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新鴻基有限公司

SUN HUNG KAI & CO. LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 86)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

The Board of Directors (the “Board” or the “Directors”) of Sun Hung Kai & Co. Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 as set out below:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Six months ended	
		30.6.2010	30.6.2009
		Unaudited	Unaudited
		HK\$ Million	HK\$ Million
Revenue*		1,479.6	1,504.2
Other income		146.3	81.5
Total income		1,625.9	1,585.7
Brokerage and commission expenses		(103.2)	(94.9)
Direct cost and operating expenses		(145.7)	(159.3)
Administrative expenses		(446.1)	(430.4)
Other expenses	5	(165.0)	(335.7)
Finance costs		(50.6)	(53.5)
		715.3	511.9
Loss on disposal of a listed associate	4	(159.3)	–
Loss on warrants of a listed associate		–	(0.3)
Share of results of associates		203.8	143.5
Share of results of jointly controlled entities		2.9	0.3
Profit before taxation	5	762.7	655.4
Taxation	6	(130.0)	(98.1)
Profit for the period		632.7	557.3
Profit attributable to:			
– Owners of the Company		492.1	507.2
– Non-controlling interests		140.6	50.1
		632.7	557.3
Earnings per share	8		
– Basic (HK cents)		28.1	29.5
– Diluted (HK cents)		28.1	29.5

* Revenue is also the Group’s turnover.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30.6.2010	30.6.2009
	Unaudited	Unaudited
	HK\$ Million	HK\$ Million
Profit for the period	632.7	557.3
Other comprehensive income		
Available-for-sale investments		
– Net fair value changes during the period	(2.1)	24.3
– Reclassification adjustment to profit or loss on disposal	(0.4)	(2.8)
– Deferred tax	(0.4)	(0.4)
	(2.9)	21.1
Exchange differences arising on translating foreign operations	11.8	(0.3)
Reclassification adjustment to profit or loss on liquidation of subsidiaries	(6.7)	–
Reclassification adjustment to profit or loss on disposal of a listed associate	(320.5)	–
Revaluation gain on properties transferred from property and equipment to investment properties	5.4	–
Share of other comprehensive income of associates	(2.1)	4.7
Other comprehensive (expenses) income for the period, net of tax	(315.0)	25.5
Total comprehensive income for the period	317.7	582.8
Total comprehensive income attributable to:		
– Owners of the Company	172.7	532.7
– Non-controlling interests	145.0	50.1
	317.7	582.8

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30.6.2010 Unaudited HK\$ Million	31.12.2009 Restated HK\$ Million
	Notes		
Non-current Assets			
Investment properties		125.5	130.1
Leasehold interests in land		9.9	13.0
Property and equipment		259.6	248.7
Intangible assets		1,269.9	1,354.3
Goodwill		2,384.0	2,384.0
Interest in associates		60.5	4,185.2
Interest in jointly controlled entities		188.5	72.0
Available-for-sale investments		278.8	286.2
Statutory deposits		43.7	36.0
Deferred tax assets		92.5	100.5
Amounts due from associates		56.1	56.1
Loans and advances to consumer finance customers		1,951.0	1,870.2
Prepaid deposits for acquisition of property and equipment and other receivables		53.4	—
		<u>6,773.4</u>	<u>10,736.3</u>
Current Assets			
Trade and other receivables	9	7,055.8	5,655.2
Loans and advances to consumer finance customers		2,715.6	2,456.2
Financial assets at fair value through profit or loss		507.8	677.6
Amounts due from associates		8.1	3.0
Amounts due from fellow subsidiaries and a holding company		1.4	0.7
Taxation recoverable		1.8	2.3
Cash and cash equivalents		1,451.2	1,346.0
		<u>11,741.7</u>	<u>10,141.0</u>
Current Liabilities			
Bank and other borrowings		(3,421.9)	(2,093.0)
Trade and other payables	10	(1,468.3)	(1,557.9)
Financial liabilities at fair value through profit or loss		(8.2)	(36.1)
Amounts due to fellow subsidiaries and a holding company		(1,567.6)	(1,568.9)
Amounts due to associates		(8.4)	(8.1)
Amounts due to a jointly controlled entity		(75.6)	—
Provisions		(53.3)	(12.4)
Taxation payable		(144.5)	(74.2)
		<u>(6,747.8)</u>	<u>(5,350.6)</u>
Net Current Assets		<u>4,993.9</u>	<u>4,790.4</u>
Total Assets less Current Liabilities		<u><u>11,767.3</u></u>	<u><u>15,526.7</u></u>

	<i>Notes</i>	30.6.2010 Unaudited HK\$ Million	31.12.2009 Restated HK\$ Million
Capital and Reserves			
Share capital		350.4	350.4
Reserves		8,702.0	12,333.0
Equity attributable to owners of the Company		9,052.4	12,683.4
Non-controlling interests		1,803.4	1,744.7
Total Equity		10,855.8	14,428.1
Non-current Liabilities			
Bonds		500.0	500.0
Bank and other borrowings		173.7	355.6
Provisions		9.2	6.0
Deferred tax liabilities		228.6	237.0
		911.5	1,098.6
		11,767.3	15,526.7



Notes:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A number of new or revised Standards and Interpretations are effective for the financial year beginning on 1 January 2010. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2009.

Amendment to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group classified leasehold land as operating leases and presented leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment has removed such a requirement.

In accordance with the transitional provisions of HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information which existed at the inception of the leases. Leasehold land that qualifies the finance lease classification has been reclassified from "leasehold interests in land" to "property and equipment" retrospectively. The adjustments in respect of the comparative figures are as follows:

	31.12.2009 Originally stated <i>HK\$ Million</i>	Adjustments <i>HK\$ Million</i>	31.12.2009 Restated <i>HK\$ Million</i>
Leasehold interests in land	131.4	(118.4)	13.0
Property and equipment	127.5	121.2	248.7
Trade and other receivables	5,658.0	(2.8)	5,655.2
	<u>5,916.9</u>	<u>—</u>	<u>5,916.9</u>

2. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segments:

	Six months ended 30 June 2010					
	Wealth management, brokerage and margin finance HK\$ Million	Corporate finance HK\$ Million	Asset management HK\$ Million	Consumer finance HK\$ Million	Principal investments HK\$ Million	Total HK\$ Million
Revenue	543.1	106.4	34.5	787.7	278.3	1,750.0
Net profit (loss) from financial assets and liabilities	(65.7)	66.8	–	–	(0.2)	0.9
Less: inter-segment revenue	(5.0)	(0.9)	(0.2)	–	(265.2)	(271.3)
Segment revenue from external customers	<u>472.4</u>	<u>172.3</u>	<u>34.3</u>	<u>787.7</u>	<u>12.9</u>	<u>1,479.6</u>
Segment profit before:	116.4	147.6	18.9	385.3	47.1	715.3
Loss on disposal of a listed associate	–	–	–	–	(159.3)	(159.3)
Segment profit or loss	<u>116.4</u>	<u>147.6</u>	<u>18.9</u>	<u>385.3</u>	<u>(112.2)</u>	<u>556.0</u>
Share of results of associates						203.8
Share of results of jointly controlled entities						2.9
Profit before taxation						<u>762.7</u>

	Six months ended 30 June 2009					
	Wealth management, brokerage and margin finance HK\$ Million	Corporate finance HK\$ Million	Asset management HK\$ Million	Consumer finance HK\$ Million	Principal investments HK\$ Million	Total HK\$ Million
Revenue	507.3	64.6	51.4	737.1	310.1	1,670.5
Net profit (loss) from financial assets and liabilities	150.4	(6.3)	–	–	0.5	144.6
Less: inter-segment revenue	(8.9)	(3.5)	(0.3)	–	(298.2)	(310.9)
Segment revenue from external customers	<u>648.8</u>	<u>54.8</u>	<u>51.1</u>	<u>737.1</u>	<u>12.4</u>	<u>1,504.2</u>
Segment profit before:	312.3	23.3	15.6	118.6	42.1	511.9
Loss on warrants of a listed associate	–	–	–	–	(0.3)	(0.3)
Segment profit	<u>312.3</u>	<u>23.3</u>	<u>15.6</u>	<u>118.6</u>	<u>41.8</u>	<u>511.6</u>
Share of results of associates						143.5
Share of results of jointly controlled entities						0.3
Profit before taxation						<u>655.4</u>

The following is an analysis of the Group's segment assets by operating segments:

	30.6.2010 <i>HK\$ Million</i>	31.12.2009 <i>HK\$ Million</i>
Wealth management, brokerage and margin finance	6,889.9	6,084.0
Corporate finance	957.3	677.3
Asset management	74.8	93.1
Consumer finance	9,291.8	8,808.0
Principal investments	893.8	795.8
Total segment assets	18,107.6	16,458.2

3. DISPOSAL OF 49% OWNERSHIP INTEREST IN A SUBSIDIARY

In April 2010, the Group disposed of 49% ownership interest in a wholly-owned subsidiary engaging in leveraged foreign exchange trading business. The control of the subsidiary after the disposal is shared by the Group and the other shareholder according to the relevant shareholders' agreement. As a result, the retained interest in the subsidiary is classified as a jointly controlled entity. The gain of the disposal is calculated as follows:

	<i>HK\$ Million</i>
Net assets disposed of:	
– Cash and cash equivalents	95.2
– Trade and other receivables	5.4
– Amount due from the Group	53.5
– Trade and other payables	(0.2)
– Taxation payable	(2.2)
	151.7
Consideration receivable	(66.1)
Retained interest in a jointly controlled entity	(114.9)
Gain on disposal of 49% ownership interest in a subsidiary	(29.3)

The retained interest in a jointly controlled entity included interest in non-voting shares in the former subsidiary of HK\$75.0 million. Pursuant to the terms of the relevant shareholders' agreement, after the reporting date, the non-voting shares were repurchased by the former subsidiary and the retained interest in the jointly controlled entity was reduced accordingly.

4. LOSS ON DISPOSAL OF A LISTED ASSOCIATE

On 28 June 2010, the Group completed the disposal of its entire interest in Tian An China Investments Company Limited, a listed associate, to a subsidiary of Allied Properties (H.K.) Limited ("APL"), a listed holding company. The consideration of the disposal was satisfied by a share entitlement note ("SEN"), which conferred the right to call for the issue of 2,293,561,833 fully paid shares of APL ("APL Share") for nil consideration. The fair value of the SEN was HK\$3,807.3 million which was determined based on the market value of the APL Share of HK\$1.66 per share at the completion date of the disposal. The Group recognised a loss of HK\$159.3 million on the disposal.

The SEN was immediately assigned to the shareholders of the Company on 28 June 2010 as distribution in specie as described in Note 7. Upon the assignment, the right to call for the issue of the relevant APL Share was automatically exercised.

Details regarding the disposal and the distribution are contained in the circular of the Company dated 24 May 2010.

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after crediting (charging):

	Six months ended	
	30.6.2010	30.6.2009
	HK\$ Million	HK\$ Million
Dividends from listed investments	3.9	3.0
Dividends from unlisted investments	3.8	3.3
Interest income	1,000.5	889.1
Net profit (loss) on held for trading investments included in revenue		
– Net realised and unrealised profit on derivatives	74.7	34.0
– Net profit on dealing in leveraged foreign currencies	0.5	1.4
– Net profit on other dealing activities	1.6	3.0
– Net realised and unrealised (loss) profit on trading in equity securities	(67.1)	147.6
Net unrealised loss on Lehman Brothers Minibonds included in revenue	–	(42.7)
Net realised and unrealised (loss) profit on unlisted investment funds included in revenue	(8.8)	1.3
Net realised profit on disposal of investments included in other income		
– Disposal of 49% ownership interest in a subsidiary	29.3	–
– Liquidation of subsidiaries	3.7	–
– Disposal of available-for-sale investments	0.6	4.7
Reversal of impairment loss included in other income		
– Loans and advances to consumer finance customers	76.4	0.2
– Loans and receivables	–	25.7
– Trade and other receivables	3.2	12.4
Increase in fair value of investment properties included in other income	5.8	3.6
Amortisation of leasehold interests in land	(0.2)	(0.3)
Depreciation of property and equipment	(18.8)	(17.6)
Amortisation of intangible assets		
– Computer software (included in administrative expenses)	(5.5)	(5.4)
– Other intangible assets (included in direct cost and operating expenses)	(86.8)	(90.9)
Net loss on disposal of equipment	–	(1.9)
Interest expenses	(44.6)	(52.8)
Share of taxation of associates	(84.7)	(19.4)
Share of taxation of a jointly controlled entity	(0.4)	–

	Six months ended	
	30.6.2010	30.6.2009
	HK\$ Million	HK\$ Million
Analysis of other expenses:		
Impairment loss		
– Intangible assets	(1.0)	(11.0)
– Interest in associates	–	(2.6)
– Amounts due from associates	(0.3)	–
– Loans and advances to consumer finance customers	(137.3)	(306.1)
– Trade and other receivables	(4.1)	(12.5)
Trade and other receivables written off	(4.7)	(3.5)
Net exchange loss	(17.6)	–
	(165.0)	(335.7)

6. TAXATION

	Six months ended	
	30.6.2010 <i>HK\$ Million</i>	30.6.2009 <i>HK\$ Million</i>
Current tax		
– Hong Kong	119.8	85.3
– Other jurisdictions	10.7	2.9
	130.5	88.2
Under provision in prior years	0.3	0.2
	130.8	88.4
Deferred tax		
– Current period	(0.8)	9.7
	130.0	98.1

Hong Kong profits tax is calculated at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for both periods. 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.

7. DIVIDEND

	Six months ended	
	30.6.2010 <i>HK\$ Million</i>	30.6.2009 <i>HK\$ Million</i>
Dividends recognised as distribution during the period		
– 2009 final dividend of HK16 cents (2008: HK5 cents) per share	280.3	87.8
– 2010 special dividend equivalent to HK201.3 cents (2009: Nil) per share	3,527.0	–
	3,807.3	87.8

The 2009 final dividend and 2010 special dividend were satisfied by the distribution in specie (Note 4).

Subsequent to the end of the reporting period, the Board of Directors has declared an interim dividend of HK10 cents per share (2009: HK6 cents per share) with an aggregate amount of HK\$174.9 million (2009: HK\$105.3 million). The interim dividend has been calculated with reference to the number of shares in issue at 25 August 2010. The interim dividend will be paid in the form of scrip, with the shareholders being given an option to elect cash in respect of part or all of such dividend.

8. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2010	30.6.2009
	HK\$ Million	HK\$ Million
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share (profit for the period attributable to owners of the Company)	492.1	507.2
	<i>Million Shares</i>	<i>Million Shares</i>
Number of Shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share (after deducting shares held for the SHK Employee Ownership Scheme)	1,748.9	1,718.5
Effect of dilutive potential ordinary shares:		
– Shares held for the SHK Employee Ownership Scheme	0.3	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,749.2	1,718.5

9. TRADE AND OTHER RECEIVABLES

The following is an aged analysis of trade and other receivables based on the invoice/advanced date at the reporting date:

	30.6.2010	31.12.2009
	HK\$ Million	HK\$ Million
Less than 31 days	1,109.3	1,256.2
31 – 60 days	16.3	12.9
61 – 90 days	6.1	11.6
Over 90 days	134.6	286.0
	1,266.3	1,566.7
Secured term loans, margin loans and other receivables	5,889.2	4,211.1
Prepayments and current portion of leasehold interests in land	59.7	37.0
Allowances for impairment	(159.4)	(159.6)
	7,055.8	5,655.2

10. TRADE AND OTHER PAYABLES

The ageing analysis of the trade and other payables is as follows:

	30.6.2010 <i>HK\$ Million</i>	31.12.2009 <i>HK\$ Million</i>
Less than 31 days	1,236.7	1,280.9
31 – 60 days	11.3	9.5
61 – 90 days	13.8	7.2
Over 90 days	18.5	42.8
	1,280.3	1,340.4
Accruals and other payables	188.0	217.5
	1,468.3	1,557.9

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

The Group which operates its financial services operations under the brand Sun Hung Kai Financial posted an encouraging set of results for the six months ended 30 June 2010.

Notwithstanding continuing global volatility and fragile investor confidence, the Group recorded an increased profit before tax of HK\$762.7 million (2009: HK\$655.4 million) whilst at the same time distributing to shareholders HK\$3.8 billion in benefits from disposing of the Group's interest in Tian An China Investments Company Limited ("Tian An"). Profit attributable to owners of the Company for the period was HK\$492.1 million (2009: HK\$507.2 million) and earnings per share were HK28.1 cents (2009: HK29.5 cents). Excluding the effects of the disposal of Tian An and its contribution to Group earnings, net profit attributable to owners would have grown by 24%.

The good results are rooted in a strong performance by the Company's core corporate finance and consumer finance divisions, supported by management's ongoing focus on driving efficiency gains.

The Board has declared an interim dividend of HK10 cents per share (2009: HK6 cents per share) for the period. This is in addition to the special dividend equivalent to HK\$2.01 per share, included in the distribution in specie already made by the Company on 28 June 2010 from the disposal of Tian An (please refer to Note 7 of the condensed consolidated financial statements).

MARKET REVIEW

Concerns about rising government deficits and debt levels in some European countries resulted in a wave of ratings downgrades for European sovereign debt that weighed heavily on financial markets during the first half of the year. More recently there has been better news from some European economies, but the path of economic recovery, not just in Europe, but in the United States and elsewhere, remains very uncertain.

In Hong Kong, growth in real Gross Domestic Product eased to 6.5% year-on-year in the second quarter of 2010, still higher than through 2009. The unemployment rate came down through the first half of 2010, but inflation was higher. Despite increasing competition from regional cities, Hong Kong continues to reinforce its position as an international financial center, most recently through the signing in July of a supplementary Memorandum of Cooperation on the expansion of the RMB trade-settlement pilot scheme by the People's Bank of China and the Hong Kong Monetary Authority.

In the first half of 2010, the Hang Seng Index closed at 20,129 and the Hang Seng China Enterprises Index closed at 11,466, down 8.0% and 10.4% respectively on the start of the year. Daily market turnover for the first half of the year was HK\$64 billion, somewhat lower than the HK\$66 billion average in the second half of 2009.

In China, Gross Domestic Product grew in real terms by 11.9% year-on-year in the first quarter of 2010, but slowed to a more sustainable 10.3% year-on-year in the second quarter. The stock market was dampened by concerns about possible further policy tightening to contain economic overheating, and the Shanghai Composite Index closed at 2,398 on 30 June, down 26.8% from the start of the year.

BUSINESS REVIEW

The Group continued to build and strengthen its operational platforms across its five core businesses: Wealth Management & Brokerage; Asset Management; Corporate Finance; Consumer Finance; and Principal Investments; ensuring that it remains well placed to enhance its franchise in Hong Kong and the Greater China Region.

During the period under review, the Group embarked on a number of significant initiatives. Firstly, the Group crystallised its entire 38.06% stake in Tian An to its parent company, Allied Properties (H.K.) Limited ("APL"). The entire consideration of HK\$3.8 billion was subsequently distributed to shareholders in the form of APL shares, giving an opportunity for shareholders to unlock the value of Tian An that had not previously been fully reflected by the market value of the Company's shares.

At the same time, the Group signed an agreement to attract up to HK\$2.1 billion in strategic investment by CVC Capital Partners in the form of mandatory convertible notes and warrants. This strategic alliance with an internationally renowned investor will significantly accelerate the growth of the Group's consumer finance and corporate finance businesses.

In order to drive greater operational efficiency, the Group undertook a major relocation of its offices to The Lee Gardens in Causeway Bay. Long term leases were signed in March 2010, resulting in the eventual consolidation of the Group's various offices scattered across several locations. Covering almost 100,000 square feet, these new premises will provide a more functional and environmentally friendly workplace for employees. The relocation is currently underway and will be managed in several phases, the last of which is expected to be completed in early 2011. The Group expects the move will result in rental savings and efficiency gains over the long term. In addition, office space currently owned and occupied by the Group with an approximate market value of almost HK\$500 million, can potentially be realised and redeployed with this initiative.

The Group has also embarked on a number of marketing programs. An integrated brand campaign and customer promotion was launched through online and above-the-line platforms in June, along with a series of recruitment drives. Pleasingly, the Group's achievements in providing a range of innovative, tailored financial solutions were again recognized with several prestigious awards, namely *FinanceAsia's* Hong Kong's Best Broker Award for the fourth consecutive year, *Economic Digest's* Outstanding Brand Award, and *Capital Magazine's* Outstanding Hong Kong Brand Enterprise Award, among others.

Wealth Management & Brokerage

The Wealth Management & Brokerage division delivered a satisfactory result during the first half of the year. However, revenue and pretax profits were lower at HK\$472.4 million and HK\$116.4 million respectively (2009: HK\$648.8 million and HK\$312.3 million), mainly reflecting a loss of HK\$65.7 million (2009: Profit of HK\$150.4 million) arising from downward adjustments to assets from mark-to-market valuations. In 2009, there had been substantial gains in the values of many financial assets, as the markets recovered from the depths of the financial crisis in 2008.

Excluding valuation effects, the core operating performance of the division was steady: revenues increased 8% year-on-year, with a gradual return of investor confidence in the market. Profits increased by 12%, as management remained vigilant on costs.

During the first half of the year, continued uncertainty meant retail clients had yet to return to full pre-crisis levels of trading activity. The value of the Group's equity portfolios was affected, as was its equity commission income. Industry competition in local equities brokerage remains keen with commercial banks aggressively competing for market share. The Group has made a conscious decision not to pursue market share at the expense of profitability and will focus on a strategy that strikes an appropriate balance. It is management's belief that the key to the sustainable growth of its securities business is a diversified and open ended product platform with a one-stop-shop capability in order to help its clients preserve and grow their wealth.

In line with this strategy, it is encouraging to report that in the first half of 2010, commission revenue from non-equities units (including but not limited to wealth management products, structured products, futures, bullion and commodities) increased by 17% and accounted for 42% of the divisions' total brokerage and commission income.

In addition, the Group entered into a strategic partnership in foreign exchange with Australian based Macquarie Bank in April this year. The foreign exchange business traditionally has experienced heavy competition from commercial banks and offshore forex specialists. With this new alliance forged, and a renewed business focus, the Group is well positioned to capitalise on growth opportunities in the forex markets. Turnover has already doubled compared with the same period last year. Following the alliance, this foreign exchange business of the Group is re-classified as a jointly controlled entity, hence both the revenue and contribution is no longer consolidated in this segment.

The Group remains focused on developing our high net worth client base. As a result of increased demand from this customer segment, the overall margin loan book stood in excess of HK\$4.6 billion as at 30 June 2010, more than 30% higher than at 31 December 2009, with a commensurate strong increase in income from margin financing.

During this period, management has also continued to strengthen the institutional sales platform. The Group continues to develop its credentials in primary and secondary markets and the success of this platform will have important synergies with the Group's growing Corporate Finance division.

Asset Management

The Group's Asset Management division recorded revenue of HK\$34.3 million, and a contribution to profits of HK\$18.9 million in the first half of 2010. Whilst the revenue figure was weaker as a result of the general decline in the industry since 2008, continued cost management resulted in a higher contribution. Total assets under management (including affiliated funds) amounted to approximately US\$570 million.

Despite the recent difficult period, the Group remains confident that its current business model, which aims to connect top tier global funds with Asia Pacific investors, will continue to be successful. The Group aims to further capitalise on strategic tie-ups and alliances with fund managers to leverage off future growth prospects within the asset management industry in Asia.

During the first half of 2010, alternative funds were already showing signs of a comeback in the Asia Pacific region where 53 new hedge funds raised a total of US\$2.13 billion. The number of new funds increased 36% from the 39 funds started in the first half of 2009. The surge in start-ups represented renewed confidence in an industry that was severely challenged last year.

The performance of the Dow Jones Credit Suisse Hedge Fund Index (formerly known as "Credit Suisse/Tremont Hedge Fund Index") remained flat at a level of 0.63% by end June this year, while SHK Fund Management's flagship products performed mostly in line with the market. The SHK Corporate Arbitrage Manager Fund and the SHK Recovery Fund have positioned themselves to take advantage of corporate restructuring, companies emerging from bankruptcies, M&A events and recovering company financials.

Corporate Finance

As a result of improving market sentiment, funds raised through initial public offerings ("IPOs") totaled HK\$50 billion in the first half of 2010, almost triple the HK\$18 billion raised in the same period last year. Notwithstanding this, funds raised via equities (including IPOs) totaled HK\$161 billion in the first six months of 2010, a decrease of 26% on the same period last year.

Against this backdrop, the Corporate Finance division registered outstanding results for the first half of 2010, with revenue and contribution to profits reaching HK\$172.3 million (2009: HK\$54.8 million) and HK\$147.6 million (2009: HK\$23.3 million) respectively. Management's strategy remains focused on targeting small to mid cap Hong Kong and Chinese enterprises. There are ample opportunities for further growth in this underserved sector especially when taken in the context of the Group's substantial balance sheet strength and distribution capabilities.

Buoyant demand from corporate clients seeking alternative funding solutions also resulted in a significant increase in the Group's structured loans. As at 30 June 2010, the structured loan balance was in excess of HK\$800 million, up from about HK\$500 million as of 31 December 2009. Included in the first half results were HK\$66.8 million of gains from financial assets, which principally resulted from realised and mark-to-market gains on the derivative component of some of these structured loans, many of which contained equity linked components.

The Group's Corporate Finance division continues to build its reputation and expertise as manager and underwriter for IPOs. During the period under review, the division assisted companies such as Asian Capital Holdings Limited, O-Net Communications (Group) Limited and Ruinian International Limited with IPO fundraising activities. It participated in and underwrote a number of share placements, and acted as arranger and settlement agent for an issue of convertible notes during the period. Issues included EPI (Holdings) Limited, ChinaVision Media Group Limited, Wah Nam International Holdings Limited, Evergrande Real Estate Group Limited, APAC Resources Limited, United Power Investment Limited and Natural Dairy (NZ) Holdings Limited.

With the completion of the strategic alliance with CVC, further growth is anticipated through the potential for increased deal flows between the two groups.

Consumer Finance

The Group's 58% owned subsidiary United Asia Finance Limited ("UAF") performed strongly in the first half of 2010, delivering a record interim profit, driven largely by reduced loan impairment charges as well as growth in the China loans business.

Revenue increased 7% to HK\$787.7 million while contribution to profit jumped 225% to HK\$385.3 million. Included in the segment results is a HK\$86.8 million amortization charge on intangible assets stemming from the Group's acquisition of UAF in 2006. These charges are non-cash in nature.

At the end of the period UAF's loan portfolio stood at approximately HK\$4.7 billion (as at 31 December 2009: HK\$4.3 billion). The impairment loss on loans and advances declined to HK\$137.3 million. Write back of impairment allowance for the loan book also amounted to HK\$76.4 million.

Loan businesses in mainland China continued to grow at an impressive pace in the first half of 2010. UAF added another branch in Shenzhen and launched loan businesses in Shenyang and Chongqing. The total distribution network expanded to 65 outlets, consisting of 23 in mainland China and 42 in Hong Kong. UAF also added another licence in Tianjin to its portfolio of mainland loan business and will continue to seek further opportunities in other provinces in mainland China. At the end of June 2010 UAF's China loans accounted for 9% of the Gross loan book, an increase of 38% from the end of 2009.

The Greater China market has become an increasingly important part of UAF's growth strategy and the Group believes business ventures in the mainland will become a key driver of long-term growth. UAF will continue to leverage its competitive strengths including the established brand and proven market expertise to capitalise on these emerging opportunities. In Hong Kong, UAF will focus on strengthening its sales and marketing capabilities in the distribution platform and exploring more channels to reach target customers. Barring a return to a more uncertain economic environment, UAF believes growth prospects should remain strong in the second half of the year.

Principal Investments

During the first half of 2010, this division registered a loss of HK\$112.2 million, versus a gain of HK\$41.8 million during the first half of 2009. This was mainly due to the loss of HK\$159.3 million on disposal of the Company's entire interest in Tian An, a move that reflects management's strategy to continue streamlining its balance sheet and corporate structure. Excluding this loss, which is non-cash in nature, the contribution from this segment remained steady.

Management will continue to seek investment opportunities which offer attractive returns in the unlisted space and look to maximize exit values of the current portfolio.

FINANCIAL REVIEW

Financial Resources and Gearing Ratio

As at 30 June 2010, the equity attributable to owners of the Company amounted to HK\$9,052.4 million, representing a decrease of HK\$3,631.0 million or approximately 29% from 31 December 2009. The decrease was largely attributed to the distribution in specie as set out in Notes 4 and 7 to the condensed consolidated financial statements.

The Group continued to maintain a strong cash position and had short-term bank deposits, bank balances, treasury bills and cash amounting to HK\$1,451.2 million (at 31 December 2009: HK\$1,346.0 million). The Group's total bank and other borrowings, short-term loans due to fellow subsidiaries, and three-year bonds amounted to HK\$5,660.5 million (at 31 December 2009: HK\$4,513.3 million). Of this, HK\$4,986.8 million (at 31 December 2009: HK\$3,657.7 million) is repayable within one year, and HK\$673.7 million (at 31 December 2009: HK\$855.6 million) repayable after one year.

The Group's liquidity as demonstrated by the current ratio (current assets/current liabilities) decreased marginally to 1.7 times as at 30 June 2010, compared to 1.9 times as at 31 December 2009.

The Group's gearing ratio (calculated on the basis of the Group's total bank and other borrowings, short-term loans due to fellow subsidiaries and three-year bonds, over the equity attributable to owners of the Company) was approximately 63% at the end of the reporting period (at 31 December 2009: approximately 36%). The higher gearing ratio is largely due to the decrease in equity attributable to owners of the Company as a result of the distribution in specie as mentioned above.

Capital Structure, Bank Borrowings and Exposure to Fluctuations in Exchange Rates

During the period ended 30 June 2010, the appointed trustee of the SHK Employee Ownership Scheme ("EOS") acquired 0.4 million shares of the Company through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the awarded shares of the scheme.

Other than the three-year bonds and secured instalment loans, or those borrowings repayable over one year, the Group's bank and other borrowings and short-term loans due to fellow subsidiaries were on a short-term basis and in HK dollars and Renminbi as at 30 June 2010. They were charged at floating interest rates. There are no known seasonal factors in the Group's borrowing profiles.

The Group is required to maintain foreign currency exposures to cater for its recurring operating activities and present and potential investment activities, meaning it will be subject to reasonable exchange rate exposure. The Group closely monitors this risk.

Material Acquisitions and Disposal of Subsidiaries, Associates and Jointly Controlled Entities

On 28 June 2010, the Group completed the disposal of its entire interest in Tian An, a listed associate, to a subsidiary of APL, a listed holding company. The Group recognised a loss of HK\$159.3 million on the disposal. Details regarding the disposal are set out in Note 4 to the condensed consolidated financial statements.

In April 2010, the Group also disposed of 49% ownership interest in a wholly-owned subsidiary engaging leveraged foreign exchange trading business at a consideration of HK\$66.1 million. The Group recognised a gain of HK\$29.3 million on the disposal.

Other than the above disposals, there were no material acquisitions or disposals of subsidiaries, associates or jointly controlled entities during the period.

Segment Information

Detailed segment information in respect of the Group's revenue and segment results are shown in Note 2 to the condensed consolidated financial statements.

Charges on Group Assets

Listed shares with an aggregate value of HK\$25.4 million were pledged for bank loans and overdrafts. Properties of the Group with a total book value of HK\$210.4 million were pledged by subsidiaries to banks for instalment loans granted to them with a total outstanding balance of HK\$171.6 million as at 30 June 2010. The entire share capital of a wholly-owned subsidiary, UAF Holdings Limited, was also pledged as a share mortgage for the bonds issued by the Group.

Contingent Liabilities

- (a) At the end of the reporting period, the Group had guarantees as follows:

	30.6.2010 <i>HK\$ Million</i>	31.12.2009 <i>HK\$ Million</i>
Indemnities on banking guarantees made available to a clearing house and regulatory body	4.5	4.5
Other guarantees	3.0	3.0
	7.5	3.0
	7.5	7.5

- (b) In 2001 an order was made by the Hubei Province Higher People's Court in China (the "2001 Order") enforcing a CIETAC award of 19 July 2000 (the "Award") by which Sun Hung Kai Securities Limited ("SHKS") was required to pay US\$3 million to Chang Zhou Power Development Company Limited (the "JVC"), a mainland PRC joint venture. SHKS had disposed of all of its beneficial interest in the JVC to SHKS' listed associate, Tian An, in 1998 and disposed of any and all interest it might hold in the registered capital of the JVC (the "Interest") to Long Prosperity Industrial Limited ("LPI") in October 2001. Subsequent to those disposals, SHKS' registered interest in the JVC in the amount of US\$3 million was frozen further to the 2001 Order. SHKS is party to the following litigation relating to the JVC:
- (i) On 29 February 2008, a writ of summons with general indorsement of claim was issued by Global Bridge Assets Limited ("GBA"), LPI and Walton Enterprises Limited ("WE") (the "2008 Writ") in the High Court of Hong Kong against SHKS ("HCA 317/2008"). In the 2008 Writ,
- (a) GBA claims against SHKS for damages for alleged breaches of a guarantee, alleged breaches of a collateral contract, for an alleged collateral warranty, and for alleged negligent and/or reckless and/or fraudulent misrepresentation;
- (b) LPI claims against SHKS damages for alleged breaches of a contract dated 12 October 2001; and

- (c) WE claims against SHKS for the sum of US\$3 million under a shareholders agreement and/or pursuant to the Award and damages for alleged wrongful breach of a shareholders agreement. GBA, LPI and WE also claim against SHKS interest on any sums or damages payable, costs, and such other relief as the Court may think fit. The 2008 Writ was served on SHKS on 29 May 2008. It is being vigorously defended. Among other things, pursuant to a 2001 deed of waiver and indemnification, LPI (being the nominee of GBA) waived and released SHKS from any claims including any claims relating to or arising from the Interest, the JVC or any transaction related thereto, covenanted not to sue, and assumed liability for and agreed to indemnify SHKS from any and all damages, losses and expenses arising from any claims by any entity or party arising in connection with the Interest, the JVC or any transaction related thereto. On 24 February 2010 the Court of Appeal struck out the claims of GBA and LPI, and awarded costs of the appeal and the strike out application as against GBA and LPI to SHKS. While a provision has been made for legal costs, the Company does not consider it presently appropriate to make any other provision with respect to HCA 317/2008.
- (ii) On 20 December 2007, a writ (the “Mainland Writ”) was issued by Cheung Lai Na 張麗娜 (“Ms. Cheung”) against Tian An and SHKS and was accepted by a mainland PRC court, 湖北省武漢市中級人民法院((2008)武民商外初字第8號), claiming the transfer of a 28% shareholding in the JVC, and RMB19,040,000 plus interest thereon for the period from January 1999 to the end of 2007, together with related costs and expenses. Judgment was awarded by the mainland PRC court in Tian An and SHKS’ favour on 27 July 2009 which judgment is currently being appealed against by Ms. Cheung. While a provision has been made for legal costs, the Company does not consider it presently appropriate to make any other provision with respect to this writ.
- (iii) On 4 June 2008, a writ of summons was issued by Tian An and SHKS in the High Court of Hong Kong against Ms. Cheung (the “HK Writ”), seeking declarations that (a) Ms. Cheung is not entitled to receive or obtain the transfer of 28% or any of the shareholding in the JVC from Tian An and SHKS; (b) Ms. Cheung is not entitled to damages or compensation; (c) Hong Kong is the proper and/or the most convenient forum to determine the issue of Ms. Cheung’s entitlement to any shareholding in the JVC; (d) further and alternatively, that Ms. Cheung’s claim against Tian An and SHKS in respect of her entitlement to the shareholding in the JVC is scandalous, vexatious and/or frivolous; and (e) damages, interest and costs as well as further or other relief (together with related costs and expenses). The HK Writ was not served on Ms. Cheung and lapsed on 3 June 2009. A further writ of summons was issued by Tian An and SHKS in the High Court of Hong Kong against Ms. Cheung on 4 June 2009 (the “2nd HK Writ”) seeking the same relief as the HK Writ. The 2nd HK writ expired on 3 June 2010, and a further writ of summons was issued by Tian An and SHKS in the High Court of Hong Kong against Ms. Cheung on 4 June 2010. The Company does not consider it presently appropriate to make any provision with respect to this action.

MATERIAL LITIGATION UPDATE

- (a) On 14 October 2008, a writ of summons was issued by Sun Hung Kai Investment Services Limited (“SHKIS”) in the High Court of Hong Kong against Quality Prince Limited, Allglobe Holdings Limited, the Personal Representative of the Estate of Lam Sai Wing, Chan Yam Fai Jane (“Ms. Chan”) and Ng Yee Mei (“Ms. Ng”), seeking recovery of (a) the sum of HK\$50,932,876.64; (b) interest; (c) legal costs; and (d) further and/or other relief. Having sold collateral for the partial recovery of amounts owing, SHKIS filed a Statement of Claim in the High Court of Hong Kong on 24 October 2008 claiming (a) the sum of HK\$36,030,376.64; (b) interest; (c) legal costs; and (d) further and/or other relief. Summary judgment against all the defendants was granted by Master C Chan on 25 May 2009, but judgment with respect to Ms. Chan and Ms. Ng only was overturned on appeal by the judgment of Suffiad J dated 7 August 2009. SHKIS’ appeal of that judgment to the Court of Appeal was heard on 6 May 2010, and was dismissed. The trial will be heard on a date to be fixed.
- (b) Details of proceedings relating to Chang Zhou Power Development Company Limited, a mainland PRC joint venture, are set out in the “Contingent Liabilities” section above.

HUMAN RESOURCES

As at 30 June 2010, the Group’s total headcount stood at 2,193 (including Investment Consultants), representing an approximate increase of 15.6% as compared with 30 June 2009. Staff costs (including Directors’ emoluments), contributions to retirement benefit schemes and expenses recognised for the EOS amounted to approximately HK\$232.1 million, which represented little change on the previous 12 months.

The Group operates different compensation schemes reflecting the different roles within the organisation. For sales staff and investment consultants, the package may consist of either a base pay and commission/bonus/sales incentive or alternatively, it may be a straight commission arrangement. For non-sales staff, compensation comprises either a base pay with a discretionary bonus/share-based incentive, or a straight base pay, where appropriate.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK10 cents per share (2009: HK6 cents per share) for the period under review. This is consistent with the Group’s strategy to have a payout ratio of approximately 30% of profit after tax. The interim dividend will be paid in the form of scrip, with an option to elect cash in respect of part or all of such dividend (the “Scrip Dividend Scheme”), to shareholders whose names appear on the register of members of the Company on 17 September 2010. A circular giving full details of the Scrip Dividend Scheme and the election form will be sent to shareholders as soon as practicable. The Scrip Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new shares of the Company to be issued. Dividend warrants and/or share certificates for the scrip shares are expected to be sent to shareholders on or around 19 October 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 September 2010 to 17 September 2010, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrar, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 14 September 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2010, the Company has applied the principles of, and complied with, the applicable code provisions, of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, except for certain deviations which are summarised below:

(a) Code Provision A.2.1

Code provision A.2.1 of the CG Code stipulates that the roles of the chairman and chief executive officer ("CEO") should be separate and performed by different individuals. Under the current organisational structure of the Company, the functions of a CEO are performed by the Executive Chairman, Mr. Lee Seng Huang, in conjunction with another Executive Director, Mr. Joseph Tong Tang, and a senior executive, Mr. Rizal Wijono. The Executive Chairman oversees the management of the corporate administrative functions, principal investments, as well as the Group's interest in UAF whose day-to-day management lies with its designated Managing Director. Mr. Joseph Tong Tang acts as the CEO of Wealth Management, Brokerage & Capital Markets and Asset Management is headed by Mr. Rizal Wijono.

The Board believes that this structure spreads the workload that would otherwise be borne by an individual CEO, 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.

(b) Code Provisions B.1.3 and C.3.3

Code provisions B.1.3 and C.3.3 stipulate that the terms of reference of the remuneration committee and audit committee should include, as a minimum, those specific duties as set out in the respective code provisions.

The terms of reference of the Remuneration Committee adopted by the Company are in compliance with the code provision B.1.3, except that the Remuneration Committee should review (as opposed to determine under the code provision) and make recommendations to the Board on the remuneration packages of 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 C.3.3, except that the Audit Committee should (i) recommend (as opposed to implement under the code provision) the engagement of the external auditor to supply non-audit services; (ii) scrutinise (as opposed to ensure under the code provision) whether management has discharged its duty to have an effective internal control system; and (iii) promote (as opposed to ensure under the code provision) the co-ordination between the internal and external auditors, and (iv) review (as opposed to ensure under the code provision) whether the internal audit function is adequately resourced.

The Board considers that the Remuneration Committee and the Audit Committee should continue to operate according to their respective terms of reference adopted by the Company. The Board will review the terms of reference at least once a year and make appropriate changes if considered necessary.

The reasons for the above deviations are set out in the “Corporate Governance Report” of the Company’s annual report for the financial year ended 31 December 2009.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company’s securities during the six months ended 30 June 2010.

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 2010. 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, and on the interim results announcement of the listed associate, as well as reports obtained from management. The Audit Committee has not undertaken detailed independent audit checks.

On behalf of the Board
Sun Hung Kai & Co. Limited
Lee Seng Huang
Executive Chairman

Hong Kong, 25 August 2010

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

Executive Directors:

Messrs. Lee Seng Huang (Chairman) and Joseph Tong Tang

Non-Executive Directors:

Messrs. Goh Joo Chuan, Fevzi Timucin Engin, Josefh Kamal Eskandar (alternate to Mr. Fevzi Timucin Engin), Patrick Lee Seng Wei, Ming Cheng, Ho Chi Kit, Roy Kuan (alternate to Mr. Ho Chi Kit) and Leung Pak To

Independent Non-Executive Directors:

Messrs. David Craig Bartlett, Alan Stephen Jones, Carlisle Caldow Procter and Peter Wong Man Kong