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 2012

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 2012 as set out below:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30.6.2012	30.6.2011
		Unaudited	Restated
	Notes	***HK$ Million***	*HK$ Million*
Revenue (turnover)		**1,773.8**	1,743.9
Other income	*4*	**103.8**	137.8
Total income		**1,877.6**	1,881.7
Brokerage and commission expenses		**(88.8)**	(104.7)
Direct cost and operating expenses		**(40.4)**	(130.3)
Administrative expenses		**(665.2)**	(565.4)
Net profit (loss) on financial instruments	*5*	**53.7**	(32.9)
Net exchange gain or loss		**9.7**	2.2
Bad and doubtful debts	*6*	**(230.2)**	(56.1)
Finance costs		**(80.0)**	(74.2)
Other expenses		**(6.2)**	(2.8)
		830.2	917.5
Share of results of associates		**2.0**	10.7
Share of results of jointly controlled entities		**0.2**	1.1
Profit before taxation	*7*	**832.4**	929.3
Taxation	*8*	**(126.9)**	(150.7)
Profit for the period		**705.5**	778.6
Profit attributable to:			
– Owners of the Company		**514.3**	618.7
– Non-controlling interests		**191.2**	159.9
		705.5	778.6
Earnings per share	*10*		
– Basic (HK cents)		**24.5**	29.3
– Diluted (HK cents)		**24.5**	29.3

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30.6.2012	30.6.2011
	Unaudited	Restated
	HK$ Million	*HK$ Million*
Profit for the period	**705.5**	778.6
Other comprehensive income		
Available-for-sale investments		
– Net fair value changes during the period	**(7.9)**	4.5
– Reclassification adjustment to profit or loss on disposal	**(43.6)**	(1.5)
	(51.5)	3.0
Exchange differences arising on translating foreign operations	**(33.6)**	46.8
Reclassification adjustment to profit or loss on liquidation of a jointly controlled entity	**–**	(0.2)
Revaluation gain on properties transferred from property and equipment to investment properties	**–**	146.0
Deferred tax relating to components of other comprehensive income	**–**	(0.1)
Other comprehensive income for the period, net of tax	**(85.1)**	195.5
Total comprehensive income for the period	**620.4**	974.1
Total comprehensive income attributable to:		
– Owners of the Company	**443.8**	795.8
– Non-controlling interests	**176.6**	178.3
	620.4	974.1

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30.6.2012 Unaudited *HK$ Million***	31.12.2011 Audited *HK$ Million*
Non-current Assets			
Investment properties		**729.4**	714.0
Leasehold interests in land		**9.8**	10.0
Property and equipment		**241.0**	220.6
Intangible assets		**1,012.9**	1,023.5
Goodwill		**2,384.0**	2,384.0
Interest in associates		**58.5**	56.7
Interest in jointly controlled entities		**122.1**	122.1
Available-for-sale investments		**157.4**	316.2
Statutory deposits		**22.4**	26.9
Deferred tax assets		**100.6**	92.7
Amounts due from associates		**51.3**	51.3
Loans and advances to consumer finance customers	*11*	**3,038.0**	2,972.6
Deposits for acquisition of equipment and other receivables		**32.1**	36.5
Financial assets at fair value through profit or loss		**240.3**	236.7
		8,199.8	8,263.8
Current Assets			
Amounts due from associates		**12.4**	12.5
Loans and advances to consumer finance customers	*11*	**4,549.0**	4,583.5
Financial assets at fair value through profit or loss		**462.0**	536.0
Trade and other receivables	*12*	**5,340.3**	6,345.7
Taxation recoverable		**19.8**	16.9
Cash, deposits and cash equivalents		**3,911.2**	2,736.0
		14,294.7	14,230.6
Current Liabilities			
Dividend payable		**(210.8)**	–
Bank and other borrowings		**(3,805.3)**	(1,646.4)
Trade and other payables	*13*	**(849.9)**	(1,023.7)
Financial liabilities at fair value through profit or loss		**(39.2)**	(14.9)
Amount due to an associate of a holding company		**(24.4)**	(24.7)
Amounts due to fellow subsidiaries and a holding company		**(403.8)**	(1,256.2)
Amounts due to associates		**(1.8)**	(2.2)
Provisions		**(31.0)**	(46.5)
Taxation payable		**(139.2)**	(100.6)
		(5,505.4)	(4,115.2)
Net Current Assets		**8,789.3**	10,115.4
Total Assets less Current Liabilities		**16,989.1**	18,379.2

	30.6.2012 Unaudited *HK$ Million*	31.12.2011 Audited *HK$ Million*
Capital and Reserves		
Share capital	**419.6**	421.9
Reserves	**11,853.9**	11,665.6
Equity attributable to owners of the Company	**12,273.5**	12,087.5
Non-controlling interests	**2,799.8**	2,315.5
Total Equity	**15,073.3**	14,403.0
Non-current Liabilities		
Deferred tax liabilities	**209.4**	204.6
Bank and other borrowings	**1,166.4**	3,203.5
Provisions	**12.2**	12.3
Bonds	**527.8**	555.8
	1,915.8	3,976.2
	16,989.1	18,379.2

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.

During the period, the Group adopted certain amendments to Standards that are mandatory effective for the Group's financial year beginning on 1 January 2012 except that the Group had early adopted the amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" as mentioned in Note 2 below. The adoption of the amendments to Standards has had no material effect on the condensed consolidated financial statements of the Group for the current and prior accounting periods. Except as mentioned in Note 2 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 2011.

2. RESTATEMENT OF COMPARATIVES

In 2011 interim period, the net profit ("Net Profit") and net loss ("Net Loss") on financial assets and liabilities at fair value through profit or loss were classified under other income and other expenses respectively. Net exchange gain or loss was classified under other income or other expenses respectively. In preparing the consolidated financial statements for the year ended 31 December 2011, Net Profit and Net Loss were netted against each other and presented as a separate item in the consolidated income statement. Net exchange gain or loss was also presented as a separate item in the consolidated income statement. Accordingly, the comparatives of the condensed consolidated income statement in respect of the period ended 30 June 2011 have been restated: Net Profit and net exchange gain in a sum of HK$8.0 million and Net Loss of HK$38.7 million were reclassified out of other income and other expenses respectively.

In preparing the consolidated financial statements for the year ended 31 December 2011, the Group had adopted the amendments to HKAS 12 retrospectively in advance of its mandatory effective date of 1 January 2012. The adoption resulted in a change in accounting policy. The impacts to the period ended 30 June 2011 as a result of the adoption were a decrease in taxation and an increase in profit for the period of HK$18.1 million, a net increase in other comprehensive income on exchange reserve and revaluation reserve of HK$23.7 million and an increase in basic and diluted earnings per share of HK0.9 cents. The adjustments to the opening balance as at 1 January was disclosed in the consolidated financial statements for the year ended 31 December 2011.

In the current period in segment information, Asset Management segment was integrated into Wealth Management and Brokerage segment. The comparatives of the segment information are restated to conform to the current period presentation.

3. SEGMENT INFORMATION

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

	Six months ended 30 June 2012				
	Wealth Management and Brokerage *HK$ Million*	**Capital Markets** *HK$ Million*	**Consumer Finance** *HK$ Million*	**Principal Investments** *HK$ Million*	**Total** *HK$ Million*
Brokerage/commission revenue	**238.7**	**13.6**	**–**	**0.2**	**252.5**
Non brokerage/commission revenue	**197.1**	**88.5**	**1,213.1**	**57.6**	**1,556.3**
Segment revenue	**435.8**	**102.1**	**1,213.1**	**57.8**	**1,808.8**
Less: inter-segment revenue	**(2.8)**	**–**	**–**	**(32.2)**	**(35.0)**
Segment revenue from external customers	**433.0**	**102.1**	**1,213.1**	**25.6**	**1,773.8**
Segment profit or loss	**75.7**	**30.5**	**557.3**	**166.7**	**830.2**
Share of results of associates	**–**	**–**	**–**	**2.0**	**2.0**
Share of results of jointly controlled entities	**1.8**	**–**	**–**	**(1.6)**	**0.2**
Profit before taxation	**77.5**	**30.5**	**557.3**	**167.1**	**832.4**
Included in segment profit or loss:					
Interest income	**158.5**	**66.7**	**1,207.6**	**11.7**	**1,444.5**
Other income	**1.1**	**0.1**	**2.2**	**100.4**	**103.8**
Net gain (loss) on financial instruments	**15.1**	**(4.3)**	**–**	**42.9**	**53.7**
Net exchange gain or loss	**(0.4)**	**(2.1)**	**14.1**	**(1.9)**	**9.7**
Bad and doubtful debts	**(27.8)**	**(20.0)**	**(182.4)**	**–**	**(230.2)**
Finance costs	**(3.5)**	**–**	**(74.7)**	**(1.8)**	**(80.0)**

	Six months ended 30 June 2011 (restated)				
	Wealth Management and Brokerage *HK$ Million*	Capital Markets *HK$ Million*	Consumer Finance *HK$ Million*	Principal Investments *HK$ Million*	Total *HK$ Million*
Brokerage/commission revenue	302.7	12.3	–	0.3	315.3
Non brokerage/commission revenue	277.3	169.6	961.9	60.5	1,469.3
Segment revenue	580.0	181.9	961.9	60.8	1,784.6
Less: inter-segment revenue	(1.0)	(0.1)	–	(39.6)	(40.7)
Segment revenue from external customers	579.0	181.8	961.9	21.2	1,743.9
Segment profit or loss	200.8	110.6	439.7	166.4	917.5
Share of results of associates	–	–	–	10.7	10.7
Share of results of jointly controlled entities	1.6	–	–	(0.5)	1.1
Profit before taxation	202.4	110.6	439.7	176.6	929.3
Included in segment profit or loss:					
Interest income	237.3	95.9	957.0	4.4	1,294.6
Other income	2.0	3.6	11.3	120.9	137.8
Net gain (loss) on financial instruments	0.8	(38.4)	–	4.7	(32.9)
Net exchange gain or loss	11.3	5.8	(27.6)	12.7	2.2
Bad and doubtful debts	(4.6)	–	(51.5)	–	(56.1)
Finance costs	(5.5)	–	(66.8)	(1.9)	(74.2)

The geographical information of revenue are disclosed as follows:

	Six months ended	
	30.6.2012	30.6.2011
	HK$ Million	*HK$ Million*
Revenue from external customers by location of operations		
– Hong Kong	**1,361.1**	1,525.2
– Mainland China	**407.1**	217.6
– Others	**5.6**	1.1
	1,773.8	1,743.9

4. OTHER INCOME

	Six months ended	
	30.6.2012	30.6.2011
		Restated
	HK$ Million	*HK$ Million*
Net realised profit on disposal of investments		
– Disposal of available-for-sale investments	**82.6**	2.4
Increase in fair value of investment properties	**16.5**	126.9
Miscellaneous income	**4.7**	8.5
	103.8	137.8

5. NET PROFIT (LOSS) ON FINANCIAL INSTRUMENTS

The following is an analysis of the net profit (loss) on financial instruments at fair value through profit or loss:

	Six months ended	
	30.6.2012	30.6.2011
	HK$ Million	*HK$ Million*
Net realised and unrealised profit on derivatives	**6.1**	4.5
Net profit on other dealing activities	**0.6**	1.3
Net realised and unrealised profit (loss) on trading in equity securities	**47.5**	(24.7)
Net realised and unrealised loss on financial assets designated as at fair value through profit or loss	**(0.5)**	(14.0)
	53.7	(32.9)

6. BAD AND DOUBTFUL DEBTS

	Six months ended	
	30.6.2012	30.6.2011
	HK$ Million	*HK$ Million*
Loans and advances to consumer finance customers		
– Reversal of impairment loss	**–**	47.7
– Impairment loss	**(182.4)**	(99.2)
	(182.4)	(51.5)
Trade and other receivables		
– Impairment loss	**(47.8)**	(4.6)
	(230.2)	(56.1)

The amounts written off in allowance of impairment against the loans and advances to consumer finance customers were HK$179.1 million (2011: HK$124.3 million). Recoveries of loans and advances to consumer finance customers credited to allowance of impairment were HK$31.5 million (2011: HK$25.1 million).

7. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2012	30.6.2011
	HK$ Million	*HK$ Million*
Profit before taxation has been arrived at after crediting (charging):		
Dividends from listed investments	**1.2**	1.5
Dividends from unlisted investments	**3.3**	8.2
Interest income	**1,444.5**	1,294.6
Amortisation of leasehold interests in land	**(0.2)**	(0.2)
Depreciation of property and equipment	**(26.1)**	(24.1)
Amortisation of intangible assets		
– Computer software (included in administrative expenses)	**(14.6)**	(11.5)
– Other intangible assets (included in direct cost and operating expenses)	**(11.2)**	(86.5)
Interest expenses	**(77.9)**	(64.1)
Net loss on disposal of equipment and intangible assets	**(0.1)**	(2.8)
Share of taxation of associates and jointly controlled entities	**(1.6)**	(3.3)

8. TAXATION

	Six months ended	
	30.6.2012	30.6.2011 Restated
	HK$ Million	*HK$ Million*
Current tax		
– Hong Kong	**95.8**	119.5
– Other jurisdictions	**38.3**	22.9
	134.1	142.4
(Over) under provision in prior years	**(4.0)**	10.2
	130.1	152.6
Deferred tax		
– Current period	**(3.2)**	(1.9)
	126.9	150.7

Hong Kong profits tax is calculated at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the period. 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.

9. DIVIDEND

	Six months ended	
	30.6.2012	30.6.2011
	HK$ Million	*HK$ Million*
Dividends recognised as distribution during the period		
– 2011 final dividend of HK10 cents (2010: HK18 cents) per share	**210.8**	319.6

Subsequent to the end of the interim reporting period, the Board of Directors has declared an interim dividend of HK10 cents per share (2011: HK10 cents per share) amounting to HK$213.1 million (2011: HK$211.8 million). 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.

10. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2012	30.6.2011 Restated
	HK$ Million	*HK$ Million*
Earnings		
Earnings for the purpose of basic earnings per share and diluted earnings per share (profit for the period attributable to owners of the Company)	**514.3**	618.7
	Million Shares	*Million Shares*
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,099.7**	2,114.1
Effect of dilutive potential ordinary shares:		
– Warrants	**–**	–
– Shares held for the SHK Employee Ownership Scheme	**–**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,099.7**	2,114.1

11. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	30.6.2012	31.12.2011
	HK$ Million	*HK$ Million*
Loans and advances to consumer finance customers	**8,026.9**	7,961.8
Less: impairment allowance		
– Individually assessed	**–**	(0.1)
– Collectively assessed	**(439.9)**	(405.6)
	7,587.0	7,556.1
Analysed for reporting purposes as:		
– Non-current assets	**3,038.0**	2,972.6
– Current assets	**4,549.0**	4,583.5
	7,587.0	7,556.1

12. TRADE AND OTHER RECEIVABLES

	30.6.2012 *HK$ Million*	31.12.2011 *HK$ Million*
Trade receivables – accounts receivable from exchanges, brokers and clients	**829.2**	843.3
Less: impairment allowance	**(19.0)**	(19.3)
	810.2	824.0
Secured term loans	**891.2**	1,021.4
Less: impairment allowance	**(76.6)**	(56.6)
	814.6	964.8
Margin loans	**3,572.4**	4,343.0
Less: impairment allowance	**(93.8)**	(66.0)
	3,478.6	4,277.0
Deposits	**69.8**	66.8
Dividend receivable on behalf of clients	**–**	51.9
Claims from counter parties, receivable from sale proceeds and other receivables	**154.6**	149.1
Less: non-current portion of other receivables	**(8.1)**	(7.8)
	216.3	260.0
Trade and other receivables at amortised cost	**5,319.7**	6,325.8
Prepayments	**20.2**	19.5
Current portion of leasehold interests in land	**0.4**	0.4
	5,340.3	6,345.7

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

	30.6.2012 *HK$ Million*	31.12.2011 *HK$ Million*
Less than 31 days	**758.2**	761.4
31 – 60 days	**2.8**	2.8
61 – 90 days	**1.8**	94.0
Over 90 days	**81.8**	32.3
	844.6	890.5
Term loans, margin loans, and trade and other receivables without ageing	**4,685.1**	5,597.1
Impairment allowances	**(189.4)**	(141.9)
	5,340.3	6,345.7

13. TRADE AND OTHER PAYABLES

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

	30.6.2012	31.12.2011
	HK$ Million	*HK$ Million*
Trade payables:		
Less than 31 days	**617.6**	779.4
31 – 60 days	**8.5**	10.6
61 – 90 days	**8.8**	7.0
Over 90 days	**71.4**	57.1
	706.3	854.1
Accrued staff costs, other accrued expenses and other payables without ageing	**143.6**	169.6
	849.9	1,023.7

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2012, the Group's turnover increased by 2% to HK$1,773.8 million, with higher interest income the main driver. Recorded profit attributable to the owners of the Company was HK$514.3 million, compared to HK$618.7 million in the same period in 2011. The lower profit mainly reflected higher bad and doubtful debts, with increased provisions in the consumer finance business in contrast to write backs experienced last year. Earnings per share was HK24.5 cents.

Despite the difficult financial markets, and slower growth in both Mainland China and Hong Kong, the Group has continued to execute its expansion strategy prudently. At the end of June 2012, the Group's total assets amounted to HK$22.5 billion, with shareholders' equity of HK$12.3 billion. Our net gearing was 16%, a decline from 33% since the end of 2011. The Group's cash, deposits and bank balances amounted to HK$3,911.2 million at 30 June compared with HK$2,736.0 million at the end of 2011.

The Board has declared an interim dividend of HK10 cents per share.

While there was a brief rebound in the first quarter, the market environment generally continued to be arduous for the financial services industry through the first half of 2012. Anxiety over the Eurozone, slower growth in China, and an anaemic recovery in the U.S. weighed on global markets.

In Hong Kong, the Hang Seng index closed 5.5% higher in the half year to 30 June after a decline of 20% for the full year 2011. However, trading in the latest half was considerably lower with an average daily turnover of HK$57 billion, a 23% reduction from the first half of 2011. This, combined with investor nervousness, led to subdued business volumes for Sun Hung Kai Financial's fee-generating businesses. In view of heightened risks in financial markets we have adopted an increasingly cautious approach to the Group's lending business, especially in margin loans and structured finance.

In contrast, our consumer finance business, in particular the Mainland China business of United Asia Finance Limited ("UAF") performed well. The Group has continued to invest in UAF's network. At the end of June, UAF's branch network covered 8 cities and 65 branches in Mainland China. Reflecting this growth, Mainland China accounted for 23% of the Group's total revenues during the first half of 2012, up from 12% the same period last year.

Results Analysis

The Group's total revenue (turnover) increased by 2% to HK$1,773.8 million. Total interest income increased by 12% to HK$1,444.5 million, a boon during a period when other income was weighed down by subdued business volumes associated with weak financial markets.

Gross loans and advances to customers amounted to HK$12.5 billion at 30 June, down by 6% from 31 December 2011. The decline was mainly caused by lower margin loans and secured term loan balances in the structured finance business. Although there was continued demand for funding in the Hong Kong market, we chose to reduce our exposure in view of increased risk in the marketplace.

Gross loans and advances to customers, before impairment (HK$ Million)

Loan Book	**As at 30.6.2012**	As at 31.12.2011
Consumer finance loans	**8,026.9**	7,961.8
Margin loans	**3,572.4**	4,343.0
Secured term loans	**891.2**	1,021.4
Total	**12,490.5**	13,326.2

Operating earnings, which excludes other income, the net effect of valuation changes to financial instruments, exchange gain (loss), and our share of results of associates and jointly controlled entities, declined by 18% to HK$663.0 million. The main cause of this decline was higher bad and doubtful debts. Impairment allowances for margin and term loans rose by HK$47.8 million, while in the UAF business, provisions also increased in contrast to write backs experienced last year and write offs also rose. The actual write offs in the consumer finance loan book (as defined by amounts directly deducted from the allowance of impairment) increased by HK$54.8 million to HK$179.1 million. This is still a reasonable level given the growth in the loan book and the general state of the economy.

Excluding bad and doubtful debts, operating earnings increased by 3%.

Operating Earnings Analysis (HK$ Million)

For six months ended	**30.6.2012**	**30.6.2011**	**Change**
Revenue	1,773.8	1,743.9	2%
Operating costs	(800.6)	(803.2)	0%
Finance costs	(80.0)	(74.2)	8%
Operating earnings before bad and doubtful debts	**893.2**	**866.5**	**3%**
Bad and doubtful debts	(230.2)	(56.1)	310%
Operating earnings	**663.0**	**810.4**	**-18%**
Other income	103.8	137.8	-25%
Net profit (loss) on financial instruments	53.7	(32.9)	263%
Net exchange gain or loss	9.7	2.2	341%
Share of results of associates	2.0	10.7	-81%
Share of results of jointly controlled entities	0.2	1.1	-82%
Profit before tax	**832.4**	**929.3**	**-10%**

After deducting profit attributable to non-controlling interests (mainly other shareholders of the UAF business), profit attributable to owners of the Company totalled HK$514.3 million for the first half of 2012.

Wealth Management and Brokerage

Since the second half of 2011 conditions have deteriorated, with strong volatility in financial markets and lower investor confidence. The segment's performance has suffered in this environment.

Revenue and pre-tax contribution from the segment were HK$433.0 million and HK$77.5 million for the first half of 2012, representing declines of 25% and 62% respectively. Included in this segment were results from the Group's Asset Management operations, which have been integrated with the Wealth Management and Brokerage business. This integration reflects the increasing collaboration between the two sectors, including the development of further discretionary portfolio management services for our clients.

The Group's strategy is to continue our transformation into a leading independent wealth management firm and we have seen signs of encouraging progress in the resilient performance of the SHK Private business launched one year ago.

This specialised unit was set up to further the Group's progression into the high net worth segment. Commission from wealth management products (including bonds, mutual funds and investment linked assurance schemes) has also done well, increasing by more than 30%. Despite these successes, weak performance and lowered trading volume in Hong Kong equities, accounting for 36% of our commissions, saw the segment's non-interest revenue drop by 20%.

During the first half of 2012, the Group reduced its exposure in the margin finance business. Our gross margin loan balance was HK$3.6 billion, down from HK$4.3 billion at the end of 2011. Interest income decreased 33% on a year-on-year basis to HK$158.5 million, commensurate with the drop in loan balance from the same period last year. With tight liquidity in the markets, demand for margin loans remained robust, but in view of the increased risk in writing new loans in this environment, the Group has adopted a more conservative approach. Bad debts of HK$27.8 million were incurred during the period which also impacted profitability.

Capital Markets

This segment encompasses our provision of equity and debt fundraising solutions for corporate and institutional clients, including corporate finance, structured lending, equity capital markets, and corporate and institutional sales.

Revenue amounted to HK$102.1 million, a 44% decrease from the same period last year. Contribution to pre-tax profit amounted to HK$30.5 million (2011: HK$110.6 million).

The Group's structured finance unit has been more cautious in writing new loans, whilst existing loans have been repaid.

At the end of June 2012, our gross secured term loans balance was HK$891.2 million, down from HK$1,021.4 million at the end of 2011. Interest income amounted to HK$66.7 million. HK$20.0 million of bad debt was incurred. The Group's continued ability to fund our corporate customers will enhance the Group's relationships and potentially result in other corporate finance transactions in the future.

Corporate Finance performance reflected the difficult market. For the Hong Kong capital market as a whole, total funds raised declined 58% to HK$127.1 billion in the first half of 2012 of which only HK$30.6 billion was raised via IPOs, an 82% decline on a year-on-year basis. In this environment, the segment's revenue, excluding interest income, recorded a decline of 59%, compared to the corresponding period in 2011.

Nevertheless, the Group continued to progress its move into the mid-to-small cap sectors. During the first half of 2012, our Corporate Finance team was involved in 5 IPO sponsorship-related transactions, 8 fund-raising exercises and 2 financial advisory services.

Consumer Finance

The Group's consumer finance business is conducted via our 58% owned subsidiary UAF. UAF is a market leading consumer finance company in Hong Kong with focus on unsecured personal loans and mortgage loans businesses. It also has extensive consumer finance loan businesses in major cities in Mainland China. This year UAF added 11 more branches in the Mainland, bringing the number to 65 (110 including Hong Kong). All operating Mainland China subsidiaries were profitable during this period.

Revenue in this segment saw robust growth of 26% to HK$1,213.1 million over the six months while pre-tax contributions advanced to HK$557.3 million, a 27% increment over the corresponding period last year. Compared to the end of 2011, our gross loan balance edged up by 1%, to over HK$8 billion.

The consumer finance business in Mainland China continued to expand, with the pre-tax contribution achieving a year-on-year growth of 95%. The gross principal balance increased by 13.9% in the first half of the year, accounting for 22% of the total gross principal balance of UAF. Owing to the high level of loan repayments after Chinese New Year, there are more seasonal changes in the Mainland China loans business when compared to that of Hong Kong. Taking this into account, we anticipate that loan growth in Mainland China should accelerate in the second half of 2012.

City/Province	Number of Branches in Mainland China as at June 2012
Shenzhen	41
Shenyang	3
Chongqing	5
Tianjin	2
Chengdu	4
Yunnan	5
Dalian	4
Beijing	1
Total	65

Total bad and doubtful debt expenses increased from HK$51.5 million at the end of June 2011 to HK$182.4 million. This was mainly caused by an increase in the impairment allowances. The annualised ratio of actual bad debts written off (net of recoveries) as a percentage of gross loans increased from 2.9% to 3.7%. There was also lower amortisation expenses of intangible assets (from HK$86.5 million to HK$11.2 million in the first half of 2012) acquired with the Group's acquisition of UAF six years ago, as the amortisable amounts came to an end.

UAF's business in Hong Kong performed as expected in the context of a slower economy with loan business dropping slightly.

SHK Finance mortgage business recorded solid loan principal growth of 14% during the period. UAF will continue to monitor business risk in view of persistently high property prices to make sure that mortgage loan borrowers can service their debt.

UAF will also continue to expand its coverage in Mainland China and negotiations for further money lending licenses in mainland cities are in progress. In Hong Kong, despite the competitive environment, UAF's innovative products and services will continue to serve the more sophisticated demands of the market and achieve growth.

In May 2012 the Group, along with other minority shareholders, participated in a HK$1 billion rights issue for UAF. With a strengthened capital base, UAF is in a comfortable position to further its business expansion, with special emphasis on Mainland China.

Principal Investments

During the first half of 2012, this segment recorded a profit of HK$166.7 million, compared with a profit of HK$166.4 million during the first half of 2011. This result included a HK$42.9 million fair value gain on financial instruments.

Other income, at HK$100.4 million, was about 17% lower than in the same period last year. Of this sum, HK$80.4 million came from a gain on the disposal of our interest in a Malaysian hotel. The balance reflected mainly gains from the revaluation of the Group's investment property portfolio.

With growth rates in Mainland China slowing down and the sovereign debt crisis yet to be resolved, we will remain prudent in our investment strategy and continue to look for opportunities to deliver synergies with other business lines.

Outlook

With the onset of the Eurozone recession and a tepid US economic recovery, global markets have seen increased volatility of late. Whilst it is difficult to assess the impact on the Group's four business segments at this stage, management is confident that with strong balance sheet supported by our balanced of businesses, we are well positioned to capitalise on the continued liberalisation of the mainland financial services market. The Group remains vigilant on costs and will continue to take a prudent approach when we seek opportunities for sustained growth.

Financial Review

Financial Resources and Gearing Ratio

As at 30 June 2012, the equity attributable to owners of the Company amounted to HK$12,273.5 million, representing an increase of HK$186.0 million or approximately 2% from 31 December 2011.

The Group continued to maintain a strong cash position and had short-term bank deposits, bank balances and cash amounting to HK$3,911.2 million (at 31 December 2011: HK$2,736.0 million). The Group's total bank and other borrowings, amount due to an associate of a holding company, loans due to fellow subsidiaries, and bonds, amounted to HK$5,923.9 million (at 31 December 2011: HK$6,682.8 million). Of this, HK$4,229.7 million is repayable within one year and HK$1,694.2 million is repayable after one year (at 31 December 2011: HK$2,923.5 million and HK$3,759.3 million respectively).

The Group's liquidity, as demonstrated by the current ratio (current assets/current liabilities) decreased to 2.6 times as at 30 June 2012 (at 31 December 2011: 3.5 times).

The Group's gearing ratio calculated on the basis of net debt to the equity attributable to owners of the Company was approximately 16% as at 30 June 2012 (at 31 December 2011: approximately 33%). Net debt represents the total of bank and other borrowings, the amount due to an associate of a holding company, loans due to fellow subsidiaries, and bonds less cash, deposits and cash equivalents.

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

During the period ended 30 June 2012, the trustee of the SHK Employee Ownership Scheme (EOS) acquired 1.4 million shares of the Company through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for shares awarded under the scheme. The Company repurchased 11.5 million shares for a total consideration (including expenses) of HK$45.6 million.

Other than bonds, secured installment loans or borrowings repayable over one year, the Group's bank and other borrowings and loans due to fellow subsidiaries were on a short-term basis and in HK dollars and Renminbi as at 30 June 2012. 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 present and potential investment activities and recurring operating activities, meaning it will be subject to reasonable exchange rate exposure. The Group closely monitors the risks that this strategy involves.

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

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 revenue and profit or loss is shown in Note 3 to the condensed consolidated financial statements.

Charges on Group Assets

Listed shares held by the Group with an aggregate value of HK$18.2 million were pledged for bank loans and overdrafts. Properties of the Group with a total book value of HK$682.5 million were pledged by subsidiaries to banks for installment loans granted to them with a total outstanding balance of HK$137.4 million as at 30 June 2012.

Contingent Liabilities

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

	30.6.2012	31.12.2011
	HK$ Million	*HK$ Million*
Guarantees for banking facilities granted to a jointly controlled entity	**5.8**	5.8
Indemnities on banking guarantees made available to a clearing house and regulatory body	**4.5**	4.5
Other guarantees	**3.0**	3.0
	13.3	13.3

(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 Financial Limited (formerly known as Sun Hung Kai Securities Limited) ("SHKF") was required to pay US$3 million to Chang Zhou Power Development Company Limited ("the JVC"), a mainland PRC joint venture. SHKF had disposed of all of its beneficial interest in the JVC to Tian An China Investments Company Limited ("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, SHKF's registered interest in the JVC in the amount of US$3 million was frozen further to the 2001 Order. SHKF 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 SHKF ("HCA 317/2008"). In the 2008 Writ,

(a) GBA claims against SHKF 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 SHKF damages for alleged breaches of a contract dated 12 October 2001; and

(c) WE claims against SHKF 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 SHKF interest on any sums or damages payable, costs, and such other relief as the Court may think fit.

The 2008 Writ was served on SHKF 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 SHKF 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 SHKF 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 SHKF. Subsequently, GBA, LPI and WE sought to amend their claims which was opposed by SHKF. On 3 August 2012 the Court of Appeal rejected GBA's, LPI's and WE's proposed amendments and ordered that all of GBA's, LPI's and WE's claims against SHKF be dismissed. 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 was issued by Cheung Lai Na 張麗娜 ("Ms. Cheung") against Tian An and SHKF and was accepted by the Intermediate People's Court of Wuhan City, Hubei Province ("IPC")（湖北省武漢市中級人民法院）[(2008) 武民商外初字第8號] (the "Mainland Proceedings"), 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. Ms. Cheung claimed to be the beneficial owner of Changjiang Power Development (H.K.) Co. Ltd. ("CJP") which acquired the interests in JVC from Tian An in 1998. Judgment was awarded by the IPC in Tian An and SHKF's favour on 16 July 2009 which judgment was appealed against by Ms. Cheung. On 24 November 2010, the Higher People's Court of Hubei Province（湖北省高級人民法院）ordered that the case be remitted back to the IPC for retrial. The IPC subsequently ordered upon Ms. Cheung's unilateral application that the liquidator of CJP be joined as a third party to the Mainland Proceedings. The substantive retrial hearing took place on 29 March 2012 and on 14 August 2012, the IPC dismissed Ms. Cheung's claim against Tian An and SHKF. 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.

Litigation

Details regarding material litigation giving rise to contingent liabilities, namely proceedings relating to Chang Zhou Power Development Company Limited, a Mainland PRC joint venture, are set out in "Contingent Liabilities" section above.

Human Resources

As at 30 June 2012, the Group's headcount stood at 4,260 (including Investment Consultants), representing an approximate increase of 46.8% as compared with 30 June 2011. The bulk of this increase stemmed from UAF's business expansion in Mainland China (including the opening of 25 branches in Mainland China between July 2011 and June 2012). Staff costs (including Director's emoluments), contributions to retirement benefit schemes and expenses recognised for the EOS amounted to approximately HK$367.3 million (2011: HK$317.5 million).

The Group operates different compensation schemes to reflect different job roles within the organisation. For sales staff and investment consultants, the package may consist of a base pay and commission/bonus/incentive or alternatively, may consist of commission/incentive. For non-sales staff, the compensation comprises either a base salary with discretionary bonus/share-based incentive or base salary, as appropriate.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK10 cents per share (2011: HK10 cents per share) for the period under review. 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 12 September 2012. 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 12 October 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 10 September 2012 to 12 September 2012, 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 4:30 p.m. on 7 September 2012.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2012, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") (previously known as Code on Corporate Governance Practices ("Former 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 Group Executive Chairman, Mr. Lee Seng Huang, in conjunction with the other three Executive Directors, Mr. William Leung Wing Cheung, Mr. Joseph Tong Tang and Mr. Peter Anthony Curry. The Group Executive Chairman oversees the Group's principal investments, as well as the Group's interest in UAF whose day-to-day management lies with its designated Managing Director. Mr. William Leung leads the overall business of Sun Hung Kai Financial Limited. Mr. Joseph Tong acts as the CEO of Capital Markets and Institutional Brokerage, and Mr. Peter Curry oversees the management of the corporate administrative functions, including finance and budget, internal audit, compliance and risk management.

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. 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 Provision A.6.7

Following certain amendments made to the Former CG Code with effect from 1 April 2012 ("CG Amendments"), code provision A.6.7 of the CG Code came into force on 1 April 2012, which stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Due to other business engagements, some Non-Executive Directors could not attend the annual general meeting of the Company held on 30 May 2012 and the extraordinary general meeting of the Company held on 23 July 2012. However, at the respective general meeting of the Company, there were Executive Directors, a Non-Executive Director and Independent Non-Executive Directors present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company ("Shareholders").

(c) Code Provisions B.1.2 (then B.1.3 of the Former CG Code) and C.3.3

Code provisions B.1.3 and C.3.3 of the Former 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 code provision B.1.3 of the Former CG Code, except that the Remuneration Committee shall 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). CG Amendments, including code provision B.1.2 of CG Code (then B.1.3 of the Former CG Code), now accommodates a model where the remuneration committee performs an advisory role as to the remuneration packages of the executive directors and senior management. Accordingly, the revised terms of reference of the Remuneration Committee adopted to align with the CG Code are in compliance with the new code provision B.1.2 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 new code provision B.1.2).

The terms of reference of the Audit Committee adopted by the Company are in compliance with code provision C.3.3 of the Former CG Code, except that the Audit Committee shall (i) recommend (as opposed to implement under the code provision) the policy on engaging 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; (iii) promote (as opposed to ensure under the code provision) co-ordination between the internal and external auditors; and (iv) check (as opposed to ensure under the code provision) whether the internal audit function is adequately resourced. Following the CG Amendments, code provision C.3.3 of the CG Code remains unchanged and the above-stated deviation in relation thereto applies.

The reasons for the above deviations were set out in the Corporate Governance Report contained in the Company's annual report for the financial year ended 31 December 2011. The Board considers that the Remuneration Committee and the Audit Committee should continue to operate according to their respective terms of reference as adopted and amended by the Company. The Board will review the Terms of Reference at least annually and make appropriate changes if considered necessary.

Except as stated above, following the CG Amendments, the Company has continued to comply with the applicable code provisions of the CG Code and also adopted a revised set of corporate governance documentation which is in line with the new applicable code provisions of the CG Code. In summary, the Company, while adopting the applicable code provisions in the CG Code, has made enhancement in the following major areas:

1. the Board shall perform the corporate governance duties for the Group;

2. a Nomination Committee was set up with a majority of its members being Independent Non-Executive Directors; and

3. a Shareholders' Communication Policy was adopted by which the Shareholders can communicate with the Company and the Board.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2012, the Company repurchased a total of 11,456,000 shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$45,082,520. All the repurchased shares were subsequently cancelled.

Particulars of the repurchases are as follows:

Month	**Number of shares repurchased**	**Purchase price**		**Aggregate consideration (before expenses)**
		Highest	**Lowest**	
		(HK$)	*(HK$)*	*(HK$)*
January	856,000	4.09	3.97	3,432,520
April	10,600,000	4.00	3.90	41,650,000
	11,456,000			45,082,520

The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2012.

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 2012. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants as well as reports obtained from management. The Audit Committee has not undertaken detailed independent audit checks.

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

Hong Kong, 23 August 2012

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

Executive Directors:
Messrs. Lee Seng Huang *(Group Executive Chairman)*, William Leung Wing Cheung, Joseph Tong Tang and Peter Anthony Curry

Non-Executive Directors:
Messrs. Goh Joo Chuan, Leung Pak To, Roy Kuan and Ho Chi Kit *(alternate to Mr. Roy Kuan)*

Independent Non-Executive Directors:
Messrs. David Craig Bartlett, Alan Stephen Jones, Carlisle Caldow Procter and Peter Wong Man Kong