



新鴻基有限公司

SUN HUNG KAI & CO. LIMITED

(股份代號：86)

INTERIM REPORT 2017
二零一七年年中期報告



— EXCELLENCE 卓越 INTEGRITY 誠信 INNOVATION 創新 PRUDENCE 謹慎 PROFESSIONALISM 專業 —

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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

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*)
Peter Anthony Curry
Ely Li Chun
(*appointed on 15 August 2017*)

COMPANY SECRETARY

Hester Wong Lam Chun

INVESTOR RELATIONS

investor.relations@shkco.com

AUDITOR

Deloitte Touche Tohmatsu

SOLICITORS

Clifford Chance
Davis Polk & Wardwell
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

REGISTRAR

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

REGISTERED OFFICE

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33 Hysan Avenue
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WEBSITES

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

Management Discussion and Analysis

Sun Hung Kai & Co. Limited (the “Company”, together with its subsidiaries, 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).

Management Discussion and Analysis

BUSINESS REVIEW

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

(HK\$ Million)	Jan – Jun 2017				Jan – Jun 2016		
	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
Group Management and Support	-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 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

Management Discussion and Analysis

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)
<i>As annualised % of average gross loans</i>	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
<i>As % of period end gross loans</i>	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

Management Discussion and Analysis

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 2016: 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				Jan – Jun 2016			
	Period end value	Average Value	Gain	Return ²	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 Stock Exchange of Hong Kong Limited ("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.

Management Discussion and Analysis

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)
<i>Cost to income (% revenue)</i>	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.

Management Discussion and Analysis

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.

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%

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.

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

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 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.

Management Discussion and Analysis

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 1,170,000 shares were granted to the Selected Grantees during the period subject to various terms including, the vesting schedule whereby awarded shares vest and become unrestricted over various time periods. As at 30 June 2017, the outstanding awarded shares under the EOS (excluding shares awarded but subsequently forfeited) amounted to 1,762,000 (including 1,752,000 under the Company and 10,000 under Sun Hung Kai Financial Limited), out of which 1,276,000 shares were awarded to Directors.

The Group values its people as our greatest asset. We believe that a competent and motivated workforce is integral to the sustainable growth of our business. In line with our business strategies and ongoing development, the Group promotes a culture of continuous learning. We provide varied training and development programmes in areas such as compliance, regulatory issues, management skills, practical job skills and personal development.

Interim Dividend and Closure of Register of Members

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.

Directors' Interests

As at 30 June 2017, 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"), THE UNDERLYING SHARES AND DEBENTURES

Name of Directors	Capacity	Number of Shares, underlying Shares and debentures	Approximate % of the total number of issued Shares
Lee Seng Huang	Interests of controlled corporation (Note 1)	1,233,578,575 (Note 2)	56.78%
Simon Chow Wing Charn	Beneficial owner	184,000 (Note 3(a))	0.008%
	Beneficiary of trust	863,000 (Note 3(b))	0.039%
Peter Anthony Curry	Beneficial owner	828,141 (Note 4(a))	0.038%
	Beneficiary of trust	413,000 (Note 4(b))	0.019%
	Beneficial owner	1 (Note 4(c))	n/a

Notes:

- Mr. Lee Seng Huang, a Director, together with Mr. Lee Seng Hui and Ms. Lee Su Hwei are the trustees of Lee and Lee Trust, being a discretionary trust. The Lee and Lee Trust controlled approximately 74.53% of the total number of shares of Allied Group Limited ("AGL") (inclusive of Mr. Lee Seng Hui's personal interest) and was therefore deemed to have interests in the Shares in which AGL was interested.
- This refers to the deemed interest in 1,233,578,575 Shares held by Allied Properties (H.K.) Limited ("APL").
- This represents the Shares granted to Mr. Simon Chow Wing Charn ("Mr. Chow") under the SHK Employee Ownership Scheme (the "EOS") that were vested, became unrestricted and the title of which was transferred to him.
 - These include the deemed interests in:
 - 368,000 unvested Shares out of the total of 552,000 Shares granted to Mr. Chow 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) was vested and became 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; and
 - 495,000 unvested Shares granted to Mr. Chow on 13 April 2017 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 165,000 Shares) shall be vested and become unrestricted from 13 April 2018; another one-third thereof shall be vested and become unrestricted from 13 April 2019; and the remaining one-third thereof shall be vested and become unrestricted from 13 April 2020.
- This includes 826,000 Shares granted to Mr. Peter Anthony Curry ("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) Prior to the period end, 413,000 Shares granted to Mr. Curry under the EOS were vested and became unrestricted. Formal transfer of the title in the Shares was completed on 21 July 2017. As at that day, Mr. Curry held the legal and beneficiary interest in 1,241,141 Shares.
- (c) This represents the interest held by Mr. Curry in the 4.75% Guaranteed Notes due 2021 issued by Sun Hung Kai & Co. (BVI) Limited in the amount of US\$200,000.

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

Name of Directors	Associated corporations	Capacity	Number of shares and underlying shares	Approximate % of the total number of the relevant shares
Lee Seng Huang (Note 1)	AGL	Trustee (Note 2)	131,706,380	74.52%
	APL	Interests of controlled corporation (Note 3)	5,278,911,521 (Note 4)	77.49%
	SHK Hong Kong Industries Limited ("SHK HK Ind")	Interests of controlled corporation (Note 5)	3,082,889,606 (Note 6)	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 2017.
- Mr. Lee Seng Huang is one of the trustees of Lee and Lee Trust, being a discretionary trust which indirectly controlled 131,706,380 shares of AGL.
- 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) 170,000,000 shares of APL which were held indirectly by a wholly-owned subsidiary of the Company as a holder 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 2017, 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 2017, 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 2017, the following shareholders had interests in the Shares and underlying Shares as

recorded in the register required to be kept under Section 336 of the SFO (the "SFO Register"):

Name of Shareholders	Capacity	Number of Shares and underlying Shares	Approximate % of the total number of issued Shares
APL	Interests of controlled corporation (Note 1)	1,233,578,575 (Note 2)	56.78%
AGL	Interests of controlled corporation (Note 3)	1,233,578,575 (Note 4)	56.78%
Lee and Lee Trust	Interests of controlled corporation (Note 5)	1,233,578,575 (Note 4)	56.78%
Dubai Ventures L.L.C ("Dubai Ventures")	Beneficial owner	166,000,000 (Note 6)	7.64%
Dubai Ventures Group (L.L.C) ("DVG")	Interests of controlled corporation (Note 7)	166,000,000 (Note 8)	7.64%
Dubai Group (L.L.C) ("Dubai Group")	Interests of controlled corporation (Note 9)	166,000,000 (Note 8)	7.64%
Dubai Holding Investments Group LLC ("DHIG")	Interests of controlled corporation (Note 10)	166,000,000 (Note 8)	7.64%
Dubai Holding (L.L.C) ("Dubai Holding")	Interests of controlled corporation (Note 11)	166,000,000 (Note 8)	7.64%
Dubai Group Limited ("DGL")	Interests of controlled corporation (Note 12)	166,000,000 (Note 8)	7.64%
HSBC Trustee (C.I.) Limited ("HSBC Trustee")	Trustee (Note 13)	166,000,000 (Note 8)	7.64%
HH Mohammed Bin Rashid Al Maktoum	Interests of controlled corporation (Note 14)	166,000,000 (Note 8)	7.64%
Asia Financial Services Company Limited ("AFSC")	Beneficial owner	341,600,000 (Note 15)	15.72%
Asia Financial Services Holdings Limited ("AFSH")	Interests of controlled corporation (Note 16)	341,600,000 (Note 17)	15.72%
Asia Financial Services Group Limited ("AFSG")	Interests of controlled corporation (Note 18)	341,600,000 (Note 17)	15.72%
Asia Financial Services Group Holdings Limited ("AFSGH")	Interests of controlled corporation (Note 19)	341,600,000 (Note 17)	15.72%
CVC Capital Partners Asia Pacific III L.P. ("CVC LP")	Interests of controlled corporation (Note 20)	341,600,000 (Note 17)	15.72%
CVC Capital Partners Asia III Limited ("CVC Capital III")	Interests of controlled corporation (Note 21)	341,600,000 (Note 17)	15.72%
CVC Capital Partners Advisory Company Limited ("CVC Capital Partners Advisory")	Interests of controlled corporation (Note 22)	341,600,000 (Note 17)	15.72%
CVC Capital Partners Finance Limited ("CVC Capital Partners Finance")	Interests of controlled corporation (Note 23)	341,600,000 (Note 17)	15.72%
CVC Group Holdings L.P. ("CVC Group Holdings")	Interests of controlled corporation (Note 24)	341,600,000 (Note 17)	15.72%

Name of Shareholders	Capacity	Number of Shares and underlying Shares	Approximate % of the total number of issued Shares
CVC Portfolio Holdings Limited ("CVC Portfolio")	Interests of controlled corporation (Note 25)	341,600,000 (Note 17)	15.72%
CVC Management Holdings Limited ("CVC Management")	Interests of controlled corporation (Note 26)	341,600,000 (Note 17)	15.72%
CVC MMXII Limited ("CVC MMXII")	Interests of controlled corporation (Note 27)	341,600,000 (Note 17)	15.72%
CVC Capital Partners 2013 PCC (acting in respect of its protected cell, CVC Capital Partners Cell FPC) ("CVC Capital Partners 2013")	Interests of controlled corporation (Note 28)	341,600,000 (Note 17)	15.72%
CVC Capital Partners SICAV-FIS S.A. ("CVC Capital Partners SA")	Interests of controlled corporation (Note 29)	341,600,000 (Note 17)	15.72%

Notes:

- 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.
- This represents an interest in 1,233,578,575 Shares held by APL through AP Emerald.
- 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.
- This refers to the same deemed interests in 1,233,578,575 Shares held by APL.
- Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang (a Director) are the trustees of Lee and Lee Trust, being a discretionary trust. The Lee and Lee Trust controlled approximately 74.53% of the total number of shares of AGL (inclusive of Mr. Lee Seng Hui's personal interest) and was therefore deemed to have an interest in the Shares in which AGL was interested.
- This represents an interest in 166,000,000 Shares.
- DVG owned 99% interest in Dubai Ventures and was therefore deemed to have an interest in the Shares which Dubai Ventures was interested.
- This refers to the same interests in 166,000,000 Shares held by Dubai Ventures.
- Dubai Group owned 99% interest in DVG and was therefore deemed to have an interest in the Shares in which DVG was interested.
- DHIG owned 51% interest in Dubai Group and was therefore deemed to have an interest in the Shares in which Dubai Group was interested.
- Dubai Holding owned 99.66% interest in DHIG and was therefore deemed to have an interest in the Shares in which DHIG was interested.
- 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.
- HSBC Trustee owned 100% interest in DGL and was therefore deemed to have an interest in the Shares in which DGL was interested.
- 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.

Interests of Substantial Shareholders and Other Persons

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 99.06% 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 81.8% interest in CVC Management (which was the sole limited partner of CVC Group Holdings) and was therefore deemed to have an interest in the Shares in which CVC Group Holdings was interested, and (ii) as the general partner of CVC Group Holdings, exclusively managed and controlled CVC Group Holdings, and was therefore deemed to have an interest in the Shares in which CVC Group Holdings was interested.
26. CVC Management, as the limited partner of CVC Group Holdings, was therefore deemed to have an interest in the Shares in which CVC Group Holdings was interested.
27. CVC MMXII held 100% interest in CVC Portfolio and was therefore deemed to have an interest in the Shares in which CVC Portfolio was interested.
28. CVC Capital Partners 2013 held 100% interest in CVC MMXII and was therefore deemed to have an interest in the Shares in which CVC MMXII was interested.
29. CVC Capital Partners SA held 100% interest in CVC Capital Partners 2013 and was therefore deemed to have an interest in the Shares in which CVC Capital Partners 2013 was interested.

All interests stated above represent long positions. As at 30 June 2017, no short positions were recorded in the SFO Register of the Company.

Save as disclosed above, as at 30 June 2017, the Directors are not aware of any other persons who have interests or short positions in the Shares, underlying Shares or debentures of the Company 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 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;

Corporate Governance and Other Information

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.

CHANGES IN DIRECTORS' INFORMATION

The changes in Directors' information as required to be disclosed pursuant to Rule 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 2016 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 2016 Annual Report.

For all Directors

- Change of annual director's fee of all Directors during the period has been disclosed in the Corporate Governance Report of the 2016 Annual Report.

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

- Ceased to be a member of the Risk Management Committee on 15 August 2017.

Ms. Jacqueline Alee Leung, Independent Non-Executive Director

- Appointed as a member of the Hospital Governing Committee of Prince of Wales Hospital on 1 April 2017.

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 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		Aggregate consideration (before expenses)
		Highest (HK\$)	Lowest (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
Total	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

Lee Seng Huang

Group Executive Chairman

Hong Kong, 15 August 2017

Independent Review Report

Deloitte.

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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 60, which comprise the condensed consolidated statement of financial position as of 30 June 2017 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 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, 15 August 2017

Condensed Consolidated Statement of Profit or Loss

	Notes	Six months ended	
		30/6/2017 Unaudited HK\$ Million	30/6/2016 Unaudited HK\$ Million
Revenue	5	1,783.6	1,741.8
Other gains	6	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	7	(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	8	1,115.6	380.3
Taxation	9	(123.6)	(29.5)
Profit for the period		992.0	350.8
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	11		
— 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 Unaudited HK\$ Million	30/6/2016 Unaudited 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	12	109.6	109.5
Financial assets at fair value through profit or loss	12	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	13	2,684.7	2,521.2
Trade and other receivables	14	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	12	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	13	6,161.4	5,752.2
Trade and other receivables	14	2,547.7	3,679.8
Bank deposits	15	1,140.0	1,257.7
Cash and cash equivalents	15	3,349.7	5,194.5
		17,648.9	18,929.7
Current Liabilities			
Financial liabilities at fair value through profit or loss	12	117.1	115.3
Bank and other borrowings	16	2,401.5	2,092.6
Trade and other payables	17	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	19	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

Condensed Consolidated Statement of Financial Position

	Notes	30/6/2017 Unaudited HK\$ Million	31/12/2016 Audited HK\$ Million
Capital and Reserves			
Share capital	18	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	16	1,593.7	2,717.7
Provisions		0.2	0.2
Notes	19	2,758.5	3,047.4
		4,548.1	5,960.7
		26,704.4	27,616.5

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 2017	8,752.3	(9.1)	4.8	(373.2)	541.1	63.9	9,097.2	18,077.0	3,578.8	21,655.8
Profit for the period	—	—	—	—	—	—	780.1	780.1	211.9	992.0
Other comprehensive income for the period	—	—	—	109.4	5.3	—	—	114.7	84.4	199.1
Total comprehensive income for the period	—	—	—	109.4	5.3	—	780.1	894.8	296.3	1,191.1
Purchase of shares held for SHK Employee Ownership Scheme	—	(4.8)	—	—	—	—	—	(4.8)	—	(4.8)
Recognition of equity-settled share-based payments	—	—	2.0	—	—	—	—	2.0	—	2.0
Vesting of shares of the SHK employee Ownership Scheme	—	4.1	(4.1)	—	—	—	—	—	—	—
Interim dividend paid	—	—	—	—	—	—	(306.6)	(306.6)	—	(306.6)
Shares repurchased and cancelled	—	—	—	—	—	—	(99.3)	(99.3)	—	(99.3)
Capital reduction of a non-wholly owned subsidiary	—	—	—	—	—	—	—	—	(73.5)	(73.5)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(208.4)	(208.4)
At 30 June 2017	8,752.3	(9.8)	2.7	(263.8)	546.4	63.9	9,471.4	18,563.1	3,593.2	22,156.3

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	8,752.3	(9.0)	3.0	(166.7)	535.2	61.3	8,597.2	17,773.3	3,527.2	21,300.5

Condensed Consolidated Statement of Cash Flows

	Six months ended	
	30/6/2017 Unaudited HK\$ Million	30/6/2016 Unaudited HK\$ Million
Operating activities		
Cash used in operations		
— Change in trade and other receivables	1,021.4	(320.0)
— Change in loans and advances to consumer finance customers	(736.9)	241.2
— Other operating cash flows	<u>(1,856.3)</u>	<u>(342.6)</u>
	(1,571.8)	(421.4)
Dividends received from held for trading investments	5.3	2.4
Interest received	1,723.7	1,664.4
Interest paid	(229.4)	(201.8)
Taxation paid	<u>(90.7)</u>	<u>(193.5)</u>
Net cash (used in) from operating activities	<u>(162.9)</u>	<u>850.1</u>
Investing activities		
Purchase of property and equipment	(13.6)	(5.8)
Proceeds on disposal of equipment	—	0.1
Purchase of intangible assets	—	(5.2)
Proceeds on disposal of a subsidiary (Note 24)	—	104.1
Acquisition of a subsidiary	—	(39.4)
Proceeds on disposal of associates	—	57.9
Dividend received from associates	19.4	27.6
Advance to associates	—	(201.6)
Capital injection to associates	(128.0)	(181.2)
Capital injection to a joint venture	—	(23.5)
Dividends received from joint ventures	—	11.8
Purchase of available-for-sale investments	—	(5.4)
Purchase of long-term financial assets designated as at fair value through profit or loss	(529.2)	(107.9)
Proceeds on disposal of long-term financial assets designated as at fair value through profit or loss	27.7	20.6
Payment of deposits for acquisition of property and equipment	—	(52.4)
Fixed deposits with banks withdrawn (placed)	<u>153.7</u>	<u>(615.7)</u>
Net cash used in investing activities	<u>(470.0)</u>	<u>(1,016.0)</u>

Condensed Consolidated Statement of Cash Flows

	Six months ended	
	30/6/2017 Unaudited HK\$ Million	30/6/2016 Unaudited HK\$ Million
Financing activities		
Net short-term bank and other borrowings repaid	(1,758.1)	(1,660.0)
New long-term bank and other borrowings raised	931.5	634.5
Repayment of long-term bank loans	—	(14.0)
Proceeds from issue of notes	—	1,854.9
Repurchase of notes (Note 19)	(60.5)	(80.4)
Disposal of notes held by subsidiaries of the Company (Note 19)	300.4	—
Purchase of shares for the SHK Employee Ownership Scheme	(4.8)	(1.3)
Shares repurchased and cancelled	(99.3)	(102.2)
Dividends paid	(306.6)	(311.0)
Dividends to non-controlling interests	(208.4)	(66.1)
Repayment of capital contributions by non-controlling interest	(73.5)	—
Net cash (used in) from financing activities	(1,279.3)	254.4
Net (decrease) increase in cash and cash equivalents	(1,912.2)	88.5
Cash and cash equivalents at 1 January	5,194.5	5,647.6
Effect of foreign exchange rate changes	67.4	(34.1)
Cash and cash equivalents at 30 June	3,349.7	5,702.0

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 2016 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 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. 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 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.

Notes to the Condensed Consolidated Financial Statements

4. 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	<u>3.8</u>	<u>1,474.7</u>	<u>48.3</u>	<u>246.7</u>	<u>10.1</u>	<u>1,783.6</u>
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	<u>61.9</u>	<u>623.2</u>	<u>12.3</u>	<u>432.3</u>	<u>(14.1)</u>	<u>1,115.6</u>
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	<u>—</u>	<u>(104.2)</u>	<u>—</u>	<u>—</u>	<u>(148.7)</u>	<u>(252.9)</u>
Cost of capital allocation (note)	<u>—</u>	<u>—</u>	<u>—</u>	<u>(147.3)</u>	<u>147.3</u>	<u>—</u>

Notes to the Condensed Consolidated Financial Statements

4. SEGMENT INFORMATION (CONTINUED)

	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	<u>2.4</u>	<u>1,506.5</u>	<u>22.2</u>	<u>203.6</u>	<u>7.1</u>	<u>1,741.8</u>
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	<u>(19.8)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(19.8)</u>
Profit (loss) before taxation	<u>98.4</u>	<u>187.1</u>	<u>(2.4)</u>	<u>12.4</u>	<u>84.8</u>	<u>380.3</u>
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	<u>—</u>	<u>(600.5)</u>	<u>(1.4)</u>	<u>35.8</u>	<u>—</u>	<u>(566.1)</u>
Finance costs	—	(127.1)	(4.0)	(94.0)	(106.3)	(331.4)
Less: inter-segment finance costs	<u>—</u>	<u>1.2</u>	<u>4.0</u>	<u>94.0</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 allocation (note)	<u>—</u>	<u>—</u>	<u>—</u>	<u>(125.5)</u>	<u>125.5</u>	<u>—</u>

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

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

Notes to the Condensed Consolidated Financial Statements

4. SEGMENT INFORMATION (CONTINUED)

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

5. REVENUE

	Six months ended	
	30/6/2017 HK\$ Million	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

6. OTHER GAINS

	Six months ended	
	30/6/2017 HK\$ Million	30/6/2016 HK\$ Million
Net realised gain on disposal of		
— Subsidiaries (Note 24)	—	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

7. BAD AND DOUBTFUL DEBTS

	Six months ended	
	30/6/2017 HK\$ Million	30/6/2016 HK\$ Million
Loans and advances to consumer finance customers		
— Impairment loss, net of reversal	(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 HK\$ Million	30/6/2016 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)

Notes to the Condensed Consolidated Financial Statements

8. 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 (included in other losses)*	(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.

9. TAXATION

	Six months ended	
	30/6/2017 HK\$ Million	30/6/2016 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.

Notes to the Condensed Consolidated Financial Statements

10. DIVIDEND

	Six months ended	
	30/6/2017 HK\$ Million	30/6/2016 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).

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	
	30/6/2017 HK\$ Million	30/6/2016 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

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 2017				Total HK\$ Million
	Level 1 HK\$ Million	Fair value Level 2 HK\$ Million	Level 3 HK\$ Million	Cost less impairment HK\$ Million	
Available-for-sale investments					
Equity securities listed in Hong Kong	47.2	—	—	—	47.2
Unlisted overseas equity securities	—	—	40.8	21.6	62.4
	<u>47.2</u>	<u>—</u>	<u>40.8</u>	<u>21.6</u>	<u>109.6</u>
Financial assets at fair value through profit or loss					
Held for trading investments					
— Equity securities listed in Hong Kong	650.3	—	—	—	650.3
— Equity securities listed outside Hong Kong	477.1	—	—	—	477.1
— Exchange-traded funds listed in Hong Kong	24.0	—	—	—	24.0
— Over the counter equity derivatives	—	—	0.4	—	0.4
— Over the counter currency derivatives	—	—	0.3	—	0.3
— Forward currency contract	—	28.0	—	—	28.0
— Unlisted currency options	—	1.2	—	—	1.2
— Unlisted put right for shares in an associate	—	—	1,238.0	—	1,238.0
— Unlisted call option for club memberships	—	—	8.8	—	8.8
— Unlisted call option for shares listed outside Hong Kong	—	—	6.1	—	6.1
— Contracts for difference	—	19.3	—	—	19.3
— Unlisted bonds issued by listed companies	—	709.3	—	—	709.3
— Unlisted bonds issued by unlisted companies	—	109.8	—	—	109.8
— Unlisted convertible bond issued by a listed company	—	94.7	—	—	94.7
— Listed bonds and notes issued by listed companies	—	9.8	—	—	9.8
— Listed bonds and notes issued by unlisted companies	—	1,008.6	—	—	1,008.6
	<u>1,151.4</u>	<u>1,980.7</u>	<u>1,253.6</u>	<u>—</u>	<u>4,385.7</u>
Investments designated as at fair value through profit or loss					
— Unlisted convertible preferred shares issued by an unlisted company	—	—	134.1	—	134.1
— Unlisted convertible bonds issued by an unlisted company	—	—	21.0	—	21.0
— Unlisted overseas equity securities with a put right for shares	—	—	833.8	—	833.8
— Unlisted overseas investment funds	—	—	3,667.0	—	3,667.0
	<u>—</u>	<u>—</u>	<u>4,655.9</u>	<u>—</u>	<u>4,655.9</u>
	<u>1,151.4</u>	<u>1,980.7</u>	<u>5,909.5</u>	<u>—</u>	<u>9,041.6</u>
Analysed for reporting purposes as:					
— Non-current assets					4,652.2
— Current assets					4,389.4
					<u>9,041.6</u>
Financial liabilities at fair value through profit or loss					
Held for trading					
— Futures and options listed outside Hong Kong	2.8	—	—	—	2.8
— Over the counter equity derivatives	—	—	2.7	—	2.7
— Stock borrowings	—	93.2	—	—	93.2
— Contracts for difference	—	5.7	—	—	5.7
— Forward currency contract	—	12.7	—	—	12.7
	<u>2.8</u>	<u>111.6</u>	<u>2.7</u>	<u>—</u>	<u>117.1</u>
Analysed for reporting purposes as current liabilities					

Notes to the Condensed Consolidated Financial Statements

12. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	At 31 December 2016				
	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	45.7	—	—	—	45.7
Unlisted overseas equity securities	—	—	42.2	21.6	63.8
	<u>45.7</u>	<u>—</u>	<u>42.2</u>	<u>21.6</u>	<u>109.5</u>
Financial assets at fair value through profit or loss					
Held for trading investments					
— Equity securities listed in Hong Kong	269.1	—	—	—	269.1
— Equity securities listed outside Hong Kong	299.0	—	—	—	299.0
— Exchange-traded funds listed in Hong Kong	139.3	—	—	—	139.3
— Over the counter equity derivatives	—	—	0.4	—	0.4
— Over the counter currency derivatives	—	—	0.1	—	0.1
— Forward currency contract	—	50.6	—	—	50.6
— Unlisted overseas options	—	1.4	—	—	1.4
— Unlisted put right for shares in an associate	—	—	1,052.0	—	1,052.0
— Unlisted call option for club memberships	—	—	8.3	—	8.3
— Unlisted call option for shares listed outside Hong Kong	—	—	12.4	—	12.4
— Contracts for difference	—	22.3	—	—	22.3
— Unlisted convertible bond issued by a listed company	—	386.9	—	—	386.9
— Listed bonds issued by listed companies	—	668.6	—	—	668.6
	<u>707.4</u>	<u>1,129.8</u>	<u>1,073.2</u>	<u>—</u>	<u>2,910.4</u>
Investments designated as at fair value through profit or loss					
— Unlisted convertible bonds issued by an unlisted company	—	—	3.9	—	3.9
— Unlisted overseas equity securities with a put right for shares	—	—	826.1	—	826.1
— Unlisted overseas investment funds	—	—	2,871.6	—	2,871.6
	<u>—</u>	<u>—</u>	<u>3,701.6</u>	<u>—</u>	<u>3,701.6</u>
	<u>707.4</u>	<u>1,129.8</u>	<u>4,774.8</u>	<u>—</u>	<u>6,612.0</u>
Analysed for reporting purposes as:					
— Non-current assets					3,632.9
— Current assets					2,979.1
					<u>6,612.0</u>
Financial liabilities at fair value through profit or loss					
Held for trading					
— Futures and options listed outside Hong Kong	2.2	—	—	—	2.2
— Foreign currency contracts	—	4.8	—	—	4.8
— Unlisted overseas options	—	0.3	—	—	0.3
— Over the counter equity derivatives	—	—	2.9	—	2.9
— Over the counter currency derivatives	—	—	1.9	—	1.9
— Stock borrowings	—	75.7	—	—	75.7
— Contracts for difference	—	27.5	—	—	27.5
	<u>2.2</u>	<u>108.3</u>	<u>4.8</u>	<u>—</u>	<u>115.3</u>
Analysed for reporting purposes as current liabilities					

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.

12. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

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

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

The fair values of bonds under Level 2 at the reporting date were derived from quoted prices from pricing services. The fair values of stock borrowings, forward currency contract and contracts for difference 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 under Level 3.

At 30 June 2017				
	Valuation technique	Significant 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% HK\$54.1 million	40.8
Held for trading investments				
Unlisted put right for shares in an associate	Option model	Volatility Risk free rate Equity growth rate Estimated equity value	35.63% 0.4% 1.1% HK\$830 million	1,238.0
Financial assets designated as at fair value through profit or loss				
Unlisted convertible preferred shares	Market comparable approach	Price to earning ratio	25.5x	117.1
Unlisted overseas equity securities with a put right for shares	Market comparable approach and option model	Price to book ratio Volatility Discount rate Equity growth rate	1.21x 5.4% 1.8% 1.1%	833.8
Unlisted overseas investment funds	Net asset value*	n/a	n/a	3,667.0

Notes to the Condensed Consolidated Financial Statements

12. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

At 31 December 2016				
	Valuation technique	Significant 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% HK\$54.3 million	42.2
Held for trading investments				
Unlisted put right for shares in an associate	Option model	Volatility Risk free rate Equity growth rate Estimated equity value	41.8% 0.9% 1.1% HK\$954.0 million	1,052.0
Financial assets designated as at fair value through profit or loss				
Unlisted overseas equity securities with a put right for shares	Market comparable approach and option model	Price to book ratio Volatility Discount rate Equity growth rate	1.23x 5.5% 1.9% 1.5%	826.1
Unlisted overseas investment funds	Net asset value*	n/a	n/a	2,871.6

* 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:

	2017						Unrealised gain or loss for six months ended 30/6/2017 HK\$ Million	
	Balance at 1/1/2017 HK\$ Million	Recognised gains or losses			Purchase HK\$ Million	Disposal HK\$ Million		Balance at 30/6/2017 HK\$ Million
		Profit or loss HK\$ Million	Other comprehensive income HK\$ Million					
Available-for-sale investments								
Unlisted overseas equity securities	42.2	—	(1.4)	—	—	40.8	—	
Held for trading investments								
Over the counter equity derivatives	0.4	—	—	—	—	0.4	—	
Over the counter currency derivatives	0.1	0.2	—	—	—	0.3	0.2	
Unlisted put right for shares in an associate	1,052.0	186.0	—	—	—	1,238.0	186.0	
Unlisted call option for club memberships	8.3	0.5	—	—	—	8.8	0.5	
Unlisted call option for shares listed outside Hong Kong	12.4	(6.3)	—	—	—	6.1	(6.3)	
Investments designated as at fair value								
Unlisted convertible preferred shares issued by an unlisted company	—	0.6	—	133.5	—	134.1	0.6	
Unlisted convertible bonds issued by unlisted companies	3.9	0.1	—	17.0	—	21.0	0.1	
Unlisted overseas equity securities with a put right for shares	826.1	7.7	—	—	—	833.8	7.7	
Unlisted overseas investment funds	2,871.6	361.3	—	517.3	(83.2)	3,667.0	352.1	
Financial liabilities held for trading								
Over the counter equity derivatives	(2.9)	0.2	—	—	—	(2.7)	0.2	
Over the counter currency derivatives	(1.9)	1.9	—	—	—	—	1.9	

Notes to the Condensed Consolidated Financial Statements

12. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	2016							Unrealised gain or loss for the year HK\$ Million
	Balance at 1/1/2016 HK\$ Million	Transfer HK\$ Million	Recognised gains or losses		Purchase HK\$ Million	Disposal HK\$ Million	Balance at 31/12/2016 HK\$ Million	
			Profit or loss HK\$ Million	Other comprehen- sive income HK\$ Million				
Available-for-sale investments								
Unlisted overseas equity securities	39.7	—	—	2.5	—	—	42.2	—
Held for trading investments								
Over the counter equity derivatives	0.7	—	(0.3)	—	—	—	0.4	(0.3)
Over the counter currency derivatives	0.1	—	—	—	—	—	0.1	—
Unlisted put right for shares in an associate	707.0	—	345.0	—	—	—	1,052.0	345.0
Unlisted call option for club memberships	9.3	—	(1.0)	—	—	—	8.3	(1.0)
Unlisted call option for shares listed outside Hong Kong	25.9	—	(13.5)	—	—	—	12.4	(13.5)
Investments designated as at fair value								
Unlisted convertible preferred shares issued by an unlisted company	267.8	—	0.1	—	—	(267.9)	—	—
Unlisted convertible bonds issued by unlisted companies	778.9	(775.0)	—	—	—	—	3.9	—
Unlisted overseas equity securities with a put right for shares#	—	775.0	51.1	—	—	—	826.1	51.1
Unlisted overseas investment funds	2,286.8	—	435.2	—	384.8	(235.2)	2,871.6	426.2
Financial liabilities held for trading								
Over the counter equity derivatives	(22.5)	—	19.6	—	—	—	(2.9)	19.6
Over the counter currency derivatives	(0.9)	—	(1.0)	—	—	—	(1.9)	(1.0)

On 10 December 2015, the Group entered into a convertible note agreement with an overseas unlisted company ("Issuer") to subscribe a convertible note in an aggregate principal amount of US\$100,000,000 issued by the Issuer, and entered into a subscription and shareholders' agreement with the Issuer and its holding company, in respect of the exercise of the conversion right under the convertible note agreement to subscribe for the Issuer's ordinary shares with a right to put back the ordinary shares to the Issuer. During the year ended 31 December 2016, the Group exercised the conversion right and the Issuer allotted and issued 100,000,000 shares at US\$1 each, which represented approximately 4.55% of the enlarged issued and paid up share capital of the Issuer. The put right is considered as an embedded derivative. The Group designates the entire unlisted equity securities with the put right for shares as a financial asset at fair value through profit or loss.

Notes to the Condensed Consolidated Financial Statements

13. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	30/6/2017 HK\$ Million	31/12/2016 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 HK\$ Million	31/12/2016 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

Notes to the Condensed Consolidated Financial Statements

14. TRADE AND OTHER RECEIVABLES

	30/6/2017 HK\$ Million	31/12/2016 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)
	<u>2,731.0</u>	<u>2,847.9</u>
Receivable from brokers	<u>135.4</u>	<u>1,059.5</u>
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)
	<u>2.3</u>	<u>4.8</u>
Other receivables		
— Deposits	38.6	40.1
— Others	56.2	43.1
	<u>94.8</u>	<u>83.2</u>
Trade and other receivables at amortised cost	2,963.5	3,995.4
Prepayments	65.5	44.3
	<u>3,029.0</u>	<u>4,039.7</u>
Analysed for reporting purposes as:		
— Non-current assets	481.3	359.9
— Current assets	2,547.7	3,679.8
	<u>3,029.0</u>	<u>4,039.7</u>

* 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.

Notes to the Condensed Consolidated Financial Statements

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:

	30/6/2017 HK\$ Million	31/12/2016 HK\$ Million
Less than 31 days	—	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

15. BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	30/6/2017 HK\$ Million	31/12/2016 HK\$ Million
Bank balances and cash	2,669.0	2,251.1
Fixed deposits with banks with a term within 3 months	680.7	2,943.4
Cash and cash equivalents	3,349.7	5,194.5
Fixed deposits with banks with a term between 4 to 12 months	1,140.0	1,257.7
	4,489.7	6,452.2

Notes to the Condensed Consolidated Financial Statements

16. BANK AND OTHER BORROWINGS

	30/6/2017 HK\$ Million	31/12/2016 HK\$ Million
Bank loans		
— Unsecured term loans	3,843.8	4,712.5
— Secured instalment loans	116.4	38.8
Total bank borrowings	3,960.2	4,751.3
Other borrowings	35.0	59.0
	3,995.2	4,810.3
Analysed for reporting purposes as:		
— Current liabilities	2,401.5	2,092.6
— Non-current liabilities	1,593.7	2,717.7
	3,995.2	4,810.3

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

	30/6/2017 HK\$ Million	31/12/2016 HK\$ Million
Bank borrowings		
— Within one year	2,401.5	2,049.8
— In the second year	1,250.5	1,748.5
— In the third to fifth year	308.2	934.2
Bank borrowings with a repayment on demand clause		
— Within one year	—	4.8
— In the second year	—	4.8
— In the third to fifth year	—	9.2
	3,960.2	4,751.3
Other borrowings		
— Within one year	—	24.0
— Over five years	35.0	35.0
	3,995.2	4,810.3

Notes to the Condensed Consolidated Financial Statements

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:

	30/6/2017 HK\$ Million	31/12/2016 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

18. SHARE CAPITAL

	Number of shares		Share capital	
	Six months ended 30/6/2017 Million Shares	Year ended 31/12/2016 Million Shares	Six months ended 30/6/2017 HK\$ Million	Year ended 31/12/2016 HK\$ Million
Issued and fully paid				
Balance brought forward	2,193.0	2,229.0	8,752.3	8,752.3
Shares cancelled after repurchase	(20.6)	(36.0)	—	—
Balance carried forward	2,172.4	2,193.0	8,752.3	8,752.3

During the period, the trustee of the SHK Employee Ownership Scheme (the "EOS") acquired 0.9 million shares of the Company through purchases on The Stock Exchange of Hong Kong Limited for the awarded shares of the EOS. The total amount paid to acquire the shares during the period was HK\$4.8 million, which has been deducted from the owners' equity.

Notes to the Condensed Consolidated Financial Statements

18. SHARE CAPITAL (CONTINUED)

During the period, the Company repurchased 20.6 million shares (2016: 36.0 million shares) of the Company through purchases on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$99.3 million (including expenses) (2016: HK\$168.5 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.

19. NOTES

	30/6/2017 HK\$ Million	31/12/2016 HK\$ Million
US dollar denominated notes (the "US\$ Notes")		
— 6.375% US dollar denominated notes maturing in September 2017 (the "6.375% Notes")	1,825.0	1,777.9
— 3% US dollar denominated notes maturing in December 2017 (the "3% Notes")	469.7	464.5
— 4.75% US dollar denominated notes maturing in May 2021 (the "4.75% Notes")	2,782.3	2,511.7
Renminbi denominated notes (the "RMB Notes")		
— 6.9% Renminbi denominated notes maturing in May 2018 (the "6.9% Notes")	514.2	557.8
	5,591.2	5,311.9
Analysed for reporting purposes as:		
— Current liabilities	2,832.7	2,264.5
— Non-current liabilities	2,758.5	3,047.4
	5,591.2	5,311.9

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

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 was US\$361.6 million or equivalent to HK\$2,822.9 million (31/12/2016: US\$328.3 million or equivalent to HK\$2,546.1 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\$2,861.6 million (31/12/2016: HK\$2,572.7 million) which was categorised as Level 2.

Notes to the Condensed Consolidated Financial Statements

19. NOTES (CONTINUED)

The 6.375% Notes are also listed on The Stock Exchange of Hong Kong Limited and are issued to professional investors only. The 6.375% Notes are guaranteed by the Company. The nominal value of the 6.375% Notes after eliminating the intra-group holdings was US\$230.1 million or equivalent to HK\$1,796.1 million (31/12/2016: US\$225.8 million or equivalent to HK\$1,751.8 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\$1,835.5 million (31/12/2016: HK\$1,810.1 million) which was categorised as Level 2.

The nominal value of the 3% Notes was US\$60.0 million or equivalent to HK\$468.3 million (31/12/2016: US\$60.0 million or equivalent to HK\$465.3 million) at the reporting date. The fair value of the 3% Notes measured by discounted cash flow approach at the reporting date was HK\$469.8 million (31/12/2016: HK\$459.6 million) which was categorised as Level 2.

During the period ended 30 June 2017, two subsidiaries of the Company disposed of the intra-group holdings of the 4.75% Notes and 6.375% Notes with nominal value of US\$33.3 million or equivalent to HK\$259.8 million and US\$4.3 million or equivalent to HK\$32.8 million respectively to third parties with a total consideration of US\$38.6 million or equivalent to HK\$300.4 million.

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 RMB442.3 million or equivalent to HK\$509.1 million at the reporting date (31/12/2016: RMB495.0 million or equivalent to HK\$552.7 million). The fair value of the 6.9% Notes based on the price quoted from pricing service at the reporting date was HK\$521.4 million (31/12/2016: HK\$578.6 million) which was categorised as Level 2.

During the period ended 30 June 2017, the Group repurchased part of the 6.9% Notes with nominal value of RMB52.7 million or equivalent to HK\$59.8 million from third parties with a total consideration of RMB54.3 million or HK\$60.5 million.

Notes to the Condensed Consolidated Financial Statements

20. RELATED PARTY TRANSACTIONS

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

	Six months ended	
	30/6/2017 HK\$ Million	30/6/2016 HK\$ Million
Associates and joint ventures of a holding company		
Rental and building management fees to an associate of a holding company	(1.9)	(2.2)
Rental and building management fees to a joint venture of a holding company	(8.9)	(8.9)
Interest expense to an associate of a holding company	(2.8)	—
Proceeds received on disposal of subsidiaries to an associate of a holding company	—	100.7
Associates and joint ventures		
Loan to an associate	—	(201.6)
Loan referral fee and participation fee received from an associate	29.0	6.0
Management and service fees received from associates and joint ventures	2.6	2.5
Insurance premiums paid to an associate in the course of provision of insurance brokerage services	(1.9)	(1.1)
Service fees paid to an associate	(2.9)	(3.5)
Holding company and its subsidiaries		
Finance costs to fellow subsidiaries	(9.5)	(11.1)
Service fee to a fellow subsidiary	(14.0)	—
Management fees paid to a holding company	(6.0)	(3.4)

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

	Six months ended	
	30/6/2017 HK\$ Million	30/6/2016 HK\$ Million
Short-term benefits	22.4	19.5
Post-employment benefits	0.9	0.8
	23.3	20.3

During the period, 1,276,000 shares were granted under the SHK Employee Ownership Scheme ("EOS") to key management personnel. In addition, 328,000 shares with a total amount of HK\$1.7 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 (2016: HK\$0.1 million). Further details of the EOS are disclosed in the Management Discussion and Analysis section of this interim report.

Notes to the Condensed Consolidated Financial Statements

21. COMMITMENTS

(a) Other commitments

	30/6/2017 HK\$ Million	31/12/2016 HK\$ Million
Capital commitments for funds	374.7	457.6
Other capital commitments	0.8	1.8
	375.5	459.4

(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:

	30/6/2017 HK\$ Million	31/12/2016 HK\$ Million
Within one year	106.3	123.5
In the second to fifth years inclusive	59.4	75.2
	165.7	198.7

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\$7.2 million (31/12/2016: HK\$14.3 million) and an associate of a holding company of HK\$3.3 million (31/12/2016: HK\$5.0 million).

(c) Loan commitments

	30/6/2017 HK\$ Million	31/12/2016 HK\$ Million
Within one year	1,044.4	1,259.4

22. CONTINGENT LIABILITIES AND FINANCIAL GUARANTEE CONTRACTS

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

	30/6/2017 HK\$ Million	31/12/2016 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 has provided guarantees to lenders of its loan guarantee customers to guarantee the repayment of debts owed by the loan guarantee customers to their lenders. At 30 June 2017, the outstanding guarantee amount was HK\$51.2 million (31/12/2016: HK\$81.9 million). The directors of the Company are of the opinion that the fair value of the financial guarantee contracts at initial recognition is insignificant.

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.

(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.

Notes to the Condensed Consolidated Financial Statements

23. FINANCIAL RISK MANAGEMENT (CONTINUED)**(a) Market Risk (CONTINUED)****(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.

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24. DISPOSAL OF SUBSIDIARIES

In the first half of 2016, 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>

