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CHAIRMAN'S STATEMENT

THE GROUP



Our Group celebrated its 30th anniversary in December 1999. As an integral part of our celebrations we are striving to combine our inherent strengths with a vision for the future which incorporates the latest technologies, current developments in the market place and the impact of the electronic era.

Sun Hung Kai has a long and proud history being one of the oldest local

Hong Kong broking and financial services houses. Sun Hung Kai was founded in 1969 and the Company was listed in 1983. It has continued to serve the needs of its clients and shareholders throughout its existence. Sun Hung Kai's longevity reflects its commitment to meeting market requirements.

Integrity and Financial Strength

Sun Hung Kai provides its clients with the comfort of a strong balance sheet and a commitment to integrity in its dealings with the public. Its philosophy is to provide the financial services industry in Hong Kong with a name that can be trusted. We believe that with our strong brand name, financial and management resources, the Group will be able to develop and expand its financial services business with the new technologies now becoming available.

Integrated Financial Services

Sun Hung Kai provides a full range of financial services. This range includes brokerage services in Hong Kong shares, US and regional stocks, foreign exchange, commodities and futures. The Group also provides margin and other financing, advisory services, corporate finance services, comprehensive research services, financial information services and insurance broking services. We maintain offices in Shenzhen and Shanghai and are committed to the development of our China business.



CHAIRMAN'S STATEMENT

Branch Network

The Group is now actively pursuing its policy of expanding its branch network. We recently opened our Tsuen Wan branch to complement the Mongkok branch. We are currently proceeding to open new branches in the year 2000.

Modern Technology and SHK Online

Sun Hung Kai has always been committed to the ongoing utilization of the latest technology in the development of its business. In pursuance of this philosophy, we have recently launched a financial website – www.SHKonline.com. This innovation allows us to provide a comprehensive range of online services which presently includes the ability to trade US shares online through our Web Street alliance. We will be introducing this facility for regional shares in the near future, as well as launching complete online trading in Hong Kong shares, futures and other services upon the introduction of AMS/3 which will allow straight through trading on The Stock Exchange of Hong Kong Limited.



Other Interests

The Group has maintained its interest in Tian An China Investments Company Limited (“Tian An China”) at approximately 41% by firstly effectively underwriting a rights issue (“the Underwriting”) in February 1999 and then later entering into a conditional sale agreement with Millennium Touch Limited in November 1999 for 770 million Tian An China shares at a consideration of HK\$423.5 million. Pursuant to the Underwriting, the Group took up a total of 1,556,154,102 Tian An China shares which included the Group’s entitlement of 664,785,384 shares at a price of HK20 cents per share. The additional 891,368,718 Tian An China shares from the rights issue were classified as trading account securities, giving rise to an unrealized profit before tax of approximately HK\$120 million at year end.

By an agreement signed on 10 May 2000, the Group sold its 49% interest in Lippo Capital Limited for a total consideration of HK\$624 million of which HK\$62.9 million was paid by the sale of an approximately 7.18% interest in Lippo Limited to the Group in addition to the Group’s existing 1.36% interest. It was decided that in the current economic circumstances it was in the best interests of shareholders to take the present opportunity to dispose of the interest and to concentrate its efforts on the development of its core business.



CHAIRMAN'S STATEMENT

RESULTS FOR THE YEAR

During the year, the Group recorded a profit before taxation of HK\$284.7 million (1998: HK\$118.7 million). The Group's consolidated profit attributable to shareholders was HK\$217.6 million (1998: HK\$85.2 million). Turnover was HK\$658.1 million for the year, against HK\$568.4 million for the previous year, while basic earnings per share was HK18.7 cents (1998: HK7.3 cents).

The board of directors has declared a final dividend of HK4 cents per share (1998: HK2 cents) payable to shareholders whose names appear on the register of members of the Company on 23 June 2000, making a total dividend for the year 1999 of HK5 cents per share (1998: HK3 cents).

REVIEW OF OPERATIONS

Securities

The Hong Kong stock market experienced a remarkable recovery in 1999. The Hang Seng Index continued its strong showing in the latter half of the year and closed at the historical high of 16,962, a gain of 6,913 points or 68.8% for the year, while the daily average turnover increased 12.6% to HK\$7,756 million. The strong performance of the Hong Kong stock market marked the return of confidence by foreign investors as US interest rate fears were ignored and the signs of economic recovery in the South East Asian region were encouraging. The performance of the US stock market spread to the rest of the world, including Hong Kong. Likewise, the Group's stockbroking business enjoyed a significant turnaround, with improvements in turnover, broking commissions and profits. Our retail sales force at head office was further increased to take advantage of the improved business environment.

Our Mongkok branch achieved a satisfactory year, with the turnover increasing significantly and recorded a positive contribution to fixed overhead for its first full year of operation.

The Corporate Sales Departments continued to provide professional market analysis and sales services as well as information and services for new share underwritings and initial public offerings. The divisions also recorded satisfactory performances in fees associated with underwriting and placement of shares.

We intend to continue the expansion of our sales network to enable us to utilize our resources to the fullest extent.



CHAIRMAN'S STATEMENT

SHK Online

The Group has recently launched a financial website - www.SHKonline.com. SHK Online Limited presently provides a comprehensive online information service including real time stock quotes and research material. We also offer online trading in US stocks through its association with Web Street Securities, Inc. The Group will in the near future offer online trading in regional stocks. In addition, it will offer online trading of Hong Kong shares, futures and other services upon the introduction of AMS/3 in Hong Kong later this year. AMS/3 will allow actual straight through trading which will enable genuine online trading.



Our philosophy in this area is to provide a “clicks and mortar” service to clients. Our history and experience in the financial services industry as well as our financial strength and integrity enable us to provide online services to clients upon which they can rely with confidence. The online services which we supply are intended to endure and be at the forefront of those available with current technology.

China Desk

The B shares market in the P.R.C. improved in late May 1999. Turnover and stock prices increased significantly compared with the same period in 1998. We are optimistic that the B shares market in the year 2000 will offer opportunities with market regulations easing in February 2000 following the breakthrough in World Trade Organization issues. Our representatives in the Shanghai and Shenzhen offices will pay attention to the development of the proposed futures index and the second board market for high technology enterprises in China.

Securities Financing

The margin loan portfolio decreased in the first half year due to the shrinkage in stock market turnover. However, it improved in the fourth quarter in line with returning buoyancy in the stock market. The interest spread remained satisfactory. The term lending business recorded growth in 1999 and produced a valuable contribution to the division's profit.



CHAIRMAN'S STATEMENT

Research

Following the division's successful conversion of products from the traditional paper base to electronic format in late 1998, it focused its development in 1999 on both broadening coverage, including the initiation of coverage on the China A share market, as well as increasing depth. The team's effort has met with an encouraging response as reflected by the rising page views on www.shkresearch.com, and products are regularly ranked by Trapeze Research Network as among the top 5 Asian contributors on access to publication ratio. In the year 2000, the division aims to further enhance its online provision of investment advice which is expected to assist the Group's development of SHK Online.

Electronic Financial Information Service

SHK Financial Data Limited has achieved another successful year with a remarkable growth in terms of turnover and operating profit. The company is unique in that it has been operating in the high technology sector for some years and has been returning profits to the Group. The company continued to provide comprehensive financial information to Internet service providers, paging and telecommunications operators, market information providers and public media. Its fully digital library, covering all the Hong Kong equities for all professionals and investors, is expected to be launched this year. The company will continue to expand with careful planning.



Foreign Exchange, Bullion, Commodities and Futures

The general slowdown in the currency market in Hong Kong impacted the profitability of the Foreign Exchange Department in 1999. The Bullion Department continued to provide a steady flow of income despite the gold market progressively weakening throughout the period except for a short-lived revival in the latter part of the year. Turnover in execution in Hang Seng Index Futures was largely in line with the stock market activities and offered the Hong Kong Futures Execution Department satisfactory returns. Commission earnings generated by the Commodities Execution Department from overseas futures trading have been equally satisfactory.



CHAIRMAN'S STATEMENT

Corporate Finance

The division achieved satisfactory results in 1999, being involved in placements, rights issues and underwriting of shares in Hong Kong. The professional team participated in the flotation of companies on The Stock Exchange of Hong Kong Limited and continued to provide financial advisory services. The Corporate Finance Department has completed a number of projects. We intend to expand the operation of the division in the future.

Insurance Broking

The division faced a difficult year in 1999 due to the generally restrained economy and keen competition from the active participation of the banking industry together with the increasing aggressiveness of Japanese insurers in the non-Japanese circle. In addition, the regulatory actions taken by the recently established China Insurance Regulatory Commission also affected business opportunities for all brokers in China and intensified the competition in Hong Kong. However, the division managed to achieve profit growth, successfully developing new business and securing a number of reputable clients in Hong Kong and Macau.

Overseas Office

The equity market in the Philippines continued to be sluggish in 1999 returning a commission income at a level similar to that of 1998. However, the office managed to generate a modest return from other income such as service fees, interest income and foreign exchange gains. Tight control on costs has been imposed in order that the Philippines' operation will remain viable while other alternatives are being examined.

Property Development and Investment in the P.R.C.

After a sale of 19.71% interest in Tian An China by the Group in February 2000, the Group now directly and indirectly holds approximately 41% in the capital of Tian An China.

With the slowdown of economic growth in the P.R.C. which overshadowed the property market in the first two quarters, the company experienced a difficult year. However, following a series of fiscal measures by the government, including interest rate cuts and the levy of interest income tax, the property market posted gains in the second half of the year. Projects for sale like Central Garden, The Riverside in Shanghai and Tian An Seaview Garden in Dalian were able to capture a market niche in terms of their creative concept of space and landscape design. As a result, the company managed to meet its sales budget. The company will continue its efforts to build up the brand name in order to maximize its return on investment.



CHAIRMAN'S STATEMENT

Fund Management

By an agreement signed in December 1998, the Group sold all its shares in Sun Hung Kai Fund Management Limited and SHK Unit Trust Managers Limited at a total consideration of HK\$6 million and the sale was completed in April 1999.

THE YEAR 2000 ISSUE

The Group made detailed plans and conducted extensive testing prior to and immediately after 1 January 2000 with a view to ensuring that the Group would be Y2K compliant. No problems have been experienced to date although the situation will be closely monitored throughout the year. We have now successfully passed all of the generally recognised most critical dates.

OUTLOOK

The economy in Hong Kong is showing improvement and the Government's recent budget announced an expected 5% growth in 2000. The 10% reduction in stamp duty will assist the securities market.

The equities markets around the world have been overheated, especially in the technology sectors. This has culminated in the April volatility when rising inflation and interest rates in the US were finally recognized. Caution will need to be exercised to avoid the impact of aftershocks. However, the real economies generally do not exhibit difficulties as severe as current market concerns. Thus a more realistic assessment of market fundamentals should lead to a realization that buying opportunities will emerge when the appropriate adjustments to stock values have taken place.

A global trend continues amongst major stock exchanges towards merger and demutualization. The newly formed Hong Kong Exchanges and Clearing Limited marks the local securities industry's transition into a new era. We believe this significant change should reinforce Hong Kong's strength in international finance markets. The Government's proposals to restructure the securities industry offer challenges and opportunities. We intend to meet the challenges and take every advantage of the opportunities.



CHAIRMAN'S STATEMENT

The Group has committed itself to be at the forefront of technological advance. The development of SHK Online and the further development of SHK Financial Data focusing on the provision of online services and dissemination of information will remain a priority. We will also continue to pursue these objectives by bringing together strategic partners to enable the delivery of fully integrated financial services for the benefit of our entire client profile.

We will develop these initiatives in conjunction with the continuing improvement in our service ability and our branch office expansion. We intend these initiatives to fully equip us to meet the challenges ahead including the possible implementation of the proposal to withdraw the minimum commission rate in the future.

I would like to express my appreciation to our shareholders, my fellow directors, dedicated staff, professional advisors and our clients for all their support and efforts during the year. I hope we can continue to enhance the growth and profitability of the Company and achieve attractive returns for our shareholders. We also aim to provide our employees with a rewarding career path within an attractive work environment, enabling them to develop their full potential through high quality supervision, training and exposure to the latest technology.

A handwritten signature in black ink, appearing to read 'Arthur George Dew'.

Arthur George Dew
Chairman

19 May 2000



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at Plaza V, Lower Lobby, Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 23 June 2000 at 9:30 a.m. for the following purposes:

- (1) To receive and adopt the audited accounts and the reports of the directors and auditors for the year ended 31 December 1999.
- (2) To declare a final dividend.
- (3) To re-elect directors and to fix their remuneration.
- (4) To re-appoint auditors and to authorise the directors to fix their remuneration.
- (5) As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

“(A) THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the directors during the Relevant Period (as defined in paragraph (c) of this Resolution) of all powers of the Company to repurchase securities on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) or on any other stock exchange on which the securities may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or that of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of securities to be repurchased by the Company pursuant to paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the relevant class of securities of the Company in issue at the date of the passing of this Resolution; and the approval granted under paragraph (a) of this Resolution shall be limited accordingly;



NOTICE OF ANNUAL GENERAL MEETING

(c) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

“(B) THAT:

- (a) subject to paragraph (c) of this Resolution, the exercise by the directors during the Relevant Period (as defined in paragraph (d) of this Resolution) of all the powers of the Company to allot, issue or otherwise deal with additional shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares, and to make or grant offers, agreements or options which might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the directors during the Relevant Period to make or grant offers, agreements or options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally, to be allotted (whether pursuant to an option or otherwise) by the directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to:
 - (i) a Rights Issue (as defined in paragraph (d) of this Resolution);



NOTICE OF ANNUAL GENERAL MEETING

- (ii) the exercise of rights of subscription or conversion attaching to any warrants issued by the Company or any securities which are convertible into shares;
- (iii) the exercise of any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares; and
- (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company;

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution and the said approval shall be limited accordingly;

- (d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means the allotment, issue or grant of shares pursuant to an offer of shares open for a period fixed by the directors to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regards to any restrictions or obligations under the laws of or the requirements of any recognised body or any stock exchange in any territory applicable to the Company).”



NOTICE OF ANNUAL GENERAL MEETING

“(C) THAT conditional upon Resolutions (A) and (B) being passed, the general mandate granted to the directors to exercise the powers of the Company to allot, issue or otherwise deal with securities pursuant to Resolution (B) above be and is hereby extended by the addition to the aggregate nominal amount of the securities which may be allotted by the directors pursuant to such general mandate an amount representing the aggregate nominal amount of such securities of the Company repurchased by the Company under the authority granted pursuant to Resolution (A) above provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution.”

By Order of the Board
Hester Wong Lam Chun
Company Secretary

19 May 2000

Notes:

1. The register of members of the Company will be closed from 20 June 2000 to 23 June 2000, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's registrars, Secretaries Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration not later than 4:00 p.m. on 19 June 2000. Dividends are expected to be dispatched on 3 July 2000.
2. The general purpose of the authority to be conferred on the directors by Resolution (5)(A) above is to increase flexibility and to provide discretion to the directors in the event that it becomes desirable to repurchase securities representing up to a maximum of 10% of the relevant class of securities of the Company in issue at the date of the passing of the resolution.
3. Concerning Resolution (5)(B) above, the directors wish to state that in respect of this general mandate, they have no immediate plans to issue any new securities of the Company; approval is being sought from members as a general mandate, in compliance with the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, in order to ensure flexibility and discretion to the directors in the event that it becomes desirable to issue any securities of the Company up to 20% of the existing issued share capital.
4. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. A proxy need not be a member of the Company. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited at the office of the Company's registrars, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time fixed for the meeting.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Arthur George Dew (*Chairman*)

Gary Cheung Wai Kwok

Stephen Chong Yuet Luk

Chung Tze Hien

David Hui Yip Wing

Lee Seng Huang

*(became Executive Director
as from 29 October 1999)*

Lee Seng Hui

Patrick Lee Seng Wei

Independent Non-Executive Directors

David Craig Bartlett

(appointed on 26 November 1999)

Dieter Yih

Non-Executive Directors

Sir Gordon Macwhinnie

Gerard Joseph M^cMahon

Tsoi Kee Yan

EXECUTIVE COMMITTEE

Arthur George Dew (*Chairman*)

Stephen Chong Yuet Luk

Chung Tze Hien

David Hui Yip Wing

(appointed on 17 April 2000)

Lee Seng Hui

AUDIT COMMITTEE

Sir Gordon Macwhinnie

*(became Chairman
as from 2 December 1999)*

David Craig Bartlett

(appointed on 2 December 1999)

Gerard Joseph M^cMahon

Dieter Yih

COMPENSATION COMMITTEE

Arthur George Dew (*Chairman*)

Sir Gordon Macwhinnie

Gerard Joseph M^cMahon

Dieter Yih

BANKERS

Standard Chartered Bank

Bank of New York Inc.

Asia Commercial Bank Limited

Bank of America (Asia) Limited

Jardine Fleming Bank Limited

SOLICITORS

Kwok and Yih

in association with Blake Dawson Waldron

Clyde & Co.

Woo, Kwan, Lee and Lo

AUDITORS

PricewaterhouseCoopers

COMPANY SECRETARY

Hester Wong Lam Chun

REGISTERED OFFICE

Level 12,
One Pacific Place,
88 Queensway,
Hong Kong.

REGISTRARS

Secretaries Limited
5th Floor, Wing On Centre,
111 Connaught Road Central,
Hong Kong.



DIRECTORS' REPORT

The directors have pleasure in presenting the annual report and audited accounts of the Group and the Company for the year ended 31 December 1999.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's major subsidiary companies are securities, forex, bullion, commodities and futures broking, share margin financing, term loan, corporate finance, property investment and insurance consultancy.

The respective analysis of the principal activities of the Group are as follows:

	Turnover		Contribution to operating profit	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Securities broking	137,295	102,435	25,963	7,935
Securities dealing	145,428	(18,698)	129,036	(40,086)
Forex, bullion, commodities and futures	85,611	171,028	8,975	27,564
Financing and other financial services	203,929	229,366	108,898	94,857
Corporate finance and others	85,861	84,276	17,752	5,414
	<u>658,124</u>	<u>568,407</u>	<u>290,624</u>	<u>95,684</u>
Share of profits and losses of associated companies			<u>(5,953)</u>	<u>23,021</u>
Profit before taxation			<u>284,671</u>	<u>118,705</u>

Notes:

1. Certain comparative figures have been restated and re-classified to conform with the current year's presentation.
2. No analysis of geographical location of operation is presented due to the turnover and result of operations outside Hong Kong are below 10%.



DIRECTORS' REPORT

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 1999 are set out in the consolidated profit and loss account on page 30.

An interim dividend of HK1 cent per share was paid to shareholders on 30 September 1999 and the directors recommend the declaration of a final dividend of HK4 cents per share payable on 3 July 2000 to shareholders whose names appear on the register of members of the Company on 23 June 2000, making a total dividend for the year 1999 of HK5 cents per share.

FIXED ASSETS

Particulars of the movements in fixed assets during the year are detailed in note 22 to the accounts on page 54.

CHARITABLE DONATIONS

The total donations made by the Group for charitable purposes during the year amounted to HK\$43,000.

SHARES, WARRANTS AND CONVERTIBLE LOAN NOTES

Details of the movement in share capital, warrants and convertible loan notes of the Company during the year are set out in note 24 to the accounts on page 57.

RESERVES

Details of the movements in reserves during the year are set out in note 25 to the accounts on page 58.



DIRECTORS' REPORT

DIRECTORS

The board of directors, as now constituted, is listed on page 14.

The directors of the Company during the year and up to the date of this report are:

Executive Directors

Arthur George Dew

Gary Cheung Wai Kwok

Stephen Chong Yuet Luk

Chung Tze Hien

David Hui Yip Wing

Lee Seng Huang

*(appointed as Non-Executive Director on 16 April 1999
and became Executive Director as from 29 October 1999)*

Lee Seng Hui

Patrick Lee Seng Wei

Non-Executive Directors

David Craig Bartlett

(appointed on 26 November 1999)

Sir Gordon Macwhinnie

(appointed on 26 January 1999)

Gerard Joseph MCMahon

Tsoi Kee Yan

Dieter Yih

Lau Wah Sum

(resigned on 1 October 1999)

Lee Su Hwei

(resigned on 16 April 1999)

Both the existing executive and non-executive directors shall hold office until they become due to retire by rotation at each Annual General Meeting in accordance with Article 101 of the Company's Articles of Association.

In accordance with the above Article, Messrs. Stephen Chong Yuet Luk, Gerard Joseph MCMahon, Tsoi Kee Yan and Dieter Yih retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 92, Mr. David Craig Bartlett retires at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.



DIRECTORS' REPORT

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF

Executive Directors

Arthur George Dew, aged 58, was appointed an independent non-executive director on 22 June 1996 and Chairman of the Company on 20 June 1997. He graduated from the Law School of the University of Sydney, Australia, and was admitted as a solicitor and later as a barrister of the Supreme Court of New South Wales, Australia. He is currently a non-practising barrister. He has a broad range of corporate and business experience and has served as a director, and in some instances chairman of the board of directors, of a number of public companies listed in Australia, Hong Kong and elsewhere. He is an independent non-executive director of Allied Group Limited, a deemed substantial shareholder of the Company. He is also a director of Lippo Limited and Lippo China Resources Limited.

Gary Cheung Wai Kwok, aged 46, initially joined the Group in 1980 and was appointed an executive director of the Company on 2 July 1998. Mr. Cheung has Bachelor of Arts Degrees in Economics and Business Administration. He has over 19 years of experience in the areas of securities, foreign exchange, commodities and futures, and is now the head of the Securities and the Forex, Bullion and Commodities Divisions of the Group.

Stephen Chong Yuet Luk, aged 33, was appointed an executive director of the Company on 20 June 1997. Mr. Chong holds a Bachelor of Science Degree in Industrial & Systems Engineering. He is the deputy managing director of the Vicwood Group of Companies based in Hong Kong, the president of Vicwood Developments B.C. Inc. in Canada and the vice-president of Vicwood Development Corp. in Seattle, the United States of America. He is also a director of Vicwood Hong Kong Limited.

Chung Tze Hien, aged 49, became an executive director of the Company on 19 August 1996. Mr. Chung has a Bachelor of Commerce Degree and is an associate member of the Institute of Chartered Accountants of New Zealand and the Institute of Chartered Secretaries and Administrators of the United Kingdom. Prior to joining the Company, Mr. Chung held senior managerial positions in publicly listed companies in Hong Kong, Singapore and Malaysia.



DIRECTORS' REPORT

David Hui Yip Wing, aged 50, was appointed an executive director on 25 October 1996 and acts as Chief Executive Officer of the Company as from 1 May 2000. Mr. Hui is also the managing director of Tian An China Investments Company Limited. Before joining the Company, Mr. Hui was for 7 years a director of a listed textile group, where he had overall responsibility for its operations, with special emphasis on strategic planning, financial control, and the re-engineering and implementation of the concept of total quality management. Prior to joining the industrial sector in 1989, Mr. Hui was the managing director of a financial institution and has over 10 years of experience in banking.

Lee Seng Huang, aged 25, was appointed a non-executive director of the Company on 16 April 1999 and became an executive director as from 29 October 1999. Mr. Lee was educated in Australia and has had previous experience in corporate administration in Malaysia and within the region. He is also a director of Lippo Limited, Lippo China Resources Limited, Auric Pacific Group Limited in Singapore and Export and Industry Bank, Inc. of the Philippines. He is the brother of Mr. Lee Seng Hui, an executive director of the Company.

Lee Seng Hui, aged 31, graduated from the Law School of the University of Sydney with Honours. He became an executive director of the Company on 3 July 1996. He is the chief executive of Allied Group Limited. He is also a non-executive director of Yu Ming Investments Limited. Previously, he worked with Baker & McKenzie and N.M. Rothschild & Sons (Hong Kong) Limited, specialising in corporate finance.

Patrick Lee Seng Wei, aged 48, was appointed an executive director of the Company on 22 June 1996. An architect, he worked for IBM Australia before becoming involved in property development in Malaysia and Hong Kong for more than 18 years. He has extensive experience in the property field. He is also the chief executive of Allied Properties (H.K.) Limited and an executive director of Allied Group Limited, deemed substantial shareholders of the Company, and an executive director of Tian An China Investments Company Limited.



DIRECTORS' REPORT

Non-Executive Directors

David Craig Bartlett, aged 34, was appointed an independent non-executive director of the Company on 26 November 1999. Mr. Bartlett graduated with honours in law from the University of Exeter in England before qualifying as a solicitor in England and Hong Kong and becoming a partner in the international law firm of Clyde & Co. He regularly acted for the Company and its subsidiaries before leaving private practice for a career in industry. Now based in Ireland, he is also an independent non-executive director of Allied Group Limited, a deemed substantial shareholder of the Company.

Sir Gordon Macwhinnie, C.B.E., J.P., aged 77, was appointed a non-executive director of the Company on 26 January 1999. Sir Gordon is a chartered accountant and has had a distinguished career in both public and private services in the nearly fifty years that he has been in Hong Kong. He was the chairman of The Royal Hong Kong Jockey Club and the Ocean Park Corporation and a member of the Council of the University of Science and Technology of Hong Kong for ten years. He is currently a director of The Bank of Bermuda in Hong Kong and he is the non-executive chairman of Allied Properties (H.K.) Limited and Allied Group Limited, deemed substantial shareholders of the Company. He is also a director of Lippo Limited and Lippo China Resources Limited.

Gerard Joseph M^cMahon, aged 56, was appointed a non-executive director of the Company on 20 June 1997. Mr. M^cMahon was previously an executive director of the Securities and Futures Commission ("SFC"), a member of the Hong Kong Takeovers and Mergers Panel and the SFC representative on the Hong Kong Standing Committee on Company Law Reform. Mr. M^cMahon is also a director of The Hongkong Chinese Bank, Limited, The HKCB Bank Holding Company Limited and The Hong Kong Building and Loan Agency Limited. He is admitted as a barrister in Hong Kong.

Tsoi Kee Yan, aged 50, was appointed a non-executive director of the Company on 26 June 1997. Mr. Tsoi is the deputy general manager of Vicwood Group of Companies since 1991. Mr. Tsoi holds a Bachelor of Applied Science Degree in Electrical Engineering from the University of Toronto. He has over 20 years of experience in international trade, shipping and timber industries.



DIRECTORS' REPORT

Dieter Yih, aged 37, was appointed an independent non-executive director of the Company on 6 August 1997. He is a practising solicitor in Hong Kong and is a partner of Kwok & Yih (in association with Blake Dawson Waldron). He graduated from King's College, University of London, England with a Bachelor Degree in Law and is also qualified as a solicitor in Australia, England and Singapore. Mr. Yih has extensive experience in the field of corporate finance and corporate transactions, with an emphasis on listed company related transactions.

Senior Management Staff

Gilbert Chu Kwok Tsu, aged 43, joined the Group in 1997. Mr. Chu is a director of Sun Hung Kai Securities Limited, Sun Hung Kai Investment Services Limited and Sun Hung Kai Research Limited and is in charge of the Research Department. Prior to joining the Group, Mr. Chu was a director of Socgen-Crosby Securities (Hong Kong) Limited. He holds Bachelor of Science and Master of Business Administration Degrees, both from University of California, Berkeley.

Chan Kam Hop, aged 50, joined the Group in 1973. Mr. Chan is a director of Sun Hung Kai Commodities Limited, Sun Hung Kai Bullion Company Limited and Sun Hung Kai Forex Limited and is in charge of the Sales-Gold/Forex/Commodities Department.

Edmond Chau Chin Hung, aged 50, joined the Group in 1997. Mr. Chau is a director of Sun Hung Kai Investment Services Limited and Sun Hung Kai Commodities Limited and is in charge of the Hong Kong Shares Dealing II Department. Prior to joining the Group, Mr. Chau was a director of Goodwill Investment Services Limited, Goodwill (HK) Securities Limited and Goodwill Commodities Limited. Mr. Chau has over 20 years of experience in the securities business. He has a Bachelor of Science Degree from University of London.

Douglas Chen Wai Huen, aged 35, joined the Group in March 2000. Mr. Chen is a director and the chief executive officer of SHK Online Limited, in charge of the SHK Online Department. He is also a director of Sun Hung Kai (International Securities) Limited. Prior to joining the Group, Mr. Chen was managing director in the equity derivatives department of Bear Stearns Asia Limited. He has a Bachelor of Science Degree.

Jimmy Fong Tsun Kuen, aged 41, joined the Group in 1997. Mr. Fong is a director of Sun Hung Kai Investment Services Limited and Sun Hung Kai Commodities Limited and is in charge of the Corporate Sales II Department. He has over 15 years of experience in the securities and commodities business.



DIRECTORS' REPORT

Stanley Ho Lung Wai, aged 42, joined the Group in 1986. Mr. Ho is a director of Sun Hung Kai Insurance Consultants Limited and is in charge of the Insurance Consultants Department. He is a fellow member and a chartered insurance practitioner of the Chartered Insurance Institute, U.K. Mr. Ho has over 15 years of experience in insurance consultancy. He has extensive knowledge in the global insurance plan adopted by the infrastructure and multinational companies. He also has over 10 years of experience in developing the China business.

Kwok Chee Chung, aged 48, joined the Group in 1980. Mr. Kwok is a director of Sun Hung Kai Securities Limited and is in charge of the Finance Department. He is an associate member of the Chartered Institute of Management Accountants and the Hong Kong Society of Accountants.

Steven Lee Siu Chung, aged 52, joined the Group in 1975. Mr. Lee is a director of Sun Hung Kai Securities Limited and is the Chief Credit Officer of the Company. He is an associate member of the Chartered Institute of Bankers, London, U.K.

Thomas Leung Siu Wing, aged 43, joined the Group in 1979. Mr. Leung is the Computer Manager of the Information Technology Department. He has over 20 years of experience in information technology.

David Pong Hei Ming, aged 40, joined the Group in 1999. Mr. Pong is the Chief Technology Officer of the Company. Before joining the Group, Mr. Pong had held senior management positions in Deutsche Bank, Standard Chartered Securities Limited and Chemical Bank, responsible for technology strategy and planning, systems development and infrastructure management in the region. He has Bachelor and Master Degrees in Business Administration.

Tam Ping Chung, aged 37, joined the Group in 1999. Mr. Tam is a director of Sun Hung Kai International Limited and is the head of the Corporate Finance Division. He holds a Bachelor Degree from Chinese University of Hong Kong and a Master Degree in Business Administration from University of Hull. He is a qualified practising accountant and holds a post-graduate diploma in the P.R.C. law. He has approximately 11 years' experience in merger and acquisitions, initial public offerings and finance.



DIRECTORS' REPORT

Tham Yok Mui, aged 50, joined the Group in 1990. Miss Tham is the head of the Internal Audit and Compliance Department with line responsibility for Administration and Personnel & Training Departments. She has a Bachelor of Science Degree in Economics and is an associate member of the Institute of Chartered Accountants in England and Wales.

Francis Tsui Pui Ki, aged 47, joined the Group in 1982. Mr. Tsui is a director of Sun Hung Kai Investment Services Limited and is the head of the Operations and Margin Department.

Patrick Wong Kwok Hing, aged 40, joined the Group in 1985. Mr. Wong is a director of Sun Hung Kai Investment Services Limited and Sun Hung Kai Research Limited and is in charge of the Corporate Sales I and Hong Kong Shares Retail I Departments. He has Master of Science and Business Administration Degrees.

Hester Wong Lam Chun, aged 40, joined the Group in 1989. Miss Wong is the Company Secretary of the Company and is in charge of the Secretarial Department. She is a fellow member of the Institute of Chartered Secretaries and Administrators.

DIRECTORS' INTERESTS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 1999, none of the directors and their associates have interests in the equity or debt securities of the Company and its associated corporations according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance").

No right to subscribe for equity securities of the Company and its associated corporations has been granted to the directors and their associates, nor has there been any exercise of such right during the year.

ARRANGEMENT FOR THE ACQUISITION OF SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiary companies a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY

As at 31 December 1999, those corporations and persons having an interest in 10% or more of the issued share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance ("the Register") were as follows:

Name	Number of ordinary shares	Notes
AP Emerald Limited	385,589,216	
Grace Crown Limited	385,589,216	1,2
Allied Properties (H.K.) Limited	385,589,216	1,3
Allied Group Limited	385,589,216	1,4
Eagle World Pacific Limited	129,473,676	8
Vicwood Hong Kong Limited	129,473,676	5,6,8
Vicwood Chong Kee Ting	129,473,676	5,7,8
Or Mun Yuet	129,473,676	5,7,8

Notes:

1. The figure refers to the same holding of 385,589,216 shares held by AP Emerald Limited.
2. Grace Crown Limited owned 100% interest in the issued share capital of AP Emerald Limited and was therefore deemed to have interest in the shares.
3. Allied Properties (H.K.) Limited owned 100% interest in the issued share capital of Grace Crown Limited and was therefore deemed to have interest in the shares.
4. Allied Group Limited owned directly or indirectly approximately 57.03% interest in the issued share capital of Allied Properties (H.K.) Limited and was therefore deemed to have interest in the shares.
5. The figure refers to the same holding of 129,473,676 shares held by Eagle World Pacific Limited.
6. Vicwood Hong Kong Limited owned 100% interest in the issued share capital of Eagle World Pacific Limited and was therefore deemed to have interest in the shares.
7. Mr. Vicwood Chong Kee Ting and his spouse, Mdm. Or Mun Yuet each owned 50% interest in the issued share capital of Vicwood Hong Kong Limited and were therefore deemed to have interests in the shares.
8. As at 24 January 2000, the number of shares held by Eagle World Pacific Limited and accordingly, the number of shares in which Vicwood Hong Kong Limited, Mr. Vicwood Chong Kee Ting and Mdm. Or Mun Yuet were deemed to have interests reduced to 115,528,676 shares, representing an interest of approximately 9.94% of the issued share capital of the Company. Eagle World Pacific Limited, Vicwood Hong Kong Limited, Mr. Vicwood Chong Kee Ting and Mdm. Or Mun Yuet then ceased to be substantial shareholders of the Company.

Subsequent to the year end and according to the Register, Gold Chopsticks Limited, a wholly owned subsidiary of Besford International Limited, held an aggregate of 198,149,000 shares, representing an interest of approximately 17.04% of the issued share capital of the Company as at 13 April 2000. Besford International Limited was a wholly owned subsidiary of China Online (Bermuda) Limited which was 34.2% owned by China Sci-Tech Holdings Limited through its wholly-owned subsidiaries, Harbour Fair Overseas Limited and Vigor Online Offshore Limited. Then, Gold Chopsticks Limited, Besford International Limited, China Online (Bermuda) Limited, Vigor Online Offshore Limited and China Sci-Tech Holdings Limited became substantial shareholders of the Company.



DIRECTORS' REPORT

CONNECTED TRANSACTIONS

1. On 23 August 1997, a letter of indemnity (“the Indemnity”) was issued by Tian An China Investments Company Limited (“Tian An China”) undertaking to indemnify Allied Properties (H.K.) Limited (“Allied Properties”) against all and any loss, expenses or liabilities suffered by it as a result of any default in the payment of certain facilities obtained by a wholly owned subsidiary of Tian An China for which facilities, Allied Properties had pledged deposits for a total amount of RMB71,400,000 (and RMB68,200,000 during the financial year ended 31 December 1998) as security. The Indemnity was extended on 24 August 1998 and was not further renewed upon its expiration on 22 February 1999.

Allied Properties is a substantial shareholder of the Company beneficially interested in approximately 33.17% of the issued share capital of the Company. Accordingly, the above transaction became a connected transaction for the Company as a result of the increase of the Company’s interest in Tian An China to more than 50% pursuant to the underwriting of a rights issue by Tian An China on 15 February 1999, but the above transaction was no longer connected upon the expiration of the Indemnity on 22 February 1999.

2. On 29 September 1999, the Company announced that Tian An China entered into a tenancy agreement with Art View Properties Limited (“Art View”) for the renewal of the leases of the whole of 20th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong with an aggregate area of approximately 9,506 sq.ft. as its office premises for a term of two years from 1 October 1999 to 30 September 2001 at a total monthly rental of HK\$228,144.00 as reduced from HK\$455,900.00. The rental was determined on the basis of the prevailing market rental. The tenancy agreement does not provide an option to further renew the rental arrangement. The directors (including the independent non-executive directors) of the Company were of the view that the terms and conditions of the tenancy agreement were fair and reasonable.

Art View is an associate (as defined in the Listing Rules) of Allied Properties which indirectly has 50% interest in Art View. The renewed rental arrangement constituted a connected transaction for the Company which required disclosure by way of a press notice. Details of the renewed rental arrangement are disclosed above in accordance with the requirements of the Listing Rules.



DIRECTORS' REPORT

Upon completion of the sale of approximately 19.71% interest to Millennium Touch Limited on 9 February 2000, the Company now directly and indirectly holds approximately 41% in Tian An China.

The above transactions do not also constitute the related parties transactions of the Group during the year. Details of the related parties transactions of the Group are disclosed pursuant to the requirements under the Statement of Standard Accounting Practice 20 in note 34 to the accounts on page 69.

PRACTICE NOTE 19 OF THE LISTING RULES

As at 31 December 1999, no circumstances existed giving rise to the disclosure obligation of the Company under the Practice Note 19 of the Listing Rules.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Particulars of bank loans, overdrafts and other borrowings of the Group are set out in note 17 to the accounts on page 49.

SUBSIDIARY COMPANIES

Particulars regarding the principal subsidiary companies are set out in note 32 to the accounts on page 66.

INTEREST CAPITALISED

No interest was capitalised by the Group during the year.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its securities during the year. Neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's securities during the year.

SERVICE CONTRACTS

None of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.



DIRECTORS' REPORT

MAJOR CUSTOMERS

The turnover attributable to the largest 5 customers accounted for less than 30% of the Group's turnover for the year.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiary companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, the following directors are considered to have interests in the businesses which compete or are likely to compete with the businesses of the Group pursuant to the Listing Rules as set out below:

1. Mr. Arthur George Dew, Mr. Lee Seng Huang and Sir Gordon Macwhinnie are also directors of Lippo Limited and Lippo China Resources Limited which through their subsidiaries, are partly engaged in the businesses of securities broking, securities trading and the provision of financial, insurance and other related services.
2. Mr. Gerard Joseph M^cMahon is a director of The HKCB Bank Holding Company Limited and The Hongkong Chinese Bank, Limited and the businesses of these groups include the provision of securities broking, insurance and other related services. Mr. M^cMahon is also a director of Asian Capital Corporate Finance Limited which is engaged in the provision of corporate finance advisory services.
3. Mr. Patrick Lee Seng Wei is a director of Allied Group Limited and Allied Properties (H.K.) Limited, while Mr. Lee Seng Hui is also a director of Allied Group Limited and was during the year a director of Allied Properties (H.K.) Limited. Two subsidiaries of the said companies are engaged in the businesses of money lending and provision of financial services. Mr. Lee Seng Hui resigned from Allied Properties (H.K.) Limited on 11 October 1999.

As the board of directors of the Company is independent from the boards of the abovementioned companies and none of the above directors can control the board of the Company, the Group is capable of carrying on its businesses independently of, and at arms length from the businesses of such companies.



DIRECTORS' REPORT

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. PricewaterhouseCoopers replaced Price Waterhouse as auditors of the Company on 25 June 1999 following the merger of Price Waterhouse with Coopers & Lybrand.

Arthur George Dew
Chairman

26 April 2000



AUDITORS' REPORT

TO THE SHAREHOLDERS OF SUN HUNG KAI & CO. LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 30 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view, in all material respects, of the state of affairs of the Company and the Group as at 31 December 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 26 April 2000



CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December

	Note	1999 HK\$'000	1998 HK\$'000
Turnover	2	658,124	568,407
Other revenue	3	181,142	65,302
Total revenue		839,266	633,709
Brokerage and commission expenses		(59,881)	(73,703)
Direct cost and operating expenses		(35,956)	(21,313)
Administrative expenses		(210,786)	(242,731)
Other expenses	4	(161,281)	(118,371)
Operating profit	5	371,362	177,591
Finance cost	8	(80,738)	(81,907)
Operating profit after finance cost	9	290,624	95,684
Share of profits and losses of associated companies		(5,953)	23,021
Profit before taxation		284,671	118,705
Taxation	10	(65,755)	(34,129)
Profit after taxation		218,916	84,576
Minority interests		(1,325)	664
Profit attributable to shareholders	26	217,591	85,240
Dividends	11	(58,128)	(34,876)
Transfer to capital reserve by associated companies		(850)	(1,851)
Profit for the year retained	12	158,613	48,513
		HKcts	HKcts
Earnings per share	13		
Basic		18.7	7.3
Diluted		16.8	N/A



BALANCE SHEETS

as at 31 December

	Note	Company		Group	
		1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Employment of capital					
Current assets					
Cash and bank balances		2,017	1,994	252,046	343,747
Trade and other receivables	14	7,913	9,323	2,039,797	1,111,899
Trading account securities	16	303,969	–	397,289	97,044
Taxation recoverable		4,893	–	–	–
		<u>318,792</u>	<u>11,317</u>	<u>2,689,132</u>	<u>1,552,690</u>
Current liabilities					
Loans and overdrafts	17 & 31	–	–	831,104	434,436
Trade and other payables		46,070	4,841	741,159	751,441
Taxation		–	1,968	21,656	5,136
Proposed dividend		46,503	23,251	46,503	23,251
		<u>92,573</u>	<u>30,060</u>	<u>1,640,422</u>	<u>1,214,264</u>
Net current assets/(liabilities)		226,219	(18,743)	1,048,710	338,426
Lending over one year		–	–	103,304	122,260
Investments in subsidiary companies	18	2,296,218	1,448,130	–	–
Investments in associated companies	19	1,192,864	1,193,355	2,152,348	2,405,768
Investments in joint venture	20	–	–	498	–
Other investments	21	107,952	96,246	706,073	808,580
Fixed assets	22	–	–	54,506	60,787
Deferred taxation	23	(19,988)	–	(17,068)	3,924
		<u>3,803,265</u>	<u>2,718,988</u>	<u>4,048,371</u>	<u>3,739,745</u>
Capital employed					
Share capital	24	232,506	232,506	232,506	232,506
Capital and other reserves	25	1,673,650	1,609,757	1,499,765	1,349,621
Profit and loss account	26	1,384,633	364,249	1,789,603	1,630,990
Shareholders' funds		3,290,789	2,206,512	3,521,874	3,213,117
8% listed non-redeemable convertible loan notes	24(b)	512,476	512,476	512,476	512,476
Minority interests		–	–	14,021	14,152
		<u>3,803,265</u>	<u>2,718,988</u>	<u>4,048,371</u>	<u>3,739,745</u>

Arthur George Dew
Director

Chung Tze Hien
Director



CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December

	Note	1999		1998	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	27(a)		(724,737)		1,496,855
Returns on investments and servicing of finance					
Interest received		34,603		81,235	
Interest paid		(20,385)		(40,136)	
Dividends received from associated companies		6,204		7,260	
Dividends received from other investments		32,419		27,763	
Ordinary dividends paid		(34,876)		(58,126)	
Dividends paid to minority interests		(1,193)		(413)	
Net cash inflow from returns on investments and servicing of finance			16,772		17,583
Taxation					
Hong Kong profits tax paid		(1,309)		(46,560)	
Overseas tax paid		(3,358)		(1,020)	
Tax paid			(4,667)		(47,580)
Investing activities					
Proceeds on disposal of fixed assets		77		74,095	
Purchase of fixed assets		(3,233)		(8,746)	
Increase in joint venture		(498)		–	
Proceeds on disposal of other investments		198,047		64,267	
Increase in other investments		(4,631)		(234,142)	
Proceeds on disposal of associated companies		22,209		1,465	
Decrease/(increase) in associated companies		10,640		(766,038)	
Expenses paid on liquidation of subsidiary companies		(466)		–	
Proceeds on disposal of subsidiary companies		1,000		6,133	
Net cash inflow/(outflow) from investing activities			223,145		(862,966)
Net cash (outflow)/inflow before financing carried forward			(489,487)		603,892



CONSOLIDATED CASH FLOW STATEMENT (*continued*)
for the year ended 31 December

	Note	1999 HK\$'000	1998 HK\$'000
Net cash (outflow)/inflow before financing brought forward		(489,487)	603,892
Financing	27(b)		
8% listed non-redeemable convertible loan notes		-	512,476
Purchase of interests from a minority shareholder		-	(313)
Net cash inflow from financing		-	512,163
(Decrease)/increase in cash and cash equivalents		(489,487)	1,116,055
Cash and cash equivalents at 1 January		(90,689)	(1,205,458)
Effect of foreign exchange rate changes		1,118	(1,286)
Cash and cash equivalents at 31 December		<u>(579,058)</u>	<u>(90,689)</u>
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		252,046	343,747
Loans and overdrafts		(831,104)	(434,436)
		<u>(579,058)</u>	<u>(90,689)</u>



STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 December

	<i>Note</i>	1999 HK\$'000	1998 HK\$'000
Exchange differences arising on translation of subsidiary and associated companies	25	(21,504)	2,476
Revaluation surplus/(deficit) of other investments	25	15,480	(140,524)
Deficit reserves released on disposal of subsidiary and associated companies, and other investments	25	33,294	9,932
Share of reserves of associated companies	25	(17,563)	(14,343)
Permanent impairment of other investments transferred to profit and loss account	25	143,429	–
Transfer on reclassification of investments	25	(3,842)	10,638
Net gains/(losses) not recognised in the profit and loss account		149,294	(131,821)
Profit attributable to shareholders		217,591	85,240
Total recognised gains and losses		366,885	(46,581)

The comparative figure of revaluation deficit for other investments has been restated as a result of the change in accounting policy in order to comply with Statement of Standard Accounting Practice Number 24, details of which are set out in note 1(f) to the accounts. The cumulative effect of the change in accounting policy was to decrease the opening reserve at 1 January 1999 by HK\$327,717,000.



NOTES TO THE ACCOUNTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and consolidation

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of investment properties and investments in securities.

The consolidated accounts include the accounts of the Company and its subsidiary companies made up to 31 December. The results of subsidiaries acquired or disposed of during the year are consolidated from or up to their effective dates of acquisition or disposal, respectively.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

(b) Investments in subsidiary companies

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiary companies are included in the Company's balance sheet at cost less provision, if necessary, for any permanent diminution in value.

(c) Investments in associated companies

An associated company is a company, not being a subsidiary company, in which the Group holds an equity interest for the long term and exercises significant influence in its management.

The consolidated profit and loss account includes the Group's share of the post-acquisition results of the associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies plus the unamortised goodwill less capital reserves on acquisition of the associated companies.

In the Company's balance sheet the investments in associated companies are stated at cost less provision, if necessary, for any permanent diminution in value.



NOTES TO THE ACCOUNTS

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Investments in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the unamortised goodwill less capital reserves on acquisition. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated profit and loss account.

(e) Goodwill/capital reserve

Goodwill or capital reserve arising from consolidation represents the excess or the shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets at the date of acquisition of subsidiaries and associated companies. Goodwill on consolidation is amortised by equal installments over its estimated useful economic life of five years, while capital reserve is carried in the accounts with no amortisation thereof.

Any goodwill or capital reserve on the acquisition of an interest in a jointly controlled entity, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the jointly controlled entity at the date of acquisition is dealt with in the same manner as that described above except that goodwill arising on acquisition of a joint venture with specified operation period is amortised over its remaining joint venture period.

(f) Other investments

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.



NOTES TO THE ACCOUNTS

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Other investments *(continued)*

In prior years, investments in securities were stated at cost less provision for permanent diminution in value. This represents a change in accounting policy in order to comply with Statement of Standard Accounting Practice Number 24 issued by the Hong Kong Society of Accountants. The new accounting policy has been applied retrospectively and comparatives have been restated accordingly. The change in accounting policy does not have any effect on the current year's profit or retained earnings. The only effect is to decrease opening net assets by decreasing the carrying amount of other investments and the corresponding investment revaluation reserve of the Group by HK\$327,717,000 (1998: HK\$207,848,000).

(g) Fixed assets

Fixed assets other than investment properties (note 1(h)) and other properties are stated at cost less accumulated depreciation. Other properties are interests in land and building and are stated at cost or valuation less accumulated depreciation.

Depreciation of fixed assets is provided on a straight-line basis over their estimated useful lives as follows:

Leasehold properties

Land	–	over the remaining term of the lease, including the period for which a right of renewal is attached
Buildings		
Under long lease	–	3% per annum
Under medium-term lease	–	over the remaining term of the lease
Furniture and equipment	–	10% to 20% per annum

Long leases and medium-term leases are defined as leases having not less than 50 years and 10 years to run respectively.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.



NOTES TO THE ACCOUNTS

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment properties held on leases with unexpired periods greater than 20 years are included in fixed assets at their open market value on the basis of annual professional valuation. Changes in the value of investment properties held by the Company and its subsidiary companies are dealt with as a movement in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the amount by which the deficit exceeds the total amount in the investment property revaluation reserve is charged to the profit and loss account. If a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, the surplus is credited to the profit and loss account to the extent of the deficit previously charged.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment property revaluation reserve to the profit and loss account.

(i) Trading account securities

Listed and marketable securities held by the Group to facilitate its block trading, arbitrage and underwriting operations are stated at market value. The results from such activities, which include unrealised gains less losses arising from valuation at the balance sheet date of securities on hand, are dealt with in the profit and loss account.

(j) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.



NOTES TO THE ACCOUNTS

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiary and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. These exchange differences are dealt with as a movement in the exchange reserve.

(l) Turnover

The principal activities of the Group are securities, forex, bullion, commodities and futures broking, share margin financing, term loan, corporate finance, property investment and insurance consultancy. Turnover includes gross brokerage, commission, interest, dividend, rental and service income; and the following stated net of losses: profit from trading in securities, income from bullion transactions and differences on foreign exchange transactions.

(m) Revenue recognition

Brokerage income recognised in the accounts represents brokerage income accrued on all broking transactions traded on or before 31 December.

Profit and loss from trading in securities is recognised on a trade date basis.

Interest income is accrued on a time proportioned basis.

Dividend income from investments is recognised when the shareholders' right to receive payments has been established.

Rental income is recognised on all leases on the straight-line method over the lease term regardless of when the cash rental payment will be received.

(n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.



NOTES TO THE ACCOUNTS

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

(p) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

2. TURNOVER

	Group	
	1999	1998
	HK\$'000	HK\$'000
Continuing operations	657,083	562,439
Discontinued operations*	1,041	5,968
	<u>658,124</u>	<u>568,407</u>

* The Group disposed of two subsidiaries in fund management business in Hong Kong at a consideration of HK\$6 million. The sale was completed on 28 April 1999 giving rise to a profit of HK\$288,000.



NOTES TO THE ACCOUNTS

3. OTHER REVENUE

	Group	
	1999	1998
	HK\$'000	HK\$'000
Provision for doubtful debts written back	19,210	32,737
Provision for contingencies relating to investments and receivables written back	90,000	–
Exchange gain arising from a loan to an overseas client	20,396	–
Net (loss)/profit on disposal of subsidiary companies	(292)	3,707
Profit on disposal of discontinued operations	288	–
Net profit on disposal of associated companies	1,577	34,563
Net profit/(loss) on disposal of other investments	38,541	(14,729)
Net loss on disposal of properties	–	(3,879)
Other exchange gain/(loss)	657	(1,548)
Miscellaneous income	10,765	14,451
	<u>181,142</u>	<u>65,302</u>

4. OTHER EXPENSES

	Group	
	1999	1998
	HK\$'000	HK\$'000
Permanent impairment of other investments transferred from investment revaluation reserve	143,429	–
Provision for contingencies relating to investments and receivables	–	40,000
Provision for doubtful debts	17,852	56,054
Revaluation deficit of investment properties	–	8,999
Provision for shortfall in retirement benefit scheme	–	8,600
Provision for diminution in value in associated companies	–	4,718
	<u>161,281</u>	<u>118,371</u>



NOTES TO THE ACCOUNTS

5. OPERATING PROFIT

	Group	
	1999	1998
	HK\$'000	HK\$'000

Operating profit is stated after crediting and charging the following:

Crediting:

Brokerage, commission and service income	248,232	215,269
Dividends from listed investments	16,766	22,060
Dividends from unlisted investments	24,315	10,736
Gross rental income from investment properties	380	11,915
Interest income	193,237	268,419

Charging:

Auditors' remuneration	2,970	3,240
Amortisation of goodwill	128	306
Depreciation	8,646	10,010
Net loss on disposal of fixed assets	13	379
Operating lease rentals – land and buildings	22,920	23,543
– others	5,830	7,634
Outgoings in respect of investment properties	257	830
Retirement benefits cost	6,596	7,772
Staff cost	111,187	135,612



NOTES TO THE ACCOUNTS

6. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

(a) Directors

	1999 HK\$'000	1998 HK\$'000
Fees	150	137
Salaries, housing and other allowances, and benefits in kind	7,806	9,173
Bonuses	1,910	1,878
Contributions to retirement benefit scheme	241	183
	<u>10,107</u>	<u>11,371</u>

During the year, directors' fees of HK\$18,472 (1998: HK\$20,000) and consultancy fees of HK\$539,674 (1998: HK\$650,000) were paid to independent non-executive directors.

Emoluments of the directors including past directors were within the following bands:

Emoluments band (HK\$)	Number of directors	
	1999	1998
\$0 – \$1,000,000	12	9
\$1,000,001 – \$1,500,000	–	1
\$2,000,001 – \$2,500,000	1	–
\$2,500,001 – \$3,000,000	1	2
\$3,000,001 – \$3,500,000	1	1



NOTES TO THE ACCOUNTS

6. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES *(continued)*

(b) Senior employees

The five highest paid individuals included three directors (1998: three directors) of the Company, whose emoluments have been included above. The emoluments of the remaining two (1998: two) senior employees are analysed below:

	1999 HK\$'000	1998 HK\$'000
Fees	–	10
Salaries, housing and other allowances, and benefits in kind	2,999	3,380
Bonuses	2,646	180
Contributions to retirement benefit scheme	183	80
	<u>5,828</u>	<u>3,650</u>

Emoluments of the senior employees were within the following bands:

Emoluments band (HK\$)	Number of employees	
	1999	1998
\$1,500,001 – \$2,000,000	–	2
\$2,000,001 – \$2,500,000	1	–
\$3,500,001 – \$4,000,000	1	–



NOTES TO THE ACCOUNTS

7. RETIREMENT BENEFIT SCHEMES

As at 1 December 1999, a defined contribution scheme (“the Principal Scheme”) for the Hong Kong office’s qualifying employees is established to replace the existing defined benefit scheme. The Group also operates a defined benefit scheme for its subsidiary company’s employees in the Philippines.

The assets of the Principal Scheme are held separately from those of the Group in independently administered funds. Contributions to the schemes by the Group are calculated as percentage of employees’ basic salaries and are expensed as incurred. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the schemes. Forfeited contributions are used to reduce the existing level of contributions. The amounts so utilised in the course of the year ended 31 December 1999 were HK\$1,438,000 (1998: HK\$439,000).

8. FINANCE COST

	Group	
	1999	1998
	HK\$’000	HK\$’000
Interest on bank loans, overdrafts, convertible loan notes and other loans repayable within 5 years	74,669	76,507
Other borrowing costs	6,069	5,400
	<u>80,738</u>	<u>81,907</u>

9. OPERATING PROFIT AFTER FINANCE COST

	Group	
	1999	1998
	HK\$’000	HK\$’000
Operating profit/(loss) after finance cost arising from:		
Continuing operations	291,011	97,248
Discontinued operations	(387)	(1,564)
	<u>290,624</u>	<u>95,684</u>



NOTES TO THE ACCOUNTS

10. TAXATION

	Group	
	1999 HK\$'000	1998 HK\$'000
Company and subsidiary companies		
Hong Kong profits tax	24,044	21,082
10% tax rebate for 1997/98	(3,626)	–
Overseas taxation	785	4,476
Deferred taxation provided/(written back) (<i>note 23</i>)	20,985	(1,774)
	<u>42,188</u>	<u>23,784</u>
Associated companies		
Hong Kong profits tax	13,601	424
Hong Kong profits tax written back	(148)	(132)
Overseas taxation	10,114	10,053
	<u>65,755</u>	<u>34,129</u>

Hong Kong profits tax has been provided at the rate of 16% (1998: 16%) on the estimated assessable profits for the year.

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

11. DIVIDENDS

	Company	
	1999 HK\$'000	1998 HK\$'000
Interim dividend paid of 1 cent per share (1998: 1 cent per share)	11,625	11,625
Proposed final dividend of 4 cents per share (1998: 2 cents per share)	46,503	23,251
	<u>58,128</u>	<u>34,876</u>



NOTES TO THE ACCOUNTS

12. PROFIT FOR THE YEAR RETAINED

	Group	
	1999	1998
	HK\$'000	HK\$'000
Profit for the year retained by:		
Company and subsidiary companies	195,072	143,581
Associated companies	(36,459)	(95,068)
	<u>158,613</u>	<u>48,513</u>

13. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$217,591,000 (1998: HK\$85,240,000) and 1,162,532,309 ordinary shares in issue during the year (1998: 1,162,532,309 ordinary shares).

The diluted earnings per share was based on the adjusted earnings of HK\$252,029,000 calculated on the assumption that the convertible loan notes of the Company which would have a diluting effect on the earnings per share had been converted at the beginning of the year and on 1,504,182,712 shares issued and issuable. The conversion of convertible loan notes would not have a diluting effect on the earnings per share in 1998. In addition, the exercise of the outstanding warrants of the Company would not have a diluting effect on the earnings per share in 1999 and 1998.



NOTES TO THE ACCOUNTS

14. TRADE AND OTHER RECEIVABLES

	Group			
	1999		1998	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables				
Receivable from brokers and clients	489,893		311,237	
Less: Provision	(51,838)		(61,866)	
		438,055		249,371
Secured margin loans	1,167,487		522,800	
Less: Provision	(124,311)		(134,343)	
		1,043,176		388,457
Secured term loans	536,815		442,484	
Less: Provision	(5,000)		—	
		531,815		442,484
		2,013,046		1,080,312
Other accounts receivable, deposits and prepayments		26,751		31,587
		2,039,797		1,111,899
			Company	
			1999	1998
			HK\$'000	HK\$'000
Other accounts receivable, deposits and prepayments			7,913	9,323

15. TRUST ACCOUNTS

The Group maintains trust accounts with a licensed bank to hold clients' deposits arising from normal business transactions. At 31 December 1999, trust accounts not otherwise dealt with in these accounts totalled HK\$741 million (1998: HK\$738 million).



NOTES TO THE ACCOUNTS

16. TRADING ACCOUNT SECURITIES

	Company		Group	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Listed equity securities				
Listed in Hong Kong	303,969	–	324,652	1,058
Listed outside Hong Kong	–	–	11,308	17,025
	<u>303,969</u>	<u>–</u>	<u>335,960</u>	<u>18,083</u>
Other marketable debt securities	–	–	61,329	78,961
	<u>303,969</u>	<u>–</u>	<u>397,289</u>	<u>97,044</u>

17. LOANS AND OVERDRAFTS

	Group	
	1999 HK\$'000	1998 HK\$'000
Bank loans and overdrafts		
Secured (<i>note 31</i>)	831,062	385,496
Unsecured	42	10,200
Other loans*		
Secured (<i>note 31</i>)	–	38,740
	<u>831,104</u>	<u>434,436</u>

* Other loans carry interest at commercial rates and are repayable within 3 months.

18. INVESTMENTS IN SUBSIDIARY COMPANIES

	Company	
	1999 HK\$'000	1998 HK\$'000
Unlisted shares, at cost		
Fully paid shares	422,772	315,330
Partly paid shares	–	174
	<u>422,772</u>	<u>315,504</u>
Add: Amounts due from subsidiary companies	2,260,694	1,132,626
	<u>2,683,466</u>	<u>1,448,130</u>
Less: Amounts due to subsidiary companies	(387,248)	–
	<u>2,296,218</u>	<u>1,448,130</u>

Details of the principal subsidiary companies are shown in note 32.



NOTES TO THE ACCOUNTS

19. INVESTMENTS IN ASSOCIATED COMPANIES

	Group			
	1999		1998	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Share of net assets other than goodwill (<i>note a</i>)		1,850,627		1,809,504
Share of goodwill of an associated company		286		414
Capital reserves on acquisition of associated companies		<u>(304,028)</u>		<u>(311,421)</u>
		1,546,885		1,498,497
<i>Less:</i> Provision for diminution in value		<u>–</u>		<u>(23,999)</u>
		1,546,885		1,474,498
<i>Add:</i> Amounts due from associated companies				
– Advances to associated companies, less provision (<i>note d</i>)	75,850		88,690	
– Convertible loan notes and promissory note issued by a listed associated company (<i>note e</i>)	<u>545,112</u>		<u>848,588</u>	
		<u>620,962</u>		<u>937,278</u>
		2,167,847		2,411,776
<i>Less:</i> Amounts due to associated companies		<u>(15,499)</u>		<u>(6,008)</u>
		<u><u>2,152,348</u></u>		<u><u>2,405,768</u></u>



NOTES TO THE ACCOUNTS

19. INVESTMENTS IN ASSOCIATED COMPANIES *(continued)*

	Company	
	1999	1998
	HK\$'000	HK\$'000
Listed investments, at cost	845,561	712,030
Unlisted investments, at cost	55,003	59,467
	900,564	771,497
<i>Add:</i> Amounts due from associated companies	81,901	95,271
Convertible loan notes and promissory note issued by a listed associated company	227,000	348,588
	1,209,465	1,215,356
<i>Less:</i> Provision	(16,601)	(22,001)
	1,192,864	1,193,355
Market value of listed investments	427,577	125,495

(a) Details of share of net assets other than goodwill are as follows:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Investments listed in Hong Kong, at cost	941,554	740,094
Unlisted investments, at cost	536,730	637,706
Total investments, at cost	1,478,284	1,377,800
Capital reserves less goodwill on acquisition	222,219	229,739
Share of goodwill of an associated company	(286)	(414)
Share of post-acquisition reserves	158,031	209,447
Elimination of unrealised profit	(7,621)	(7,068)
	1,850,627	1,809,504
Market value of listed investments	484,164	136,295

(b) Details of the principal associated companies are shown in note 32.



NOTES TO THE ACCOUNTS

19. INVESTMENTS IN ASSOCIATED COMPANIES *(continued)*

- (c) During the year, dividends of HK\$6,904,000 (1998: HK\$122,174,000) were received from unlisted associated companies and no dividend was received from listed associated companies (1998: HK\$6,115,000).
- (d) Advances to associated companies are unsecured, interest free and not repayable within 12 months from the balance sheet date.
- (e) Details of convertible loan notes and promissory note issued by a listed associated company are as follows:
- A promissory note in the sum of HK\$200 million was assigned to a subsidiary of the Group on 31 March 1998. Interest is payable on a half-yearly basis at 3% per annum. The note will mature and shall be repaid on 25 March 2000. At 31 December 1998, its remaining principal value was approximately HK\$122 million. In February 1999, Sun Hung Kai International Limited, a wholly owned subsidiary of the Group underwrote a rights issue of the listed associated company. The promissory note was set off pursuant to the Group's obligations to the underwriting.
 - A convertible loan note dated 8 January 1998 with a principal value of HK\$500 million. The note attaches a right to convert the principal amount due under this note at a conversion price of HK\$1.30 per the listed associated company's share. Interest is payable on a quarterly basis at 5% per annum on the outstanding principal amount. The note will mature and is due for repayment on 22 August 2000. In February 1999, the convertible loan note was reduced to HK\$318,111,967 for the set-off as mentioned above. The conversion price of the convertible loan note was adjusted to HK\$1.12 following the rights issue of the listed associated company.

After the year end, the Company and the listed associated company agreed to extend the maturity and repayment dates of the convertible loan note for one year to 22 August 2001 on the condition that the interest on the convertible loan note will be adjusted from 5% to 6% per annum and all other terms and conditions remain unchanged.

- Three convertible loan notes all dated 2 June 1998 with an aggregate principal amount of HK\$227 million. The notes attach a right to convert the principal amounts under these notes at a conversion price of HK\$1.00 per the listed associated company's share. Interest is payable on a quarterly basis at 4% per annum. The terms of all the three notes are identical and the notes will mature and are due for repayment on 2 June 2001. The conversion price of the convertible loan notes was adjusted to HK\$0.86 following the rights issue of the listed associated company in February 1999.



NOTES TO THE ACCOUNTS

20. INVESTMENTS IN JOINT VENTURE

	Group	
	1999	1998
	HK\$'000	HK\$'000
Share of net tangible assets	3,056	–
Capital reserve on acquisition	(2,558)	–
	498	–

Particulars of the jointly controlled entity at 31 December 1999 are as follows:

Name	Country of incorporation	Principal activities	Percentage of group equity interest
SHK Barton Limited	British Virgin Islands	On line securities broking	50

21. OTHER INVESTMENTS

	Company		Group	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity investments, at market value				
Listed in Hong Kong	35,124	37,253	232,249	285,753
Listed outside Hong Kong	–	–	63,180	41,961
	35,124	37,253	295,429	327,714
Unlisted equity investments, at fair value	67,102	56,903	313,556	390,547
Club debentures, exchange seats and statutory deposits and other deposits with Exchange and Clearing companies, at cost	2,090	2,090	20,208	20,210
	104,316	96,246	629,193	738,471
<i>Add:</i> Amounts due from investee companies, less provision	3,636	–	78,235	74,933
	107,952	96,246	707,428	813,404
<i>Less:</i> Amounts due to investee companies	–	–	(1,355)	(4,824)
	107,952	96,246	706,073	808,580



NOTES TO THE ACCOUNTS

22. FIXED ASSETS

	Group			
	Investment properties	Other properties	Furniture and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation				
At 1 January 1999	19,000	19,336	59,912	98,248
Exchange and other adjustments	–	–	2,812	2,812
Additions	–	–	3,233	3,233
Disposals	–	–	(10,024)	(10,024)
At 31 December 1999	19,000	19,336	55,933	94,269
Accumulated depreciation				
At 1 January 1999	–	2,860	34,601	37,461
Exchange and other adjustments	–	–	2,689	2,689
Charge for the year	–	353	8,293	8,646
Written back on disposals	–	–	(9,033)	(9,033)
At 31 December 1999	–	3,213	36,550	39,763
Net book value at 31 December 1999	19,000	16,123	19,383	54,506
Net book value at 31 December 1998	19,000	16,476	25,311	60,787
The analysis of cost or valuation shown above is:				
At professional valuation – 1985	–	16,000	–	16,000
At professional valuation – 1999	19,000	–	–	19,000
At cost	–	3,336	55,933	59,269
	19,000	19,336	55,933	94,269



NOTES TO THE ACCOUNTS

22. FIXED ASSETS (continued)

- (a) The investment properties were valued at 31 December 1999 by DTZ Debenham Tie Leung Limited, an independent firm of registered professional surveyors, on an open market basis. Particulars of the investment properties at 31 December 1999 were:

Location	Classification	Term of lease	Interest
Houses C7 and C8, Hawaii Garden, No. 18, Silver Cape Road, Sai Kung, New Territories	Residential	2047	100%

- (b) In preparing these accounts, the Group has availed itself of the transitional provisions set out in paragraph 72 of the Statement of Standard Accounting Practice 17, which permit the retention of "Other Properties" at previously stated professional valuation.

An item of the revalued "Other Properties" amounting to HK\$16,000,000 was valued in 1985 by Jones Lang Wootton, independent professional valuer, on an open market basis. The carrying amount of the "Other Properties", including the revalued property, would have been HK\$17,928,000 (1998: HK\$18,313,000), had the property been carried at cost less accumulated depreciation.

Net book value of other properties comprises:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Long lease properties in Hong Kong	14,177	14,368
Medium-term lease property at overseas	1,946	2,108
	<u>16,123</u>	<u>16,476</u>



NOTES TO THE ACCOUNTS

23. DEFERRED TAXATION

	Company		Group	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Balance as at 1 January	–	–	3,924	2,146
Exchange adjustments	–	–	(7)	4
Transfer (to)/from profit and loss account (<i>note 10</i>)	<u>(19,988)</u>	–	<u>(20,985)</u>	<u>1,774</u>
Balance as at 31 December	<u><u>(19,988)</u></u>	<u><u>–</u></u>	<u><u>(17,068)</u></u>	<u><u>3,924</u></u>
Representing:				
Accelerated depreciation allowances	–	–	(1,862)	(1,154)
Unrealised profit on marketable securities	<u>(19,988)</u>	–	<u>(21,171)</u>	–
General provision and others	–	–	<u>5,965</u>	<u>5,078</u>
	<u><u>(19,988)</u></u>	<u><u>–</u></u>	<u><u>(17,068)</u></u>	<u><u>3,924</u></u>

The deferred tax assets not recognised in the accounts are analysed as follows:

	Group	
	1999 HK\$'000	1998 HK\$'000
Arising from:		
Tax losses carried forward	58,268	59,725
General provision and others	<u>2,610</u>	<u>2,492</u>
	<u><u>60,878</u></u>	<u><u>62,217</u></u>

The revaluation of the Group's investment properties does not constitute a timing difference for deferred taxation purposes as realisation of the revaluation surplus would not result in a tax liability.



NOTES TO THE ACCOUNTS

24. SHARE CAPITAL

	Company	
	1999	1998
	HK\$'000	HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.2 each	<u>3,000,000</u>	<u>3,000,000</u>
	No. of	Amount
	shares of	HK\$'000
	HK\$0.2 each	
Issued and fully paid:		
Balance as at 1 January 1999 and 31 December 1999	<u>1,162,532,309</u>	<u>232,506</u>

(a) Warrants

As at 1 January 1999, the Company had 193,637,507 outstanding warrants in issue. Each warrant entitles the holder thereof to subscribe in cash for 1 fully paid share at an initial subscription price of HK\$2.50 per share, subject to adjustment, at any time during the subscription period up to and including 18 February 2000. During the year, no warrant had been exercised and there remained 193,637,507 outstanding warrants in issue as at 31 December 1999.

(b) 8% Listed Non-Redeemable Convertible Loan Notes

Pursuant to the terms of an open offer of 8% listed non-redeemable convertible loan notes (the "Notes") to shareholders, Notes for a total principal amount of HK\$512,475,604.50 were allotted and issued on 13 January 1998. The Notes are due on 31 December 2000 and will then be automatically converted into new shares (with new warrants in the proportion of 1 new warrant for every 5 new shares) at an initial conversion price of HK\$1.50 per new share (the "Conversion Price"), subject to adjustment. Upon the mandatory conversion of the Notes at the Conversion Price on the maturity date, 341,650,403 new shares (with 68,330,080 new warrants) will be issued.



NOTES TO THE ACCOUNTS

25. CAPITAL AND OTHER RESERVES

	Company		Group	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Special capital reserve				
Balance as at 1 January	930,026	–	930,026	–
Adjustment of nominal value of shares	–	930,026	–	930,026
Balance as at 31 December	930,026	930,026	930,026	930,026
Share premium account				
Balance as at 1 January and 31 December	681,081	681,081	682,520	682,520
Exchange reserve				
Balance as at 1 January	–	–	(26,414)	(31,020)
Translation of the accounts of overseas subsidiary and associated companies	–	–	(21,504)	2,476
Reverse exchange deficit/(surplus) on disposal of subsidiary and associated companies	–	–	8,643	(85)
Associated companies	–	–	939	2,215
Balance as at 31 December	–	–	(38,336)	(26,414)
Investment property revaluation reserve				
Balance as at 1 January	–	–	81,373	98,264
Associated companies	–	–	(12,969)	(16,891)
Transfer on reclassification of investments	–	–	(3,872)	–
Balance as at 31 December	–	–	64,532	81,373
Balance carried forward	1,611,107	1,611,107	1,638,742	1,667,505



NOTES TO THE ACCOUNTS

25. CAPITAL AND OTHER RESERVES *(continued)*

	Company		Group	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Balance brought forward	<u>1,611,107</u>	<u>1,611,107</u>	<u>1,638,742</u>	<u>1,667,505</u>
Investment revaluation reserve				
Balance as at 1 January as previously reported	–	–	2,944	2,944
Prior year adjustments <i>(note 1(f))</i>	<u>(1,350)</u>	<u>30,777</u>	<u>(327,717)</u>	<u>(207,848)</u>
As restated	(1,350)	30,777	(324,773)	(204,904)
Associated company	–	–	(17,990)	–
Revaluation surplus/(deficit) of other investments	63,717	(32,127)	15,480	(140,524)
Permanent impairment of other investments transferred to profit and loss account	–	–	143,429	–
Transfer on reclassification of investments	–	–	–	10,638
Release on disposal of other investments	176	–	28,667	10,017
Release on disposal of an associated company	<u>–</u>	<u>–</u>	<u>(2,944)</u>	<u>–</u>
Balance as at 31 December	<u>62,543</u>	<u>(1,350)</u>	<u>(158,131)</u>	<u>(324,773)</u>
Capital reserves				
Balance as at 1 January	–	–	6,889	4,705
Associated companies	–	–	12,457	333
Transfer on reclassification of investments	–	–	30	–
Transfer from retained earnings by associated companies	–	–	850	1,851
Release on disposal of a subsidiary company	<u>–</u>	<u>–</u>	<u>(1,072)</u>	<u>–</u>
Balance as at 31 December	<u>–</u>	<u>–</u>	<u>19,154</u>	<u>6,889</u>
Total balance as at 31 December	<u>1,673,650</u>	<u>1,609,757</u>	<u>1,499,765</u>	<u>1,349,621</u>
Retained by:				
Company and subsidiary companies			<u>1,446,044</u>	1,280,335
Associated companies			<u>53,721</u>	<u>69,286</u>
			<u>1,499,765</u>	<u>1,349,621</u>



NOTES TO THE ACCOUNTS

26. PROFIT AND LOSS ACCOUNT

	Company		Group	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Balance as at 1 January	364,249	206,953	1,630,990	1,582,477
Profit for the year	1,078,512	192,172	217,591	85,240
Dividends (<i>note 11</i>)	(58,128)	(34,876)	(58,128)	(34,876)
Transfer to capital reserve by associated companies	—	—	(850)	(1,851)
Balance as at 31 December	<u>1,384,633</u>	<u>364,249</u>	<u>1,789,603</u>	<u>1,630,990</u>
Retained by:				
Company and subsidiary companies			1,696,884	1,490,829
Associated companies			92,719	140,161
			<u>1,789,603</u>	<u>1,630,990</u>

Distributable reserves of the Company at 31 December 1999, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$1,259,708,000 (1998: HK\$364,249,000).



NOTES TO THE ACCOUNTS

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash (outflow)/inflow from operating activities

	1999 HK\$'000	1998 HK\$'000
Profit before taxation	284,671	118,705
Share of profits and losses of associated companies	5,953	(23,021)
Provision for doubtful debts written back	(19,210)	(32,737)
Exchange (gain)/loss	(21,053)	1,548
Provision for doubtful debts	17,852	56,054
Provision for contingencies relating to investments and receivables (written back)/provided	(90,000)	40,000
Permanent impairment of other investments transferred from investment revaluation reserve	143,429	–
Provision for diminution in value in associated companies	–	4,718
Provision for shortfall in retirement benefit scheme	–	8,600
Revaluation deficit of investment properties	–	8,999
Net interest expenses/(income)	1,125	(46,835)
Unrealised (profit)/loss on trading account securities	(127,611)	36,735
Depreciation and amortisation of goodwill	8,774	10,316
Amortisation of other investment	292	292
Net loss on disposal of fixed assets	13	379
Net loss/(profit) on disposal of subsidiary companies and discontinued operations	4	(3,707)
Net profit on disposal of associated companies	(1,577)	(34,563)
Net (profit)/loss on disposal of other investments	(38,541)	14,729
Net loss on disposal of properties	–	3,879
Dividend income from other investments	(40,879)	(28,897)
(Increase)/decrease in trade and other receivables	(931,447)	1,319,750
Decrease in trading account securities	5,066	133,930
Increase/(decrease) in trade and other payables	59,446	(92,019)
Decrease in lending over one year	18,956	–
Net cash (outflow)/inflow from operating activities	<u>(724,737)</u>	<u>1,496,855</u>



NOTES TO THE ACCOUNTS

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Convertible loan notes HK\$'000	Share capital, special capital reserve and premium HK\$'000	Minority interests HK\$'000
Balance as at 1 January 1999	512,476	1,845,052	14,152
Exchange adjustments	—	—	(263)
Share of results by minority interests	—	—	1,325
Dividends paid to minority interests	—	—	(1,193)
Balance as at 31 December 1999	<u>512,476</u>	<u>1,845,052</u>	<u>14,021</u>

(c) Disposal of subsidiary companies

	HK\$'000
Net assets disposed of	
Fixed assets	712
Profit on disposal	<u>288</u>
	<u>1,000</u>
Satisfied by	
Cash received	6,000
Cash and bank disposed of	<u>(5,000)</u>
	<u>1,000</u>

The subsidiary companies disposed of during the year paid HK\$1,591,000 of the Group's net operating cash flow, paid HK\$3,310,000 in respect of taxation and paid HK\$471,000 in respect of investing activities.



NOTES TO THE ACCOUNTS

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(d) Major non-cash transactions

During the year, the Group had the following major non-cash transactions:

- The Group applied HK\$9 million dividend received from an unlisted associated company and investee companies to repay the amounts due to these companies.
- In February 1999, Sun Hung Kai International Limited, a wholly owned subsidiary of the Group, underwrote a rights issue of a listed associated company. The Group's obligations pursuant to the underwriting were set off against the promissory note and a portion of a convertible loan note (and interest thereon) issued to the Group by the listed associated company amounted to HK\$311 million.

28. CAPITAL COMMITMENTS

	Group	
	1999	1998
	HK\$Million	HK\$Million
Contracted but not provided for	–	–
Authorised but not contracted for	14	–
	<u>14</u>	<u>–</u>



NOTES TO THE ACCOUNTS

29. OPERATING LEASE COMMITMENTS

The Group's operating lease commitments at 31 December payable in the next twelve months, analysed according to the period in which the lease expires, are as follows:

	1999		1998	
	Land and buildings HK\$'000	Other HK\$'000	Land and buildings HK\$'000	Other HK\$'000
Operating leases which expire:				
In the first year	4,897	1,776	455	3,417
In the second to fifth years inclusive	17,998	5,527	24,588	4,683
	<u>22,895</u>	<u>7,303</u>	<u>25,043</u>	<u>8,100</u>

30. CONTINGENT LIABILITIES

At 31 December 1999, the Company and the Group had contingent liabilities as follows:

- Guarantees of the Company amounted to HK\$350 million (1998: HK\$39 million) in respect of banking and loan facilities of HK\$500 million (1998: HK\$39 million) and were made available to a subsidiary company, of which facilities utilised amounted to HK\$421 million (1998: HK\$39 million).
- Guarantees of the Sun Hung Kai Securities Limited Group in respect of indemnities on banking guarantees made available to a clearing house and regulatory body were HK\$4.5 million (1998: HK\$4.5 million), of which no facilities were utilised (1998: Nil).
- Sun Hung Kai Forex Limited ("SHK Forex") and Sun Hung Kai Bullion Company Limited ("SHK Bullion"), wholly-owned subsidiary companies, entered into agreements with SHK Leveraged Forex & Gold Fund Limited ("the Fund"), an open-ended mutual fund corporation authorised by the Securities and Futures Commission in Hong Kong trading in leveraged foreign exchange and bullion contracts. Under the agreements, SHK Forex and SHK Bullion have agreed to limit the claim against the Fund arising from transactions entered into by SHK Forex and SHK Bullion as the principal brokers and counterparties of the Fund to the amount recoverable from the assets of the Fund. No provision has to be made in respect of these agreements for the year (1998: Nil).



NOTES TO THE ACCOUNTS

30. CONTINGENT LIABILITIES *(continued)*

- (d) Sun Hung Kai Securities Limited (“SHKSL”), a wholly-owned subsidiary of the Company, issued proceedings against New World Development Company Limited (“NWD”) on 22 December 1998, claiming, inter alia, the repayment of approximately HK\$35 million paid by SHKSL to NWD as restitution of monies received by NWD in relation to a project in Kuala Lumpur, Malaysia.

NWD and its wholly-owned subsidiary, namely, Stapleton Developments Limited, issued proceedings against SHKSL, claiming, inter alia, the specific performance of SHKSL’s commitment with them in respect of the development project to provide funding of approximately HK\$115.9 million, of which HK\$18.7 million represents interest accrued.

If SHKSL successfully establishes its claim, there will be no profit or loss, otherwise, SHKSL will have to recognise HK\$18.7 million as borrowing cost in its profit and loss account.

Legal costs are recorded in the profit and loss account as incurred. In the opinion of directors, no material contingency on legal costs will arise from these proceedings and accordingly no provision is required.

31. ASSETS PLEDGED TO THIRD PARTIES

At 31 December 1999, listed investments belonging to the Group and margin clients with a total market value of HK\$3,111 million (1998: HK\$1,406 million) were pledged to banks and financial institutions. Banking facilities of HK\$1,720 million (1998: HK\$2,172 million) were available to the Group.



NOTES TO THE ACCOUNTS

32. PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES

The principal subsidiary and associated companies as at 31 December 1999 were as follows:

Principal subsidiary companies	Country of incorporation and operation	Issued and paid up share capital	Percentage of group equity interest	Principal activities
Cheeroll Limited	Hong Kong	2 HK\$1 shares	100	Share trading
Quick Art Limited	Hong Kong	3,540,000 HK\$1 shares	100	Share trading and property investment
Ranbridge Finance Limited	Hong Kong	20,000,000 HK\$1 shares	100	Money lending
Ranbridge Inc.	The Philippines	5,385,000 Peso 1 shares	100	Money lending
SHK Financial Data Limited	Hong Kong	100 HK\$1 shares	51	Provision of financial information service
SHK Financial Management Limited	Hong Kong	5,000,000 HK\$1 shares	100	Fund management
SHK Online Limited	Hong Kong	100,000 HK\$10 shares	100	Online service
Sun Hung Kai Bullion Company Limited	Hong Kong	30,000,000 HK\$1 shares	100	Bullion trading
Sun Hung Kai Capital Phil., Inc.	The Philippines	250,000,000 Peso 1 common shares	75	Investment advice
		5,000,000 Peso 10 preferred shares	100	
Sun Hung Kai Commodities Limited	Hong Kong	80,000,600 HK\$1 shares	100	Commodities broking
Sun Hung Kai Forex Limited	Hong Kong	150,000,000 HK\$1 shares	100	Foreign exchange trading
Sun Hung Kai Insurance Consultants Limited	Hong Kong	1,000,000 HK\$1 shares	100	Insurance broking
Sun Hung Kai International Limited	Hong Kong	100,000 HK\$100 shares	100	Corporate finance service
Sun Hung Kai International Investment Management Limited	British Virgin Islands	50,000 US\$1 shares	100*	Investment holding
Sun Hung Kai Investment Services Limited	Hong Kong	65,000 HK\$100 shares	100	Investment holding and share broking
Sun Hung Kai Online Limited	British Virgin Islands	1 US\$1 share	100	Online service



NOTES TO THE ACCOUNTS

32. PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES *(continued)*

Principal subsidiary companies	Country of incorporation and operation	Issued and paid up share capital	Percentage of group equity interest	Principal activities
Sun Hung Kai (Nominees) Limited	Hong Kong	2 HK\$100 shares	100	Nominee service
Sun Hung Kai Research Limited	Hong Kong	1,000 HK\$10 shares	100	Securities research service
Sun Hung Kai Securities Limited	Hong Kong	249,797,178 HK\$0.5 shares	100*	Investment holding
Sun Hung Kai Securities (Bermuda) Limited	Bermuda	12,000 US\$1 shares	100*	Investment holding and management services
Sun Hung Kai Securities Capital Markets Limited	Hong Kong	1,000 HK\$1 shares	100	Investment holding
Sun Hung Kai Securities (Phil.), Inc.	The Philippines	273,600,000 Peso 1 shares	100	Share broking
Sun Hung Kai Securities (Overseas) Limited	Hong Kong	60,000 HK\$1 shares	100	Investment holding
Sun Hung Kai Venture Capital Limited	Hong Kong	2 HK\$1 shares	100	Investment holding
Sun Tai Cheung Credits Limited	Hong Kong	7,500,000 HK\$10 shares	100	Share margin financing
Swan Islands Limited	British Virgin Islands	1 US\$1 share	100*	Investment holding
Tailwind Consultants Limited	British Virgin Islands	1 US\$1 share	100*	Investment holding
Texgulf Limited	Hong Kong	2 HK\$10 shares	100	Property investment
Tung Wo Investment Company, Limited	Hong Kong	100 HK\$100 shares	100	Investment holding
Upstand Assets Limited	British Virgin Islands	1 US\$1 share	100*	Investment holding
Wineur Secretaries Limited	Hong Kong	2 HK\$1 shares	100	Secretarial service

* *Subsidiary companies directly held by the Company.*



NOTES TO THE ACCOUNTS

32. PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES *(continued)*

Principal associated companies	Country of incorporation and operation	Percentage of equity interest held by		Principal activities
		Group	Company	
Chronicle Gain Limited	Hong Kong	45	–	Property holding
Drinkwater Investment Limited	Hong Kong	22	–	Property holding
Lippo Limited **	Hong Kong	26+	–	Investment holding
Lippo Capital Limited	Cayman Islands	49	–	Investment holding
Omicron International Limited	British Virgin Islands	38	38	Investment holding
Real Estate Investments (N.T.) Limited	Hong Kong	40	–	Property development
Shanghai Orient-Sun International Investment Management Co., Ltd.	People's Republic of China	49	–	Consultancy service in equity and direct investments
Silver York Development Limited	Hong Kong	40	–	Property development
Start Hold Limited	Hong Kong	33	–	Investment holding
Tian An China Investments Company Limited **	Hong Kong	34+#	33#	Investment holding
Tian An Development Company Limited	Hong Kong	40	40	Investment holding

+ Representing direct and indirect shareholding.

Excluding shares held for trading purposes.

** These associated companies are listed in Hong Kong and further details about these associated companies are available in their published audited accounts.

33. SUBSEQUENT EVENTS

- (a) The Company as the vendor entered into a conditional sale and purchase agreement dated 24 November 1999 with Millennium Touch Limited as the purchaser, for the sale and purchase of 770 million shares in Tian An China Investments Company Limited for a consideration of HK\$423,500,000. The disposal was completed on 9 February 2000 with an estimated net gain of approximately HK\$139 million.



NOTES TO THE ACCOUNTS

33. SUBSEQUENT EVENTS *(continued)*

- (b) On 23 February 2000, the Company and Sun Hung Kai Securities Capital Markets Limited, a wholly owned subsidiary of the Group, exercised the subscription rights attaching to the February 2000 warrants of Tian An China Investments Company Limited ("Tian An") and subscribed for 227,709,950 new shares of HK\$0.2 each in the capital of Tian An at a subscription price of HK\$0.2 per share. Other than to maintain the Group's 34% equity interest in Tian An, the balance of the Tian An shares being subscribed will be classified as marketable securities.

34. RELATED PARTIES TRANSACTIONS

During the year, the Group had the following material transactions with related parties:

	1999	1998
<i>Note</i>	HK\$'000	HK\$'000
– Balance of consideration paid to a substantial shareholder on 8 January 1998 relating to the acquisition of a 5% convertible loan note in the amount of HK\$500 million issued by a listed associated company of the Group	–	450,000
– Proceeds from disposal of the Group's 30% interest in Chinaland Management Limited ("Chinaland") and the Group's 40% interest in Chang Zhou Power Development Company Limited in the amount of HK\$50 million and HK\$54 million respectively together with the assignment of a convertible loan note in the amount of HK\$123 million from a majority shareholder of Chinaland to the Group as full settlement of its debt	–	227,000
– Interest income from a listed associated company <i>(a)</i>	26,557	34,397
– Purchase of two houses from an associated company	–	27,000



NOTES TO THE ACCOUNTS

34. RELATED PARTIES TRANSACTIONS *(continued)*

		1999	1998
	<i>Note</i>	HK\$'000	HK\$'000
– Sale of the Group's 20% interest in an associated company to its majority shareholder		–	6,946
– Underwriting commission received from a listed associated company	<i>(b)</i>	5,269	–
– Subscription of rights shares in a listed associated company	<i>(b)</i>	311,231	–
– Dividend received from a subsidiary of the deemed substantial shareholder		9,075	5,952
– Interest received from bank deposits in a subsidiary of an associated company		3,365	–
– Financial printing service and translation fees paid to companies in which a non-executive director has significant influence		1,025	1,187
– Professional fees paid to a company in which a non-executive director has significant influence		1,063	1,700

Notes:–

- (a) The interest income from a listed associated company arose mainly from its convertible loan notes and promissory note being held by the Group and details of which are disclosed in note 19(e) to the financial statements.
- (b) In February 1999, Sun Hung Kai International Limited, a wholly-owned subsidiary of the Group, underwrote a rights issue of a listed associated company and received an underwriting commission. In addition, the Group's obligations pursuant to the underwriting were subscription of 1,556,154,102 rights shares at a consideration of HK\$311 million and set off against the promissory note and a portion of a convertible loan note (and interest accrued thereon) issued to the Group by the listed associated company with the same amount. The above was a major transaction and had been approved by shareholders on 27 January 1999. Details of the transaction are contained in a circular to shareholders dated 11 January 1999.



NOTES TO THE ACCOUNTS

35. COMPARATIVE FIGURES

Certain comparative figures have been restated and reclassified mainly due to the adoption of new or revised Statement of Standard Accounting Practice Number 1, 2 and 24.

36. APPROVAL OF ACCOUNTS

The accounts on pages 30 to 71 were approved by the board of directors on 26 April 2000.



FIVE YEAR FINANCIAL SUMMARY

Results of the Group for the past five years ended 31 December

	1995	1996	1997	1998	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Results:					
Turnover#	647,723	651,433	896,237	568,407	658,124
Profit attributable to shareholders	211,078	214,719	302,132	85,240	217,591
Retained profits carried forward	1,247,060	1,389,821	1,582,477	1,630,990	1,789,603

Assets and liabilities of the Group as at 31 December

	1995	1996	1997	1998	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities:					
Current assets	3,161,257	2,845,952	3,270,406	1,552,690	2,689,132
Total assets*	5,004,442	4,405,532	5,696,702	4,954,009	5,705,861
Current liabilities	2,667,208	1,404,512	2,387,269	1,214,264	1,640,422
Total liabilities	2,672,673	1,407,526	2,402,128	1,740,892	2,183,987

Turnover for 1995-1998 have been adjusted to conform with the presentation on the adoption of the new Statement of Standard Accounting Practice Number 1.

* Total assets for 1995-1998 have been adjusted to reflect the change in accounting policy for the adoption of Statement of Standard Accounting Practice Number 24.



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

Form of proxy

I/We (Note 1) _____

of _____

being the registered holder(s) of (Note 2) _____ shares of HK\$0.20 each in the capital of

SUN HUNG KAI & CO. LIMITED ("the Company"), HEREBY APPOINT (Note 3) _____

of _____

or failing him, the Chairman of the meeting as my/our proxy to act for me/us at the Annual General Meeting (or at any adjournment thereof) of the Company to be held at Plaza V, Lower Lobby, Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 23 June 2000 at 9:30 a.m. for the purpose of considering and, if thought fit, passing the resolutions (with or without amendments) as set out in the notice convening the said meeting ("Notice") and at such meeting (or at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of the said resolutions as hereunder indicated, or if no such indication is given, as my/our proxy thinks fit.

Resolutions

For Against
(Note 4)

1	To receive and adopt the audited accounts and the reports of the directors and auditors for the year ended 31 December 1999	<input type="checkbox"/>	<input type="checkbox"/>
2	To declare a final dividend	<input type="checkbox"/>	<input type="checkbox"/>
3	(a) To re-elect Mr. Stephen Chong Yuet Luk as director	<input type="checkbox"/>	<input type="checkbox"/>
	(b) To re-elect Mr. Gerard Joseph M ^c Mahon as director	<input type="checkbox"/>	<input type="checkbox"/>
	(c) To re-elect Mr. Tsoi Kee Yan as director	<input type="checkbox"/>	<input type="checkbox"/>
	(d) To re-elect Mr. Dieter Yih as director	<input type="checkbox"/>	<input type="checkbox"/>
	(e) To re-elect Mr. David Craig Bartlett as director	<input type="checkbox"/>	<input type="checkbox"/>
	(f) To fix the remuneration of the directors	<input type="checkbox"/>	<input type="checkbox"/>
4	To re-appoint auditors and to authorise the directors to fix their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
5	(a) To grant a general mandate to the directors to repurchase securities (Ordinary Resolution No. (5)(A) of the Notice)	<input type="checkbox"/>	<input type="checkbox"/>
	(b) To grant a general mandate to the directors to issue securities (Ordinary Resolution No. (5)(B) of the Notice)	<input type="checkbox"/>	<input type="checkbox"/>
	(c) To extend the general mandate to the directors to issue securities (Ordinary Resolution No. (5)(C) of the Notice)	<input type="checkbox"/>	<input type="checkbox"/>

Signature (Note 5): _____ Witness Signature: _____

Dated this _____ day of _____ 2000

Notes:

1. Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
2. Please insert the number of shares of HK\$0.20 each registered in your name(s) to which this form of proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
3. Please insert the name and address of the proxy desired. IF NO NAME IS INSERTED, THE CHAIRMAN OF THE MEETING WILL ACT AS YOUR PROXY.
4. IMPORTANT: IF YOU WISH TO VOTE FOR A RESOLUTION, PLEASE TICK IN THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST A RESOLUTION, PLEASE TICK IN THE BOX MARKED "AGAINST". Failure to complete the boxes will entitle your proxy to cast his vote at his discretion.
5. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be executed either under its common seal or under the hand of an officer or attorney duly authorised.
6. In the case of joint holders, any one of such holders may attend and vote at the meeting either personally or by proxy, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of the joint holding shall alone be entitled to vote in respect thereof.
7. To be valid, this form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the office of the Company's registrars, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
8. The proxy need not be a member of the Company.
9. ANY ALTERATION MADE IN THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.