Corporate Governance Report contained in the Company's annual report for the financial year ended 31 December 2016. 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2017, the Company repurchased a total of 20,075,000 shares on the Hong Kong Stock Exchange at an aggregate consideration (before expenses) of HK$98,977,810. All the repurchased shares were subsequently cancelled.

Particulars of the repurchases are as follows:

Month	Number of shares repurchased	Purchase price Highest	Purchase price Lowest	Aggregate consideration (before expenses)
		(HK$)	*(HK$)*	*(HK$)*
January	2,666,000	5.04	4.78	13,034,470
February	76,000	5.05	5.00	381,460
March	694,000	5.04	4.99	3,477,950
April	15,189,000	5.04	4.88	74,781,410
June	1,450,000	5.05	5.00	7,302,520
	20,075,000			98,977,810

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 2017.

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 2017. 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
Sun Hung Kai & Co. Limited
Lee Seng Huang
Group Executive Chairman

Hong Kong, 15 August 2017

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

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

Non-Executive Director:
Mr. Jonathan Andrew Cimino

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