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 2014

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 2014 as set out below:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended	
		30.6.2014	30.6.2013
		Unaudited	Unaudited
	Notes	***HK$ Million***	*HK$ Million*
Revenue (turnover)		**2,511.7**	2,173.8
Other income	*3*	**29.4**	23.3
Total income		**2,541.1**	2,197.1
Brokerage and commission expenses		**(131.4)**	(128.5)
Advertising and promotion expenses		**(56.8)**	(52.8)
Direct cost and operating expenses		**(30.7)**	(37.0)
Administrative expenses		**(810.4)**	(691.2)
Net profit (loss) on financial assets and liabilities	*4*	**46.7**	(63.7)
Net exchange gain (loss)		**39.8**	(54.7)
Bad and doubtful debts	*5*	**(328.6)**	(222.9)
Finance costs		**(222.8)**	(183.8)
Other expenses		**(6.1)**	(31.8)
		1,040.8	730.7
Share of results of associates		**2.4**	9.2
Share of results of joint ventures		**(0.7)**	4.8
Profit before taxation	*6*	**1,042.5**	744.7
Taxation	*7*	**(184.0)**	(155.9)
Profit for the period		**858.5**	588.8
Profit attributable to:			
– Owners of the Company		**610.3**	380.2
– Non-controlling interests		**248.2**	208.6
		858.5	588.8
Earnings per share	*9*		
– Basic (HK cents)		**28.8**	17.8
– Diluted (HK cents)		**28.8**	17.8

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended	
	30.6.2014	30.6.2013
	Unaudited	Unaudited
	HK$ Million	*HK$ Million*
Profit for the period	**858.5**	588.8
Other comprehensive income (expenses) that may be reclassified subsequently to profit or loss		
Available-for-sale investments		
– Net fair value changes during the period	**(23.7)**	1.2
Exchange differences arising on translating foreign operations	**(156.8)**	81.8
Reclassification adjustment to profit or loss on liquidation of subsidiaries	**0.4**	31.5
Other comprehensive income (expenses) for the period	**(180.1)**	114.5
Total comprehensive income for the period	**678.4**	703.3
Total comprehensive income attributable to:		
– Owners of the Company	**499.1**	459.1
– Non-controlling interests	**179.3**	244.2
	678.4	703.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.6.2014 Unaudited HK$ Million	31.12.2013 Audited HK$ Million
Non-current Assets			
Investment properties		**864.1**	811.3
Leasehold interests in land		**9.4**	9.8
Property and equipment		**336.9**	285.1
Intangible assets		**974.5**	985.9
Goodwill		**2,384.0**	2,384.0
Interest in associates		**32.6**	30.1
Interest in joint ventures		**160.1**	162.4
Available-for-sale investments		**233.8**	262.9
Financial assets at fair value through profit or loss		**280.5**	378.3
Statutory deposits		**19.6**	28.6
Deferred tax assets		**224.4**	201.6
Amounts due from associates and joint ventures		**64.7**	65.9
Loans and advances to consumer finance customers	*10*	**3,393.0**	3,440.5
Trade and other receivables	*11*	**731.7**	1,131.8
Deposits for acquisition of property and equipment		**126.9**	75.2
		9,836.2	10,253.4
Current Assets			
Financial assets at fair value through profit or loss		**849.4**	655.6
Taxation recoverable		**3.4**	6.4
Amounts due from associates and joint ventures		**8.6**	7.9
Loans and advances to consumer finance customers	*10*	**6,856.2**	6,603.0
Trade and other receivables	*11*	**9,731.0**	6,530.4
Amounts due from the immediate holding company		**–**	8.9
Bank deposits		**1,275.6**	755.6
Cash and cash equivalents		**3,553.4**	2,982.9
		22,277.6	17,550.7
Current Liabilities			
Dividend payable		**254.7**	–
Financial liabilities at fair value through profit or loss		**74.4**	60.8
Bank and other borrowings		**4,792.6**	2,435.4
Trade and other payables	*12*	**2,463.3**	1,866.5
Amounts due to fellow subsidiaries and a holding company		**13.2**	25.7
Amounts due to associates		**0.1**	0.1
Provisions		**25.6**	45.9
Taxation payable		**191.5**	141.5
Bonds and notes		**67.1**	366.2
		7,882.5	4,942.1
Net Current Assets		**14,395.1**	12,608.6
Total Assets less Current Liabilities		**24,231.3**	22,862.0

	30.6.2014 Unaudited *HK$ Million*	31.12.2013 Audited *HK$ Million*
Capital and Reserves		
Share capital	**7,749.9**	424.7
Reserves	**5,843.5**	12,977.4
Equity attributable to owners of the Company	**13,593.4**	13,402.1
Non-controlling interests	**3,515.7**	3,417.2
Total Equity	**17,109.1**	16,819.3
Non-current Liabilities		
Financial liabilities at fair value through profit or loss	–	42.9
Deferred tax liabilities	**206.1**	207.3
Bank and other borrowings	**3,222.4**	2,448.8
Provisions	**11.6**	11.6
Bonds and notes	**3,682.1**	3,332.1
	7,122.2	6,042.7
	24,231.3	22,862.0

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 and an Interpretation that are mandatorily effective for the Group's financial year beginning on 1 January 2014. The adoption of these Amendments and Interpretation has had no material effect on the condensed consolidated financial statements of the Group for the current and prior accounting periods. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2013.

2. SEGMENT INFORMATION

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

	Six months ended 30 June 2014				
	Wealth Management and Brokerage *HK$ Million*	Capital Markets *HK$ Million*	Consumer Finance *HK$ Million*	Principal Investments *HK$ Million*	Total *HK$ Million*
Brokerage commission revenue	286.1	23.8	–	0.3	310.2
Revenue other than brokerage commission revenue	205.7	188.5	1,787.5	165.8	2,347.5
Segment revenue	491.8	212.3	1,787.5	166.1	2,657.7
Less: inter-segment revenue	(1.8)	–	–	(144.2)	(146.0)
Segment revenue from external customers	490.0	212.3	1,787.5	21.9	2,511.7
Segment profit or loss	74.1	34.0	745.0	187.7	1,040.8
Share of results of associates	–	–	–	2.4	2.4
Share of results of joint ventures	0.3	–	–	(1.0)	(0.7)
Profit before taxation	74.4	34.0	745.0	189.1	1,042.5
Included in segment profit or loss:					
Interest income	164.7	175.7	1,778.9	6.7	2,126.0
Other income	–	0.3	2.9	26.2	29.4
Net profit (loss) on financial assets and liabilities	(4.1)	(30.0)	–	80.8	46.7
Net exchange gain	–	–	36.3	3.5	39.8
Bad and doubtful debts written back (provided)	3.3	(0.1)	(331.8)	–	(328.6)
Finance costs	(48.7)	(79.2)	(129.1)	(103.3)	(360.3)
Less: inter-segment finance costs	45.1	79.2	8.9	4.3	137.5
Finance costs to external suppliers	(3.6)	–	(120.2)	(99.0)	(222.8)

	Six months ended 30 June 2013				
	Wealth Management and Brokerage *HK$ Million*	Capital Markets *HK$ Million*	Consumer Finance *HK$ Million*	Principal Investments *HK$ Million*	Total *HK$ Million*
Brokerage commission revenue	287.4	11.2	–	1.3	299.9
Revenue other than brokerage commission revenue	185.8	173.6	1,487.0	155.0	2,001.4
Segment revenue	473.2	184.8	1,487.0	156.3	2,301.3
Less: inter-segment revenue	(1.3)	–	–	(126.2)	(127.5)
Segment revenue from external customers	471.9	184.8	1,487.0	30.1	2,173.8
Segment profit or loss, as previously stated	125.1	81.1	625.5	(101.0)	730.7
Change in cost allocation *	(29.2)	(11.5)	–	40.7	–
Segment profit or loss, as restated	95.9	69.6	625.5	(60.3)	730.7
Share of results of associates	–	–	–	9.2	9.2
Share of results of joint ventures	1.8	–	–	3.0	4.8
Profit (loss) before taxation	97.7	69.6	625.5	(48.1)	744.7
Included in segment profit or loss:					
Interest income	139.1	150.7	1,479.4	14.1	1,783.3
Other income	0.2	1.5	2.1	19.5	23.3
Net profit (loss) on financial assets and liabilities	25.6	3.6	–	(92.9)	(63.7)
Net exchange loss	(5.5)	(11.4)	(16.2)	(21.6)	(54.7)
Bad and doubtful debts written back (provided)	6.4	3.5	(232.4)	(0.4)	(222.9)
Finance costs	(41.0)	(61.7)	(98.6)	(88.1)	(289.4)
Less: inter-segment finance costs	39.3	61.7	3.6	1.0	105.6
Finance costs to external suppliers	(1.7)	–	(95.0)	(87.1)	(183.8)

* During the period, for more appropriate cost allocation, the Group changed the allocation basis for cost incurred by Group Management and Support section under the Principal Investments segment. The comparative figures of segment profit or loss for the six months ended 30 June 2013 were restated to conform to the current period presentation.

The geographical information of revenue is disclosed as follows:

	Six months ended	
	30.6.2014 ***HK$ Million***	30.6.2013 *HK$ Million*
Revenue from external customers by location of operations		
– Hong Kong	**1,658.3**	1,541.9
– Mainland China	**829.6**	618.8
– Others	**23.8**	13.1
	2,511.7	2,173.8

3. OTHER INCOME

	Six months ended	
	30.6.2014	30.6.2013
	HK$ Million	*HK$ Million*
Net realised profit on disposal of available-for-sale investments	**0.3**	0.6
Increase in fair value of investment properties	**22.7**	18.5
Miscellaneous income	**6.4**	4.2
	29.4	23.3

4. NET PROFIT (LOSS) ON FINANCIAL ASSETS AND LIABILITIES

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

	Six months ended	
	30.6.2014	30.6.2013
	HK$ Million	*HK$ Million*
Net realised and unrealised profit (loss) on derivatives	**9.8**	(44.0)
Net profit on other dealing activities	**0.4**	0.2
Net profit on dealing in leveraged foreign currencies	**0.2**	–
Net realised and unrealised loss on trading in equity securities	**(12.4)**	(60.2)
Net realised and unrealised profit (loss) on trading in bonds and notes	**5.4**	(6.7)
Net realised and unrealised profit on financial assets designated as at fair value through profit or loss	**43.3**	47.0
	46.7	(63.7)

5. BAD AND DOUBTFUL DEBTS

	Six months ended	
	30.6.2014	30.6.2013
	HK$ Million	*HK$ Million*
Loans and advances to consumer finance customers		
– Impairment loss	**(331.8)**	(232.4)
Trade and other receivables		
– Reversal of impairment loss	**3.3**	9.9
– Bad debts written off	**(0.1)**	(0.4)
	3.2	9.5
Bad and doubtful debts recognised in profit or loss	**(328.6)**	(222.9)

The following is the amounts written off in allowance of impairment against the receivables and recoveries credited to allowance of impairment during the period:

	Six months ended	
	30.6.2014	30.6.2013
	HK$ Million	*HK$ Million*
Loans and advances to consumer finance customers		
– Amounts written off in allowance of impairment	**(329.2)**	(249.0)
– Recoveries credited to allowance of impairment	**53.2**	40.8
Trade and other receivables		
– Amounts written off in allowance of impairment	**(54.3)**	(137.0)

6. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2014	30.6.2013
	HK$ Million	*HK$ Million*
Profit before taxation has been arrived at after crediting (charging):		
Dividends from listed investments	**2.2**	1.4
Dividends from unlisted investments	**2.8**	3.8
Interest income	**2,126.0**	1,783.3
Amortisation of leasehold interests in land	**(0.2)**	(0.2)
Depreciation of property and equipment	**(32.6)**	(28.5)
Amortisation of intangible assets		
– Computer software (included in administrative expenses)	**(13.9)**	(15.3)
– Intangible assets acquired in business combination (included in direct cost and operating expenses)	**(3.1)**	(3.1)
Interest expenses	**(219.0)**	(175.0)
Net loss on disposal/write-off of equipment and intangible assets	**(4.8)**	(0.3)
Share of taxation of associates and joint ventures included in share of results of associates and joint ventures	**(0.1)**	(1.5)

7. TAXATION

	Six months ended	
	30.6.2014	30.6.2013
	HK$ Million	*HK$ Million*
Current tax		
– Hong Kong	**106.5**	109.2
– PRC and other jurisdictions	**94.7**	73.6
	201.2	182.8
Under (over) provision in prior years	**7.9**	(1.0)
	209.1	181.8
Deferred tax	**(25.1)**	(25.9)
	184.0	155.9

Hong Kong profits tax is calculated at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the period. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2013: 25%). Taxation arising in other jurisdictions is calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in the relevant jurisdictions.

8. DIVIDEND

	Six months ended	
	30.6.2014	30.6.2013
	HK$ Million	*HK$ Million*
Dividends recognised as distribution during the period		
– 2013 final dividend of HK12 cents (2012 final dividend: HK12 cents) per share	**254.7**	256.8

Subsequent to the end of the interim reporting period, the Board of Directors has declared an interim dividend of HK10 cents per share (2013: HK10 cents per share) amounting to HK$211.4 million (2013: HK$212.8 million). In addition, a special dividend of HK2 cents per share amounting to HK$42.3 million was also declared to commemorate the Group's 45th Anniversary, making a total dividend of HK12 cents per share.

9. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2014	30.6.2013
	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)	**610.3**	380.2
	Million Shares	*Million Shares*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,116.9**	2,132.9
Effect of dilutive potential ordinary shares:		
– Shares held for the SHK Employee Ownership Scheme	**0.1**	0.1
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**2,117.0**	2,133.0

10. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	30.6.2014	31.12.2013
	HK$ Million	*HK$ Million*
Loans and advances to consumer finance customers	**10,899.7**	10,642.7
Less: impairment allowance	**(650.5)**	(599.2)
	10,249.2	10,043.5
Analysed for reporting purposes as:		
– Non-current assets	**3,393.0**	3,440.5
– Current assets	**6,856.2**	6,603.0
	10,249.2	10,043.5

11. TRADE AND OTHER RECEIVABLES

	30.6.2014	31.12.2013
	HK$ Million	*HK$ Million*
Trade receivables – accounts receivable from exchanges, brokers and clients	**1,158.8**	1,068.2
Less: impairment allowance	**(19.4)**	(19.4)
	1,139.4	1,048.8
Secured term loans	**2,292.6**	2,244.4
Unsecured term loans	**444.5**	117.0
Less: impairment allowance	**(4.8)**	(4.8)
	2,732.3	2,356.6
Margin loans	**4,060.1**	4,074.3
IPO margin financing	**1,864.3**	–
Less: impairment allowance	**(98.1)**	(155.6)
	5,826.3	3,918.7
Other receivables		
– Deposits	**45.1**	90.1
– Dividend receivable on behalf of clients	**549.6**	22.0
– Claims from counter parties, receivable from sale proceeds and other receivables	**115.4**	179.8
	710.1	291.9
Trade and other receivables at amortised cost	**10,408.1**	7,616.0
Prepayments	**54.3**	45.9
Current portion of leasehold interests in land	**0.3**	0.3
	10,462.7	7,662.2
Analysed for reporting purposes as:		
– Non-current assets	**731.7**	1,131.8
– Current assets	**9,731.0**	6,530.4
	10,462.7	7,662.2

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

	30.6.2014	31.12.2013
	HK$ Million	*HK$ Million*
Less than 31 days	**1,622.2**	1,035.0
31 – 60 days	**2.5**	2.4
61 – 90 days	**1.5**	2.9
91 – 180 days	**4.5**	7.5
Over 180 days	**31.8**	30.6
	1,662.5	1,078.4
Term loans, margin loans, and trade and other receivables without ageing	**8,867.9**	6,717.4
Impairment allowances	**(122.3)**	(179.8)
Trade and other receivables at amortised cost	**10,408.1**	7,616.0

12. 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:

	30.6.2014	31.12.2013
	HK$ Million	*HK$ Million*
Less than 31 days	**2,170.0**	1,559.1
31 – 60 days	**7.3**	8.8
61 – 90 days	**6.6**	6.5
91 – 180 days	**8.4**	8.3
Over 180 days	**8.2**	3.9
	2,200.5	1,586.6
Accrued staff costs, other accrued expenses and other payables without ageing	**262.8**	279.9
	2,463.3	1,866.5

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2014, the Group's profit attributable to owners of the Company amounted to HK$610.3 million, a solid increase over the same period in 2013 (HK$380.2 million). The rise was driven by an encouraging operating performance in addition to strong gains from the Group's Principal Investments portfolio and foreign exchange.

The Group's revenue increased by 16% to HK$2,511.7 million, with the key driver being very strong year-on-year growth in Consumer Finance revenue from Mainland China operating under United Asia Finance Limited ("UAF"). UAF is firmly establishing itself as one of the leading micro loan companies in China with a network of 165 branches across 14 cities. The continued expansion of its footprint together with new partnerships will bring about more growth opportunities in the future.

Earnings per share for the six-month period was HK28.8 cents (first six months of 2013: HK17.8 cents) and the Board has declared an interim dividend of HK10 cents per share. In addition, a special dividend of HK2 cents per share was also declared to commemorate the Group's 45th Anniversary, making a total dividend of HK12 cents per share.

For the first half of 2014, the Group achieved an annualised return on equity of 9% on a conservative balance sheet. Net gearing was 51% as at 30 June 2014. Book value per share was HK$6.4.

MARKET REVIEW

During the first half of 2014, the growth of China's GDP decelerated slightly; GDP growth in the first quarter was 7.4% year-on-year, below the first quarter 2013 growth of 7.7% and the government target of 7.5%. Meanwhile, the country's inflation rate rose 2.3% and its M2 money supply increased 12.1% in the first quarter. Both remain under the full year government targets of 3.5% and 13.5% respectively, giving policy makers more flexibility to fine tune fiscal and monetary measures in the second half of 2014.

The focus of China's economic reforms is rebalancing the economy towards domestic consumption and encouraging a more market led financial system. The Group's business in Mainland China, now accounting for 33% of total revenue, should be placed favourably under this policy direction.

Year-to-date, Chinese Central Government policies are in line with these goals. For example, several mini-stimulus measures were announced to boost economic growth, including tax cuts for small firms, acceleration in railway line construction, and targeted-cuts in the reserve requirement ratio. In April 2014, the Hong Kong Securities and Futures Commission and China Securities Regulatory Commission made a joint announcement regarding the Shanghai-Hong Kong Stock Connect. The scheme is expected to be formally launched by October 2014, enabling investors in both Mainland China and Hong Kong to trade eligible shares listed on each other's market.

Hong Kong's GDP expanded 2.6% year-on-year in the first quarter of 2014, after growing by 2.9% in 2013. Consumer prices rose by 4% year-on-year in the first five months, down from 4.3% in 2013. The seasonally adjusted unemployment rate was 3.1% for March to May 2014, reflecting tightness in the labour market.

The local stock market has been lacklustre in general, with the Hang Seng Index ("HSI") plunging as much as 10%, and finishing flat compared to the end of 2013 level. When viewed against the global MSCI All Country World Index ("MSCI ACWI"), the HSI has underperformed by 4.5 percentage points. The Hong Kong Exchange's average daily turnover in the first half of the year was HK$62.9 billion, 8% lower on a year-on-year basis. In addition, the Renminbi depreciated 2.4% against the US dollar during the first six-month period, reversing a trend of gradual appreciation during 2013. Having said this, IPO activity in Hong Kong remained vibrant in the first half of 2014. There were 52 new listings, with HK$82.1 billion of total fundraising, more than double compared to the first half of 2013.

RESULTS ANALYSIS

(HK$ Million)	1H2014	1H2013	Change
Revenue	**2,511.7**	**2,173.8**	**16%**
Operating Expenses	(1,035.4)	(909.8)	14%
As % of revenue ("cost to income")	*41.2%*	*41.9%*	
Finance costs	(222.8)	(183.8)	21%
Operating Earnings Before Bad and Doubtful Debts	**1,253.5**	**1,080.2**	**16%**
Bad and doubtful debts	(328.6)	(222.9)	47%
Operating Earnings	**924.9**	**857.3**	**8%**
Other income	29.4	23.3	
Other non-operating expenses	–	(31.5)	
Net exchange gain (loss)	39.8	(54.7)	
Net profit (loss) on financial assets and liabilities	46.7	(63.7)	204%
Associates	2.4	9.2	
Joint ventures	(0.7)	4.8	
Profit Before Taxation	**1,042.5**	**744.7**	**40%**
Taxation	(184.0)	(155.9)	18%
Non-controlling interests	(248.2)	(208.6)	19%
Profit Attributable to Owners of the Company	**610.3**	**380.2**	**61%**

Against a background of slower economic growth in Mainland China and softer financial markets in Hong Kong, the Group delivered a steady increase of 8% in operating earnings. We have stayed on course with our business strategies, including prudently growing our loan business in Mainland China, as well as continuing the wealth management transformation of our Sun Hung Kai Financial business.

During the period the Group enjoyed a solid 16% increase in revenue. Total interest income increased by 19% with growth in our loan books. Total loans and advances to customers increased by 4% from the end of 2013 and 9% on a year-on-year basis. The Mainland China loan business remained the key growth area. Revenue from Mainland China increased by 34% year-on-year, accounting for 33% of the Group's total. This area is growing increasingly in importance. Operating earnings before bad and doubtful debts increased at a healthy rate of 16%, in line with revenue growth.

(HK$ Million)	**As at 30.6.2014**	**As at 30.6.2013**	**YoY Change**	**As at 31.12.2013**	**YTD Change**
Loan Balances					
Consumer Finance loans	10,249.2	8,593.6	19%	10,043.5	2%
Margin loans (Wealth Management and Brokerage segment)	3,962.0	3,797.0	4%	3,918.7	1%
Term loans (Capital Markets segment)	2,732.3	3,093.3	-12%	2,356.6	16%
Total	**16,943.5**	**15,483.9**	**9%**	**16,318.8**	**4%**
Interest Income	**1H2014**	**1H2013**			
Consumer Finance	1,778.9	1,479.4	20%		
Wealth Management and Brokerage	164.7	139.1	18%		
Capital Markets	175.7	150.7	17%		
Others	6.7	14.1	-52%		
Total	**2,126.0**	**1,783.3**	**19%**		

Total bad and doubtful debt charges for our loan portfolio increased from HK$222.9 million to HK$328.6 million. The increase came mainly from higher bad debts in the Mainland China loan business as the growth of the country's economy slowed, as well as an increase in the general impairment allowance for the consumer finance loan book. Overall, the charges remain in a comfortable range given the underlying healthy profitability of the business. Whilst the Mainland China business is a key growth area for the Group, we will endeavour to continue our expansion in a prudent manner and control our risks.

During the period, the Group saw solid gains from our Principal Investments segment through the revaluation of our investment properties (under "other income") as well as gains on our investment portfolio.

A total of HK$39.8 million in exchange gain (first six months of 2013: total exchange loss of HK$54.7 million) was recorded, mainly from the UAF business reflecting the translation gain of Renminbi denominated debt liabilities reported in Hong Kong dollars.

BUSINESS REVIEW

Wealth Management & Brokerage

(HK$ Million)	1H2014	1H2013	Change
Revenue	**490.0**	**471.9**	**4%**
– Interest income	164.7	139.1	18%
– Brokerage commission revenue	286.1	287.4	0%
– Other fee based income	39.2	45.4	-14%
Operating Costs	**(366.4)**	**(361.7)**	**1%**
Cost to income (% Revenue)	*74.8%*	*76.6%*	
Bad and doubtful debts written back	3.3	6.4	
Finance costs^	(48.7)	(41.0)	
Operating Earnings	**78.2**	**75.6**	**3%**
Other income	–	0.2	
Exchange loss	–	(5.5)	
Net profit (loss) on financial assets and liabilities	(4.1)	25.6	
Joint ventures	0.3	1.8	
Pre-tax Contribution	**74.4**	**97.7**	**-24%**

^ *Includes internal*

During the first half of 2014, we continued to see positive results from our strategy to transform Sun Hung Kai Financial into a full service wealth management firm. Notwithstanding that the average daily turnover of the stock market declined 8% on a year-on-year basis and derivatives trading in the market was also down, the segment's commission income remained steady.

With our amplified cross selling to clients as well as recruitment efforts targeting wealth management professionals, commission from wealth management products saw a healthy increase of 8% and accounted for 45% of the segment's commission income. Market neutral offerings including structured products and bonds performed particularly well, while delivering optimal investment diversification to our clients. Commission from brokerage products was affected by weaker market conditions and declined slightly by 6%.

The Group's margin book and interest income enjoyed a steady increase providing a stable income base. Our loan balance was HK$3,962 million at the end of June 2014, up 4% year-on-year. IPO margin loans outstanding as at the period end amounted to another HK$1,864.3 million. The segment's interest income increased by 18%. Leveraging the Group's trading volume and high level of assets under custody, our stock borrowing and lending business achieved a reasonable performance as a result of strengthened relationships with other financial institutions. Income from this business increased by 24% and we will continue to grow this area of activity in the future.

Building on the Group's expertise and relationships with high net worth customers, we will expand into Australia and seek to work with investment immigration applicants and other affluent Chinese investors. We shall continue to look for business opportunities that complement our core strengths.

The Shanghai-Hong Kong Stock Connect Scheme is expected to launch in October 2014. As a participating broker, we are optimistic that this move will be positive for market volume. In turn, this should enable us to increase the trading of A shares on behalf of our clients restricted by QFII quotas. A full review on our systems and operations is underway in anticipation of this new scheme.

Capital Markets

(HK$ Million)	**1H2014**	**1H2013**	**Change**
Revenue	**212.3**	**184.8**	**15%**
– Interest income	175.7	150.7	17%
– Brokerage commission revenue	23.8	11.2	113%
– Other fee based income	12.8	22.9	-44%
Operating Costs	**(69.3)**	**(50.7)**	**37%**
Cost to income (% Revenue)	*32.6%*	*27.4%*	
Finance costs^	(79.2)	(61.7)	
Bad and doubtful debts written back (provided)	(0.1)	3.5	
Operating Earnings	**63.7**	**75.9**	**-16%**
Other income	0.3	1.5	
Exchange loss	–	(11.4)	
Net profit (loss) on financial assets and liabilities	(30.0)	3.6	
Pre-tax Contribution	**34.0**	**69.6**	**-51%**

^ *Includes internal*

This segment encompasses our equity and debt fundraising solutions teams providing services to corporate and institutional clients, including corporate finance, structured lending, equity capital markets ("ECM"), as well as corporate and institutional sales.

Revenue increased by 15% to HK$212.3 million and contribution to pre-tax profit amounted to HK$34 million (2013: HK$69.6 million). The decrease was mainly attributed to a HK$30 million loss on financial instruments during the period arising from a mark-to-market loss as a result of an equity-linked component in one of our loans on completion of the associated IPO. A gain was booked for the same transaction in 2013.

The structured finance business grew satisfactorily in the first half of 2014, and our term loan portfolio was HK$2,732.3 million at the end of June 2014, an increase of 16% from year end 2013 (HK$2,356.6 million). Interest income amounted to HK$175.7 million, 17% higher than the corresponding period in 2013.

Our ECM department was involved in the underwriting of two IPOs and participated in two placements/block trades during the period while our Institutional Sales and Research teams have made good progress in opening up new accounts and launching of new products.

Consumer Finance

(HK$ Million)	**1H2014**	**1H2013**	**Change**
Revenue	**1,787.5**	**1,487.0**	**20%**
Operating Costs	**(620.8)**	**(516.4)**	**20%**
Cost to income (% Revenue)	*34.7%*	*34.7%*	
Finance costs^	(129.1)	(98.6)	
Operating earnings before bad and doubtful debts	1,037.6	872.0	19%
Bad and doubtful debts	(331.8)	(232.4)	
Operating Earnings	**705.8**	**639.6**	**10%**
Other income	2.9	2.1	
Exchange gain (loss)	36.3	(16.2)	
Pre-tax Contribution	**745.0**	**625.5**	**19%**

^ *Includes internal*

UAF, a 58% indirectly owned subsidiary, operates a consumer finance business through its extensive branch network in Hong Kong and Mainland China. The businesses' main category of products is unsecured personal loans, along with the provision of mortgage loan products.

UAF delivered satisfactory results for the first half of 2014 with solid growth in revenue and profit. Revenue rose by 20% and pre-tax profit contribution grew by 19% to HK$745 million. The return on its average shareholders' funds of HK$7,121.8 million for the period was 16.7% on an annualised basis. An exchange gain of HK$36.3 million was recorded during the period compared to an exchange loss of HK$16.2 million during the last interim period. The gains and losses largely reflect the value of our Renminbi borrowings upon translation to Hong Kong dollars. The Renminbi devalued slightly in the first half of the year.

At the end of the period, the consolidated consumer finance loan balance amounted to HK$10.9 billion, a 2.4% increase over the balance at the end of 2013. The year-on-year growth was 20% when compared to the end of June 2013. This difference in the growth rate is caused by the seasonal nature of the Mainland China loan business where loan growth tends to accelerate in the second half of the year and early repayments tend to take place after Chinese New Year. The Mainland China loan book accounted for 36% of the consolidated gross balance. It increased 4.5% compared to the end of 2013, and 46% on a year-on-year basis.

Key Operating Data	**1H2014**	**1H2013**	**Change**	**End of 2013**
Net loan balance *(HK$ million)*	10,249.2	8,593.6	19%	10,043.5
Gross loan balance *(HK$ million)*	10,899.7	9,079.1	20%	10,642.7
– Hong Kong	6,946.7	6,367.1	9%	6,859.8
– Mainland China	3,953.0	2,712.0	46%	3,782.9
Total return on loans				
(Annualised revenue/ Gross loan balance)	32.8%	32.8%		29.5%
– Hong Kong	27.7%	27.4%		26.4%
– Mainland China	41.8%	45.4%		35.0%
Net charge-off ratio				
(Annualised on gross loan balance)	5.1%	4.6%		4.1%
– Hong Kong	3.9%	3.8%		3.7%
– Mainland China	7.1%	6.3%		4.8%
Average gross balance per loan *(HK$)*	62,470	55,920		61,382
– Hong Kong *(HK$)*	64,227	62,433		64,546
– Mainland China *(RMB)*	47,699	35,539		44,009

Charges for bad and doubtful debts increased from HK$232.4 million last interim to HK$331.8 million for the current period. The charges include bad debts and written off net of recovery, as well as the charges arising from the impairment allowance (calculated on the basis of recent charge off rates and current loan growth amounts).

Bad and Doubtful Debts and Impairment Allowances

(HK$ Million)	**1H2014**	**1H2013**
Bad Debts Analysis		
a. Amounts written off	(329.2)	(249.0)
b. Recoveries	53.2	40.8
c. Charge to impairment allowance	(55.8)	(24.2)
Total charges for bad and doubtful debts	(331.8)	(232.4)
Impairment allowance at period end	650.5	485.5
Gross loan balance	10,899.7	9,079.1
Net charge off (a-b) as annualised % of gross loan balance	5.1%	4.6%
Impairment allowance as % of gross loan balance	6.0%	5.3%
Ageing analysis for loans and advances to consumer finance customers that were past due but not impaired:		
Less than 31 days past due	494.0	466.7
31 – 60 days	145.8	99.7
61 – 90 days	74.4	105.8
91 – 180 days	229.9	130.5
Over 180 days	70.0	28.2
Total	1,014.1	830.9
As % of net loan balance	9.9%	9.7%

During this period, the increase in charge-off percentage came largely from our Mainland China business as the Chinese economy showed signs of slower growth during the first half of the year. However, as our business in the country continues to grow in scale, the sustained improvement on cost-to-income has largely absorbed additional bad debt charges. Operating earnings from the Mainland China loan business increased by 34% year-on-year, in line with the increase in revenue. Overall, the Group's management is comfortable with the credit quality, especially in the context of our vigorous return and diversification of our loan book, despite slower economic growth.

Branch Network

City/Province	**Number of new branches opened during the first half of 2014**	**Number of branches as at 30 June 2014**
Hong Kong	1	50
Shenzhen	–	43
Shenyang	–	8
Chongqing	1	8
Tianjin	3	7
Chengdu	–	8
Yunnan province	1	8
Dalian	–	9
Beijing	–	6
Wuhan	1	5
Shanghai	1	5
Fuzhou	1	4
Harbin	1	3
Nanning	1	1
Total	11	165

UAF added 10 new branches to its network in Mainland China during the first half of 2014, and a total of 115 branches were operating in the Mainland at the end of June 2014. Operations in Nanning were launched in June 2014. Money lending licences in Qingdao and Jinan have been granted and businesses there are expected to be launched in the latter half of 2014. A new car owner's loan business (unsecured loans targeting car owners) was launched during the period with satisfactory results. In order to extend our reach into broader customer segments, UAF will also launch secured car loan products targeting customers with a higher credit profile and will continue to introduce new product offerings utilising its expert market knowledge of the consumer finance industry.

In July 2014, UAF entered into a long-term strategic cooperation agreement with 58.com to develop internet financial services in Mainland China. Both parties will explore the leveraging of their respective databases to promote online and offline financial services on the Internet, develop a peer to peer (P2P) loan business, and seek other business opportunities. This initiative will open up more opportunities for UAF to build on its expertise in the industry.

Despite keen competition, the Hong Kong business remains stable as the domestic economy enjoys lively growth in private consumption. New advertising campaigns will be launched to further raise our brand awareness and reinforce our leadership of the market. UAF will continue to review its operating efficiency to make itself ready for changes in the market.

Many challenges lie ahead, including the uncertain state of the Mainland Chinese economy in the coming months. The outlook in the remaining half of 2014 remains demanding but with new initiatives and the continued prudent expansion of our network in Mainland China, more satisfactory results should be achievable in the coming year.

Principal Investments

(HK$ Million)	**1H2014**	**1H2013**	**Change**
Operating Earnings	**77.2**	**66.2**	**17%**
Other income	26.2	19.5	
Other non-operating expenses	–	(31.5)	
Exchange gain (loss)	3.5	(21.6)	
Net profit (loss) on financial assets and liabilities	80.8	(92.9)	
Associates	2.4	9.2	
Joint ventures	(1.0)	3.0	
Pre-tax Contribution	**189.1**	**(48.1)**	

This segment carries on two major categories of activity: (A) Portfolio Investments and (B) Group Management and Support (GMS).

(A) Portfolio Investments – These investments are managed by teams with specialised knowledge of asset classes. Assets allocations are based on expected return rates and available funding capital. The average value of the portfolio during the period is HK$2,012.2 million.

(i) The Management Trading Book consists of a range of listed and unlisted financial instruments that are managed toward returns in the context of controlled risk. For the first half of 2014, it achieved a return of 9.5% on an average portfolio of HK$898.2 million. This result was due to gains in our own managed investment portfolio as well as external professionally managed funds.

For our own managed portfolio, we adopt a bottom-up stock picking investment process and investment decisions are based on valuation, a sector view as well as the strategic fit with the rest of the Group. This strategy achieved satisfactory results in the first half of 2014 whilst the local HSI was flat year-to-date. For our external professionally managed funds, we had strong results from our private equity investments, particularly in the healthcare and technology sectors which we have been positive about for a number of years. These investments help our team gain access to potential co-investments, and also help the Group build strategic business relationships with other companies.

(ii) Associates, Joint Ventures and Available-for-sale Investments portfolio includes direct investments in businesses that have sound potential or add strategic value to the Group through the generation of business relationships and opportunities. The Group is involved in the active management of its associates and joint ventures. The carrying value of the portfolio was HK$342.4 million as at 30 June 2014.

(iii) Regarding the Commercial Real Estate portfolio in Hong Kong, Macau and Mainland China, the carrying value of the investment properties portfolio as at 30 June 2014 was HK$790.1 million. In the first half of 2014, the portfolio generated a fair value gain (under other income) and rental income (under operating earnings) totalling HK$31.6 million or a 4.1% return. Not included as investment properties are office space retained by the Group for its own use in Hong Kong and Macau which is booked at a cost less depreciation of HK$9 million under "property and equipment". A Sale and Purchase Agreement has been signed for the sale of the office space in Macau. Upon the completion of the transaction, a gain of HK$139 million before tax is expected to be reported in the second half of 2014. The Group actively manages both investment and non-investment properties based on the best-use of the properties to the Group as well as the market return potential.

(B) Group Management and Support (GMS) – GMS provides supervisory and administrative functions for all business segments, including management supervisory, controls, treasury and support. The business segment is properly serviced by GMS and charged so that their performance and results are measured at commercial basis. These inter-segment allocations are reflected in operating earnings.

OUTLOOK

Slower economic growth in Mainland China will have an impact on both our UAF and Sun Hung Kai Financial businesses with both the Hong Kong financial markets and local economy increasingly entwined with Mainland China. However, given the growth in the footprint of the UAF business as well as our new partnerships and initiatives, we are generally optimistic about market prospects. Our Group has a long history of successfully managing businesses through various cycles and we will continue to pursue growth opportunities in a measured and prudent manner.

FINANCIAL REVIEW

Financial Resources, Liquidity and Capital Structure

As at 30 June 2014, equity attributable to owners of the Company amounted to HK$13,593.4 million, representing an increase of HK$191.3 million or approximately 1% from 31 December 2013. During the period ended 30 June 2014, the trustee of the SHK Employee Ownership Scheme ("EOS") acquired 1.2 million shares in the Company through purchases on market for shares awarded under the scheme. The Company also repurchased 9.6 million shares for a total consideration (including expenses) of HK$52.5 million.

The Group maintained a strong cash position and holds short-term bank deposits, bank balances and cash amounting to HK$4,829.0 million as at 30 June 2014 (31 December 2013: HK$3,738.5 million).

Meanwhile, the Group's total borrowings comprising bank and other borrowings, bonds and notes, amounted to HK$11,764.2 million as at 30 June 2014 (31 December 2013: HK$8,582.5 million). Of this amount, HK$4,859.7 million is repayable within one year and the balance of HK$6,904.5 million is repayable after one year (31 December 2013: HK$2,801.6 million and HK$5,780.9 million respectively). Part of the increase in bank borrowings was tied to additional facilities drawn to finance IPO margin financing which amounted to HK$1,864.3 million as at 30 June 2014.

As at 30 June 2014, the Group's bonds and notes comprised US dollar denominated notes equivalent to HK$3,121.2 million and Renminbi denominated notes equivalent to HK$628.0 million which pay interest at fixed coupon rates. The Group's bank and other borrowings (pay interest at floating interest rates) were in HK dollars, US dollars and Renminbi as at 30 June 2014. There are no known seasonal factors in the Group's borrowing profiles.

The Group's gearing ratio calculated on the basis of net debt to the equity attributable to owners of the Company was approximately 51% as at 30 June 2014 (at 31 December 2013: approximately 36%). Net debt represents the total of bank and other borrowings, bonds and notes less bank deposits, cash and cash equivalents.

The Group maintained foreign currency positions to cater for its present and potential investment and operating activities. Any exchange risks are closely monitored by the Group and held within approved limits.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

There were no material acquisitions or disposals of subsidiaries, associates or joint ventures during the period.

Segment Information

Detailed segment information in respect of the revenue and profit or loss is shown in Note 2.

Charges on Group Assets

Listed shares held by the Group with an aggregate value of HK$29.4 million were pledged in relation to various bank loans and overdraft facilities. Properties of the Group with a total book value of HK$777.0 million were pledged by subsidiaries to banks for facilities granted to them with a total outstanding loan balance of HK$189.7 million as at 30 June 2014.

Contingent Liabilities

At the end of the reporting period, the Group had indemnities on banking guarantees made available to a clearing house and regulatory body of HK$4.5 million (31 December 2013: HK$4.5 million).

HUMAN RESOURCES

As at 30 June 2014, the Group's headcount stood at 6,229 (including investment/sales consultants), representing an approximate increase of 19.0% compared with 30 June 2013. This increase was due primarily to the expansion of UAF's business in Mainland China, which included the opening of 21 new branches for the period from July 2013 to June 2014. Staff costs (including Director's emoluments), contributions to retirement benefit schemes and expenses recognised for the EOS amounted to approximately HK$515.5 million (2013: HK$427.2 million).

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

INTERIM AND SPECIAL DIVIDENDS

The Board has declared an interim dividend of HK10 cents per share (2013: HK10 cents per share) and a special dividend of HK2 cents per share payable to the shareholders whose names appear on the register of members of the Company on 10 September 2014. Dividend warrants for the interim and special dividends are expected to be dispatched on or around 18 September 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 September 2014 to 10 September 2014, both days inclusive, during which period no transfer of shares will be registered. The ex-dividend date will be 4 September 2014. In order to qualify for the interim and special dividends, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrar, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 5 September 2014.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2014, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 should be separate and should not be performed by the same individual. Under the current organisational structure of the Company, the functions of a chief executive are performed by the Group Executive Chairman, Mr. Lee Seng Huang, in conjunction with the 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, legal and risk management.

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

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

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

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

The terms of reference of the Audit Committee adopted by the Company are in compliance with code provision C.3.3 of the CG Code, except that the Audit Committee should (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 performed its duty to have an effective internal control system; (iii) promote (as opposed to ensure under the code provision) co-ordination between the internal audit and external auditor; and (iv) check (as opposed to ensure under the code provision) whether the internal audit is adequately resourced and has appropriate standing within the Company.

The reasons for the above deviations were set out in the Corporate Governance Report contained in the Company's annual report for the financial year ended 31 December 2013. The Board considers that the Remuneration Committee and the Audit Committee should continue to operate according to their respective terms of reference as adopted by the Company. The Board will review the terms of reference at least annually and would make appropriate changes if considered necessary.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2014, the Company repurchased a total of 9,609,000 shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$52,301,990. All the repurchased shares were subsequently cancelled.

Particulars of the repurchases are as follows:

Month	Number of shares repurchased	Purchase price Highest	Purchase price Lowest	Aggregate consideration (before expenses)
		(HK$)	*(HK$)*	*(HK$)*
January	777,000	4.29	4.23	3,309,230
March	110,000	4.85	4.80	531,500
April	691,000	5.40	5.34	3,711,620
May	3,964,000	5.52	5.15	21,314,650
June	4,067,000	6.00	5.55	23,434,990
	9,609,000			52,301,990

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 2014.

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 2014. 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, 21 August 2014

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. Ahmed Mohammed Aqil Qassim Alqassim, Ho Chi Kit *(Roy Kuan as his alternate)* and Leung Pak To *(Liu Zheng as his alternate)*

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