



Interim Report

2019



新鴻基有限公司
SUN HUNG KAI & CO. LIMITED

Stock Code: 0086



Who We Are

Sun Hung Kai & Co. Limited

Sun Hung Kai & Co. Limited is an investment firm headquartered in Hong Kong. Since its establishment in 1969, the Group has owned and operated market-leading businesses in financial services. Building on its rich heritage, experience and network, the Group aims to generate long-term capital growth for its shareholders through a diverse, yet complementary, portfolio of businesses and investments across multiple asset classes. It is the major shareholder of leading consumer finance firm United Asia Finance, and a substantial shareholder of Everbright Sun Hung Kai. The Group currently holds about HK\$41 billion* in total assets.

*As at 30 June 2019





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Endure. Adapt. Excel

Financial Highlights

First Half 2019 Highlights

Attributable
Profit

-3%

HK\$1,029m

Basic EPS

+5%

HK51.5 c

Interim DPS

no change

HK12.0 c

BVPS

+6%

HK\$9.8



Management Discussion and Analysis

Financial Highlights

(HK\$ Million)	Six months ended			Year ended
	Jun 2019	Jun 2018	Change	Dec 2018
Revenue	2,071.6	2,058.7	1%	4,175.7
Pre-tax profit	1,401.0	1,385.2	1%	1,831.3
Profit attributable to owners of the Company	1,028.9	1,058.0	-3%	1,183.8
Basic earnings per share (HK cents)	51.5	49.2	5%	56.2
Interim dividend (HK cents)	12.0	12.0	-	14.0 ^a
Book value per share (HK\$)	9.84	9.31	6%	9.48

^a Second interim dividend

The profit attributable to owners of the Company for the first half of 2019 was HK\$1,028.9 million (first half of 2018: HK\$1,058.0 million). Basic earnings per share for the period were HK51.5 cents (first half 2018: HK49.2 cents).

The results for the period reflect a solid performance which has improved significantly over the second half of 2018 when the Principal Investments business was affected by mark-to-market valuations. The Consumer Finance business also delivered improved profitability. Further, the results are broadly in line with the robust performance achieved in the first half of 2018, which was a record half for the Group. EPS has increased as a result of share buybacks.

The Board has declared an interim dividend of HK12 cents per share for the six months ended 30 June 2019, which is the same as the previous period. During the period, the Company repurchased and cancelled 5.4 million shares for a total consideration of HK\$20.1 million.

As at 30 June 2019, the Group's book value per share was HK\$9.84, which increased by 4% from HK\$9.48 at the end of 2018 and by 6% from HK\$9.31 at 30 June 2018.

Results Analysis

The Group's first half 2019 revenue was HK\$2,071.6 million (first half 2018: HK\$2,058.7 million), of which interest income is the biggest component. As at 30 June 2019, total loans and advances to customers was HK\$16,060.5 million (31 December 2018: HK\$16,109.1 million; 30 June 2018: HK\$15,580.4 million). During the period, we have strategically reduced risk in our Mainland China lending business.

Operating costs declined 7% to HK\$729.0 million, mainly driven by further cost consolidation in Mainland China.

Impairment and bad debts ("net impairment losses on financial instruments") increased from HK\$442.4 million to HK\$459.9 million with additional provision in Principal Investments portfolio partly offset by reduced provisions in Consumer Finance.

The Principal Investments business delivered strong returns during the period, producing a substantial profit from gains in the value of financial assets and liabilities.

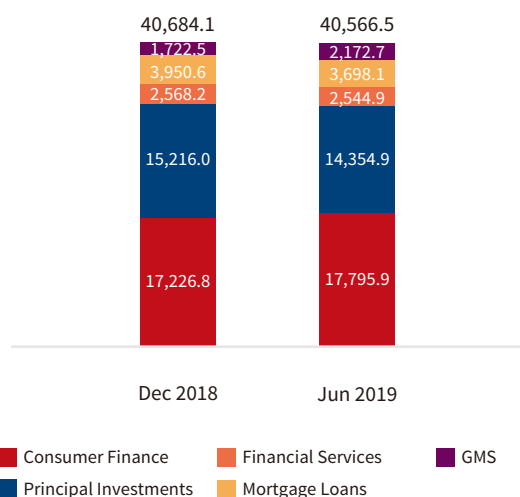
Pre-tax profit (before non-controlling interests) for the period increased 1% to HK\$1,401.0 million (first half 2018: HK\$1,385.2 million).

Business Review

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

Six months ended (HK\$ Million)	Jun 2019	Jun 2018	Change
Consumer Finance	652.2	609.2	7%
Principal Investments	580.4	680.4	-15%
Financial Services	102.4	101.8	1%
Mortgage Loans	68.5	48.8	40%
GMS	(2.5)	(55.0)	-95%
Total	1,401.0	1,385.2	1%

Assets by Segment (HK\$ Million)



Consumer Finance was the biggest contributor to pre-tax profit for the period, and its contribution increased by 7% over the previous period.

The Mortgage Loans business contributed a meaningful profit, which has increased by 40% compared to the first half of 2018 as it enjoyed operating leverage from an expanded scale.

The net expense of Group Management and Support (“GMS”) was HK\$2.5 million, compared to HK\$55.0 million in the first half of 2018. To better reflect the nature of the Principal Investments business and its returns, assets and income related to some treasury products were redirected from Principal Investments to GMS.

Consumer Finance

The Group’s Consumer Finance business is conducted via its majority-owned subsidiary United Asia Finance Limited (“UAF”). Through a well-established branch network and sophisticated online platforms, UAF offers unsecured loans to individual consumers and business loans to business owners in Hong Kong and Mainland China. UAF is the market leader in the Hong Kong personal loan market. UAF holds extensive off-line money lending licences in major cities in the PRC and online internet money lending licences to conduct its internet loan business without geographical boundaries all over the PRC.

On 27 June 2019, UAF completed the repurchase of ordinary shares from ORIX Asia Capital Limited, a minority shareholder which held 7.27% of the then entire issued ordinary shares of UAF at a cash consideration of JPY10 billion. As a result, the Group’s beneficial equity interest in UAF increased from 58% to 63%. UAF management believes that the share repurchase will improve the management and operational efficiency of UAF in implementing business decisions, developing strategies and enhancing the competitiveness of UAF. The repurchase is expected to be earnings accretive for the Group.

Segment Half Year Results

Six months ended (HK\$ Million)	Jun 2019	Jun 2018	Change
Revenue	1,694.8	1,737.7	-2%
Return on loans ¹	32.1%	35.6%	
Operating costs	(538.7)	(570.3)	-6%
Cost to income (% revenue)	31.8%	32.8%	
Finance costs	(146.2)	(96.8)	51%
Impairment and bad debts	(373.1)	(452.4)	-18%
Other gains	15.4	12.6	22%
Exchange gain (loss)	0.0	(21.6)	N/A
Pre-tax contribution	652.2	609.2	7%
Loan Book:			
Net loan balance	10,068.0	9,046.3	11%
Gross loan balance ²	10,705.2	9,704.6	10%

¹ Annualised % of average gross loans

² Before impairment allowance

The pre-tax contribution to the Group amounted to HK\$652.2 million, an increase of 7% against the first half of 2018.

For the first half of 2019, revenue reduced by 2% as a result of the Hong Kong loan book, which has a lower average loan yield, accounting for an increased share of the total loan book. At the end of June 2019, Hong Kong accounted for approximately 78% of the total gross loan balance (30 June 2018: 70%). The increased proportion of loans from Hong Kong also lead to an improvement in the overall charge off ratio from 8.3% to 7.2% and a reduction of impairment and bad debts expenses.

Operating costs reduced as a result of a reduction in the PRC branch network. Finance costs increased as a result of higher borrowing rates and an increase in borrowings to support loan growth in Hong Kong.

Analysis of Impairment and Bad Debts

(HK\$ Million)	Jan – Jun 2019	Jan – Jun 2018	Jul – Dec 2018
Amounts written off	(479.8)	(502.8)	(486.6)
Recoveries	97.5	97.5	99.1
Charge off	(382.3)	(405.3)	(387.5)
As annualised % of average gross loans	7.2%	8.3%	7.7%
Written back (charges) of impairment allowance	9.1	(47.1)	6.3
Total impairment and bad debts	(373.2)	(452.4)	(381.2)
Impairment allowance at period end	637.2	658.3	645.6
As % of period end gross loans	6.0%	6.8%	6.2%

Ageing analysis for net loan balance of Consumer Finance customers (*HK\$ Million*):

Number of days past due as at:	Jun 2019	Note	Dec 2018	Note
Less than 31	426.0	4.2%	528.6	5.4%
31-60	56.3	0.6%	50.4	0.5%
61-90	335.1	3.3%	11.9	0.2%
91-180	93.3	0.9%	48.2	0.5%
Over 180	65.5	0.7%	109.2	1.1%
Total	976.2	9.7%	748.3	7.7%

Note: Amount as % of net loan balance

Hong Kong Business

Key Operating Data	1H2019	1H2018	Full Year 2018
Number of branches	49	49	49
Loan data:			
Gross loan balance (<i>HK\$ Million</i>)	8,328.8	6,746.2	7,803.4
Loan originated for the period/ year amount (<i>HK\$ Million</i>)	5,664.1	4,618.7	10,136.3
Number of loans originated	100,434	92,483	165,459
Average gross balance per loan (<i>HK\$</i>)	60,247	53,565	59,132
Annualised Ratios:			
Total return on loans ¹	31.3%	33.1%	31.5%
Charge-off ratio ²	4.4%	4.4%	4.4%
Impairment allowance ratio ³	4.9%	5.5%	5.0%

¹ Revenue/average gross loan balance

² Charge-off amount/average gross loan balance

³ Impairment allowance/period end gross loan balance

The Hong Kong business continued to demonstrate its strength, leveraging its leading market position and the healthy job market during the period. UAF achieved satisfactory growth and profitability. Its gross loan book increased 7% during the period to a new record high of HK\$8.3 billion. The advertising campaign launched in the second half of 2018 in celebration of UAF's 25th anniversary, coupled with a variety of branding campaigns and promotional offers both offline and online, yielded satisfactory results and business growth.

Fintech continues to be an area of focus for UAF. A dedicated fintech team was set up in January 2019 with a view to embracing the challenges and opportunities in the market. UAF is a pioneer in launching Faster Payment System services around the clock for loan disbursements, demonstrating our commitment to deliver enhanced customer experience through innovation. In February 2019, UAF was granted ISO/IEC 27001 certificate in recognition of its information security standard required for the provision of design, development, operations and maintenance of web application, mobile application and related IT infrastructure to support the consumer loan services of UAF.

Mainland China Business

Key Operating Data	1H2019	1H2018	Full Year 2018
Number of branches	31	73	46
Loan data:			
Gross loan balance (<i>HK\$ Million</i>)	2,376.4	2,958.4	2,611.9
Loan originated for the period/ year amount (<i>HK\$ Million</i>)	1,948.9	2,748.3	5,160.9
Number of loans originated	29,124	55,548	95,635
Average gross balance per loan (<i>RMB</i>)	40,076	29,421	34,147
Annualised ratios:			
Total return on loans ¹	34.7%	40.9%	39.5%
Charge-off ratio ²	16.3%	16.6%	16.2%
Impairment allowance ratio ³	9.7%	9.8%	9.7%

¹ Revenue/average gross loan balance

² Charge-off amount/average gross loan balance

³ Impairment allowance/period end gross loan balance

The operating and economic environment in the first half of 2019 remained challenging with uncertainties all around. Protracted Sino-US trade tension and the threat of retaliatory trade tariffs continued to be an overhang to the market sentiment. As such, UAF adopted a conservative lending approach and the gross loan balance declined as a result. Putting profitability as a priority, UAF continued to reduce costs by closing 15 branches during the period. A total of 31 branches were in operation at the end of June 2019.

In the second half of 2018, we launched an automated credit scoring system which combines UAF's internal loan data with available big data and external credit information, enabling real-time, and better-informed credit decisions. UAF will continue to enhance the credit scoring system using more inclusive external credit information provided by other reputable credit service providers.

Developing our online business remains our key focus in Mainland China. In May 2019, the Finance Supervisory Office of Shenzhen (深圳市地方金融监督管理局) officially granted an online licence to our subsidiary in Shenzhen, which enabled us to extend our online loan business to all cities without geographical limitation through a third-party internet platform. New lending opportunities are also being developed through cooperation with other online service providers.

Although a market recovery remains uncertain, UAF's Mainland China business is now operating at a much more efficient cost structure and is well-positioned for growth to resume given our online capabilities and enhanced credit management.

Prospects

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

Principal Investments

The Principal Investments ("PI") division leverages the Group's operating expertise, network and balance sheet to seek attractive risk-adjusted investment opportunities. For the first half of 2019, the six-month gross return on the average assets for the segment was 6%, compared to 6.1% for the first half of 2018. Taking into account operating expenses and funding cost allocation, the segment contributed HK\$580.4 million to pre-tax profit, a decrease of 15% from HK\$680.4 million achieved in the first half of 2018.

Analysis of Pre-tax Profit by Nature

Six months ended (HK\$ Million)	Jun 2019	Jun 2018	Change
Realised gain on financial assets [^]	111.5	121.5	-8%
Interest income	163.3	189.1	-14%
Dividends received	8.7	2.4	263%
Rental income	11.6	9.9	17%
Fees received	17.5	5.1	243%
Mark-to-market valuation [^]	626.7	531.0	18%
Impairment and bad debts	(86.7)	7.9	N/A
Others	24.3	123.7	-80%
Total gains	876.9	990.6	-11%
Operating costs	(71.9)	(80.8)	-11%
Cost of capital and finance costs	(224.6)	(229.4)	-2%
Pre-tax contribution	580.4	680.4	-15%

[^] Breakdown of net gain on financial assets and liabilities at fair value through profit or loss

Strong credit and equity markets in the first quarter allowed us to generate solid returns in our public businesses while increased IPO activity in the technology space lead to increased valuations and monetisations in private equity.

The return of trade tensions in the second quarter and subsequent reaction from the European Central Bank and the US Federal Reserve (“the Fed”) resulted in more difficult conditions, however we booked gains and reduced risk in Public Credit at the end of the first quarter and reduced net exposures in Public Equities allowing us to produce above market returns in the first half. With our continued focus on risk management across both businesses and relatively light net exposures, we are well placed to take advantage of the lower rate and more volatile environment which we expect going forward.

On the private side, our focus remained on portfolio management and monetisation as the portfolio matures. A total distribution of HK\$145.3 million was received and a further HK\$342.2 million is anticipated in the near term. The strong double-digit growth in equity markets in recent years has allowed sponsors to monetise growing valuations and shorten investment cycles. We are well placed to benefit from these trends, while actively looking at new opportunities.

In terms of industry trends, we are seeing increased appetite for add-ons, growth equity and “buy and build” combined with record numbers of funds seeking capital, even with dry powder at record highs. On the primary side, we are spending more time on healthcare, financials and fintech as we see good opportunities to add with direct investments alongside our current partners.

On the operational side, we maintained our focus on human capital, upgrading systems and infrastructure and improving our efficiency and workflow in line with the strategy we outlined in our 2018 results. Over the period, we made progress in executing those goals as we strengthened the sector-focussed analyst team and made significant progress in our operating infrastructure upgrade on the public side.

The second half will see us continue to build out our analytical and investment framework across both public and private businesses with a focus on risk management and control in what we expect to be a volatile environment. Our ultimate aim is to deliver consistent returns to our shareholders through actively managing our exposures in an optimal way as we aim to get the business ready for the possibility of launching funds for external money in the future.

Segment Assets Breakdown and Six-month Return

(HK\$ Million)	1H2019				Return track record ¹	
	Period end value	Average value	Gain	Six-month return	2018	2017
Public Equity	3,380.8	3,457.1	227.8	6.6%	-5.7%	7.8%
Private Equity	5,681.6	5,428.6	424.0	7.8%	10.1%	19.8%
Public Credit ²	605.3	830.3	104.3	12.6%	-0.8%	3.8%
Private Credit	2,402.6	2,483.7	138.1	5.6%	13.5%	13.4%
Real Estate	2,284.6	2,319.1	(17.3)	-0.7%	9.8%	7.5%
Total	14,354.9	14,518.8	876.9	6.0%	5.7%	11.6%

¹ Annual return

² Certain treasury products were reclassified to GMS in 2018 thus the nature of returns are not directly comparable

Public Equity (24% of PI)

The public equity portfolio achieved a 6.6% six-month return during the period.

The portfolio consists of internally managed funds as well as a select group of high-quality external managers that complements our capabilities and partners with our team for ideas exchange.

Breakdown of Public Equity Portfolio

As at 30 June 2019 (HK\$ Million)	Value	Gain	Six month Return [^]
Funds under external managers	1,096.6	70.3	6.6%
Internally managed equity funds	1,486.3	144.9	10.0%
Other corporate positions	131.6	-	-
Cash and others	666.2	12.6	1.5%
Total	3,380.8	227.8	6.6%

[^] Return on average values

Markets rebounded in the first half of 2019 on the back of positive signs on US-China trade talks and the accommodative monetary policy stance in major economies. The Fed's pivot to pause its cycle of interest rate hikes in early 2019 coupled with signs of stimulus measures and some stabilisation in economic data in China and other developed markets supported global equities. However, the broader optimism on the trade issue reversed in May, when the re-escalation of trade tensions between the US and China, a slowdown in global growth and a deceleration in earnings expectations for 2019 dampened investor confidence. This caused a volatile May especially for Hong Kong and Japanese markets, giving back the majority first quarter gains in a matter of weeks.

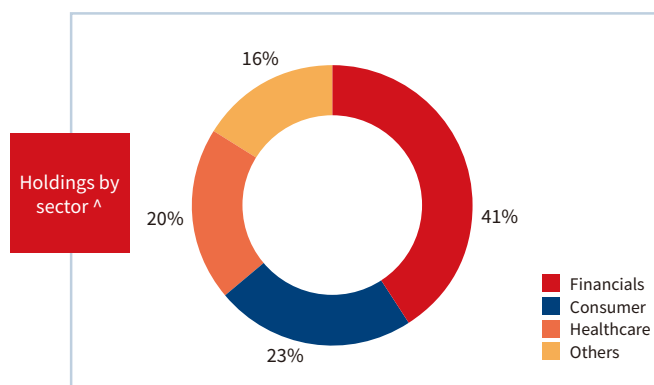
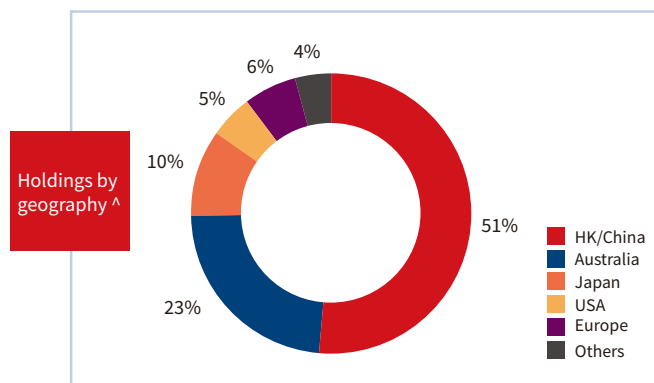
The equity market seems to be having an internal battle between weak earnings growth and higher valuations, with higher valuations, at least for now, winning out. Higher valuations are being achieved due to a broad-based cost of capital readjustment from the reversal of the interest rate cycle. Because of this and our cautiously optimistic view of markets, we have focussed on three types of companies for the construction of the portfolio.

Firstly, companies with good management teams, defensive business models, attractive industry structures and excellent dividend yields. These cash-flow type businesses are the foundation of the portfolio and represent the largest part of the portfolio.

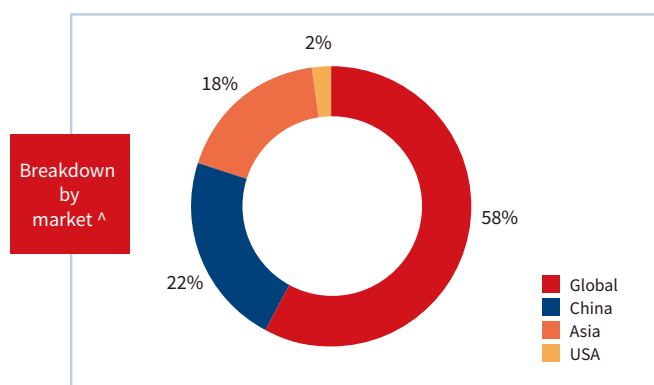
Secondly, we are looking for companies where there is some form of activism occurring. We are looking for situations in companies with strong fundamentals, and asymmetric outcomes with very limited downside if the key agitator is unable to make the change they seek. We prefer activism where the activity is aligned with creating long-term value for the company and looks to positively impact growth, margins, and return on capital and thus, the company's valuation.

Finally, we look for quality growth companies which will likely see their premium bid up by the market in a low-growth environment. This strategy also complements the stable cash flow portion of the portfolio, with the intention of delivering strong returns in a risk-controlled manner. We have achieved this through dominant technology players in China.

Global Fund (Internally managed)



External Funds

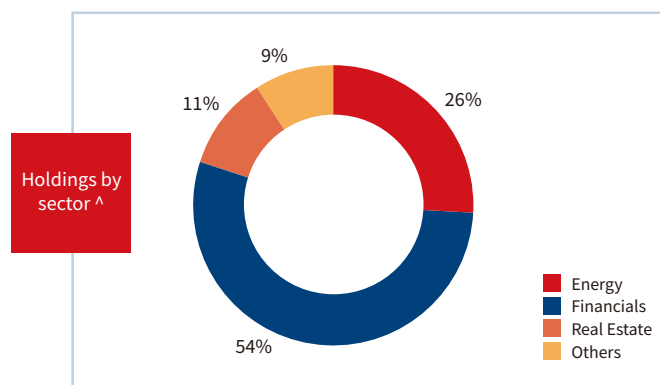
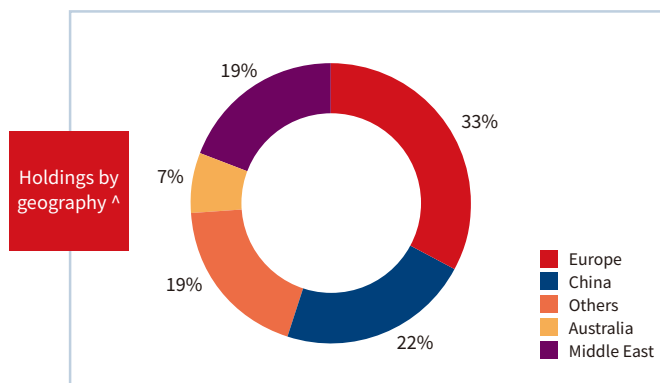


^ Breakdown as at 30 Jun 2019

Public Credit (4% of PI)

The Public Credit portfolio is all internally managed and has achieved a 12.6% return for the period.

Markets rallied significantly in Q1 and we took profits on these positions generating a significant return on capital for the business. The major market sell-off in late 2018 provided an attractive opportunity for global investors and the Fed’s reversed stance has also prompted investors to deploy capital into fixed income assets. The prospects of further rate cuts could continue to support investor’s interest in fixed income markets. Sentiment was also supported by the earnings releases of major corporates that have allayed concerns about rising default rates in a late cycle environment.



^ Breakdown as at 30 Jun 2019

In Asia, the China high yield market was relatively stable in the first half given decent carry yields and supportive technical conditions. In Indonesia, sovereign and quasi-sovereign bonds were well sought after due to lower interest rates and improving fiscal conditions of the country.

In the Middle East, high quality sovereign debt like Qatar and Saudi Arabia were tighter during the period given attractive spread levels and calmer environment. Saudi’s Aramco (world’s largest oil producer) completed its debut USD bond offering which was priced inside Saudi sovereign; the benign sentiment has helped weaker names such as Oman and Bahrain.

In Europe, the portfolio’s performance benefited from our constructive view on European banks’ AT1 issues due to attractive valuations and banks’ improving capital structure. After its strong year-to-date performance, we have become neutral on this space.

We entered 2019 long emerging market quasi sovereign debt and European bank capital as we viewed the dislocation in late 2018 as a buying opportunity. Markets rallied significantly in Q1 and we took profits on these positions generating a significant return on capital for the business. We have turned more selective in our portfolio structure given valuation and macro headlines.

Private Equity (40% of PI)

Through the Private Equity portfolio, we seek to invest the Group’s capital prudently, to maximize risk-adjusted returns and diversify our exposure by industry and geography. The portfolio is invested through a combination of direct or co-investments, and external managers who are selected based on performance, strategic fit, as well as access to markets and sectors. The portfolio benefited from early positioning in growth sectors and companies. Our key direct/co-investments include the Wuxi Pharmaceutical Group of companies, and a number of financial and FinTech names such as Fairstone Inc (consumer finance, Canada), Jefferson Capital Systems, LLC (debt collection, USA) and SoFi (online personal finance, USA). With the Group’s expertise and network in the financial services segment, this will continue to be a core theme of the portfolio.

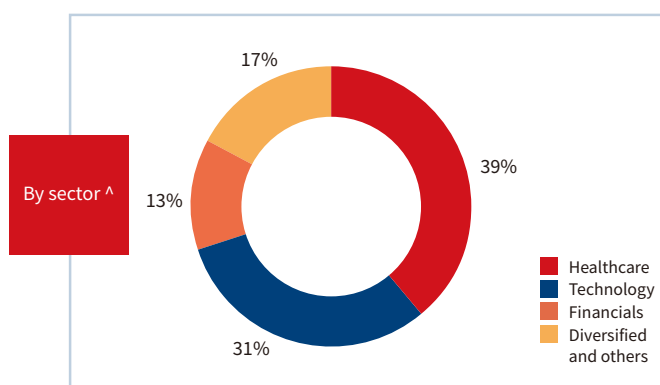
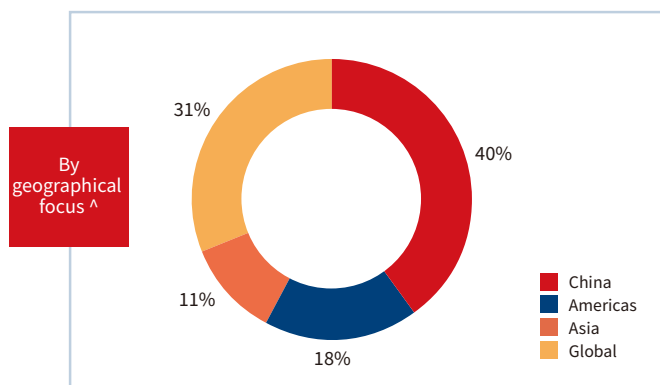
Breakdown of Private Equity Portfolio

As at 30 June 2019 (HK\$ Million)	Value	Gain	Six-month Return [^]
External private equity funds	2,232.9	127.9	5.9%
Direct and co-investments	3,448.8	296.1	9.0%
Total	5,681.6	424.0	7.8%

[^] Return on average value

Distributions already received during the period, together with anticipated amounts from realised positions within co-investment this year and fund entities are expected to generate total liquidity of HK\$487.5 million, or 9% of the portfolio. In terms of new opportunities, we see much synergy in increasing our investments with managers with whom we have built relationships over time, which led to a small number of commitments across growth focused private equity funds. We continue to review and analyse several situations across our core areas of healthcare, TMT and financials/fintech, with a geographical focus on Greater China, Australasia, UK and the US. However, with valuations at elevated levels, global politics as an agenda item for markets and concerns around a crowded capital environment, we expect to remain prudent on allocating capital.

Private Equity Overall Exposure

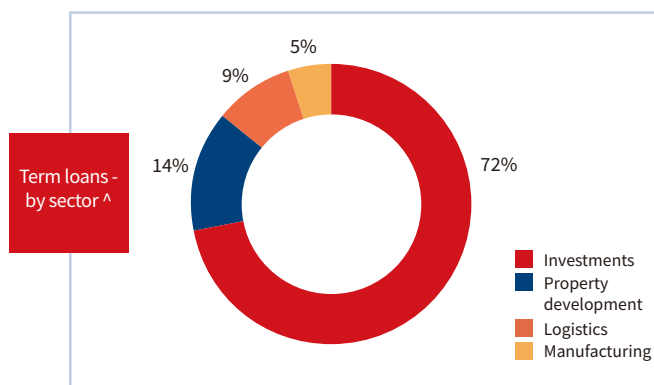


[^] Breakdown as at 30 Jun 2019

Private Credit (17% of PI)

The Private Credit strategy represents the Group’s structured and special finance business, providing tailored funding solutions to corporates, investment funds and high net worth individuals. The balance of term loans was HK\$2,398.9 million as at 30 June 2019 (31 December 2018: HK\$2,485.2 million and 30 June 2018: HK\$3,508.3 million). After taking into account impairment and bad debts expense of HK\$44.7 million (first half 2018: income of HK\$7.9 million), the portfolio achieved a 5.6% six-month return. Almost all the loans were either secured by assets or had other guarantees by corporates or high net worth individuals.

Although the loan portfolio was slightly lower in the first half of 2019 due to repayments, we remain positive about the outlook for private debt and forecast an increase in opportunities as slowing global growth causes banks to scale back lending, leading to more opportunities for non-bank companies such as us. We remain focused on our core markets of Greater China and Australasia where the Group has extensive local networks.



[^] Breakdown as at 30 Jun 2019

Real Estate (16% of PI)

The portfolio amounted to HK\$2,284.6 million. The portfolio includes interests in Hong Kong commercial real estate as well as hotel and commercial investments in Europe. For the period, there was a small loss on the portfolio of HK\$17.3 million, mainly from an accounting adjustment in relation to a co-investment vehicle for a London hotel investment. We continue to look for opportunities in the real estate space in Greater China and Europe.

Real Estate is a core strength of the Group and an area where we see significant opportunity to develop third party platforms going forward. For the remainder of the year, we shall focus on developing and launching our first third party real estate platform with a focus on real estate debt in markets core to the group companies. We see the private debt space in real estate as being attractive as lower valuations and better risk/return structures offer good long-term opportunities.

Mortgage Loans

The Group's Mortgage Loans business is operated under Sun Hung Kai Credit Limited ("Sun Hung Kai Credit"). It contributed a pre-tax profit of HK\$68.5 million during the period, a 40% year on year increase from HK\$48.8 million in the last corresponding period.

Segment Half Year Results

Six months ended (HK\$ Million)	Jun 2019	Jun 2018	Change
Revenue	150.1	107.7	39%
Operating costs	(20.2)	(23.5)	-14%
Cost to income (% revenue)	13.5%	21.8%	
Finance costs	(61.5)	(37.7)	63%
Impairment and bad debts	(0.1)	2.1	N/A
Other gains	0.2	0.2	-
Pre-tax contribution	68.5	48.8	40%

Revenue increased by 39%, driven by the year-on-year increase in the average loan balance. The loan balance was HK\$3,593.5 million as at 30 June 2019 (31 December 2018: HK\$3,854.2 million; 30 June 2018: HK\$3,025.8 million). As the business has now reached a satisfactory scale with a solid market position, more emphasis is placed on driving profitability, capital efficiency and margin of the business. During the period, Sun Hung Kai Credit has slowed down the writing of lower margin loans considering the increased opportunity cost of capital for the Group from higher local interest rates.

During the period, finance costs increased from the year-on-year growth in loans and a higher funding rate. This was offset by better operating leverage with lower cost to income ratio.

The credit quality of the loan book remained satisfactory, with no bad debts during the period. Management is cognizant of the potential volatility in residential property prices in Hong Kong and continues to adopt a prudent underwriting approach. The overall loan-to-valuation ratio of the portfolio was below 65% at the end of the period.

Looking ahead, management will continue to build up the business for further profit growth, including diversification to higher margin loan products as well as investment in infrastructure.

Financial Services

The segment consists of the Group's strategic interests in financial services companies through joint ventures and associated companies. These interests are complementary to our loan and investment strategies. Pre-tax contribution from this segment during the period was HK\$102.4 million (first half 2018: HK\$101.8 million).

The Group maintains a 30% shareholding in Everbright Sun Hung Kai Company Limited ("EBSHK"), a 70%-owned subsidiary of Everbright Securities Company Limited ("Everbright Securities"). EBSHK delivered a solid performance in the first half with a solid increase in turnover and profit despite the Hong Kong market's lower average trading volume. During the period, the business has won a number of prestigious industry awards in Hong Kong and Mainland China. Client assets under management, custody, and/or advice was over HK\$130 billion.

The overall effect of valuation change on the Group's 30% stake in EBSHK was a gain of HK\$51.3 million (first half 2018: HK\$67.4 million). This valuation change resulted from adding the change in fair value of the associated company and the change in value of the put right of the stake in the EBSHK business to Everbright Securities. An impairment loss of HK\$0.3 million on associate was reversed (first half 2018: impairment loss of HK\$82.4 million was reversed). A gain of HK\$51.0 million on the put right was recognised (first half 2018: loss of HK\$15.0 million).

LSS Financial Leasing (Shanghai) Limited (“LSS Leasing”) is a B2B and B2C auto leasing business in Mainland China. The industry environment continued to be unfavourable during the period, with an overall decline in auto sales and production and a rising interest rate environment in China as government continue to deleverage which presented challenges to LSS Leasing. Against this backdrop, LSS Leasing has started to tap into the ride-hailing and goods delivery companies as a provider of comprehensive financial and management services. As such, partnerships were formed with leading platforms such as Lalamove (貨拉拉). Its Qiangsheng Smart-e joint venture is a partnership formed with Shanghai Qiangsheng Taxi in October 2018 to provide services to ride-sharing companies. LSS Leasing has started to work with several first-class online-hailing platforms such as Didi (滴滴), Xiangdao (享道) and Caocao (曹操).

Outlook

We are pleased with the positioning with the Group’s assets, which has delivered a solid performance year to date. The outlook for the rest of 2019 is partly dependent on external factors.

Although the Hong Kong market has remained solid so far, the impact of the recent political and social unrest is unknown and a deterioration in unemployment would affect credit cost and profitability. For the Mainland China market, although uncertainties remain, we have restructured the Consumer Finance business to reduce risk whilst positioning the business for growth.

The Principal Investments business is on track and the objective is to further develop this business to increase its revenue contribution. However, the outlook for the year ahead is subject to mark-to-market volatility.

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

Financial Review

Financial Resources, Liquidity, Capital Structure and Key Performance Indicators

As at (HK\$ Million)	30 Jun 2019	31 Dec 2018	Change
Capital Structure			
Equity attributable to owners of the Company	19,699.7	19,039.2	3%
Total cash	4,989.4	4,995.9	0%
Total borrowings ¹	15,593.3	14,983.1	4%
Net debt ²	10,603.9	9,987.2	6%
Net debt to equity ratio	53.8%	52.4%	
Liquidity			
Interest cover ³	4.7	3.7	
Return Ratios (Annualised)			
Return on assets ⁴	6.2%	4.1%	
Return on equity ⁵	10.6%	6.2%	
Key Performance Indicator			
Book value per share (HK\$)	9.84	9.48	4%

¹ Bank and other borrowings and notes/paper payable

² Total borrowings minus total cash

³ Earnings before interest and tax/interest expense

⁴ Profit including non-controlling interests/average assets

⁵ Profit attributable to owners of the Company/average equity attributable to owners of the Company

The Group’s gearing ratio was 53.8% at the end of the period and has remained steady. Interest cover for the period improved to 4.7x, compared with 3.7x for 2018.

As at 30 June 2019, total borrowings of the Group amounted to HK\$15,593.3 million (31 December 2018: HK\$14,983.1 million). Of this amount, 39% is repayable within one year (31 December 2018: 40%). The Group maintains a balanced mix of funding from various sources. Bank borrowings account for 49.6% of total debt (31 December 2018: 47.9%) and are at floating interest rates, denominated in Hong Kong dollars, US dollars and RMB. There are no known seasonal factors in the Group’s borrowing profile.

As at 30 June 2019, the following notes/papers are outstanding:

Notes/papers	Maturity Date	HK\$ Equivalent (Million)	% Total
4.75% USD notes [^]	5/2021	2,803.3	36%
4.65% USD notes [^]	9/2022	4,352.6	55%
HKD papers/notes	various	710.8	9%
Total		7,866.7	100%

[^] Listed on The Stock Exchange of Hong Kong Limited

The Group maintained foreign currency positions to cater for its present and potential investments 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.

Material Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures

On 27 June 2019, UAF completed the repurchase of ordinary shares for the consideration of JPY10 billion as mentioned in the segment discussion above and the Company's announcements dated 20 and 27 June 2019.

Charges on Group Assets

Properties of the Group with a total book value of HK\$1,131.0 million and cash of HK\$33.1 million were pledged by subsidiaries to banks for facilities granted to them. HK\$573.2 million was drawn down as at 30 June 2019.

Contingent Liabilities

Details regarding the contingent liabilities are set out in note 27 to the condensed consolidated financial statements.

Human Resources and Training

As at 30 June 2019, the Group's total staff numbered 2,333 (31 December 2018: 2,719). Out of this, 52 staff (31 December 2018: 50) are from the Principal Investments and corporate staff and the remainder within the main subsidiaries UAF and Sun Hung Kai Credit. The net decrease in staff numbers is a result of the branch consolidation in the consumer finance business in Mainland China, as the business migrated further online.

Staff costs (including Directors' emoluments), contributions to retirement benefit schemes and expenses recognized for the SHK Employee Ownership Scheme ("EOS") amounted to approximately HK\$415.8 million (first half of 2018: HK\$457.4 million).

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

Under the EOS, selected employees or directors of the Group (the "Selected Grantees") were awarded shares of the Company. Following management's recommendation, a total of 1,788,000 shares were granted to the Selected Grantees during the period subject to various terms. In addition, 515,000 shares with a total amount of HK\$1.9 million were vested for key management personnel. As at 30 June 2019, the outstanding award shares under the EOS (excluding shares awarded but subsequently forfeited) amounted to 4,187,000, out of which 983,000 shares were awarded to a Director.

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 comprehensive training and development programs in areas such as compliance, regulatory issues, management skills, practical job skills and personal development.

Directors' Interests

As at 30 June 2019, the interests of the Directors and the chief executive 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 (the "Shares"), the underlying Shares and debentures

Name of Directors	Capacity	Number of Shares, underlying Shares and unit of debentures	Approximate % of the total number of issued Shares
Lee Seng Huang	Interests of controlled corporation (Note 1)	1,235,791,575 (Note 2)	61.70%
Simon Chow Wing Charn	Beneficial owner	1,048,000	0.05%
	Beneficiary of trust	983,000 (Note 3(a))	0.05%
	Beneficial owner	2 (Note 3(b))	N/A
Peter Anthony Curry	Beneficial owner	1,241,141	0.06%
	Beneficial owner	1 (Note 4)	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 74.95% of the total number of issued shares of Allied Group Limited ("AGL") (inclusive of Mr. Lee Seng Hui's personal interests) and was therefore deemed to have interests in the Shares in which AGL was interested.
- This referred to the deemed interests in 1,235,791,575 Shares held by Allied Properties (H.K.) Limited ("APL").
- These include the deemed interests in:
 - 165,000 unvested Shares out of the total of 495,000 Shares granted to Mr. Simon Chow Wing Charn ("Mr. Chow") on 13 April 2017 under the SHK Employee Ownership Scheme ("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) were vested and became unrestricted from 13 April 2018; another one-third thereof were vested and became unrestricted from 13 April 2019; and the remaining one-third thereof shall be vested and become unrestricted from 13 April 2020;
 - 332,000 unvested Shares out of the total of 498,000 Shares granted to Mr. Chow on 20 April 2018 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 166,000 Shares) were vested and became unrestricted from 20 April 2019; another one-third thereof shall be vested and become unrestricted from 20 April 2020; and the remaining one-third thereof shall be vested and become unrestricted from 20 April 2021; and
 - 486,000 unvested Shares granted to Mr. Chow on 16 April 2019 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby by one-third thereof (i.e. 162,000 Shares) shall be vested and become unrestricted from 18 April 2020; another one-third thereof shall be vested and become unrestricted from 18 April 2021; and the remaining one-third thereof shall be vested and become unrestricted from 18 April 2022.
 - This represented the interests held by Mr. Chow in the 4.65% Guaranteed Notes due September 2022 issued by Sun Hung Kai & Co. (BVI) Limited ("SHK BVI", a wholly-owned subsidiary of the Company) in the amount of US\$400,000.
- This represented the interests held by Mr. Peter Anthony Curry in the 4.75% Guaranteed Notes due May 2021 issued by SHK BVI 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 relevant shares
Lee Seng Huang	AGL	Trustee (Note 2)	131,706,380	74.93%
(Note 1)	APL	Interests of controlled corporation (Note 3)	5,108,911,521 (Note 4)	74.99%
	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 Stock Exchange of Hong Kong Limited ("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 Stock Exchange on 24 July 2019.
- 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 referred to the same interests held directly or indirectly by AGL in APL.
- This referred to the interests in 5,108,911,521 shares of APL which were held 968,354,880 directly and 4,140,556,641 indirectly by AGL.
- This referred to the same interests held indirectly by AGL in SHK HK Ind.
- This referred to the interests in 3,082,889,606 shares of SHK HK Ind.

All interests stated above represent long positions. As at 30 June 2019, 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 2019, 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Interests of Substantial Shareholders and Other Persons

As at 30 June 2019, the following shareholders had interests in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO (the “SFO Register”):

Name of Shareholders	Capacity	Number of Shares and underlying Shares	Approximate % of the total number of issued Shares
APL	Interests of controlled corporation <i>(Note 1)</i>	1,235,791,575 <i>(Note 2)</i>	61.70%
AGL	Interests of controlled corporation <i>(Note 3)</i>	1,235,791,575 <i>(Note 4)</i>	61.70%
Lee and Lee Trust	Interests of controlled corporation <i>(Note 5)</i>	1,235,791,575 <i>(Note 4)</i>	61.70%
Dubai Ventures LLC (“Dubai Ventures”)	Beneficial owner	166,000,000 <i>(Note 6)</i>	8.27%
Dubai Ventures Group LLC (“DVG”)	Interests of controlled corporation <i>(Note 7)</i>	166,000,000 <i>(Note 8)</i>	8.27%
Dubai Group LLC (“Dubai Group”)	Interests of controlled corporation <i>(Note 9)</i>	166,000,000 <i>(Note 8)</i>	8.27%
Dubai Holding Investments Group LLC (“DHIG”)	Interests of controlled corporation <i>(Note 10)</i>	166,000,000 <i>(Note 8)</i>	8.27%
Dubai Holding LLC (“Dubai Holding”)	Interests of controlled corporation <i>(Note 11)</i>	166,000,000 <i>(Note 8)</i>	8.27%
Dubai Group Limited (“DGL”)	Interests of controlled corporation <i>(Note 12)</i>	166,000,000 <i>(Note 8)</i>	8.27%
HSBC Trustee (C.I.) Limited (“HSBC Trustee”)	Trustee <i>(Note 13)</i>	166,000,000 <i>(Note 8)</i>	8.27%
HH Mohammed Bin Rashid Al Maktoum	Interests of controlled corporation <i>(Note 14)</i>	166,000,000 <i>(Note 8)</i>	8.27%
Asia Financial Services Company Limited (“AFSC”)	Beneficial owner	196,600,000 <i>(Note 15)</i>	9.79%
Asia Financial Services Holdings Limited (“AFSH”)	Interests of controlled corporation <i>(Note 16)</i>	196,600,000 <i>(Note 17)</i>	9.79%
Asia Financial Services Group Limited (“AFSG”)	Interests of controlled corporation <i>(Note 18)</i>	196,600,000 <i>(Note 17)</i>	9.79%
Asia Financial Services Group Holdings Limited (“AFSGH”)	Interests of controlled corporation <i>(Note 19)</i>	196,600,000 <i>(Note 17)</i>	9.79%
CVC Capital Partners Asia Pacific III L.P. (“CVC LP”)	Interests of controlled corporation <i>(Note 20)</i>	196,600,000 <i>(Note 17)</i>	9.79%

Interests of Substantial Shareholders and Other Persons

Name of Shareholders	Capacity	Number of Shares and underlying Shares	Approximate % of the total number of issued Shares
CVC Capital Partners Asia III Limited (“CVC Capital III”)	Interests of controlled corporation <i>(Note 21)</i>	196,600,000 <i>(Note 17)</i>	9.79%
CVC Capital Partners Finance Limited (“CVC Capital Partners Finance”)	Interests of controlled corporation <i>(Note 22)</i>	196,600,000 <i>(Note 17)</i>	9.79%
CVC Group Holdings L.P. (“CVC Group Holdings”)	Interests of controlled corporation <i>(Note 23)</i>	196,600,000 <i>(Note 17)</i>	9.79%
CVC Portfolio Holdings Limited (“CVC Portfolio”)	Interests of controlled corporation <i>(Note 24)</i>	196,600,000 <i>(Note 17)</i>	9.79%
CVC Management Holdings Limited (“CVC Management”)	Interests of controlled corporation <i>(Note 25)</i>	196,600,000 <i>(Note 17)</i>	9.79%
CVC MMXII Limited (“CVC MMXII”)	Interests of controlled corporation <i>(Note 26)</i>	196,600,000 <i>(Note 17)</i>	9.79%
CVC Capital Partners 2013 PCC (acting in respect of its protected cell, CVC Capital Partners Cell H PC) (“CVC Capital Partners 2013”)	Interests of controlled corporation <i>(Note 27)</i>	196,600,000 <i>(Note 17)</i>	9.79%
CVC Capital Partners SICAV-FIS S.A. (“CVC Capital Partners SA”)	Interests of controlled corporation <i>(Note 28)</i>	196,600,000 <i>(Note 17)</i>	9.79%
Everbright Sun Hung Kai Structured Solutions Limited (“EBSHK Structured Solutions”)	Entity having a security interest in Shares <i>(Note 29)</i>	196,600,000 <i>(Note 30)</i>	9.79%
Sun Hung Kai Financial Group Limited (“SHKFG”)	Interests of controlled corporation <i>(Note 31)</i>	196,600,000 <i>(Note 32)</i>	9.79%
Everbright Securities Financial Holdings Limited (“ESFH”)	Interests of controlled corporation <i>(Note 33)</i>	196,600,000 <i>(Note 32)</i>	9.79%
Everbright Securities Company Limited (“ESCL”)	Interests of controlled corporation <i>(Note 34)</i>	196,600,000 <i>(Note 32)</i>	9.79%

Interests of Substantial Shareholders and Other Persons

Notes:

1. The interests were held by AP Emerald Limited (“AP Emerald”), a wholly-owned subsidiary of AP Jade Limited which in turn was a wholly-owned subsidiary of APL. APL was therefore deemed to have interests in the Shares in which AP Emerald was interested.
2. This represented an interest in 1,235,791,575 Shares held by APL through AP Emerald.
3. AGL owned approximately 74.99% of the total number of shares of APL and was therefore deemed to have an interest in the Shares in which APL was interested.
4. This referred to the same deemed interests in 1,235,791,575 Shares held by APL.
5. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang (a Director) are the trustees of Lee and Lee Trust, being a discretionary trust. The Lee and Lee Trust controlled approximately 74.95% of the total number of issued shares of AGL (inclusive of Mr. Lee Seng Hui’s personal interests) and was therefore deemed to have an interest in the Shares in which AGL was interested.
6. This represented an interest in 166,000,000 Shares.
7. DVG owned 99% interest in Dubai Ventures and was therefore deemed to have an interest in the Shares in which Dubai Ventures was interested.
8. This referred to the same interests in 166,000,000 Shares held by Dubai Ventures.
9. Dubai Group owned 99% interest in DVG and was therefore deemed to have an interest in the Shares in which DVG was interested.
10. DHIG owned 51% interest in Dubai Group and was therefore deemed to have an interest in the Shares in which Dubai Group was interested.
11. Dubai Holding owned 99.66% interest in DHIG and was therefore deemed to have an interest in the Shares in which DHIG was interested.
12. DGL, owned 49% interest in Dubai Group and was therefore deemed to have an interest in the Shares in which Dubai Group was interested.
13. HSBC Trustee owned 100% interest in DGL and was therefore deemed to have an interest in the Shares in which DGL was interested.
14. HH Mohammed Bin Rashid Al Maktoum owned 97.40% interest in Dubai Holding and was therefore deemed to have an interest in the Shares in which Dubai Holding was interested.
15. This represented an interest in 196,600,000 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 referred to the same interests in 196,600,000 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 Finance held 100% interest in CVC Capital Partners Advisory Company Limited (“CVC Advisory”) previously and was therefore deemed to have an interest in the Shares in which CVC Advisory was interested. After the period ended 30 June 2019, CVC Advisory ceased to have an interest in the Shares. CVC Capital Partners Finance then 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 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.
24. CVC Portfolio (i) held approximately 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.
25. 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.
26. CVC MMXII held 100% interest in CVC Portfolio and was therefore deemed to have an interest in the Shares in which CVC Portfolio was interested.
27. CVC Capital Partners 2013 held 100% interest in CVC MMXII and was therefore deemed to have an interest in the Shares in which CVC MMXII was interested.
28. CVC Capital Partners SA held 100% interest in CVC Capital Partners 2013 and was therefore deemed to have an interest in the Shares in which CVC Capital Partners 2013 was interested.
29. This represented 196,600,000 Shares held by AFSC which were pledged in favour of EBSHK Structured Solutions for a term loan facility.
30. This represented an interest in 196,600,000 Shares.
31. SHKFG, through its wholly-owned subsidiary Everbright Sun Hung Kai Company Limited, owned 100% interest in EBSHK Structured Solutions and was therefore deemed to have an interest in the Shares in which EBSHK Structured Solutions was interested.
32. This referred to the same interest in 196,600,000 Shares held by EBSHK Structured Solutions.
33. ESFH owned 70% interest in SHKFG and was therefore deemed to have an interest in the Shares in which SHKFG was interested.
34. ESCL owned 100% interest in ESFH and was therefore deemed to have an interest in the Shares in which ESFH was interested.

All interests stated above represented long positions. As at 30 June 2019, no short positions were recorded in the SFO Register of the Company.

Save as disclosed above, as at 30 June 2019, the Directors were not aware of any other persons who have interests or short positions in the Shares or underlying Shares which would require to be disclosed to the Company pursuant to Part XV of the SFO.

Corporate Governance

Corporate Governance Code

During the six months ended 30 June 2019, 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 to 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 with support from the management team of the division as well as its interest in UAF whose day-to-day management lies with its designated Managing Director. Mr. Simon Chow assists the Group Executive Chairman in driving the performance of Mortgage Loans and the other operating businesses of the Group as well as exploring new areas of growth.

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

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

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

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

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

The reasons for the above deviations were set out in the Corporate Governance Report contained in the Company’s annual report for the financial year ended 31 December 2018. 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.

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.

Other Information

Interim Dividend

The Board has declared an interim dividend of HK12 cents per Share for the six months ended 30 June 2019 (2018: HK12 cents per Share) payable to the shareholders whose names appear on the register of members of the Company on 4 September 2019. Dividend warrants for the interim dividend are expected to be dispatched on 12 September 2019.

Closure of Register of Members

The register of members of the Company will be closed from 2 September 2019 to 4 September 2019, during which period no transfer of shares will be registered. The ex-dividend date will be 29 August 2019. 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 30 August 2019.

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 2018 Annual Report.

Purchase, Sale or Redemption of Securities

During the six months ended 30 June 2019, the Company repurchased a total of 5,416,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK\$20,057,460. All the repurchased Shares were subsequently cancelled.

Particulars of the repurchases are as follows:

Month	Number of Shares repurchased	Purchase price		Aggregate consideration (before expenses) (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
March	2,100,000	3.85	3.81	8,045,480
May	1,028,000	3.70	3.67	3,798,760
June	2,288,000	3.65	3.50	8,213,220
Total	5,416,000			20,057,460

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 2019.

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 2019. 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, 14 August 2019

Independent Review Report

Deloitte.

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

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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 22 to 43, which comprise the condensed consolidated statement of financial position as of 30 June 2019 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, 14 August 2019

Condensed Consolidated Statement of Profit or Loss

(HK\$ Million)	Notes	Six months ended	
		30/6/2019 Unaudited	30/6/2018 Unaudited
Interest income		2,020.8	2,022.2
Other revenue	5	50.8	36.5
Other gains	6	21.2	207.2
Total income		2,092.8	2,265.9
Brokerage and commission expenses		(22.5)	(25.3)
Advertising and promotion expenses		(70.5)	(67.9)
Direct cost and operating expenses		(40.0)	(41.5)
Administrative expenses		(596.0)	(651.5)
Net gain on financial assets and liabilities at fair value through profit or loss		790.1	635.4
Net exchange gain (loss)		32.2	(26.7)
Net impairment losses on financial instruments	7	(459.9)	(442.4)
Finance costs		(374.9)	(294.5)
Other losses		(0.6)	(0.8)
		1,350.7	1,350.7
Share of results of associates		50.3	31.4
Share of results of joint ventures		-	3.1
Profit before taxation	8	1,401.0	1,385.2
Taxation	9	(140.6)	(112.6)
Profit for the period		1,260.4	1,272.6
Profit attributable to:			
— Owners of the Company		1,028.9	1,058.0
— Non-controlling interests		231.5	214.6
		1,260.4	1,272.6
Earnings per share	11		
— Basic (HK cents)		51.5	49.2
— Diluted (HK cents)		51.3	49.2

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

(HK\$ Million)	Six months ended	
	30/6/2019 Unaudited	30/6/2018 Unaudited
Profit for the period	1,260.4	1,272.6
Other comprehensive income (expenses):		
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translating foreign operations	4.6	(113.9)
Share of other comprehensive expenses of associates	(0.1)	(0.8)
Share of other comprehensive expenses of joint ventures	-	(3.2)
	4.5	(117.9)
Items that will not be reclassified to profit or loss		
Fair value gain (loss) on investments in equity instruments at fair value through other comprehensive income	37.3	(37.7)
Other comprehensive income (expenses) for the period	41.8	(155.6)
Total comprehensive income for the period	1,302.2	1,117.0
Total comprehensive income attributable to:		
— Owners of the Company	1,066.9	956.9
— Non-controlling interests	235.3	160.1
	1,302.2	1,117.0

Condensed Consolidated Statement of Financial Position

(HK\$ Million)	Notes	30/6/2019 Unaudited	31/12/2018 Audited	(HK\$ Million)	Notes	30/6/2019 Unaudited	31/12/2018 Audited
Non-current Assets				Current Liabilities			
Investment properties		1,361.4	1,360.9	Financial liabilities at fair value			
Leasehold interests in land		-	4.0	through profit or loss	13	384.9	425.3
Property and equipment		397.9	412.1	Bank and other borrowings	19	5,236.6	5,221.3
Right-of-use assets	12	149.3	-	Trade payables, other payables and			
Intangible assets		889.3	890.2	accruals	20	245.1	236.9
Goodwill		2,384.0	2,384.0	Financial assets sold under			
Interest in associates		1,332.4	1,380.4	repurchase agreements	21	426.3	1,216.5
Interest in joint ventures		240.3	240.2	Amounts due to fellow subsidiaries			
Financial assets at fair value through				and holding company		517.0	519.0
other comprehensive income	13	185.2	174.4	Amounts due to associates		1.9	1.9
Financial assets at fair value through				Provisions		124.2	103.5
profit or loss	13	6,810.8	6,360.9	Taxation payable		220.0	175.7
Deferred tax assets		767.5	729.9	Lease liabilities	22	81.4	-
Amounts due from associates		265.1	266.7	Notes/paper payable	24	834.8	752.7
Loans and advances to consumer						8,072.2	8,652.8
finance customers	14	2,750.7	2,618.9			13,022.7	13,195.9
Mortgage loans	15	1,745.1	1,956.8	Net Current Assets			
Term loans	16	166.2	33.1	Total Assets less Current Liabilities		32,494.3	32,031.3
Trade receivables, prepayments and				Capital and Reserves			
other receivables	17	26.4	22.9	Share capital	23	8,752.3	8,752.3
		19,471.6	18,835.4	Reserves		10,947.4	10,286.9
				Equity attributable to owners of			
Current Assets				the Company		19,699.7	19,039.2
Financial assets at fair value through				Non-controlling interests		3,039.8	3,805.9
profit or loss	13	3,600.6	4,378.6	Total Equity		22,739.5	22,845.1
Taxation recoverable		3.7	5.0	Non-current Liabilities			
Amounts due from associates		131.6	97.1	Deferred tax liabilities		175.5	176.9
Loans and advances to consumer				Bank and other borrowings	19	2,490.0	1,961.8
finance customers	14	7,317.4	7,150.8	Provisions		0.3	0.2
Mortgage loans	15	1,848.4	1,897.4	Lease liabilities	22	57.1	-
Term loans	16	2,232.7	2,452.1	Notes/paper payable	24	7,031.9	7,047.3
Trade receivables, prepayments and						9,754.8	9,186.2
other receivables	17	307.0	364.8			32,494.3	32,031.3
Amounts due from brokers		664.1	507.0				
Short-term pledged bank deposits and							
bank balances	18	33.1	20.0				
Bank deposits	18	271.3	353.5				
Cash and cash equivalents	18	4,685.0	4,622.4				
		21,094.9	21,848.7				

Condensed Consolidated Statement of Changes in Equity

(HK\$ Million)	Attributable to owners of the Company									
	Share capital	Shares held for Employee Ownership Scheme	Employee share-based compensation reserve	Exchange reserve	Revaluation reserve	Capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
At 31 December 2018	8,752.3	(29.7)	10.5	(287.6)	195.9	77.5	10,320.3	19,039.2	3,805.9	22,845.1
Profit for the period	-	-	-	-	-	-	1,028.9	1,028.9	231.5	1,260.4
Other comprehensive income for the period	-	-	-	1.8	36.2	-	-	38.0	3.8	41.8
Total comprehensive income for the period	-	-	-	1.8	36.2	-	1,028.9	1,066.9	235.3	1,302.2
Purchase of shares held for SHK Employee Ownership Scheme	-	(4.7)	-	-	-	-	-	(4.7)	-	(4.7)
Transfer (to) from retained earnings	-	-	-	-	(19.1)	-	19.1	-	-	-
Recognition of equity-settled share-based payments	-	-	5.1	-	-	-	-	5.1	-	5.1
Capital redemption of non-controlling interests	-	-	-	-	-	-	(106.0)	(106.0)	(625.5)	(731.5)
Vesting of shares of the SHK Employee Ownership Scheme	-	7.6	(7.6)	-	-	-	-	-	-	-
Shares repurchased and cancelled	-	-	-	-	-	-	(20.1)	(20.1)	-	(20.1)
Interim dividend paid	-	-	-	-	-	-	(280.7)	(280.7)	-	(280.7)
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	(375.9)	(375.9)
At 30 June 2019	8,752.3	(26.8)	8.0	(285.8)	213.0	77.5	10,961.5	19,699.7	3,039.8	22,739.5

(HK\$ Million)	Attributable to owners of the Company									
	Share capital	Shares held for Employee Ownership Scheme	Employee share-based compensation reserve	Exchange reserve	Revaluation reserve	Capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
At 31 December 2017	8,752.3	(7.6)	4.9	(89.8)	546.1	75.1	10,145.7	19,426.7	3,971.8	23,398.5
Impact on initial application of HKFRS 9	-	-	-	-	(240.9)	-	204.1	(36.8)	(34.6)	(71.4)
At 1 January 2018	8,752.3	(7.6)	4.9	(89.8)	305.2	75.1	10,349.8	19,389.9	3,937.2	23,327.1
Profit for the period	-	-	-	-	-	-	1,058.0	1,058.0	214.6	1,272.6
Other comprehensive income for the period	-	-	-	(61.7)	(39.4)	-	-	(101.1)	(54.5)	(155.6)
Total comprehensive income for the period	-	-	-	(61.7)	(39.4)	-	1,058.0	956.9	160.1	1,117.0
Purchase of shares held for SHK Employee Ownership Scheme	-	(15.1)	-	-	-	-	-	(15.1)	-	(15.1)
Recognition of equity-settled share-based payments	-	-	6.0	-	-	-	-	6.0	-	6.0
Vesting of shares of the SHK Employee Ownership Scheme	-	4.5	(4.5)	-	-	-	-	-	-	-
Interim dividend paid	-	-	-	-	-	-	(301.4)	(301.4)	-	(301.4)
At 30 June 2018	8,752.3	(18.2)	6.4	(151.5)	265.8	75.1	11,106.4	20,036.3	4,097.3	24,133.6

Condensed Consolidated Statement of Cash Flows

(HK\$ Million)	Six months ended		(HK\$ Million)	Six months ended	
	30/6/2019 Unaudited	30/6/2018 Unaudited		30/6/2019 Unaudited	30/6/2018 Unaudited
Operating activities			Financing activities		
Cash used in operations			Net short-term bank and other borrowings (repaid)/raised	(12,332.6)	1,236.1
– Change in financial assets sold under repurchase agreements	(790.2)	72.8	New long-term bank and other borrowings raised	12,855.6	11.6
– Increase in loans and advances to consumer finance customers	(766.2)	(437.3)	Proceeds from issue of notes/paper	1,008.5	245.1
– Decrease (increase) in mortgage loans	250.3	(896.4)	Repayment of notes/paper	(636.1)	(576.4)
– Decrease (increase) in term loans	86.3	(162.9)	Purchase of shares for the SHK Employee Ownership Scheme	(4.7)	(15.1)
– Other operating cash flows	439.8	62.6	Lease payments	(37.6)	–
	(780.0)	(1,361.2)	Shares repurchased and cancelled	(20.1)	–
Dividends received from financial assets at fair value through profit or loss	8.8	4.7	Capital redemption of non-controlling interests	(730.4)	–
Interest received	1,998.4	1,988.4	Dividends paid	(280.7)	(301.4)
Interest paid	(626.4)	(266.3)	Dividends to non-controlling interests	(375.9)	–
Taxation paid	(134.4)	(107.4)	Net cash (used in) from financing activities	(554.0)	599.9
Net cash from operating activities	466.4	258.2	Net increase in cash and cash equivalents	59.7	419.2
Investing activities			Cash and cash equivalents at 1 January	4,622.4	2,123.7
Purchase of property and equipment	(6.4)	(13.7)	Effect of foreign exchange rate changes	2.9	(31.3)
Proceeds from disposal of equipment	0.3	0.2	Cash and cash equivalents at 30 June	4,685.0	2,511.6
Payment of deposits for right-of-use assets	(7.1)	–			
Prepaid rental for right-of-use assets	(5.4)	–			
Dividends received from associates	98.5	76.6			
Capital injection to a joint venture	–	(74.7)			
Proceeds from disposal of financial assets at fair value through other comprehensive income	1.6	–			
Proceeds from disposal of a joint venture	–	37.5			
Purchase of long-term financial assets at fair value through profit or loss	(177.4)	(781.2)			
Proceeds from disposal of long-term financial assets as at fair value through profit or loss	172.0	138.5			
Fixed deposits with banks withdrawn	71.2	177.9			
Net cash from (used in) investing activities	147.3	(438.9)			

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 2018 included in these unaudited condensed consolidated financial statements as comparative information 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 2018 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 2018. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; 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.

Except as described in note 3, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements.

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.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's unaudited condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. Summary of Significant Accounting Policies *(Continued)*

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 *(Continued)*

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of its office properties, outlets and signboards that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use) and are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

3. Summary of Significant Accounting Policies *(Continued)*

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 *(Continued)*

As a lessee (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected to apply a practical expedient as set out in HKFRS 16 to contracts that were previously identified as leases according to HKAS 17 or HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease. As a result, the Group will not apply these standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

3. Summary of Significant Accounting Policies *(Continued)*

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 *(Continued)*

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. The Group has measured (i) the lease liability at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application and; (ii) the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;
- elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.6%.

(HK\$ Million)	At 1 January 2019
Operating lease commitments disclosed as at 31 December 2018	182.8
Less:	
Recognition exemption – short-term leases	(42.2)
Discounting effects using relevant incremental borrowing rates	(5.5)
Lease liabilities as at 1 January 2019	135.1
Analysed as	
– Current	72.1
– Non-current	63.0
	135.1

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

(HK\$ Million)	Notes	Right-of-use assets
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		135.1
Reclassified from leasehold interests in land	(a)	4.1
Reclassified from rental prepayments	(b)	7.7
Amounts included in property, plant and equipment under HKAS 17		
– Restoration and reinstatement costs	(c)	1.4
		148.3
By class:		
– Leasehold lands		4.1
– Land and buildings		144.2
		148.3

Notes:

- Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$0.1 million and HK\$4.0 million respectively were reclassified to right-of-use assets.
- Rental prepayments previously included in prepayment, deposits and other receivables amounting to HK\$7.7 million were reclassified to right-of-use assets as at 1 January 2019.
- In relation to the leases of office properties that the Group acts as lessee, the carrying amount of the estimated costs of reinstating the rented premises previously included in property, plant and equipment amounting to HK\$1.4 million as at 1 January 2019 were included as right-of-use assets.

4. Segment Information

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

(HK\$ Million)	Six months ended 30 June 2019					
	Financial Services	Consumer Finance	Mortgage Loans	Principal Investments	Group Management and Support	Total
Segment revenue	2.1	1,694.8	150.1	199.1	148.4	2,194.5
Less: inter-segment revenue	-	-	-	-	(122.9)	(122.9)
Segment revenue from external customers	2.1	1,694.8	150.1	199.1	25.5	2,071.6
Segment profit or loss	52.1	652.2	68.5	580.4	(2.5)	1,350.7
Share of results of associates	50.3	-	-	-	-	50.3
Profit (loss) before taxation	102.4	652.2	68.5	580.4	(2.5)	1,401.0
Included in segment profit or loss:						
Interest income	-	1,681.6	150.0	163.3	25.9	2,020.8
Other gains (losses)	0.1	15.4	0.2	9.0	(3.5)	21.2
Net gain (loss) on financial assets and liabilities at fair value through profit or loss	52.0	(0.1)	-	738.2	-	790.1
Net exchange gain	-	-	-	19.4	12.8	32.2
Net impairment losses on financial instruments	-	(373.1)	(0.1)	(86.7)	-	(459.9)
Finance costs	-	(146.2)	(61.5)	(58.4)	(228.7)	(494.8)
Less: inter-segment finance costs	-	-	61.5	58.4	-	119.9
Finance costs to external suppliers	-	(146.2)	-	-	(228.7)	(374.9)
Cost of capital allocation (Note)	-	-	-	(166.2)	166.2	-

(HK\$ Million)	Six months ended 30 June 2018					
	Financial Services	Consumer Finance	Mortgage Loans	Principal Investments	Group Management and Support	Total
Segment revenue	2.3	1,737.7	107.7	207.3	112.5	2,167.5
Less: inter-segment revenue	-	-	-	-	(108.8)	(108.8)
Segment revenue from external customers	2.3	1,737.7	107.7	207.3	3.7	2,058.7
Segment profit or loss	67.3	609.2	48.8	680.4	(55.0)	1,350.7
Share of results of associates	31.4	-	-	-	-	31.4
Share of results of joint ventures	3.1	-	-	-	-	3.1
Profit (loss) before taxation	101.8	609.2	48.8	680.4	(55.0)	1,385.2
Included in segment profit or loss:						
Interest income	-	1,720.8	107.6	189.1	4.7	2,022.2
Other gains	82.4	12.6	0.2	112.0	-	207.2
Net (loss) gain on financial assets and liabilities at fair value through profit or loss	(17.1)	-	-	652.5	-	635.4
Net exchange (loss) gain	-	(21.6)	-	16.5	(21.6)	(26.7)
Net impairment (losses) gains on financial instruments	-	(452.4)	2.1	7.9	-	(442.4)
Finance costs	-	(96.8)	(37.7)	(67.8)	(197.7)	(400.0)
Less: inter-segment finance costs	-	-	37.7	67.8	-	105.5
Finance costs to external suppliers	-	(96.8)	-	-	(197.7)	(294.5)
Cost of capital allocation (Note)	-	-	-	(161.6)	161.6	-

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

4. Segment Information (Continued)

The geographical information of revenue is disclosed as follows:

(HK\$ Million)	Six months ended	
	30/6/2019	30/6/2018
Revenue from external customers by location of operations		
– Hong Kong	1,638.8	1,421.1
– Mainland China	432.8	637.6
	2,071.6	2,058.7

5. Other Revenue

(HK\$ Million)	Six months ended	
	30/6/2019	30/6/2018
Service and commission income	27.5	20.9
Dividends from listed investments	8.7	2.4
Dividends from unlisted investments	2.2	2.3
Gross rental income from investment properties	12.4	10.9
	50.8	36.5

6. Other Gains

(HK\$ Million)	Six months ended	
	30/6/2019	30/6/2018
Increase in fair value of investment properties	5.8	112.0
Miscellaneous income	15.1	12.8
Reversal of impairment in an associate*	0.3	82.4
	21.2	207.2

* 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 16.4%. 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\$51.0 million (six months ended 30 June 2018: loss HK\$15.0 million) classified under net gain on financial assets and liabilities at fair value through profit or loss.

7. Net Impairment Losses on Financial Instruments

(HK\$ Million)	Six months ended	
	30/6/2019	30/6/2018
Loans and advances to consumer finance customers		
– Net impairment losses	(470.6)	(545.3)
– Recoveries of amounts previously written off	97.3	96.7
	(373.3)	(448.6)
Mortgage loans		
– Net impairment (losses) gains	(0.1)	1.4
– Recoveries of amounts previously written off	–	0.7
	(0.1)	2.1
Term loans		
– Net impairment (losses) gains	(44.7)	7.9
Trade receivables, prepayments and other receivables		
– Net impairment losses	(42.0)	(4.6)
– Recoveries of amounts previously written off	0.2	0.8
	(41.8)	(3.8)
	(459.9)	(442.4)

8. Profit Before Taxation

(HK\$ Million)	Six months ended	
	30/6/2019	30/6/2018
Profit before taxation has been arrived at after charging:		
Amortisation of leasehold interests in land	–	(0.1)
Depreciation of property and equipment	(24.7)	(27.1)
Depreciation of right-of-use assets	(38.1)	–
Amortisation of intangible assets		
– Computer software (included in administrative expenses)	(1.0)	(1.0)
Interest expenses	(368.0)	(291.9)
Interest expenses of lease liabilities	(2.7)	–
Loss on disposal of a joint venture	–	(0.4)
Share of taxation of associates and joint ventures (included in share of results of associates and joint ventures)	(5.4)	(4.7)

9. Taxation

(HK\$ Million)	Six months ended	
	30/6/2019	30/6/2018
Current tax		
– Hong Kong	125.8	91.8
– PRC	53.4	73.6
	179.2	165.4
Deferred tax	(38.6)	(52.8)
	140.6	112.6

Hong Kong profits tax is calculated at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the period. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2018: 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.

10. Dividends

(HK\$ Million)	Six months ended	
	30/6/2019	30/6/2018
Dividends recognised as distribution during the period		
– 2018 second interim dividend of HK14 cents per share (2018: 2017 second interim dividend of HK14 cents per share)	280.7	301.4

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\$240.3 million (2018: interim dividend of HK12 cents per share amounting to HK\$258.4 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:

(HK\$ Million)	Six months ended	
	30/6/2019	30/6/2018
Earnings for the purposes of basic and diluted earnings per share	1,028.9	1,058.0
Number of shares (in million)		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,999.5	2,150.9
Effect of dilutive potential ordinary shares:		
– Impact of contingently issuable shares under SHK Employee Ownership Scheme	4.2	1.2
Weighted average number of ordinary shares for the purposes of diluted earnings per share	2,003.7	2,152.1

12. Right-of-Use Assets

The Group leases several assets including leasehold land and buildings. The average lease term of right-of-use assets at 30 June 2019 is below:

Leasehold land	45 years	
Retail shops	2.5 years	
(HK\$ Million)	30/6/2019	1/1/2019
Net carrying amount		
– Leasehold lands	4.1	4.1
– Land and buildings	145.2	144.2
Depreciation expenses for the period	38.1	–

Additions to right-of-use assets amount to HK\$39.0 million in the interim reporting period.

(HK\$ Million)	30/6/2019
Amount recognised in profit or loss	
– Depreciation expenses on right-of-use assets	38.1
– Interest expense on lease liabilities	2.7
– Expense relating to short-term leases	19.4

The total cash outflow for leases amount to HK\$57.0 million.

13. Financial Assets and Liabilities

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

(HK\$ Million)	At 30 June 2019			
	Fair value			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income				
Listed equity securities in Hong Kong	45.1	-	-	45.1
Listed equity securities outside Hong Kong	131.6	-	-	131.6
Unlisted overseas equity securities	-	-	8.5	8.5
	<u>176.7</u>	<u>-</u>	<u>8.5</u>	<u>185.2</u>
Financial assets at fair value through profit or loss				
- Listed equity securities in Hong Kong	1,293.5	-	-	1,293.5
- Listed equity securities outside Hong Kong	318.7	-	-	318.7
- Over the counter equity currency derivatives	-	0.3	-	0.3
- Forward currency contract	-	56.4	-	56.4
- Unlisted options and futures outside Hong Kong	-	26.6	-	26.6
- Unlisted put right for shares in an associate	-	-	1,171.0	1,171.0
- Unlisted call option for club memberships	-	-	14.4	14.4
- Unlisted call option for shares listed outside Hong Kong	-	-	2.1	2.1
- Contracts for difference	-	14.3	-	14.3
- Unlisted bonds issued by unlisted companies	-	600.2	-	600.2
- Listed bonds issued by listed companies	-	9.2	-	9.2
- Unlisted convertible preferred and ordinary shares issued by an unlisted company	-	110.6	-	110.6
- Unlisted preferred shares issued by unlisted companies	-	-	60.9	60.9
- Unlisted convertible preferred shares issued by unlisted companies	-	104.4	-	104.4
- Unlisted shares issued by unlisted companies	-	32.1	34.4	66.5
- Unlisted convertible bonds issued by an unlisted company	-	25.0	19.6	44.6
- Unlisted overseas equity securities with a put right for shares	-	-	790.7	790.7
- Unlisted overseas equity securities	-	75.9	-	75.9
- Unlisted overseas investment funds	-	-	5,622.7	5,622.7
- Unlisted trust fund	-	-	28.4	28.4
	<u>1,612.2</u>	<u>1,055.0</u>	<u>7,744.2</u>	<u>10,411.4</u>
Analysed for reporting purposes as:				
- Non-current assets				6,810.8
- Current assets				3,600.6
				<u>10,411.4</u>
Financial liabilities at fair value through profit or loss				
Held for trading				
- Unlisted futures and options in Hong Kong	-	15.9	-	15.9
- Listed futures and options outside Hong Kong	-	4.6	-	4.6
- Unlisted futures and options outside Hong Kong	-	6.7	-	6.7
- Listed futures and options in Hong Kong	-	3.7	-	3.7
- Foreign currency contracts	-	1.0	-	1.0
- Over the counter equity derivatives	-	-	17.0	17.0
- Short position in listed equity securities under stock borrowing arrangement	334.0	-	-	334.0
- Contracts for difference	-	2.0	-	2.0
Analysed for reporting purposes as current liabilities	<u>334.0</u>	<u>33.9</u>	<u>17.0</u>	<u>384.9</u>

13. Financial Assets and Liabilities (Continued)

(HK\$ Million)	At 31 December 2018			
	Fair value			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income				
Listed equity securities in Hong Kong	43.9	–	–	43.9
Listed equity securities outside Hong Kong	108.9	–	–	108.9
Unlisted overseas equity securities	–	–	21.6	21.6
	<u>152.8</u>	<u>–</u>	<u>21.6</u>	<u>174.4</u>
Financial assets at fair value through profit or loss				
– Listed equity securities in Hong Kong	360.8	–	–	360.8
– Listed equity securities outside Hong Kong	903.7	–	–	903.7
– Forward currency contract	–	44.2	–	44.2
– Listed options and futures outside Hong Kong	–	42.2	–	42.2
– Unlisted put right for shares in an associate	–	–	1,120.0	1,120.0
– Unlisted call option for club memberships	–	–	13.3	13.3
– Unlisted call option for shares listed outside Hong Kong	–	–	0.4	0.4
– Contracts for difference	–	9.9	–	9.9
– Unlisted bonds issued by unlisted companies	–	1,483.7	–	1,483.7
– Listed bonds and notes issued by listed companies	–	253.5	–	253.5
– Listed bonds and notes issued by unlisted companies	–	38.3	–	38.3
– Unlisted convertible preferred and ordinary shares issued by an unlisted company	–	56.3	–	56.3
– Unlisted preferred shares issued by unlisted companies	–	–	57.2	57.2
– Unlisted convertible preferred shares issued by an unlisted company	–	93.0	–	93.0
– Unlisted redeemable preferred shares issued by an unlisted company	–	64.6	–	64.6
– Unlisted shares issued by unlisted companies	–	16.6	42.0	58.6
– Unlisted convertible bonds issued by unlisted companies	–	–	21.0	21.0
– Unlisted overseas equity securities with a put right for shares	–	–	856.6	856.6
– Unlisted overseas equity security	–	76.4	–	76.4
– Unlisted overseas investment funds	–	–	5,157.3	5,157.3
– Unlisted trust fund	–	–	28.5	28.5
	<u>1,264.5</u>	<u>2,178.7</u>	<u>7,296.3</u>	<u>10,739.5</u>
Analysed for reporting purposes as:				
– Non-current assets				6,360.9
– Current assets				4,378.6
				<u>10,739.5</u>
Financial liabilities at fair value through profit or loss				
Held for trading				
– Unlisted futures and options in Hong Kong	–	25.2	–	25.2
– Listed futures and options outside Hong Kong	–	3.0	–	3.0
– Unlisted futures and options outside Hong Kong	–	32.9	–	32.9
– Foreign currency contracts	–	10.4	–	10.4
– Over the counter equity derivatives	–	–	22.9	22.9
– Short position in listed equity securities under stock borrowing arrangement	288.2	–	–	288.2
– Contracts for difference	–	42.7	–	42.7
Analysed for reporting purposes as current liabilities	<u>288.2</u>	<u>114.2</u>	<u>22.9</u>	<u>425.3</u>

13. 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. Where Level 1 and Level 2 inputs are not available, the Group engages external valuers to perform the valuation for certain complex or material financial assets and liabilities.

The fair values of Level 3 financial assets and liabilities are mainly derived from valuation technique using 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 valuations which are reviewed by management.

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

At 30 June 2019					
	Valuation technique	Unobservable inputs	Input values	Fair value	
				HK\$ Million	Sensitivity analysis
Financial assets at fair value through profit or loss					
Unlisted put right for shares in an associate	Option model	Expected volatility Equity growth rate Estimated equity value Discount rate (for estimated equity value)	12.0% 1.0% HK\$1,083 million 16.4%	1,171.0	An increase in volatility would result in an increase in the fair value. An increase in equity growth rate would result in a decrease in the fair value. An increase in estimated equity value would result in a decrease in fair value. An increase in discount rate would result in a decrease in the fair value.
Unlisted preferred shares issued by an unlisted company	Recent transaction and equity allocation method	Expected volatility	6.1%	54.7	An increase in volatility would result in a decrease in the fair value.
Unlisted overseas equity securities with a put right for shares	Market approach and option model	Expected volatility Risk-free rate Equity growth rate	3.0% 1.8% 0.1%	790.7	An increase in volatility would result in an increase in the fair value. An increase in risk-free rate would result in a decrease in the fair value. An increase in equity growth rate would result in a decrease in the fair value.
Unlisted overseas investment funds	Net asset value	Note 1	Note 1	5,622.7	Note 1

13. Financial Assets and Liabilities (Continued)

At 31 December 2018					
	Valuation technique	Unobservable inputs	Input values	Fair value HK\$ Million	Sensitivity analysis
Financial assets at fair value through profit or loss					
Unlisted put right for shares in an associate	Option model	Expected volatility Equity growth rate Estimated equity value Discount rate (for estimated equity value)	10.4% 1.4% HK\$1,131.0 million 17%	1,120.0	An increase in volatility would result in an increase in the fair value. An increase in equity growth rate would result in a decrease in the fair value. An increase in estimated equity value would result in a decrease in fair value.
Unlisted overseas equity securities with a put right for shares	Market approach and option model	Expected volatility Risk-free rate Equity growth rate	4.7% 2.5% - 0.9%	856.6	An increase in volatility would result in an increase in the fair value. An increase in risk-free rate would result in a decrease in the fair value. An increase in equity growth rate would result in a decrease in the fair value.
Unlisted overseas investment funds	Net asset value	Note 1	Note 1	5,157.3	Note 1

Note 1: The significant unobservable input of the Group's investments in unlisted overseas investment funds is the net assets value of the underlying investments made by the funds. The higher the net assets value of the underlying investments, the higher the fair value of the financial assets at FVTPL will be. The Group has determined that the reported net asset values represent the fair values of the unlisted overseas investment funds.

13. Financial Assets and Liabilities (Continued)

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

(HK\$ Million)	2019							Unrealised gain or loss for six months ended 30/6/2019	
	Balance at 1/1/2019	Transfer	Recognised gains or losses			Purchase	Disposal		Balance at 30/6/2019
			Profit or loss	Other comprehensive income					
Financial assets at fair value through other comprehensive income									
Unlisted overseas equity securities	21.6	-	-	11.9	-	(25.0)	8.5	-	
Financial assets at fair value through profit or loss									
Unlisted put right for shares in an associate	1,120.0	-	51.0	-	-	-	1,171.0	51.0	
Unlisted call option for club memberships	13.3	-	1.1	-	-	-	14.4	1.1	
Unlisted call option for shares listed outside Hong Kong	0.4	-	1.7	-	-	-	2.1	1.7	
Unlisted preferred shares issued by unlisted companies	57.2	-	3.7	-	-	-	60.9	3.7	
Unlisted shares issued by an unlisted company	42.0	-	(7.6)	-	-	-	34.4	(5.0)	
Unlisted convertible bonds issued by unlisted companies	21.0	-	(1.4)	-	-	-	19.6	(1.4)	
Unlisted overseas equity securities with a put right for shares	856.6	-	(65.9)	-	-	-	790.7	(65.9)	
Unlisted overseas investment funds	5,157.3	-	485.1	-	152.3	(172.0)	5,622.7	432.5	
Unlisted trust fund	28.5	-	1.5	-	29.1	(30.7)	28.4	-	
Financial liabilities at fair value through profit or loss									
Over the counter equity derivatives	(22.9)	-	5.9	-	-	-	(17.0)	5.9	

(HK\$ Million)	2018							Unrealised gain or loss for the year	
	Balance at 1/1/2018	Transfer	Recognised gains or losses			Purchase	Disposal		Balance at 31/12/2018
			Profit or loss	Other comprehensive income					
Financial assets at fair value through other comprehensive income									
Unlisted overseas equity securities	21.6	-	-	-	-	-	21.6	-	
Financial assets at fair value through profit or loss									
Over the counter equity derivatives	0.7	-	(0.7)	-	-	-	-	(0.7)	
Unlisted put right for shares in an associate	1,053.0	-	67.0	-	-	-	1,120.0	67.0	
Unlisted call option for club memberships	10.9	-	2.4	-	-	-	13.3	2.4	
Unlisted call option for shares listed outside Hong Kong	10.9	-	(10.5)	-	-	-	0.4	(10.5)	
Unlisted preferred shares issued by unlisted companies	17.1	3.9	3.8	-	53.4	(21.0)	57.2	(0.1)	
Unlisted shares issued by an unlisted company	41.4	-	(1.9)	-	2.5	-	42.0	(1.9)	
Unlisted convertible bonds issued by unlisted companies	21.0	-	-	-	-	-	21.0	-	
Unlisted overseas equity securities with a put right for shares	811.5	-	45.1	-	-	-	856.6	45.1	
Unlisted overseas investment funds	4,302.2	(3.9)	443.4	-	1,047.8	(632.2)	5,157.3	302.8	
Unlisted trust fund	-	-	(1.0)	-	29.5	-	28.5	(1.0)	
Financial liabilities at fair value through profit or loss									
Over the counter equity derivatives	(8.8)	-	(14.1)	-	-	-	(22.9)	(14.1)	

14. Loans and Advances to Consumer Finance Customers

(HK\$ Million)	30/6/2019	31/12/2018
Loans and advances to consumer finance customers		
– Hong Kong	8,328.8	7,803.4
– Mainland China	2,376.5	2,611.9
Less: impairment allowance	(637.2)	(645.6)
	10,068.1	9,769.7
Analysed for reporting purposes as:		
– Non-current assets	2,750.7	2,618.9
– Current assets	7,317.4	7,150.8
	10,068.1	9,769.7

The following is an ageing analysis for the loans and advances to consumer finance customers that are past due at the reporting date.

(HK\$ Million)	30/6/2019	31/12/2018
Less than 31 days past due	426.0	528.6
31–60 days	56.3	50.4
61–90 days	335.1	11.9
91–180 days	93.3	48.2
Over 180 days	65.5	109.2
	976.2	748.3

15. Mortgage Loans

(HK\$ Million)	30/6/2019	31/12/2018
Mortgage loans		
– Hong Kong	3,603.3	3,863.9
Less: impairment allowance	(9.8)	(9.7)
	3,593.5	3,854.2
Analysed for reporting purposes as:		
– Non-current assets	1,745.1	1,956.8
– Current assets	1,848.4	1,897.4
	3,593.5	3,854.2

The following is an ageing analysis for the mortgage loans that are past due at the reporting date.

(HK\$ Million)	30/6/2019	31/12/2018
Less than 31 days past due	159.2	306.0
31–60 days	222.2	285.5
61–90 days	165.4	61.4
91–180 days	8.7	22.5
Over 180 days	159.6	7.5
	715.1	682.9

16. Term Loans

(HK\$ Million)	30/6/2019	31/12/2018
Secured term loans	2,122.4	1,945.4
Unsecured term loans	472.0	690.6
	2,594.4	2,636.0
Less: impairment allowance	(195.5)	(150.8)
	2,398.9	2,485.2
Analysed for reporting purposes as:		
– Non-current assets	166.2	33.1
– Current assets	2,232.7	2,452.1
	2,398.9	2,485.2

17. Trade Receivables, Prepayments and Other Receivables

(HK\$ Million)	30/6/2019	31/12/2018
Other receivables		
– Deposits	41.7	38.7
– Others	322.4	329.9
Less: impairment allowance	(42.0)	–
	322.1	368.6
Prepayments	11.3	19.1
	333.4	387.7
Analysed for reporting purposes as:		
– Non-current assets	26.4	22.9
– Current assets	307.0	364.8
	333.4	387.7

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

(HK\$ Million)	30/6/2019	31/12/2018
Less than 31 days	54.6	277.8
31–60 days	–	2.5
	54.6	280.3
Trade and other receivables without ageing	267.5	88.3
Trade and other receivables at amortised cost	322.1	368.6

18. Bank Deposits, Cash and Cash Equivalents

(HK\$ Million)	30/6/2019	31/12/2018
Bank balances and cash	2,123.2	2,645.9
Fixed deposits with banks with a term within 3 months	2,561.8	1,976.5
Cash and cash equivalents	4,685.0	4,622.4
Short-term pledged bank deposits and bank balances	33.1	20.0
Fixed deposits with banks with a term between 4 to 12 months	271.3	353.5
	4,989.4	4,995.9

19. Bank and Other Borrowings

(HK\$ Million)	30/6/2019	31/12/2018
Bank loans		
– Unsecured term loans	7,091.3	6,205.7
– Secured instalment loans	573.2	915.3
Total bank borrowings	7,664.5	7,121.0
Other borrowings	62.1	62.1
	7,726.6	7,183.1
Analysed for reporting purposes as:		
– Current liabilities	5,236.6	5,221.3
– Non-current liabilities	2,490.0	1,961.8
	7,726.6	7,183.1

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

(HK\$ Million)	30/6/2019	31/12/2018
Bank borrowings		
– Within one year	4,884.8	3,627.1
– In the second year	2,427.9	1,899.7
– In the third to fifth year	-	-
Bank borrowings with a repayment on demand clause		
– Within one year	351.8	1,594.2
– In the second year	-	-
	7,664.5	7,121.0
Other borrowings		
– Over five years	62.1	62.1
	7,726.6	7,183.1

20. Trade Payables, Other Payables and Accruals

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

(HK\$ Million)	30/6/2019	31/12/2018
Less than 31 days	34.9	43.3
31–60 days	6.1	10.2
61–90 days	6.3	12.8
91–180 days	0.6	1.3
Over 180 days	0.5	-
	48.4	67.6
Accrued staff costs, other accrued expenses and other payables without ageing	196.7	169.3
	245.1	236.9

21. Financial Assets Sold Under Repurchase Agreements

(HK\$ Million)	30/6/2019	31/12/2018
Analysed by collateral type:		
Debt instruments classified as:		
Financial assets at fair value through profit or loss	426.3	1,216.5

As at 30 June 2019, debt instruments which are classified as financial assets at fair value through profit or loss with carrying amount of HK\$563.4 million (2018: HK\$1,483.7 million) were sold under repurchase agreements with other financial institutions. All repurchase agreements are due within 12 months from the end of the reporting period.

22. Lease Liabilities

(HK\$ Million)	30/6/2019	1/1/2019
Current liabilities	81.4	72.1
Non-current liabilities	57.1	63.0
	138.5	135.1

(HK\$ Million)	30/6/2019	1/1/2019
Maturity analysis		
Not later than 1 year	81.4	72.1
Later than 1 year and not later than 5 years	57.1	63.0
Later than 5 years	-	-
	138.5	135.1

23. Share Capital

	Number of shares		Share capital	
	Six months ended 30/6/2019 Million Shares	Year ended 31/12/2018 Million Shares	Six months ended 30/6/2019 HK\$ Million	Year ended 31/12/2018 HK\$ Million
Issued and fully paid				
Balance brought forward	2,008.0	2,153.0	8,752.3	8,752.3
Shares cancelled after repurchase	(5.4)	(145.0)	-	-
Balance carried forward	2,002.6	2,008.0	8,752.3	8,752.3

During the period, the trustee of the SHK Employee Ownership Scheme (the “EOS”) acquired 1.3 million shares of the Company through purchases on the Stock Exchange for the awarded shares of the EOS. The total amount paid to acquire the shares during the period was HK\$4.7 million, which has been deducted from the owners’ equity.

During the period, the Company repurchased its own shares through purchases on the Stock Exchange for HK\$20.1m (2018: HK\$650.9m).

During the period, an indirectly owned subsidiary of the Group – United Asia Finance Limited (“UAF”) repurchased its own shares through a private agreement for HK\$731.5m which increased the Group’s ownership interest from 58.18% to 62.74%.

Further details of the EOS and repurchase of shares are disclosed in the Management Discussion and Analysis and Other Information section respectively of this interim report.

24. Notes/Paper Payable

(HK\$ Million)	30/6/2019	31/12/2018
US dollar denominated notes (the “US\$ Notes”)		
– 4.75% US dollar denominated notes maturing in May 2021 (the “4.75% Notes”)	2,803.3	2,801.7
– 4.65% US dollar denominated notes maturing in September 2022 (the “4.65% Notes”)	4,352.6	4,362.1
HK dollar denominated notes/paper (the “HK\$ Notes/Paper”)		
– HK dollar denominated notes/paper	710.8	636.2
	7,866.7	7,800.0
Analysed for reporting purposes as:		
– Current liabilities	834.8	752.7
– Non-current liabilities	7,031.9	7,047.3
	7,866.7	7,800.0

The HK\$ Notes/Paper were issued by a subsidiary, Sun Hung Kai (ECP) Limited, under a US\$1 billion guaranteed commercial paper programme.

The 4.75% Notes are listed on the Stock Exchange. The nominal value of the 4.75% Notes was US\$361.6 million or equivalent to HK\$2,825.6 million (31/12/2018: US\$361.6 million or equivalent to HK\$2,831.8 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\$2,835.3 million (31/12/2018: HK\$2,768.2 million) which was categorised as Level 2.

The 4.65% Notes are listed on the Stock Exchange. The nominal value of the 4.65% Notes was US\$550.0 million or equivalent to HK\$4,297.4 million (31/12/2018: US\$550.0 million or equivalent to HK\$4,306.8 million) at the reporting date. The fair value of the 4.65% Notes based on the price quoted from pricing service at the reporting date was HK\$4,348.0 million (31/12/2018: HK\$4,131.2 million) which was categorised as Level 2.

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

25. Related Party Transactions

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

(HK\$ Million)	Six months ended	
	30/6/2019	30/6/2018
Associates and joint ventures of a holding company		
Rental and building management fees to an associate of a holding company for short-term leases	(1.5)	(2.1)
Rental and building management fees to a joint venture of a holding company	(12.2)	(12.3)
Interest expense to a joint venture of a holding company on lease liabilities *	(0.8)	-
Interest expense to an associate of a holding company	(2.8)	(2.8)
Associates and joint ventures		
Loan referral fee and participation fee received from an associate	6.6	1.9
Management and service fees received from associates and joint ventures	1.5	2.3
Brokerage expenses to an associate	(0.4)	(1.7)
Service fees to an associate	(2.3)	(2.3)
Insurance premiums paid to an associate	(1.1)	(0.6)
Unlisted redeemable preferred shares issued by an associate	-	(66.7)
Holding company and its subsidiaries		
Loan from a fellow subsidiary	-	300.0
Finance costs to fellow subsidiaries	(20.1)	(11.6)
Management fees paid/payable to a holding company	(7.5)	(7.8)
Other related party		
Interest income from loan to Independent Non-Executive Director #	3.0	-
Repayment of loan from Independent Non-Executive Director #	3.3	-

On 23 October 2018, Sun Hung Kai Credit Limited as lender entered into a loan agreement with Mr. Peter Wong Man Kong, an independent non-executive director of the Company. He died on 11 March 2019.

* As at 30 June 2019, the Group has lease liabilities of HK\$33.9 million to the joint venture of a holding company, of which HK\$39.8 million was recognised after date of initial application of HKFRS 16, i.e. 1 January 2019.

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

(HK\$ Million)	Six months ended	
	30/6/2019	30/6/2018
Short-term benefits	20.3	22.0
Post-employment benefits	0.9	0.9
	21.2	22.9

During the period, 777,000 shares were granted under the EOS to key management personnel. In addition, 515,000 shares with a total amount of HK\$1.9 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\$0.2 million (2018: HK\$0.1 million). Further details of the EOS are disclosed in the Management Discussion and Analysis section of this interim report.

26. Commitments

(a) Other commitments

(HK\$ Million)	30/6/2019	31/12/2018
Capital commitments for funds	579.8	476.4
Other capital commitments	6.0	3.7
	585.8	480.1

(b) Lease commitments

At 31 December 2018, 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:

(HK\$ Million)	31/12/2018
Within one year	103.6
In the second to fifth years inclusive	79.2
	182.8

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\$41.6 million as at 31 December 2018 and an associate of a holding company of HK\$1.2 million as at 31 December 2018.

At 30 June 2019, the Group is committed to HK\$8.1 million (31/12/2018: HK\$42.2 million) for short-term leases.

The maturity profile of the lease liabilities are disclosed in note 22.

26. Commitments *(Continued)*

(c) Loan commitments

(HK\$ Million)	30/6/2019	31/12/2018
Within one year	<u>1,283.7</u>	<u>1,226.0</u>

27. Contingent Liabilities

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

(HK\$ Million)	30/6/2019	31/12/2018
At 1 January	107.0	112.7
Additions	390.7	-
Exchange adjustments	(0.2)	(5.7)
	<u>497.5</u>	<u>107.0</u>

28. 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 risk 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 investment is driven by the daily fluctuations in market prices or fair values. The ability to mitigate such risk depends on the availability of any hedging instruments and the diversification level of the investment portfolios undertaken by the Group. More importantly,

the knowledge and experience of the trading staff managing the risk are also vital to ensure exposure is being properly hedged and rebalanced in the most timely manner. Proprietary trading across the Group is subject to limits approved by senior management. Valuation of these instruments is measured on a "mark-to-market" and "mark-to-fair-value" basis depending on whether they are listed or unlisted. Value at Risk ("VaR") and stress tests are employed in the assessment of risk. Meanwhile other non-VaR limits such as "maximum loss" and "position" limits are also set out to restrict excessive risk undertakings. VaR and stress tests are approaches which are widely used in the financial industry as tools to quantify risk by combining the size of a position and the extent of a potential market movement into a potential financial impact.

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

(ii) Interest Rate Risk

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

(iii) Foreign Exchange Risk

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

The Group's foreign exchange risk primarily arises from currency exposures originating from proprietary trading positions, and loans and advances denominated in foreign currencies, mainly in Australian dollars and Renminbi ("RMB"). 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.

28. Financial Risk Management *(Continued)*

(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.

The Group takes into consideration forward-looking information that is available without undue cost or effort in its assessment of significant increase in credit risk as well as in its measurement of expected credit losses ("ECL"). The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not changed in the estimation techniques or significant assumptions during the reporting period.

(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 and the Group CFO.

29. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the management of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing the unaudited condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for the year ended 31 December 2018.

The directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

Corporate Information

Board of Directors

Executive Directors

Lee Seng Huang (*Group Executive Chairman*)
Simon Chow Wing Charn

Non-Executive Directors

Peter Anthony Curry
Jonathan Andrew Cimino

Independent Non-Executive Directors

Evan Au Yang Chi Chun
David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung

Executive Committee

Lee Seng Huang (*Chairman*)
Simon Chow Wing Charn

Nomination Committee

Lee Seng Huang (*Chairman*)
Evan Au Yang Chi Chun
David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung

Remuneration Committee

Evan Au Yang Chi Chun (*Chairman*)
(*appointed as Chairman on 20 March 2019*)
David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung

Audit Committee

Alan Stephen Jones (*Chairman*)
Evan Au Yang Chi Chun
David Craig Bartlett
Peter Anthony Curry
Jacqueline Alee Leung

Risk Management Committee

Robert James Quinlivan (*Chairman*)
Simon Chow Wing Charn
Benjamin John Falloon
Alfred Leung Sai Kit

Company Secretary

Hester Wong Lam Chun

Investor Relations

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Auditor

Deloitte Touche Tohmatsu

Solicitors

Clifford Chance
Davis Polk & Wardwell
Deacons
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
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
CMB 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
Cathay United Bank Company, Limited,
Hong Kong Branch

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Hong Kong

Registered Office

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Causeway Bay
Hong Kong

Websites

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



The images in the report feature team Sun Hung Kai Scallywag, Hong Kong's professional off-shore sailing team. The team competed on behalf of Hong Kong in the renowned Volvo Ocean Race 17-18, one of the toughest sailing challenges in the world. The team spent more than eight months sailing over 45,000 nautical miles across four oceans.

The origin of the team is Scallywag, a 100-foot super maxi race yacht sponsored by the Company. Just as Sun Hung Kai & Co today has transformed itself into an all-weather investment partner, the yacht has undergone a renewal under the Company's sponsorship. The spirit of the vessel and its crew echo the Company's own – Endure. Adapt. Excel.

Follow the team:

www.scallywaghk.com

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WeChat

