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

ANNOUNCEMENT OF 2021 FINAL RESULTS

CHAIRMAN'S LETTER

Amidst an increasingly uneasy year with geopolitical headwinds, rising inflation and lingering pandemic-related uncertainty, I am pleased to report that the Company ("SHK & Co.") continued on its transformation journey of becoming a leading alternative investment company. We have further built out our platform while navigating the complex and volatile market dynamics.

Our 52-year history in the financial industry gives us the assurance that we have the capability to weather challenges through economic cycles. We remain confident of the complimentary strengths and synergies of our Financing, Investment Management and Funds Management businesses, and believe that a more balanced and diversified business portfolio will ensure a sustainable competitive advantage in the future. We are pleased to have achieved significant progress in building our Funds Management platform, Sun Hung Kai Capital Partners. We have so far seeded four partnerships and launched two internally managed funds and have raised third party capital in excess of US$100 million across different funds, a promising start achieved within a matter of months despite the volatile market conditions.

Financial Highlights, Capital Management and Dividends

In 2021, our combined business portfolio produced 10.4% growth on profit attributable to owners of the Company, totaling HK$2,813.7 million (2020: HK$2,547.7 million). Earnings per share increased to HK142.7 cents, an increase of 11.2% (2020: HK128.3 cents). The book value per share gained 11.4% to HK$12.7 (2020: HK$11.4). Return on equity and return on assets were 11.8% and 7.1%, respectively (2020: 11.8% and 6.8%, respectively).

During the year, we continued to maintain a strong balance sheet and a healthy liquidity position. Following our redemption of the full outstanding amount of the 4.75% USD notes upon its maturity in May 2021, we newly issued US$375 million 5.00% USD medium term notes in September 2021 and a retap of US$75 million of the same bond in early March 2022.

We have maintained our uninterrupted dividends and distributions history, returning HK$12.9 billion (including dividends and share buybacks) to our shareholders since 2007. We declared a second interim dividend of HK14 cents and a special dividend of HK4 cents per share to take account of our strong Alternatives performance in 2021. Together with an interim dividend of HK12 cents per share, the total dividend per share amounting to HK30 cents for 2021 (2020: HK26 cents), representing a pay-out ratio of 21.1% (excluding share buybacks).

In 2021, the Company also continued to repurchase shares, buying back 9.1 million shares (HK$37.8 million). As in prior years, we plan to continue repurchasing our shares in the ordinary course of business.

Business Update

During the year, our Financing business rebounded strongly from 2020, in particular, our Consumer Finance business achieved impressive organic growth and contributed HK$1,665.4 million pre-tax profit to the Group, hitting a record high.

Similarly, Mortgage Loans also rebounded from a low in 2020 and contributed a meaningful pre-tax profit of HK$120.0 million, increasing 6.5% year-on-year. In the meantime, Sun Hung Kai Credit managed to diversify funding channels, lowered financing costs and improved capital efficiency over the year.

Private Credit (formerly Specialty Finance)'s pre-tax contribution in 2021 bounced back from a lossmaking position. The newly renamed unit has refined its focus and will look for global structured finance and special situations opportunities going forward.

Since 2015, our Investment Management business has achieved strong growth and the segment assets reached HK$21,087.9 million as at end of 2021. During the year, we recorded HK$3,481.5 million of realised gains on financial assets and interest income, increasing 98.4% year-on-year as we successfully exited from a number of mature investments made in prior years. In addition, as a cornerstone of our Funds Management initiative, the Investment Management unit had two strategies spun out and launched on the Funds Management platform, namely East Point Asset Management and SHK Latitude Alpha Fund in 2021.

Our Funds Management unit, Sun Hung Kai Capital Partners, has now received Type 1, 4, 9 licenses from the Securities & Futures Commission. Over the year, it launched six partnerships/funds. Apart from launching both internally managed funds SHK Latitude Alpha Fund, a global fund of hedge funds, and Multiple Capital Investment Partners, a real estate loan fund, Sun Hung Kai Capital Partners has completed four partnerships, namely hedge fund managers East Point Asset Management, an APAC long/short equity strategy; ActusRayPartners, a European market neutral discretionary probabilistic strategy and Kernel, a crypto-currency market neutral strategy. In addition, E15VC, a global technology venture fund, has also become our partner to invest in global companies that deploy disruptive technologies.

Total capital provided for seeding purposes exceeded US$600 million while third-party capital raised totaled in excess of US$100 million. In 2022, we will continue to launch and develop partnerships that are in the pipeline, develop customized solutions and expand distribution channels with a focus to attract further third-party capital to build out Sun Hung Kai Capital Partners as a leading platform in the alternative investment management sector.

People and Community

After establishing our ESG Working Committee in 2020 with an updated Sustainability Policy, we are delighted to report that the Company has elevated its focus on ESG over the previous year. A number of events involving the Group giving back to society took place such as a family day of experiential simulation and volunteering at Crossroads Village, our new civil society partner, where our employees learnt firsthand about local and global community concerns. HK$1 million was also donated from SHK & Co. Foundation to build a "Trail of World Need", a series of immersive, interactive exhibits aimed at inspiring and empowering families to engage with world issues. Meanwhile, the Group's frontline and supporting employees completed over 16,000 hours of training in a bid to cultivate a high-performance culture.

We have always looked to make a difference to the safety of both employees and the broader community. To support Hong Kong's vaccination drive, we gave out lucky draw prizes amounted over HK$500,000 to full-time staff ensuring a fully-vaccinated office. Moreover, UAF, which interacts most actively with Hong Kong residents, distributed several thousand boxes of surgical masks and hand sanitisers to its staff in 2021.

This year also saw the Board's performance improved with two new independent non-executive directors increasing its gender, age and nationality diversity. The new additions to the Board also strengthened its expertise in risk management and knowledge in various industries/sectors besides finance.

As a result of the Company's adherence to environmental, sustainable and corporate governance best practices, we have secured The Asset ESG Corporate Award for the seventh consecutive year. In 2021, we also participated in the World Green Organisation's Green Office Award Labelling Scheme and our office was recognised with the "Green Office and Eco-Healthy Workplace Label".

Outlook

The world is finding its way towards a "new normal" with post COVID-19 adjustments, affected by the complex interplay of factors including supply chain disruptions, continued escalation of interest rates, an uncertain world mired in increasing geopolitical conflicts. As a result, we are already seeing much greater volatility but we remain cautiously optimistic and continue to maintain a strong liquidity position while maintaining a balanced and diversified portfolio of businesses and strategies.

The Company would not have achieved our results, especially in recent difficult years, without the support of our shareholders, business partners, fellow colleagues, and Board members. I would like to take this chance to express my gratitude to all of them.

Lee Seng Huang
Group Executive Chairman

Hong Kong, 17 March 2022

GROUP RESULTS

The Board is pleased to announce the consolidated results of the Group for the year ended 31 December 2021 as set out below:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

(HK$ Million)	*Notes*	**2021**	2020
Interest income		**4,133.4**	3,963.0
Other revenue	*4*	**190.6**	93.6
Other gains	*5*	**111.8**	76.2
Total income		**4,435.8**	4,132.8
Brokerage and commission expenses		**(124.1)**	(47.2)
Advertising and promotion expenses		**(127.6)**	(119.9)
Direct cost and operating expenses		**(119.8)**	(107.9)
Administrative expenses		**(1,323.9)**	(1,274.3)
Net gain on financial assets and liabilities at fair value through profit or loss	*6*	**2,616.2**	2,553.9
Net exchange (loss) gain		**(66.2)**	47.5
Net impairment losses on financial assets	*7*	**(714.6)**	(1,052.6)
Finance costs		**(716.2)**	(807.3)
Other losses		**(24.9)**	(166.6)
		3,834.7	3,158.4
Share of results of associates		**0.3**	42.4
Share of results of joint ventures		**(61.8)**	(0.2)
Profit before taxation	*8*	**3,773.2**	3,200.6
Taxation	*9*	**(474.1)**	(271.7)
Profit for the year		**3,299.1**	2,928.9
Profit attributable to:			
– Owners of the Company		**2,813.7**	2,547.7
– Non-controlling interests		**485.4**	381.2
		3,299.1	2,928.9
Earnings per share	*11*		
– Basic (HK cents)		**142.7**	128.3
– Diluted (HK cents)		**142.5**	128.0

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

(HK$ Million)	**2021**	2020
Profit for the year	**3,299.1**	2,928.9
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Fair value gain (loss) on investments in equity instrument of fair value through other comprehensive income	**66.3**	(7.0)
Gain on revaluation of properties	**—**	24.8
	66.3	17.8
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translating foreign operations	**228.0**	317.8
Share of other comprehensive (expenses) income of associates	**(10.4)**	28.9
Share of other comprehensive income of joint ventures	**7.3**	21.0
	224.9	367.7
Other comprehensive income for the year	**291.2**	385.5
Total comprehensive income for the year	**3,590.3**	3,314.4
Total comprehensive income attributable to:		
– Owners of the Company	**3,021.3**	2,809.9
– Non-controlling interests	**569.0**	504.5
	3,590.3	3,314.4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2021

(HK$ Million)	*Notes*	**31/12/2021**	31/12/2020
Non-current Assets			
Investment properties		**1,255.5**	1,276.5
Property and equipment		**492.8**	436.5
Right-of-use assets		**364.2**	323.2
Intangible assets		**912.8**	904.4
Goodwill		**2,384.0**	2,384.0
Interest in associates		**202.1**	212.2
Interest in joint ventures		**411.8**	466.4
Financial assets at fair value through other comprehensive income		**186.6**	120.9
Financial assets at fair value through profit or loss		**11,843.7**	9,124.6
Deferred tax assets		**567.1**	780.7
Amounts due from associates		**263.5**	279.0
Loans and advances to consumer finance customers	*12*	**3,805.9**	3,088.9
Mortgage loans	*13*	**2,163.7**	1,192.9
Term loans	*14*	**40.6**	554.5
Trade receivables, prepayments and other receivables	*15*	**49.1**	17.3
		24,943.4	21,162.0
Current Assets			
Financial assets at fair value through profit or loss		**6,676.4**	4,461.5
Receivable from reverse repurchase agreements		**169.3**	—
Taxation recoverable		**3.3**	3.3
Amounts due from associates		**1.9**	12.1
Loans and advances to consumer finance customers	*12*	**8,243.8**	7,474.8
Mortgage loans	*13*	**1,297.6**	1,820.8
Term loans	*14*	**737.6**	1,158.2
Trade receivables, prepayments and other receivables	*15*	**373.2**	378.3
Amounts due from brokers		**342.8**	354.3
Amount due from a holding company		**0.1**	—
Short-term pledged bank deposits and bank balances		**50.0**	—
Bank deposits		**86.0**	12.3
Cash and cash equivalents		**5,864.7**	7,245.6
		23,846.7	22,921.2

(HK$ Million)	*Notes*	**31/12/2021**	31/12/2020
Current Liabilities			
Financial liabilities at fair value through profit or loss		**433.9**	172.8
Bank and other borrowings		**6,334.3**	6,083.2
Trade payables, other payables and accruals	*16*	**811.1**	705.4
Amounts due to fellow subsidiaries and a holding company		**—**	4.7
Provisions		**37.8**	46.2
Taxation payable		**136.3**	137.6
Other liabilities		**32.2**	—
Lease liabilities		**100.3**	84.2
Notes/paper payable		**4,313.9**	2,013.4
		12,199.8	9,247.5
Net Current Assets		**11,646.9**	13,673.7
Total Assets less Current Liabilities		**36,590.3**	34,835.7
Capital and Reserves			
Share capital		**8,752.3**	8,752.3
Reserves		**16,322.9**	13,872.9
Equity attributable to owners of the Company		**25,075.2**	22,625.2
Non-controlling interests		**3,464.0**	3,327.1
Total Equity		**28,539.2**	25,952.3
Non-current Liabilities			
Deferred tax liabilities		**138.5**	137.1
Bank and other borrowings		**2,004.3**	2,384.1
Provisions		**0.5**	0.3
Other liabilities		**19.2**	—
Lease liabilities		**258.1**	228.5
Notes/paper payable		**5,630.5**	6,133.4
		8,051.1	8,883.4
		36,590.3	34,835.7

Notes:

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

The financial information relating to the financial years ended 31 December 2021 and 2020 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 31 December 2020 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 31 December 2021 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")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

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

Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform — Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 "Financial Instruments: Disclosures".

As at 1 January 2021, the Group has several financial assets and financial liabilities, the interests of which are indexed to benchmark rates that will be subject to interest rate benchmark reform. The following table shows the total amounts of these outstanding contracts.

(HK$ Million)	**London Interbank Offered Rate ("LIBOR")**
Term loans	402.9
Bank and other borrowings	144.2

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for term loans and bank and other borrowings measured at amortised cost.

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 are as follows:

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

(b) Private Credit: provision of structured and specialty financing.

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

(d) Investment Management: portfolio investments.

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

"Specialty Finance" segment is renamed as "Private Credit" segment. The directors of the Company consider that this change to segment reporting is in line with the changes of internal reporting reviewed by the chief operating decision maker in 2021.

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

(HK$ Million)	2021					
	Financing Business					
	Consumer Finance	Private Credit	Mortgage Loans	Investment Management	Group Management and Support	Total
Segment revenue	3,526.2	261.2	305.6	188.6	215.5	4,497.1
Less: inter-segment revenue	—	—	—	—	(173.1)	(173.1)
Segment revenue from external customers	3,526.2	261.2	305.6	188.6	42.4	4,324.0
Segment profit or loss	1,665.4	55.1	120.0	1,945.9	48.3	3,834.7
Share of results of associates	—	—	—	0.3	—	0.3
Share of results of joint ventures	—	(50.0)	—	(11.8)	—	(61.8)
Profit before taxation	1,665.4	5.1	120.0	1,934.4	48.3	3,773.2
Included in segment profit or loss:						
Interest income	3,504.6	193.7	305.6	84.4	45.1	4,133.4
Other gains	38.8	1.9	0.5	67.8	2.8	111.8
Net gain on financial assets and liabilities at fair value through profit or loss	—	59.1	—	2,542.9	14.2	2,616.2
Net exchange gain (loss)	1.8	—	—	(26.1)	(41.9)	(66.2)
Net impairment losses on financial assets	(509.4)	(185.9)	(10.0)	(9.3)	—	(714.6)
Other losses	(1.1)	—	—	(23.8)	—	(24.9)
Amortisation and depreciation	(113.0)	—	(5.2)	—	(55.3)	(173.5)
Finance costs	(222.9)	(76.9)	(101.4)	—	(471.2)	(872.4)
Less: inter-segment finance costs	—	76.9	79.3	—	—	156.2
Finance costs to external suppliers	(222.9)	—	(22.1)	—	(471.2)	(716.2)
Cost of capital (charges) income *	—	—	—	(587.1)	587.1	—

	2020					
	Financing Business					
(HK$ Million)	Consumer Finance	Private Credit	Mortgage Loans	Investment Management	Group Management and Support	Total
Segment revenue	3,331.0	249.4	302.4	106.8	275.9	4,265.5
Less: inter-segment revenue	—	—	—	—	(208.9)	(208.9)
Segment revenue from external customers	3,331.0	249.4	302.4	106.8	67.0	4,056.6
Segment profit or loss	1,238.5	(123.7)	112.7	2,075.6	(144.7)	3,158.4
Share of results of associates	—	—	—	42.4	—	42.4
Share of results of joint ventures	—	(8.6)	—	8.4	—	(0.2)
Profit (loss) before taxation	1,238.5	(132.3)	112.7	2,126.4	(144.7)	3,200.6
Included in segment profit or loss:						
Interest income	3,309.6	226.9	302.4	57.4	66.7	3,963.0
Other gains	72.4	1.2	1.1	0.7	0.8	76.2
Net (loss) gain on financial assets and liabilities at fair value through profit or loss	(0.1)	19.9	—	2,633.6	(99.5)	2,553.9
Net exchange gain (loss)	12.9	0.7	—	(14.8)	48.7	47.5
Net impairment (losses) reversal on financial assets	(769.2)	(300.7)	(25.7)	43.0	—	(1,052.6)
Other losses	(1.8)	—	—	(164.8)	—	(166.6)
Amortisation and depreciation	(120.1)	—	(6.9)	—	(23.0)	(150.0)
Finance costs	(292.8)	(91.1)	(110.2)	—	(503.8)	(997.9)
Less: inter-segment finance costs	—	91.1	99.5	—	—	190.6
Finance costs to external suppliers	(292.8)	—	(10.7)	—	(503.8)	(807.3)
Cost of capital (charges) income *	—	—	—	(395.7)	395.7	—

* 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:

(HK$ Million)	**2021**	2020
Revenue from external customers by location of operations		
– Hong Kong	**3,410.3**	3,303.7
– PRC	**913.7**	752.9
	4,324.0	4,056.6

(HK$ Million)	**31/12/2021**	31/12/2020
Non-current assets other than interests in associates and joint ventures, financial assets and deferred tax assets by location of assets		
– Hong Kong	**4,935.4**	4,815.8
– PRC	**473.9**	508.8
	5,409.3	5,324.6

4. OTHER REVENUE

(HK$ Million)	**2021**	2020
Service and commission income	**85.6**	41.5
Dividends from listed investments	**19.2**	21.8
Dividends from unlisted investments	**6.4**	2.1
Gross rental income from investment properties	**31.0**	28.2
Revenue sharing from funds	**37.5**	–
Referral fee	**8.5**	–
Management fee income	**2.4**	–
	190.6	93.6

5. OTHER GAINS

(HK$ Million)	**2021**	2020
Gain on disposal of investments	**61.4**	1.2
Change in net assets attributable to other holders of consolidated structured entities	**1.1**	–
Miscellaneous income	**49.3**	18.0
Government grants on Employment Support Scheme	**–**	36.1
Other government grants in the People's Republic of China (the "PRC")	**–**	20.9
	111.8	76.2

In 2020, the Group recognised government grants of HK$57.0 million in respect of COVID-19-related subsidies, of which HK$36.1 million relates to Employment Support Scheme provided by the Hong Kong government and HK$20.9 million mainly relates to social security contributions subsidised by the PRC government. There were no unfulfilled conditions and other contingencies attached to these grants.

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:

(HK$ Million)	**2021**	2020
Net realised and unrealised gain (loss) on financial assets and liabilities		
– Held for trading	**729.3**	(49.1)
– Financial assets at fair value through profit or loss	**1,886.9**	2,603.0
	2,616.2	2,553.9

7. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

(HK$ Million)	**2021**	2020
Loans and advances to consumer finance customers		
– Net impairment losses	**(751.0)**	(991.1)
– Recoveries of amounts previously written off	**243.5**	221.7
	(507.5)	(769.4)
Mortgage loans		
– Net impairment losses	**(10.0)**	(25.7)
	(10.0)	(25.7)
Term loans		
– Net impairment losses	**(186.5)**	(301.1)
	(186.5)	(301.1)
Amounts due from associates		
– Net impairment losses	**(10.8)**	(2.1)
	(10.8)	(2.1)
Trade and other receivables		
– Net reversal of impairment losses	**0.2**	45.4
– Recoveries of amounts previously written off	**–**	0.3
	0.2	45.7
	(714.6)	(1,052.6)

8. PROFIT BEFORE TAXATION

(HK$ Million)	**2021**	2020
Profit before taxation for the year has been arrived at after charging:		
Administrative expenses	**(1,323.9)**	(1,274.3)
Outgoings in respect of rental-generating investment properties	**(0.9)**	(0.1)
Other losses	**(24.9)**	(166.6)
Share of taxation of associates and joint ventures included in share of results of associates and joint ventures	**–**	(11.3)

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 up to 16 November 2020. The recoverable amount was measured at fair value less cost of disposal of SHKFGL. As part of the disposal, the Group was awarded a put right on the 30% equity interest of SHKFGL. In 2020, this put right recorded a valuation gain of HK$70.3 million classified under net gain on financial assets and liabilities at fair value through profit or loss and an impairment loss in the investment in SHKFGL of HK$3.2 million was recognised.

On 17 November 2020, the Group exercised the put option on SHKFGL at the consideration of HK$1,257.1 million cash and HK$1,156.0 million SHKFGL preference shares and retained no ordinary shares at 31 December 2020. Upon completing the transaction, SHKFGL ceased to be an associate. The transaction has resulted in the recognition of no gain in profit or loss, calculated as follows:

(HK$ Million)	17/11/2020
Consideration received:	2,413.1
Less: carrying amount of the 30% investment on the date of loss of significant influence	(955.8)
Less: carrying amount of unlisted put right for shares in SHKFGL	(1,457.3)
Gain on disposal	–
Net cash inflow arising on disposal:	
Cash consideration	1,257.1

On 1 June 2021, SHKFGL preference shares were fully redeemed and a gain of HK$62.9 million was recognised under net gain on financial assets and liabilities at fair value through profit or loss.

9. TAXATION

(HK$ Million)	**2021**	2020
Current tax		
– Hong Kong	**(234.8)**	(228.9)
– PRC	**(3.2)**	(13.1)
	(238.0)	(242.0)
Under provision in prior years	**(1.8)**	(1.9)
	(239.8)	(243.9)
Deferred tax	**(234.3)**	(27.8)
	(474.1)	(271.7)

Hong Kong profits tax is calculated at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2020: 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

(HK$ Million)	**2021**	2020
The aggregate amount of dividends declared and proposed:		
– 2021 interim dividend paid of HK12 cents (2020: HK12 cents) per share	**237.5**	238.7
– 2021 second interim dividend of HK14 cents per share declared after the reporting date (2020: 2020 second interim dividend of HK14 cents per share) *(Note)*	**276.3**	277.5
– 2021 special dividend of HK4 cents per share declared after the reporting date (2020: nil) *(Note)*	**78.9**	–
	592.7	516.2

Dividends recognised as distribution during the year:		
– 2020 second interim dividend paid of HK14 cents (2020: 2019 second interim dividend paid of HK14 cents) per share	**277.5**	279.1
– 2021 interim dividend paid of HK12 cents (2020: HK12 cents) per share	**237.5**	238.7
	515.0	517.8

Note: Subsequent to the end of the reporting date, the Board of Directors has declared a second interim dividend of HK14 cents per share (2020: 2020 second interim dividend of HK14 cents per share) amounting to HK$276.3 million (2020: HK$277.5 million). In addition, a special dividend of HK4 cents per share (2020: nil) amounting to HK$78.9 million (2020: nil) was also declared to take account of our strong Alternatives performance in 2021, making a total dividend of HK18 cents per share.

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:

(HK$ Million)	**2021**	2020
Earnings for the purposes of basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	**2,813.7**	2,547.7
Number of shares (in million)		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,971.2**	1,985.3
Effect of dilutive potential ordinary shares:		
– Adjustment on the SHK Employee Ownership Scheme	**3.4**	4.5
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,974.6**	1,989.8

12. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

(HK$ Million)	**31/12/2021**	31/12/2020
Loans and advances to consumer finance customers		
– Hong Kong	**8,767.3**	8,318.0
– PRC	**3,913.2**	3,000.0
	12,680.5	11,318.0
Less: impairment allowance	**(630.8)**	(754.3)
	12,049.7	10,563.7
Analysed for reporting purposes as:		
– Non-current assets	**3,805.9**	3,088.9
– Current assets	**8,243.8**	7,474.8
	12,049.7	10,563.7

The ageing analysis for the loans and advances to consumer finance customers (net of impairment allowance) that are past due is as follows:

(HK$ Million)	**31/12/2021**	31/12/2020
Less than 31 days past due	**828.4**	491.4
31–60 days	**102.6**	36.0
61–90 days	**28.5**	23.6
91–180 days	**1.6**	10.2
Over 180 days	**70.6**	293.9
	1,031.7	855.1

13. MORTGAGE LOANS

(HK$ Million)	**31/12/2021**	31/12/2020
Mortgage loans		
– Hong Kong	**3,514.4**	3,061.1
Less: impairment allowance	**(53.1)**	(47.4)
	3,461.3	3,013.7
Analysed for reporting purposes as:		
– Non-current assets	**2,163.7**	1,192.9
– Current assets	**1,297.6**	1,820.8
	3,461.3	3,013.7

The ageing analysis for the mortgage loans that are past due is as follows:

(HK$ Million)	**31/12/2021**	31/12/2020
Less than 31 days past due	**238.0**	66.7
31–60 days	**21.3**	26.6
61–90 days	**4.8**	11.5
91–180 days	**2.9**	160.4
Over 180 days	**321.5**	459.0
	588.5	724.2

14. TERM LOANS

(HK$ Million)	**31/12/2021**	31/12/2020
Secured term loans	**1,489.6**	2,242.3
Unsecured term loans	**87.6**	82.9
	1,577.2	2,325.2
Less: impairment allowance	**(799.0)**	(612.5)
	778.2	1,712.7
Analysed for reporting purposes as:		
– Non-current assets	**40.6**	554.5
– Current assets	**737.6**	1,158.2
	778.2	1,712.7

The Group considers a loan to be secured when there is collateral or credit enhancement in place. The main types of collateral and credit enhancement obtained includes share charges over unlisted and listed equity securities, personal guarantees, assignment of rights and charges over properties.

No ageing analysis is disclosed for term loans financing, as, in the opinion of the directors, 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

(HK$ Million)	**31/12/2021**	31/12/2020
Deposits	**89.5**	117.6
Others	**277.1**	239.0
Less: impairment allowance	**(1.9)**	(2.1)
Trade and other receivables at amortised cost	**364.7**	354.5
Prepayments	**57.6**	41.1
	422.3	395.6
Analysed for reporting purposes as:		
– Non-current assets	**49.1**	17.3
– Current assets	**373.2**	378.3
	422.3	395.6

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

(HK$ Million)	**31/12/2021**	31/12/2020
Less than 31 days	**271.8**	247.2
	271.8	247.2
Trade and other receivables without ageing	**92.9**	107.3
Trade and other receivables at amortised cost	**364.7**	354.5

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:

(HK$ Million)	**31/12/2021**	31/12/2020
Less than 31 days/repayable on demand	**290.7**	225.5
31–60 days	**5.5**	3.7
61–90 days	**1.5**	2.0
	297.7	231.2
Accrued staff costs, other accrued expenses and other payables without ageing	**513.4**	474.2
	811.1	705.4

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

(HK$ Million)	**Year Ended** **2021**	2020	**Change**
Revenue	**4,324.0**	4,056.6	6.6%
Pre-tax profit	**3,773.2**	3,200.6	17.9%
Profit attributable to owners of the Company	**2,813.7**	2,547.7	10.4%
Basic earnings per share *(HK cents)*	**142.7**	128.3	11.2%
Second interim dividend *(HK cents)*	**14.0**	14.0	–
Special dividend *(HK cents)*	**4.0**	–	N/A
Book value per share *(HK$)*	**12.7**	11.4	11.4%

The Group demonstrated a robust performance and delivered a solid set of financial results in 2021 despite the ongoing disruptions arising from the COVID-19 pandemic, volatilities in global financial markets and intensified regulatory reforms and geopolitical tensions. The Group's financial position remained robust and liquid, and we continued to focus on appropriately containing risk and positioning the business for future growth.

Profit attributable to owners of the Company for 2021 was HK$2,813.7 million (2020: HK$2,547.7 million), up 10.4%. Basic earnings per share ("EPS") for the year was HK142.7 cents (2020: HK128.3 cents), up 11.2% year-on-year.

The Board has declared a second interim dividend of HK14 cents per share for the year ended 31 December 2021 (2020: HK14 cents) and a special dividend of HK4 cents per share (2020: nil) to take account of our strong Alternatives performance in 2021, together with the interim dividend of HK12 cents per share making a total dividend of HK30 cents per share for 2021 (2020: HK26 cents). During the year, the Company repurchased 9.1 million shares for a total net consideration of HK$37.8 million.

As at 31 December 2021, the Group's book value per share was HK$12.7, an increase of 11.4% from HK$11.4 at the end of 2020.

RESULTS ANALYSIS

The Group's revenue in 2021 increased by 6.6% to HK$4,324.0 million (2020: HK$4,056.6 million), which mainly consisted of interest income from Financing Business of HK$4,003.9 million.

Pre-tax profit for the year was HK$3,773.2 million (2020: HK$3,200.6 million), up 17.9% year-on-year, primarily driven by the increase in pre-tax profit of our Financing Business. The Financing Business segment recorded a pre-tax contribution of HK$1,790.5 million (2020: HK$1,218.9 million), increasing 46.9% year-on-year as a result of the improved performance across all sub-segments of the business unit.

Consumer Finance performed strongly and delivered a pre-tax profit of HK$1,665.4 million in 2021 (2020: HK$1,238.5 million), hitting a record high with a year-on-year growth of 34.5%.

Mortgage Loans continued to contribute a meaningful pre-tax profit to the Group, and generated HK$120.0 million in 2021 (2020: HK$112.7 million), up 6.5% year-on-year.

Private Credit (formerly Specialty Finance) recorded a positive pre-tax contribution of HK$5.1 million (2020: pre-tax loss of HK$132.3 million) primarily due to the recoveries of impairment provisions we made on a prudent basis in the prior year.

Investment Management contributed a pre-tax profit of HK$1,934.4 million in 2021 (2020: HK$2,126.4 million), down 9.0% year-on-year. The segment recorded a strong realised gain on financial assets and interest income of HK$3,481.5 million (2020: HK$1,754.8 million), the highest since we commenced the business in 2015. The mark-to-market valuations of our portfolio, however, recorded a loss of HK$854.2 million for 2021 (2020: a gain of HK$936.2 million) amidst the regulatory tightening, volatile markets and US-China tensions.

Group Management and Support ("GMS") recorded a pre-tax profit of HK$48.3 million in 2021 (2020: pre-tax loss of HK$144.7 million) mainly because of the increase in the fair value of financial assets held for liquidity purposes.

Operating costs for the year were HK$1,695.4 million (2020: HK$1,549.3 million), up 9.4% year-on-year primarily due to the increase in brokerage and commission expenses with the growth of our financing business volume.

BUSINESS REVIEW

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

(HK$ Million)	**Pre-tax Contribution for the Year ended 2021**	2020	**Change**	**Segment Assets as at Dec 2021**	Dec 2020
FINANCING BUSINESS					
Consumer Finance	**1,665.4**	1,238.5	34.5%	**19,253.9**	17,937.0
Private Credit*	**5.1**	(132.3)	N/A	**1,038.5**	3,153.0
Mortgage Loans	**120.0**	112.7	6.5%	**3,647.0**	3,117.4
Sub-total	**1,790.5**	1,218.9	46.9%	**23,939.4**	24,207.4
INVESTMENT MANAGEMENT					
Investment Management	**1,934.4**	2,126.4	–9.0%	**21,087.9**	14,603.4
GMS	**48.3**	(144.7)	N/A	**3,762.8**	5,272.4
Total	**3,773.2**	3,200.6	17.9%	**48,790.1**	44,083.2

* Formerly Specialty Finance

FINANCING BUSINESS

Despite the continued impact of COVID-19 pandemic globally, the Greater China region experienced a gradual recovery of regional and local business activities and employment situation. As a result, the business environment for our Financing Business improved and the segment's performance recovered in 2021.

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 engages in offering unsecured loans to individuals and businesses in Hong Kong and Mainland China. UAF is the prominent leader in the unsecured lending market. 2021 was the seventh year since 2014 of consecutive growth in market shares of UAF in Hong Kong. Over the past four years, UAF ranked first amongst all money lenders and was in the top five leaders amongst all market players including banks in Hong Kong in terms of outstanding balance of unsecured lending. In Mainland China, UAF holds an internet loan licence and off-line money lending licences in major cities across the country.

Segment Full Year Results

(HK$ Million)	**Year ended 31 December** **2021**	2020	**Change**
Revenue	**3,526.2**	3,331.0	5.9%
Return on loans (% average gross loan balance)[1]	**29.4%**	29.7%	
Operating costs	**(1,168.0)**	(1,114.0)	4.8%
Cost to income (% revenue)	**33.1%**	33.4%	
Finance costs	**(222.9)**	(292.8)	-23.9%
Net impairment losses	**(509.4)**	(769.2)	-33.8%
Other gains	**38.8**	72.4	-46.4%
Other losses	**(1.1)**	(1.8)	-38.9%
Exchange gain	**1.8**	12.9	-86.0%
Pre-tax contribution	**1,665.4**	1,238.5	34.5%
Loan Book:			
Net loan balance	**12,049.7**	10,563.7	14.1%
Gross loan balance[2]	**12,680.5**	11,318.0	12.0%

1 Interest and fee income/average gross loan balance

2 Before impairment allowance

The results of UAF in 2021 were strong, marked by a record high pre-tax contribution to the Group at HK$1,665.4 million, an increase of 34.5% year-on-year. The gross loan balance as at end of 2021 also reached a record high of HK$12,680.5 million, increasing 12.0% year-on-year.

Further advance in business volume in the second half of the year contributed to a full year revenue growth of 5.9%. The ultra-low market interest rate through the year had reduced finance costs by 23.9%. As vaccination programme against COVID-19 accelerated, the economy had rebounded following the reduction in infection cases. The improvement in economy and job market had contributed to the reduction in net impairment losses by 33.8% year-on-year.

Net Impairment Losses on Financial Assets

(HK$ Million)	**2021**	2020
Amounts written off[1]	**(881.7)**	(957.1)
Recoveries[2]	**243.5**	221.9
Charge off	**(638.2)**	(735.2)
As % of average gross loan balance	**5.3%**	6.6%
Written back/(charges) of impairment allowance[3]	**128.8**	(34.0)
Net impairment losses	**(509.4)**	(769.2)
As % of average gross loan balance	**4.2%**	6.9%
Impairment allowance at year end	**630.8**	754.3
As % of gross loan balance at year end	**5.0%**	6.7%

1 The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has entered into 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 2021**	***Note***	31 Dec 2020	*Note*
Less than 31	**828.4**	***6.9%***	491.4	*4.7%*
31–60	**102.6**	***0.9%***	36.0	*0.3%*
61–90	**28.5**	***0.2%***	23.6	*0.2%*
91–180	**1.6**	***0.0%***	10.2	*0.1%*
Over 180	**70.6**	***0.6%***	293.9	*2.8%*
Total	**1,031.7**	***8.6%***	855.1	*8.1%*

Note: amount as a percentage of net loan balance

Hong Kong Business

Key Operating Data	**2021**	2020	**Change**
Number of branches	**48**	48	
Loan data:			
Gross loan balance *(HK$ Million)*	**8,767.3**	8,318.0	5.4%
Loan originated for the year *(HK$ Million)*	**12,177.3**	10,373.6	17.4%
Number of loans originated	**172,030**	159,969	7.5%
Average gross balance per loan *(HK$)*	**61,271**	60,736	0.9%
Ratios for the year:			
Total return on loans[1]	**30.6%**	30.5%	
Charge-off ratio[2]	**5.1%**	4.8%	
Net impairment losses ratio[3]	**4.1%**	5.3%	
Impairment allowance ratio[4]	**5.1%**	6.4%	

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 year end

Since the launch of COVID-19 Vaccination Programme in February 2021, vaccination rate of citizens inoculated with two doses of vaccine gradually reached over 70% of total population according to HKSAR's government statistics. Vaccination together with launch of LeaveHomeSafe Apps which facilitates contact tracking, helped reduce the number of infection cases. All these series of measures with certain social distancing control in place assisted to keep the transmission of virus in check throughout 2021. Retail, dinning, entertainment and servicing venues could then operate at expanded activities with safety in check. As a result, the economy and job market showed welcoming improvement with unemployment rate dropped from 7.2% in February 2021 to 3.9% in December 2021. UAF's business and profitability benefited as loan origination demand increased and credit impairment reduced.

At the beginning of 2021, UAF had completed the operation review and restructured the internal organization with the objective of strengthening its management system to enhance its sales and marketing capabilities. More sophisticated analytical tools were deployed at marketing campaigns to enhance the effectiveness of marketing dollars spent. Promotion campaigns can be more targeted at customers with loan demand. Sales force was staffed up to reach out to target customers directly offering UAF's loan products. More partnership cooperation agreements were signed in the year to expand its sales networks to cover customers from all walks of life.

New advertising campaign launched in December 2021 successfully ignited a fresh outlook of UAF's established brand image. The advertisements presented by four popular celebrities can be seen all over the city with large customer traffic and have drawn great public attention. Not only did the campaign bring more business volume but rejuvenated our brand and customer intake according to customer demographic analysis.

Technology being UAF's competitive edge keeps evolving and UAF has no hesitation to continue to upgrade its digital servicing capabilities. Tools and people are all indispensable success factors to stand out amongst the market competitors. With advanced analytical tools SAS and R open-source programming, UAF has built up its own credit scoring model which assists to automate loan credit evaluation and facilitate credit officers to make quality credit judgement. UAF keeps at the forefront of technological innovation to continue to lead the market in this highly competitive environment.

At the beginning of 2022, COVID-19 variant Omicron which is highly contagious has severely impacted the livelihood and economy with the number of infection cases skyrocketed. Borders between Hong Kong and Mainland China remain under tight control which delays the resumption of growth in tourism related spending. Management is vigilant of the pandemic driven risks and adopts cautious and responsive actions to promote UAF's business in order to achieve growth at time of great uncertainties.

Mainland China Business

Key Operating Data	**2021**	2020	**Change**
Number of branches	**19**	26	
Loan data:			
Gross loan balance *(HK$ Million)*	**3,913.2**	3,000.0	30.4%
Loan originated for the year *(HK$ Million)*	**5,512.5**	4,223.7	30.5%
Number of loans originated	**52,332**	87,347	-40.1%
Average gross balance per loan *(RMB)*	**69,572**	39,293	77.1%
Ratios for the year:			
Total return on loans[1]	**26.3%**	27.0%	
Charge-off ratio[2]	**5.9%**	12.0%	
Net impairment losses ratio[3]	**4.5%**	11.7%	
Impairment allowance ratio[4]	**4.6%**	7.4%	

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 year end

The unsecured loan business in Mainland China turned extremely difficult in the second half of the year due to tightened interest rate control and slowdown in economic growth. More physical branches were closed to reduce operating costs and business was moved to online platforms.

We continued to enhance our cooperation with various third-party online platforms including China UnionPay and All In Pay. We launched business referral cooperation with Shenzhen OneConnect Technology Co., Ltd (深圳壹賬通智能科技有限公司) in later half of 2021 to target certain retail dealers and the loan business volume achieved so far is satisfactory. We will keep exploring cooperation with existing partners and sourcing new business partners to grow our customer base.

UAF's secured loan business in Mainland China grew at a satisfactory pace. Although secured loans generate relative lower return, the repayment is guaranteed by asset management company with solid financial position. Customers are property owners and demonstrate stronger credit profile. Management is confident the secured loan products can perform well in the coming year with return commensurate with lower credit risk.

Prospects

We have a turbulent start of the year 2022 with the outbreak of Omicron variant, which is much more contagious than the previous mutations. Despite high vaccination rate, the number of infection cases has been rising to an alarming level forcing the governments in Hong Kong and Mainland China to aggressively tighten social distancing measures. On the other hand, Sino-US tensions have not shown any signs to ease which impacts trade of goods throughput. The geopolitical tensions and global inflation concerns all have increased risk metrics and imposed pressure on UAF's business outlook. UAF continues to monitor these uncertainties and embedded risks closely and strives to leverage its management and market expertise to overcome the challenges and capture business opportunities, continuing the delivery of satisfactory results to the Group.

Private Credit (Formerly Specialty Finance)

The Group's Specialty Finance business was renamed to Private Credit following the reorganization of the segment effective 1 November 2021. The Private Credit business provides tailored funding solutions to corporates, investment funds and high net worth individuals. Almost all loans are either secured by assets and/or personal or corporate guarantees.

The segment recorded a pre-tax gain of HK$5.1 million in 2021 (2020: pre-tax loss of HK$132.3 million). The improvement in pre-tax contribution was primarily due to the decrease in net impairment loss to HK$185.9 million in 2021 (2020: HK$300.7 million) as a result of settlements or enhanced collaterals of the loans. The gross loan balance was

HK$1,500.6 million as at 31 December 2021, representing a year-on-year decline of 33.3% (31 December 2020: HK$2,249.4 million) as we exercised extra caution and prudence in originating new loans considering COVID-19's continuous impact.

Looking ahead, we remain open to new business opportunities with a keen focus on managing our existing loan book. Through leveraging our expertise and partnerships in credit, we expect to increase our exposure to institutional and corporate borrowers by continuing to provide flexible funding solutions structured to meet their needs. Our focus, especially in the current uncertain business environment, is on cautious and consistent underwriting of opportunities that provide asymmetrical returns for our balance sheet on a risk adjusted basis.

Segment Annual Results

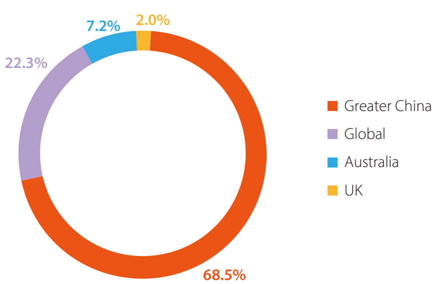
	Year ended 31 December		
(HK$ Million)	**2021**	2020	**Change**
Revenue	**261.2**	249.4	4.7%
Return on loans (annualised interest and fee income/average gross loan balance)	**13.9%**	11.5%	
Operating costs	**(4.1)**	(3.2)	28.1%
Cost to income (% Revenue)	**1.6%**	1.3%	
Finance costs	**(76.9)**	(91.1)	-15.6%
Net impairment losses	**(185.9)**	(300.7)	-38.2%
Net gain on financial assets and liabilities	**59.1**	19.9	197.0%
Net exchange gain	**—**	0.7	N/A
Others	**(48.3)**	(7.3)	561.6%
Pre-tax contribution	**5.1**	(132.3)	N/A
Loan Book:			
Net loan balance	**703.1**	1,637.9	-57.1%
Gross loan balance	**1,500.6**	2,249.4	-33.3%
Other investments:			
Preference shares	**—**	1,176.0	N/A
Listed shares, warrants and others	**74.4**	38.4	93.8%
Interest in joint venture	**202.1**	243.8	-17.1%
	276.5	1,458.2	-81.0%

The Group exercised its put option in November 2020 to dispose of its interest in Sun Hung Kai Financial Group Limited ("SHKFGL"), and the Group received 90,365,142 SHKFGL preference shares as part of the total consideration of HK$2,413.1 million. Following the removal of "Strategic Investments" segment, the SHKFGL preference shares were booked under Private Credit. In June 2021, SHKFGL redeemed all the 90,365,142 preference shares and as a result the Group received a consideration of HK$1,236.9 million and therefore did not have any equity interest in SHKFGL at the end of the year.

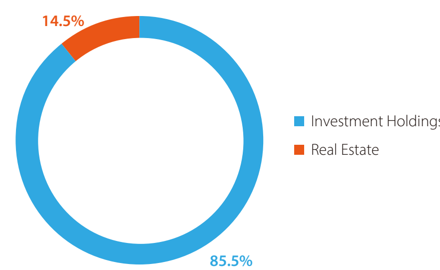
What was also included in Private Credit was the Group's interest in LSS leasing (previously in the "Strategic Investments"), a Business-to-Business (B2B) and Business-to-Customer (B2C) auto leasing business in Mainland China.

Private Credit Loan Portfolio

Term Loan Breakdown by Geography



Term Loan Breakdown by Borrower's Sector



Mortgage Loans

The Group's Mortgage Loans business is operated by its majority-owned subsidiary, Sun Hung Kai Credit Limited ("SHK Credit"). SHK Credit contributed a pre-tax profit of HK$120.0 million in 2021, increasing by 6.5% year-on-year.

Segment Annual Results

(HK$ Million)	**Year ended 31 December** **2021**	2020	**Change**
Revenue	**306.1**	303.5	0.9%
Return on loans			
(% average gross loan balance)	**9.3%**	9.1%	
Operating costs	**(74.7)**	(54.9)	36.1%
Cost to income (% revenue)	**24.4%**	18.1%	
Finance costs	**(101.4)**	(110.2)	-8.0%
Net impairment losses	**(10.0)**	(25.7)	-61.1%
Pre-tax contribution	**120.0**	112.7	6.5%
Loan Book:			
Net loan balance	**3,461.3**	3,013.7	14.9%
Gross loan balance*	**3,514.4**	3,061.1	14.8%

* Before impairment allowance

Revenue was HK$306.1 million for 2021, the highest since the business started in 2015, primarily driven by the growth of loan balance and partially offset by the absence of recoveries of interest income compared to 2020. The gross loan balance increased by 14.8% year-on-year to HK$3,514.4 million as at 31 December 2021 (31 December 2020: HK$3,061.1 million), mainly due to the economic recovery in Hong Kong with the pandemic being contained during 2021 as well as the household brand name of SHK Credit enabling it to continue to grow its customer base and penetrate into new market segments.

First mortgage loans accounted for 90% of the gross loan balance. Operating costs increased by 36.1% year-on-year to HK$74.7 million for 2021 primarily due to investment in IT infrastructure to support business growth and improve lending process efficiency. Finance costs decreased by 8.0% to HK$101.4 million compared to HK$110.2 million for 2020 due to the Group's increasingly diversified funding channels. Net impairment loss recorded a significant year-on-year decrease of 61.1% to HK$10.0 million as we recovered the loss incurred previously thanks to the strong quality of our loan book.

SHK Credit continues to adopt a prudent underwriting approach given the prolonged pandemic and its impact on economic activities as well as the potential volatility of Hong Kong property market. The loan-to-value ratio remained below 65% as at end of 2021.

Over the past 6 years since SHK Credit's establishment, the Group's mortgage loans business has achieved an effective scale and a solid market position. Going forward, SHK Credit will strive for further enhancement in its business scale, revenue mix, capital and funding structures as well as product and service offerings to our increasingly diversified customer base. The Group will continue to build out the business to an asset servicing platform.

INVESTMENT MANAGEMENT

The Investment Management division leverages the Group's internal expertise, external network and strong financial position to seek attractive risk-adjusted returns. During 2021, the annual return on the average assets for the segment was 14.4%. Taking into account operating expenses and funding cost allocations, the segment contributed HK$1,934.4 million to the Group's pre-tax profit, a slight decrease of 9.0% compared to HK$2,126.4 million for 2020.

Analysis of Pre-tax Profit by Nature

	Year ended 31 December		
(HK$ Million)	**2021**	2020	**Change**
Realised gain on financial assets and interest income	**3,481.5**	1,754.8	98.4%
Dividends received	**23.1**	21.5	7.4%
Rental income	**30.4**	27.9	9.0%
Mark-to-market valuation	**(854.2)**	936.2	N/A
Net impairment allowance (losses)/reversal on financial instruments	**(9.3)**	43.0	N/A
Loss from revaluation on investment properties	**(22.2)**	(161.7)	-86.3%
Others	**81.4**	32.8	148.2%
Total gains	**2,730.7**	2,654.5	2.9%
Operating costs	**(796.3)**	(528.1)	50.8%
Pre-tax contribution	**1,934.4**	2,126.4	-9.0%

While 2021 global headlines continued to be dominated by the COVID-19 pandemic and geopolitical tensions, global financial markets were moving towards different directions. Riding a tailwind from pandemic driven accommodative monetary policies and optimism over economic recovery, the US markets kept notching record highs in 2021. The Hong Kong market, however, was impacted by the Chinese property sector debt crisis and intensified regulatory tightening in various sectors. The Hang Seng Index was down by 14% in 2021, while its US counterpart S&P 500 gained 27% for the year.

Since 2015 we embarked the transformation journey, the Company has successfully built up diversified and quality public and private portfolios leveraging our strong financial position, extensive network and deep insights into industries. With the maturity of investments made in earlier years, we were able to monetise and recorded a realised gain on financial assets and interest income of HK$3,481.5 million. On the mark-to-market valuation, however, we had a loss of HK$854.2 million for 2021 mainly due to the negative impact on our portfolio by regulatory tightening and US-China tensions in the second half of 2021.

We remain confident about the future performance of our portfolios as the underlying investments have strong and resilient businesses and the fund managers selected have proven track records. But in the meantime, we will commit extra caution and diligence to carefully manage our portfolio and mitigate risks as the US enters an interest hike cycle while China is wrestling with a slowing economy.

On the operational side, we continued to strengthen our investment and operating teams while upgrading systems and infrastructure to an institutional grade. During 2021, we added new team members and further built out our analytical and investment framework across businesses. We successfully spun out the Public Equity strategy and certain positions of Hedge Fund for the launch of a partnership/fund on our Funds Management platform in 2021, namely East Point Asset Management and SHK Latitude Alpha Fund respectively.

Segment Assets Breakdown and Annual Return

	2021				Return track record	
(HK$ Million)	**Year End Value**	**Average Value**	**Gain**	**Annual Return**	**2020**	**2019**
Public Markets	3,731.9	3,489.7	382.4	11.0%	8.7%	15.0%
Alternatives	14,991.7	12,967.0	2,260.6	17.4%	24.7%	15.0%
Real Estate[1]	2,364.3	2,444.8	87.7	3.6%	-5.6%	-3.9%
Total	21,087.9	18,901.5	2,730.7	14.4%	16.9%	11.9%

1. Formerly Real Assets

Public Markets

The Public Markets portfolio consists of an internally managed credit strategy and corporate holdings. The Public Equity strategy had been spun off as East Point Asset Management, which became one of the partnerships under the Funds Management segment in January 2021.

Breakdown of Public Markets Portfolio as at 31 December 2021

(HK$ Million)	2021 Year End Value	Average Value	Gain	Annual Return[1]
Credit	885.2	1,004.5	(77.4)	-7.7%
Corporate Holdings	2,846.7	2,485.2	459.8	18.5%
Total	3,731.9	3,489.7	382.4	11.0%

1. Gain/(loss) before costs of capital charge/average fair market value for the year.

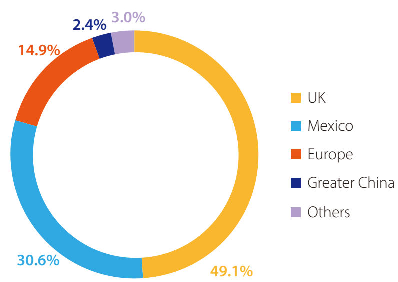
Public Credit

Macro environment for global credit markets was benign in 2021. Global central banks maintained an accommodative monetary environment in their effort to aid global economy to gradually come out of the recessionary environment caused by the COVID-19 pandemic. The low interest rate environment provided a conducive environment for companies to rebuild their balance sheet which had been impaired by the pandemic. At the same time, many countries rolled out financial assistance to individuals in an effort to stimulate consumer demand and revive the flagging economies. These measures boded well for the global economies with companies witnessing recovery in corporate earnings. Credit spreads in developed markets such as Europe and the U.S. went tighter during 2021 amidst this constructive backdrop.

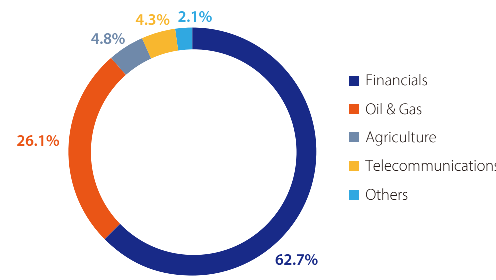
Asian credit markets, however, started to trade weaker in the second half of 2021, largely driven by the regulatory headwinds experienced in various sectors of the Chinese market. The Chinese government announced tightening measures in the third quarter of 2021 which aimed to address the housing price bubbles seen in the country. As a result, the bond prices of many property developers stumbled. This trend was exacerbated by the lack of access to the offshore USD bond markets for those developers due to rising bond yields and weak investor demand on fear of liquidity and default risk. Several large and highly levered property developer in China, effectively went into default in the fourth quarter due to their inability to raise new financing. Many smaller property developers also consummated distressed debt exchanges in the fourth quarter of 2021 due to poor trading conditions in the physical markets. This drove the credit default rate in China to one of the highest in its history.

Looking into 2022, while the Chinese government has announced measures, including easing of property loans and access to escrow accounts, which would help property developers to a certain extent, we think that the recovery of the Chinese property bond market would be subject to a stabilization of the home prices and revival in confidence of home-buyers in China.

Public Credit Holdings by Geography



Public Credit Holdings by Sector



Corporate Holdings

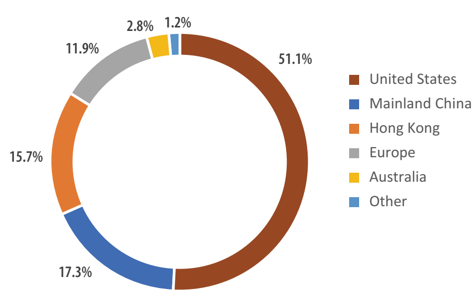
The Corporate Holdings segment manages an equity portfolio consisting of a mix of long-term strategic positions and other shorter-term positions. Derivatives and hedging are used both for risk management and enhancing returns. During 2021, we further strengthened the investment and portfolio management capabilities, striving to achieve sustainable risk-adjusted returns.

Following the onset of the COVID-19 pandemic in 2020, the global stock markets had divergent performance across major developed and emerging markets in 2021. In the US, stock markets continued to climb higher with the S&P 500 hitting a series of all-time closing highs and ending the year near a record, while major China and Hong Kong equity indices experienced remarkable corrections in 2021, mainly dragged by a weakening economy and intensified regulatory tightening on certain sectors including gaming, education, internet platforms as well as property. In addition, China ADRs had a tough year in 2021 as well. The long-running US-China tensions sent the NASDAQ Golden Dragon China Index to a downward trajectory slumping 43% during the year, the steepest decline since the 2008 global financial crisis.

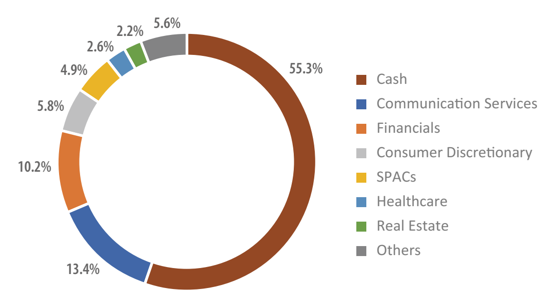
We had a mixed year of 2021 against the backdrop of continuous outbreak of COVID-19, regulatory headwinds, slowdown of China's growth and US-China tensions. In the first half of 2021, our portfolio delivered a strong performance with both long and short positions generating positive returns. In the second half, however, the returns were partially offset by the decrease in some of our positions' mark-to-market valuation. Despite this, we still managed to close the year with a decent annual return of 18.5%, outperforming Hang Seng Index and NASDAQ Golden Dragon China Index over the same period.

Entering 2022, the global stock markets continued to be dominated by volatilities and uncertainties. China is implementing both monetary and fiscal stimulus policies to restore consumer confidence and stabilise its economy. On the contrary, the Federal Reserve turns hawkish and multiple interest hikes are expected in 2022 to contain the decades-high inflation. The escalation of Russia-Ukraine conflict adds more risks and volatilities to global financial markets and could negatively impact global supply chains which have already been disrupted by COVID-19. While we remain confident about the long-term performance of our portfolio as our long positions focus on names with strong and resilient businesses, we are also cautious about the near-term volatilities and risks. We will continue to manage our portfolio prudently and monitor risk positions closely to navigate through the uncertainties.

Corporate Holdings by Geography



Corporate Holdings by Sector



Alternatives

Over the past several years, we have leveraged the Group's expertise and capital strength to build a portfolio consisting of hedge funds, private equity funds, direct investments and co-investments to generate risk-adjusted returns and diversify our exposure by sector and geography. The portfolio is invested with companies or fund managers who are selected based on parameters including performance, strategic fit, as well as access to markets and sectors.

Breakdown of Alternatives Portfolio as at 31 December 2021

	2021			
(HK$ Million)	**Year End Value**	**Average Value**	**Gain**	**Annual Return**
Hedge funds	4,650.1	3,802.1	85.5	2.2%
Private Equity:				
– External funds	5,384.6	4,539.5	1,580.4	34.8%
– Direct/Co-Investments	4,957.0	4,625.4	594.7	12.9%
Total	14,991.7	12,967.0	2,260.6	17.4%

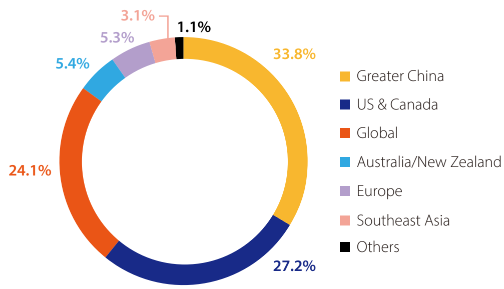
Private Equity

The Private Equity segment consists of our investments into external funds, co-investments alongside such funds, as well as direct investments. The segment delivered a strong combined return of 23.7% for the year of 2021, primarily attributable to the successful exits from a number of funds and direct/co-investments made in prior years including our flagship investment Fairstone Holdings Inc., TuSimple as well as some other projects in healthcare, TMT, consumer and financials sector.

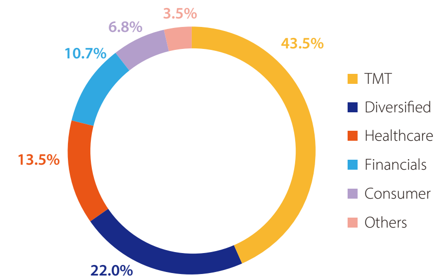
Leveraging our industry knowhow and proprietary deal sourcing channels, in 2021, the Company deployed our capital across the globe with North America as the top destination and revolving around the themes of TMT, healthcare and consumer. In particular, we made new footprints in frontier markets and disruptive industries, including but not limited to The Sandbox, a leading blockchain NFT game; OneDegree, one of Asia's fastest growing InsurTech companies, and Loship, an instant e-commerce delivery startup in Vietnam.

Looking forward, we will continue to review and analyse new investment opportunities with a focus on cutting edge technology, healthcare services and green technology. In the meantime, we will remain prudent in allocating capital considering the continuous impact of COVID-19 pandemic, regulatory environment changes, and other prevalent risks and challenges in the global markets.

Private Equity Exposure by Geography



Private Equity Exposure by Sector

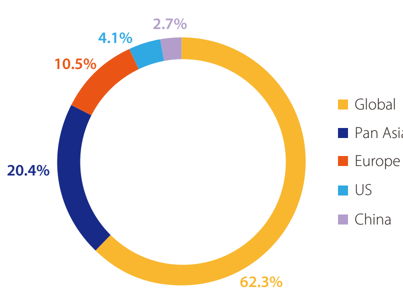


Hedge Funds

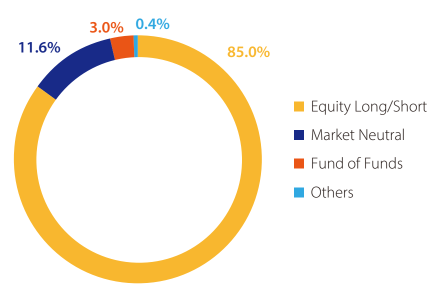
The multi-manager hedge fund portfolio has outperformed benchmarks since its inception in January 2017. Building on the success of this investment program, additional professionals were hired in the first half of 2021 to further strengthen overall risk management, research and asset allocation for a seamless transition to SHK Latitude Alpha Fund, an alternative investment product launched on our Funds Management platform and officially open for external investors subscription in July 2021.

With a large portion of the portfolio being spun out to SHK Latitude Alpha Fund, the residual under the Hedge Funds segment has been managed by industry veterans to further optimize the portfolio and generate alpha consistently.

External Hedge Funds Exposure by Geography



External Hedge Funds Exposure by Strategy



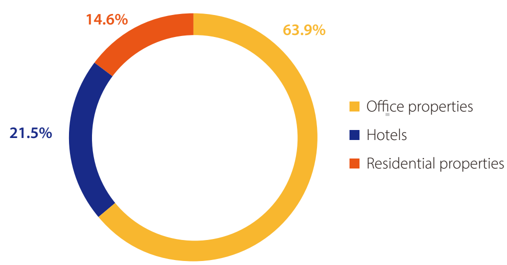
Real Estate (Formerly Real Assets)

The Real Estate segment focuses on opportunities with strong downside protection in transparent developed economies across Asia-Pacific, Europe and the US. The portfolio was valued at HK$2,364.3 million as at 31 December 2021 (31 December 2020: HK$2,601.5 million) and recorded a gain of HK$87.7 million for the year. The Group's interests in Hong Kong commercial real estate as well as hotels and commercial investments abroad constitute the portfolio.

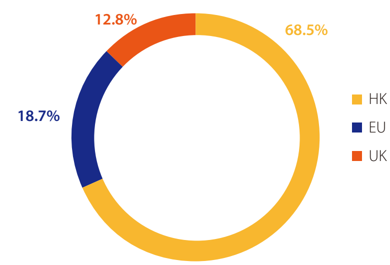
In the first half of 2021, the Group completed the exit of the investment in Parmaco Oy, a Finnish company which designs, builds and leases high quality modular education buildings that are used as schools and day care centers in Finland and Sweden. The Group invested alongside Terra Firma and Metric Capital, two leading London-based investors.

Looking ahead, we will continue to prudently manage the existing portfolio and originate new opportunities to generate strong risk-adjusted returns for the Group.

Real Estate Exposure by Asset Class



Real Estate Exposure by Geography



FUNDS MANAGEMENT

In 2019, the Group decided to build on the success of the Investment Management business and to create an Alternative Funds Management platform, with a focus on expanding our internal investment capabilities to manage external capital. Such expansion will broaden our revenue streams, further diversify our products and strategies, as well as attract and retain key talents. The Funds Management platform also leverages the existing investment management platform and corporate services of SHK & Co.

In 2020, we focused on building the infrastructure of Funds Management platform strengthening and expanding the professional team with the appointment of Lindsay Wright as CEO, and setting up governance frameworks. In addition, we commenced the seamless transition of several in-house strategies to the Funds Management platform. We also continued to source partnership opportunities with external managers to create a broader and more diversified platform.

In the first half of 2021, we formally established our Funds Management vehicle — Sun Hung Kai Capital Partners, which currently holds SFC Type 1, 4 and 9 licenses. Four partnerships/funds have been launched on this platform, the partners/funds being East Point Asset Management, E15VC, ActusRayPartners, and Multiple Capital Investment Partners.

In July 2021 SHK Latitude Alpha Fund, the previously in-house Fund of Hedge Funds ("FoHF") strategy, was also launched. This fund is managed by Allen Sing who has over 20 years' experience in managing FoHF portfolios. In addition, a further seeding partnership with Kernel Fund was established, a market neutral crypto strategy. SHK & Co. committed total seeding capital of over US$600 million to the six partnerships/funds, laying solid foundations for growth and performance in coming years.

Solid progress on the development of the business has been made throughout 2021 with a further additional over US$100 million of external capital raised.

East Point Asset Management ("EPAM")

In January 2021, EPAM was established on the Funds Management platform and SHK & Co. committed seeding capital of US$125 million. EPAM was spun off from the Group's public equity portfolio team.

Led by CEO and CIO Simon Walsh, who has more than 15 years of experience in investment, EPAM's first fund, East Point Asset Management Master Fund, was launched together with the establishment of EPAM in January 2021.

EPAM invests in a high conviction, concentrated long-short portfolio which seeks to provide investors with risk-adjusted and absolute returns through Asia Pacific (APAC) exposed equities over a medium to long term horizon.

From inception on 11 January 2021, the fund generated a gross return of +5.35% versus the MSCI Asia Pacific (MXAP) detracting -7.25% over the same period.

The team is optimistic about the investment backdrop for 2022 for the pan Asian markets where the fund invests. The team believes regionally, the markets have gone through a period of valuation de-rating, and there are many companies with attractive growth prospects at valuations the fund is now comfortable with.

E15VC

In January 2021, a partnership with E15VC was launched on our Funds Management platform with a commitment of US$15 million provided by SHK & Co. to E15VC's second fund. In addition, SHK & Co. has agreed to be the anchor investor for E15VC's third fund, which is expected to launch in the first half of 2022.

Led by Philip Liang, the Founder and Managing Partner, E15VC is a stage and geographically agnostic venture capital firm focusing on Deep Tech. The E15VC team consists of scientists and engineers who have successfully worked across the spectrum of science and technology, equipping the firm with extensive network and deep understanding of science and technology as well as the reputation of a proven and value-adding investor.

In September 2021, Vicarious Surgical, which is a robotic surgery pioneer and an anchor investment of E15VC's second fund, completed its merger with D8 Holdings, a special purpose acquisition company (SPAC). Vicarious Surgical now trades on the New York Stock Exchange (NYSE) under the symbol RBOT. The shares of Vicarious Surgical were distributed in kind by E15VC in February 2022.

ActusRayPartners

The partnership with ActusRayPartners was launched in March 2021 with a capital commitment provided by SHK & Co. to the ActusRayPartners European Alpha Fund, an alpha-focused Europe long/short equity fund managed by ActusRayPartners.

ActusRayPartners is an emerging asset manager co-founded by Andrew Alexander, Raymond Chan and Patrick Cheung, who were decade long colleagues at Macquarie Bank's Quantitative Hedge Funds division.

ActusRayPartners employs a highly differentiated investment process called Discretionary Probabilistic Investing, which has a quantitative base synthesised with a discretionary edge to address challenges with pure systematic processes. Aiming to produce strong alpha-led net returns targeting volatility of 5–7%p.a., the Fund endeavors to provide investors with a portfolio having lower correlations to other managers and a larger breadth of positions affording better risk control.

Over 2021 AUM of the fund increased to 3.8x the seed AUM provided by SHK & Co. and performance was in line with objectives. ActusRayPartners now has institutional clients from Asia, Europe and the Americas.

The team is cautiously optimistic about the outlook for the business over 2022 for several reasons including: (1) the strategy objective of absolute returns irrespective of the direction of the stock market or interest rates, (2) the business reaching critical mass AUM, and (3) the strategy will have a live one-year track record by the end of March.

Multiple Capital Investment Partners ("MCIP")

Multiple Capital Investment Partners ("MCIP") was launched in April 2021 with a US$100 million commitment from SHK & Co., to invest in real estate debt through first and second mortgage loans across select developed Aisa-Pacific markets. The fund is co-led by Rai Katimansah and Simon Tozer. The MCIP team brings together experienced investment professionals from SHK & Co. and Mulpha Australia create a lending platform which provides debt capital to finance acquisition, construction and repositioning of assets.

As of 31 December 2021, the fund made 5 investments: 3 in Hong Kong and 2 in Australia, committing a total of US$71.6 million. The MCIP team is currently raising outside capital and leveraging synergies with SHK Credit and other groups within SHK & Co.'s network for deal sourcing and business development.

SHK Latitude Alpha Fund ("Latitude Alpha")

SHK Latitude Alpha Fund was launched in July 2021 and completed its first calendar year of performance as a standalone entity. Staffed by industry veterans, the fund seeks to consistently generate alpha leveraging the Group's numerous relationships with top fund managers built over the years plus the team's domain knowledge and transparency-based research capabilities.

The multi-manager hedge fund portfolio, since inception in January 2017, has generated a cumulative return which was more than double of the Eurekahedge Fund of Funds Index's cumulative return of 35.6% during the same period.

In 2021, Latitude Alpha protected capital in what was a particularly challenging investment environment in some of its key investment areas such as Greater China and equity long short. The team further built out its research capability by hiring an experienced analyst who specialises in the operational due diligence review of hedge funds. In addition, several external investors made their initial investments in the Latitude Alpha fund during the second half of the year.

Kernel Fund ("Kernel")

The partnership with Kernel was launched on the Funds Management platform with a series of seed commitments totalling US$20 million provided by SHK & Co. Kernel is a fully regulated crypto-currency hedge fund utilizing a quantitative systematic approach to implement a market-neutral strategy. The fund focuses on market making and high-frequency arbitrage for the top 20 tokens on the top 5 exchanges globally.

Led by Julien Guerrand, the founding team members are all industry veterans each with about 20 years of experience in trading and quantitative systematic strategies. The team members bring a range of skills across trading and technology, which equip the fund with world-class systematic trading and risk management system focused on generating consistent strong returns.

As a market maker, Kernel employs a high-frequency systematic trading approach and remains market neutral at all times. This enables the fund to achieve positive performance under any market conditions, needing only volume and volatility to take advantage of market inefficiencies.

OUTLOOK

At the time we present this announcement, the world is still battling with the continuous outbreak of COVID-19 variants and Hong Kong is experiencing the fifth wave of outbreak, which is the most severe resurgence of infected cases since the emergence of Coronavirus in 2020. In the US, though the economy is charging ahead with strong growth momentum, the decades-high inflation has pushed the Federal Reserve into a hawkish stand with multiple interest hikes being anticipated. The European Central Bank also edges toward 2022 interest hike in the face of a stronger inflation outlook. In China, the government signals to speed up its monetary policy stimulus as well as fiscal expenditures to support its growth target of around 5.5% for 2022, which is the lowest in more than three decades. The recent escalation of Russia-Ukraine conflict notably further complicated the geopolitical dynamics and pushed global capital markets into turmoil further interfering the recovery path for Greater China market in 2022.

We are proud to have achieved strong performance for 2021 in a challenging and volatile economic and investment environment. Looking into 2022, we remain cautious of the COVID-19 pandemic, its eventual economic impact, the aftermath of central banks' pandemic stimulus policy, the evolvement of regulatory measures and the geopolitical tensions.

Our Consumer Finance business performed strongly in 2021 and demonstrated the resilience of the business through economic cycles. Although we are having a bumpy start of 2022 in Hong Kong, where the exacerbating COVID-19 pandemic could jeopardize the recovery of the labour market and economy, we are confident about our seasoned management's capability to weather these challenges, like they had done during Asia financial crisis, SARS, the global financial crisis and the first outbreak of COVID-19 in 2020.

The Mortgage Loans business also recovered in 2021 as the economic activities resumed in Hong Kong with COVID-19 being contained in the city during the year. Looking ahead, we believe our cautious underwriting approach through conservative loan-to-value ratios and careful credit standards will position the business to manage the potential volatility in residential property prices in Hong Kong. The household brand name of SHK Credit will help drive further expansion of our customer base and tap into new market segments.

The Private Credit business turned into profit in 2021 compared to a loss in 2020. After reorganization of the team in late 2021, we expect to judiciously increase our exposure to global institutional and corporate borrowers leveraging our expertise and partnerships in credit. The team will focus on opportunities that provide asymmetrical returns taking advantage of the dislocated markets.

The Investment Management business has been generating strong returns consistently and acting as a growth driver since 2015 when we embarked the transformative journey. The profitability together with the domain knowledge and extensive network accumulated over the past years allowed new business incubation and extension into our new Funds Management platform. We continued to remain prudent in capital deployment and appropriately manage the downside risk.

The Funds Management initiative has achieved strong progress in 2021, the first year of its official launch. During the year, the Funds Management licensed entity — Sun Hung Kai Capital Partners was formally established which now holds SFC Type 1, 4 and 9 licenses, and six partnerships/funds across diverse strategies were launched. While we further built out the infrastructure with an institutional grade focus, a meaningful amount of third-party capital was successfully raised which was a pleasing outcome across the backdrop of a challenging environment and travel limitations due to the pandemic. We are very optimistic about further developing the new business segment in 2022. A key focus for 2022 will be on developing further alternative investment strategies and customized solutions and expanding our distribution reach, with the core objective to build a leading Asian based Alternatives Investment firm.

To achieve our strategic goals, the Group will continue our alternative investing business model and aims to deliver strong performance over the long term with a sound governance and risk approach through all market conditions. We will also maintain diversified funding sources and liquidity to provide staying power and enable our future growth.

As an alternative investment firm, we treasure our people as valuable assets of the Group. Over the course of 2021, we continued to build and adapt existing business continuity systems to allow our employees to work remotely, which helped us remain productive during the coronavirus outbreak and will continue to add value in future. 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, innovation, and teamwork.

LONG TERM CORPORATE STRATEGIES

The Group focuses on building sustainable growth to deliver value to shareholders consistently. 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, Investment Management and Funds Management businesses

- Seek new business opportunities leveraging our extensive networks and strong financial position

- 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 Dec 2021**	31 Dec 2020	Change
Capital Structure			
Equity attributable to owners of the Company	**25,075.2**	22,625.2	10.8%
Total cash	**6,000.7**	7,257.9	-17.3%
Total borrowings[1]	**18,283.0**	16,614.1	10.0%
Net debt[2]	**12,282.3**	9,356.2	31.3%
Net debt to equity ratio	**49.0%**	41.4%	
Liquidity			
Interest cover[3]	**6.3**	5.0	26.0%
Return Ratios			
Return on assets[4]	**7.1%**	6.8%	
Return on equity	**11.8%**	11.8%	
Key Performance Indicators			
Book value per share *(HK$)*	**12.7**	11.4	11.4%
Dividend per share *(HK cents)*	**30**	26	15.4%

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 increased to 49.0% at the end of 2021 and has remained healthy. Interest cover for the year improved to 6.3x, compared with 5.0x for the year ended 2020, mainly due to increased earnings.

As at 31 December 2021, total borrowings of the Group amounted to HK$18,283.0 million (31 December 2020: HK$16,614.1 million). Of this amount, 58.2% is repayable within one year (31 December 2020: 48.7%). The Group maintained a balanced mix of funding from various sources. Bank and other borrowings accounted for 45.6% of total debt (31 December 2020: 51.0%) and were at floating interest rates, primarily denominated in HK dollars and US dollars. There were no known seasonal factors in the Group's borrowing profile.

Return on assets increased to 7.1% as at 31 December 2021 (31 December 2020: 6.8%). Return on equity is 11.8% as at 31 December 2021 (31 December 2020: 11.8%). 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 31 December 2021, the following notes were outstanding:

Notes	**Maturity Date**	**HK$ Equivalent** ***(In Million)***	**% Total**
4.65% USD notes^	9/2022	3,510.6	35.3%
5.75% USD notes^	11/2024	2,742.3	27.6%
5.00% USD notes^	9/2026	2,960.6	29.8%
Asset backed notes	4/2022	730.9	7.3%
Total		9,944.4	100.0%

^ Listed on The Stock Exchange of Hong Kong Limited

On 31 May 2021, the Group redeemed US$249.8 million, the full outstanding amount of the 4.75% USD notes upon its maturity at its principal amount together with accrued and unpaid interest. In September 2021, the Group issued US$375 million 5.00% USD notes due in September 2026. The Group continues to maintain a stable capital structure and is well positioned to avoid a liquidity crunch situation.

The Group maintained foreign currency positions to manage its present and potential operating and investment activities. Most non-US or non-HK dollars investment assets were hedged against currency fluctuations. Exchange risks were closely monitored by the Group and held within monitored ratios.

Significant Investments

The Group did not have any significant investment which accounted for more than 5% of the Group's total assets as at 31 December 2021.

Material Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures

During the year of 2021, 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 year ended 31 December 2021 and up to the date of this announcement.

Charges on Group Assets

Properties of the Group with a total book value of HK$929.0 million were pledged by subsidiaries to banks for facilities granted to them. HK$461.0 million was drawn down as at 31 December 2021.

As at 31 December 2021, HK$977.0 million (2020: Nil) of mortgage loan receivables were pledged for a securitization financing transaction.

Other Financial Liabilities

The Group did not have any financial guarantees as at 31 December 2021. (2020: HK$387.6 million).

PEOPLE & CULTURE (FORMERLY HUMAN RESOURCES AND TRAINING)

As at 31 December 2021, the Group's total staff numbered 1,738 (31 December 2020: 2,219). Out of this, 81 (31 December 2020: 64) are corporate and investment staff and the remainder are within the main subsidiaries UAF and SHK Credit. The net decrease in staff numbers was 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$886.9 million (2020: HK$852.8 million) mainly reflecting the Group's successful expansion into the Funds Management business.

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. In addition to monetary reward, the Group also provide competitive fringe benefits to attract and retain the best talent, e.g. Medical and Dental Benefit Enhancement and Unlimited Annual Leave policy.

Under our Employee Ownership Scheme (“EOS”), selected employees or directors of the Group (the “Selected Grantees”) were awarded shares of the Company. Following management’s recommendation, a total of 6,799,000 shares were granted to the Selected Grantees during the year subject to various terms. 273,000 shares were vested for key management personnel in 2021. As at 31 December 2021, the outstanding award shares under the EOS (excluding shares awarded but subsequently forfeited) amounted to 7,724,000 shares.

The Group values its people as our greatest asset. We believe that a competent and motivated workforce, able to work in safe conditions, is integral to the sustainable growth of our business. In line with our business strategies and continued development and retention of a high-performance team, the Group supports employee engagement activities and professional development with in-person training and online learning platforms.

COVID-19 PANDEMIC RESPONSE

COVID-19 continued to spread around the world during 2021. In addition to carrying on preventative protocols, early vaccination reminders and incentives are also provided to help the Company resume more normal business and social activities.

The protocols 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
- maintain inventory of face mask, hand sanitiser and hygiene supplies and focus on cleaning and sanitation.

SECOND INTERIM AND SPECIAL DIVIDENDS

The Board has declared a second interim dividend of HK14 cents (2020: HK14 cents) per share for the year ended 31 December 2021 and a special dividend of HK4 cents per share to shareholders of the Company whose names appear on the register of members of the Company on 27 April 2022, making a total dividend for the year 2021 of HK30 cents (2020: HK26 cents) per share. Dividend warrants for the second interim and special dividends are expected to be despatched on 11 May 2022.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "2022 AGM") is scheduled to be held on Tuesday, 24 May 2022. The Notice of the 2022 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 2022.

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 and special dividends:	25 April 2022–27 April 2022 (both days inclusive) (Ex-dividend date being 21 April 2022) (Record date being 27 April 2022)
For attendance to 2022 AGM:	19 May 2022–24 May 2022 (both days inclusive) (Record date being 24 May 2022)

In order to qualify for entitlement to the second interim and special dividends and/or attendance to the 2022 AGM, all transfer documents 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 and special dividends:	22 April 2022
For attendance to 2022 AGM:	18 May 2022

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2021, the Company has applied the principles of, and complied with, the applicable code provisions of the then Corporate Governance Code (the "CG Code", previously known as the Corporate Governance Code and Corporate Governance Report) 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 C.2.1 (A.2.1 of the former CG Code)

Code provision C.2.1 of the CG Code (A.2.1 of the former 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 Investment Management 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 the Mortgage Loans and 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 E.1.2 and D.3.3 (B.1.2 and C.3.3 of the former CG Code)

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

The terms of reference of the Remuneration Committee adopted by the Company are in compliance with the code provision E.1.2 of the CG Code (B.1.2 of the former 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 D.3.3 of the CG Code (C.3.3 of the former CG Code), except that the Audit Committee shall (i) recommend (as opposed to implement under the code provision) the policy on 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 had been set out in the Corporate Governance Report contained in the Company's annual report for the financial year ended 31 December 2020. 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 2021 annual report which will be issued before end of April 2022.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

(1) Repurchase of Shares

During the year ended 31 December 2021, the Company repurchased a total of 9,093,000 shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$37,813,640. 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	—	—	—	—
April	—	—	—	—
May	—	—	—	—
June	550,000	4.25	4.15	2,317,150
July	1,640,000	4.25	4.03	6,772,460
August	880,000	4.26	3.91	3,625,740
September	3,120,000	4.35	4.13	13,311,180
October	—	—	—	—
November	391,000	4.00	3.92	1,555,530
December	2,512,000	4.20	3.96	10,231,580
	9,093,000			37,813,640

(2) Redemption of Notes of a subsidiary, Sun Hung Kai & Co. (BVI) Limited ("SHK BVI")

On 31 May 2021, US$361,639,000 4.75% notes due 2021 (the "2021 Notes") issued by SHK BVI and listed on the Stock Exchange (stock code: 5654) under the US$3,000,000,000 Guaranteed Medium Term Note Programme (of which US$249,768,000 were outstanding) were redeemed in full upon its maturity at its principal amount together with accrual and unpaid interest and the 2021 Notes were delisted from the Stock Exchange.

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 2021.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with management of the Company the Group's financial statements for the year ended 31 December 2021, 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 2021 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, 17 March 2022

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 Director:
Mr. Peter Anthony Curry

Independent Non-Executive Directors:
Mr. Evan Au Yang Chi Chun, Mr. David Craig Bartlett, Mr. Alan Stephen Jones, Ms. Vivian Alexa Kao, Ms. Jacqueline Alee Leung and Mr. Wayne Robert Porritt