

# 中 期 報 告 書

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二 零 零 零 年 一 月 至 六 月

# I N T E R I M R E P O R T

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JANUARY - JUNE 2000



新 鴻 基 有 限 公 司



SUN HUNG KAI & CO. LIMITED



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## CORPORATE INFORMATION

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### BOARD OF DIRECTORS

#### Executive Directors

David Hui Yip Wing  
*(became Deputy Chairman  
as from 1 August 2000)*

Gary Cheung Wai Kwok  
Stephen Chong Yuet Luk  
Chung Tze Hien  
Lee Seng Huang  
Patrick Lee Seng Wei

#### Non-Executive Directors

Arthur George Dew *(Chairman)*  
Sir Gordon Macwhinnie  
Gerard Joseph M<sup>c</sup>Mahon  
Tsoi Kee Yan

#### Independent Non-Executive Directors

David Craig Bartlett  
Dieter Yih

### EXECUTIVE COMMITTEE

David Hui Yip Wing  
*(became Chairman as  
from 1 June 2000)*  
Stephen Chong Yuet Luk  
Chung Tze Hien  
Lee Seng Huang  
*(appointed on 1 June 2000)*

### AUDIT COMMITTEE

Sir Gordon Macwhinnie *(Chairman)*  
David Craig Bartlett  
Gerard Joseph M<sup>c</sup>Mahon  
Dieter Yih

### COMPENSATION COMMITTEE

Arthur George Dew *(Chairman)*  
Sir Gordon Macwhinnie  
Gerard Joseph M<sup>c</sup>Mahon  
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.



## HALF-YEAR RESULTS

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The board of directors is pleased to present to shareholders of Sun Hung Kai & Co. Limited the unaudited consolidated results of the Company and its subsidiaries for the six months ended 30 June 2000:

### Unaudited Consolidated Profit and Loss Account

	<b>For the six months ended</b>	
	<b>30.6.2000</b>	<b>30.6.1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	353,504	251,378
Other revenue	193,217	32,891
	<hr/>	<hr/>
Total revenue	546,721	284,269
Brokerage and commission expenses	(54,820)	(22,548)
Direct cost and operating expenses	(10,176)	(12,686)
Administrative expenses	(125,549)	(104,516)
Other expenses	(57,336)	(20,662)
	<hr/>	<hr/>
Operating profit ( <i>Note 1</i> )	298,840	123,857
Finance cost	(75,246)	(33,826)
	<hr/>	<hr/>
Operating profit after finance cost	223,594	90,031
Share of profits and losses of associated companies	11,931	5,628
joint ventures	342	–
	<hr/>	<hr/>
Profit before taxation	235,867	95,659
Taxation ( <i>Note 2</i> )	(32,284)	(9,860)
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Profit after taxation	203,583	85,799
Minority interests	(245)	(762)
	<hr/>	<hr/>
Profit attributable to shareholders	203,338	85,037 ( <i>Note 3</i> )
Transfer to capital reserve by associated companies	(967)	(847)
	<hr/>	<hr/>
	202,371	84,190
	<hr/>	<hr/>
	<i>HKcts</i>	<i>HKcts</i>
Half year earnings per share ( <i>Note 4</i> )		
Basic	17.5	7.3
	<hr/>	<hr/>
Diluted	14.7	6.8
	<hr/>	<hr/>



## HALF-YEAR RESULTS

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Notes:

### 1. Operating profit

	For the six months ended	
	30.6.2000	30.6.1999
	HK\$'000	HK\$'000
Operating profit is stated after crediting and charging the following:		
Crediting:		
Exchange gain arising from a loan to an overseas client	–	20,396
Net profit on disposal of associated companies	149,491	1,577
Net profit on disposal of other investments	8,262	2,715
Profit on disposal of discontinued operations*	–	288
Provision for doubtful debts written back	30,550	564
	<u>30,550</u>	<u>564</u>
Charging:		
Permanent impairment of other investments transferred from investment revaluation reserve	36,000	–
Provision for contingencies relating to investments and receivables	15,000	–
Net loss on disposal of subsidiary companies	3,762	244
Provision for doubtful debts	2,574	16,753
	<u>2,574</u>	<u>16,753</u>

\* The Group disposed of two subsidiaries in the 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. The turnover recognised relating to this business up to 28 April 1999 was HK\$1,041,000 and the loss before taxation was HK\$387,000.

### 2. Taxation

	For the six months ended	
	30.6.2000	30.6.1999
	HK\$'000	HK\$'000
Company and subsidiary companies		
Hong Kong profits tax	28,239	13,290
10% tax rebate for 1997/98	–	(3,542)
Overseas taxation	248	724
Deferred taxation written back	(1,199)	–
Associated companies		
Hong Kong profits tax	–	3,010
Overseas taxation	4,956	1,357
Overseas taxation written back	–	(4,979)
Joint ventures		
Hong Kong profits tax	40	–
	<u>40</u>	<u>–</u>
	<u>32,284</u>	<u>9,860</u>

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits for the period.

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



## HALF-YEAR RESULTS

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### 3. Profit attributable to shareholders for the six months ended 30 June 1999

In February 1999, Sun Hung Kai International Limited, a wholly owned subsidiary of the Group, underwrote a rights issue by Tian An China Investments Company Limited (“Tian An”) which resulted in the Group acquiring an additional equity interest of 23.09%. As such, the Group’s equity interest in Tian An increased from 34.44% to 57.53%. However, the Group did not intend to hold the additional equity interest permanently. As a prudent approach, due to the lack of a potential purchaser at that time, the investment was treated as a subsidiary in the 1999 interim results. The Company subsequently entered into a transaction with Millennium Touch Limited on 24 November 1999 to sell 770 million shares in Tian An. Accordingly, Tian An was reclassified as an associated company on the grounds of temporary control in the audited accounts for the year ended 31 December 1999. The interim results for 1999 are therefore restated as follows:–

	<i>HK\$’000</i>
Profit attributable to shareholders for the six months ended 30 June 1999 before restatement	55,555
Adjustment of the Group’s additional holding of 891,368,718 Tian An shares as marketable securities	36,802
Adjustment for reclassification of Tian An from subsidiary to associated company	<u>(7,320)</u>
Profit attributable to shareholders restated for the six months ended 30 June 1999	<u><u>85,037</u></u>

### 4. Half year earnings per share

The calculation of half year earnings per share is based on the profit attributable to shareholders of HK\$203,338,000 (1999: HK\$85,037,000) and the weighted average number of 1,162,562,365 ordinary shares in issue during the period (1999: 1,162,532,309 ordinary shares).

The diluted half year earnings per share was based on the adjusted earnings of HK\$220,463,000 (1999: HK\$102,115,000) 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 1,504,212,768 shares (1999: 1,504,182,712 shares) issued and issuable.

### 5. Accounting treatment on sale of 770 million shares in Tian An China Investments Company Limited

The Company has entered into a conditional sale and purchase agreement dated 24 November 1999 for the sale to Millennium Touch Limited of 770 million shares (the “Shares”) in Tian An China Investments Company Limited for a consideration of HK\$423,500,000. On the same date, as an integral part of the sale, a loan agreement for a loan of HK\$402,325,000 (the “Loan”) from the Company to Millennium Touch Limited was signed. A share mortgage was signed at completion on 9 February 2000 whereby the Shares were pledged as security for the Loan.

The estimated gain on disposal of the Shares of approximately HK\$165 million has been deferred until the repayment of the entire amount or a portion of the Loan that is considered to be appropriate at the time. In the opinion of the directors, the profit on the sale would not have been realised until the repayment of the Loan, which is an integral part of the sale, and it has therefore not been recognised in the consolidated profit and loss account for the six months ended 30 June 2000.



## **DIVIDEND AND BOOK CLOSE\_\_\_\_\_**

The Board of Directors has declared an interim dividend of HK4 cents (1999: HK1 cent) per share, totalling not less than HK\$46.50 million (1999: HK\$11.62 million) payable to the shareholders whose names appear on the Register of Members of the Company on 29 September 2000. The Register of Members will be closed from 26 September 2000 to 29 September 2000, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Registrars for registration not later than 4:00 p.m. on 25 September 2000. Dividends are expected to be despatched on 17 October 2000.

## **PURCHASE, SALE OR REDEMPTION OF OWN SECURITIES\_\_\_\_\_**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the period.

## **DIRECTORS' INTERESTS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS\_\_\_\_\_**

As at 30 June 2000, 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.

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 period under review.



## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY

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As at 30 June 2000, those corporations 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 Securities (Disclosure of Interests) Ordinance were as follows:

Name	Number of ordinary shares	Approximate % of the issued share capital	Notes
AP Emerald Limited	385,589,216	33.17	
Grace Crown Limited	385,589,216	33.17	1, 2
Allied Properties (H.K.) Limited	385,589,216	33.17	1, 3
Allied Group Limited	385,589,216	33.17	1, 4
Gold Chopsticks Limited	198,149,000	17.04	
Besford International Limited	198,149,000	17.04	5, 6
China Online (Bermuda) Limited	198,149,000	17.04	5, 7
Vigor Online Offshore Limited	198,149,000	17.04	5, 8
China Sci-Tech Holdings Limited	198,149,000	17.04	5, 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 59.56% 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 198,149,000 shares held by Gold Chopsticks Limited.
6. Besford International Limited owned 100% interest in the issued share capital of Gold Chopsticks Limited and was therefore deemed to have interest in the shares.
7. China Online (Bermuda) Limited owned 100% interest in the issued share capital of Besford International Limited and was therefore deemed to have interest in the shares.
8. China Sci-Tech Holdings Limited, through its wholly-owned subsidiaries, Harbour Fair Overseas Limited and Vigor Online Offshore Limited, owned approximately 34.20% interest in the issued share capital of China Online (Bermuda) Limited. China Sci-Tech Holdings Limited and Vigor Online Offshore Limited were deemed to have interest in the shares.

## CODE OF BEST PRACTICE

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None of the directors is aware of any information that would reasonably indicate that the Company was not in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for any part of the period covered by the Interim Report.



## REVIEW OF OPERATIONS

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The Hong Kong stock market remained very buoyant in the first half of 2000. The Hang Seng Index reached a historical high of 18,301.69 in March before consolidating and closing at 16,155.78 for June, a loss of 806.32 points or 4.75% compared to the last trading day in 1999. The average daily turnover also increased to around HK\$14.4 billion, an increase of 127% compared to the same period in 1999. The Hong Kong market demonstrated its resilience during the first six months, despite persistent worries regarding U.S. interest rates and the demise of high-tech euphoria. The continuing economic recovery in Hong Kong and optimism relating to China joining the World Trade Organization in 2000 have provided renewed confidence in the stock market.

Following the launch by SHK Online Limited in March of its financial website – [www.SHKonline.com](http://www.SHKonline.com), we introduced real-time online broking of U.S. stocks. The website also offers free real-time quotes, research reports, company profiles and charts, world business news, personalized web page designs, personal portfolio valuations and credit card facilities. We will be introducing complete online trading in Hong Kong shares, futures and other services upon the implementation of AMS/3 which allows straight through trading with The Stock Exchange of Hong Kong Limited.

Pursuant to 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 settled by the sale of an approximately 7.18% interest in Lippo Limited to the Group. Together with the Group's original interest of approximately 1.36% held through its indirect subsidiary, the Group now holds approximately 8.54% of Lippo Limited. Net profit of approximately HK\$149 million has been recognized from this divestment for the period under review. The Group entered into sale & purchase and loan agreements and on completion in February 2000 entered into a share mortgage regarding the sale of 770 million shares of Tian An China Investments Company Limited ("Tian An") to Millennium Touch Limited for a consideration of HK\$423.5 million. These shares had been acquired by the Group pursuant to the underwriting of a rights issue by Tian An in February 1999. The profit on the sale will be deferred until payment of such amount of the indebtedness as is considered appropriate at the time. The Group now directly and indirectly holds approximately 39% interest in Tian An shares.

In June 2000, the Group entered into a shareholders' agreement with Easy Capital Investments Limited, a wholly-owned subsidiary of United Asia Finance Limited ("UAF"), to acquire Miliconcept Credit Limited, a company in the business of providing personal loans in Hong Kong. This acquisition will complement the term loan business of the Group by expanding the scope of its money lending business as well as adding to its existing branch network through which other products can be offered in association with UAF.



## REVIEW OF OPERATIONS

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The Group recorded a profit before taxation of HK\$235.9 million for the six months period ended 30 June 2000 (1999: HK\$95.7 million). The Group's unaudited consolidated profit attributable to shareholders was HK\$203.3 million (1999: HK\$85.0 million).

### **Securities**

The turnover and brokerage income of the Group's securities broking divisions achieved a satisfactory gain in line with the buoyant stock market conditions. Taking advantage of this opportunity, additional sales teams were set up in the period under review and this has assisted in expanding the Group's client base. The sales organization will be further strengthened by the recruitment of additional experienced practitioners. To enhance customer services, ongoing training and operational seminars on total quality service standards and products knowledge will be provided for our investment consultants and staff.

The Tsuen Wan Branch was officially opened in May 2000 and has recorded a satisfactory result whilst Mongkok Branch maintained steady growth. A new branch in North Point is scheduled to be opened later this year and further branches at densely populated areas are under consideration.

The Corporate Sales Department which offers investment services to corporate, high-net worth and individual clients continues to introduce sophisticated securities products to its clients with satisfactory results.

### **Online Securities Trading**

Following the official launch of the financial website – [www.SHKonline.com](http://www.SHKonline.com) in March, it has achieved a membership of over 20,000 and average daily page views of 400,000 at the end of June. It is the Group's aim to position the website as one of the most comprehensive financial service aggregators and providers in Hong Kong. Since its inception, a range of financial services has been launched, including real-time online trading of U.S. securities in association with a U.S. online brokerage firm. The SHKonline.com VISA card was launched and will facilitate online trading of Hong Kong stocks by providing a separate credit line for trading.

### **China Desk**

In the first half of the year, the B-share markets in Shenzhen and Shanghai recovered. Our Shenzhen and Shanghai representative offices are actively seeking underwritings and share placements for the Group's clients and providing market commentary and A and B shares corporate news for our Research team and SHK Online.



## REVIEW OF OPERATIONS

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### **Securities Margin Financing**

The margin loan portfolio showed a substantial increase in line with the buoyant market conditions when compared with the first half of 1999. Interest spread remained reasonable and operating profit improved satisfactorily. The Securities (Margin Financing) (Amendment) Ordinance 2000 came into effect on 12 June 2000. The Group supports the policy of strengthening the regulation of the share margin financing business. Sun Tai Cheung Credits Limited, the subsidiary of the Group involved in the share margin financing business, has applied for registration as a Share Margin Financier under the new Ordinance.

### **Term Loan Business**

The secured term lending business conducted by the Group's subsidiary, Ranbridge Finance Limited, showed good performance in the first half of 2000, increasing both in its loan portfolio and profit contribution compared to the same period last year. The acquisition of the interest in Miliconcept Credit Limited will enable the Group to expand its money lending business generally.

### **Electronic Financial Information Service**

SHK Financial Data Limited has achieved a significant increase in both turnover and operating profit. Eight new agreements were signed with major Internet portals, e-commerce companies and brokerage houses. The provision of financial information to Internet service providers played a dominant role in revenue growth. The company continued to operate as an information content provider of comprehensive financial information to Internet service providers, telecommunications operators, paging operators and market information providers. New products including quantitative ratios on stocks and warrants, stock charts, linked warrants as well as an online query system were launched. A series of new services is presently under development.

### **Research**

The Research Department maintained its direction to complement SHK Financial Data Limited through building a strong information content data-bank to assist equity analysis. Although a number of Internet content providers have emerged in the market, their services are limited to the provision of raw content database while our Research Department has the advantage of its 24-year experience in information processing. Our experience in investment advisory services assists us in meeting competition from the increased availability of online brokerage services by other financial institutions.



## REVIEW OF OPERATIONS

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### **Foreign Exchange, Bullion, Commodities and Futures**

Despite a general contraction of foreign exchange trading in Hong Kong, the Forex Department has registered growth in customer turnover as compared to the latter half of 1999. The Bullion Department has provided a steady contribution to the division's profitability. Both the Hong Kong Futures Execution Department and the Commodities Execution Department recorded satisfactory results during the period under review.

### **Corporate Finance**

The division continues to provide a range of professional advisory services to its corporate clients. It has been involved in a number of corporate finance transactions including the provision of financial advisory services, placement of Hong Kong shares as well as managing and underwriting rights issues and new issues of Hong Kong shares.

### **Insurance Broking**

The division has been actively involved in preparation for the launch of the Mandatory Provident Fund (MPF) scheme in December 2000 as well as promoting its consultancy services in this area to both existing and new clients. It has also made efforts to develop its e-business in conjunction with SHK Online in order to cater for market needs.

### **Overseas Office**

The continued deterioration of the Philippines economy during the period has severely affected the office's operations. The office was not profitable and as a result, a decision has been taken to withdraw from the business in the Philippines and to concentrate on the Hong Kong and China markets.

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

In line with the improving economy in the first half of 2000, the property market in the P.R.C. continued the momentum experienced in the last quarter of 1999. While middle income families are gradually developing, statistics reveal that more individuals have become homeowners not only because of affordability but also because of the decrease in welfare housing. Tian An China Investments Company Limited has recognized this trend and has positioned itself to capture the benefit.



## OUTLOOK

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The Hong Kong economy has strengthened in the first half of the year and has experienced significant improvement mainly as a result of strong export growth pursuant to the recovery in the Asia Pacific region. Following the technology boom in the U.S., Hong Kong experienced Internet led investment spending with the launch of a large number of portals. Further, an increase in construction projects has contributed to a reduction in local unemployment which has been a major concern in recent years.

The outlook for the second half of the year remains positive although our Research Department has forecast that U.S. key rates will rise another 50 basis points before the end of the year. We expect the forthcoming U.S. presidential election to be a major consideration for the Federal Reserve regarding monetary policy.

The Group has been actively developing its online trading services. We are carefully developing a suitable trading engine in preparation for the launch of AMS/3 which will allow straight through trading of local securities in the latter half of the year. [www.SHKonline.com](http://www.SHKonline.com) will shortly be revamped with a new design and a marketing campaign will be launched to expand our membership and secure new clients. We also intend to continue to upgrade the website functions to cater for future expansion.

The satisfactory sales returns of the branch offices indicate that retail outlets are effective channels for reaching and servicing local clients. We are continuing the development of a more extensive branch network. At the same time, we are actively expanding our corporate and retail sales force to better service clients needs and provide growth.

The Group will continue to pursue our key objectives of providing quality services to our clients as well as generating the best possible returns to shareholders. We intend to develop every opportunity to better position the Group and to further increase recognition in the market and our market penetration. We have appointed Mr. David Hui as our new Chief Executive Officer and Deputy Chairman of the Group following my retirement from an executive role earlier this year. I look forward to working closely with Mr. Hui to further develop the Company. The support of the Group's Directors, professional advisors and its dedicated staff is essential for our continued growth. I thank them for their support to date and look forward to continuation of that support in the future.

**Arthur George Dew**  
*Chairman*

28 August 2000