



Stock Code: 0086

2023 INTERIM REPORT

About Us

Sun Hung Kai & Co. Limited (stock code: 86) (“SHK & Co.” or the “Company”, together with its subsidiaries, the “Group”) is a leader in alternative investing headquartered in Hong Kong. Since its establishment in 1969, the Group has owned and operated market-leading platforms in Financial Services. The Group invests across public markets, alternatives and real estate and has an established track record of generating long-term risk adjusted returns for its shareholders. Most recently, it has extended its strategy to incubate, accelerate and support emerging asset managers in the Asian region. It is also the major shareholder of a leading Consumer Finance firm, United Asia Finance Limited. The Group held about HK\$41.4 billion in total assets as at 30 June 2023.

Photo: Kevin Lewis



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MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

(HK\$ Million)	Six months ended		Change	Year ended
	Jun 2023	Jun 2022		Dec 2022
Revenue	1,968.3	2,056.1	-4.3%	4,054.1
Pre-tax profit/(loss)	36.5	(55.1)	N/A	(892.3)
Loss attributable to owners of the Company	(287.5)	(401.2)	-28.3%	(1,534.8)
Basic loss per share (HK cents)	(14.7)	(20.5)	-28.3%	(78.2)
Interim dividend (HK cents)	12.0	12.0	—	14.0 [^]
Book value per share (HK\$)	11.0	12.1	-9.1%	11.4

[^] Second interim dividend

In the first half of 2023, the mixed global macro picture continued to present a challenging operating environment for our business. As inflation in the US showed some signs of subsiding and the Federal Reserve (the "Fed") slowed its aggressive interest rate hikes, US equity markets experienced a rally, which was predominantly driven by several of the largest tech companies. However, inflation and interest rates remained at elevated levels. In the Greater China area, while business activities resumed following the COVID-19 reopening, the slower-than-expected economic recovery and heightened geopolitical tensions tempered investor sentiment in the region. Throughout the period, we remained focused on navigating these challenges by carefully managing the impacts on our financial performance. We continued to maintain a strong balance sheet and improve liquidity across all business segments while adopting a prudent approach to capital deployment against the highly uncertain economic backdrop.

Pre-tax profit was HK\$36.5 million for the first half of 2023, compared to a loss of HK\$55.1 million for the same period last year. The improvement was mainly attributable to the smaller write-downs we took on our investment assets during the period compared to those made in 2022.

After taxation and non-controlling interest, loss attributable to the owners of the Company for the period was HK\$287.5 million (first half of 2022: HK\$401.2 million). Basic loss per share for the period was HK14.7 cents (first half of 2022: HK20.5 cents).

The Board has declared an interim dividend of HK12 cents per share for the six months ended 30 June 2023, which is unchanged from the first half of 2022. During the period, the Company repurchased 770,000 shares (first half of 2022: 829,000 shares) for a total net consideration of HK\$2.3 million (first half of 2022: HK\$3.1 million). In addition, the Company repurchased medium-term notes ("MTN") totalling US\$28.1 million during the period to continue to improve its capital utilisation efficiency with net gearing ratio decreasing substantially to 37.2% from 43.7% as at 31 December 2022.

As at 30 June 2023, the Group's book value per share was HK\$11.0, a decrease of 3.5% from the end of 2022 (HK\$11.4) and 9.1% from 30 June 2022 (HK\$12.1).

RESULTS ANALYSIS

The Group's revenue in the first half of 2023 was HK\$1,968.3 million (first half of 2022: HK\$2,056.1 million), which mainly consisted of interest income from the Financing business of HK\$1,768.0 million.

The Financing business contributed a pre-tax profit of HK\$586.7 million for the period (first half of 2022: HK\$718.4 million), mainly reflecting the Group's strategic decision to scale down Consumer Finance's unsecured loan business in Mainland China and the substantial increase in HIBOR which added pressure to our finance costs. The pre-tax profit was also impacted by the Private Credit segment, which had a smaller loan book and lower revenue during the period, partly attributable to our strategic shift to deploy more capital via our APAC real estate loan fund.

Investment Management recorded a pre-tax loss of HK\$832.9 million (first half of 2022: HK\$935.8 million), as our exposure to Mainland China was impacted by the weak market sentiment and we also recognised some losses when we adjusted our hedging strategies and rebalanced certain portfolios.

Funds Management delivered a pre-tax profit of HK\$16.3 million (first half of 2022: loss of HK\$21.8 million), mainly driven by the sale of revenue share rights in East Point, one of our fund partnerships, to Regal Partners, as well as the decrease in mark-to-market loss on carried interest distribution in kind we received.

Pre-tax profit from Group Management Support (“GMS”) was HK\$266.4 million (first half of 2022: HK\$184.1 million), primarily attributable to increased interest income generated by assets held for liquidity purposes.

Operating costs decreased by 8.0% to HK\$686.5 million (first half of 2022: HK\$745.9 million), mainly reflecting reduced loan collection expenses in the Consumer Finance segment as well as the cost rationalisation in the segment’s Mainland China market in conjunction with its strategic shift.

BUSINESS REVIEW

The profit/(loss) before tax by segment, before non-controlling interests, is as follows:

(HK\$ Million)	Pre-tax Contribution for the six-months ended			Segment Assets as at	
	Jun 2023	Jun 2022	Change	Jun 2023	Dec 2022
FINANCING BUSINESS					
Consumer Finance	553.8	645.4	-14.2%	18,097.9	18,156.9
Private Credit	(38.7)	(5.0)	674.0%	416.8	486.0
Mortgage Loans	71.6	78.0	-8.2%	2,880.4	3,283.4
Sub-total	586.7	718.4	-18.3%	21,395.1	21,926.3
INVESTMENT					
MANAGEMENT	(832.9)	(935.8)	-11.0%	16,254.2	17,579.9
FUNDS MANAGEMENT	16.3	(21.8)	N/A	28.6	14.3
GMS	266.4	184.1	44.7%	3,688.7	3,394.2
Total	36.5	(55.1)	N/A	41,366.6	42,914.7

FINANCING BUSINESS

The Group’s Financing business principally operates in the Greater China region, where it is subject to the impacts of local economic conditions, regulatory environments and financing costs.

Consumer Finance

The Group’s Consumer Finance business is conducted via its majority-owned subsidiary United Asia Finance Limited (“UAF”) which operates under money lenders licences in Hong Kong and holds an internet loan licence as well as offline money lending licences in major cities across Mainland China. Through a well-established branch network and sophisticated online and mobile platforms, UAF primarily engages in offering unsecured loans to individuals and businesses in Hong Kong and Mainland China. During the first half of 2023, UAF remained the top-ranked unsecured loan provider in the Hong Kong market, with the highest outstanding balance among non-bank lenders and a top-five ranking among all lenders.

Segment Half Year Results

(HK\$ Million)	Six months ended 30 June		
	2023	2022	Change
Revenue	1,628.6	1,759.3	-7.4%
Return on loan (% average gross loan balance) ¹	28.5%	28.1%	
Operating costs	(532.9)	(652.7)	-18.4%
Cost to income (% revenue)	32.7%	37.1%	
Finance costs	(238.2)	(131.9)	80.6%
Net impairment losses	(293.6)	(312.3)	-6.0%
Other gains	6.0	11.1	-45.9%
Other losses	(3.8)	(2.9)	31.0%
Exchange loss	(12.3)	(25.2)	-51.2%
Pre-tax contribution	553.8	645.4	-14.2%
Loan Book:			
Net loan balance	10,635.0	11,738.3	-9.4%
Gross loan balance ²	11,176.4	12,320.9	-9.3%

¹ Interest and fee income/average gross loan balances

² Before impairment allowance

In the first half of 2023, in view of the challenging economic and regulatory conditions, UAF took the decision to scale down its unsecured personal loan business in Mainland China and focus instead on secured loan products in that market. Total loan balance at the end of the period, on a net (after impairment allowance) and gross basis, stood at HK\$10,635.0 million and HK\$11,176.4 million, a decrease of 9.4% and 9.3% year-over-year, respectively. As a result, UAF’s revenue contribution decreased 7.4% year-over-year to HK\$1,628.6 million for the first half of 2023. Operating costs also decreased over the period due to the reduced loan collection expenses and comprehensive cost rationalisation initiated in conjunction with our strategic shift from unsecured to secured lending in Mainland China.

Our finance costs, a substantial portion of which were HIBOR-based, increased as the benchmark index rose sharply during the period. To ensure sufficient liquidity, we arrange ample banking facilities to finance loan balance growth and refinance outstanding facilities as needed. Net impairment losses decreased 6.0% year-over-year, as the drop in our Mainland China loan balance allowed us to write back some of the impairment allowance for our loans in the region. As the Hong Kong and Mainland China economies continued to reopen, the delinquency and charge-off ratios in both regions stabilised further, returning to pre-pandemic levels. We recorded an exchange loss on our renminbi (“RMB”) deposits for the first half of 2023, as the United States Dollar (“US\$”) continued to strengthen over the period.

As a result, UAF’s pre-tax contribution to the Group was HK\$553.8 million, a decrease of 14.2% year-over-year.

Net Impairment Losses on Financial Instruments

(HK\$ Million)	Jan–Jun 2023	Jan–Jun 2022	Jul–Dec 2022
Amounts written off ¹	(478.1)	(463.7)	(474.6)
Recoveries ²	123.3	112.5	112.4
Charge off	(354.8)	(351.2)	(362.2)
as an annualised % of average gross loan balance	6.2%	5.6%	6.0%
Written back of impairment allowance ³	61.2	38.9	(27.8)
Net impairment losses	(293.6)	(312.3)	(390.0)
as an annualised % of average gross loan balance	5.1%	5.0%	6.5%
Impairment allowance at period/year end	541.4	582.6	604.4
as a % of gross loan balance at period/year end	4.8%	4.7%	5.2%

¹ The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty is in bankruptcy proceedings

² Reflect recovery/repayment of loans which have previously been impaired and derecognised

³ An adjustment to reflect changes in expected credit loss in the loan portfolio balance

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

No. of days past due as at:	30 Jun 2023	Note	31 Dec 2022	Note
Less than 31	626.4	5.9%	705.0	6.4%
31–60	93.9	0.9%	127.5	1.2%
61–90	25.4	0.2%	66.0	0.6%
91–180	58.8	0.6%	2.7	0.0%
Over 180	63.3	0.6%	67.6	0.6%
Total	867.8	8.2%	968.8	8.8%

Note: Amount as a percentage of net loan balance.

Hong Kong Business

Key Operating Data	1H2023	1H2022	Full Year 2022
Number of branches (end of period/year)	48	48	49
Loan data:			
Gross loan balance (HK\$ Million) (end of period/year)	9,079.8	8,703.6	8,743.1
Loan originated for the period/year (HK\$ Million) ¹	5,726.8	5,872.0	11,968.2
Number of loans originated ¹	98,082	91,657	165,206
Average gross balance per loan (HK\$)	51,463	60,343	60,885
Annualised Ratios:			
Total return on loans ²	30.1%	30.1%	30.4%
Charge-off ratio ³	5.2%	4.8%	5.1%
Net impairment losses ratio ⁴	5.3%	3.3%	5.0%
Impairment allowance ratio ⁵	4.9%	4.4%	5.0%

¹ Credit card portfolio information is excluded for comparison purpose

² Interest and fee income/average gross loan balance

³ Charge-off/average gross loan balance

⁴ Net impairment losses/average gross loan balance

⁵ Impairment allowance/gross loan balance at period/year end

Hong Kong experienced a strong economic recovery in the first half of this year, with gross domestic product (“GDP”) growing 5.3% in the first quarter and unemployment rate decreasing to 2.9% in June 2023. UAF took advantage of the economic rebound to grow its business, attaining the high-ever gross loan balance and better-than-expected profit contribution.

In keeping with its ongoing commitment to product innovation, UAF successfully launched a credit card branded as “SIM” card, known as “Simple Instant Money” in December 2022. The card was developed in cooperation with Mastercard International Incorporated (“Mastercard”). UAF received an award from Mastercard for completing development of the new card product within just one year, a recognition of UAF’s “can-do” spirit and strong product development capabilities. The new credit card platform enables UAF to engage with a new and distinct customer segment, meeting cardholders’ daily spending and financial needs in a convenient way while creating opportunities for UAF to cross-sell personal loans and other products. Overall, we were satisfied with the results of SIM card’s pilot launch in the first half of 2023.

On the regulatory front, the interest rate limits under the Money Lenders Ordinance were lowered with effect from 30 December 2022, with the legitimate interest rate decreasing from 48% to 36% per annum. We have certain loan contracts signed prior to the legislative amendments with interest rates falling between 36% and 48% per annum, but the relevant loan balances will be amortised over time. Meanwhile, all loan contracts signed after 30 December 2022 have interest rates below 36% per annum. This policy change has a limited impact on UAF’s interest income. We will strictly comply with the new interest rate limits in accordance with applicable regulatory requirements.

As the economy recovers, market competition has intensified, with money lenders, traditional banks and virtual banks rolling out aggressive promotion and advertising campaigns. UAF has revamped its advertising strategy to boost the effectiveness of its advertising spending and better reach target customers to fuel the growth of the business. We have planned a series of promotional and advertising activities, which we expect to further solidify our leadership position in the competitive market landscape.

Mainland China Business

Key Operating Data	1H2023	1H2022	Full Year 2022
Number of branches <i>(end of period/year)</i>	16	18	17
Loan data:			
Gross loan balance <i>(HK\$ Million)</i> <i>(end of period/year)</i>	2,096.6	3,617.3	2,887.2
Loan originated for the period/year <i>(HK\$ Million)</i>	1,136.5	2,280.3	4,168.0
Number of loans originated	10,182	20,231	38,515
Average gross balance per loan <i>(RMB)</i>	68,343	76,122	69,908
Annualised Ratios:			
Total return on loans ¹	22.9%	23.4%	24.4%
Charge-off ratio ²	9.9%	7.5%	7.8%
Net impairment losses ratio ³	4.5%	8.9%	7.8%
Impairment allowance ratio ⁴	4.6%	5.5%	5.8%

¹ Interest and fee income/average gross loan balance

² Charge-off/average gross loan balance

³ Net impairment losses/average gross loan balance

⁴ Impairment allowance/gross loan balance at period/year end

The economic and business environment in Mainland China remained challenging during the first half of 2023, with economic data indicating the lack of a solid recovery. UAF took the decision to scale down its unsecured personal lending business in the market and reallocate resources to expand its secured lending business, which provides stable returns backed by adequate collateral to cover credit risks. UAF also initiated a comprehensive cost rationalisation activity, which it expects to complete by year-end. We believe that a focus on secured lending with well-managed credit risks in Mainland China will generate meaningful returns with a lower cost base for the remainder of the year.

Mortgage Loans

The Group’s Mortgage Loans business is operated by its majority-owned subsidiary, Sun Hung Kai Credit Limited (“SHK Credit”).

Segment Half Year Results

(HK\$ Million)	Six months ended		
	2023	2022	Change
	30 June		
Revenue	146.2	144.7	1.0%
Return on loans ¹	10.1%	8.3%	
Operating costs	(30.5)	(35.6)	-14.3%
Cost to income (% Revenue)	20.9%	24.6%	
Finance costs	(51.8)	(48.1)	7.7%
Net impairment reversals	7.7	15.7	-51.0%
Other gains	—	1.3	N/A
Pre-tax contribution	71.6	78.0	-8.2%
Loan Book:			
Net loan balance	2,669.9	3,402.7	-21.5%
Gross loan balance ²	2,705.7	3,440.1	-21.3%

¹ Annualised interest and fee income/average gross loan balance

² Before impairment allowance

The Hong Kong property market presented a mixed picture during the first half of 2023. While the market recovered somewhat in Q1, this trend did not continue into Q2, and high interest rates continued to exert pressure on property prices. In light of these challenges, we remained cautious in our lending activities and placed a strong emphasis on mitigating risks while ensuring returns. The gross loan balance as at 30 June 2023 was HK\$2,705.7 million (31 December 2022: HK\$3,107.5 million; 30 June 2022: HK\$3,440.1 million) with first mortgage loans accounting for over 90%. The loan-to-value ratio remained at a healthy level of below 70%.

Revenue for the period was HK\$146.2 million, representing an increase of 1.0% year-over-year. Return on loans increased by 1.8 percentage points to 10.1% from the same period of last year. Operating costs for the period were HK\$30.5 million, a decrease of 14.3%, and cost to income ratio improved by 3.7 percentage points to 20.9% from the first half of 2022, mainly due to our improved operating efficiency. Finance costs were HK\$51.8 million, increasing 7.7% year-on-year as a result of elevated interest rates, partially offset by the smaller amount of bank facility we utilised. Net impairment losses recorded a reversal of HK\$7.7 million with certain loan recoveries, compared to HK\$15.7 million for the same period of last year. SHK Credit contributed a pre-tax profit of HK\$71.6 million for the period, a decrease of 8.2% year-on-year.

Private Credit

The Group's Private Credit business provides tailored funding solutions to corporates, investment funds and high net worth individuals ("HNWIs"). Almost all loans are either secured by assets or guaranteed by corporates or HNWIs.

Net loan balance further decreased in the first half of 2023 to HK\$202.0 million (31 December 2022: HK\$263.0 million; 30 June 2022: HK\$412.0 million) as we continued to focus on managing the existing loan portfolio and strategically reallocated capital to MCIP, an APAC real estate loan fund managed by our Funds Management arm. This shift is in line with our strategy of developing a leading alternative investment platform. As a result, revenue for the period was HK\$16.2 million, a decrease of 68.8% year-on-year.

Net impairment losses were HK\$25.6 million, increasing 20.8% year-on-year as we made extra provisions considering the change in mark-to-market collateral value to reflect the potential impact on loan repayment. Finance costs declined by 30.9% year-on-year to HK\$12.5 million as less capital was deployed during the period. Pre-tax contribution of this segment was a loss of HK\$38.7 million, compared to HK\$5.0 million for the first half of 2022.

Also included in the Private Credit segment was the Group's interest in LSS Leasing, a business-to-business (B2B) and business-to-consumer (B2C) auto leasing business in Mainland China.

Segment Half Year Results

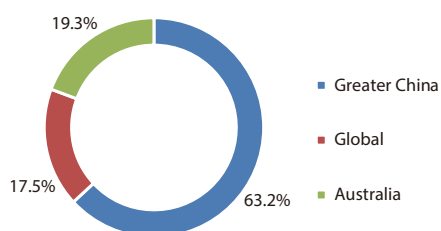
(HK\$ Million)	Six months ended		
	2023	2022	Change
	30 June		
Revenue	16.2	52.0	-68.8%
Return on loans ¹	3.2%	7.9%	
Operating costs	(6.6)	(16.0)	-58.8%
Cost to income (% Revenue)	40.7%	30.8%	
Finance costs	(12.5)	(18.1)	-30.9%
Net impairment losses	(25.6)	(21.2)	20.8%
Net gain on financial assets and liabilities	—	7.0	N/A
Others	(10.2)	(8.7)	17.2%
Pre-tax contribution	(38.7)	(5.0)	674.0%
Loan Book:			
Net loan balance	202.0	412.0	-51.0%
Gross loan balance ²	1,002.4	1,144.5	-12.4%
Other investments:			
Listed shares and others	1.8	4.2	-57.1%
Interest in joint venture	146.2	183.9	-20.5%
	148.0	188.1	-21.3%

¹ Annualised interest and fee income/average gross loan balance

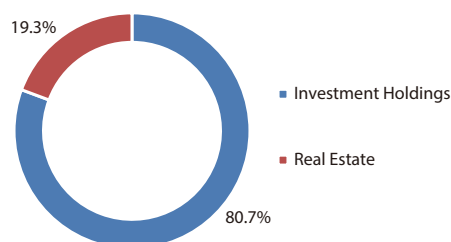
² Before impairment allowance

Private Credit Loan Portfolio

Term Loan Breakdown by Geography



Term Loan Breakdown by Borrower's Sector



INVESTMENT MANAGEMENT

The Investment Management division leverages the Group's expertise, network and strong financial position to seek attractive risk-adjusted returns.

Against the uncertain global monetary and economic backdrop, the Group remained vigilant as 2023 began, continuing to use hedging instruments to reduce our overall market exposure, a strategy which had helped us outperform the markets in 2022. As US markets started to recover, we adjusted our strategy and reduced hedging positions, causing us to recognise certain losses, which were partly offset by gains on some underlying investments. In addition, market sentiment towards Mainland China investments has remained cool due to the slower-than-expected post-COVID recovery, generating mark-to-market volatility in our portfolio.

The division recorded a pre-tax loss of HK\$832.9 million for the period (first half of 2022: HK\$935.8 million). The Alternatives and Real Estate segments substantially narrowed their unrealised losses to HK\$99.5 million from HK\$1,020.8 million for the same period of last year, contributing to the year-on-year improvement in pre-tax results. Realised loss on Alternatives and Real Estate was HK\$135.2 million, compared to a gain of HK\$585.4 million for the same period of last year, mainly reflecting our strategic decision to de-risk by reducing certain exposures, downsizing of the hedging positions against Private Equity book, and a decline in the number of investment exits. Public Markets recorded a net loss of HK\$196.8 million, mainly due to the mark-to-market adjustment in certain Chinese strategic positions and hedging instruments in the US, which we have seen recovery in the first month following the period-end closing as a result of the ongoing volatility in the markets.

Analysis of Pre-tax Profit by Nature

(HK\$ Million)	For the six months ended		Change
	Jun 2023	Jun 2022 ¹	
Realised (loss)/gain on Alternatives and Real Estate	(135.2)	585.4	N/A
Unrealised loss on Alternatives and Real Estate	(99.5)	(1,020.8)	-90.3%
Net loss on Public Markets	(196.8)	(184.6)	6.6%
Interest income	29.4	37.6	-21.8%
Dividends received	37.4	27.4	36.5%
Rental income	11.3	13.9	-18.7%
Fee received/receivable	—	1.7	N/A
Net impairment allowance reversal on financial assets	0.8	5.2	-84.6%
Net exchange gain/(loss)	3.0	(10.4)	N/A
Share of results of associates & joint venture	(8.0)	32.5	N/A
Loss from revaluation on investment properties	(22.0)	(12.8)	71.9%
Others	2.8	(1.4)	N/A
Total losses	(376.8)	(526.3)	-28.4%
Operating costs²	(456.1)	(409.5)	11.4%
Pre-tax contribution	(832.9)	(935.8)	-11.0%

¹ Represented

² Cost of capital included

As Hong Kong and US markets moved in different directions during the first half of 2023, Investment Management's overall return for the period was -2.3%. Public Markets and Alternatives lost 7.4% and 2.5% respectively, whereas Real Estate gained 6.7%, benefiting from the business recovery of our hospitality investment in the European Union ("EU").

On the operational side, we continued to augment our team's capabilities by adding several seasoned industry veterans. We also enhanced our risk management systems and made infrastructure improvements to further institutionalise our Investment Management business and progress towards our vision of building a leading alternative investment platform.

Segment Assets Breakdown and Return

(HK\$ Million)	First Half 2023				Return track record ¹	
	Period End Value	Average Value for the Period	Gain/(Loss)	Six-month Return ¹	2022 ²	2021 ²
Public Markets	2,351.1	2,272.1	(167.0)	-7.4%	-6.1%	4.4%
Alternatives	11,589.8	12,316.7	(311.0)	-2.5%	-9.8%	18.8%
Real Estate	2,313.3	1,518.2	101.2	6.7%	-1.5%	3.6%
Total	16,254.2	16,107.0	(376.8)	-2.3%	-8.3%	14.2%

¹ Gain (loss) before cost of capital/average value for the period/year

² Annual return

Public Markets

The Public Markets portfolio consists of Corporate Holdings, an internally managed equity strategy, and Strategic Holdings at fair value through other comprehensive income (“FVTOCI”).

Breakdown of Public Markets Portfolio as at 30 June 2023

<i>(HK\$ Million)</i>	Period End Value	Six-month Gain/ (Loss)	Six-month Unlevered Return ¹
Corporate Holdings	2,155.6	(167.0)	-8.1%
Strategic Holdings ²	195.5	—	N/A
Total	2,351.1	(167.0)	-7.4%

¹ Gain (loss) before cost of capital/average fair market value for the period

² At FVTOCI

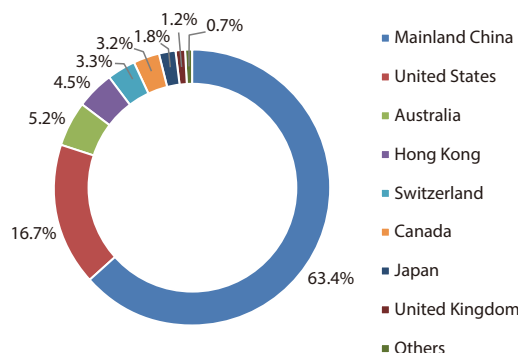
Corporate Holdings

The Corporate Holdings segment mainly manages a mix of long-term and shorter-term equity positions. Derivatives and hedging are used both to manage risks and enhance returns. During the first half of 2023, we further strengthened our investment and portfolio management capabilities, striving to achieve sustainable risk-adjusted returns.

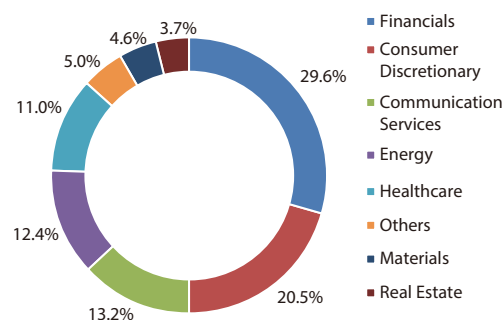
Corporate Holdings recorded a loss of 8.1% in the first half of 2023. The segment utilises listed instruments to provide hedging against its strategic positions, as well as assets across the Group more broadly. The segment recognised gains in these hedging instruments in the second half of 2022 on the back of weak US equity markets. A portion of the losses experienced in the first half of 2023 were a result of a reversal in US markets. We have reduced our hedging exposure overall as the economic situation has improved. Despite this, we remain aware of risks to the US economic outlook and will continue to maintain some hedging exposure against our US positions in this environment.

The remaining losses in this segment were related to strategic positions in listed companies that have Chinese exposure. Whilst the first half has remained volatile in Mainland China, we believe fundamentals are gradually improving at the margin, and alongside some targeted policy actions from the government, we hope to see a better macro-economic picture in the second half.

Corporate Holdings by Geography



Corporate Holdings by Sector



Strategic Holdings

The Strategic Holdings portfolio at FVTOCI consists of the Group’s strategic positions, which we believe will create synergies with other business units and deliver shareholder value over the long run.

Alternatives

Over the past several years, we have leveraged the Group’s expertise and capital strength to build a portfolio consisting of Private Equity and Hedge Funds. The portfolio is invested with companies or fund managers selected based on parameters including performance, strategic fit, as well as access to markets and sectors.

Breakdown of Alternatives Portfolio as at 30 June 2023

(HK\$ Million)	Period End Value	Gain/ (loss)	Six-month Return ¹
Private Equity:			
– External Funds	4,672.2	(150.3)	-3.2%
– Direct/Co-investments	4,370.7	6.7	0.1%
Sub-total	9,042.9	(143.6)	-1.5%
Hedge Funds	2,546.9	(167.4)	-5.7%
Total	11,589.8	(311.0)	-2.5%

¹ Gain (loss) before cost of capital/average value for the period

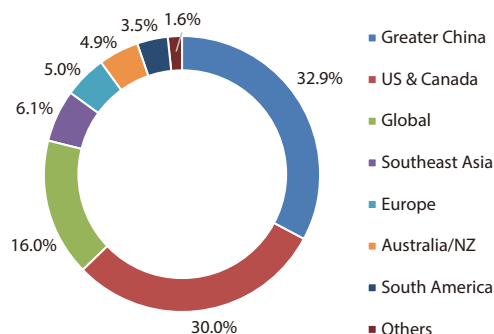
Private Equity

The Private Equity segment consists of our investments in external funds, co-investments alongside such funds, as well as direct investments. This portfolio provides the Company with attractive returns over the longer term by taking advantage of our proprietary deal sourcing, domain expertise and global mandate.

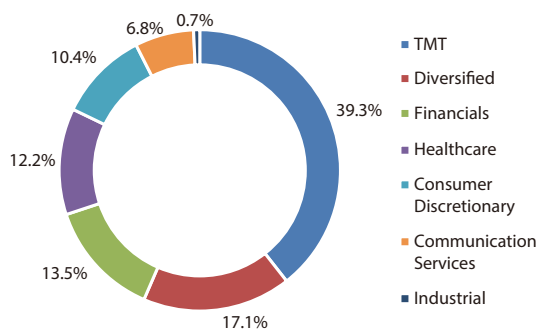
In the first half of 2023, our portfolio companies continued to see secular business growth and improvement in fundamentals. Their valuations, however, were impacted by the challenging fundraising environment, continued US-China tensions and weak market sentiment towards Mainland China. Earlier this year, we realised some losses on the hedging instruments, which were implemented to mitigate the private book's exposure to market volatility and protected our portfolio to some extent in 2022. On a positive note, the recovery of the US markets, where some of our portfolio companies were listed and we have yet to fully exit, helped offset the losses. In addition, we continued to receive programmatic distributions from fund managers during the period, contributing to a sustained generation of net cash inflow within the segment.

We continue to assess opportunities in various fast-growing sectors with tightened investment criteria, as we maintain our cautious approach to capital deployment amidst challenging market conditions. Going forward, we will explore further synergies with the Group's Funds Management arm as we work to build a leading alternative investment platform.

Private Equity Exposure by Geography



Private Equity Exposure by Sector

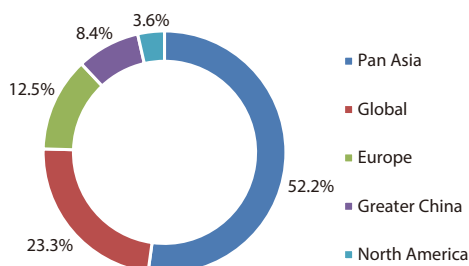


Hedge Funds

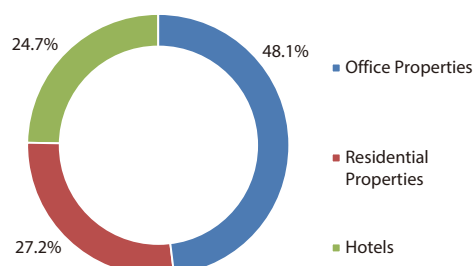
The Group's multi-manager hedge fund portfolio consists of a select group of external hedge funds that are global in scope with a bias towards the Asian region.

The loss incurred in this first half of 2023 period was mainly due to mixed results from underlying investments. Allocations in equity long biased and global credit encountered losses during this period, a portion of which were realised as the exposure was de-risked. The allocation to the rest of the hedge fund space composed of diversified holdings gained during the period, partially offsetting losses. Overall, the portfolio has a greater allocation to stable managers with relatively low correlations to the broader markets. We expect the portfolio to be positioned more conservatively going forward, given the expectations for ongoing market volatility. The pipeline is exceptionally robust, with a number of high-quality managers being evaluated for potential investment.

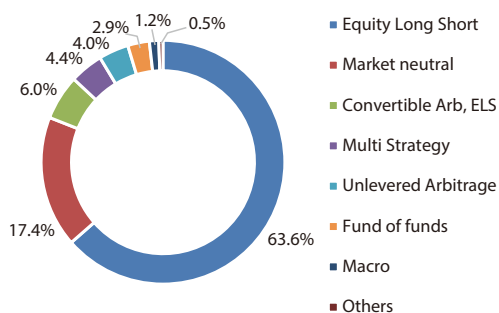
External Hedge Funds Exposure by Geography



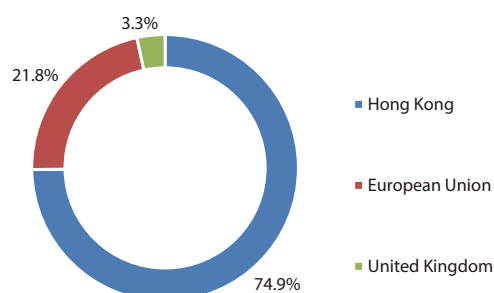
Real Estate Exposure by Asset Class



External Hedge Funds Exposure by Strategy



Real Estate Exposure by Geography



Real Estate

The Real Estate portfolio, which consists of the Group’s interests in Hong Kong commercial real estate as well as hotels and commercial investments abroad, was valued at HK\$2,313.3 million as at 30 June 2023 (31 December 2022: HK\$2,341.3 million; 30 June 2022: HK\$2,172.3 million). The segment recorded a 6.7% gain for the period, primarily driven by the robust business recovery of our hospitality investment in the EU, which offset weakness in Asia.

The Group continues to adopt a cautious stance towards new investments in real estate. We believe that borrowers’ credit quality will continue to deteriorate as asset values and excess cash flow decline in this rising interest rate environment. We are already seeing increasing pressure on borrowers to deleverage and stabilise their capital base at a time when traditional lending sources are pulling back from the market. As a result, we are focusing on credit investments, where we see opportunities to generate equity-like returns with downside protection. We believe we can take advantage of attractive opportunities while mitigating against elevated levels of risk and uncertainty, making it a prudent approach in the current environment.


FUNDS MANAGEMENT

In the first half of 2023, challenging market conditions, shifting investment styles and changing client risk appetites all impacted the AUM of our Funds Management business. We ended the period with AUM of US\$865 million, down 11.3% from end-2022, principally driven by two key events:

1. The full redemption and closure (US\$53 million) of the fund launched by GCO Asset Management Limited, a global opportunistic credit strategy. This decision was taken due to difficult credit market conditions coupled with the fund’s performance.
2. In conjunction with East Point Asset Management Ltd, we agreed the assignment of rights for receiving seeded capital fee of East Point Long Short Fund to Regal Partners, an Australian ASX-listed alternatives asset manager. This resulted in a US\$100 million decrease in AUM. The income from the assignment has been included in the results for the period.

In line with market conditions, we remain cautious on capital deployment. No new funds were seeded or launched in the first half of 2023.


The quality and diversity of our AUM have mitigated the downside impact from volatile markets to some degree. This was particularly evident in the market neutral strategy of ActusRayPartners, which delivered fairly strong performance in the first half, and in our APAC private credit fund, Multiple Capital Real Estate Debt I, L.P., which maintained its disciplined approach to underwriting. Our diversified global Fund of Hedge Funds, SHK Latitude Alpha Fund, has recorded solid performance against benchmarks, with a range of managers within that portfolio performing extremely well in a volatile public market.



ACTUSRAY PARTNERS
DISCRETIONARY PROBABILISTIC INVESTING

DESCRIPTION


- Strategy established March 2021
- European Discretionary Probabilistic Market Neutral Fund
- AUM US\$ 428mn¹



Kernel.

DESCRIPTION

- Established July 2019
- Market Neutral Crypto Fund
- AUM US\$34mn¹



E15VC

DESCRIPTION


- Established January 2021
- Deep Technology Venture Fund
- AUM US\$93mn¹



SHK LATITUDE ALPHA

DESCRIPTION


- Established July 2021
- Global FoHF
- AUM US\$155mn¹



MCIP | MULTIPLE CAPITAL INVESTMENT PARTNERS

DESCRIPTION

- Established March 2021
- APAC Real Estate Loan Fund
- AUM US\$107mn¹



SHK PRIVATE ACCESS

DESCRIPTION

- Established March 2022
- Specific alternative investment opportunities
- AUM US\$3mn¹

¹ As at 30 June 2023

We continue to develop our distribution footprint, working with our partners to raise third party capital and with a select group of hedge funds to distribute their funds. In Q4 2022, we entered into distribution agreements with a number of high-quality hedge funds which are well known to Sun Hung Kai Capital Partners Limited (“SHKCP”), the regulated entity within the Group which is licensed to conduct funds management business. Over time, such arrangements will drive revenue growth and enhance diversification.

As previously announced, SHKCP established the SHK Capital Partners Private Access Fund SPC, which collaborates with the Company’s Investment Management division to target specific alternative investment opportunities for our clients. The Company has a strong investment pipeline, and we are actively discussing direct investment opportunities with our clients.

The build out of Family Office Solutions (“FOS”) post the launch in Q4 2022 continued to develop, with AUM of US\$45 million (including EAM) as at 30 June 2023. This unit provides customised alternative investment solutions that seek to create long-term value for a limited number of private clients, family offices and institutions. It offers bespoke and discretionary portfolios of alternative investments leveraging the experienced in-house teams and the capabilities of the broader Group. In addition, FOS supports clients with comprehensive business operations and reporting services.

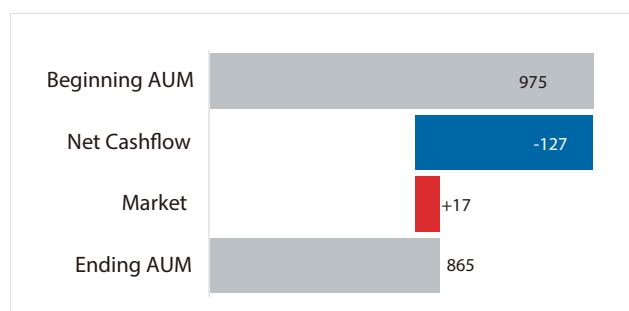
In relation to hedge funds, FOS provides private clients and institutions with bespoke advisory and discretionary portfolios of hedge funds. Mandates include standalone, completion strategy, or region specific and/or highly concentrated. The approach is dedicated to selecting best-in-class hedge fund managers and employing strategies uncorrelated to broader risk assets.

In terms of private investments, FOS provides access to exclusive direct market investments across regions, industries and capital structures (equity, debt, hybrid) either on a deal-by-deal basis, through funds or through co-investment funds. This flexible approach allows for innovative deal structuring that seeks to capitalise on prevailing market and deal dynamics.

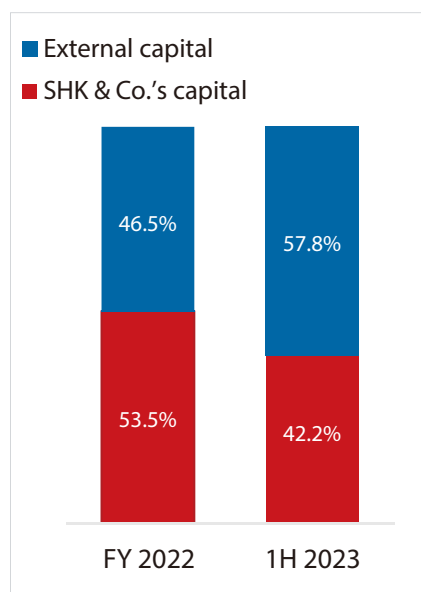
AUM and Segment Half Year Results

The decline in AUM was mainly the result of the full redemption from and closure of the GCO Global Credit Special Situations Feeder Fund I and the assignment of rights for receiving seeded capital fee of East Point Long Short Fund to Regal Partners.

AUM Movement in 1H 2023 (US\$'mn)



AUM Breakdown Between SHK & Co. and External Capital



Segment Half Year Results

The business produced a solid result for the first half, benefiting from the sale of East Point Asset Management revenue share rights to Regal Partners. Cost optimisation remains an ongoing focus, and the division saw a 39.3% reduction in costs versus the same period of 2022.

(HK\$ Million)	Six months ended		Change
	2023	2022	
Fee income	13.8	13.2	4.5%
Interest income	0.2	—	N/A
Other income/(expenses)	15.7	—	N/A
Total income	29.7	13.2	125.0%
Operating expenses	(12.5)	(20.6)	-39.3%
Net loss on financial assets ¹	(0.8)	(15.0)	-94.7%
Net exchange (loss)/gain	(0.1)	0.6	N/A
Pre-tax contribution	16.3	(21.8)	N/A

¹ Mark-to-market of carried interest distribution in kind received

The Funds Management business will continue to focus on growth, with a priority on diversification to deliver resilience, and on ongoing investment, particularly in FOS.

A key objective is to further extend our client reach through both channel partners and FOS. We are focused on expanding our distribution efforts through greater connectivity with our Partners to raise third party capital, promoting our own SHKCP Funds, selectively representing other third-party alternative managers and providing customised and fund access solutions to clients through FOS.

In addition, we will continue to source partnership opportunities to create a broader and more diversified platform. However, we remain cautious on significant capital deployment in this challenging investment cycle.

OUTLOOK

Looking ahead to the second half of 2023, our operating environment is still marked by uncertainties and volatility. We are closely monitoring the pace of Mainland China's economic recovery, the prospects for government stimulus and the implications for our portfolio companies. At the same time, the risk of a global economic recession driven by major developed economies continues to cloud markets. While the Fed's current rate hike cycle appears to be nearing its end, the cost of capital remains elevated, impacting asset valuations across the board and putting pressure on our funding costs. Moreover, heightened geopolitical tensions continue to weigh on investor sentiment.

Against this complex backdrop, we will continue to take a prudent approach to managing risks and a cautious stance towards growing our portfolio. Meanwhile, our focus will remain steadfast in building our infrastructure to support the establishment of a leading alternative investment platform.

FINANCIAL REVIEW

Financial Resources, Liquidity, Capital Structure and Key Performance Indicators

(HK\$ Million)	30 Jun 2023	31 Dec 2022	Change
Capital Structure			
Equity attributable to owners of the company	21,674.2	22,358.1	-3.1%
Total cash	6,676.6	5,883.9	13.5%
Total borrowings ¹	14,749.3	15,650.0	-5.8%
Net debt ²	8,072.7	9,766.1	-17.3%
Net debt to equity ratio	37.2%	43.7%	
Liquidity			
Interest cover ³	1.07	0.02	5,250%
Return Ratios			
Return on assets ⁴	-0.6%	-2.6%	
Return on equity ⁵	-2.6%	-6.5%	
Key Performance Indicator			
Book value per share (HK\$)	11.0	11.4	-3.5%
Dividend per share (HK cents)	12	26	N/A

¹ Bank and other borrowings and notes payable

² Total borrowing minus total cash

³ Earnings before interest and tax/interest expense

⁴ Annualised loss including non-controlling interests/average assets

⁵ Annualised loss attributable to Owners of the Company/average equity attributable to owners of the Company

The Group's net gearing ratio decreased to 37.2% at the end of the period and has remained healthy. Interest cover for the period increased to 1.07, compared with 0.02 for the year ended 2022, mainly due to the improved profitability for the period.

As at 30 June 2023, total borrowings of the Group amounted to HK\$14,749.3 million (31 December 2022: HK\$15,650.0 million). Of this amount, 46.4% was repayable within one year (31 December 2022: 35.8%). The Group maintained a balanced mix of funding from various sources. Bank and other borrowings accounted for 57.5% of total debt (31 December 2022: 57.4%) and were mainly at floating interest rates, primarily denominated in Hong Kong dollars and US dollars. There were no known seasonal factors in the Group's borrowing profile.

Return on assets changed to -0.6% as at 30 June 2023 (31 December 2022: -2.6%). Return on equity changed to -2.6% as at 30 June 2023 (31 December 2022: -6.5%), mainly due to the impact of reduced losses. The Group's total cash as at 30 June 2023 increased to HK\$6,676.6 million compared to HK\$5,883.9 million as at 31 December 2022, mainly due to the net cash inflow from investing activities. The strong cash position has provided us with comfortable liquidity during the volatile market conditions. The Company is well equipped to take advantage of available opportunities to optimise our capital efficiency in the long term.

As at 30 June 2023, the following notes were outstanding:

Note	Maturity Date	HK\$ Equivalent (In Million)	% Total
5.75% US\$ notes [^]	11/2024	2,544.5	40.5%
5.00% US\$ notes [^]	9/2026	3,178.3	50.7%
Asset backed notes	4/2024	551.4	8.8%
Total		6,274.2	100.0%

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

During the first half of 2023, the Group has repurchased an aggregate principal amount of US\$7.1 million of 5.75% Notes matured in November 2024 and US\$21.0 million of 5.00% Notes matured in September 2026 respectively. The repurchased Notes were cancelled respectively.

The Group continues to maintain a stable capital structure and is well positioned to avoid a liquidity crunch situation. The Group maintained foreign currency positions to manage its present and potential operating and investment activities. Part of the non-US or non-HK dollar investment assets were hedged against currency fluctuations. Exchange risks were closely monitored by the Group and held within monitored ratios.

Significant Investments

The Group did not have any significant investment which accounted for more than 5% of the Group's total assets as at 30 June 2023.

Material Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures

During the six months ended 30 June 2023, the Group had no material acquisitions and disposal of subsidiaries, associates and joint ventures.

Important Events After the End of the Financial Period

There are no important events affecting the Group which have occurred after the end of the financial period ended 30 June 2023 and up to the date of this report.

Charges on Group Assets

Properties of the Group with a total book value of HK\$880.0 million were pledged by subsidiaries to banks for facilities granted to them as at 30 June 2023. HK\$50.5 million of secured loans was drawn down as at 30 June 2023.

As at 30 June 2023, HK\$867.8 million (2022: HK\$1,025.0 million) of mortgage loans receivable were pledged for a securitization financing transaction.

Contingent liabilities

Details regarding contingent liabilities are set out in Note 28 of the condensed consolidated financial statements.

PEOPLE & CULTURE

As at 30 June 2023, the Group's total staff numbered 1,235 (31 December 2022: 1,608). Of this, 80 staff (31 December 2022: 76) were corporate and Investment Management staff and the remainder were within the main subsidiaries UAF and SHK Credit. The net decrease in staff numbers was mainly a result of the scaling down of UAF's unsecured loan business in Mainland China while focusing on secured lending in the market. Total staff costs amounted to HK\$284.7 million (first half of 2022: HK\$248.1 million), mainly reflecting changes in performance-related compensation, partly offset by the decrease in salary expenses as a result of the reduced number of staff.

The Group adopts various compensation structures as relevant to different job roles and functions within the organisation. For most staff, compensation comprises base salary with bonus or performance-based incentives, as appropriate. The remuneration packages of employees in a sales function consist of a base pay and commission, bonus or performance-based incentives as appropriate. In addition to monetary reward, the Group also provides competitive fringe benefits to attract and retain the best talent, e.g. Medical and Dental Benefit Enhancement and our pioneering Unlimited Annual Leave policy.

Under the Employee Ownership Scheme ("EOS"), selected employees or directors of the Group (the "Selected Grantees") were awarded shares of the Company. Following management's recommendation, a total of 1,647,000 shares were granted to the Selected Grantees during the period subject to various terms. A total of 2,586,000 shares were vested in the first half of 2023. As at 30 June 2023, the outstanding award shares under the EOS amounted to 4,656,000 shares.

The Group values its people as our greatest asset. We believe that a competent and motivated workforce, able to work in safe conditions, is integral to the sustainable growth of our business. In line with our business strategies and continued development and retention of a high-performance team, the Group supports employee engagement activities and professional development with in-person training and online learning platforms.

DIRECTORS' INTERESTS

As at 30 June 2023, 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 (the "Section 352 Register") were as follows:

(A) Interests in the shares of the Company (the "Shares")

Name of Directors	Capacity	Number of Shares	Approximate % of the total number of issued Shares
Lee Seng Huang	Interests of controlled corporation (Note 1)	1,442,182,575 (Note 2)	73.33%
Simon Chow Wing Charn	Beneficial owner	1,681,000	0.08%
Peter Anthony Curry	Beneficial owner	1,241,141	0.06%

Notes:

1. Mr. Lee Seng Huang, a Director, together with Mr. Lee Seng Hui and Ms. Lee Su Hwei are the trustees of Lee and Lee Trust, being a discretionary trust. The Lee and Lee Trust controlled approximately 74.99% 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.
2. This referred to the deemed interests in 1,442,182,575 Shares held by AP Emerald Limited ("AP Emerald"), a wholly-owned subsidiary of AP Jade Limited ("AP Jade") which in turn was a wholly-owned subsidiary of Allied Properties (H.K.) Limited ("APL"). AGL directly and indirectly (through Capscore Limited, Citiwealth Investment Limited and Sunhill Investments Limited, all being direct wholly-owned subsidiaries of AGL) owned 100% of the total number of issued shares of APL. AGL was therefore deemed to have interests in the Shares in which AP Emerald was interested.

DIRECTORS' INTERESTS

(B) Interests in the shares of associated corporations

Name of Directors	Associated corporations	Capacity	Number of shares	Approximate % of the total number of relevant shares
Lee Seng Huang (<i>Note 1</i>)	AGL	Trustee (<i>Note 2</i>)	2,634,646,760	74.98%
	Tian An China Investments Company Limited ("TACI")	Interests of controlled corporation (<i>Note 3</i>)	816,920,096	55.72%
	Tian An Australia Limited ("TIA")	Interests of controlled corporation (<i>Note 4</i>)	66,432,267	76.70%
	Asiasec Properties Limited ("Asiasec")	Interests of controlled corporation (<i>Note 5</i>)	930,376,898	74.98%
	MCIP CI I Limited ("MCIP CI") (<i>Note 6</i>)	Beneficial owner	5 (<i>Note 7</i>)	33.33%
Vivian Alexa Kao	SHK Latitude Alpha Feeder Fund (<i>Note 8</i>)	Interests of controlled corporation (<i>Note 9</i>)	950 (<i>Note 10</i>)	0.27%

Notes:

- Mr. Lee Seng Huang, by virtue of his interests in AGL, was deemed to be interested in the shares of the subsidiaries of AGL, 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 (the "Stock Exchange") for exemption from disclosure in this report Mr. Lee's deemed interests in the shares of such associated corporations of the Company as recorded in the Section 352 Register, and a waiver was granted by the Stock Exchange on 18 July 2023.
- Mr. Lee Seng Huang is one of the trustees of Lee and Lee Trust, being a discretionary trust which indirectly controlled 2,634,646,760 shares of AGL.
- This referred to the same interest held indirectly by AGL in TACI.
- This referred to the same interest held indirectly by AGL in TIA through TACI.
- This referred to the same interest held indirectly by AGL in Asiasec through TACI.
- MCIP CI was a non wholly-owned subsidiary of the Company and therefore was an associated corporation of the Company as defined under the SFO.
- This referred to non-voting participating class C shares in the issued share capital of MCIP CI.
- SHK Latitude Alpha Feeder Fund was a non wholly-owned subsidiary of the Company and therefore was an associated corporation of the Company as defined under the SFO.
- The interests were held by Tamarind Limited, which in turn was wholly-owned by Shou Zi Chew 2019 Trust. Ms. Vivian Alexa Kao together with Mr. Shou Zi Chew are the co-trustees of Shou Zi Chew 2019 Trust and was therefore deemed to have interest in the shares held by Tamarind Limited.
- This referred to redeemable, non-voting participating class A shares in the issued share capital of SHK Latitude Alpha Feeder Fund.

All interests stated above represent long positions. As at 30 June 2023, 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 2023, 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 Section 352 Register 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 2023, the following shareholders had interests in the 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	Approximate % of the total number of issued Shares
AGL	Interests of controlled corporation (<i>Note 1</i>)	1,442,182,575	73.33%
Lee and Lee Trust	Interests of controlled corporation (<i>Note 2</i>)	1,442,182,575	73.33%
Lee Su Hwei	Interests of controlled corporation and interests of spouse (<i>Note 3</i>)	1,457,406,575	74.10%

Notes:

1. The interests were held by AP Emerald, a wholly-owned subsidiary of AP Jade which in turn was a wholly-owned subsidiary of APL. AGL directly and indirectly (through Capscore Limited, Citiwealth Investment Limited and Sunhill Investments Limited, all being direct wholly-owned subsidiaries of AGL) owned 100% of the total number of issued shares of APL. AGL was therefore deemed to have interests in the Shares in which AP Emerald was interested.
2. 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 74.99% 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 through AP Emerald.
3. This represented interests in (i) same parcel of Shares in which the Lee and Lee Trust was deemed to have an interest; and (ii) 15,224,000 Shares held by Mr. Chen Yue Jia James, the spouse of Ms. Lee Su Hwei.

All interests stated above represented long positions. As at 30 June 2023, no short positions were recorded in the SFO Register of the Company.

Save as disclosed above, as at 30 June 2023, the Directors were not aware of any other persons who had 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 2023, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules, except for certain deviations which are summarised below:

(a) Code Provision C.2.1

Code provision C.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 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 then Group Deputy Chief Executive Officer, Mr. Simon Chow Wing Charn and the Group Chief Financial Officer, Mr. Brendan James McGraw. The Group Executive Chairman oversees the Group’s Investment Management business 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 Chief Executive Officer. Mr. Simon Chow assisted the Group Executive Chairman in driving the performance of the Mortgage Loans and other operating businesses of the Group as well as exploring new areas of growth, and Mr. McGraw assisted the Group Executive Chairman to oversee the Group’s financial, treasury and risk management functions.

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 E.1.2 and D.3.3

Code provisions E.1.2 and D.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 E.1.2 of the CG Code, except that the Remuneration Committee shall make recommendations to the Board on the remuneration packages of the Executive Directors only and not senior management (as opposed to executive directors and senior management under the code provision).

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

The reasons for the above deviations had been set out in the Corporate Governance Report contained in the Company’s annual report for the financial year ended 31 December 2022. 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 2023 (2022: HK12 cents per Share) payable to the shareholders whose names appear on the register of members of the Company on 6 September 2023. Dividend warrants for the interim dividend are expected to be dispatched on 15 September 2023.

Closure of Register of Members

The register of members of the Company will be closed from 4 September 2023 to 6 September 2023 (both days inclusive), during which period no transfer of shares will be registered. The ex-dividend date will be 31 August 2023. In order to qualify for entitlement to the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's registrar, Tricor Secretaries Limited of 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on 1 September 2023.

Changes in Directors' Information

- Ms. Jacqueline Alee Leung ceased to be a co-opted member of the Hospital Governing Committee (HGC) of Prince of Wales Hospital (PWH) since April 2023.
- Mr. Peter Anthony Curry was appointed as the non-executive Chairman of Tian An Australia Limited (listed on the Australian Securities Exchange) with effect from 30 June 2023.
- Mr. Brendan James McGraw was appointed as a director of Skandia Holding de Colombia S.A., a company incorporated in Colombia, on 18 July 2023.

Purchase, Sale or Redemption of Securities

(1) Repurchase of Shares

During the six months ended 30 June 2023, the Company repurchased a total of 770,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK\$2,307,290. All the repurchased Shares were subsequently cancelled.

Particulars of the repurchases are as follows:

Month	Number of Shares repurchased	Purchase price per Share		Aggregate consideration (before expenses) (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
January	240,000	3.29	2.98	760,700
February	-	-	-	-
March	106,000	2.99	2.97	316,670
April	240,000	2.99	2.89	702,140
May	184,000	2.89	2.82	527,780
June	-	-	-	-
Total	770,000			2,307,290

(2) Redemption of Notes of a subsidiary, Sun Hung Kai & Co. (BVI) Limited ("SHK BVI")

During the six months ended 30 June 2023, the Group has repurchased (i) an aggregate principal amount of US\$7,075,000 of the US\$350,000,000 5.75% guaranteed notes due November 2024 (the "2024 Notes") issued by SHK BVI under the US\$3,000,000,000 Guaranteed Medium Term Note Programme (the "MTN Programme") and listed on the Stock Exchange (stock code: 40065); and (ii) an aggregate principal amount of US\$20,997,000 of the US\$450,000,000 5.00% guaranteed notes due September 2026 (the "2026 Notes") issued by SHK BVI under the MTN Programme and listed on the Stock Exchange (stock code: 40831). The repurchased 2024 Notes and 2026 Notes were cancelled thereafter respectively.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's or its subsidiaries' listed securities during the six months ended 30 June 2023.

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 2023. 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, 16 August 2023

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

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

德勤

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 46, which comprise the condensed consolidated statement of financial position as of 30 June 2023 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and 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, 16 August 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(HK\$ Million)	Notes	Six months ended	
		30/6/2023 Unaudited	30/6/2022 Unaudited
Interest income		1,890.0	1,991.0
Other revenue	5	78.3	65.1
Other gains	6	46.5	18.5
Total income		2,014.8	2,074.6
Brokerage and commission expenses		(75.0)	(83.5)
Advertising and promotion expenses		(70.3)	(57.4)
Direct costs and operating expenses		(37.5)	(56.3)
Administrative expenses		(503.7)	(548.7)
Net loss on financial assets and liabilities at fair value through profit or loss		(416.5)	(519.5)
Net exchange loss		(36.0)	(133.1)
Net impairment losses on financial assets	7	(310.8)	(312.5)
Finance costs		(486.3)	(426.7)
Other losses	8	(24.0)	(15.8)
		54.7	(78.9)
Share of results of associates		(8.0)	(21.7)
Share of results of joint ventures		(10.2)	45.5
Profit (loss) before taxation	9	36.5	(55.1)
Taxation	10	(167.3)	(145.6)
Loss for the period		(130.8)	(200.7)
(Loss) profit attributable to:			
– Owners of the Company		(287.5)	(401.2)
– Non-controlling interests		156.7	200.5
		(130.8)	(200.7)
Loss per share	12		
– Basic (HK cents)		(14.7)	(20.5)
– Diluted (HK cents)		(14.7)	(20.4)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(HK\$ Million)	Six months ended	
	30/6/2023 Unaudited	30/6/2022 Unaudited
Loss for the period	(130.8)	(200.7)
Other comprehensive (expenses) income:		
Items that will not be reclassified to profit or loss		
Fair value loss on investments in equity instruments at fair value through other comprehensive income, net of tax	(17.5)	(229.1)
Revaluation gain on properties	19.1	–
	1.6	(229.1)
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translating foreign operations	(177.9)	(226.9)
Reclassification adjustment to profit or loss on liquidation of subsidiaries	–	8.1
Share of other comprehensive income (expenses) of associates	4.9	(15.9)
Share of other comprehensive expenses of joint ventures	(5.5)	(29.8)
	(178.5)	(264.5)
Other comprehensive expenses for the period	(176.9)	(493.6)
Total comprehensive expenses for the period	(307.7)	(694.3)
Total comprehensive (expenses) income attributable to:		
– Owners of the Company	(411.0)	(785.7)
– Non-controlling interests	103.3	91.4
	(307.7)	(694.3)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(HK\$ Million)	Notes	30/6/2023 Unaudited	31/12/2022 Audited	(HK\$ Million)	Notes	30/6/2023 Unaudited	31/12/2022 Audited
Non-current Assets				Current Liabilities			
Investment properties		1,240.2	1,217.1	Financial liabilities at fair value			
Property and equipment		412.0	471.2	through profit or loss	14	313.4	407.4
Right-of-use assets	13	218.6	323.1	Bank and other borrowings	20	6,211.6	5,510.0
Intangible assets		914.9	911.6	Creditors and accruals	21	423.7	464.7
Goodwill		2,384.0	2,384.0	Amounts due to brokers		213.6	79.6
Interest in associates		173.6	176.6	Amount due to a holding company		1.5	1.8
Interest in joint ventures		156.9	355.4	Provisions		51.5	48.8
Financial assets at fair value				Taxation payable		128.0	93.5
through other comprehensive				Other liabilities	22	14.8	38.7
income	14	228.6	246.1	Lease liabilities	23	97.3	118.6
Financial assets at fair value				Notes payable	25	635.8	86.8
through profit or loss	14	9,676.3	10,323.2			<u>8,091.2</u>	<u>6,849.9</u>
Deferred tax assets		375.5	453.4	Net Current Assets		12,663.4	13,806.0
Amounts due from associates		241.6	239.1	Total Assets less Current Liabilities		33,275.4	36,064.8
Loans and advances to consumer				Capital and Reserves			
finance customers	15	3,724.0	3,797.3	Share capital	24	8,752.3	8,752.3
Mortgage loans	16	808.6	1,273.0	Reserves		<u>12,921.9</u>	<u>13,605.8</u>
Term loans	17	27.0	42.7	Equity attributable to owners of the			
Prepayments, deposits and other				Company		21,674.2	22,358.1
receivables	18	30.2	45.0	Non-controlling interests		<u>3,297.5</u>	<u>3,198.0</u>
		<u>20,612.0</u>	<u>22,258.8</u>	Total Equity		<u>24,971.7</u>	<u>25,556.1</u>
Current Assets				Non-current Liabilities			
Financial assets at fair value				Financial liabilities at fair value			
through profit or loss	14	4,081.5	4,115.1	through profit or loss	14	101.5	99.6
Taxation recoverable		15.1	16.8	Deferred tax liabilities		139.6	134.6
Amounts due from associates		6.1	2.6	Bank and other borrowings	20	2,263.5	3,475.2
Loans and advances to consumer				Provisions		0.6	0.5
finance customers	15	6,911.0	7,228.6	Other liabilities	22	32.8	13.2
Mortgage loans	16	1,861.3	1,790.9	Lease liabilities	23	127.3	207.6
Term loans	17	241.3	294.8	Notes payable	25	5,638.4	6,578.0
Prepayments, deposits and other						<u>8,303.7</u>	<u>10,508.7</u>
receivables	18	180.7	197.5			<u>33,275.4</u>	<u>36,064.8</u>
Amounts due from brokers		781.0	1,125.7				
Bank deposits	19	43.4	156.5				
Cash and cash equivalents	19	6,633.2	5,727.4				
		<u>20,754.6</u>	<u>20,655.9</u>				

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(HK\$ Million)	Attributable to owners of the Company							Total	Non-controlling interests	Total equity
	Share capital	Shares held for Employee Ownership Scheme	Employee share-based compensation reserve	Exchange reserve	Revaluation reserve	Capital reserves	Retained earnings			
At 1 January 2023	8,752.3	(36.5)	14.1	(327.0)	29.9	104.2	13,821.1	22,358.1	3,198.0	25,556.1
(Loss) profit for the period	-	-	-	-	-	-	(287.5)	(287.5)	156.7	(130.8)
Other comprehensive expenses for the period	-	-	-	(118.5)	(5.0)	-	-	(123.5)	(53.4)	(176.9)
Total comprehensive (expenses) income for the period	-	-	-	(118.5)	(5.0)	-	(287.5)	(411.0)	103.3	(307.7)
Recognition of equity-settled share-based payments	-	-	4.9	-	-	-	-	4.9	-	4.9
Vesting of shares of the SHK Employee Ownership Scheme	-	10.3	(10.3)	-	-	-	-	-	-	-
Shares repurchased and cancelled	-	-	-	-	-	-	(2.4)	(2.4)	-	(2.4)
Disposal of investment properties	-	-	-	-	(11.4)	-	11.4	-	-	-
Interim dividend paid	-	-	-	-	-	-	(275.4)	(275.4)	-	(275.4)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(3.8)	(3.8)
At 30 June 2023	8,752.3	(26.2)	8.7	(445.5)	13.5	104.2	13,267.2	21,674.2	3,297.5	24,971.7

(HK\$ Million)	Attributable to owners of the Company							Total	Non-controlling interests	Total equity
	Share capital	Shares held for Employee Ownership Scheme	Employee share-based compensation reserve	Exchange reserve	Revaluation reserve	Capital reserves	Retained earnings			
At 1 January 2022	8,752.3	(46.7)	16.5	22.2	248.9	100.7	15,981.3	25,075.2	3,464.0	28,539.2
(Loss) profit for the period	-	-	-	-	-	-	(401.2)	(401.2)	200.5	(200.7)
Other comprehensive expenses for the period	-	-	-	(156.3)	(228.2)	-	-	(384.5)	(109.1)	(493.6)
Total comprehensive (expenses) income for the period	-	-	-	(156.3)	(228.2)	-	(401.2)	(785.7)	91.4	(694.3)
Purchase of shares held for SHK Employee Ownership Scheme	-	(1.3)	-	-	-	-	-	(1.3)	-	(1.3)
Recognition of equity-settled share-based payments	-	-	5.3	-	-	-	-	5.3	-	5.3
Vesting of shares of the SHK Employee Ownership Scheme	-	11.8	(11.8)	-	-	-	-	-	-	-
Shares repurchased and cancelled	-	-	-	-	-	-	(3.1)	(3.1)	-	(3.1)
Interim dividend paid	-	-	-	-	-	-	(276.3)	(276.3)	-	(276.3)
Special dividend paid	-	-	-	-	-	-	(78.9)	(78.9)	-	(78.9)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(421.6)	(421.6)
Transfer capital reserves to retained earnings	-	-	-	-	-	(0.1)	0.1	-	-	-
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	(5.6)	(5.6)	-	(5.6)
At 30 June 2022	8,752.3	(36.2)	10.0	(134.1)	20.7	100.6	15,216.3	23,929.6	3,133.8	27,063.4

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(HK\$ Million)	Six months ended		(HK\$ Million)	Six months ended	
	30/6/2023 Unaudited	30/6/2022 Unaudited		30/6/2023 Unaudited	30/6/2022 Unaudited
Operating activities			Financing activities		
Cash (used in) from operations			Bank and other borrowings repaid	(1,289.2)	(6,205.6)
– Change in loans and advances to consumer finance customers	(94.8)	(307.0)	Bank and other borrowings raised	750.5	7,139.4
– Change in mortgage loans	408.5	74.3	Payment of loan arrangement fees	(48.7)	(87.0)
– Change in term loans	44.3	271.2	Proceeds from issue of notes	–	797.2
– Change in financial assets at fair value through profit or loss	(368.6)	1,008.3	Redemption of notes	(184.5)	–
– Other operating cash flows	(45.6)	(515.9)	Repayment of notes	(190.0)	(111.5)
	(56.2)	530.9	Purchase of shares for the SHK Employee Ownership Scheme	–	(1.3)
Dividends received from financial assets at fair value through profit or loss	37.4	27.2	Lease payments	(63.5)	(56.5)
Interest received	1,893.6	2,008.8	Shares repurchased and cancelled	(2.4)	(3.1)
Interest paid	(449.0)	(376.3)	Dividends paid	(275.4)	(355.2)
Taxation paid	(62.7)	(47.5)	Dividends to non-controlling interests	(3.8)	(421.6)
Net cash from operating activities	1,363.1	2,143.1	Distribution to third-party interests in consolidated structured entities	(21.4)	(8.6)
Investing activities			Contribution from third-party interests in consolidated structured entities	20.3	10.5
Purchase of property and equipment	(23.3)	(5.4)	Acquisition of additional interests in a subsidiary	–	(5.6)
Purchase of intangible assets	(3.7)	(5.7)	Net cash (used in) from financing activities	(1,308.1)	691.1
Payment of deposits of right-of-use assets	(0.2)	(5.2)	Net increase in cash and cash equivalents	1,001.1	2,408.8
Payment of deposits of property and equipment	(1.7)	–	Cash and cash equivalents at 1 January	5,727.4	5,864.7
Proceeds on disposal of property and equipment	2.8	0.2	Effect of foreign exchange rate changes	(95.3)	(114.4)
Proceeds on disposal of investment properties	44.8	–	Cash and cash equivalents at 30 June	6,633.2	8,159.1
Proceeds on disposal of intangible assets	–	5.4			
Dividends received from joint ventures	182.9	–			
Dividends received from associates	–	0.2			
Purchase of long-term financial assets at fair value through profit or loss	(236.1)	(1,835.2)			
Proceeds from disposal of long-term financial assets as at fair value through profit or loss	868.6	1,370.3			
Withdrawal of fixed deposits with banks	112.0	50.0			
Net cash from (used in) investing activities	946.1	(425.4)			

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 2022 included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2022 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. 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 condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Other than additional 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 condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2022.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's condensed consolidated financial statements.

HKFRS 17	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules

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

Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Accounting policies

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the condensed consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Transition and summary of effects

The Group previously applied the HKAS 12 requirements to assets and liabilities arising from a single transaction as a whole and temporary differences relating to the relevant assets and liabilities were assessed on a net basis. The retrospective application of the new accounting policy to leasing transactions that occurred on or after 1 January 2022 in accordance with the transition provision has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impacts on application of Amendments to HKAS 12 International Tax Reform-Pillar Two Model Rules

In July 2023, the HKICPA issued the amendments to HKAS 12 to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "Pillar Two legislation"). The amendments require that entities shall apply the amendments immediately upon issuance. The amendments also require that entities shall disclose separately its current tax expense/income related to Pillar Two income taxes, and

the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group is yet to apply the temporary exception during the current interim period because the Group's entities are operating in jurisdictions which the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group's exposure to Pillar Two income taxes in the Group's annual consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

4. SEGMENT INFORMATION

"Funds Management" segment is separately presented from "Investment Management" segment. The directors of the Company consider that this change to segment reporting is in line with the changes of internal reporting reviewed by the chief operating decision maker in 2023.

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

	Six months ended 30 June 2023						Total
	Financing Business				Funds Management	Group Management and Support	
(HK\$ Million)	Consumer Finance	Private Credit	Mortgage Loans	Investment Management			
Segment revenue	1,628.6	16.2	146.2	78.1	14.0	131.0	2,014.1
Less: inter-segment revenue	-	-	-	-	-	(45.8)	(45.8)
Segment revenue from external customers	1,628.6	16.2	146.2	78.1	14.0	85.2	1,968.3
Segment profit or loss	553.8	(28.5)	71.6	(824.9)	16.3	266.4	54.7
Share of results of associates	-	-	-	(8.0)	-	-	(8.0)
Share of results of joint ventures	-	(10.2)	-	-	-	-	(10.2)
Profit (loss) before taxation	553.8	(38.7)	71.6	(832.9)	16.3	266.4	36.5
Included in segment profit or loss:							
Interest income	1,605.6	16.2	146.2	29.4	0.2	92.4	1,890.0
Other gains	5.3	-	-	2.8	15.7	22.7	46.5
Net (loss) gain on financial assets and liabilities at fair value through profit or loss	-	-	-	(420.7)	(0.8)	5.0	(416.5)
Net exchange (loss) gain	(12.3)	-	-	3.0	(0.1)	(26.6)	(36.0)
Net (impairment losses) reversal of impairment losses on financial assets	(293.6)	(25.6)	7.7	0.8	-	(0.1)	(310.8)
Other losses	(1.5)	-	-	(22.5)	-	-	(24.0)
Amortisation and depreciation	(69.9)	-	(2.9)	(0.1)	(0.2)	(26.5)	(99.6)
Finance costs	(238.2)	(12.5)	(51.8)	(2.4)	-	(212.3)	(517.2)
Less: inter-segment finance costs	-	12.5	18.4	-	-	-	30.9
Finance costs to external suppliers	(238.2)	-	(33.4)	(2.4)	-	(212.3)	(486.3)
Cost of capital (charges) income *	-	-	-	(367.5)	-	367.5	-

4. SEGMENT INFORMATION (Continued)

(HK\$ Million)	Six months ended 30 June 2022						Group Management and Support	Total
	Financing Business				Funds Management**			
	Consumer Finance	Private Credit	Mortgage Loans	Investment Management**				
Segment revenue	1,759.1	52.0	144.7	80.6	13.2	65.4	2,115.0	
Less: inter-segment revenue	–	–	–	–	–	(58.9)	(58.9)	
Segment revenue from external customers	1,759.1	52.0	144.7	80.6	13.2	6.5	2,056.1	
Segment profit or loss	645.4	3.7	78.0	(968.3)	(21.8)	184.1	(78.9)	
Share of results of associates	–	–	–	(21.7)	–	–	(21.7)	
Share of results of joint ventures	–	(8.7)	–	54.2	–	–	45.5	
Profit (loss) before taxation	645.4	(5.0)	78.0	(935.8)	(21.8)	184.1	(55.1)	
Included in segment profit or loss:								
Interest income	1,746.8	51.7	144.6	37.6	–	10.3	1,991.0	
Other gains	11.4	–	1.3	2.2	–	3.6	18.5	
Net gain (loss) on financial assets and liabilities at fair value through profit or loss	–	7.0	–	(620.1)	(15.0)	108.6	(519.5)	
Net exchange (loss) gain	(25.2)	–	–	(10.4)	0.6	(98.1)	(133.1)	
Net (impairment losses) reversal of impairment losses on financial assets	(312.3)	(21.2)	15.7	5.2	–	0.1	(312.5)	
Other losses	(1.5)	–	–	(14.3)	–	–	(15.8)	
Amortisation and depreciation	(57.6)	–	(2.7)	(0.1)	(0.1)	(24.9)	(85.4)	
Finance costs	(131.9)	(18.1)	(48.1)	(0.3)	–	(274.3)	(472.7)	
Less: inter-segment finance costs	–	18.1	27.7	0.2	–	–	46.0	
Finance costs to external suppliers	(131.9)	–	(20.4)	(0.1)	–	(274.3)	(426.7)	
Cost of capital (charges) income *	–	–	–	(375.9)	–	375.9	–	

* Cost of capital (charges) income are inter-segment transactions charged by Group Management and Support segment to other segments. The charges are determined by the internal capital consumed by the segments.

** The comparative figures for Investment Management and Funds Management segments were re-presented to align with the changes to segment reporting adopted in the 2023 interim report.

The geographical information of revenue is disclosed as follows:

(HK\$ Million)	Six months ended	
	30/6/2023	30/6/2022
Revenue from external customers by location of operations		
– Hong Kong	1,682.4	1,614.7
– People's Republic of China ("PRC")	285.9	441.4
	1,968.3	2,056.1

5. OTHER REVENUE

(HK\$ Million)	Six months ended	
	30/6/2023	30/6/2022
Service and commission income	20.1	10.3
Dividends from listed investments	30.8	22.9
Dividends from unlisted investments	8.7	6.6
Gross rental income from investment properties	12.1	14.3
Management fee income	3.1	3.1
Revenue sharing from funds	3.5	6.0
Others	–	1.9
	78.3	65.1

6. OTHER GAINS

(HK\$ Million)	Six months ended	
	30/6/2023	30/6/2022
Gain on repurchase of notes	21.2	–
Income from assignment of revenue sharing rights	15.7	–
Gain on disposal of property and equipment	2.0	–
Gain on disposal of investments	–	1.0
Change in net assets attributable to other holders of consolidated structured entities	–	2.9
Government grants on Employment Support Scheme	–	5.7
Miscellaneous income	7.6	8.9
	46.5	18.5

7. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

(HK\$ Million)	Six months ended	
	30/6/2023	30/6/2022
Loans and advances to consumer finance customers		
– Net impairment losses	(417.5)	(425.1)
– Recoveries of amounts previously written off	123.3	112.5
	(294.2)	(312.6)
Mortgage loans		
– Net reversal of impairment losses	7.7	15.7
	7.7	15.7
Term loans		
– Net impairment losses	(24.4)	(21.2)
	(24.4)	(21.2)
Amounts due from associates		
– Net (recognition) reversal of impairment losses	(0.5)	5.2
	(0.5)	5.2
Deposits and other receivables		
– Net reversal of impairment losses	0.6	0.4
	0.6	0.4
	(310.8)	(312.5)

8. OTHER LOSSES

(HK\$ Million)	Six months ended	
	30/6/2023	30/6/2022
Decrease in fair value of investment properties	23.4	14.0
Change in net assets attributable to other holders of consolidated structured entities	0.4	–
Net loss on disposal/write-off of equipment	–	0.4
Net loss on disposal of intangible assets	–	1.4
Others	0.2	–
	24.0	15.8

9. PROFIT (LOSS) BEFORE TAXATION

(HK\$ Million)	Six months ended	
	30/6/2023	30/6/2022
Profit (loss) before taxation has been arrived at after charging:		
Depreciation of property and equipment	(29.1)	(20.4)
Depreciation of right-of-use assets	(68.0)	(63.4)
Amortisation of intangible assets		
– Computer software (included in administrative expenses)	(2.5)	(1.6)
Payments for short-term leases and leases of low-value assets	(0.7)	(3.3)
Interest on bank borrowings, notes payable and financial assets sold under repurchase agreements	(479.6)	(419.6)
Interest on lease liabilities	(6.7)	(7.1)

10. TAXATION

(HK\$ Million)	Six months ended	
	30/6/2023	30/6/2022
Current tax		
– Hong Kong	97.2	123.5
– PRC	1.8	0.9
– Other jurisdictions	–	0.1
	99.0	124.5
Deferred tax	68.3	21.1
	167.3	145.6

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits arising in Hong Kong for the current and prior periods. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2022: 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 was immaterial in both periods presented.

11. DIVIDENDS

(HK\$ Million)	Six months ended	
	30/6/2023	30/6/2022
Dividends recognised as distribution during the period		
– 2022 second interim dividend of HK14 cents per share (2022: 2021 second interim dividend of HK14 cents per share)	275.4	276.3
– 2021 special dividend of HK4 cents per share	–	78.9
	275.4	355.2

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\$236.0 million (2022: interim dividend of HK12 cents per share amounting to HK\$236.7 million).

12. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following information:

(HK\$ Million)	Six months ended	
	30/6/2023	30/6/2022
Loss for the purposes of basic and diluted loss per share	(287.5)	(401.2)
Number of shares (in million)		
Weighted average number of ordinary shares for the purposes of basic loss per share	1,958.3	1,961.8
Effect of dilutive potential ordinary shares:		
– Adjustments on SHK Employee Ownership Scheme	1.5	1.7
Weighted average number of ordinary shares for the purposes of diluted loss per share	1,959.8	1,963.5

13. RIGHT-OF-USE ASSETS

The Group leases several assets including leasehold land, office and retail shops and equipment. The average lease term of right-of-use assets are as follows:

	30/6/2023	31/12/2022
Leasehold land	44.5 years	44.5 years
Office and retail shops	4.9 years	5.9 years
Equipment	4.6 years	4.5 years

The analysis of the carrying amount of right-of-use assets by class of underlying asset is as follows:

(HK\$ Million)	30/6/2023	31/12/2022
Net carrying amount		
– Leasehold land	3.4	3.6
– Office and retail shops	214.3	318.4
– Equipment	0.9	1.1
	218.6	323.1

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

(HK\$ Million)	Six months ended	
	30/6/2023	30/6/2022
Amount recognised in profit or loss		
– Depreciation of right-of-use assets	68.0	63.4
– Interest expenses of lease liabilities	6.7	7.1
– Expenses relating to short-term leases and leases of low-value assets	0.7	3.3

Additions to right-of-use assets amount to HK\$34.5 million in the interim reporting period (six months ended 30 June 2022: HK\$69.2 million).

The total cash outflow for leases amount to HK\$70.9 million in the interim reporting period (six months ended 30 June 2022: HK\$66.9 million).

14. 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 2023			
	Fair value			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income				
– Listed equity securities in Hong Kong	24.6	–	–	24.6
– Listed equity securities outside Hong Kong	195.5	–	–	195.5
– Unlisted overseas equity securities	–	–	8.5	8.5
	<u>220.1</u>	<u>–</u>	<u>8.5</u>	<u>228.6</u>
Financial assets at fair value through profit or loss				
– Listed equity securities in Hong Kong	502.0	–	–	502.0
– Unlisted equity securities in Hong Kong	–	1.5	–	1.5
– Unlisted equity securities outside Hong Kong	–	468.2	–	468.2
– Listed equity securities outside Hong Kong	623.5	–	–	623.5
– Over the counter derivatives	–	7.2	–	7.2
– Quoted options and futures	56.8	60.4	–	117.2
– Listed warrants	1.4	1.9	–	3.3
– Unlisted call option for club memberships	–	–	6.0	6.0
– Bonds and notes	–	12.2	179.5	191.7
– Loans receivable	–	–	557.7	557.7
– Unlisted preferred and ordinary shares issued by unlisted companies	–	2.0	597.0	599.0
– Unlisted convertible bonds issued by an unlisted company	–	7.8	27.3	35.1
– Unlisted overseas equity securities with a put right	–	–	399.6	399.6
– Unlisted overseas investment funds	–	2,559.5	7,686.3	10,245.8
	<u>1,183.7</u>	<u>3,120.7</u>	<u>9,453.4</u>	<u>13,757.8</u>
Analysed for reporting purposes as:				
– Non-current assets				9,676.3
– Current assets				4,081.5
				<u>13,757.8</u>
Financial liabilities at fair value through profit or loss				
– Quoted futures and options	94.8	50.5	–	145.3
– Foreign currency contracts	–	4.3	–	4.3
– Over the counter derivatives	–	36.5	–	36.5
– Short position in listed equity securities	60.5	–	–	60.5
– Listed equity securities outside Hong Kong under total return swap	0.2	–	–	0.2
– Unlisted equity securities outside Hong Kong under total return swap	–	43.5	–	43.5
– Unlisted preferred and ordinary shares issued by unlisted companies under total return swap	–	–	109.8	109.8
– Unlisted overseas investment funds under total return swap	–	–	14.8	14.8
	<u>155.5</u>	<u>134.8</u>	<u>124.6</u>	<u>414.9</u>
Analysed for reporting purposes as:				
– Non-current liabilities				101.5
– Current liabilities				313.4
				<u>414.9</u>

14. FINANCIAL ASSETS AND LIABILITIES *(Continued)*

(HK\$ Million)	At 31 December 2022			
	Fair value			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income				
– Listed equity securities in Hong Kong	26.0	–	–	26.0
– Listed equity securities outside Hong Kong	211.6	–	–	211.6
– Unlisted overseas equity securities	–	–	8.5	8.5
	<u>237.6</u>	<u>–</u>	<u>8.5</u>	<u>246.1</u>
Financial assets at fair value through profit or loss				
– Listed equity securities in Hong Kong	421.6	–	–	421.6
– Unlisted equity securities in Hong Kong	–	0.4	–	0.4
– Unlisted equity securities outside Hong Kong	–	480.1	–	480.1
– Listed equity securities outside Hong Kong	518.1	–	–	518.1
– Over the counter derivatives	–	23.0	–	23.0
– Foreign currency contracts	–	0.5	–	0.5
– Quoted options and futures	131.4	131.2	–	262.6
– Listed warrants	3.0	–	–	3.0
– Unlisted call option for club memberships	–	–	5.2	5.2
– Bonds and notes	–	11.9	177.8	189.7
– Loans receivable	–	–	434.3	434.3
– Unlisted preferred and ordinary shares issued by unlisted companies	–	7.9	566.3	574.2
– Unlisted convertible bonds issued by unlisted companies	–	7.8	24.0	31.8
– Unlisted overseas equity securities with a put right	–	–	398.3	398.3
– Unlisted overseas investment funds	–	3,429.1	7,666.4	11,095.5
	<u>1,074.1</u>	<u>4,091.9</u>	<u>9,272.3</u>	<u>14,438.3</u>
Analysed for reporting purposes as:				
– Non-current assets				10,323.2
– Current assets				<u>4,115.1</u>
				<u>14,438.3</u>
Financial liabilities at fair value through profit or loss				
– Quoted futures and options	77.6	69.8	–	147.4
– Foreign currency contracts	–	21.9	–	21.9
– Over the counter derivatives	–	22.3	–	22.3
– Short position in listed equity securities	148.7	–	–	148.7
– Listed equity securities outside Hong Kong under total return swap	0.2	–	–	0.2
– Unlisted equity securities outside Hong Kong under total return swap	–	44.6	–	44.6
– Unlisted preferred and ordinary shares issued by unlisted companies under total return swap	–	–	106.4	106.4
– Unlisted overseas investment funds under total return swap	–	–	15.5	15.5
	<u>226.5</u>	<u>158.6</u>	<u>121.9</u>	<u>507.0</u>
Analysed for reporting purposes as:				
– Non-current liabilities				99.6
– Current liabilities				<u>407.4</u>
				<u>507.0</u>

14. 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 based on 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 Norton Appraisals Holdings Limited, an independent and qualified professional valuer, not connected with the Group, 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 Norton Appraisals Holdings Limited, an independent and qualified professional valuer, not connected with the Group, 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 2023			
	Valuation technique	Significant unobservable inputs	Input values	Fair value HK\$ Million Sensitivity analysis
Financial assets at fair value through profit or loss				
Bonds and notes	Net asset value	Note 1	Note 1	179.5 Note 1
Loans receivable	Discounted cash flow	Discount rate	9.05% – 17.38%	557.7 An increase in discount rate would result in a decrease in the fair value.
Unlisted preferred shares issued by unlisted companies	Equity allocation method Market approach	Expected volatility Enterprise value to sales ratio	69.0% 6.7	33.9 An increase in expected volatility would result in a decrease in the fair value. An increase in enterprise value to sales ratio would result in an increase in the fair value.
Unlisted preferred shares issued by unlisted companies	Equity allocation method	Expected volatility	81.5%	172.4 An increase in expected volatility would result in a decrease in the fair value.
Unlisted preferred shares issued by unlisted companies	Equity allocation method	Expected volatility	106.5%	173.9 An increase in expected volatility would result in a decrease in the fair value.

14. FINANCIAL ASSETS AND LIABILITIES *(Continued)*

	At 30 June 2023				
	Valuation technique	Significant unobservable inputs	Input values	Fair value HK\$ Million	Sensitivity analysis
Financial assets at fair value through profit or loss (Continued)					
Unlisted preferred shares issued by unlisted companies	Equity allocation method	Expected volatility Price to book ratio	54.1% 1.7	78.4	An increase in expected volatility would result in a decrease in the fair value. An increase in price to book ratio would result in an increase in the fair value.
Unlisted preferred shares issued by an unlisted company	Equity allocation method	Expected volatility	64.3%	6.0	An increase in expected volatility would result in a decrease in the fair value.
Unlisted preferred shares issued by an unlisted company	Net asset value	Note 1	Note 1	15.4	Note 1
Unlisted ordinary shares issued by unlisted companies	Net asset value	Note 1	Note 1	57.8	Note 1
Unlisted ordinary shares issued by unlisted companies	Discounted cash flow	Discount rate	7.17%	59.2	An increase in discount rate would result in a decrease in the fair value.
Unlisted convertible bonds issued by an unlisted company	Binomial Model	Expected volatility Discount rate	43.7% 22.8%	27.3	An increase in expected volatility would result in an increase in the fair value. An increase in discount rate would result in a decrease in the fair value.
Unlisted overseas equity securities with a put right	Market approach	Price to book ratio Price to tangible book ratio Price to earnings ratio	1.4 1.8 7.6	399.6	An increase in price to book ratio would result in an increase in the fair value. An increase in price to tangible book ratio would result in an increase in the fair value. An increase in price to earnings ratio would result in an increase in the fair value.
Unlisted overseas investment funds	Net asset value	Note 1	Note 1	7,402.7	Note 1
Unlisted overseas investment funds	Equity allocation method Market approach	Expected volatility Price to sales ratio	53.2% 2.4	66.3	An increase in expected volatility would result in a decrease in the fair value. An increase in price to sales ratio would result in an increase in the fair value.
Unlisted overseas investment funds	Equity allocation method	Expected volatility	73.8%	16.8	An increase in expected volatility would result in a decrease in the fair value.

14. FINANCIAL ASSETS AND LIABILITIES *(Continued)*

	At 30 June 2023				
	Valuation technique	Significant unobservable inputs	Input values	Fair value HK\$ Million	Sensitivity analysis
Financial assets at fair value through profit or loss (Continued)					
Unlisted overseas investment funds	Equity allocation method	Expected volatility	49.0%	78.3	An increase in expected volatility would result in a decrease in the fair value.
Unlisted overseas investment funds	Equity allocation method	Expected volatility	51.7%	1.5	An increase in expected volatility would result in a decrease in the fair value.
Unlisted overseas investment funds	Equity allocation method	Expected volatility	52.7%	7.8	An increase in expected volatility would result in a decrease in the fair value.
Unlisted overseas investment funds	Market approach	Enterprise value to sales ratio	3.0	0.6	An increase in enterprise value to sales ratio would result in an increase in the fair value.
Unlisted overseas investment funds	Equity allocation method Market approach	Expected volatility Enterprise value to sales ratio	77.3% 1.4	31.3	An increase in expected volatility would result in a decrease in the fair value. An increase in enterprise value to sales ratio would result in an increase in the fair value.
Unlisted overseas investment funds	Market approach	Enterprise value to sales ratio	11.0	19.6	An increase in enterprise value to sales ratio would result in an increase in the fair value.
Unlisted overseas investment funds	Market approach	Price to sales ratio	3.4	36.0	An increase in price to sales ratio would result in an increase in the fair value.
Unlisted overseas investment funds	Market approach	Recent transaction prices	N/A	22.6	N/A
Unlisted overseas investment funds	Market approach	Recent transaction prices	N/A	2.8	N/A

14. FINANCIAL ASSETS AND LIABILITIES (Continued)

	At 31 December 2022				
	Valuation technique	Significant unobservable inputs	Input values	Fair value HK\$ Million	Sensitivity analysis
Financial assets at fair value through profit or loss					
Bonds and notes	Net asset value	Note 1	Note 1	177.8	Note 1
Loans receivable	Discounted cash flow	Discount rate	8.55% – 13.02%	434.3	An increase in discount rate would result in a decrease in the fair value.
Unlisted preferred shares issued by unlisted companies	Equity allocation method Market approach	Expected volatility Enterprise value to sales ratio	68.6% 4.9	30.6	An increase in expected volatility would result in a decrease in the fair value. An increase in enterprise value to sales ratio would result in an increase in the fair value.
Unlisted preferred shares issued by unlisted companies	Equity allocation method	Expected volatility	83.7%	171.8	An increase in expected volatility would result in a decrease in the fair value.
Unlisted preferred shares issued by unlisted companies	Equity allocation method Market approach	Expected volatility Price to sales ratio	110.1% 2.8	168.9	An increase in expected volatility would result in a decrease in the fair value. An increase in price to sales ratio would result in an increase in the fair value.
Unlisted preferred shares issued by unlisted companies	Equity allocation method	Expected volatility	96.4%	78.1	An increase in expected volatility would result in a decrease in the fair value.
Unlisted preferred shares issued by an unlisted company	Net asset value	Note 1	Note 1	15.6	Note 1
Unlisted ordinary shares issued by unlisted companies	Net asset value	Note 1	Note 1	55.6	Note 1
Unlisted ordinary shares issued by unlisted companies	Discounted cash flow	Discount rate	7.0%	45.7	An increase in discount rate would result in a decrease in the fair value.
Unlisted convertible bonds issued by an unlisted company	Binomial Model	Expected volatility Discount rate	49.7% 25.7%	24.0	An increase in expected volatility would result in an increase in the fair value. An increase in discount rate would result in a decrease in the fair value.
Unlisted overseas equity securities with a put right	Market approach	Price to book ratio Price to tangible book ratio	1.3 1.8	398.3	An increase in price to book ratio would result in an increase in the fair value. An increase in price to tangible book ratio would result in an increase in the fair value.
Unlisted overseas investment funds	Net asset value	Note 1	Note 1	7,338.8	Note 1
Unlisted overseas investment funds	Equity allocation method	Expected volatility	58.0%	10.1	An increase in expected volatility would result in a decrease in the fair value.

14. FINANCIAL ASSETS AND LIABILITIES *(Continued)*

	At 31 December 2022				
	Valuation technique	Significant unobservable inputs	Input values	Fair value HK\$ Million	Sensitivity analysis
Financial assets at fair value through profit or loss (Continued)					
Unlisted overseas investment funds	Equity allocation method Market approach	Expected volatility Price to sales ratio	42.4% 7.4	62.5	An increase in expected volatility would result in a decrease in the fair value. An increase in price to sales ratio would result in an increase in the fair value.
Unlisted overseas investment funds	Equity allocation method	Expected volatility	69.4%	16.3	An increase in expected volatility would result in a decrease in the fair value.
Unlisted overseas investment funds	Equity allocation method	Expected volatility	58.3%	104.2	An increase in expected volatility would result in a decrease in the fair value.
Unlisted overseas investment funds	Equity allocation method	Expected volatility	52.7%	1.6	An increase in expected volatility would result in a decrease in the fair value.
Unlisted overseas investment funds	Equity allocation method	Expected volatility	51.5%	7.8	An increase in expected volatility would result in a decrease in the fair value.
Unlisted overseas investment funds	Market approach	Price to sales ratio	4.0	2.4	An increase in price to sales ratio would result in an increase in the fair value.
Unlisted overseas investment funds	Equity allocation method Market approach	Expected volatility Enterprise value to sales ratio	75.7% 1.6	31.2	An increase in expected volatility would result in a decrease in the fair value. An increase in enterprise value to sales ratio would result in an increase in the fair value.
Unlisted overseas investment funds	Market approach	Enterprise value to sales ratio	8.6	15.6	An increase in enterprise value to sales ratio would result in an increase in the fair value.
Unlisted overseas investment funds	Market approach	Price to sales ratio	7.4	41.9	An increase in price to sales ratio would result in an increase in the fair value.
Unlisted overseas investment funds	Market approach	Price to sales ratio	2.3	31.2	An increase in price to sales ratio would result in an increase in the fair value.
Unlisted overseas investment funds	Market approach	Recent transaction prices	N/A	2.8	N/A

Note 1: The significant unobservable inputs of the investments of the Group are the net asset value of the underlying investments made by the funds/companies. The higher the net asset value of the underlying investments, the higher the fair value of the financial assets at fair value through profit or loss will be. The Group has determined that the reported net asset values provided by the external counterparties represent the fair values of the investments.

Note 2: There is no indication that any changes in the unobservable inputs to reflect reasonably possible alternative assumptions for the investments would result in significantly higher or lower fair value measurements.

14. FINANCIAL ASSETS AND LIABILITIES (Continued)

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

(HK\$ Million)	2023							Unrealised gain or loss for the year	
	Balance at 1/1/2023	Transfer [^]	Recognised gains or losses			Purchase	Disposal		Balance at 30/6/2023
			Profit or loss	Other comprehensive income					
Financial assets at fair value through other comprehensive income									
Unlisted overseas equity securities	8.5	-	-	-	-	-	8.5	-	
Financial assets at fair value through profit or loss									
Bonds and notes	177.8	-	1.7	-	-	-	179.5	1.7	
Loans receivable	434.3	-	(10.8)	-	198.3	(64.1)	557.7	(16.6)	
Unlisted call option for club memberships	5.2	-	0.8	-	-	-	6.0	0.8	
Unlisted preferred and ordinary shares issued by unlisted companies	566.3	6.0	24.7	-	-	-	597.0	24.7	
Unlisted convertible bonds issued by companies	24.0	-	3.3	-	-	-	27.3	3.3	
Unlisted overseas equity securities with a put right	398.3	-	1.3	-	-	-	399.6	1.3	
Unlisted overseas investment funds	7,666.4	-	96.9	-	220.5	(297.5)	7,686.3	(58.1)	
Financial liabilities at fair value through profit or loss									
Unlisted preferred and ordinary shares issued by unlisted companies under total return swap	(106.4)	-	(3.4)	-	-	-	(109.8)	(2.9)	
Unlisted overseas investment funds under total return swap	(15.5)	-	0.7	-	-	-	(14.8)	0.6	

[^] The investments were transferred between Level 2 and Level 3 categories and the transfers are primarily attributable to changes in observability of valuation inputs (e.g. availability of recent transaction price) in valuing these investments. Transfers between levels of the fair value hierarchy are deemed to occur at the end of each reporting period.

(HK\$ Million)	2022							Unrealised gain or loss for the year	
	Balance at 1/1/2022	Transfer [^]	Recognised gains or losses			Purchase	Disposal		Balance at 31/12/2022
			Profit or loss	Other comprehensive income					
Financial assets at fair value through other comprehensive income									
Unlisted overseas equity securities	8.5	-	-	-	-	-	8.5	-	
Financial assets at fair value through profit or loss									
Bonds and notes	-	204.8	(27.0)	-	-	-	177.8	-	
Loans receivable	-	346.3	(10.2)	-	288.7	(190.5)	434.3	(10.2)	
Unlisted call option for club memberships	3.5	-	1.7	-	-	-	5.2	-	
Unlisted preferred and ordinary shares issued by unlisted companies	172.1	352.4	32.3	-	122.0	(112.5)	566.3	31.5	
Unlisted convertible bonds issued by companies	26.3	-	(2.3)	-	-	-	24.0	(2.3)	
Unlisted overseas equity securities with a put right	-	397.6	0.7	-	-	-	398.3	0.7	
Unlisted overseas investment funds	9,474.6	-	(1,267.6)	-	1,008.0	(1,548.6)	7,666.4	(1,994.7)	
Unlisted trust fund	61.4	-	(5.3)	-	-	(56.1)	-	-	
Financial liabilities at fair value through profit or loss									
Over the counter derivatives	(192.2)	192.2	-	-	-	-	-	-	
Unlisted preferred and ordinary shares issued by unlisted companies under total return swap	-	-	-	-	(106.4)	-	(106.4)	-	
Unlisted overseas investment funds under total return swap	-	-	-	-	(15.5)	-	(15.5)	-	

[^] The investments were transferred between Level 2 and Level 3 categories and the transfers are primarily attributable to changes in observability of valuation inputs (e.g. availability of recent transaction price) in valuing these investments. Transfers between levels of the fair value hierarchy are deemed to occur at the end of each reporting period.

The net losses recognised in profit or loss for the period included an unrealised losses of HK\$42.9 million relating to level 3 financial assets at FVTPL as at 30 June 2023 (six months ended 30 June 2022: HK\$804.2 million) and unrealised losses of HK\$2.3 million relating to level 3 financial liabilities at FVTPL as at 30 June 2023 (six months ended 30 June 2022: nil). Fair value gains or losses on financial assets and liabilities measured at FVTPL are included in "net loss on financial assets and liabilities at fair value through profit or loss".

Save as disclosed elsewhere, the directors of the Company consider that the carrying amounts of financial assets and liabilities measured at amortised cost recognised in the consolidated financial statements approximate their fair values.

15. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

(HK\$ Million)	30/6/2023	31/12/2022
Loans and advances to consumer finance customers		
– Hong Kong	9,079.8	8,743.1
– PRC	2,096.6	2,887.2
	11,176.4	11,630.3
Less: impairment allowance	(541.4)	(604.4)
	10,635.0	11,025.9
Analysed for reporting purposes as:		
– Non-current assets	3,724.0	3,797.3
– Current assets	6,911.0	7,228.6
	10,635.0	11,025.9

The loans and advances to consumer finance customers bear interest rate are as follows:

(Per annum)	30/6/2023	31/12/2022
Fixed rate loans receivable	6.0% to 48.0%	6.0% to 48.0%
Variable rate loans receivable	P+4.0% to P+10.0%	P+4.0% to P+13.0%

“P” refers to Hong Kong dollars prime rate offered by The Hongkong and Shanghai Banking Corporation Limited from time to time to its prime customers, which is 5.75% at 30 June 2023 (2022: 5.625%).

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)	30/6/2023	31/12/2022
Less than 31 days past due	626.4	705.0
31–60 days	93.9	127.5
61–90 days	25.4	66.0
91–180 days	58.8	2.7
Over 180 days	63.3	67.6
	867.8	968.8

16. MORTGAGE LOANS

(HK\$ Million)	30/6/2023	31/12/2022
Mortgage loans		
– Hong Kong	2,705.7	3,107.5
Less: impairment allowance	(35.8)	(43.6)
	2,669.9	3,063.9
Analysed for reporting purposes as:		
– Non-current assets	808.6	1,273.0
– Current assets	1,861.3	1,790.9
	2,669.9	3,063.9

The mortgage loans bear interest rate are as follows:

(Per annum)	30/6/2023	31/12/2022
Fixed rate loans receivable	7.5% to 20.4%	7.5% to 20.4%
Variable rate loans receivable	P+0.5% to P+10.1%	P+1.0% to P+9.4%

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

(HK\$ Million)	30/6/2023	31/12/2022
Less than 31 days past due	100.2	207.8
31–60 days	239.3	22.6
61–90 days	–	–
91–180 days	5.9	0.1
Over 180 days	140.9	313.4
	486.3	543.9

As of 30 June 2023, HK\$867.8 million (2022: HK\$1,025.0 million) of mortgage loans receivable were pledged for a securitization financing transaction. Details of the transaction are disclosed in Note 25.

17. TERM LOANS

(HK\$ Million)	30/6/2023	31/12/2022
Secured term loans	998.2	1,022.9
Unsecured term loans	70.5	97.3
	1,068.7	1,120.2
Less: impairment allowance	(800.4)	(782.7)
	268.3	337.5
Analysed for reporting purposes as:		
– Non-current assets	27.0	42.7
– Current assets	241.3	294.8
	268.3	337.5

The term loans bear interest rate are as follows:

(Per annum)	30/6/2023	31/12/2022
Fixed rate loans receivable	8.2% to 19.8%	6.0% to 24.0%
Variable rate loans receivable	P+1.0%	P to P+1.0%

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

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

(HK\$ Million)	30/6/2023	31/12/2022
Deposits	92.8	91.0
Other receivables	47.3	111.4
Less: impairment allowance	(0.5)	(1.2)
Deposits and other receivables at amortised cost	139.6	201.2
Prepayments	71.3	41.3
	210.9	242.5
Analysed for reporting purposes as:		
– Non-current assets	30.2	45.0
– Current assets	180.7	197.5
	210.9	242.5

The following is an ageing analysis of the deposits and other receivables based on date of invoice/contract note at the reporting date, net of allowance for credit losses:

(HK\$ Million)	30/6/2023	31/12/2022
Less than 31 days	46.8	110.1
Deposits and other receivables without ageing	92.8	91.1
Deposits and other receivables at amortised cost	139.6	201.2

19. BANK DEPOSITS, CASH AND CASH EQUIVALENTS

(HK\$ Million)	30/6/2023	31/12/2022
Bank balances and cash	3,969.2	3,715.1
Fixed deposits with banks with an original maturity within 3 months	2,664.0	2,012.3
Cash and cash equivalents	6,633.2	5,727.4
Fixed deposits with banks with an original maturity between 4 to 12 months	43.4	156.5
	6,676.6	5,883.9

20. BANK AND OTHER BORROWINGS

(HK\$ Million)	30/6/2023	31/12/2022
Bank loans		
– Unsecured term loans	8,362.5	8,691.9
– Secured loans	50.5	231.2
Total bank borrowings	8,413.0	8,923.1
Other borrowings	62.1	62.1
	8,475.1	8,985.2
Analysed for reporting purposes as:		
– Current liabilities	6,211.6	5,510.0
– Non-current liabilities	2,263.5	3,475.2
	8,475.1	8,985.2

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

(HK\$ Million)	30/6/2023	31/12/2022
Bank borrowings		
– Within one year	6,211.6	5,275.7
– In the second year	1,313.8	1,316.9
– Over two years and within five years	887.6	2,096.2
Bank borrowings with a repayment on demand clause		
– Within one year	–	234.3
	8,413.0	8,923.1
Other borrowings		
– Over five years	62.1	62.1
	8,475.1	8,985.2

21. CREDITORS AND ACCRUALS

The following is an ageing analysis of the creditors and accruals based on the date of invoice/contract note at the reporting date:

(HK\$ Million)	30/6/2023	31/12/2022
Less than 31 days/repayable on demand	198.0	123.1
31–60 days	5.2	5.9
61–90 days	3.8	–
	207.0	129.0
Accrued staff costs, other accrued expenses and creditors without ageing	216.7	335.7
	423.7	464.7

22. OTHER LIABILITIES

(HK\$ Million)	30/6/2023	31/12/2022
Non-current		
– Third-party interests in consolidated structured entities	32.8	13.2
Current		
– Third-party interests in consolidated structured entities	14.8	38.7
	47.6	51.9

Third-party interests in consolidated structured entities consist of third-party unit holders' interests in these consolidated structured entities which are reflected as liabilities since there is a contractual obligation for the Group to repurchase or redeem the unit for cash. The third-party interests in consolidated structured entities are categorised at level 2 under fair value hierarchy.

The realisation of third-party interests in consolidated funds cannot be predicted with accuracy since these interests represent the interests of third-party unit holders in consolidated funds held to back investment contract liabilities and are subject to market risk and the actions of third-party investors.

23. LEASE LIABILITIES

(HK\$ Million)	30/6/2023	31/12/2022
Current liabilities	97.3	118.6
Non-current liabilities	127.3	207.6
	224.6	326.2

(HK\$ Million)	30/6/2023	31/12/2022
Maturity analysis:		
Not later than 1 year	97.3	118.6
Later than 1 year and not later than 5 years	107.3	160.6
Later than 5 years	20.0	47.0
	224.6	326.2

24. SHARE CAPITAL

	Number of shares		Share capital	
	Six months ended 30/6/2023 Million Shares	Year ended 31/12/2022 Million Shares	Six months ended 30/6/2023 HK\$ Million	Year ended 31/12/2022 HK\$ Million
Issued and fully paid				
Balance brought forward	1,967.4	1,973.3	8,752.3	8,752.3
Shares repurchased and cancelled	(0.8)	(5.9)	–	–
Balance carried forward	1,966.6	1,967.4	8,752.3	8,752.3

During the period, the trustee of the SHK Employee Ownership Scheme (the “EOS”) did not acquire any shares (six months ended 30 June 2022: 0.3 million) 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\$nil (six months ended 30 June 2022: HK\$1.3 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\$2.4 million (six months ended 30 June 2022: HK\$3.1 million).

25. NOTES PAYABLE

(HK\$ Million)	30/6/2023	31/12/2022
US dollar denominated notes (the “US\$ Notes”)		
– 5.75% US\$ Notes maturing in November 2024 (the “2024 Notes”)	2,544.5	2,590.3
– 5.00% US\$ Notes maturing in September 2026 (the “2026 Notes”)	3,178.3	3,332.6
HK dollar denominated notes (the “HK\$ Notes”)		
– Asset backed notes maturing in April 2024	551.4	741.9
	6,274.2	6,664.8
Analysed for reporting purposes as:		
– Current liabilities	635.8	86.8
– Non-current liabilities	5,638.4	6,578.0
	6,274.2	6,664.8

The US\$ Notes were issued by a subsidiary, Sun Hung Kai & Co. (BVI) Limited, under a US\$3 billion guaranteed medium term note programme.

The 2024 Notes are listed on The Stock Exchange of Hong Kong Limited. The nominal value of the 2024 Notes after eliminating the intra-group holdings was US\$322.47 million or equivalent to HK\$2,526.9 million (31/12/2022: US\$329.55 million or equivalent to HK\$2,573.8 million) at the reporting date. The fair value of the 2024 Notes based on the price quoted from pricing service at the reporting date was HK\$2,510.9 million (31/12/2022: HK\$2,457.2 million) which was categorised as Level 2.

The 2026 Notes are listed on The Stock Exchange of Hong Kong Limited. The nominal value of the 2026 Notes was US\$400.05 million or equivalent to HK\$3,134.8 million (31/12/2022: US\$421.05 million or equivalent to HK\$3,288.4 million) at the reporting date. The fair value of the 2026 Notes based on the price quoted from pricing service at the reporting date was HK\$2,827.1 million (31/12/2022: HK\$2,769.7 million) which was categorised as Level 2.

During the period ended 30 June 2023, the Group has repurchased an aggregate principal amount of US\$7.08 million of the 2024 Notes and an aggregate principal amount of US\$21.00 million of the 2026 Notes. The repurchased 2024 Notes and 2026 Notes were cancelled thereafter respectively.

During the year ended 31 December 2022, the Group has repurchased an aggregate principal amount of US\$10.32 million of the 2022 Notes, an aggregate principal amount of US\$20.45 million of the 2024 Notes and an aggregate principal amount of US\$28.95 million of the 2026 Notes. Among which, US\$10.32 million of the repurchased 2022 Notes, US\$19.5 million of the repurchased 2024 Notes and US\$28.75 million of the repurchased 2026 Notes were cancelled during the year, the remaining repurchased 2024 Notes and 2026 Notes were cancelled subsequent to the year end. The 2022 Notes matured in September 2022 and the outstanding balance was fully repaid during the year ended 31 December 2022.

25. NOTES PAYABLE *(Continued)*

In 2021, the Group entered into a HK\$1,066.7 million securitization financing transaction (the "Transaction"). Pursuant to the Transaction, the Group transferred mortgage loans receivable to a special purpose vehicle ("the SPV") established and operated in Hong Kong. The Transaction consists of two classes — Class A and Class B. In 2022, the Group renewed the Transaction into a HK\$1,611.4 million securitization financing transaction. Class B notes of HK\$411.4 million was subscribed by a subsidiary of the Group.

The Group holds undivided interest in the mortgage loans receivable transferred. In accordance with HKFRS 10 Consolidated Financial Statements, the SPV is controlled by the Group and the results thereof are consolidated by the Group in its condensed consolidated financial statements. According to HKFRS 9 Financial Instruments, assets transferred under the Transaction have not been derecognised and remained in the Group's condensed consolidated financial statements. The debt issued is backed by the mortgage loans receivable transferred and is recognised in the Group's condensed consolidated financial statements with the carrying amount denominated in HKD.

	Asset backed notes
	HK\$ Million
As at 30 June 2023	
Carrying amount of transferred assets	867.8
Carrying amount of associated liabilities	551.4
Net position	316.4
As at 31 December 2022	
Carrying amount of transferred assets	1,025.0
Carrying amount of associated liabilities	741.9
Net position	283.1

26. RELATED PARTY TRANSACTIONS

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

(HK\$ Million)	Six months ended	
	30/6/2023	30/6/2022
Associates and joint ventures of ultimate holding company		
Building management fees to a joint venture of ultimate holding company	(2.8)	(2.3)
Interest expense to a joint venture of ultimate holding company on lease liabilities *	(0.3)	(0.6)
Holding company and its subsidiaries		
Finance costs to fellow subsidiaries	(2.6)	(2.2)
Licence fee paid/payable to a fellow subsidiary	(1.0)	(1.0)
Interest expenses to a fellow subsidiary on lease liabilities	(0.4)	(0.1)
Management fees paid/payable to a holding company	(3.1)	(3.3)
Building management fees to a holding company	(0.1)	(0.1)
Rental and building management fees to fellow subsidiaries	(0.5)	(1.2)
Interest expense to a holding company on lease liabilities #	(1.5)	(1.6)
Other related parties		
Management fee received/receivable from a director of the Company under the Discretionary Investment Management Agreement	0.3	–

* As at 30 June 2023, the Group has lease liabilities of HK\$14.9 million (31/12/2022: HK\$31.5 million) to the joint venture of ultimate holding company. During the six months ended 30 June 2023, the Group recognised additions to right-of-use assets of HK\$nil (six months ended 30 June 2022: HK\$15.7 million) and additions to lease liabilities of HK\$nil (six months ended 30 June 2022: HK\$12.6 million) for properties with joint venture of the ultimate holding company.

As at 30 June 2023, the Group has lease liabilities of HK\$84.5 million (31/12/2022: HK\$80.7 million) to a holding company and its subsidiaries. During the six months ended 30 June 2023, the Group recognised additions to right-of-use assets of HK\$12.9 million (six months ended 30 June 2022: HK\$20.3 million) and additions to lease liabilities of HK\$12.1 million (six months ended 30 June 2022: HK\$20.2 million) for properties with a holding company.

26. RELATED PARTY TRANSACTIONS *(Continued)*

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

(HK\$ Million)	Six months ended	
	30/6/2023	30/6/2022
Short-term benefits	13.4	25.0
Post-employment benefits	0.5	1.1
	<u>13.9</u>	<u>26.1</u>

During the period, 903,000 shares (six months ended 30 June 2022: 1,353,000 shares) were granted under the EOS to key management personnel. In addition, 591,000 shares (six months ended 30 June 2022: 468,000 shares) with a total amount of HK\$2.9 million (six months ended 30 June 2022: HK\$1.8 million) were vested for key management personnel during the period. The total dividend payments paid to the key management personnel during the period is HK\$0.2 million (six months ended 30 June 2022: HK\$0.2 million). Further details of the EOS are disclosed in the Management Discussion and Analysis section of this interim report.

27. COMMITMENTS

(a) Other commitments

(HK\$ Million)	30/6/2023	31/12/2022
Capital commitments for funds	1,629.3	1,715.8
Other capital commitments	12.4	15.0
	<u>1,641.7</u>	<u>1,730.8</u>

(b) Lease commitments

The Group as lessee:

At 30 June 2023, the Group is committed to HK\$0.1 million (31/12/2022: HK\$0.6 million) for short-term leases.

The maturity profile of the lease liabilities are disclosed in note 23.

The Group as lessor:

At 30 June 2023, all of the properties held for rental purpose have committed operating leases for the next 3 years (31/12/2022: 3 years) respectively. Undiscounted lease payments receivables on leases are as follows:

(HK\$ Million)	30/6/2023	31/12/2022
Within one year	24.5	24.0
In the second year	7.7	12.5
In the third year	1.4	2.2
	<u>33.6</u>	<u>38.7</u>

(c) Loan commitments

(HK\$ Million)	30/6/2023	31/12/2022
Within one year	1,955.7	1,716.4
In the fourth year	10.6	–
In the fifth year	–	11.5
	<u>1,966.3</u>	<u>1,727.9</u>

28. CONTINGENT LIABILITIES

One subsidiary of the Group is the named defendant in legal action filed in the United States. The legal action relates to a disagreement regarding an incorrect transfer of a number of shares to the said subsidiary by a third party in 2017. The plaintiffs are claiming unspecified damages of US\$10 million and management considers that it is less than probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Therefore no provision for the contingent liabilities in respect of this legal action is necessary.

29. 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 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.

29. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Market Risk

(i) Price 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.

The Group's market-making and proprietary trading positions and their financial performance are reported daily to senior management for review.

(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 private credit, mortgage loans as well as 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, private equity investments, real estate investments, loans and advances and bank and other borrowings denominated in foreign currencies, mainly in Australian dollars, British pounds, Euro and Renminbi. Foreign exchange risk is managed and monitored by senior management. The risk arises from open currency positions are subject to ratios that are monitored and reported weekly.

(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 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 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.

30. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The directors of the Company 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.

31. CRITICAL ACCOUNTING JUDGMENTS 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 condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were similar to those that applied to the audited consolidated financial statements for the year ended 31 December 2022.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Lee Seng Huang (*Group Executive Chairman*)
Brendan James McGraw (*appointed on 1 July 2023*)

Non-Executive Directors

Simon Chow Wing Charn (*re-designated as a Non-Executive Director on 1 July 2023*)
Peter Anthony Curry

Independent Non-Executive Directors

Evan Au Yang Chi Chun
David Craig Bartlett
Alan Stephen Jones
Vivian Alexa Kao
Jacqueline Alee Leung
Wayne Robert Porritt

EXECUTIVE COMMITTEE

Lee Seng Huang (*Chairman*)
Brendan James McGraw (*appointed on 1 July 2023*)

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*)
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

Wayne Robert Porritt (*Chairman*)
Evan Au Yang Chi Chun
Vivian Alexa Kao
Brendan James McGraw
Ko Man Fly
Wong Kin Wing (*appointed on 18 May 2023*)
Lindsay Megan Wright
Phoebe Yuen Oi Ying

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

(*Established on 16 August 2023*)

Vivian Alexa Kao (*Chairman*)
David Craig Bartlett
Brendan James McGraw
Wayne Robert Porritt
Gary Chan Ming Tak
Samantha Che Chi Wing
Lindsay Megan Wright
Yeung Mei
Phoebe Yuen Oi Ying

COMPANY SECRETARY

Lee Sze Wai

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BANKERS

Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
Mizuho Bank, Ltd., Hong Kong Branch
Bank of China (Hong Kong) Limited
Bank of Communications (Hong Kong) Limited
China CITIC Bank International Limited
OCBC Bank (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
Chong Hing Bank Limited
Dah Sing Bank, Limited
Fubon Bank (Hong Kong) Limited
Public Bank (Hong Kong) Limited
Taipei Fubon Commercial Bank Co., Ltd.
CMB Wing Lung Bank Limited
Taishin International Bank Co., Ltd.
Cathay United Bank Company, Limited, Hong Kong Branch
China Minsheng Banking Corp. Ltd., Hong Kong Branch
Shanghai Pudong Development Bank Co., Ltd. Hong Kong Branch
Chiyu Banking Corporation Limited
Tai Fung Bank Limited
Mega International Commercial Bank Co., Ltd, Offshore Banking Branch
Credit Suisse AG, Cayman Islands Branch
Ping An Bank Co., Ltd., Hong Kong Branch
Bank of Shanghai (Hong Kong) Limited
Bank Sinopac Hong Kong Branch
China Everbright Bank Co., Ltd, Hong Kong Branch
Sumitomo Mitsui Trust Bank, Limited, Hong Kong Branch

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