新鴻基有限公司
SUN HUNG KAI & CO. LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 86)

ANNOUNCEMENT OF 2019 FINAL RESULTS

CHAIRMAN'S LETTER

This has been a meaningful year for Sun Hung Kai & Co. Limited (the "Company" or "SHK & Co.", together with its subsidiaries, the "Group") as we celebrated the 50th anniversary of our establishment in 1969, and I am proud to present you with solid results: significant gains to basic earnings per share and total assets of HK$42.6 billion as at 31 December 2019. In a year of market disruptions and uncertainties, the Group achieved growth in loan balances and a higher loan yield from lending, as well as strong investment performance.

The results for this past year showed the strength of the Group's dual-engine growth model. Our diverse yet complimentary business portfolio made 2019 one of our strongest years ever, and we feel it further validates the strategic transformation we embarked on five years ago. Our Lending businesses remain our largest in terms of assets and provide steady cash flow and organic growth, while our Investment Management business focuses on higher return strategies across various sectors and geographies. Looking forward, we will continue to expand the Investment Management business by launching a Fund Management platform which will manage external capital and bring additional assets and revenue. As we continue to grow our offerings, we believe the Investment Management business will be a major driver of our future growth.

At SHK & Co., we believe in investing in growth, whether by offering financing to people and companies or by contributing capital through Investment Management. That same philosophy applies to the Company, where we invest in our people to foster their development and provide a welcoming and supportive workplace environment. We invest in our systems and governance controls to assure business continuity at the highest institutional standards. In our communities, we invest through the Sun Hung Kai & Co. Foundation and the Sun Hung Kai Scallywag sailing team, as well as our ESG initiatives. We know these are all the right things to do and believe they will all contribute to making our Company a continued success.

At this time of year, we take a moment to look back and appreciate what we achieved in a challenging year. Unfortunately, the new year has immediately brought new and unprecedented difficulties as the coronavirus outbreak and its widespread effects have caused massive disruptions to the global economy. The effects are being felt here and around the world through travel bans, national lockdowns, and resulting violent swings in the markets only ever seen in historic crashes. Like you, we are constantly watching the news and adjusting to new information and dangers on what seems like a daily basis. In the midst of these ongoing challenges and uncertainties, I am proud of how quickly our team at SHK & Co. continues to adapt, and to keep both safe and productive. It is times like this that our Company ethos "Endure. Adapt. Excel" not only expresses our mindset and culture, but also guides us forward. After a year in which we were able to Excel, we now need to Endure and Adapt once more. I am confident that we will successfully navigate these turbulent waters and Excel again.

Financial Highlights, Capital Management and Dividend

In 2019, our combined business portfolio produced a record high of 76% growth on profit attributable to owners of the Company, totalling HK$2,085.2 million (2018: HK$1,183.8 million). Earnings per share surged to HK104.4 cents, an increase of 86% (2018: HK56.2 cents). The book value per share gained 7% to HK$10.2 (2018: HK$9.5). Return on equity and return on assets were 10.6% and 6.0%, respectively (2018: 6.2% and 4.1%, respectively).

Delivering on our strategies and achieving our goals requires maintaining a strong balance sheet. During the year, the Group partially tendered two US dollar-denominated medium term notes (due in 2021 and 2022, respectively) and issued new 5.75% US dollar-denominated medium term notes due in 2024. In addition, the Group maintained our European Commercial Paper programme and bank facilities to fulfil our capital needs.

Since the Company first listed in 1983, we have maintained continuous dividend distribution, returning HK$11.7 billion in distributions (including dividends and share buybacks) to our shareholders over the past 13 years. The Board has declared a second interim dividend of HK14 cents bringing the total dividend per share to HK26 cents for 2019, representing a pay-out ratio of 25% (excluding share buybacks).

In 2019, the Company continued to repurchase stock, buying back 9.2 million shares. In addition, the Group's subsidiary, United Asia Finance Limited ("UA Finance" or "UAF"), bought 7.27% of its then issued shares from a minority shareholder, resulting in the Group's interest in UAF rising from 58% to 63%.

Business Update

Our journey started over 50 years ago, with the Company offering brokerage and related services in Hong Kong. The Group then strategically entered the Consumer Finance business in Hong Kong and Mainland China, and eventually expanded into Investment Management, making us a stronger and more diversified player in financial services.

The Group realigned business segments into two categories: Financing and Investing. The philosophy behind this dual-engine model is that our core lending business aims to provide stable returns and strong cash flows, while investing seeks new income streams and opportunities for increased returns.

During the year, both segments delivered strong performance, led by the Lending businesses. UA Finance contributed HK$1,276.0 million to the Group's pre-tax profit and gross loan balance increased by 7% to HK$11,121.3 million at the end of 2019. Sun Hung Kai Credit Limited contributed a meaningful pre-tax profit of HK$121.4 million in its fourth full year of operation, with gross loan balance reaching HK$3,648.6 million at the end of 2019. Both businesses focused on organically growing the loan books, enhancing profitability and managing risks.

The Group's Investment Management business had a strong year, contributing HK$1,083.2 million of pre-tax profit with assets reaching a total value of HK$13,129.7 million at end of 2019, an increase of 6%. Since the inception of this business five years ago, we have built a significant portfolio of diversified investments and staffed a professional team to select and manage them. The next step is the launch of Sun Hung Kai Fund Management, a fully licensed and regulated fund manager, and a series of funds that will be available to accept third party capital. We have received regulatory approval to proceed and have been working to build out the infrastructure to support this new business. This evolution will allow the Investment Management business to become a powerful generator of steady revenue and investment profits. The additional assets under management will allow the teams to scale their operations, retain talent and diversify risk.

People and Community

We value our people and are committed to promote and build a flexible, diverse, inclusive and open culture to attract and retain talent. In January 2019, we announced unlimited annual leave for staff, a pioneering move amongst Hong Kong corporates. Over the course of the year, we built out systems to allow our employees to more easily work remotely, which helped us remain productive in the coronavirus outbreak and should continue to add value once business travel begins again. As we celebrate our heritage, we also embrace modern working styles to enhance employee engagement and foster a sense of ownership.

Outside of the office, SHK & Co. has a vision to promote sailing, a sport with a rich legacy in Hong Kong, as we believe that sailing exemplifies endurance, adaptability and excellence. We launched the Sun Hung Kai Scallywag Foundation in May 2019, with the mission of making sailing more accessible for the underprivileged youth in Hong Kong. Especially for youngsters, sailing helps nurture important qualities such as resilience, discipline, teamwork and leadership. Since the launch, over 100 young sailors have trained under the programme.

Off the water, we have engaged with the community through the Sun Hung Kai & Co. Foundation. Through our support of eye health (Orbis), Harvard University scholarship and the arts in Hong Kong, we endeavor to enrich our communities.

Outlook

2020 has started with a global coronavirus pandemic unlike anything we have seen before. At this point it is impossible to know how or when this will end and how much damage will be done. We have seen some initial signs of success in China and Korea and hope to soon see improvement in Italy and the USA. The outlook from here is difficult to predict. Governments are embarking on previously unseen levels of support, with massive stimulus and liquidity measures being approved and rolled out day by day. However, fear and uncertainties continue to run high among investors and ordinary citizens as the trade-off between lockdowns and keeping people working is hashed out in each country and city. We are also trying to maintain a balance, keeping our staff healthy as we try to keep the Company running effectively.

The continued unprecedented volatility, together with liquidity shortages, has created broad panic in many markets as investors react to losses. We are confident that these swings will smooth out and that our liquidity and longer-term investment horizon puts us in a position to be patient and prudent as we navigate these turbulent markets. We are constantly monitoring the situation and trying to understand the immediate impacts as well as the second and third order effects to best position ourselves to benefit when the world eventually returns to stability. I believe that with the strength of our team, our strong financial position and our dual-engine business model we will weather the storm.

I would like to express my gratitude to our shareholders and business partners for their steadfast support, and to all my fellow Board members and colleagues, past and present, for their commitment and professionalism over the years.

Lee Seng Huang
Group Executive Chairman

Hong Kong, 30 March 2020

GROUP RESULTS

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019 as set out below:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	**2019** **HK$ Million**	2018 HK$ Million
Interest income		**4,125.1**	4,070.0
Other revenue	*4*	**91.7**	105.7
Other gains	*5*	**14.5**	408.9
Total income		**4,231.3**	4,584.6
Brokerage and commission expenses		**(43.9)**	(50.5)
Advertising and promotion expenses		**(147.3)**	(159.2)
Direct cost and operating expenses		**(104.2)**	(89.5)
Administrative expenses		**(1,152.1)**	(1,167.2)
Net gain on financial assets and liabilities at fair value through profit or loss	*6*	**1,807.7**	234.4
Net exchange gain		**82.5**	14.2
Net impairment losses on financial instruments	*7*	**(1,024.4)**	(901.7)
Finance costs		**(777.7)**	(666.8)
Other losses		**(179.0)**	(1.6)
		2,692.9	1,796.7
Share of results of associates		**48.6**	30.8
Share of results of joint ventures		**1.9**	3.8
Profit before taxation	*8*	**2,743.4**	1,831.3
Taxation	*9*	**(228.8)**	(220.7)
Profit for the year		**2,514.6**	1,610.6
Profit attributable to:			
– Owners of the Company		**2,085.2**	1,183.8
– Non-controlling interests		**429.4**	426.8
		2,514.6	1,610.6
Earnings per share	*11*		
– Basic (HK cents)		**104.4**	56.2
– Diluted (HK cents)		**104.2**	56.1

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019

	2019 *HK$ Million*	2018 *HK$ Million*
Profit for the year	**2,514.6**	1,610.6
Other comprehensive (expenses) income:		
Items that will not be reclassified to profit or loss		
Fair value loss on investments in equity instrument of fair value through other comprehensive income	**(13.9)**	(110.3)
	(13.9)	(110.3)
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translating foreign operations	**(113.7)**	(335.8)
Reclassification adjustment to profit or loss on disposal of joint ventures	**–**	2.8
Share of other comprehensive income (expenses) of associates	**4.2**	(0.8)
Share of other comprehensive expenses of joint ventures	**(3.5)**	(3.2)
	(113.0)	(337.0)
Other comprehensive expenses for the year	**(126.9)**	(447.3)
Total comprehensive income for the year	**2,387.7**	1,163.3
Total comprehensive income attributable to:		
– Owners of the Company	**1,997.3**	876.7
– Non-controlling interests	**390.4**	286.6
	2,387.7	1,163.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	**31/12/2019 HK$ Million**	31/12/2018 HK$ Million
Non-current Assets			
Investment properties		**1,312.5**	1,360.9
Leasehold interests in land		**–**	4.0
Property and equipment		**377.2**	412.1
Right-of-use assets		**125.5**	–
Intangible assets		**893.2**	890.2
Goodwill		**2,384.0**	2,384.0
Interest in associates		**1,196.1**	1,380.4
Interest in joint ventures		**445.5**	240.2
Financial assets at fair value through other comprehensive income		**129.5**	174.4
Financial assets at fair value through profit or loss		**7,687.2**	6,360.9
Deferred tax assets		**780.0**	729.9
Amounts due from associates		**261.3**	266.7
Loans and advances to consumer finance customers	*12*	**2,770.5**	2,618.9
Mortgage loans	*13*	**1,270.7**	1,956.8
Term loans	*14*	**49.6**	33.1
Trade receivables, prepayments and other receivables	*15*	**20.4**	22.9
		19,703.2	18,835.4
Current Assets			
Financial assets at fair value through profit or loss		**4,285.6**	4,378.6
Taxation recoverable		**3.7**	5.0
Amounts due from associates		**68.6**	97.1
Loans and advances to consumer finance customers	*12*	**7,643.0**	7,150.8
Mortgage loans	*13*	**2,356.2**	1,897.4
Term loans	*14*	**1,856.6**	2,452.1
Trade receivables, prepayments and other receivables	*15*	**466.8**	364.8
Amounts due from brokers		**451.7**	507.0
Short-term pledged bank deposits and bank balances		**33.2**	20.0
Bank deposits		**68.1**	353.5
Cash and cash equivalents		**5,624.9**	4,622.4
		22,858.4	21,848.7
Current Liabilities			
Financial liabilities at fair value through profit or loss		**715.8**	425.3
Bank and other borrowings		**5,659.9**	5,221.3
Trade payables, other payables and accruals	*16*	**338.4**	236.9
Financial assets sold under repurchase agreements		**386.2**	1,216.5
Amounts due to fellow subsidiaries and a holding company		**35.3**	519.0
Amounts due to associates		**–**	1.9
Provisions		**152.9**	103.5
Taxation payable		**339.6**	175.7
Lease liabilities		**89.9**	–
Notes/paper payable		**569.5**	752.7
		8,287.5	8,652.8
Net Current Assets		**14,570.9**	13,195.9
Total Assets less Current Liabilities		**34,274.1**	32,031.3

	31/12/2019	31/12/2018
	HK$ Million	*HK$ Million*
Capital and Reserves		
Share capital	**8,752.3**	8,752.3
Reserves	**11,629.4**	10,286.9
Equity attributable to owners of the Company	**20,381.7**	19,039.2
Non-controlling interests	**3,194.9**	3,805.9
Total Equity	**23,576.6**	22,845.1
Non-current Liabilities		
Deferred tax liabilities	**143.0**	176.9
Bank and other borrowings	**2,497.2**	1,961.8
Provisions	**0.3**	0.2
Lease liabilities	**27.8**	–
Notes/paper payable	**8,029.2**	7,047.3
	10,697.5	9,186.2
	34,274.1	32,031.3

Notes:

1. DISCLOSURE IN ACCORDANCE WITH SECTION 436 OF THE HONG KONG COMPANIES ORDINANCE

The financial information relating to the financial years ended 31st December 2019 and 2018 included in this announcement of annual results does not constitute the company's statutory annual financial statements for those financial years but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31st December 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31st December 2019 in due course. The Company's auditor has reported on those financial statements for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

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

HKFRS 16 Leases

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

Definition of a lease

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

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

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

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

- relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

- elected not to recognise right-of-use assets and lease liabilities for leases where the lease term ends within 12 months of the date of initial application;

- excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

- applied a single discount rate to a portfolio of leases with similar remaining terms for a similar class of underlying assets in a similar economic environment.

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

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

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

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

Notes:

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$0.1 million and HK$4.0 million respectively were reclassified to right-of-use assets.

(b) Rental prepayments previously included in prepayments, deposits and other receivables amounting to HK$7.7 million were reclassified to right-of-use assets as at 1 January 2019.

(c) In relation to the leases of office properties where the Group acts as lessee, the carrying amount of the estimated costs of reinstating the rented premises previously included in property and equipment amounting to HK$1.4 million as at 1 January 2019 were included as right-of-use assets.

3. SEGMENT INFORMATION

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Inter-segment sales are charged at prevailing market rates.

The main reportable and operating segments presented are as follows:

(a) Consumer finance: provision of consumer SME and other financing.

(b) Mortgage Loans: provision of mortgage loans financing.

(c) Specialty Finance: provision of structured and specialty financing.

(d) Investment Management: portfolio investments.

(e) Strategic Investments: investments in financial services.

(f) Group Management and Support: provision of liquidity, supervisory and administrative functions to all business segments.

"Specialty Finance" was previously presented as "Private Credit" within the "Principal Investments" segment. In addition, "Principal Investments" other than "Private Credit" is renamed as "Investment Management" and "Financial Services" is renamed as "Strategic Investments". The directors consider that these changes to segment reporting are in line with the changes of internal reporting reviewed by the chief operating decision maker in 2019. The comparative figures for the business segments were re-presented.

Segment assets and liabilities are not presented as they are not regularly reviewed by the chief operating decision maker.

	2019						
	Financing Business			Investing Business			
	Consumer Finance *HK$ Million*	Specialty Finance *HK$ Million*	Mortgage Loans *HK$ Million*	Investment Management *HK$ Million*	Strategic Investments *HK$ Million*	Group Management and Support *HK$ Million*	Total *HK$ Million*
Segment revenue	3,504.7	340.6	295.6	31.6	–	273.6	4,446.1
Less: inter-segment revenue	–	–	–	–	–	(229.3)	(229.3)
Segment revenue from external customers	3,504.7	340.6	295.6	31.6	–	44.3	4,216.8
Segment profit or loss	1,276.0	64.8	121.4	1,111.5	130.7	(11.5)	2,692.9
Share of results of associates	–	–	–	(28.3)	76.9	–	48.6
Share of results of joint ventures	–	–	–	–	1.9	–	1.9
Profit (loss) before taxation	1,276.0	64.8	121.4	1,083.2	209.5	(11.5)	2,743.4
Included in segment profit or loss:							
Interest income	3,480.7	305.2	295.2	–	–	44.0	4,125.1
Other gains	20.1	–	0.3	2.6	0.5	(9.0)	14.5
Net (loss) gain on financial assets and liabilities	–	(0.7)	–	1,533.0	266.8	8.6	1,807.7
Net exchange gain	0.9	–	–	48.4	–	33.2	82.5
Net impairment losses on financial instruments	(803.9)	(159.9)	(12.0)	(48.2)	(0.4)	–	(1,024.4)
Other losses	(1.1)	–	–	(42.0)	(135.9)	–	(179.0)
Amortisation and depreciation	(116.9)	–	(3.5)	–	–	(11.9)	(132.3)
Finance costs	(321.1)	(111.5)	(119.1)	–	–	(439.7)	(991.4)
Less: inter-segment finance costs	–	111.5	102.2	–	–	–	213.7
Finance costs to external suppliers	(321.1)	–	(16.9)	–	–	(439.7)	(777.7)
Cost of capital (charges) income*	–	–	–	(319.6)	–	319.6	–

	2018 (re-presented)						
	Financing Business			Investing Business			
	Consumer Finance *HK$ Million*	Specialty Finance *HK$ Million*	Mortgage Loans *HK$ Million*	Investment Management *HK$ Million*	Strategic Investments *HK$ Million*	Group Management and Support *HK$ Million*	Total *HK$ Million*
Segment revenue	3,422.1	452.3	249.5	32.0	2.4	250.6	4,408.9
Less: inter-segment revenue	–	–	–	–	–	(233.2)	(233.2)
Segment revenue from external customers	3,422.1	452.3	249.5	32.0	2.4	17.4	4,175.7
Segment profit or loss	1,207.9	241.7	114.1	115.6	136.0	(18.6)	1,796.7
Share of results of associates	–	–	–	(32.4)	63.2	–	30.8
Share of results of joint ventures	–	–	–	–	3.8	–	3.8
Profit (loss) before taxation	1,207.9	241.7	114.1	83.2	203.0	(18.6)	1,831.3
Included in segment profit or loss:							
Interest income	3,388.5	409.9	248.8	4.5	–	18.3	4,070.0
Other gains	25.4	–	0.5	318.6	66.7	(2.3)	408.9
Net gain on financial assets and liabilities	–	–	–	130.9	67.5	36.0	234.4
Net exchange (loss) gain	(21.5)	0.7	–	45.5	–	(10.5)	14.2
Net impairment losses on financial instruments	(833.6)	(64.3)	(3.8)	–	–	–	(901.7)
Amortisation and depreciation	(40.4)	–	(1.9)	–	–	(13.3)	(55.6)
Finance costs	(237.4)	(142.1)	(86.2)	–	–	(429.4)	(895.1)
Less: inter-segment finance costs	–	142.1	86.2	–	–	–	228.3
Finance costs to external suppliers	(237.4)	–	–	–	–	(429.4)	(666.8)
Cost of capital (charges) income*	–	–	–	(325.2)	–	325.2	–

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

The geographical information of revenue and non-current assets are disclosed as follows:

	2019 ***HK$ Million***	2018 *HK$ Million*
Revenue from external customers by location of operations		
– Hong Kong	**3,338.5**	3,012.6
– Mainland China	**878.3**	1,163.1
	4,216.8	4,175.7
	31/12/2019 ***HK$ Million***	31/12/2018 *HK$ Million*
Non-current assets other than interests in associates and joint ventures, financial assets and deferred tax assets by location of assets		
– Hong Kong	**4,619.8**	4,664.9
– Mainland China	**472.6**	386.3
	5,092.4	5,051.2

4. OTHER REVENUE

	2019	2018
	HK$ Million	*HK$ Million*
Service income	**55.5**	70.8
Dividends from listed investments	**8.7**	8.9
Dividends from unlisted investments	**2.1**	2.4
Gross rental income from investment properties	**25.4**	23.6
	91.7	105.7

5. OTHER GAINS

	2019	2018
	HK$ Million	*HK$ Million*
Net realised gain on disposal of subsidiaries	**–**	132.4
Increase in fair value of investment properties	**–**	185.1
Miscellaneous income	**14.5**	24.7
Reversal of impairment in an associate	**–**	66.7
	14.5	408.9

6. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	2019	2018
	HK$ Million	*HK$ Million*
Net realised and unrealised gain (loss) on financial assets and liabilities		
– Held for trading	**627.0**	(225.2)
– Financial assets at fair value through profit or loss	**1,180.7**	459.6
	1,807.7	234.4

7. NET IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

	2019	2018
	HK$ Million	*HK$ Million*
Loans and advances to consumer finance customers		
– Net impairment losses	**(999.2)**	(1,025.0)
– Recoveries of amounts previously written off	**195.1**	195.1
	(804.1)	(829.9)
Mortgage loans		
– Net impairment losses	**(12.0)**	(4.5)
– Recoveries of amounts previously written off	**–**	0.7
	(12.0)	(3.8)
Term loans		
– Net impairment losses	**(160.6)**	(64.3)
	(160.6)	(64.3)
Amounts due from associates		
– Net impairment losses	**(0.4)**	–
	(0.4)	–
Trade receivables and other receivables		
– Net impairment losses	**(47.6)**	(5.1)
– Recoveries of amounts previously written off	**0.3**	1.4
	(47.3)	(3.7)
	(1,024.4)	(901.7)

8. PROFIT BEFORE TAXATION

	2019	2018
	HK$ Million	*HK$ Million*
Profit before taxation for the year has been arrived at after charging:		
Administrative expenses	**(1,152.1)**	(1,167.2)
Amortisation of leasehold interests in land	**–**	(0.2)
Outgoings in respect of rental-generating investment properties	**(0.3)**	(0.2)
Other losses	**(179.0)**	(1.6)
Share of taxation of associates and joint ventures included in share of results of associates and joint ventures	**(4.6)**	(6.8)

9. TAXATION

	2019	2018
	HK$ Million	*HK$ Million*
Current tax		
– Hong Kong	**(250.0)**	(205.2)
– PRC	**(73.9)**	(117.7)
	(323.9)	(322.9)
Over provision in prior years	**0.1**	13.4
	(323.8)	(309.5)
Deferred tax	**95.0**	88.8
	(228.8)	(220.7)

Hong Kong profits tax is calculated at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2018: 25%). Taxation arising in other jurisdictions is calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in the relevant jurisdictions.

10. DIVIDENDS

	2019	2018
	HK$ Million	*HK$ Million*
The aggregate amount of dividends declared and proposed:		
– 2019 interim dividend paid of HK12 cents (2018: HK12 cents) per share	**240.3**	258.6
– 2019 second interim dividend of HK14 cents per share declared after the reporting date (2018: 2018 second interim dividend of HK14 cents per share)	**279.4**	281.1
	519.7	539.7
Dividends recognised as distribution during the year:		
– 2018 second interim dividend paid of HK14 cents (2018: 2017 second interim dividend paid of HK14 cents) per share	**280.7**	301.4
– 2019 interim dividend paid of HK12 cents (2018: HK12 cents) per share	**240.3**	258.6
	521.0	560.0

11. EARNINGS PER SHARE

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

	2019	2018
	HK$ Million	*HK$ Million*
Earnings for the purposes of basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	**2,085.2**	1,183.8
Number of shares (in million)		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,997.2**	2,107.8
Effect of dilutive potential ordinary shares:		
– Impact of contingently issuable shares under the SHK Employee Ownership Scheme	**3.2**	2.0
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,000.4**	2,109.8

12. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	31/12/2019	31/12/2018
	HK$ Million	*HK$ Million*
Loans and advances to consumer finance customers		
– Hong Kong	**8,576.2**	7,803.4
– Mainland China	**2,545.1**	2,611.9
Less: impairment allowance	**(707.8)**	(645.6)
	10,413.5	9,769.7
Analysed for reporting purposes as:		
– Non-current assets	**2,770.5**	2,618.9
– Current assets	**7,643.0**	7,150.8
	10,413.5	9,769.7

The following is an ageing analysis for the loans and advances to consumer finance customers that were past due at the end of the reporting period:

	31/12/2019	31/12/2018
	HK$ Million	*HK$ Million*
Less than 31 days past due	**582.9**	528.6
31–60 days	**55.6**	50.4
61–90 days	**20.9**	11.9
91–180 days	**148.4**	48.2
Over 180 days	**61.4**	109.2
	869.2	748.3

13. MORTGAGE LOANS

	31/12/2019	31/12/2018
	HK$ Million	*HK$ Million*
Mortgage loans		
– Hong Kong	**3,648.6**	3,863.9
Less: impairment allowance	**(21.7)**	(9.7)
	3,626.9	3,854.2
Analysed for reporting purposes as:		
– Non-current assets	**1,270.7**	1,956.8
– Current assets	**2,356.2**	1,897.4
	3,626.9	3,854.2

The following is an ageing analysis for the mortgage loans that were past due at the end of the reporting period:

	31/12/2019	31/12/2018
	HK$ Million	*HK$ Million*
Less than 31 days past due	**148.8**	306.0
31–60 days	**32.0**	285.5
61–90 days	**4.0**	61.4
91–180 days	**–**	22.5
Over 180 days	**143.8**	7.5
	328.6	682.9

14. TERM LOANS

	31/12/2019	31/12/2018
	HK$ Million	*HK$ Million*
Secured term loans	**2,111.6**	1,945.4
Unsecured term loans	**106.0**	690.6
Less: impairment allowance	**(311.4)**	(150.8)
	1,906.2	2,485.2
Analysed for reporting purposes as:		
– Non-current assets	**49.6**	33.1
– Current assets	**1,856.6**	2,452.1
	1,906.2	2,485.2

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

15. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	31/12/2019	31/12/2018
	HK$ Million	*HK$ Million*
Other receivables		
– Deposits	**38.0**	38.7
– Others	**391.3**	329.9
Less: impairment allowance	**(47.5)**	–
Trade and other receivables at amortised cost	**381.8**	368.6
Prepayments	**105.4**	19.1
	487.2	387.7
Analysed for reporting purposes as:		
– Non-current assets	**20.4**	22.9
– Current assets	**466.8**	364.8
	487.2	387.7

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

	31/12/2019 *HK$ Million*	31/12/2018 *HK$ Million*
Less than 31 days	**279.2**	277.8
31–60 days	**–**	2.5
	279.2	280.3
Trade and other receivables without ageing	**102.6**	88.3
	381.8	368.6

16. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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

	31/12/2019 *HK$ Million*	31/12/2018 *HK$ Million*
Less than 31 days/repayable on demand	**125.3**	43.3
31–60 days	**6.3**	10.2
61–90 days	**5.6**	12.8
91–180 days	**0.7**	1.3
	137.9	67.6
Accrued staff costs, other accrued expenses and other payables without ageing	**200.5**	169.3
	338.4	236.9

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

(HK$ Million)	Year ended 2019	2018	*Change*
Revenue	4,216.8	4,175.7	*1%*
Pre-tax profit	2,743.4	1,831.3	*50%*
Profit attributable to owners of the Company	2,085.2	1,183.8	*76%*
Basic earnings per share (HK cents)	104.4	56.2	*86%*
Second interim dividend (HK cents)	14.0	14.0	–
Book value per share (HK$)	10.2	9.5	*7%*

The profit attributable to owners of the Company in 2019 was HK$2,085.2 million (2018: HK$1,183.8 million). Basic earnings per share ("EPS") for the year were HK104.4 cents (2018: HK56.2 cents), up 86% year on year. The increase of EPS was attributable to the strong increase in net profit and the results of share buybacks.

The results for the year reflect solid performance which has improved significantly compared with the second half of 2018 primarily as a result of changes in the value of the assets of the Investment Management ("IM", formerly known as Principal Investments) business. The Consumer Finance business also delivered improved profitability.

The Board has declared a second interim dividend of HK14 cents per share for the year ended 31 December 2019, the same as last year.

During the year, the Company repurchased 9.2 million shares for a total consideration of HK$33.0 million. As at 31 December 2019, the Group's book value per share was HK$10.2 with a steady increase of 7% from HK$9.5 at the end of 2018.

RESULTS ANALYSIS

The Group's revenue in 2019 was HK$4,216.8 million (2018: HK$4,175.7 million), of which interest income was the biggest component.

Pre-tax profit for the year increased by 50% to HK$2,743.4 million (2018: HK$1,831.3 million), mainly driven by the significant increase in the value of our Investment portfolio. Pre-tax profit of Investment Management for the year substantially increased to HK$1,083.2 million. This solid performance was a result of substantial improvement in Public/Capital Markets and Alternatives though slightly offset by Real Assets. Additionally, the portfolio's liquidity has improved during 2019.

Consumer Finance was the biggest contributor to pre-tax profit for the year, and its contribution increased by 6% over the year.

The Mortgage Loans business contributed a meaningful pre-tax profit, which has increased by 6% compared to 2018 as it enjoyed operating leverage from an expanded scale.

Specialty Finance (was previously presented as "Private Credit" within the "Principal Investments" segment) had a reduced profit as a result of lower loan balance and higher loan impairment expenses.

Pre-tax loss of Group Management and Support ("GMS") decreased from HK$18.6 million in 2018 to HK$11.5 million.

Operating costs slightly decreased by 1% to HK$1,447.5 million.

BUSINESS REVIEW

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

	Pre-tax Contribution for the Year ended			Segment Assets as at	
(HK$ Million)	**2019**	**2018**	*Change*	**Dec. 2019**	**Dec. 2018**
FINANCING BUSINESS					
Consumer Finance	1,276.0	1,207.9	*6%*	17,917.7	17,226.8
Specialty Finance	64.8	241.7	*–73%*	1,865.0	2,488.8
Mortgage Loans	121.4	114.1	*6%*	3,694.4	3,950.6
INVESTING BUSINESS					
Investment Management	1,083.2	83.2	*1,202%*	13,129.7	12,398.1
Strategic Investments	209.5	203.0	*3%*	2,650.1	2,568.2
GMS[1]	(11.5)	(18.6)	*–38%*	3,304.7	2,051.6
Total	2,743.4	1,831.3	*50%*	42,561.6	40,684.1

1 Certain treasury assets were reclassified from Investment Management to GMS.

FINANCING BUSINESS

As at 31 December 2019, total loans and advances to customers, net of impairment allowance, was HK$15,828.4 million (31 December 2018: HK$16,109.1 million). Net impairment losses on financial instruments (formerly "impairment and bad debt") increased from HK$901.7 million to HK$975.8 million with additional provision in mortgage loans and term loans partly offset by reduced provisions in Consumer Finance loans.

Consumer Finance

The Group's Consumer Finance business is conducted via its majority-owned subsidiary United Asia Finance Limited ("UAF"). Through a well-established branch network and sophisticated online and mobile platforms, UAF primarily offers unsecured loans to individuals and businesses in Hong Kong and Mainland China. UAF is the market leader in the Hong Kong personal loan market. Further, UAF holds money lending licences in major cities in the PRC and internet money lending licences to conduct its online loan business all over the PRC.

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

Segment Full Year Results

	Year ended 31 December		
(HK$ Million)	**2019**	**2018**	***Change***
Revenue	**3,504.7**	**3,422.1**	***2%***
Return on loans (% average gross loan balance)	*32.5%*	*33.8%*	
Operating costs	(1,124.7)	(1,147.1)	*–2%*
Cost to income (% revenue)	*32.1%*	*33.5%*	
Finance costs	(321.1)	(237.4)	*35%*
Net impairment losses	(803.9)	(833.6)	*–4%*
Other gains	20.1	25.4	*–21%*
Exchange gain (loss)	0.9	(21.5)	*N/A*
Pre-tax contribution	**1,276.0**	**1,207.9**	***6%***
Loan Book:			
Net loan balance	10,413.5	9,769.7	*7%*
Gross loan balance^	11,121.3	10,415.3	*7%*

^ Before impairment allowance

The gross loan balance grew for the 26th year at an annual pace of 7% after rising at 6% in 2018. The pre-tax contribution to the Group amounted to HK$1,276.0 million, an increase of 6% against 2018.

Contribution before tax increased by 6%, one percentage point smaller than the growth rate in gross loan balance. The increased share of Hong Kong loan book, which has a lower average yield compared to the PRC loan book, slightly reduced the yield on loans on a consolidated basis. During 2019, Hong Kong accounted for approximately 76% of the average gross loan balance (2018: 71%). The increased proportion of loans from Hong Kong coupled with the decrease in charge-off ratio in the PRC contributed to an improvement in the overall charge-off ratio from 7.8% to 6.9%.

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

Net Impairment Losses on Financial Instruments

(HK$ Million)	2019	2018
Amounts written off[1]	(933.2)	(989.4)
Recoveries[2]	195.4	196.6
Charge off	(737.8)	(792.8)
As % of average gross loan balance	*6.9%*	*7.8%*
Charges of impairment allowance[3]	(66.1)	(40.8)
Net impairment losses	**(803.9)**	**(833.6)**
As % of average gross loan balance	***7.5%***	***8.2%***
Impairment allowance at year end	707.8	645.6
As % of gross loan balance at year end	*6.4%*	*6.2%*

1 An impairment constituting a derecognition event which is made if a loan is more than 90 days overdue, borrower deceased, or the borrower has entered bankruptcy proceedings.

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

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

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

No. of days past due as at:	31 Dec. 2019	*Note*	31 Dec. 2018	*Note*
Less than 31	582.9	*5.6%*	528.6	*5.4%*
31–60	55.6	*0.5%*	50.4	*0.5%*
61–90	20.9	*0.2%*	11.9	*0.2%*
91–180	148.4	*1.4%*	48.2	*0.5%*
Over 180	61.4	*0.6%*	109.2	*1.1%*
Total	**869.2**	***8.3%***	**748.3**	***7.7%***

Note: amount as a percentage of net loan balance

Hong Kong Business

Key Operating Data	**2019**	**2018**	***Change***
Number of branches	48	49	
Loan data:			
Gross loan balance *(HK$ Million)*	8,576.2	7,803.4	*10%*
Loan originated for the year *(HK$ Million)*	12,499.1	10,136.3	*23%*
Number of loans originated	183,354	165,459	*11%*
Average gross balance per loan *(HK$)*	60,174	59,132	*2%*
Ratios for the year:			
Total return on loans[1]	32.1%	31.5%	
Charge-off ratio[2]	4.9%	4.4%	
Net impairment losses ratio[3]	6.0%	4.7%	
Impairment allowance ratio[4]	5.7%	5.0%	

1 Revenue/average gross loan balance
2 Charge-off amount/average gross loan balance
3 Net impairment losses/average gross loan balance
4 Impairment allowance at year end/gross loan balance at year end

The social unrest in Hong Kong and the US-Sino trade dispute weighed on the performance of Hong Kong economy in the second half of 2019. As a result, UAF Hong Kong ("UAF HK") was adversely impacted by higher charges for expected credit loss which resulted in higher impairment allowance ratio at year end. However, the negative impact on contribution was partly mitigated by increased revenue from growth in the loan portfolio. Overall, the full year pre-tax contribution compared to 2018 increased as business grew.

The FinTech team, which was set up in January 2019, has completed several initiatives during the year, embracing the challenges and opportunities in the market. UAF HK was a pioneer in launching Faster Payment System services around the clock for loan disbursements, demonstrating our commitment to deliver enhanced customer experience through innovation. The on-line and mobile platforms have been further enhanced with more user-friendly features and adoption of enhanced security measures. Customers can now utilise facial recognition and fingerprint features for log-in in the latest version of mobile applications. As more transactions are conducted on-line, UAF HK will allocate more advertising resources to promote business through on-line media. UAF HK will continue to launch various advertising campaigns using market intelligence tools to raise the efficiency of marketing dollars spent to reach target customers. Leveraging on the strong brand position, market leading role and experienced management team, UAF HK continues its strategy of growing the business while managing credit risk.

Mainland China Business

Key Operating Data	**2019**	**2018**	***Change***
Number of branches	30	46	
Loan data:			
Gross loan balance *(HK$ Million)*	2,545.1	2,611.9	*–3%*
Loan originated for the year *(HK$ Million)*	4,522.2	5,160.9	*–12%*
Number of loans originated	104,716	95,635	*9%*
Average gross balance per loan *(RMB)*	31,937	34,147	*–6%*
Ratios for the year:			
Total return on loans[1]	33.9%	39.5%	
Charge-off ratio[2]	13.2%	16.2%	
Net impairment losses ratio[3]	12.0%	16.8%	
Impairment allowance ratio[4]	8.6%	9.7%	

1 Revenue/average gross loan balance
2 Charge-off amount/average gross loan balance
3 Net impairment losses/average gross loan balance
4 Impairment allowance at year end/gross loan balance at year end

UAF China adopted a cautious approach during 2019 given uncertainties in the operating and economic environment. The on-going cost-cutting exercises contributed to an improvement in the bottom-line contribution as operating costs trended down year-on-year. Expected credit losses were reduced substantially following a more conservative lending approach. The credit scoring model adopted in the second half of 2018 contributed to lowering the charge-off on new credits in 2019. UAF China will continue to develop its credit scoring system to enhance credit approval effectiveness and improve credit quality.

Prospects

Looking ahead, management is cognizant of many risk factors facing UAF in the coming year. The recent outbreak of coronavirus has impacted business operations in the PRC and Hong Kong, with the operations in Mainland China closed for an extended period after Chinese New Year. UAF HK has set up contingent offices should we need to suspend operations at a given location. Management is closely watching this highly fluid situation to assess the impact on the overall economy and UAF's operations and loans in particular. We will strive to maintain business activities during this uncertain time and resume normal operations once the epidemic subsides. In addition to the epidemic risk, noteworthy risks relating to economic, political, social and environmental may arise from time to time impacting the outlook of the business. UAF remains alert to our on-going risks and will adjust our strategy whilst looking for any new opportunities. With our dedicated teams of experts, we will strive to deliver returns to the satisfaction of all stakeholders.

Specialty Finance

The Group's Specialty Finance business provides tailored funding solutions to corporates, investment funds and high net worth individuals. The net loan balance was HK$1,788.0 million as at 31 December 2019 (31 December 2018: HK$2,485.2 million). After taking into account net impairment losses of HK$159.9 million (2018: HK$64.3 million), the segment's pre-tax contribution was HK$64.8 million (2018: HK$241.7 million). All the loans were either secured by assets or had other guarantees by corporates or high net worth individuals.

Segment Annual Results

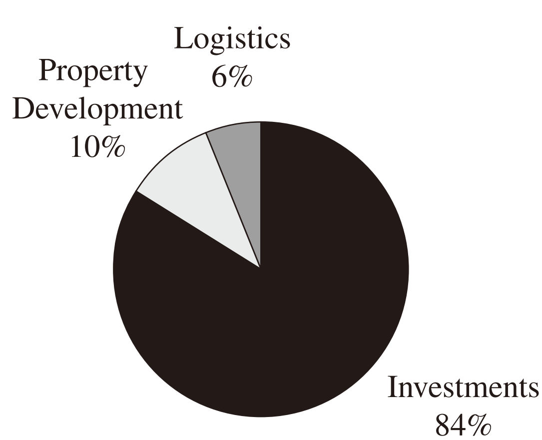
(HK$ Million)	**Year ended 31 December 2019**	**2018**	***Change***
Revenue	**340.6**	**452.3**	***–25%***
Return on loans (% average gross loan balance)	*14.4%*	*15.4%*	
Operating costs	(3.7)	(4.9)	*–24%*
Cost to income (% revenue)	*1.1%*	*1.1%*	
Finance costs	(111.5)	(142.1)	*–22%*
Net impairment losses	(159.9)	(64.3)	*149%*
Net loss on financial assets and liabilities	(0.7)	–	*N/A*
Net exchange gain	–	0.7	*N/A*
Pre-tax contribution	**64.8**	**241.7**	***–73%***
Loan Book:			
Net loan balance	1,788.0	2,485.2	*–28%*
Gross loan balance^	2,098.8	2,636.0	*–20%*

^ Before impairment allowance

In 2019, the loan book shrank compared to 2018 mainly due to repayments of outstanding loans and fewer new loans. As the portfolio mainly focused on the Greater China market, we adopted a conservative approach in credit approval considering the impact on the economy from Sino-US trade tensions and social unrest in Hong Kong. We saw a deterioration of credit quality in the form of increased delinquencies and impairments, symptoms of a challenging debt market resulting from slowing business activities over the year.

The outbreak of the coronavirus has affected global markets and management are continuing with our cautious approach to new lending. We are focusing on careful management of existing loans though we remain open to new lending opportunities that may arise. We remain confident in this business's prospects as it leverages the Group's business network and strong financial position at a time when fewer banks and large institutions provide Specialty Finance.

Term Loan Breakdown by Sector



Mortgage Loans

The Group's Mortgage Loans business is operated by Sun Hung Kai Credit Limited ("Sun Hung Kai Credit"). The business contributed a pre-tax profit of HK$121.4 million during the year, a 6% year on year increase from HK$114.1 million in 2018.

Segment Annual Results

(HK$ Million)	Year ended 31 December 2019	2018	*Change*
Revenue	**295.6**	**249.5**	***18%***
Return on loans (% average gross loan balance)	*7.9%*	*8.4%*	
Operating costs	(43.1)	(45.4)	*–5%*
Cost to income (% revenue)	*14.7%*	*18.2%*	
Finance costs	(119.1)	(86.2)	*38%*
Net impairment losses	(12.0)	(3.8)	*216%*
Pre-tax contribution	**121.4**	**114.1**	***6%***
Loan Book:			
Net loan balance	3,626.9	3,854.2	*–6%*
Gross loan balance^	3,648.6	3,863.9	*–6%*

^ Before impairment allowance

Revenue increased by 19%, primarily driven by the year-on-year increase in the average loan balance and higher loan yields. The gross loan balance was HK$3,648.6 million as at 31 December 2019 (31 December 2018: HK$3,863.9 million), of which 95% is for first mortgage loans. Average loan size was HK$6.3 million (2018: HK$5.9 million). As the business has reached an effective scale with a solid market position, emphasis was placed on improving profitability, capital efficiency and the margins of the business. In implementing this strategy, Sun Hung Kai Credit underwrote fewer lower margin loans through the second half of the year due to the opportunity cost of capital and credit risks in this segment. Further, management has been focused on investing in infrastructure and people.

During the year, finance costs increased from the higher average loan balance and a higher average funding rate. This was offset by better operating leverage with lower cost to income ratio.

The credit quality of the loan book remained satisfactory at the end of 2019 and we continue to monitor it closely. Management is cognizant of the potential volatility in residential property prices in Hong Kong due to the social unrest, coronavirus and eventual economic impact, and hence continues to adopt a prudent underwriting approach. The overall loan-to-valuation ratio of the portfolio was below 65% at the end of the year.

Looking ahead, management will continue to build the business for further profit growth, including diversification to higher margin mortgage loan products.

INVESTING BUSINESS

Investment Management

The Investment Management division leverages the Group's expertise, network and strong financial position to seek attractive risk-adjusted investment opportunities. In 2019, the annual return on the average assets for the segment was 12.4%, compared to 4.1% in 2018. Taking into account operating expense and funding cost allocation, the segment contributed HK$1,083.2 million to pre-tax profit, an increase of 1,202% from HK$83.2 million achieved in the previous year.

Analysis of Pre-tax Profit by Nature

(HK$ Million)	2019	2018	*Change*
Realised gain on financial assets^	**270.8**	204.8	*32%*
Interest income	**–**	4.5	*N/A*
Dividends received	**8.7**	5.4	*61%*
Rental income	**24.1**	21.8	*11%*
Fees received	**–**	0.2	*N/A*
Mark-to-market valuation^	**1,262.2**	(73.9)	*N/A*
Net impairment losses on financial instruments	**(48.2)**	–	*N/A*
(Loss)/gain from revaluation of investment properties	**(42.0)**	186.0	*N/A*
Gain on disposal of subsidiaries	**0.0**	132.4	*N/A*
Others	**18.9**	13.7	*38%*
Total gains	**1,494.5**	494.9	*202%*
Operating costs	**(91.7)**	(86.5)	*6%*
Cost of capital	**(319.6)**	(325.2)	*–2%*
Pre-tax contribution	**1,083.2**	83.2	*1,202%*

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

2019 provided good investment opportunities in both the equity and credit markets. While there were uncertainties around the Sino-US trade war, moves by the US Federal Reserve ("US Fed" or "Fed") and several events in the Middle East, our active investment strategies in equities and credit produced strong results.

In Alternatives, our focus remained on portfolio management and monetisation as the existing portfolio matures. With our extensive network, we are well placed to make selective new fund and co-investment commitments through 2020, primarily continuing to support managers that have performed well for us over the years.

On the operational side, we continued to strengthen our investment and operating teams while upgrading systems and infrastructure in advance of the launch of our Fund Management platform. During 2019, we added new team members and further formalized our internal processes and compliance systems. We will continue to build out our analytical and investment framework across businesses with a focus on risk management and control. We remain focused on building a world-class team with institutional grade architecture in order to support the planned growth of the Investment Management business.

To explain the nature and strategy of our businesses better, we reclassified or renamed some assets and sub-portfolios.

Segment Assets Breakdown and Annual Return

	2019				Return track record[4]	
(HK$ Million)	Year End Value	Average Value	Gain	Annual Return[4]	2018	2017
Public/Capital Markets[1]	3,106.2	2,732.5	409.6	15.0%	–8.6%	3.3%
Alternatives[2]	7,481.0	6,881.0	1,178.9	17.1%	9.2%	19.7%
Real Assets[3]	2,542.5	2,391.4	(94.0)	–3.9%	9.8%	7.5%
Total	**13,129.7**	**12,004.9**	**1,494.5**	**12.4%**	**4.1%**	**12.4%**

1. Public/Capital Markets include Equity portfolio, Credit portfolio, Direct Equity Holdings and Cash.
2. Alternatives include External Hedge Funds, External Private Equity Funds and Direct and Co-investments.
3. Real Assets include Commercial and Hospitality Properties and Direct Lending.
4. Gain before costs/average value.

Public/Capital Markets (24% of IM)

The public/capital markets portfolio achieved a 15.0% annual return in 2019. The portfolio consists of an internally managed equity strategy, direct equity holdings, an internally managed credit strategy and cash.

Breakdown of Public/Capital Market Portfolio as at 31 December 2019

(HK$ Million)	Year End Value	Gain	Annual Return^
Equity	1,588.8	273.8	18.5%
Credit	679.7	120.7	23.5%
Direct Equity Holdings	79.4	15.0	14.3%
Cash	758.3	–	N/A
Total	**3,106.2**	**409.6**	**15.0%**

^ Gain before costs/average value

Equity Portfolio

The equity markets in APAC in 2019 were a story of two quarters, namely Q1 and Q4. A tumultuous last quarter of 2018 sent the S&P 500 index approximately 20% lower, temporarily ending the bull market of the last decade. This abruptly changed in mid-January 2019 with a dovish pivot by US Fed Chairman Powell causing a rebound in equity valuations in Q1 2019. The last quarter of 2019 saw significant progress in trade talks and the Chinese economy continued to show considerable resilience as the year progressed which caused global equities finish the year on a strong footing.

The Company's main active management strategy in equities focuses on companies in Asia Pacific or, in certain cases, companies where Asia Pacific is a key driver for their business. This strategy implements an active long-short investment program, utilizing opportunistic event-driven investments and derivatives, with the goal of generating alpha while mitigating downside risk.

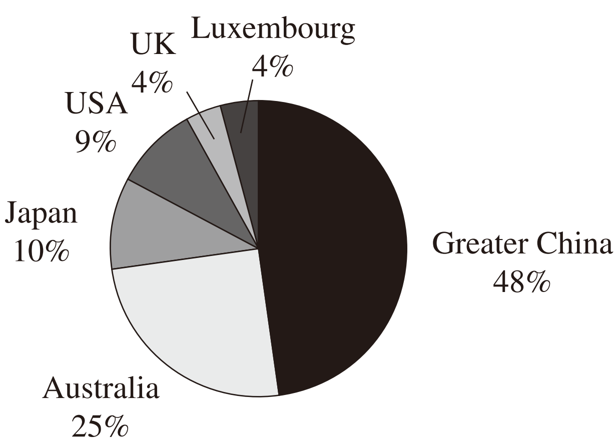
The core long positions in the portfolio are established, high-quality companies with strong cash flow and solid management. These companies are expected to have good growth and provide stability and consistent positive returns for the portfolio over the medium to long term. The short positions are chosen to generate additional returns and are made up of companies with opposite characteristics of the long positions.

In addition to the long and short positions, the team follows companies in the market that could rise or fall sharply if certain events occur and is ready to take advantage if they do. Finally, derivatives and hedging are used both for risk management and enhancing returns.

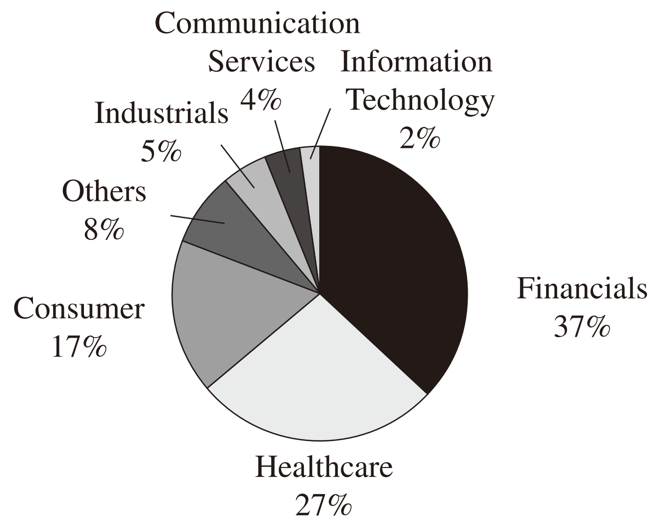
The team's deep research and understanding of the companies and markets is central to making this strategy effective. In 2020, we plan to move this strategy to the Fund Management platform and begin taking in third party capital.

Global Equity Fund

Holdings by Geography:



Holdings by Sector:



Credit Portfolio

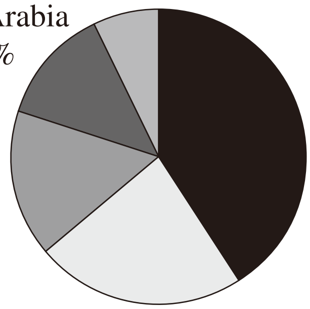
Our credit portfolio returned solid results in 2019. Our strategy was to identify and invest into credit situations globally which presented attractive risk-reward profiles with near-term upside, with a net long notional bias at the portfolio level. Global markets were agitated by the on-going trade war between the United States and China, causing concerns over potential slow-down in global economic growth. In view of those uncertainties and with inflation remaining under control, the US Fed cut the Fed Funds Rate by 25 bps three times in 2019, totaling a 75 bps reduction. A low interest rate environment provided support to global credit markets, including developed and emerging market economies, which provided good investment opportunities.

In late 2018, the European banks were hit hard because of Brexit uncertainty. As asset values dropped, we felt there was a good opportunity and bought into them. In Q1 2019, this space rebounded rapidly, and we took advantage of this liquidity to exit and generate solid returns.

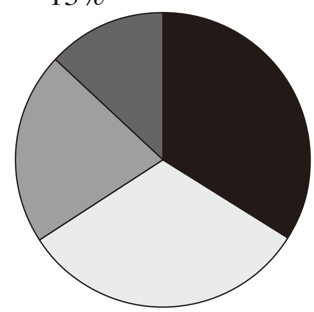
In the Middle East, we saw an opportunity in Oman's sovereign debt in early 2019. Markets were concerned about the fiscal sustainability of the nation, but we took comfort in the government's ongoing fiscal reform. The bonds rallied after the country announced the successful results of the measures and we sold our bonds for a profit. Saudi Arabia also faced some difficulties in 2019 but we expected that things would normalize and the debut offering by Saudi Aramco, the largest oil company in the world, would support the government bonds. As these positive developments played out, they provided us with attractive returns.

Going forward, we will continue to look for these kinds of market dislocations and use our network and experience to carefully select investments.

Portfolio Holdings by Geography:



Portfolio Holdings by Sector:



Alternatives (57% of IM)

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

Breakdown of Alternatives Portfolio as at 31 December 2019

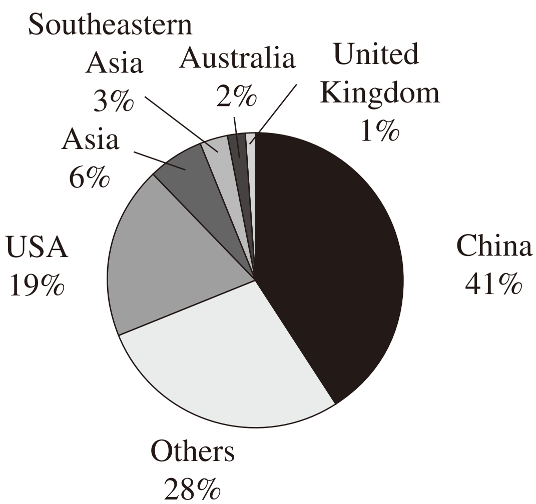
(HK$ Million)	**Year End Value**	**Gain**	**Annual Return^**
External Hedge Funds	1,075.6	90.1	9.4%
External Private Equity Funds	2,337.0	315.8	14.1%
Direct and Co-investments	4,068.4	772.9	21.0%
Total	**7,481.0**	**1,178.9**	**17.1%**

^ Gain before costs/average value

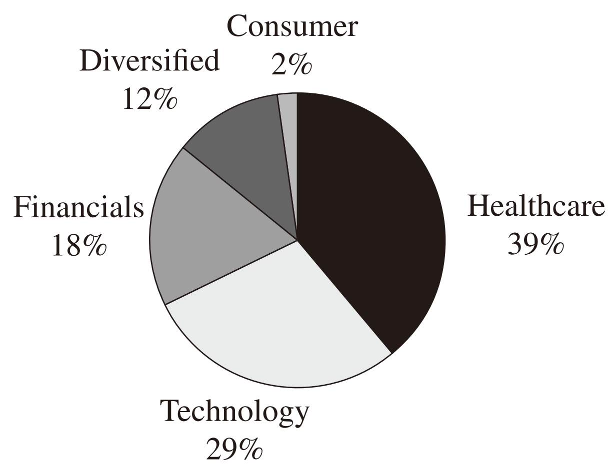
Distributions received in 2019 were HK$746 million (2018: HK$428 million) and HK$1,248 million is anticipated from realised positions in 2020 across co-investments and fund entities, or 16.7% of the entire Alternatives portfolio. Over the course of the year, we made several new investments through committing capital to new funds from existing and new managers, co-investments through existing funds and managers, and our own direct investments. We believe this approach gives us the best chance of seeing good investment opportunities, utilizing the networks and expertise of our team and those of the external managers.

We continue to review and analyse several situations across our core areas of Healthcare, Technology and Financials/Fintech, with a geographical focus on Greater China, Australasia, UK and the USA. We remain open to investments in other sectors, however we are cautious about valuations given their current level.

Private Equity Overall Exposure by Geography:

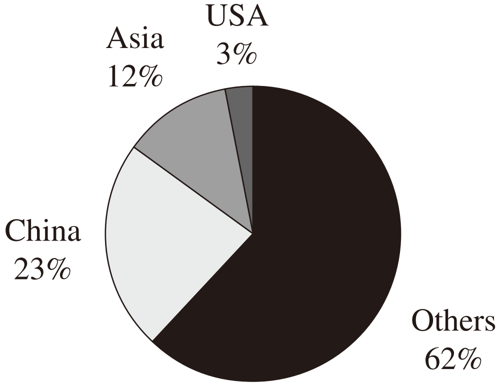


Private Equity Overall Exposure by Sector:

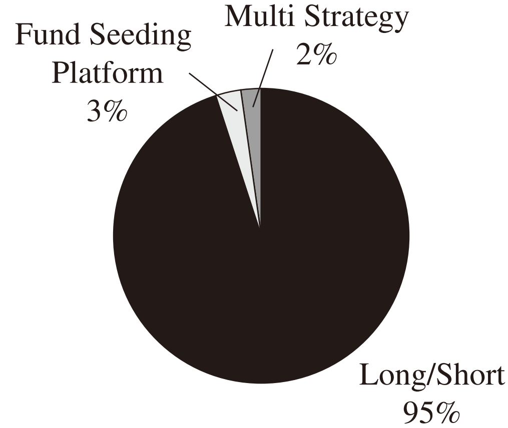


We invested in a group of selected high-quality external hedge funds that complemented our capabilities and extended our investment networks in the market. The partnerships enabled us to exchange ideas with external managers and these additional resources help us manage the equity portfolio as well as the broader Investment Management program.

External Hedge Funds Overall Exposure by Geography:



External Hedge Funds by Type:

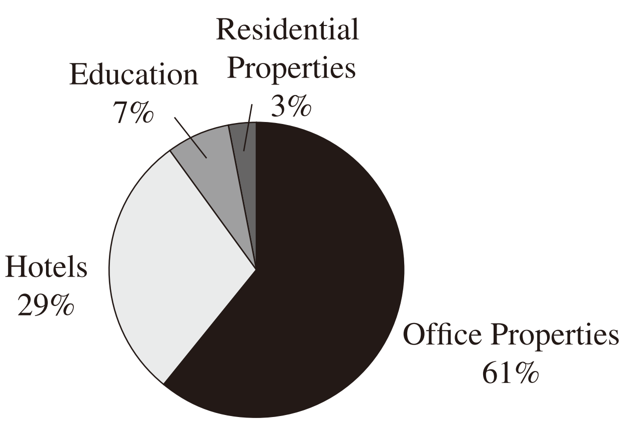


Real Assets (19% of IM)

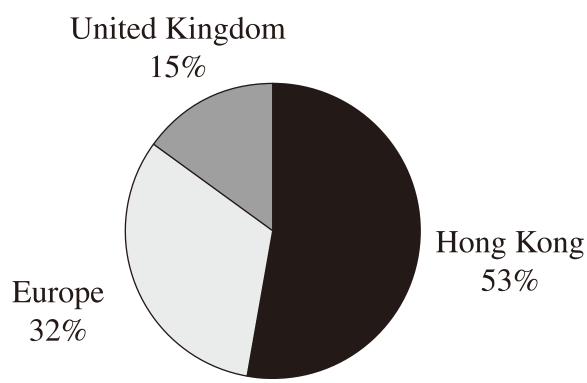
The real assets portfolio had a valuation of HK$2,542.5 million as at 31 December 2019 (31 December 2018: HK$2,338.0 million). The portfolio includes the Group's interests in Hong Kong commercial real estate as well as hotels and commercial investments in Global markets. During the year, there was a small loss on the portfolio of HK$94.0 million arising from increased provisions on property valuations. We continue to look for opportunities in the real estate space with a focus on the UK and Europe.

On 10 December 2019, the Group formed a joint venture company to acquire a company which held a property situated at 17 Columbus Courtyard, Canary Wharf, London, UK. This acquisition strengthened and diversified our real assets investment portfolio in London and showed the value of the team's expertise and sourcing network.

Real Assets Overall Exposure by Asset Class:



Real Assets Overall Exposure by Geography:



Real estate is a core strength of the Group and an area where we expect to grow our portfolio going forward. In addition to our equity real estate holdings, we plan to launch our first real estate debt fund. With the Group's long track record and strong institutional knowledge of the lending space, we see private debt in real estate as an attractive opportunity to expand and offer our expertise and deal flow to outside investors.

Expansion into Fund Management

Over the last five years, the Company has built our investment platform by leveraging our capital, business expertise and networks in financial services. During this period, we established the Investment Management business through careful and continuous efforts to build a strong and diversified portfolio. We believe our experience and the returns generated by IM puts us in a strong position to expand to our next phase, Fund Management. The Company is nearly ready to launch a fully licensed and regulated fund management platform.

Three funds (APAC long/short equity, global credit and real estate direct lending) will be launched at the start, with each fund seeded by the Company and able to take in third party capital. The equity and credit funds are the next evolution of the investment program detailed above. The real estate fund will have a focus on direct lending across Australia, Greater China, UK/Ireland and the EU.

Going forward, we expect Fund Management to be a new driver for sustainable growth in assets under management and revenue. In the first quarter, we have received regulatory approval to proceed and have been working to build out the infrastructure to support this new business. We plan to use the networks and relationships built over the last five years to create specialized and attractive fund offerings which will allow our internal teams to build their investment base, expand their reach and diversify risk.

Strategic Investments

The Group has strategic interests in financial services through a joint venture and an investment in an associated company. These interests are complementary to our Financing and Investment Management businesses, and the Group has benefited from these strategic investments. Pre-tax contribution from this during the year was HK$209.5 million (2018: HK$203.0 million).

In 2015, the Group disposed of a 70% interest in a wholly owned subsidiary, Sun Hung Kai Financial Group Limited ("SHKFGL") to Everbright Securities Financial Holdings Limited, a wholly owned subsidiary of Everbright Securities Company Limited (stock code: 6178.HK). SHKFGL has become an associate of the Group with a carrying value of HK$1,644 million for the retained 30% interest upon completion of the transaction. As part of the sale transaction, the Group received a put right on the retained 30% equity interest of SHKFGL, which owns the business known as Everbright Sun Hung Kai Company Limited ("EBSHK"). In 2019, the Group maintained its 30% shareholding, amounting to 90,365,142 shares, in EBSHK. During the year, EBSHK delivered a strong performance with a solid increase in turnover of HK$112 million despite the Hong Kong market's lower average trading volume. In 2019, the business won several prestigious industry awards in Hong Kong and Mainland China. Client assets under management, custody, and/or advice was over HK$124 billion.

The net gain from impairment losses on the Group's 30% stake in EBSHK and change in fair value of the put right of the stake was HK$131.1 million (2018: HK$133.7 million). The total unrealised gain from the associate during the year was recognised as HK$210.5 million (2018: HK$190.6 million), including valuation accretion on equity of HK$79.4 million (2018: HK$56.9 million), impairment losses of HK$135.9 million (2018: reversal of HK$66.7 million) and gain on the put right of HK$267.0 million (2018: HK$67.0 million). No realised gain from the associate was recognised in 2019 (2018: Nil).

As at 31 December 2019, the carrying amount of the Group's 30% equity interest in EBSHK together with fair value of the put right on the 30% stake amounted to HK$2,363 million (2018: HK$2,251 million), representing 5.6% of the Group's total assets and constituting a significant investment of the Group according to the Listing Rules. During the year, the Group received dividends of HK$98.5 million from EBSHK (2018: HK$76.6 million).

LSS Financial Leasing (Shanghai) Limited ("LSS Leasing") is a B2B and B2C auto leasing business in Mainland China. The business environment continued to be challenging in 2019, with declines in auto sales and production and tight liquidity as the government continued to deleverage the economy. Against this backdrop, LSS Leasing has expanded into the ride-hailing and goods delivery segments, leveraging its network and know-how in the auto leasing sector. In 2019, LSS has formed partnerships with leading platforms such as Lalamove and Deppon to further explore and develop new business initiatives.

OUTLOOK

At the time we present this announcement to you, we are facing challenging times. The outbreak of the coronavirus and its rapid advance around the globe has disrupted businesses, societies and markets in a way that no one has ever seen nor could have predicted. The effects are being felt here and around the world through travel bans, national lockdowns, and investor panic as markets are repeatedly whipsawed by violent swings. We are closely monitoring the situation and the potential impact on all the Group's businesses and investments and will continue to update our strategy and tactics to guide the Group through this turbulent time.

As we look back at 2019, we feel that the results show the strength of the Group's dual-engine growth model. The Group realigned business segments into two categories: Financing and Investing. Our core Financing business aims to provides stable returns and strong cash flows, while the Investment business seeks new income streams and opportunities for increased returns. The results for the past year show the strength of our diverse yet complimentary business portfolio, and we feel it further validates the strategic transformation we embarked on five years ago. We believe having these two businesses put us in a stronger position to manage through the current crisis.

The UAF business was the most immediately impacted by the coronavirus when it first broke out in China. Several UAF branches were closed in accordance with quarantine measures and business was disrupted. At this time China is only starting to resume business and we cannot yet know the total impact on the business and loan book. We believe the initiatives to move more of the business online, reduce the physical branches and total staff mitigated some of the impact and may position the business for a quicker recovery through the remainder of 2020. For the Hong Kong business, we remain cautious. The economy had been affected by social unrest in the second half of 2019 even before the recent outbreak. The impact on business from travel bans and social distancing orders could likely produce increased unemployment which in turn could affect the credit quality of consumer finance loans. We have initial indications that delinquencies are starting to rise and loan origination has slowed, both of which we will watch closely. Nonetheless, we are confident in management's capability and capacity to weather these challenges, monitor the situation as it develops and adjust strategy as needed.

The Sun Hung Kai Credit business has maintained its scale and profitability thus far. The cautious underwriting of mortgage loan business through the conservative loan to value ratio and careful credit standards should help position the business to manage the current situation. The ultimate effects on the Hong Kong real estate market are yet to be seen, so management will closely watch the Hong Kong economy and prepare for any adjustments that need to be made.

The Investment Management business has felt the impact of the falling markets after a strong 2019 and been actively managing the investment portfolio through these difficult market conditions. Even as markets and sectors around the world have been sharply impacted by indiscriminate selling, we have maintained liquidity and are managing our assets carefully. We are ready to launch our Fund Management platform this year and believe this will add assets and revenue to the Group. Going forward, the Group will continue to assess the market and utilise our extensive networks to seek out opportunities.

The Group will continue the financing and investing business model and aims to deliver strong performance over the long term with sound governance and risk controls through all market conditions. We will also maintain diversified funding sources and liquidity to provide staying power and enable our business expansion. As an investment firm, we treasure our people as valuable assets of the Group. Over the course of the year, we built out systems to allow our employees to more easily work remotely, which helped us remain productive during the coronavirus outbreak and will continue to add value once business recommences. We will further develop our culture and systems to adapt to the current work environment and attract and retain top talent with a commitment to integrity, creativity and teamwork.

LONG TERM CORPORATE STRATEGIES

The Group is focused on building sustainable growth to deliver further value to shareholders. To achieve our goals, the Company has set the following long-term strategies:

SHK & Co. Business Objectives

- Produce strong risk-adjusted returns through our Financing and Investing businesses
- Leverage networks to seek new business opportunities
- Build trusted relationships with all stakeholders
- Produce strong financial results through mid-to-long term focus and consistent leadership

Corporate Values

- Reliable, consistent and transparent communication with investors and stakeholders
- Robust risk management culture with regular evaluation of risk factors
- Flexible, diverse, inclusive and open culture to attract and retain talent
- Investing in our communities and protecting the environment

FINANCIAL REVIEW

Financial Resources, Liquidity, Capital Structure and Key Performance Indicators

(HK$ Million)	31 December 2019	31 December 2018	*Change*
Capital Structure			
Equity attributable to owners of the Company	20,381.7	19,039.2	*7%*
Total cash	5,726.2	4,995.9	*15%*
Total borrowings[1]	16,755.8	14,983.1	*12%*
Net debt[2]	11,029.6	9,987.2	*10%*
Net debt to equity ratio	54.1%	52.4%	
Liquidity			
Interest cover[3]	4.5	3.7	*22%*
Return Ratios			
Return on assets[4]	6.0%	4.1%	
Return on equity	10.6%	6.2%	
Key Performance Indicator			
Book value per share *(HK$)*	10.2	9.5	*7%*
Dividend per share *(HK cents)*	26.0	26.0	–

1 Bank and other borrowings and notes/papers payable
2 Total borrowings minus total cash
3 Earnings before interest and tax/interest expense
4 Profit including non-controlling interests/average assets

The Group's return on equity ratio increased from 6.2% of 2018 to 10.6%, mainly driven by strong earnings and results of share buybacks.

The Group's gearing ratio has remained steady at 54.1% at the end of 2019. Interest cover for the year significantly improved to 4.5x, an increase of 22% from 3.7x for 2018.

As at 31 December 2019, total borrowings of the Group amounted to HK$16,755.8 million (31 December 2018: HK$14,983.1 million). Of this amount, 37.2% is repayable within one year (31 December 2018: 39.9%). The Group maintains a balanced mix of funding from various sources. Bank borrowings account for 48.7% of total debt (31 December 2018: 47.9%) and are at floating interest rates, denominated in Hong Kong dollars, US dollars and RMB. There are no known seasonal factors in the Group's borrowing profile.

As at 31 December 2019, the following notes were outstanding:

Note	**Maturity Date**	**HK$ Equivalent *(Million)***	**% Total**
4.75% USD notes^	5/2021	1,927.0	22.4%
4.65% USD notes^	9/2022	3,504.8	40.8%
5.75% USD notes^	11/2024	2,734.3	31.8%
HKD papers/notes	various	432.6	5.0%
Total		8,598.7	100%

^ Listed on The Stock Exchange of Hong Kong Limited

In November 2019, the Group commenced a tender offer to purchase the 4.75% USD medium term notes due in 2021 and the 4.65% USD medium term notes due in 2022. The Group ultimately purchased US$112 million of 4.75% USD notes and US$105 million of 4.65% USD notes in mid-November 2019. At the same time, the Group issued US$350 million new 5.75% USD medium term notes due in 2024.

The Group maintained foreign currency positions to cater for its present and potential investments and operating activities. Most non-US/HK dollar investment assets are hedged against currency fluctuations. Exchange risks are closely monitored by the Group and held within approved limits.

SIGNIFICANT INVESTMENTS

The Group recognised a significant investment in the securities of EBSHK. The carrying amounts of the Group's interest in the equity stake plus fair value of a put right on the stake is 5.6% of the Group's total assets at end of 2019. A detailed discussion on the investments is stated in the section titled "Strategic Investments" of this announcement.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 27 June 2019, UAF completed the repurchase of ordinary shares held by a then minority shareholder for the consideration of JPY10 billion as mentioned in the Consumer Finance section above and the Company's announcements dated 20 and 27 June 2019.

CHARGES ON GROUP ASSETS

Properties of the Group with a total book value of HK$1,087.0 million and cash of HK$33.2 million were pledged by subsidiaries to banks for facilities granted to them. HK$550.8 million was drawn down as at 31 December 2019.

CONTINGENT LIABILITIES

At the end of the year, the Group had guarantees in the aggregate amount of HK$494.5 million (2018: HK$107.0 million).

HUMAN RESOURCES

As at 31 December 2019, the Group's total staff numbered 2,318 (31 December 2018: 2,719). Out of this, 55 staff (31 December 2018: 50) are corporate and investment staff and the remainder are within the main subsidiaries UAF and Sun Hung Kai Credit. The net decrease in staff numbers is a result of the ongoing branch consolidation in the consumer finance business in Mainland China, as the business migrated further online and its continuous effort in driving cost efficiency. Total staff costs amounted to HK$775.6 million (2018: HK$782.6 million) as a result of higher performance-related compensation.

The Group adopts various compensation structures as relevant to different job roles and functions within the organization. For most staff, compensation comprises base salary with bonus or performance-based incentives, as appropriate. The remuneration packages of employees in a sales function consist of a base pay and commission, bonus or performance-based incentives as appropriate.

SECOND INTERIM DIVIDEND

The Board has declared a second interim dividend of HK14 cents per share for the year ended 31 December 2019 (2018: HK14 cents per share) to shareholders of the Company whose names appear on the register of members of the Company on 29 April 2020, making a total dividend for the year 2019 of HK26 cents (2018: HK26 cents) per share. Dividend warrants for the second interim dividend is expected to be despatched on 13 May 2020.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "2020 AGM") is scheduled to be held on Tuesday, 2 June 2020. The Notice of the 2020 AGM will be published on the website of the Company (www.shkco.com) and the website of The Stock Exchange of Hong Kong Limited ("Stock Exchange") (www.hkexnews.hk), and despatched to the shareholders before end of April 2020.

CLOSURES OF REGISTER OF MEMBERS

The register of members of the Company will be closed on the following time periods during which no transfer of shares of the Company will be registered:

Events		**Book close period**
For entitlement to the second interim dividend	:	27 April 2020–29 April 2020 (both days inclusive) (Ex-dividend date being 23 April 2020) (Record date being 29 April 2020)
For attendance to 2020 AGM	:	28 May 2020–2 June 2020 (both days inclusive) (Record date being 2 June 2020)

In order to qualify for entitlement to the second interim dividend and/or attendance to the 2020 AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrar, Tricor Secretaries Limited, for registration not later than 4:30 p.m. on the following dates:

Events		**Last date of lodgment of transfer documents**
For entitlement to the second interim dividend	:	24 April 2020
For attendance to 2020 AGM	:	27 May 2020

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2019, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the 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 should be separate and should not be performed by the same individual. Under the current organisational structure of the Company, the functions of a chief executive are performed by the Group Executive Chairman, Mr. Lee Seng Huang, in conjunction with the Group Deputy Chief Executive Officer, Mr. Simon Chow Wing Charn. The Group Executive Chairman oversees the Group's IM business with support from the Managing Director of IM as well as its interest in UAF whose day-to-day management lies with its designated Managing Director. Mr. Simon Chow assists the Group Executive Chairman in driving the performance of Mortgage Loans and the other operating businesses of the Group as well as exploring new areas of growth.

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

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

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

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

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

The reasons for the above deviations were set out in the Corporate Governance Report contained in the Company's annual report for the financial year ended 31 December 2018. The Board has reviewed the terms during the year under review and 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.

Further information on the Company's corporate governance practices during the year under review will be set out in the Corporate Governance Report to be contained in the Company's 2019 annual report which will be issued before end of April 2020.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

(1) Repurchase of Shares

During the year ended 31 December 2019, the Company repurchased a total of 9,177,000 shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$32,930,180. All the repurchased shares were subsequently cancelled.

Particulars of the repurchases are as follows:

Month	Number of shares repurchased	Purchase price Highest *(HK$)*	Purchase price Lowest *(HK$)*	Aggregate consideration (before expenses) *(HK$)*
January	–	–	–	–
February	–	–	–	–
March	2,100,000	3.85	3.81	8,045,480
April	–	–	–	–
May	1,028,000	3.70	3.67	3,798,760
June	2,288,000	3.65	3.50	8,213,220
July	–	–	–	–
August	730,000	3.35	3.30	2,433,070
September	1,270,000	3.39	3.28	4,282,010
October	145,000	3.37	3.33	485,480
November	855,000	3.45	3.40	2,943,360
December	761,000	3.72	3.39	2,728,800
	9,177,000			**32,930,180**

(2) Repurchase and redemption of Guaranteed Notes of a subsidiary, Sun Hung Kai & Co. (BVI) Limited ("SHK BVI")

During the year, US$111,871,000 in the principal amount of 4.75% Guaranteed Notes due May 2021 (the "2021 Notes") under the US$3,000,000,000 Guaranteed Medium Term Note Programme (the "MTN Programme") and US$104,814,000 in the principal amount of 4.65% Guaranteed Notes due September 2022 (the "2022 Notes") issued by SHK BVI under the MTN Programme were purchased and redeemed by the Company (the "Notes Repurchase") by a tender offer and were cancelled on 15 November 2019. Details of the Notes Repurchase were disclosed in the Company's announcements dated 5 November 2019, 14 November 2019 and 17 November 2019 respectively.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's or its subsidiaries' listed securities during the year ended 31 December 2019.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with management of the Company the Group's financial statements for the year ended 31 December 2019, including the accounting principles and practices adopted by the Group.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu ("Deloitte"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte on the preliminary announcement.

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

Hong Kong, 30 March 2020

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

Executive Directors:
Messrs. Lee Seng Huang *(Group Executive Chairman)* and Simon Chow Wing Charn

Non-Executive Directors:
Messrs. Peter Anthony Curry and Jonathan Andrew Cimino

Independent Non-Executive Directors:
Mr. Evan Au Yang Chi Chung, Mr. David Craig Bartlett, Mr. Alan Stephen Jones and Ms. Jacqueline Alee Leung