

Annual Report 1998

HIGHLIGHTS OF THE YEAR

The Group recorded an operating profit of HK\$139.8 million (1997: HK\$187.5 million) and a profit from ordinary activities of HK\$95.7 million (1997: HK\$292.4 million) for the year. The Group's consolidated profit attributable to shareholders was HK\$85.2 million (1997: HK\$302.1 million).

In January 1998, the Group successfully issued HK\$512.5 million of 8% Listed Non-redeemable Convertible Loan Notes due on 31 December 2000 which will automatically be converted into new shares with one 2003 Warrant for every five new shares on the maturity date.

In November 1998, the Group acquired a 49% stake in Lippo Capital Limited (LCL) for a total consideration of HK\$500 million. LCL is beneficially interested in approximately 49.85% of Lippo Limited, a company whose securities are listed on The Stock Exchange of Hong Kong Limited.

The Group consolidated its interest in Tian An China Investments Company Limited in February 1999 by effectively underwriting a rights issue of that company. Following the completion of the rights issue, the Group now directly and indirectly holds approximately 59.64% of the capital of Tian An China.

Turnover, broking commission and fee income of the securities divisions decreased in line with the market decline in 1998. Despite adverse market conditions, the Group expanded its retail sales force at its head office to enhance the retail segment of its brokerage business. A new branch was opened in Mongkok in mid October 1998.

The China division has cautiously explored business opportunities in the mainland. Close contact with appropriate institutions is being maintained to better prepare for the recovery of market sentiment. The securities financing division reduced the Group's margin loan portfolio business in line with the market. Interest spread remains satisfactory. The division also undertook secured term lending, which also contributed to interest income.

The research department has successfully re-engineered its product dissemination from traditional print to pure electronic, that is through e-mail and the internet.

SHK Financial Data Limited has progressed into the setting up of a fully digital library covering all Hong Kong equities.

The foreign exchange division capitalised on the Yen movements during the year. It also improved dealing performance, tightened cost control and sustained marketing endeavors, achieving satisfactory trading profits. The bullion department was able to contribute satisfactory profits to the division. The trading activities of the Hong Kong futures execution department were in line with market turnover. The commodities execution department gained from the strong US stock market, with the execution of S&P index futures as its major business. Commission income from increased customer participation in the futures markets provided a steady source of revenue.

The corporate finance division has been involved in a number of corporate finance transactions including managing and underwriting of rights issues and new issues of Hong Kong shares.

A contract of sale for the Group's fund management unit was signed in December 1998.

The insurance broking division has continued to secure major projects and reputable clients in Hong Kong, Macau and Mainland P.R.C., which has resulted in satisfactory profit growth and a secure position for market expansion of the Group.

The Group will continue to develop its service culture in its core businesses and refine its procedures to both equip the Group to meet the challenges of the changing market conditions and to better serve its clients. It intends to develop its electronic technology to cope with the changes and opportunities in the industry. Furthermore, it will seek to develop synergies with the Lippo Group as they are identified.

YEAR 2000 ISSUE

The Group has included in its 1998 interim report the information relating to its Year 2000 Compliance Programme containing our definition of year 2000 compliance, the risks and uncertainties associated with the problem, the structure of the compliance project and our general plans to address the problem.

The Group has achieved year 2000 full compliance for all its core and critical systems before the end of 1998. Full compliance for its non-critical systems was achieved in the first quarter of 1999. It has completed the integration tests with the computer systems of its major business partners like The Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and Hong Kong Securities Clearing Company Limited in February 1999.

The Group is in the process of developing a contingency plan and is obtaining assurance from the Group's counter-parties that their systems and products are also year 2000 compliant. Testing of the contingency plan is expected to be completed before 30 June 1999.

The cost of the Year 2000 Issue has not been separately identified since upgraded computer hardware is year 2000 compliant and the enhancements of the application systems already incorporate year 2000 modifications.

The cost will be expensed in the financial year in which they are incurred and it is anticipated that the amount to complete and test for year 2000 compliance will remain at approximately HK\$500,000 as estimated in the 1998 interim report. As at 31 December 1998, the Group has not made any significant commitment in respect of expenses to be incurred in resolving the Year 2000 Issue.

ARTHUR GEORGE DEW
Executive Chairman

Hong Kong, 28 April 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December

	1998 HK\$'000	1997 HK\$'000
Turnover	581,310	884,276
Operating profit	139,776	187,510
Exceptional items	(44,092)	104,876
Profit from ordinary activities	95,684	292,386
Share of profits less losses of associated companies	23,021	48,670
Profit before taxation	118,705	341,056
Taxation	(34,129)	(38,341)
Profit after taxation	84,576	302,715
Minority interests	664	(583)
Profit attributable to shareholders	85,240	302,132
Dividends	(34,876)	(93,001)
Transfer to capital reserve by an associated company	(1,851)	-
Profit for the year retained	48,513	209,131
	HKcts	HKcts
Earnings per share	7.3	27.0

BALANCE SHEETS
as at 31 December

	Company		Group	
	1998 HK\$'000	1997 HK\$'000	1998 HK\$'000	1997 HK\$'000
EMPLOYMENT OF CAPITAL				
Current assets				
Cash and bank balances	1,994	1,839	343,747	375,244
Receivables from brokers and clients	--	--	249,371	325,102
Other loans and advances	--	--	830,941	2,209,035
Trading account securities	--	--	96,109	263,668
Other overseas listed securities	--	--	935	3,706
Other accounts receivable, deposits and prepayments	9,323	4,934	31,587	93,651
	<u>11,317</u>	<u>6,773</u>	<u>1,552,690</u>	<u>3,270,406</u>
Current liabilities				
Loans and overdrafts	--	--	434,436	1,580,702
Payables to brokers and clients	--	--	430,730	469,757
Other accounts payable and accruals	4,841	4,219	320,711	263,204
Taxation	1,968	8,565	5,136	27,105
Proposed dividend	23,251	46,501	23,251	46,501
	<u>30,060</u>	<u>59,285</u>	<u>1,214,264</u>	<u>2,387,269</u>
Net current assets/(liabilities)	(18,743)	(52,512)	338,426	883,137
Lending over 1 year	--	--	122,260	322,261
Subsidiary companies	1,448,130	1,766,465	--	--
Associated companies	1,193,355	185,522	2,405,768	1,176,156
Other investments	97,596	151,091	1,136,297	1,010,646
Fixed assets	--	--	60,787	122,935
Deferred taxation	--	--	3,924	2,146
	<u>2,720,338</u>	<u>2,050,566</u>	<u>4,067,462</u>	<u>3,517,281</u>
CAPITAL EMPLOYED				
Share capital	232,506	1,162,532	232,506	1,162,532
Capital and other reserves	1,611,107	681,081	1,677,338	757,413
Profit and loss account	364,249	206,953	1,630,990	1,582,477
Shareholders' funds	<u>2,207,862</u>	<u>2,050,566</u>	<u>3,540,834</u>	<u>3,502,422</u>

8% listed non-redeemable				
convertible loan notes	512,476	--	512,476	--
Minority interests	--	--	14,152	14,859
	<u>2,720,338</u>	<u>2,050,566</u>	<u>4,067,462</u>	<u>3,517,281</u>

ARTHUR GEORGE DEW
Director

CHUNG TZE HIEN
Director

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December

	1998		1997	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		1,498,292		(738,496)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received	81,235		87,928	
Interest paid	(40,136)		(8,620)	
Dividends received from associated companies	7,260		9,324	
Dividends received from other investments	27,763		16,982	
Ordinary dividends paid	(58,126)		(104,622)	
Dividends paid to minority interests	(413)		(894)	
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		17,583		98
TAXATION				
Hong Kong profits tax paid	(46,560)		(19,785)	
Overseas tax paid	(1,020)		(4,483)	
TAX PAID		(47,580)		(24,268)
INVESTING ACTIVITIES				
Proceeds on disposal of fixed assets	74,095		356,931	
Purchase of fixed assets	(8,746)		(26,575)	
Proceeds on disposal of other investments	62,830		3,229	
Increase in other investments	(234,142)		(664,426)	
Proceeds on disposal of associated companies	1,465		74,932	
Increase in associated companies	(766,038)		(349,767)	
Proceeds on disposal of subsidiary companies	6,133		--	
Cash distributions from an other investment	--		34,884	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(864,403)		(570,792)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		603,892		(1,333,458)
FINANCING				
Issue of ordinary shares, net of share issue expenses	--		388,558	

8% listed non-redeemable convertible loan notes	512,476	--	
Purchase of interests from minority shareholder	(313)	--	
Capital contributions by minority shareholders	--	12,156	
NET CASH INFLOW FROM FINANCING		512,163	400,714
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,116,055		(932,744)
CASH AND CASH EQUIVALENTS AT 1 JANURARY		(1,205,458)	(272,784)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(1,286)	70
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		(90,689)	(1,205,458)
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		343,747	375,244
Loans and overdrafts		(434,436)	(1,580,702)
		<u>(90,689)</u>	<u>(1,205,458)</u>