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 2020

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 2020 as set out below:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended	
		30/6/2020	30/6/2019
		Unaudited	Unaudited
	Notes	***HK$ Million***	*HK$ Million*
Interest income		**1,988.0**	2,020.8
Other revenue	*4*	**54.9**	50.8
Other gains	*5*	**6.7**	21.2
Total income		**2,049.6**	2,092.8
Brokerage and commission expenses		**(19.9)**	(22.5)
Advertising and promotion expenses		**(58.5)**	(70.5)
Direct cost and operating expenses		**(45.4)**	(40.0)
Administrative expenses		**(501.8)**	(596.0)
Net gain on financial assets and liabilities at fair value through profit or loss		**470.9**	790.1
Net exchange gain		**36.3**	32.2
Net impairment losses on financial instruments	*6*	**(484.8)**	(459.9)
Finance costs		**(438.3)**	(374.9)
Other losses		**(96.1)**	(0.6)
		912.0	1,350.7
Share of results of associates		**43.2**	50.3
Share of results of joint ventures		**(4.7)**	–

		Six months ended	
		30/6/2020	30/6/2019
		Unaudited	Unaudited
	Notes	***HK$ Million***	*HK$ Million*
Profit before taxation	*7*	**950.5**	1,401.0
Taxation	*8*	**(87.8)**	(140.6)
Profit for the period		**862.7**	1,260.4
Profit attributable to:			
– Owners of the Company		**695.2**	1,028.9
– Non-controlling interests		**167.5**	231.5
		862.7	1,260.4
Earnings per share	*10*		
– Basic (HK cents)		**34.9**	51.5
– Diluted (HK cents)		**34.9**	51.3

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended	
	30/6/2020	30/6/2019
	Unaudited	Unaudited
	HK$ Million	*HK$ Million*
Profit for the period	**862.7**	1,260.4
Other comprehensive (expenses) income:		
Items that will not be reclassified to profit or loss		
Fair value (loss) gain on investments in equity instruments at fair value through other comprehensive income	**(33.3)**	37.3
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translating foreign operations	**(127.2)**	4.6
Share of other comprehensive income (expenses) of associates	**5.7**	(0.1)
Share of other comprehensive expenses of joint ventures	**(19.8)**	–
	(141.3)	4.5
Other comprehensive (expenses) income for the period	**(174.6)**	41.8
Total comprehensive income for the period	**688.1**	1,302.2
Total comprehensive income attributable to:		
– Owners of the Company	**569.0**	1,066.9
– Non-controlling interests	**119.1**	235.3
	688.1	1,302.2

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30/6/2020**	31/12/2019
		Unaudited	Audited
		HK$ Million	*HK$ Million*
Non-current Assets			
Investment properties		**1,218.7**	1,312.5
Property and equipment		**385.1**	377.2
Right-of-use assets		**97.1**	125.5
Intangible assets		**892.1**	893.2
Goodwill		**2,384.0**	2,384.0
Interest in associates		**1,146.0**	1,196.1
Interest in joint ventures		**421.0**	445.5
Financial assets at fair value through other comprehensive income		**95.2**	129.5
Financial assets at fair value through profit or loss		**7,863.0**	7,687.2
Deferred tax assets		**816.0**	780.0
Amounts due from associates		**260.1**	261.3
Loans and advances to consumer finance customers	*11*	**2,704.2**	2,770.5
Mortgage loans	*12*	**903.3**	1,270.7
Term loans	*13*	**48.3**	49.6
Trade receivables, prepayments and other receivables	*14*	**8.9**	20.4
		19,243.0	19,703.2
Current Assets			
Financial assets at fair value through profit or loss		**5,050.5**	4,285.6
Taxation recoverable		**–**	3.7
Amounts due from associates		**66.5**	68.6
Loans and advances to consumer finance customers	*11*	**6,735.6**	7,643.0
Mortgage loans	*12*	**2,230.8**	2,356.2
Term loans	*13*	**1,334.4**	1,856.6
Trade receivables, prepayments and other receivables	*14*	**392.0**	466.8
Amounts due from brokers		**312.1**	451.7
Short-term pledged bank deposits and bank balances		**47.0**	33.2
Bank deposits		**45.0**	68.1
Cash and cash equivalents		**7,426.1**	5,624.9
		23,640.0	22,858.4

	Note	30/6/2020 Unaudited *HK$ Million*	31/12/2019 Audited *HK$ Million*
Current Liabilities			
Financial liabilities at fair value through profit or loss		**614.3**	715.8
Bank and other borrowings		**6,019.8**	5,659.9
Trade payables, other payables and accruals	*15*	**337.1**	338.4
Financial assets sold under repurchase agreements		**1,062.0**	386.2
Amounts due to fellow subsidiaries and a holding company		**3.7**	35.3
Provisions		**94.2**	152.9
Taxation payable		**229.1**	339.6
Lease liabilities		**68.5**	89.9
Notes/paper payable		**2,083.5**	569.5
		10,512.2	8,287.5
Net Current Assets		**13,127.8**	14,570.9
Total Assets less Current Liabilities		**32,370.8**	34,274.1
Capital and Reserves			
Share capital		**8,752.3**	8,752.3
Reserves		**11,893.3**	11,629.4
Equity attributable to owners of the Company		**20,645.6**	20,381.7
Non-controlling interests		**2,941.7**	3,194.9
Total Equity		**23,587.3**	23,576.6
Non-current Liabilities			
Deferred tax liabilities		**141.5**	143.0
Bank and other borrowings		**2,486.3**	2,497.2
Provisions		**0.3**	0.3
Lease liabilities		**23.5**	27.8
Notes/paper payable		**6,131.9**	8,029.2
		8,783.5	10,697.5
		32,370.8	34,274.1

Notes:

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

The financial information relating to the financial year ended 31 December 2019 included in this announcement of interim results as comparative information does not constitute the Company's statutory annual consolidated financial statements for this financial year 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 is as follows:

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

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

During the period, the Group adopted certain Amendments to Standards that are mandatorily effective for the Group's financial year beginning on 1 January 2020. The adoption of these Amendments has had no material effect on the condensed consolidated financial statements of the Group for the current and prior accounting periods. Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements for the six months ended 30 June 2020 as were applied in the preparation of the Group's financial statements for the year ended 31 December 2019.

The ultimate impact of the novel coronavirus ("COVID-19" or "COVID") pandemic on the Group is uncertain at the date on which the unaudited condensed consolidated financial statements were authorised for issue. Management has assessed the potential cash generation of the Group, the liquidity of the Group, existing funding available to the Group and mitigating actions which have been and may be taken to reduce non-necessary spending. On the basis of these assessments, we have determined that, at the date on which the unaudited condensed consolidated financial statements were authorised for issue, the use of the going concern basis of accounting to prepare the unaudited condensed consolidated financial statements is appropriate.

3. SEGMENT INFORMATION

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

	Six months ended 30 June 2020						
	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	1,623.7	146.2	169.3	75.7	–	137.7	2,152.6
Less: inter-segment revenue	–	–	–	–	–	(109.7)	(109.7)
Segment revenue from external customers	1,623.7	146.2	169.3	75.7	–	28.0	2,042.9
Segment profit or loss	520.0	28.8	65.5	362.1	29.2	(93.6)	912.0
Share of results of associates	–	–	–	2.0	41.2	–	43.2
Share of results of joint ventures	–	–	–	1.8	(6.5)	–	(4.7)
Profit (loss) before taxation	520.0	28.8	65.5	365.9	63.9	(93.6)	950.5
Included in segment profit or loss:							
Interest income	1,611.3	132.4	169.3	46.7	–	28.3	1,988.0
Other gains (losses)	6.8	–	–	1.5	–	(1.6)	6.7
Net (loss) gain on financial assets and liabilities	(0.1)	(0.4)	–	559.7	32.7	(121.0)	470.9
Net exchange (loss) gain	(2.3)	–	–	(0.2)	–	38.8	36.3
Net impairment (losses) reversal on financial instruments	(439.2)	(63.9)	(24.1)	42.7	(0.3)	–	(484.8)
Other losses	(0.9)	–	–	(92.0)	(3.2)	–	(96.1)
Amortisation and depreciation	(60.5)	–	(3.4)	–	–	(7.3)	(71.2)
Finance costs	(171.1)	(51.3)	(58.8)	–	–	(259.1)	(540.3)
Less: inter-segment finance costs	–	51.3	50.7	–	–	–	102.0
Finance costs to external suppliers	(171.1)	–	(8.1)	–	–	(259.1)	(438.3)
Cost of capital (charges) income *	–	–	–	(200.7)	–	200.7	–

	Six months ended 30 June 2019 (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	1,694.8	182.8	150.1	18.4	–	148.4	2,194.5
Less: inter-segment revenue	–	–	–	–	–	(122.9)	(122.9)
Segment revenue from external customers	1,694.8	182.8	150.1	18.4	–	25.5	2,071.6
Segment profit or loss	652.2	78.1	68.5	494.7	52.1	5.1	1,350.7
Share of results of associates	–	–	–	–	50.3	–	50.3
Profit before taxation	652.2	78.1	68.5	494.7	102.4	5.1	1,401.0
Included in segment profit or loss:							
Interest income	1,681.6	165.3	150.0	–	–	23.9	2,020.8
Other gains (losses)	15.4	–	0.2	9.0	0.1	(3.5)	21.2
Net (loss) gain on financial assets and liabilities	(0.1)	(0.1)	–	734.7	52.0	3.6	790.1
Net exchange gain	–	–	–	19.4	–	12.8	32.2
Net impairment losses on financial instruments	(373.1)	(44.7)	(0.1)	(42.0)	–	–	(459.9)
Other losses	–	–	(0.4)	–	(0.2)	–	(0.6)
Amortisation and depreciation	(56.6)	–	(1.1)	–	–	(6.1)	(63.8)
Finance costs	(146.2)	(58.4)	(61.5)	–	–	(228.7)	(494.8)
Less: inter-segment finance costs	–	58.4	61.5	–	–	–	119.9
Finance costs to external suppliers	(146.2)	–	–	–	–	(228.7)	(374.9)
Cost of capital (charges) income *	–	–	–	(166.2)	–	166.2	–

* 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 comparative figures for Specialty Finance and Investment Management Segment were restated for align with the changes to segment reporting adopted in the 2019 annual report.

The geographical information of revenue is disclosed as follows:

	Six months ended	
	30/6/2020	30/6/2019
	HK$ Million	*HK$ Million*
Revenue from external customers by location of operations		
– Hong Kong	**1,690.7**	1,638.8
– Mainland China	**352.2**	432.8
	2,042.9	2,071.6

4. OTHER REVENUE

	Six months ended	
	30/6/2020	30/6/2019
	HK$ Million	*HK$ Million*
Service and commission income	**23.4**	27.5
Dividends from listed investments	**16.8**	8.7
Dividends from unlisted investments	**2.1**	2.2
Gross rental income from investment properties	**12.6**	12.4
	54.9	50.8

5. OTHER GAINS

	Six months ended	
	30/6/2020	30/6/2019
	HK$ Million	*HK$ Million*
Increase in fair value of investment properties	**–**	5.8
Miscellaneous income	**6.7**	15.1
Reversal of impairment in an associate*	**–**	0.3
	6.7	21.2

* The Group disposed of 70% interest in a wholly-owned subsidiary Sun Hung Kai Financial Group Limited ("SHKFGL") in June 2015 and classified the remaining 30% equity interest as an associate. The recoverable amount was measured at fair value less cost of disposal of SHKFGL. The fair value was measured by discounted cash flow approach at the reporting date using a discount rate of 17.3% (December 2019: 17.5%). As part of the disposal, the Group was awarded a put right on the 30% equity interest of SHKFGL. This put right recorded a valuation gain during the period of HK$35.0 million (six months ended 30 June 2019: gain HK$51.0 million) classified under net gain on financial assets and liabilities at fair value through profit or loss.

An impairment loss in the investment in SHKFGL of HK$3.2 million (six months ended 30 June 2019: reversal of impairment of HK$0.3 million) was recognised.

The put option period will end within 6 months commencing on 2 June 2020 and the Group shall have the right (but not the obligation) to reinvest into the sold shares within 18 months upon the exercise of put right.

6. NET IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

	Six months ended 30/6/2020 HK$ Million	Six months ended 30/6/2019 HK$ Million
Loans and advances to consumer finance customers		
– Net impairment losses	**(545.3)**	(470.6)
– Recoveries of amounts previously written off	**104.7**	97.3
	(440.6)	(373.3)
Mortgage loans		
– Net impairment losses	**(24.1)**	(0.1)
	(24.1)	(0.1)
Term loans		
– Net impairment losses	**(63.3)**	(44.7)
	(63.3)	(44.7)
Amounts due from associates		
– Net impairment losses	**(0.5)**	–
	(0.5)	–
Trade and other receivables		
– Net reversal (recognition) of impairment losses	**42.2**	(42.0)
– Recoveries of amounts previously written off	**1.5**	0.2
	43.7	(41.8)
	(484.8)	(459.9)

7. PROFIT BEFORE TAXATION

	Six months ended 30/6/2020 HK$ Million	30/6/2019 HK$ Million
Profit before taxation has been arrived at after charging:		
Depreciation of property and equipment	**(21.2)**	(24.7)
Depreciation of right-of-use assets	**(49.1)**	(38.1)
Amortisation of intangible assets		
– Computer software (included in administrative expenses)	**(0.9)**	(1.0)
Payments for short-term leases and leases of low-value assets	**(4.7)**	(19.4)
Interest expenses on bank borrowings and notes/paper payable other than lease liabilities	**(427.1)**	(368.0)
Interest expenses of lease liabilities	**(2.3)**	(2.7)
Decrease in fair value of investment properties	**(92.9)**	–
Share of taxation of associates and joint ventures (included in share of results of associates and joint ventures)	**(5.8)**	(5.4)

8. TAXATION

	Six months ended 30/6/2020 HK$ Million	30/6/2019 HK$ Million
Current tax		
– Hong Kong	**97.3**	125.8
– PRC	**41.6**	53.4
	138.9	179.2
Deferred tax	**(51.1)**	(38.6)
	87.8	140.6

Hong Kong profits tax is calculated at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits for the period. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2019: 25%). Taxation arising in other jurisdictions is calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in the relevant jurisdictions.

Deferred tax recognised in other comprehensive income during the period was immaterial in both periods presented.

9. DIVIDENDS

	Six months ended	
	30/6/2020	30/6/2019
	HK$ Million	*HK$ Million*
Dividends recognised as distribution during the period		
– 2019 second interim dividend of HK14 cents per share (2019: 2018 second interim dividend of HK14 cents per share)	**279.1**	280.7

Subsequent to the end of the interim reporting period, the Board of Directors has declared an interim dividend of HK12 cents per share amounting to HK$238.7 million (2019: interim dividend of HK12 cents per share amounting to HK$240.3 million).

10. 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	
	30/6/2020	30/6/2019
	HK$ Million	*HK$ Million*
Earnings for the purposes of basic and diluted earnings per share	**695.2**	1,028.9
Number of shares (in million)		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,989.6**	1,999.5
Effect of dilutive potential ordinary shares:		
– Impact of contingently issuable shares under SHK Employee Ownership Scheme	**3.0**	4.2
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,992.6**	2,003.7

11. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	30/6/2020	31/12/2019
	HK$ Million	*HK$ Million*
Loans and advances to consumer finance customers		
– Hong Kong	**8,191.3**	8,576.2
– Mainland China	**1,931.5**	2,545.1
Less: impairment allowance	**(683.0)**	(707.8)
	9,439.8	10,413.5
Analysed for reporting purposes as:		
– Non-current assets	**2,704.2**	2,770.5
– Current assets	**6,735.6**	7,643.0
	9,439.8	10,413.5

The following is an ageing analysis for the loans and advances to consumer finance customers that are past due at the reporting date.

	30/6/2020	31/12/2019
	HK$ Million	*HK$ Million*
Less than 31 days past due	**536.7**	582.9
31-60 days	**39.7**	55.6
61-90 days	**26.7**	20.9
91-180 days	**151.9**	148.4
Over 180 days	**203.5**	61.4
	958.5	869.2

12. MORTGAGE LOANS

	30/6/2020	31/12/2019
	HK$ Million	*HK$ Million*
Mortgage loans		
– Hong Kong	**3,179.9**	3,648.6
Less: impairment allowance	**(45.8)**	(21.7)
	3,134.1	3,626.9
Analysed for reporting purposes as:		
– Non-current assets	**903.3**	1,270.7
– Current assets	**2,230.8**	2,356.2
	3,134.1	3,626.9

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

	30/6/2020	31/12/2019
	HK$ Million	*HK$ Million*
Less than 31 days past due	**124.4**	148.8
31-60 days	**64.2**	32.0
61-90 days	**107.0**	4.0
91-180 days	**177.7**	–
Over 180 days	**244.0**	143.8
	717.3	328.6

13. TERM LOANS

	30/6/2020	31/12/2019
	HK$ Million	*HK$ Million*
Secured term loans	**1,649.6**	2,111.6
Unsecured term loans	**107.8**	106.0
	1,757.4	2,217.6
Less: impairment allowance	**(374.7)**	(311.4)
	1,382.7	1,906.2
Analysed for reporting purposes as:		
– Non-current assets	**48.3**	49.6
– Current assets	**1,334.4**	1,856.6
	1,382.7	1,906.2

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 view of the nature of the term loans financing business.

14. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	30/6/2020	31/12/2019
	HK$ Million	*HK$ Million*
Other receivables		
– Deposits	**34.9**	38.0
– Others	**301.2**	391.3
Less: impairment allowance	**(5.3)**	(47.5)
Trade and other receivables at amortised cost	**330.8**	381.8
Prepayments	**70.1**	105.4
	400.9	487.2
Analysed for reporting purposes as:		
– Non-current assets	**8.9**	20.4
– Current assets	**392.0**	466.8
	400.9	487.2

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

	30/6/2020	31/12/2019
	HK$ Million	*HK$ Million*
Less than 31 days	**262.2**	279.2
Trade and other receivables without ageing	**68.6**	102.6
Trade and other receivables at amortised cost	**330.8**	381.8

15. 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:

	30/6/2020	31/12/2019
	HK$ Million	*HK$ Million*
Less than 31 days/repayable on demand	**159.4**	125.3
31-60 days	**21.5**	6.3
61-90 days	**3.4**	5.6
91-180 days	**3.8**	0.7
	188.1	137.9
Accrued staff costs, other accrued expenses and other payables without ageing	**149.0**	200.5
	337.1	338.4

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

(HK$ Million)	**Six months ended Jun 2020**	Six months ended Jun 2019	**Change**	**Year ended** Dec 2019
Revenue	**2,042.9**	2,071.6	-1%	4,216.8
Pre-tax profit	**950.5**	1,401.0	-32%	2,743.4
Profit attributable to owners of the Company	**695.2**	1,028.9	-32%	2,085.2
Basic earnings per share *(HK cents)*	**34.9**	51.5	-32%	104.4
Interim dividend *(HK cents)*	**12.0**	12.0	–	14.0^
Book value per share *(HK$)*	**10.4**	9.8	6%	10.2

^ *Second interim dividend*

The results for the first half of 2020 represent a solid performance, as global markets wrestle with unprecedented shocks and sharp increases in volatility from COVID-19 pandemic. Through this turbulent period, the Company remained liquid and profitable, adopted a strategy of thoughtfully reducing risk, and remained well-positioned for new business opportunities.

The profit attributable to the owners of the Company for the period was HK$695.2 million (first half of 2019: HK$1,028.9 million). Basic earnings per share ("EPS") for the period were HK34.9 cents (first half of 2019: HK51.5 cents), down 32% year-on-year.

The Board has declared an interim dividend of HK12 cents per share for the six months ended 30 June 2020, which is the same as the corresponding period in 2019. During the period, the Company repurchased 8 million shares for a total consideration of HK$26.4 million (first half of 2019: HK$20.1 million).

As at 30 June 2020, the Group's book value per share was HK$10.4, which increased by 2% from the end of 2019 (HK$10.2) and by 6% from 30 June 2019 (HK$9.8).

RESULTS ANALYSIS

The Group's first-half revenue in 2020 was HK$2,042.9 million (first half of 2019: HK$2,071.6 million), of which interest income remained the largest component. As at 30 June 2020, total loans and advances to customers, net of impairment allowance, was HK$13,956.6 million (30 June 2019: HK$16,060.5 million; 31 December 2019: HK$15,946.6 million). Since January 2020, we reduced risk exposure across our lending businesses, being cautious with origination and making provisions for expected credit losses across the Group.

Operating costs declined by 14% to HK$625.6 million (first half of 2019: HK$729.0 million) with cost control and reduced office operations. In contrast, finance costs increased by 17% to HK$438.3 million over the same period last year (first half of 2019: HK$374.9 million) reflecting additional financing secured in the second half of 2019 through the issue of new medium-term notes and increased borrowings by the Consumer Finance business. Securing this additional financing last year strengthened the Group's financial position before this year's COVID-19 challenges.

Net impairment losses on financial instruments slightly increased from HK$459.9 million for the first half of 2019 to HK$484.8 million. Total net impairment losses from loans and advances to customers increased by 26% to HK$528.0 million, which was partly offset by recoveries of trade receivables of HK$43.7 million.

BUSINESS REVIEW

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

	Pre-tax Contribution for the six-months ended			**Segment Assets as at**	
(HK$ Million)	**Jun 2020**	Jun 2019	**Change**	**Jun 2020**	Dec 2019
FINANCING BUSINESS					
Consumer Finance	**520.0**	652.2	-20%	**17,283.1**	17,917.7
Specialty Finance	**28.8**	78.1	-63%	**1,341.7**	1,865.0
Mortgage Loans	**65.5**	68.5	-4%	**3,267.7**	3,694.4
INVESTING BUSINESS					
Investment Management	**365.9**	494.7	-26%	**14,058.1**	13,129.7
Strategic Investments	**63.9**	102.4	-38%	**2,613.8**	2,650.1
GMS	**(93.6)**	5.1	N/A	**4,318.6**	3,304.7
Total	**950.5**	1,401.0	-32%	**42,883.0**	42,561.6

In the first half of 2020, the Company delivered solid profits across all business segments, this despite the major disruptions due to COVID-19 and the delayed effect of last year's social unrest in Hong Kong. While these results are a decline from the strong performance achieved in 2019, we remained profitable in our Financing and Investing businesses through the uncertainties of the pandemic, including repeated interruption to business activities, volatile capital markets and a global liquidity crunch. While the Investment Management ("IM") portfolios were all affected, the business maintained liquidity and was able to take advantage of the recovery in markets.

Though the circumstances are far from ideal, our Financing business remained resilient. The Consumer Finance and Specialty Finance businesses with lower loan balances, reduced interest income and higher net impairment losses still contributed to our bottom line. Mortgage Loans were more stable off only 4% (see below) due to good margins in lending and relatively low impairment losses. Our cautious approach to credit approval has helped our Financing businesses weather these challenging times.

Pre-tax loss from Group Management Support ("GMS") was HK$93.6 million (pre-tax profit of first half of 2019: HK$5.1 million), mainly due to higher liquidity and a decline in the fair value on financial assets held for liquidity purposes.

FINANCING BUSINESS

The Consumer Finance business contributed the largest share of the Financing pre-tax profits, HK$520.0 million of the total HK$614.3 million for the period.

Specialty Finance, while profitable, showed a drop in contribution due to a thoughtful reduction in the loan book size as loans were repaid, as well as increased provisions for expected credit loss.

The Mortgage Loan business also contributed a meaningful profit.

CONSUMER FINANCE

The Group's Consumer Finance business is conducted via United Asia Finance Limited ("UAF"), of which the Company owns 62.7%. Through a well-established branch network and sophisticated online platforms, UAF primarily offers unsecured loans to individual consumers and small businesses in Hong Kong and Mainland China. UAF is a market leader in personal loans in Hong Kong and in Mainland China, UAF holds several off-line money lending licences in major cities across the country, as well as internet money lending licences which allow it to conduct its online loan business across the country.

Segment Half Year Results

	Six months ended 30 June		
(HK$ Million)	**2020**	2019	**Change**
Revenue	**1,623.7**	1,694.8	-4%
Return on loans[1]	***30.5%***	*32.1%*	
Operating costs	**(498.5)**	(538.7)	-7%
Cost to income (% Revenue)	***30.7%***	*31.8%*	
Finance costs	**(171.1)**	(146.2)	17%
Net impairment losses	**(440.6)**	(373.1)	18%
Other gain	**8.9**	15.4	-42%
Exchange loss	**(2.4)**	0.0	-
Pre-tax contribution	**520.0**	652.2	-20%
Loan Book:			
Net loan balance	**9,439.8**	10,068.0	-6%
Gross loan balance[2]	**10,122.8**	10,705.2	-5%

1 *Annualised interest and fee income/average gross loan balance*

2 *Before impairment allowance*

UAF's pre-tax contribution to the Group amounted to HK$520.0 million, a decrease of 20% compared to the first half of 2019.

For the first half of 2020, revenue dropped by 4%, approximately in line with the decrease in the size of the total loan book. The total loan balance at the end of the period, on a gross and net basis (after impairment allowance), dropped by 5% and 6%, respectively, year-on-year.

Operating costs shrank due to further reduction of the branch network and reduced business activities at physical branches while certain cities were locked down during the period. Finance costs increased by 17% due to higher borrowings to support an increase in average loan balances in Hong Kong. Net impairment losses increased by 18%, reflecting higher loan delinquencies and related charge-offs as a result of deteriorating economic conditions arising from the delayed effects of social unrest in Hong Kong during the second half of 2019 and the COVID-19 outbreak during the period.

Net Impairment Losses on Financial Instruments

(HK$ Million)	**Jan – Jun 2020**	Jan – Jun 2019	Jul – Dec 2019
Amounts written off	**(565.5)**	(479.8)	(453.4)
Recoveries	**104.8**	97.5	97.9
Charge off	**(460.7)**	(382.3)	(355.5)
as an annualised % of average gross loan balance	***8.7%***	*7.2%*	*6.5%*
Written back (charges) of impairment allowance	**20.1**	9.1	(75.2)
Total net impairment losses	**(440.6)**	(373.2)	(430.7)
as an annualised % of average gross loan balance	***8.3%***	*7.1%*	*7.9%*
Impairment allowance at period end	**683.0**	637.2	707.8
as a % of gross loan balance at period end	***6.7%***	*6.0%*	*6.4%*

Ageing analysis for net loan balance of Consumer Finance customers:

(HK$ Million)

No. of days past due as at:	**Jun 2020**	**Note**	Dec 2019	Note
Less than 31	**536.7**	**5.7%**	582.9	5.6%
31-60	**39.7**	**0.4%**	55.6	0.5%
61-90	**26.7**	**0.3%**	20.9	0.2%
91-180	**151.9**	**1.6%**	148.4	1.4%
Over 180	**203.5**	**2.2%**	61.4	0.6%
Total	**958.5**	**10.2%**	869.2	8.3%

Note: Amount as a % of net loan balance

Hong Kong Business

Key Operating Data	1H2020	1H2019	Full Year 2019
Number of branches *(end of period/year)*	**48**	49	48
Loan data:			
Gross loan balance *(HK$ Million) (end of period/year)*	**8,191.3**	8,328.8	8,576.2
Loan originated for the period/year *(HK$ Million)*	**4,703.7**	5,664.1	12,499.1
Number of loans originated	**89,239**	100,434	183,354
Average gross balance per loan *(HK$)*	**59,342**	60,247	60,174
Annualised Ratios:			
Total return on loans[1]	**30.3%**	31.3%	32.1%
Charge-off ratio[2]	**5.5%**	4.4%	4.9%
Net impairment losses ratio[3]	**5.0%**	4.8%	6.0%
Impairment allowance ratio[4]	**5.7%**	4.9%	5.7%

1 Interest income and fee/average gross loan balance

2 Charge-off/average gross loan balance

3 Net impairment losses/average gross loan balance

4 Impairment allowance/gross loan balance at period end

While the COVID-19 pandemic affected business activities in Hong Kong, the local business of UAF ("UAF Hong Kong") has navigated well through this turbulent period, maintaining its market leading position. The gross loan balance dropped marginally year-on-year and the charge-off ratio increased moderately compared to the second half of last year.

During the period, UAF Hong Kong continued to develop its fintech offerings to better meet the needs of its customers. In July 2020, UAF Hong Kong launched a revamped mobile app, "Yes UA", with more advanced features, including Hong Kong identity ("HKID") card authentication. UAF Hong Kong is the first local lender to enable online authentication of the new "smart" HKID card. Another feature, the "One-Click-to-Loan" service, allows customers to complete their loan application and approval processes anytime, anywhere. The customer can drawdown the loan in real time upon approval via the "Faster Payment System" interbank clearing solution launched by Hong Kong Monetary Authority.

UAF Hong Kong plans to continue to leverage its rich market expertise to provide innovative products and high-quality services to better serve the needs of customers. We believe UAF Hong Kong's strong customer base is key to generating solid growth in its business going forward.

Mainland China Business

Key Operating Data	**1H2020**	1H2019	Full Year 2019
Number of branches *(end of period/year)*	**28**	31	30
Loan data:			
Gross loan balance *(HK$ Million) (end of period/year)*	**1,931.5**	2,376.4	2,545.1
Loan originated for the period/year *(HK$ Million)*	**1,376.6**	1,948.9	4,522.2
Number of loans originated	**28,092**	29,124	104,716
Average gross balance per loan *(RMB)*	**32,345**	40,076	31,937
Annualised Ratios:			
Total return on loans[1]	**31.2%**	34.7%	33.9%
Charge-off ratio[2]	**20.4%**	16.3%	13.2%
Net impairment losses ratio[3]	**20.5%**	14.5%	12.0%
Impairment allowance ratio[4]	**11.2%**	9.7%	8.6%

1 Interest income and fee/average gross loan balance

2 Charge-off/average gross loan balance

3 Net impairment losses/average gross loan balance

4 Impairment allowance/gross loan balance at period end

The economic and operating environment of Mainland China during the first half of 2020 was extremely difficult as the Chinese Government implemented domestic lockdowns to control the COVID-19 pandemic. Under these extraordinary circumstances, the economy was badly impacted, with GDP shrinking. UAF's Mainland China business ("UAF China") was not immune, with a drop in revenue and increased net impairment losses causing a loss in UAF China for the period.

Although business activity has not returned to pre-COVID levels, UAF China's business performance gradually picked up in the second quarter: origination increased and delinquencies fell. Nonetheless, UAF China continued to adopt cautious approach to loan approvals and has been monitoring the situation closely, ready to adjust its strategy and business plans as necessary.

To introduce UAF China to more mass-market customers, the company is exploring cooperation with various online platforms. These channels are expected to further increase the number of loans originated online (55% of new loans for the period), and leverage UAF China's online infrastructure. This type of online lending is carried out under two internet licences held by UAF subsidiaries in Shenzhen and Shenyang, acquired in May 2019 and July 2016, respectively. We are targeting to launch these collaborations by end of this year, once we have chosen the appropriate partners.

Prospects

Given the ongoing COVID-related uncertainties and escalating US-China tensions, we are cautious in our outlook for the remainder of the year. However, given our strong market position, cautious underwriting standards, and the experience and expertise of our management in dealing with the past crises, we believe that UAF will emerge stronger.

SPECIALTY FINANCE

The Group's Specialty Finance business provides tailored funding solutions to corporates, investment funds and high net worth individuals. Almost all loans are either secured by assets or guarantees by corporates or high net worth individuals. The net loan balance was HK$1,255.9 million as at 30 June 2020, representing a year-on-year decline of 47% and a year-to-date decline of 30% (30 June 2019: HK$2,367.7 million; 31 December 2019: HK$1,788.0 million). After taking into account net impairment losses of HK$63.9 million (30 June 2019: HK$44.7 million), the segment's pre-tax contribution was HK$28.8 million (30 June 2019: HK$78.1 million), which dropped by 63% against the first half of 2019. The results were attributable to a reduction of interest income (the loan book size reduced as loans matured and were not replaced) and an increase in provisions for expected credit loss.

Segment Half Year Results

	Six months ended 30 June		
(HK$ Million)	**2020**	2019	**Change**
Revenue	**146.2**	182.8	-20%
Return on loans[1]	***14.2%***	*12.7%*	
Operating costs	**(1.8)**	(1.5)	20%
Cost to income (% Revenue)	***-1.2%***	*-0.9%*	
Finance costs	**(51.3)**	(58.4)	-12%
Net impairment losses	**(63.9)**	(44.7)	43%
Net loss on financial assets and liabilities	**(0.4)**	(0.1)	300%
Pre-tax contribution	**28.8**	78.1	-63%
Loan Book:			
Net loan balance	**1,255.9**	2,367.7	-47%
Gross loan balance[2]	**1,630.6**	2,563.2	-36%

1 Annualised interest and fee income/average gross loan balance

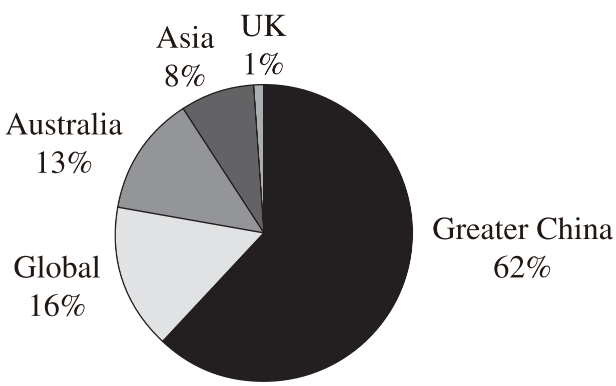
2 Before impairment allowance

As the portfolio is primarily focused on the Greater China market, we have continued our conservative approach of focusing on managing the credit quality and profitability. The result has been a growth in the annualised return on loans to 14.2% (30 June 2019: 12.7%).

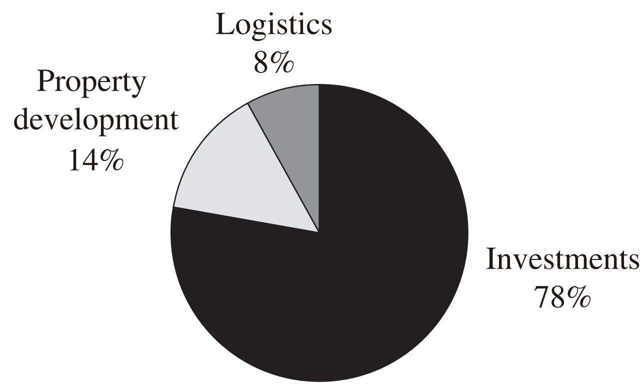
Though we remain open to new lending opportunities, management will continue our cautious approach to new lending and focus on management of existing loans. We remain confident in this business's prospects as it leverages the Group's business network and strong financial position at a time when commercial banks and large institutions provide fewer corporate loans or seek higher returns from them.

Specialty Finance Portfolio

Term Loan Breakdown by Geography



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"). It contributed a pre-tax profit of HK$65.5 million during the period, a decrease of 4% from HK$68.5 million year-on-year.

Segment Half Year Results

(HK$ Million)	**Six months ended 30 June** **2020**	2019	**Change**
Revenue	**169.3**	150.1	13%
Return on loans[1]	***9.9%***	*8.0%*	
Operating costs	**(20.9)**	(20.2)	3%
Cost to income (% Revenue)	***12.3%***	*13.5%*	
Finance costs	**(58.8)**	(61.5)	-4%
Net impairment losses	**(24.1)**	(0.1)	24,000%
Other gains	**–**	0.2	-100%
Pre-tax contribution	**65.5**	68.5	-4%
Loan Book:			
Net loan balance	**3,134.1**	3,593.5	-13%
Gross loan balance[2]	**3,179.9**	3,603.3	-12%

1 Annualised interest and fee income/average gross loan balance

2 Before impairment allowance

Revenue increased by 13%, driven by the year-on-year increase in the average loan yield on our portfolio. The net loan balance was HK$3,134.1 million as at 30 June 2020 (30 June 2019: HK$3,593.5 million; 31 December 2019: HK$3,626.9 million). During the period, Sun Hung Kai Credit has extended fewer lower-margin loans. Finance costs for the period were slightly lower year-on-year as average borrowings reduced.

The credit quality of the loan book remained strong and no actual credit losses were incurred during the period. However, expected credit losses increased based on a general decrease in the market value of collateral in the first half of 2020. Management is cognizant of the potential volatility in residential property prices in Hong Kong and continues to adopt a cautious underwriting approach. The overall loan-to-value ratio of the portfolio was below 65% at the end of the period.

Given the broad impacts of the COVID-19 pandemic and resulting global economic uncertainties, management expects the Hong Kong property market to be impacted in the remainder of 2020. Thus, we expect to continue our prudent lending approach as we build the business through further diversification to higher margin loan products, launching of new marketing campaigns, strengthening our sales force, and investing in upgraded infrastructure.

INVESTING BUSINESS

INVESTMENT MANAGEMENT

The IM division leverages the Group's internal expertise, external network and financial position to invest in attractive risk-adjusted investment opportunities. During the period, the six-month return on the average assets for the segment was 4.4%. Taking into account operating expense and funding cost allocation, the segment contributed HK$365.9 million to pre-tax profit, a decrease of 26% from the HK$494.7 million contributed in the first half of 2019.

Analysis of Pre-tax Profit by Nature

	For the six months ended		
(HK$ Million)	**Jun 2020**	Jun 2019	**Change**
Net gain on financial assets and liabilities and interest income	**606.4**	734.7	-17%
Dividends received	**16.5**	8.8	88%
Rental income	**12.5**	11.6	8%
Net impairment allowance reversal/(losses) on financial instruments	**42.7**	(42.0)	N/A
Net exchange (loss)/gain	**(0.2)**	19.4	N/A
Share of results of associates & joint venture[1]	**3.8**	-	N/A
Other (loss)/income	**(92.0)**	9.0	N/A
Total gains	**589.7**	741.5	-20%
Operating costs[2]	**(223.8)**	(246.8)	-9%
Pre-tax contribution	**365.9**	494.7	-26%

1 Exclude Sun Hung Kai Financial Group Limited

2 Net of cost of capital and finance cost

The first half of 2020 was a dramatic period in financial markets. The COVID-19 pandemic roiled markets, with the magnitude and volatility of the downward moves reminiscent of the Global Financial Crisis and the Crash of 1987. The response by governments and central banks globally was swift and decisive, putting a floor under the market toward the end of March and marking the low point in the markets for the first half of 2020.

Thanks to our strong financial position, the Company was able to ride out the volatility and remain well-positioned through this period. We focused on the fundamentals of our underlying investments and carefully monitored the pandemic's impact on our public and private portfolios.

Overall, the equity and credit portfolios were heavily impacted but saw a considerable improvement from the lows of March. Our real estate portfolio was negatively affected by our Hong Kong and hospitality exposure. However, diversification and the underlying asset quality enabled them to retain solid valuations.

From here we remain cautious and, while markets are strong, we expect further volatility as the aftereffects of the government and central bank interventions take hold. We are in unprecedented times and are committed to extra diligence and focus across all our investments to carefully manage our risks.

Segment Assets Breakdown and Annual Return

	First Half 2020				**Return track record[1]**	
(HK$ Million)	**Period End Value**	**Average Value for the Period**	**Gain/ (Loss)**	**Six-month Return[1]**	**2019[2]**	**2018[2]**
Public Markets	3,814.4	3,522.3	(245.6)	-7.0%	15.0%	-8.6%
Alternatives	7,796.3	7,336.3	862.3	11.8%	17.1%	9.2%
Real Assets	2,447.4	2,483.5	(27.0)	-1.1%	-3.9%	9.8%
Total	**14,058.1**	**13,342.1**	**589.7**	**4.4%**	**12.4%**	**4.1%**

1 Gain (Loss) before costs of capital/average value for the period.

2 Annual return

Public Markets (27.1% of IM)

The Public Markets portfolio consists of an internally managed equity strategy, an internally managed credit strategy, corporate holdings and cash.

Breakdown of Public Markets Portfolio as at 30 June 2020

(HK$ Million)	**Period End Value**	**Gain/ (Loss)**	**Six-month Return[2]**
Equity[1]	1,072.6	32.2	3.5%
Credit[1]	1,011.1	(0.9)	-0.1%
Corporate Holdings & Cash	1,730.7	(276.9)	N/A
Total	**3,814.4**	**(245.6)**	**-7.0%**

1 Certain assets have been reclassified to Corporate Holdings & Cash to give a more accurate representation of the performance of the portfolio.

2 Gain (Loss) before costs of capital/average value for the period.

Equity Portfolio

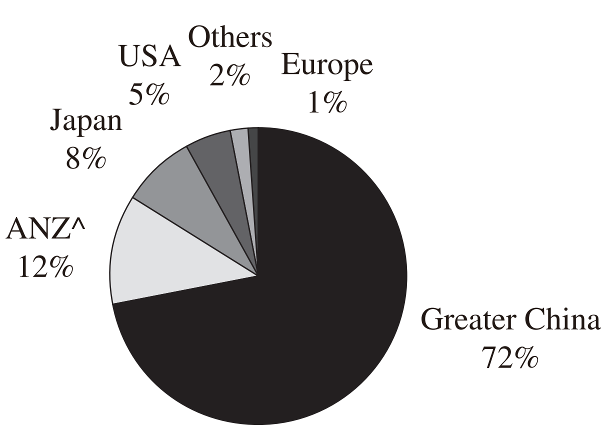
The Public Markets equity portfolio consists of the actively managed APAC long/short strategy.

Given the difficult markets, the portfolio performed as well as we could have hoped. The "long" portfolio's focus on great businesses held up well and recovered better than the broader market, while our short positions added the additional alpha we target in a downturn.

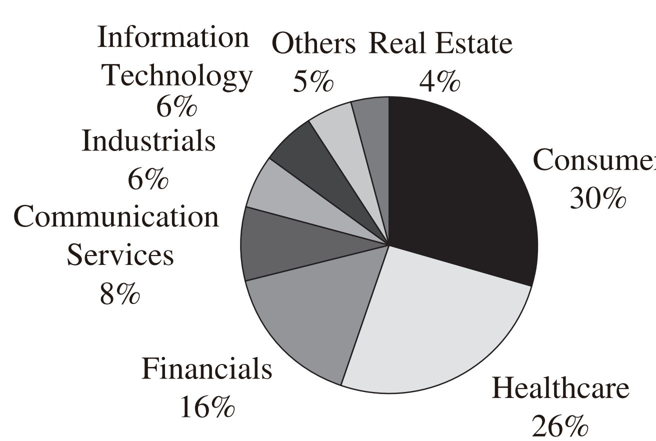
As at the end of June, the long/short portfolio had outperformed the MSCI Asia Pacific Index with lower market exposure. In the second half of 2020, we plan to move the long/short strategy to the Fund Management platform and expect to take in third party capital.

APAC Long/Short portfolio

Holdings by Geography



Holdings by Sector



^ Australia and New Zealand

Credit Portfolio

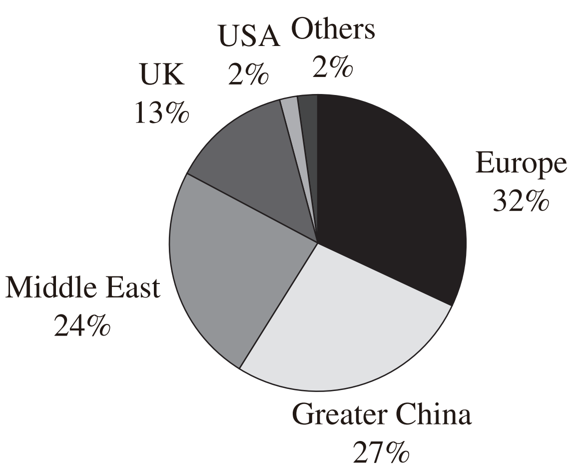
The Public Markets credit portfolio consists of the actively managed global strategy.

This strategy, which focuses on defensive names, showed its resilience during this crisis with no credit events (such as non-payment, restructuring or bankruptcies) occurring. The investments into oil & gas through high-quality Middle East sovereign bonds near oil's low point turned out to be very profitable trades. With the strong rebound in credit markets in June 2020, our credit portfolio is down 0.1% year-to-date and has further strengthened after the end of the period.

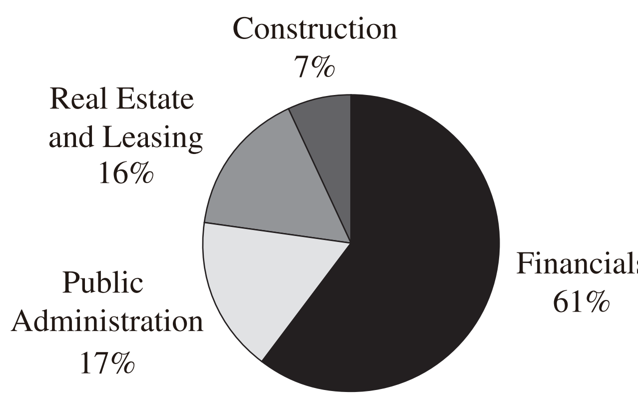
Looking ahead, we expect continued uncertainty in the credit markets and hence we have decided to take some profits and monitor the markets for attractive opportunities.

Global Credit portfolio

Holdings by Geography



Holdings by Sector



Corporate Holdings & Cash

The Company has corporate holdings used for strategic investment, hedging of certain Investment Management positions, and cash holdings within Investment Management, some of which incurred mark-to-market losses in the volatility and market turbulence of the period. Going forward, some or all these holdings may be moved to GMS as we reassess where to hold them to best reflect the performance of the investment strategies.

Alternatives (55.5% of IM)

Over the past several years, we have invested the Group's expertise and capital to build a portfolio of private equity funds, direct investments and co-investments to generate returns and diversify our exposure by industry and geography. The portfolio is invested with companies or fund managers who are selected based on performance, strategic fit, and access to markets and sectors. With the Group's expertise and network in the financial services segment, we expect this to continue to be a core theme of the portfolio.

Breakdown of Alternatives Portfolio as at 30 June 2020

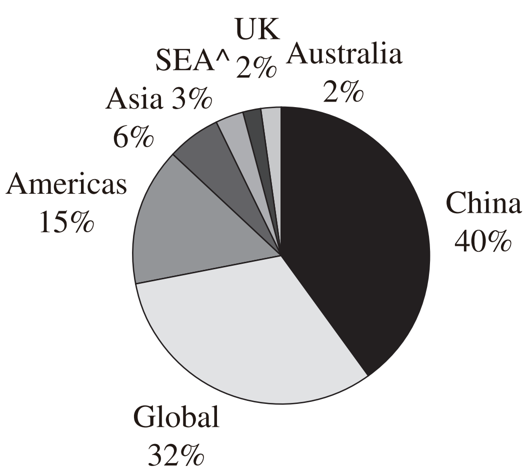
(HK$ Million)	Period End Value	Gain	Six-month Return^
External Hedge Funds	1,422.2	132.5	11.2%
External Private Equity Funds	2,375.0	1.1	0.0%
Direct and Co-investments	3,999.1	728.7	19.1%
Total	**7,796.3**	**862.3**	**11.8%**

^ Gain before cost of capital/average value for the period.

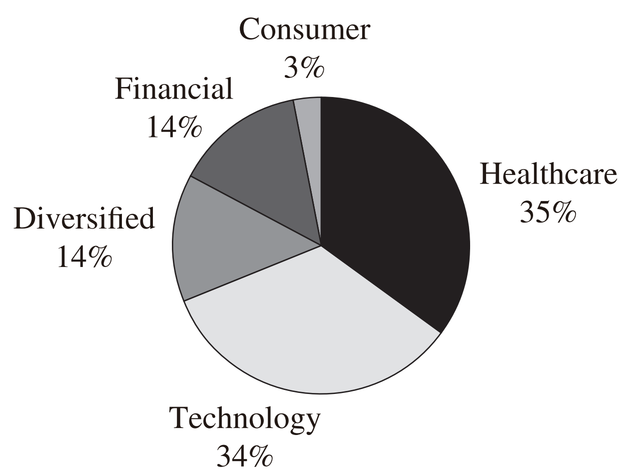
Due to the mature nature of the portfolio, the first half of 2020 saw distributions increased to HK$1,298.3 million, well above the full-year 2019 total of HK$745.8 million, which was itself an all-time high. During this period, the Company met capital calls for existing fund investments for a total of HK$867.9 million. The net effect was cash inflows of HK$425.4 million.

During the period, the team allocated capital to new and existing fund managers, as well as direct and co-investment opportunities sourced through the Group's network.

Private Equity Exposure by Geography



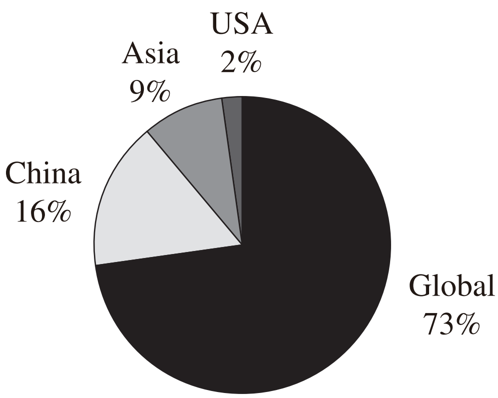
Private Equity Exposure by Sector



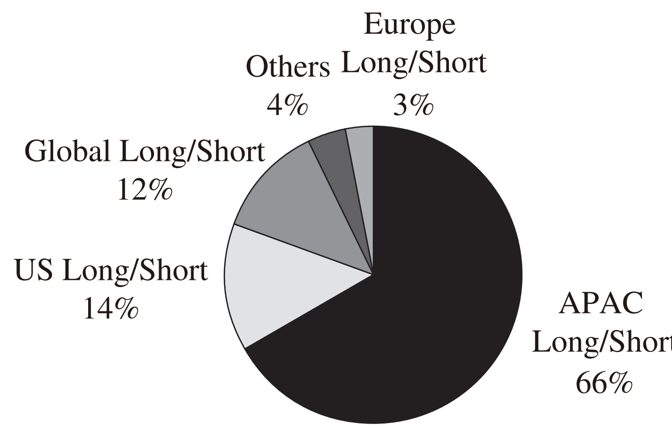
^ South-eastern Asian Countries

During the first half of 2020, we undertook to rebalance our hedge fund portfolio, making additional commitments to three existing funds, investing in three new funds and redeeming our positions in three funds. Especially considering the market conditions in the first half and current market uncertainty, we are actively managing our portfolio. These investments enable us to gain access to additional information and market views as we manage our own portfolio and evaluate external managers.

External Hedge Funds Exposure by Geography



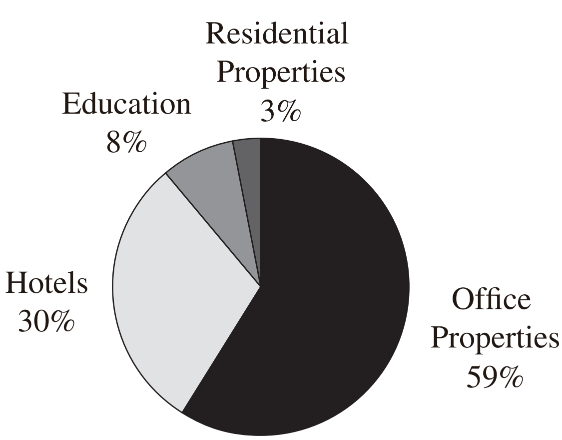
External Hedge Funds by Type



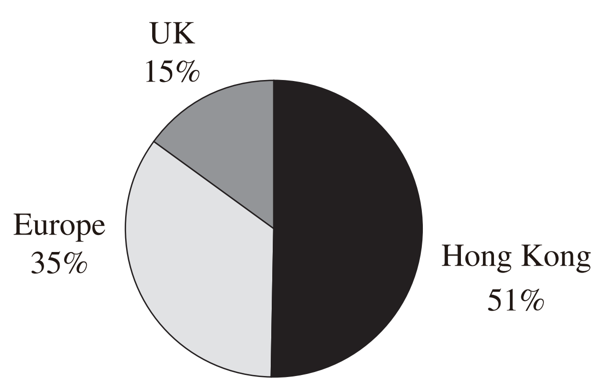
Real Assets (17.4% of IM)

The Real Assets portfolio had a valuation of HK$2,447.4 million as at 30 June 2020 (30 June 2019: HK$2,284.6 million; 31 December 2019: HK$2,542.5 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 first half of the year, there was a small loss on the portfolio arising from increased provisions on the office portfolio in Hong Kong. We continue to look for opportunities in the real estate space with a focus on the UK and Europe.

Real Assets Exposure by Asset Class



Real Assets 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.

Fund Management Initiative

Over the course of the last several years, we have built all the above pieces of the IM business through careful consideration and continuous efforts to find the best internal team members and external partners. During this time, the IM business has invested balance sheet capital to produce strong returns for the Group. We believe the next logical step is to expand into Fund Management and expand the capabilities we have built to manage external capital.

For the initial launch this year, we are targeting to launch the Fund Management platform, transition at least one internally-managed strategy and make seed investments into new teams and existing fund managers. Going forward, we expect Fund Management to be a new driver for sustainable growth in assets under management and revenue.

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 IM businesses, and the Group has benefited from these strategic investments. Pre-tax contribution from this during the period was HK$63.9 million (first half of 2019: HK$102.4 million), a decrease of 38%.

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 now known as Everbright Sun Hung Kai Company Limited ("EBSHK"). In the first half of 2020, the Group maintained its 30% shareholding, amounting to 90,365,142 shares, in SHKFGL. In the first half, EBSHK delivered a solid performance amid a volatile capital market in Hong Kong, with a decrease in turnover of HK$71.4 million. During the period, the business won several prestigious industry awards in Hong Kong and Mainland China. Client assets under management, custody, and/or advice was over HK$120 billion.

In the first half, 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$31.8 million (first half of 2019: HK$51.3 million). The total unrealised gain from the associate during the period was recognised as HK$73.0 million (first half of 2019: HK$101.5 million), including valuation accretion on equity of HK$41.2 million (first half of 2019: HK$50.2 million), an impairment loss of HK$3.2 million (first half of 2019: reversal of HK$0.3 million), and gain on the put right of HK$35.0 million (first half of 2019: HK$51.0 million). No realised gain from the associate was recognised in the first half of 2020 (first half of 2019: Nil).

As at 30 June 2020, 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$2,340.0 million (30 June 2019: HK$2,254.0 million; 31 December 2019: HK$2,363.0 million), representing 5.5% of the Group's total assets and constituting a significant investment of the Company according to the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the period, the Group received dividends of HK$96.0 million from EBSHK (2019: HK$98.5 million).

According to the 2015 transaction, the put option became exercisable on 2 June 2020. The Group intends to conclude arrangements in respect of the put option prior to its expiry.

In 2020, LSS Financial Leasing (Shanghai) Limited ("LSS Leasing") entered its fifth year of operation, continuing a strategic transformation from a traditional consumer loan lender for automobile purchases to an integrated financing solution provider for new car hailing and logistic industries. In the first half of this year, LSS Leasing faced significant challenges from the outbreak of coronavirus pandemic with business being interrupted and seeing increased number of overdue loans. The company made comprehensive payment arrangements for deferred payment to help its clients through the difficulties. During the period, in spite of facing a disruptive market, LSS Leasing still achieved positive progress in new transportation market, where it started to provide direct service to logistic companies and strengthen its strategic cooperation with Lalamove (貨拉拉), the leading online logistic service platform in China. The company also formed several new cooperative ventures during the period which helped grow the scale of its business.

OUTLOOK

At the time we present this announcement, the world is facing new waves of the COVID-19 pandemic. We are proud to have remained profitable in a period when many companies have not, however we expect the uncertain business environment and volatile investment conditions to remain.

The efforts to move more of the UAF China business online has mitigated the negative effects of COVID-19 during the first half of 2020 and we expect to continue that effort and see positive results. UAF Hong Kong remained resilient in profitability and credit quality during the pandemic. We are confident in management's capability to weather these challenges and adapt to the changing market conditions.

The mortgage loan business has maintained its scale and profitability thus far and Hong Kong home prices have held relatively steady. As the longer-term effects of central bank policy and the pandemic on Hong Kong's real estate market are yet to be seen, management will remain prudent in new underwriting and vigilant in monitoring loan servicing.

The IM business felt the impact of the volatile markets after a strong 2019 and has been actively managing the investment portfolio through these difficult market conditions. During the period, we committed to several new investments and expect to continue to deploy capital through the remainder of the year. We are continuing with our plans to launch our Fund Management platform this year, and believe this platform will add additional assets and revenue to the Group.

Our continuous investment in infrastructure and systems has prepared our staff to work safely and productively through remote working and other backup arrangements. The Company will continue to improve our infrastructure and keep our team safe as we navigate these turbulent times.

We believe the current financing and investing business model, plus our strong financial position, enables the Company to weather the current storm and take advantage of new opportunities. We will maintain our diversified funding sources and liquid assets to provide staying power and enable our business development. We are cognizant that, as we remain cautious in our lending and investment businesses, we are retaining additional liquidity on our balance sheet and that this affects the overall returns of the Group. Given the ongoing global economic uncertainties, we feel that this slightly more conservative approach is prudent. The Group will continue our business model and aims to deliver strong performance over the long term with sound governance and risk controls.

FINANCIAL REVIEW

Financial Resources, Liquidity, Capital Structure and Key Performance Indicators

(HK$ Million)	**30 Jun 2020**	31 Dec 2019	**Change**
Capital Structure			
Equity attributable to owners of the Company	**20,645.6**	20,381.7	1%
Total cash	**7,518.1**	5,726.2	31%
Total borrowings[1]	**16,721.5**	16,755.8	–
Net debt[2]	**9,203.4**	11,029.6	-17%
Net debt to equity ratio	**44.6%**	54.1%	
Liquidity			
Interest cover[3]	**3.2**	4.5	-29%
Return Ratios (Annualised)			
Return on assets[4]	**4.0%**	6.0%	
Return on equity	**6.8%**	10.6%	
Key Performance Indicator			
Book value per share *(HK$)*	**10.4**	10.2	2%
Dividend per share *(HK cents)*	**12**	26	N/A

1 Bank and other borrowings and notes/papers payable

2 Total borrowing minus total cash

3 Earnings before interest and tax/interest expense

4 Annualised profit including non-controlling interests/average assets

The Group's gearing ratio reduced to 44.6% at the end of the period and has remained healthy. Interest cover for the period dropped to 3.2x, compared with 4.5x for the year ended 2019, mainly due to reduced earnings.

As at 30 June 2020, total borrowings of the Group amounted to HK$16,721.5 million (31 December 2019: HK$16,755.8 million). Of this amount, 48.5% is repayable within one year (31 December 2019: 37.2%). The Group maintained a balanced mix of funding from various sources. Bank borrowings accounted for 50.9% of total debt (31 December 2019: 48.7%) and were at floating interest rates, primarily denominated in Hong Kong dollars and US dollars. There were no known seasonal factors in the Group's borrowing profile.

Return on assets (annualised) dropped to 4.0% as at 30 June 2020 (30 June 2019: 6.2% (annualised); 31 December 2019: 6.0%), mainly due to lower returns on lending and investment assets and increased cash reserves. Return on equity (annualised) also dropped to 6.8% as at the end of first half of 2020 (30 June 2019: 10.6% (annualised); 31 December 2019: 10.6%) for similar reasons. The strong cash position has provided us with comfortable liquidity during the volatile market conditions. The Company is well equipped to take advantage of available opportunities to optimize our capital efficiency in long term.

As at 30 June 2020, the following notes were outstanding:

Note	**Maturity Date**	**HK$ Equivalent** ***(In Million)***	**% Total**
4.75% USD notes^	5/2021	1,926.5	23.5%
4.65% USD notes^	9/2022	3,483.9	42.4%
5.75% USD notes^	11/2024	2,722.2	33.1%
HKD papers/notes	7/2020	82.8	1.0%
Total		**8,215.4**	**100.0%**

^ Listed on The Stock Exchange of Hong Kong Limited

After the partial repurchase of 4.75% USD notes and 4.65% USD notes, and the issuance of new 5.75% USD notes completed in late 2019, the Group has successfully maintained a stable capital structure, which positioned us well to avoid a liquidity crunch.

The Group maintained foreign currency positions to manage its present and potential operating and investment activities. Most non-US or HK dollar investment assets were hedged against currency fluctuations. Exchange risks were 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 accounted for 5.5% of the Group's total assets as at 30 June 2020. A detailed discussion on the investment is stated in the section titled "Strategic Investments" of this announcement.

Material Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures

During the six months ended 30 June 2020, the Group had no material acquisitions and disposal of subsidiaries, associates and joint ventures.

Important Events After the End of the Financial Period

There are no important events affecting the Group which have occurred after the end of the financial period for the six months ended 30 June 2020 and up to the date of this announcement.

Charges on Group Assets

Properties of the Group with a total book value of HK$1,005.0 million and cash of HK$47.0 million were pledged by subsidiaries to banks for facilities granted to them. HK$393.0 million was drawn down as at 30 June 2020.

Contingent Liabilities

At the end of the reporting period, the Group had guarantees in the aggregate amount of HK$490.4 million (31 December 2019: HK$494.5 million).

HUMAN RESOURCES

As at 30 June 2020, the Group's total staff numbered 2,248 (31 December 2019: 2,318). Out of this, 62 staff (31 December 2019: 55) were corporate and investment staff and the remainder were within the main subsidiaries UAF and Sun Hung Kai Credit. The net decrease in staff numbers was a result of the 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$325.8 million (first half of 2019: HK$415.8 million) as a result of lower performance-related compensation.

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

COVID-19 PANDEMIC RESPONSE

The COVID-19 spread globally during the first half of 2020. The Group has implemented, since January 2020, certain protocols below to protect the health and safety of our workforce, their families, local suppliers and neighbouring communities while ensuring a safe environment for operations to continue as usual:

- measures to maximize social distancing and staff protection within the offices;
- meetings are held off-site or by conference calls or video conference as far as possible;
- cancellation of all non-essential travel;
- flexible and remote working plans for employees;
- access to office, restrictions and temperature screening;
- self-isolation following outbound travel, development of symptoms, or interaction with a confirmed case of COVID-19 and do coronavirus test as and when necessary at the Company's cost; and
- increased inventory of face mask, hand sanitiser and hygiene supplies and increased focus on cleaning and sanitation.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK12 cents per share for the six months ended 30 June 2020 (2019: HK12 cents per share) payable to the shareholders whose names appear on the register of members of the Company on 9 September 2020. Dividend warrants for the interim dividend are expected to be dispatched on 17 September 2020.

CLOSURE OF REGISTER OF MEMBERS

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

Event		**Book close period**
For entitlement to the interim dividend	:	7 September 2020 to 9 September 2020 (Ex-dividend date being 3 September 2020) (Record date being 9 September 2020)

In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrar, Tricor Secretaries Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 4 September 2020.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2020, 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 Listing Rules, 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 management team of the division, 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 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 2019. 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

(1) Repurchase of Shares

During the six months ended 30 June 2020, the Company repurchased a total of 8,008,000 shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$26,338,080. All the repurchased shares were subsequently cancelled.

Particulars of the repurchases are as follows:

Month	**Number of shares repurchased**	**Purchase price**		**Aggregate consideration (before expenses)**
		Highest	**Lowest**	
		(HK$)	*(HK$)*	*(HK$)*
January	3,008,000	3.75	3.47	10,965,790
March	380,000	2.94	2.91	1,111,940
April	2,620,000	3.34	2.84	8,148,890
June	2,000,000	3.10	3.00	6,111,460
Total	**8,008,000**			**26,338,080**

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

During the six months ended 30 June 2020, US$400,000 in the principal amount of 4.65% Guaranteed Notes due September 2022 (the "2022 Notes") issued by SHK BVI and listed on the Stock Exchange (stock code: 5267) under the US$3,000,000,000 Guaranteed Medium Term Note Programme were purchased and redeemed by the Company at a consideration of US$400,000 by private arrangement. The repurchased 2022 Notes were cancelled on 26 May 2020.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's or its subsidiaries' listed securities during the six months ended 30 June 2020.

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 2020. 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, 19 August 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 Chun, Mr. David Craig Bartlett, Mr. Alan Stephen Jones and Ms. Jacqueline Alee Leung