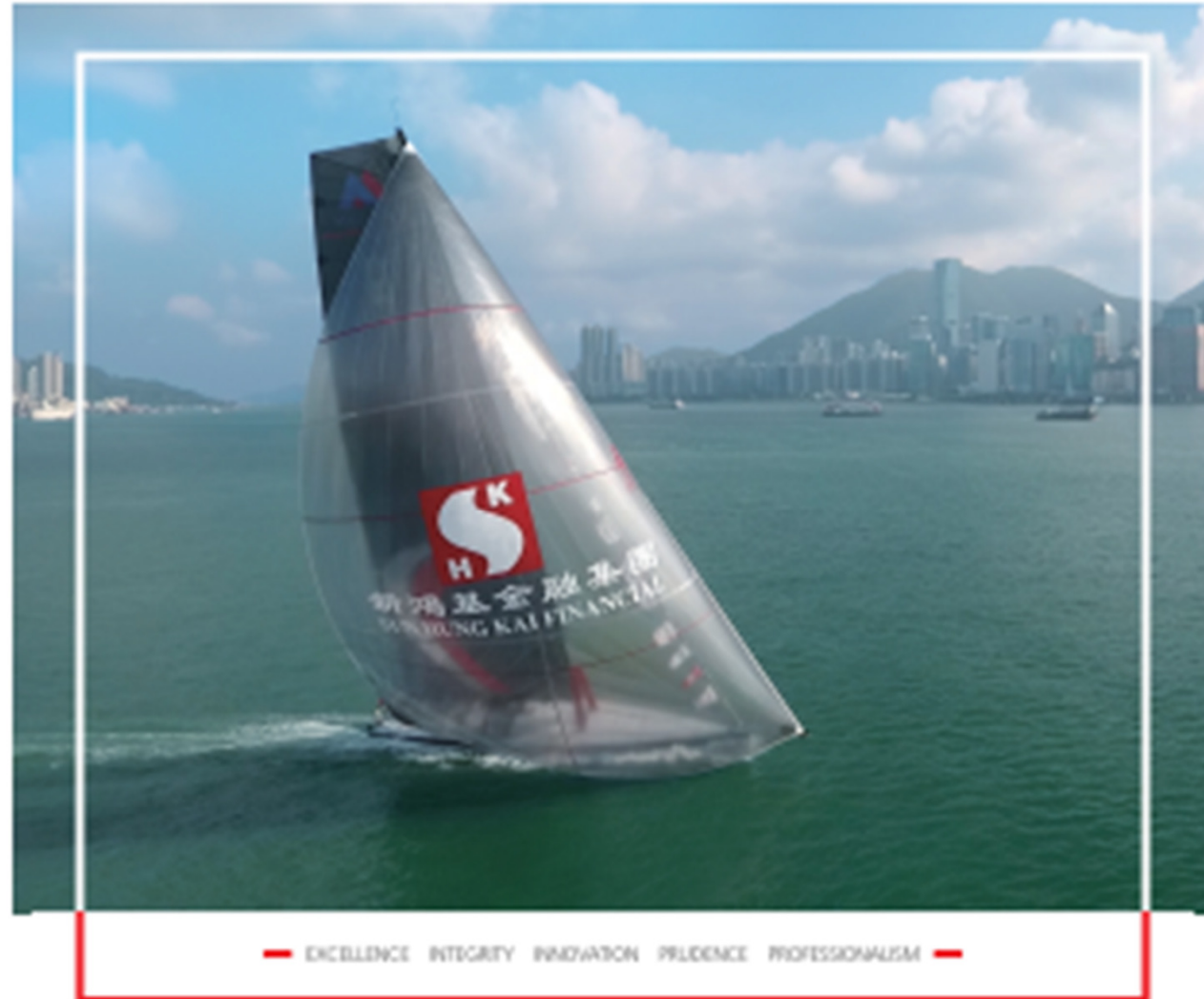


# Sun Hung Kai & Co 2016 Results Announcement

*23 March 2017*



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# 2016 Financial Highlights

(HK\$M)	2016	2015	Change
Revenue	3,511	4,174	-16%
Attrib Profit	1,110	3,897*	-72%
- From Continuing Operations	<b>1,110</b>	<b>668</b>	<b>66%</b>
<b>Per Share Data</b>			
EPS (HK cents)	50.3	173.8	-71%
Second Interim DPS (HK cents)	14	14	
Year Total	26	26	
BVPS	\$8.24	\$8.08	2%

\*Include SHKF sale gain and its 100% contribution until the sale date which totaled \$3,229m

- ❖ Satisfactory turnaround of UAF business in China
- ❖ Consumer Finance 2H contribution nearly tripled from 1H
- ❖ New finance businesses doing well – SHK Credit, LSS
- ❖ Strengthened Principal Investments business
- ❖ Maintained prudent and flexible balance sheet. Extended debt duration and lowered funding costs

# Business Segments

	Consumer Finance	Principal Investments	Financial Services	Mortgage Loans	Group Management and Support
<u>% of Group</u>	<ul style="list-style-type: none"> <li>Operated under 58% owned UA Finance</li> <li>Unsecured lending in HK, China</li> <li>190,000 customers</li> <li>Market leader in HK</li> </ul>	<ul style="list-style-type: none"> <li>Equities (public and private)</li> <li>Fixed income</li> <li>Private debt (structured finance)</li> <li>Real estate</li> </ul>	<ul style="list-style-type: none"> <li>Investments across financial services</li> <li>Sun Hung Kai Financial</li> <li>LSS Leasing, and others</li> </ul>	<ul style="list-style-type: none"> <li>86% owned Sun Hung Kai Credit</li> <li>Target investors and home owners in HK</li> <li>Ranked top 3 in origination amongst non bank institutions</li> </ul>	<ul style="list-style-type: none"> <li>Group treasury assets</li> <li>Other unallocated assets and expenses</li> <li>Cost of funding and interest charged to PI</li> </ul>
<b>Assets</b>	51%*	33%	7%	2%*	7%
<b>Pre-tax Contribution</b>	48%*	31%	12%	<1%*	8%

\*Not adjusted for minority interests. Consumer Finance segment assets includes goodwill

## Pre-tax Contribution by Segment (HK\$M)

(HK\$ Million)	2016					2015	
	Return on Assets*	Pre-tax Contribution	YoY Change	Segment Assets*	YoY Change	Pre-tax Contribution	Segment Assets*
Consumer Finance	4.4%	727	19.2%	16,480	-9.3%	610	18,177
Principal Investments	4.4%	473	2.6%	10,845	21.6%	461	8,918
Financial Services	7.9%	182	61.9%	2,302	4.8%	113	2,198
Mortgage Loans	0.3%	2	na	640	160.7%	(8)	245
GMS	5.2%	<u>118</u>	na	<u>2,294</u>	-19.0%	<u>(201)</u>	<u>2,831</u>
Total	4.6%	<b>1,502</b>	<b>54.3%</b>	<b>32,561</b>	<b>0.6%</b>	<b>973</b>	<b>32,369</b>

\*As at year end

# Consumer Finance

# Consumer Finance - UAF

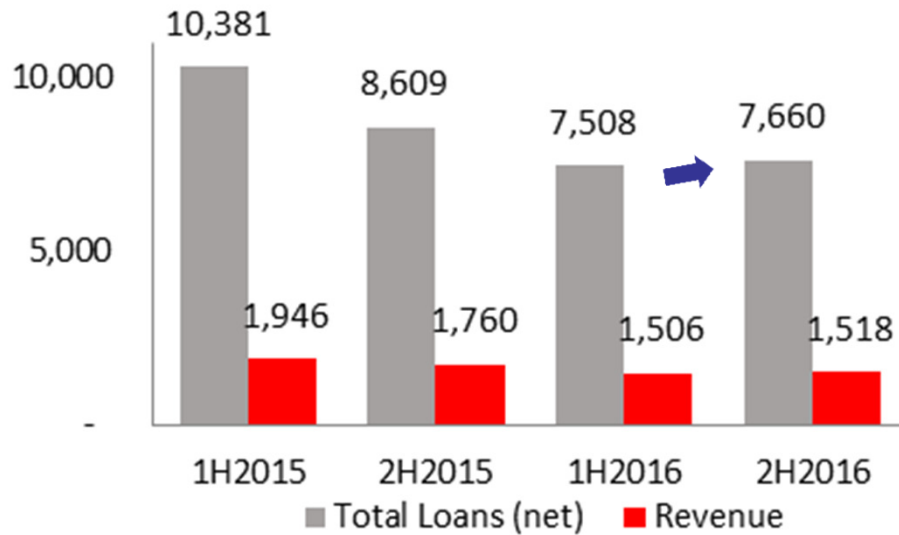
## Segment Results

<i>(HK\$ Million)</i>	2016	2015	Change
<b>Revenue</b>	<b>3,024.2</b>	<b>3,706.4</b>	<b>-18%</b>
Operating Costs	(1,169.0)	(1,373.2)	-15%
<i>Cost to income (% Revenue)</i>	<i>38.7%</i>	<i>37.0%</i>	
Finance costs	(243.7)	(285.0)	-14%
Bad and doubtful debts	(928.5)	(1,463.3)	-37%
Other income (expenses), net	4.7	(4.1)	
Exchange gain	38.9	28.7	
<b>Pre-tax Contribution</b>	<b>726.6</b>	<b>609.5</b>	<b>19%</b>

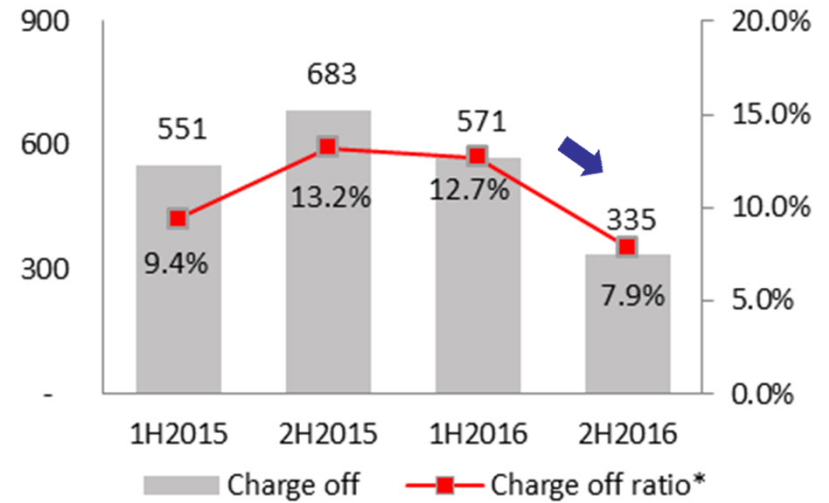
- ❖ Satisfactory turnaround in Mainland China with much improved credit quality though loan book now smaller scale
- ❖ Target business mix achieved
- ❖ Branch network consolidation
- ❖ Hong Kong business phasing out of property loans but overall steady
- ❖ Loan book mix:
  - 74% HK
  - 26% China

# Trend on Segment Key Metrics (HK\$m)

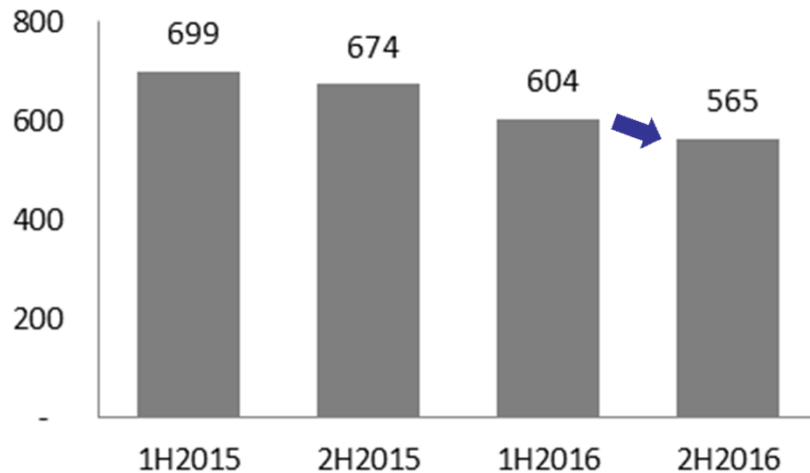
## Net Loans and Revenue



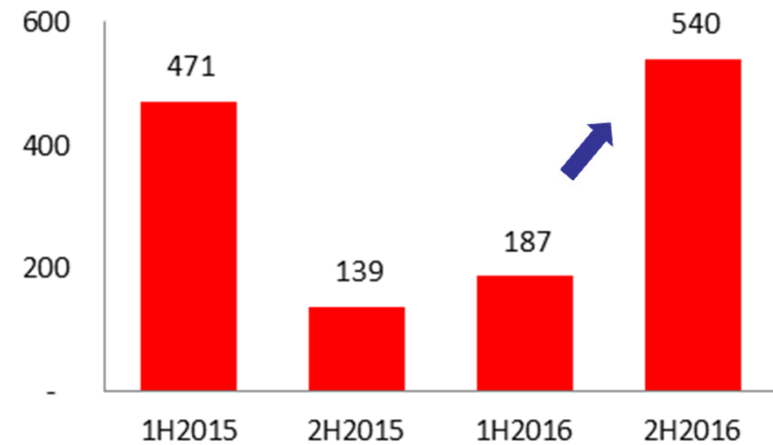
## Charge Off and Annualized % of Gross Loans



## Operating Costs



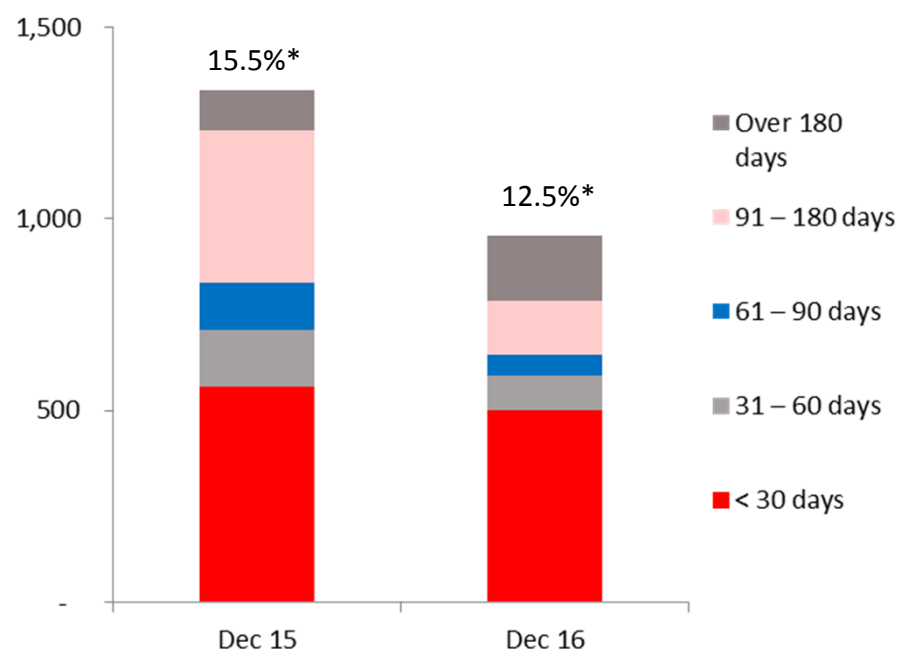
## Pre-tax Contribution





# Total Bad Debts and Delinquencies (HK\$m)

## Aging of amounts past due but not impaired (HK\$m)



\* % of period end net loans

- ❖ Consistent and straightforward policy
- ❖ Stop interest accrual after 60 days
- ❖ Write off on 180 days for unsecured loans whilst collections continue
- ❖ Impairment Allowance based on Charge Off Ratio (Write off net of recoveries, over loans) and loan growth and remaining tenor

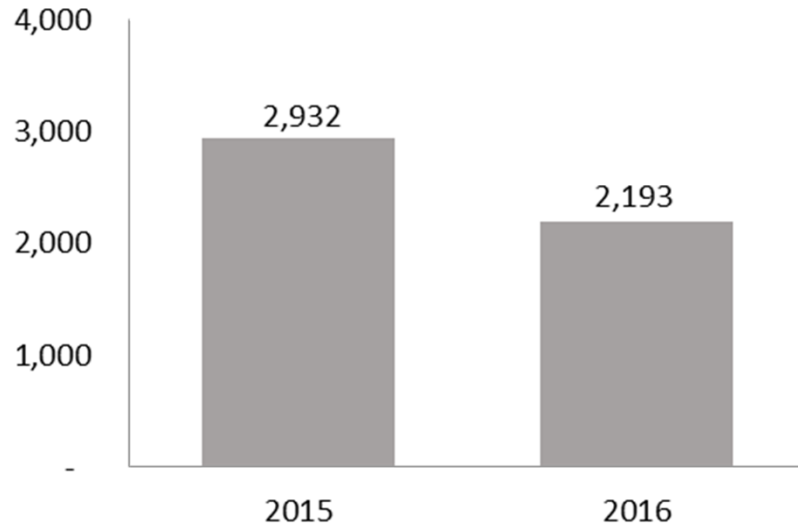
## Bad and doubtful debts

(HK\$ Million)	2015	2016
Amounts written off	(1,363.7)	(1,065.7)
Recoveries	129.5	160.2
Charge off	(1,234.2)	(905.5)
<i>As % of average gross loans</i>	11.4%	10.0%
Charges to impairment allowance	(229.1)	(23.0)
<b>Total charges for bad and doubtful debts</b>	<b>(1,463.3)</b>	<b>(928.5)</b>
Impairment allowance at year end	949.0	906.3
<i>As % of year end gross loans</i>	9.9%	10.6%

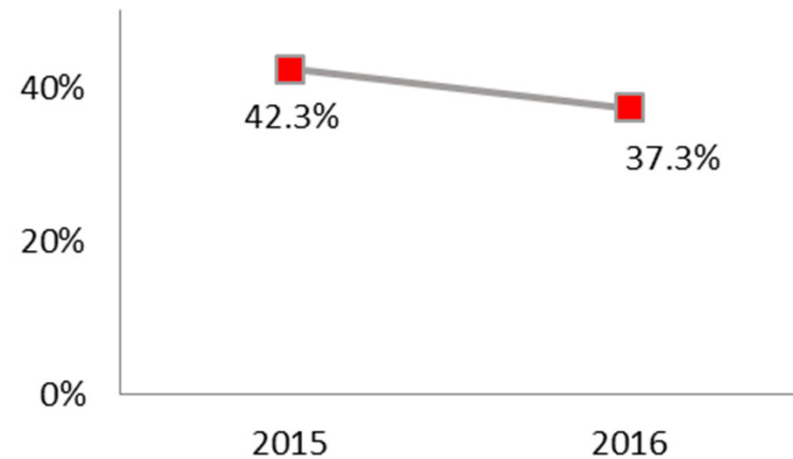
# UAF China

Origination +19%; but loan scale smaller.

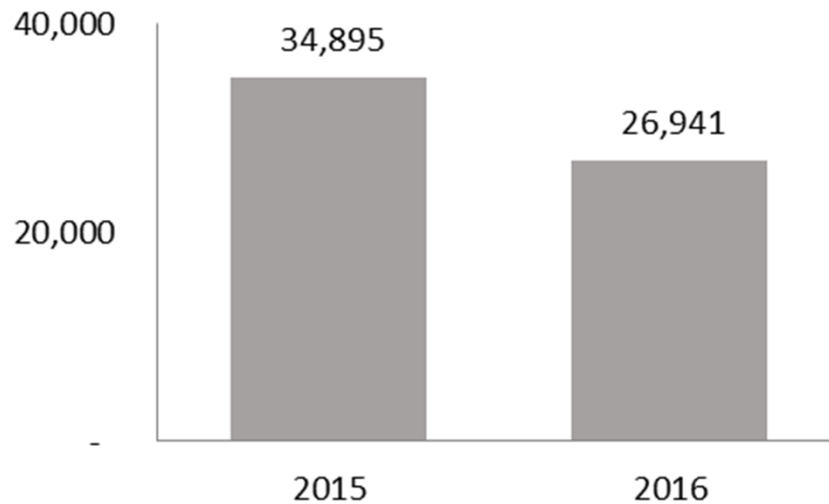
### China Gross Loan Balance (HK\$m)



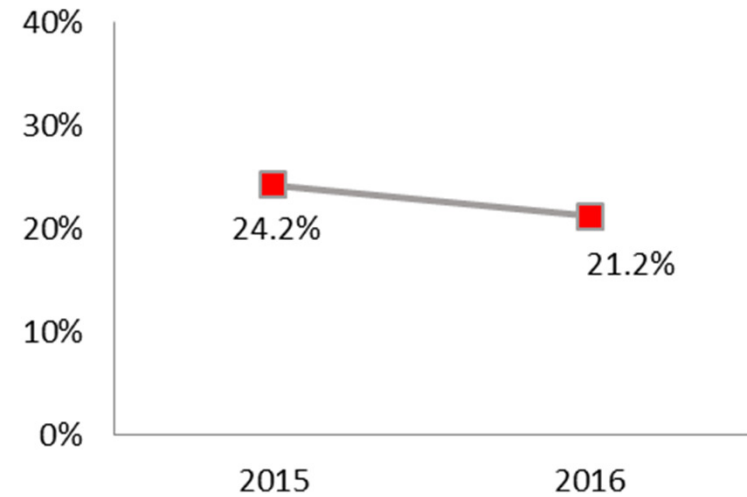
### Total Return on Loans (on simple avg gross balance)



### Average Balance per Loan (RMB, at year end)



### Charge Off ratio (on simple avg gross balance)



# UAF China

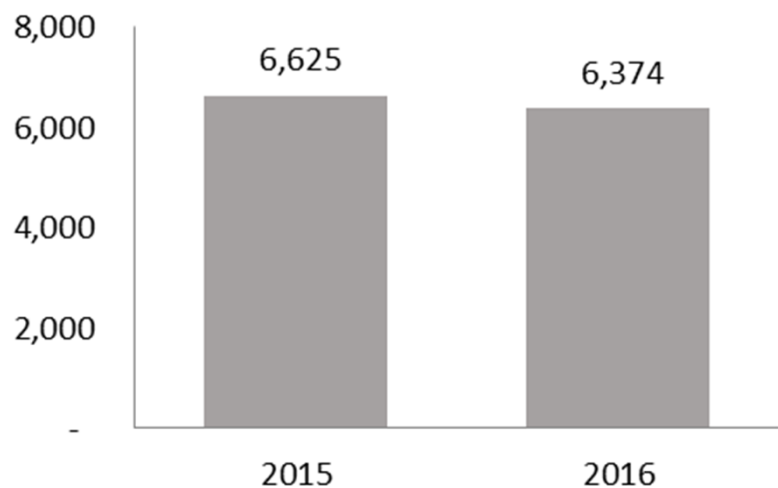
- ❖ LESS branches: 51 closed in total
- ❖ MORE customers: 19% growth in number of new loans (88k new loans)
- ❖ Bad debts down significantly
- ❖ Individual consumer loans make up the majority of loan book
- ❖ Loan book size bottomed in 1H2016
- ❖ Consolidation almost completed
- ❖ Prudently aim for growth this year



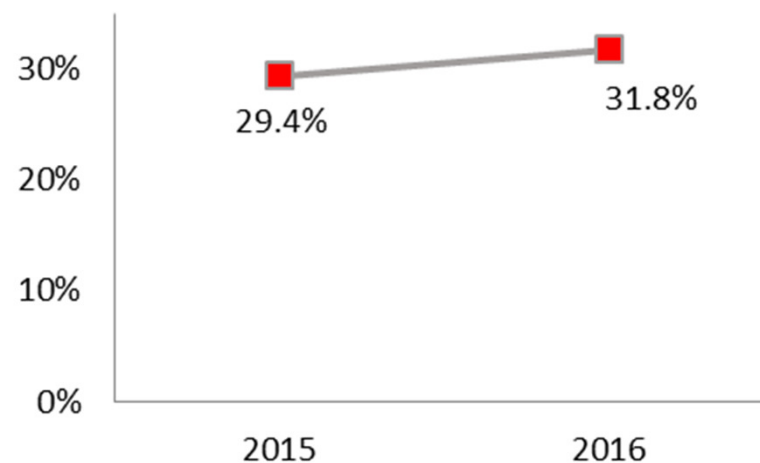
# UAF Hong Kong

Phased out of mortgage loans. Higher yield and charge offs because of change in loan mix

### Hong Kong Gross Loan Balance (HK\$m)

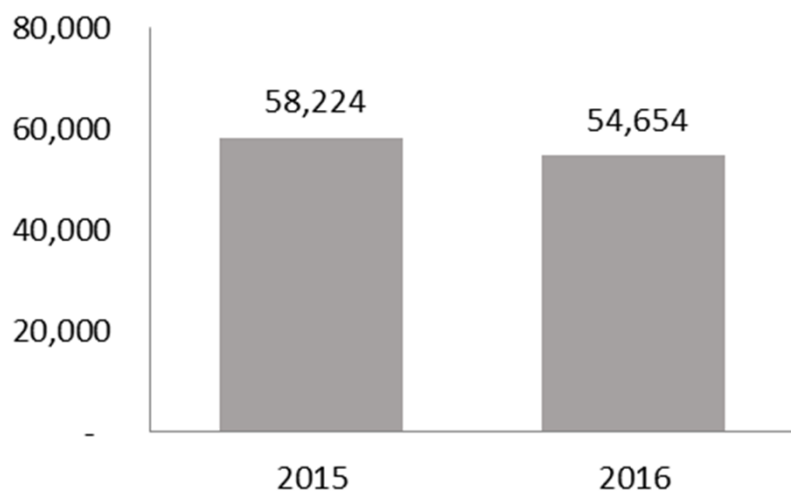


### Total Return on Loans (on avg gross balance)

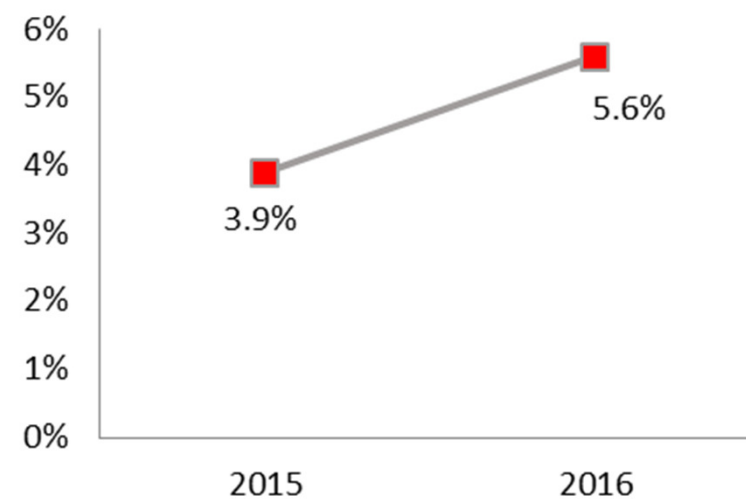


Phasing out mortgage

### Average Balance Per Loan (HK\$, at period end)



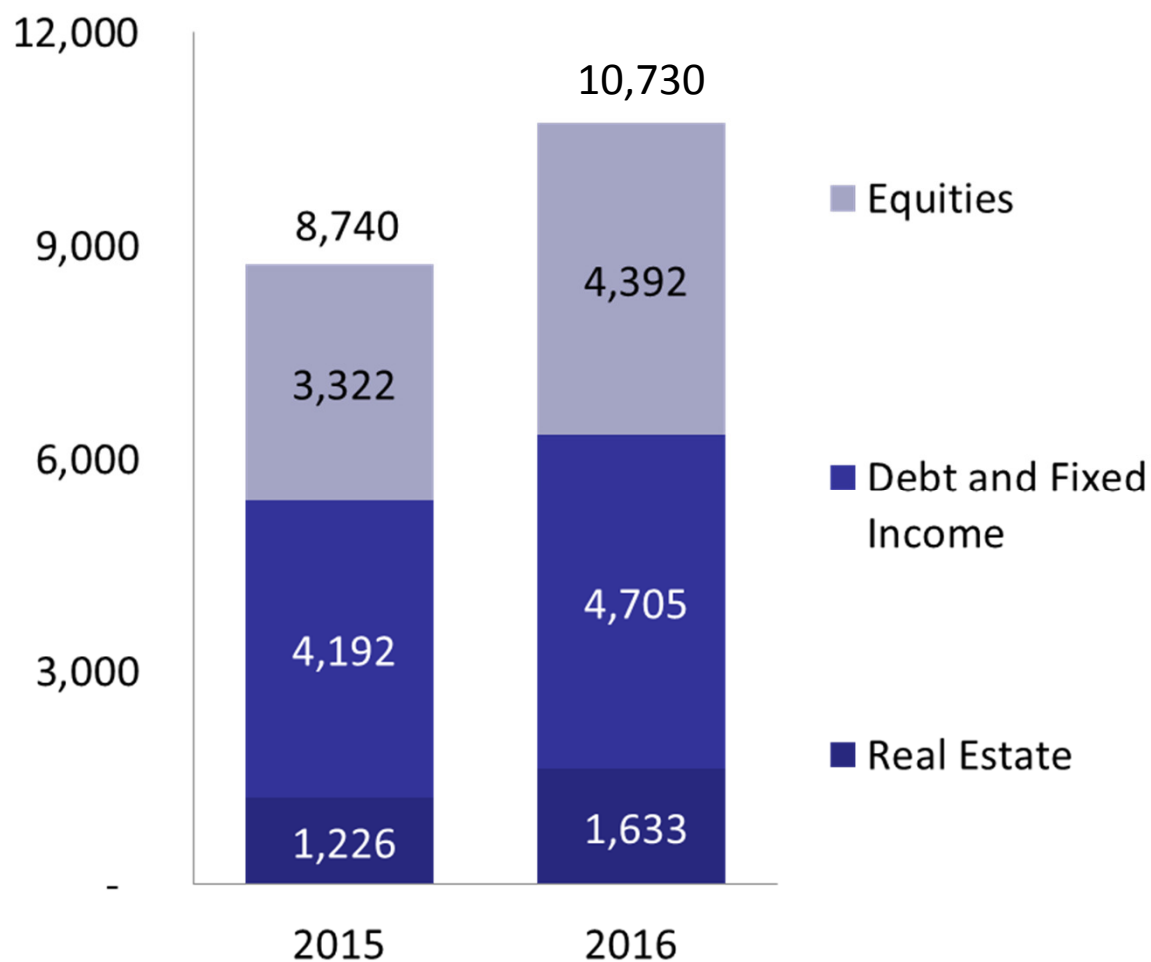
### Charge Off ratio (on avg gross balance)



## Principal Investments

# Principal Investments

## Segment Year End Assets (HK\$m)



Note: net of financial liabilities

- ❖ Important part of our growth strategy
- ❖ Invests across public and private investments
- ❖ Credit and equity opportunities, real estate
- ❖ Structure now very similar to other asset managers
- ❖ Aim to achieve attractive, risk-adjusted investment returns over the medium to long term.

# Principal Investments

<i>(HK\$ Million)</i>	2016				2015			
	Year end value <sup>3</sup>	Average Value <sup>3</sup>	Gain	Return <sup>2</sup>	Year end value <sup>3</sup>	Average Value <sup>3</sup>	Gain	Return <sup>2</sup>
Equities	4,392.1	3,734.9	202.1	5.4%	3,322.4	1,582.2	420.9	26.6%
Debt and Fixed Income	4,705.1	3,975.2	550.1	13.8%	4,191.7	4,047.9	310.1	7.7%
Real Estate	1,632.9	1,562.8	179.8	11.5%	1,226.2	1,146.4	55.7	4.9%
	<b>10,730.1</b>	<b>9,272.9</b>	<b>932.0</b>	<b>10.1%</b>	<b>8,740.3</b>	<b>6,776.5</b>	<b>786.7</b>	<b>11.6%</b>
Operating Costs			(24.3)				(36.4)	
Cost of capital and finance costs <sup>1</sup>			(435.1)				(289.6)	
<b>Pre-tax contribution</b>			<b>472.6</b>				<b>460.7</b>	

<sup>1</sup>Credit to Group Management and Support

<sup>2</sup>Return on average value

<sup>3</sup> Net of financial liabilities

# Principal Investments – Equities

## Overview

- ❖ Both internally managed and external partner funds
- ❖ HK\$4,392m at year end, 5.4 % gross return
- ❖ Public (27%)
  - MTM losses
  - Exiting small cap strategy
- ❖ Private (73%)
  - Satisfactory performance
  - Positive on health care, consumer, financials
  - Look for cooperation opportunities with lending business



Exited Sinolending (Dianrong.com) during the year





# Principal Investments – Debt and Fixed Income

## Overview

- ❖ HK\$4,705 m at year end, 13.8% gross return on average value
- ❖ Public portfolio
  - Both internally managed and external partner funds
- ❖ Private debt portfolio
  - Structured Finance business
  - Implied interest return ~12%
  - Strong synergies with the private equity business as we position ourselves as a provider of liquidity across the capital structure
  - Loan book declined but created opportunities in other parts of the portfolio

## Private Debt Business

(HK\$m)	2016	2015
Loan Book	2,848	3,328
Interest Income	336	405
Bad Debt Reversal (Provision)	36	(104)

# Principal Investments – Real Estate

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- ❖ HK\$1,633 m at year end, 11.5% gross return on average value
- ❖ Hong Kong commercial real estate
- ❖ Minority interest in two residential development projects, in Hong Kong and Australia
- ❖ Special situation investments in the hospitality sector, currently including interests in two hotels in London and Paris.
- ❖ Gains mainly from HK real estate revaluation

# Financial Services

# Financial Services



We serve with professional integrity

- ❖ Fared better than market
- ❖ Accounting gain



- ❖ Already profitable in its first year
- ❖ New alliances such as 58.com, Everbright Financial Leasing
- ❖ Expanding into consumer car leasing in 4Q

## Overview

- ❖ Significant minority stakes in financial services firms
- ❖ Segment assets \$2.3b
- ❖ Segment PBT \$182m
- ❖ SHKF is most significant component

Exited Sinolending {Dianrong.com }during the year

# Mortgage Loans

# Mortgage Loans

## Overview

- ❖ 86% owned Sun Hung Kai Credit launched in Oct 2015
- ❖ Profitable in first full year of operation
- ❖ Loan book \$613m (Dec 15: \$213m)
- ❖ PBT \$1.8m
- ❖ Low level of bad debts
- ❖ Already ranked in the top 3 non-bank financial for new loans
- ❖ Expanding into prime market to expand addressable customer base

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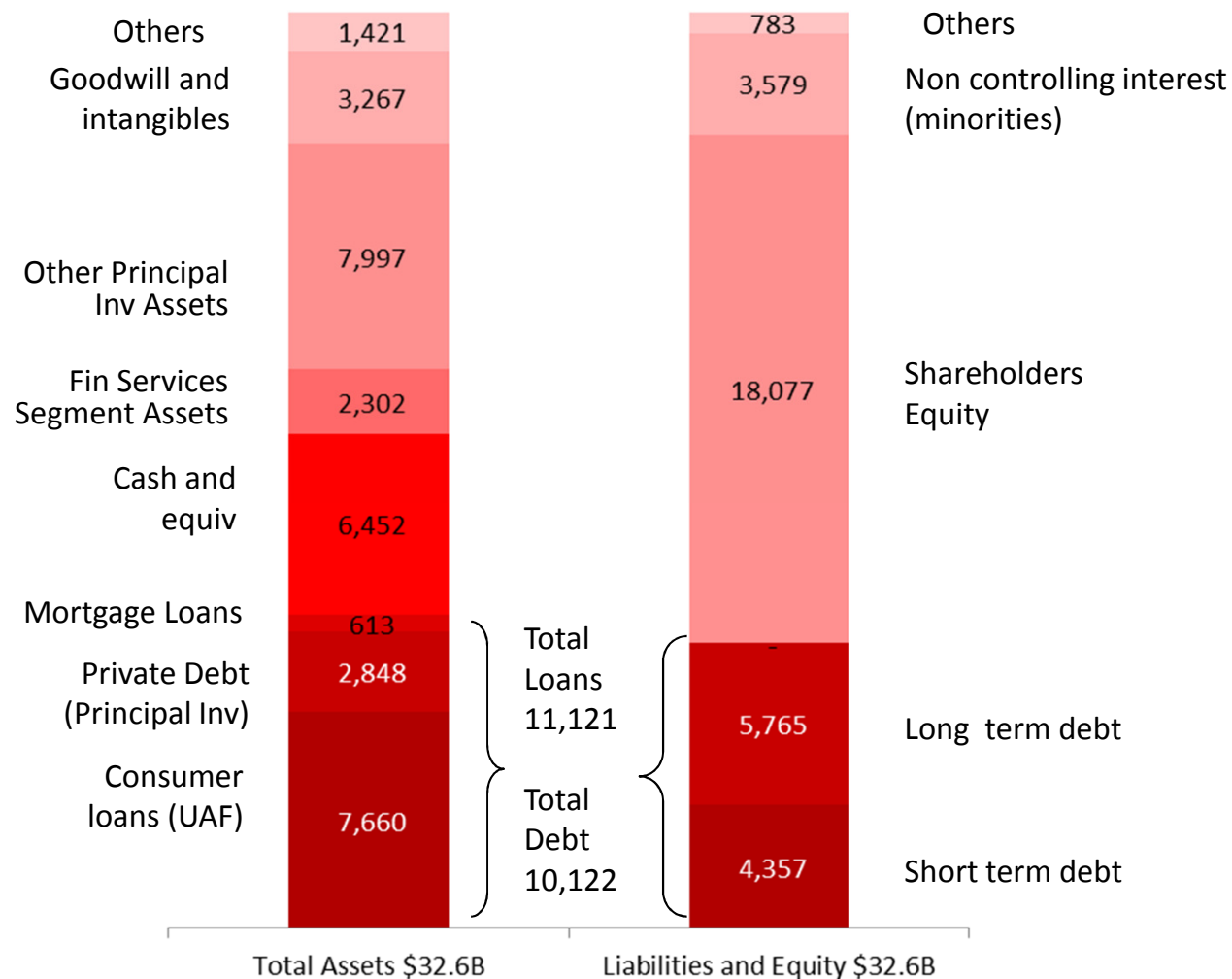
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# Dec 2016 Balance Sheet Profile (HK\$m)

- ❖ BVPS \$8.24
- ❖ 36m shares repurchased in 2016 for \$168.5m total
- ❖ Net Gearing 20.3%
- ❖ Issued USD 362m 2021 4.75% bonds
- ❖ USD115m of the USD350m 2017 6.375% bond redeemed



# Outlook

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- ❖ Cautiously optimistic
- ❖ Satisfactory turnaround in China
- ❖ Hong Kong to remain solid
- ❖ SHK Credit expansion should contribute to growth
- ❖ Well positioned investment portfolio though market portion subject to mark to market



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