



新鴻基有限公司

SUN HUNG KAI & CO. LIMITED

INTERIM REPORT | JANUARY - JUNE 2001



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

David Hui Yip Wing (*Deputy Chairman*)
Gary Cheung Wai Kwok
Stephen Chong Yuet Luk
Lee Seng Huang
Patrick Lee Seng Wei

Non-Executive Directors

Arthur George Dew (*Chairman*)
Sir Gordon Macwhinnie
Tsoi Kee Yan

Independent Non-Executive Directors

David Craig Bartlett
Peter Wong Man Kong
(*appointed on 30 May 2001*)

EXECUTIVE COMMITTEE

David Hui Yip Wing (*Chairman*)
Stephen Chong Yuet Luk
Lee Seng Huang

AUDIT COMMITTEE

Sir Gordon Macwhinnie (*Chairman*)
David Craig Bartlett
Peter Wong Man Kong
(*appointed on 30 May 2001*)

COMPENSATION COMMITTEE

Arthur George Dew (*Chairman*)
Sir Gordon Macwhinnie
Peter Wong Man Kong
(*appointed on 9 August 2001*)

BANKERS

Standard Chartered Bank
The Bank of East Asia, Limited
Bank of New York Inc.
Asia Commercial Bank Limited
Bank of America (Asia) Limited
DBS Kwong On Bank Limited
Standard Bank Asia Limited

SOLICITORS

Kwok and Yih
In association with Andersen Legal
P.C. Woo & 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.

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 2001 together with the comparative figures as follows. The consolidated interim financial statements have not been audited, but have been reviewed by the Company's auditors, PricewaterhouseCoopers, in accordance with the Hong Kong Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" and by the Company's Audit Committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Note</i>	Unaudited	
		For six months ended	
		30.6.2001	30.6.2000
		HK\$'000	HK\$'000
Turnover	2	369,993	353,504
Other income		39,964	197,435
		409,957	550,939
Total income		409,957	550,939
Brokerage and commission expenses		(29,800)	(54,820)
Direct cost and operating expenses		(16,467)	(10,176)
Administrative expenses		(133,604)	(125,549)
Other expenses		(58,179)	(57,336)
		171,907	303,058
Operating profit		171,907	303,058
Finance cost		(28,805)	(75,246)
		143,102	227,812
Operating profit after finance cost	3	143,102	227,812
Share of profits and losses of			
Associated companies		25,827	11,931
Jointly controlled entities		7,717	342
		176,646	240,085
Profit before taxation		176,646	240,085
Taxation	4	(22,374)	(32,284)
		154,272	207,801
Profit after taxation		154,272	207,801
Minority interests		(68)	(245)
		154,204	207,556
Profit attributable to shareholders		154,204	207,556
Dividend	5	15,042	46,503
Earnings per share			
Basic	6	10.3 cents	17.9 cents
Diluted		N/A	14.9 cents



CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited As at 30.6.2001	Audited and restated As at 31.12.2000
	<i>Note</i>	HK\$'000	HK\$'000
Non-current assets			
Intangible assets		4,126	4,204
Negative goodwill		(6,922)	(21)
Fixed assets		116,570	111,674
Other investments	7	844,841	916,663
Investments in associated companies	8	1,851,047	1,537,840
Investments in joint ventures		101,594	115,961
Lending over one year		–	485,857
		<u>2,911,256</u>	<u>3,172,178</u>
Current assets			
Cash and bank balances	9	253,330	179,964
Trade and other receivables	10	2,639,475	2,338,155
Trading account securities	11	37,061	147,172
Properties held for sale		6,375	–
		<u>2,936,241</u>	<u>2,665,291</u>
Current liabilities			
Bank loans and overdrafts	12	(732,899)	(970,410)
Trade and other payables	13	(610,338)	(551,922)
Dividend payable		(15,042)	–
Taxation		(25,949)	(15,321)
		<u>(1,384,228)</u>	<u>(1,537,653)</u>
Net current assets		<u>1,552,013</u>	<u>1,127,638</u>
Total assets less current liabilities		<u>4,463,269</u>	<u>4,299,816</u>

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

		Unaudited As at 30.6.2001	Audited and restated As at 31.12.2000
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Share capital	<i>14</i>	300,845	300,845
Capital and other reserves		2,100,741	2,072,869
Profit and loss account	<i>15</i>	2,021,427	1,883,536
Proposed dividend		15,042	15,042
Shareholders' funds		<u>4,438,055</u>	<u>4,272,292</u>
Minority interests		<u>1,668</u>	<u>1,600</u>
Non-current liabilities			
Long term loan	<i>16</i>	21,332	23,714
Deferred taxation		2,214	2,210
		<u>23,546</u>	<u>25,924</u>
		<u>4,463,269</u>	<u>4,299,816</u>



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	For six months ended	
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
Net cash inflow from operating activities	292,070	120,025
Net cash inflow/(outflow) from returns on investments and servicing of finance	3,124	(18,605)
Tax paid	(4,644)	(9,029)
Net cash inflow from investing activities	21,869	51,197
Net cash (outflow)/inflow from financing	<u>(1,644)</u>	<u>7,528</u>
Increase in cash and cash equivalents	310,775	151,116
Cash and cash equivalents at the beginning of the period	(787,403)	(579,058)
Effect of foreign exchange rate changes	<u>840</u>	<u>(2,880)</u>
Cash and cash equivalents at the end of the period	<u><u>(475,788)</u></u>	<u><u>(430,822)</u></u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	253,330	234,657
Bank loans and overdrafts	<u>(729,118)</u>	<u>(665,479)</u>
	<u><u>(475,788)</u></u>	<u><u>(430,822)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	Unaudited	
	For six months ended	
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
Net gains not recognised in the profit and loss account	26,601	125,878
Profit attributable to shareholders	<u>154,204</u>	<u>207,556</u>
Total recognised gains and losses	<u><u>180,805</u></u>	<u><u>333,434</u></u>

NOTES TO CONDENSED CONSOLIDATED INTERIM ACCOUNTS

1. Significant accounting policies

These unaudited condensed consolidated interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants, and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2000 except that the Group has adopted the following SSAPs during the period:

SSAP 9 (Revised)	Events after the balance sheet date
SSAP 10 (Revised)	Accounting for investments in associates
SSAP 14 (Revised)	Leases
SSAP 17 (Revised)	Property, plant and equipment
SSAP 21 (Revised)	Accounting for interests in joint ventures
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

In adopting SSAP 9, dividend proposed or declared after the balance sheet date is no longer recognised as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively and comparative figures have been restated accordingly. The effect of the change in the interim accounts is a decrease in current liabilities by HK\$15,042,000 (2000: HK\$15,042,000).

In adopting SSAP 29, intangible assets are stated as a separate item in the balance sheet and amortised according to their estimated useful lives. In prior years, capitalised intangible assets were classified under fixed assets. The adoption of SSAP 29 does not have any impact on these interim accounts except that an amount of HK\$4,204,000 has been reclassified from fixed assets to intangible assets in 2000.

1. Significant accounting policies (continued)

In adopting SSAPs 10, 21 and 30, the negative goodwill arising from acquisition of subsidiary companies, associated companies and jointly controlled entities is now amortised over its estimated useful life to the profit and loss account. In prior years, there was no amortisation of such negative goodwill. This change in accounting policy has been applied retrospectively and comparative figures have been restated accordingly. The effect of the change in the interim accounts is an increase of operating profit of HK\$5,172,000 (2000: HK\$4,218,000) and an increase in opening retained profit of HK\$40,214,000 (2000: HK\$31,478,000).

Save as aforesaid, the adoption of the SSAPs does not have material impact on the interim accounts.

2. Turnover and segment information

An analysis of the Group's turnover and contribution to profit before taxation by principal activities is as follows:

	Turnover		Contribution to profit before taxation	
	For six months ended		For six months ended	
	30.6.2001	30.6.2000	30.6.2001	30.6.2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Securities broking	77,919	151,091	4,499	56,821
Securities dealing	52,676	(8,366)	49,941	(11,303)
Forex, bullion, commodities and futures	32,984	39,278	373	7,160
Margin finance and other financing services	83,071	99,359	37,622	76,321
Term loans	89,229	38,376	41,086	14,019
Corporate finance and others	34,114	33,766	9,581	84,794
	<u>369,993</u>	<u>353,504</u>	<u>143,102</u>	<u>227,812</u>
Share of profits and losses of				
Associated companies			25,827	11,931
Jointly controlled entities			7,717	342
			<u>176,646</u>	<u>240,085</u>

No analysis of geographical location of operations is presented as a consequence of the contribution to turnover and results of operations outside Hong Kong being below 10%.

3. Operating profit after finance cost

	For six months ended	
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
Operating profit after finance cost is stated after crediting and charging the following:		
Crediting:		
Amortisation of negative goodwill	5,172	4,218
Interest income	157,053	144,345
Net profit on disposal of an associated company	–	149,491
Net profit on disposal of other investments	15,840	8,262
Net realised profit on trading account securities	4,898	1,482
Net unrealised profit on trading account securities	39,398	–
Profit on dealing in foreign currencies	5,071	5,535
Profit on derivatives	3,028	9,520
Profit on other dealing activities	300	898
Provision for doubtful debts written back	<u>17,096</u>	<u>30,550</u>
Charging:		
Amortisation of goodwill	2,662	52
Amortisation of intangible assets	500	6
Depreciation	6,166	4,508
Interest expenses	27,407	73,059
Loss on decrease in shareholding of subsidiary companies	–	3,762
Net loss on disposal of fixed assets	24	17
Permanent impairment of other investments transferred from investment revaluation reserve	46,731	36,000
Provision for doubtful debts	11,448	17,574
Unrealised loss on trading account securities	<u>–</u>	<u>20,897</u>

4. Taxation

	For six months ended	
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
Company and subsidiary companies		
Hong Kong profits tax	14,529	28,239
Overseas taxation	747	248
Deferred taxation written back	–	(1,199)
Associated companies		
Hong Kong profits tax written back	(131)	–
Overseas taxation	5,654	4,956
Jointly controlled entities		
Hong Kong profits tax	1,575	40
	22,374	32,284

Hong Kong profits tax has been provided at the rate of 16% (2000: 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.

5. Dividend

	For six months ended	
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
Proposed interim dividend of 1 cent per share (2000: 4 cents per share)	15,042	46,503

6. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$154,204,000 (2000: HK\$207,556,000) and 1,504,223,465 ordinary shares in issue during the period (2000: the weighted average number of 1,162,562,365 ordinary shares).

6. Earnings per share (continued)

No diluted earnings per share is presented for the period as the exercise of the outstanding warrants of the Company does not have a diluting effect on the earnings per share. The diluted earnings per share for 2000 was based on the adjusted earnings of HK\$224,681,000 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 that period and on 1,504,212,768 shares issued and issuable.

7. Other investments

	30.6.2001	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity investments issued by corporate entities, at market value		
– Listed in Hong Kong	407,585	464,471
– Listed outside Hong Kong	1,132	41,046
	408,717	505,517
Unlisted equity investments, at fair value	298,622	287,877
Club debentures, exchange participation rights and statutory deposits and other deposits with Exchange and Clearing companies	20,613	20,072
	727,952	813,466
Add: amounts due from investee companies	119,050	106,839
Less: provision for amounts due from an investee company	(2,161)	(2,161)
	844,841	918,144
Less: amounts due to an investee company	–	(1,481)
	844,841	916,663

8. Investments in associated companies

As at 30 June 2001, 8.83% interest in a listed associated company held by the Group as trading account securities with a carrying value of HK\$142,480,000 was reclassified as investments in associated companies. A negative goodwill of HK\$192,152,000 was arisen as a result of the reclassification.

9. Cash and bank balances

	30.6.2001	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	196,158	133,379
Fixed deposits with banks	57,172	46,585
	<u>253,330</u>	<u>179,964</u>

The Group maintains trust accounts with a licensed bank to hold clients' deposits arising from normal business transactions. At 30 June 2001, trust accounts not otherwise dealt with in these accounts totalled HK\$931 million (2000: HK\$750 million).

10. Trade and other receivables

	30.6.2001		31.12.2000	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables				
Receivable from brokers and clients	274,991		287,991	
Less: provision	(41,061)		(43,210)	
		233,930		244,781
Secured margin loans	1,414,644		1,443,397	
Less: provision	(128,497)		(138,985)	
		1,286,147		1,304,412
Secured term loans*	1,108,443		806,416	
Unsecured term loans	256		256	
Less: provision	(35,729)		(56,586)	
		<u>1,072,970</u>		<u>750,086</u>
		2,593,047		2,299,279
Interest receivable		9,411		11,799
Other accounts receivable, deposits and prepayments		37,017		27,077
		<u>2,639,475</u>		<u>2,338,155</u>

10. Trade and other receivables (continued)

- * On 24 November 1999, the Company entered into an agreement for the sale of 770 million shares in Tian An China Investments Company Limited ("Tian An") to Millennium Touch Limited ("MT"). These 770 million Tian An shares represented approximately 19.79% of the then issued share capital of Tian An and 9.07% of the issued share capital of Tian An as at 31 December 2000. MT paid 5% of the purchase price and entered into a loan agreement with the Group to finance the balance. As security for the loan agreement, MT entered into a share mortgage with the Group. The share mortgage provided that if there was default under the loan agreement, then the Group may enforce its security by, inter alia, selling the 770 million Tian An shares to discharge the indebtedness owed by MT to the Group or foreclosing on the shares.

MT has defaulted under the loan agreement since 24 November 2000 and the Group has accounted for an unrealised loss of HK\$134,124,000 by marking to market those 770 million Tian An shares at the closing market price of HK\$0.134 as at 31 December 2000. Despite the rise in market price of Tian An shares at the closing market price of HK\$0.19 as at 30 June 2001, no adjustment of the said unrealised loss or write-back was accounted for in the profit and loss account. The amount due from MT after the unrealised loss as at 30 June 2001 was HK\$103,180,000 (2000: HK\$103,180,000) and was included in secured term loans.

The ageing analysis of the overdue trade receivables is as follows:

	30.6.2001	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	2,465,917	2,184,768
30-60 days	9,230	105,475
60-90 days	12,562	29,972
Over 90 days	310,625	217,845
	2,798,334	2,538,060
Less: provisions	(205,287)	(238,781)
	<u>2,593,047</u>	<u>2,299,279</u>

10. Trade and other receivables (continued)

There were listed and unlisted securities of clients held as collateral against secured margin loans and term loans. The market value of the listed securities as at 30 June 2001 was HK\$7,266 million (2000: HK\$5,341 million).

The credit of trade receivables including secured margin loans and secured term loans are approved and reviewed by either the Credit and Risks Management Committee or the Executive Committee. Clients are normally required to provide additional margin or securities whenever there are any shortfalls in their accounts.

Specific provisions are made for doubtful debts as and when they are considered necessary by the Credit and Risks Management Committee or the Executive Committee. Trade receivables in the balance sheet are stated net of such provisions.

11. Trading account securities

	30.6.2001	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities listed in Hong Kong		
Issued by corporate entities	19,121	141,610
Issued by public utility entities	16	1
Issued by bank	19	–
	19,156	141,611
Equity securities listed outside Hong Kong		
Issued by corporate entities	4,272	3,398
Other marketable debt securities		
Issued by banks	13,633	2,163
	37,061	147,172

12. Bank loans and overdrafts

	30.6.2001	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans and overdrafts repayable within 3 months		
Secured*	686,000	962,000
Unsecured	43,118	5,367
	<u>729,118</u>	<u>967,367</u>
Current portion of long term loan	3,781	3,043
	<u>732,899</u>	<u>970,410</u>

* At 30 June 2001, listed investments belonging to the Group and margin clients with a total market value of HK\$2,518 million (2000: HK\$3,364 million) were pledged to banks and financial institutions. Banking facilities of HK\$2,090 million (2000: HK\$2,265 million) were available to the Group.

13. Trade and other payables

The ageing analysis of the overdue trade and other payables is as follows:

	30.6.2001	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	508,211	448,986
30-60 days	950	225
60-90 days	–	1,130
Over 90 days	101,177	101,581
	<u>610,338</u>	<u>551,922</u>

14. Share capital

	No. of shares of HK\$0.2 each	Amount HK\$'000
Authorised:		
Balance as at 1 January 2001 and 30 June 2001	15,000,000,000	3,000,000
Issued and fully paid:		
Balance as at 31 December 2000	1,162,573,062	232,514
Allotment during the period pursuant to the conversion of convertible loan notes (note a)	341,650,403	68,331
Balance as at 30 June 2001	1,504,223,465	300,845

(a) *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 were due on 31 December 2000 and were then automatically converted into new shares (with new 2003 warrants in the proportion of one new 2003 warrant for every five new shares) at the conversion price of HK\$1.50 per new share. Pursuant to the mandatory conversion of the Notes, 341,650,403 new shares (with 68,330,080 new 2003 warrants) were issued on 12 January 2001.

(b) *2003 warrants*

68,330,080 new 2003 warrants were issued on 12 January 2001 pursuant to the mandatory conversion of the Notes as mentioned above. Each 2003 warrant will entitle the holder to subscribe in cash for one new share of the Company at an initial subscription price of HK\$3.00 per share, subject to adjustment, at any time during the subscription period from the date of issue, 12 January 2001, up to and including 11 January 2003. As at 30 June 2001, there remained 68,330,080 outstanding 2003 warrants in issue.

15. Profit and loss account

	30.6.2001	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance as at 1 January, as previously reported	1,843,322	1,789,603
Prior year adjustments		
Proposed dividend	15,042	46,503
Negative goodwill	40,214	31,478
	<u> </u>	<u> </u>
As restated	1,898,578	1,867,584
Profit for the period/year	154,204	124,967
Dividends	(15,042)	(93,006)
Transfer to capital reserve by an associated company	(1,271)	(967)
	<u> </u>	<u> </u>
	<u>2,036,469</u>	<u>1,898,578</u>
Representing:		
Retained profits	2,021,427	1,883,536
Proposed dividend	15,042	15,042
	<u> </u>	<u> </u>
	<u>2,036,469</u>	<u>1,898,578</u>

16. Long term loan

	30.6.2001	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured bank instalment loan	25,113	26,757
Less: current portion (<i>note 12</i>)	(3,781)	(3,043)
	<u> </u>	<u> </u>
	<u>21,332</u>	<u>23,714</u>

The Group had a leasehold property with a book value of HK\$47 million (2000: HK\$47 million) pledged to a bank as security for the instalment loan of HK\$25 million (2000: HK\$27 million) granted to the Group.

17. Commitments

(a) Capital commitments

	30.6.2001	31.12.2000
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Contracted but not provided for	–	1
Authorised but not contracted for	<u>2</u>	<u>–</u>
	<u><u>2</u></u>	<u><u>1</u></u>

(b) Commitments under operating leases

At 30 June 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30.6.2001		31.12.2000	
	Land and buildings	Others	Land and buildings	Others
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	24,019	5,353	23,768	1,890
In the second to fifth year inclusive	<u>57,466</u>	<u>9,808</u>	<u>68,163</u>	<u>55</u>
	<u><u>81,485</u></u>	<u><u>15,161</u></u>	<u><u>91,931</u></u>	<u><u>1,945</u></u>

18. Contingent liabilities

At 30 June 2001, the Company and the Group had contingent liabilities as follows:

- (a) Guarantees of the Company amounted to HK\$440 million (2000: HK\$512 million) in respect of banking and loan facilities of HK\$440 million (2000: HK\$512 million) and were made available to subsidiary companies and an investee company, of which facilities utilised amounted to HK\$223 million (2000: HK\$253 million).
- (b) Guarantees of the Group in respect of indemnities on banking guarantees made available to a clearing house and regulatory body and others were HK\$5.2 million (2000: HK\$5.2 million), of which no facilities were utilised (2000: Nil).

18. Contingent liabilities (continued)

- (c) 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 period (2000: Nil).
- (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 alleged 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.

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 further provision is presently required.

19. Maturity profile of assets and liabilities

	As at 30 June 2001					Total HK\$'000
	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	After 5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets						
Fixed deposits with banks	-	57,172	-	-	-	57,172
Term loans	138,215	303,057	667,427	-	-	1,108,699
Debts securities in trading						
account securities	-	13,633	-	-	-	13,633
	<u>-</u>	<u>13,633</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,633</u>

Liabilities

Bank loans and overdrafts	-	729,118	-	-	-	729,118
Long term loan	-	927	2,854	17,271	4,061	25,113
	<u>-</u>	<u>927</u>	<u>2,854</u>	<u>17,271</u>	<u>4,061</u>	<u>25,113</u>

	As at 31 December 2000					Total HK\$'000
	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	After 5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets						
Fixed deposits with banks	-	46,585	-	-	-	46,585
Term loans	175,185	376,100	255,387	-	-	806,672
Debts securities in trading						
account securities	-	2,163	-	-	-	2,163
Lending over one year	-	-	-	485,857	-	485,857
	<u>-</u>	<u>-</u>	<u>-</u>	<u>485,857</u>	<u>-</u>	<u>485,857</u>
Liabilities						
Bank loans and overdrafts	-	967,367	-	-	-	967,367
Long term loan	-	739	2,304	14,818	8,896	26,757
	<u>-</u>	<u>739</u>	<u>2,304</u>	<u>14,818</u>	<u>8,896</u>	<u>26,757</u>

The above tables list the assets and liabilities which have a term of maturity. Overdue assets are reported as on demand.

20. Related party transactions

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

	For six months ended	
	30.6.2001	30.6.2000
	HK\$'000	<i>HK\$'000</i>
Repurchase of shares and set-off of shareholders' loan by an associated company	–	31,774
Disposal of an associated company to and purchase listed shares from the associated company's holding company	–	561,100
Establishment of a jointly controlled entity by the Group and a subsidiary of the deemed substantial shareholder (a)	–	65,000
Interest income from a listed associated company	5,787	11,890
Rent, property management and air-conditioning fees received from a listed associated company	132	–
Interest received from bank deposits in a subsidiary of an associated company	–	1,353
Interest received from a subsidiary of a jointly controlled entity (b)	998	–
Insurance premium received from the ultimate holding company and its subsidiaries	1,790	1,380
Dividend received from a subsidiary company of the ultimate holding company	12,200	–
Professional fees paid to a company in which a non-executive director has significant influence	382	803
	<u> </u>	<u> </u>

20. Related party transactions (continued)

At 30 June 2001, the Group had the following material balances with related parties:

	30.6.2001	31.12.2000
	HK\$'000	HK\$'000
Amount due from/(to) associated companies		
Amounts due from a listed associated company		
– Promissory note	145,000	–
– Convertible loan note	38,015	38,015
– Interest receivable and others	6,896	1,317
Amounts due from other associated companies	75,170	75,136
Amounts due to other associated companies	(21,458)	(17,885)
	<u>90,000</u>	<u>109,287</u>
Amount due from a jointly controlled entity (b)	<u>90,000</u>	<u>109,287</u>
Dividend receivable from a subsidiary company of the ultimate holding company	<u>12,200</u>	<u>–</u>

- (a) The deemed substantial shareholder has become the ultimate holding company of the Company since May 2001.
- (b) The jointly controlled entity is also a subsidiary of the ultimate holding company due to the change as mentioned in (a) above.

DIVIDEND AND BOOK CLOSE

The Board of Directors has declared an interim dividend of HK1 cent (2000: HK4 cents) per share, totalling not less than HK\$15.04 million (2000: HK\$46.50 million) payable to the shareholders whose names appear on the Register of Members of the Company on 19 October 2001. The Register of Members will be closed from 16 October 2001 to 19 October 2001, 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, or in the case of warrant holders, all subscription forms accompanied by the relevant warrant certificates and exercise money, must be lodged with the Company's Registrars for registration not later than 4:00 p.m. on 15 October 2001. Dividends are expected to be despatched on 29 October 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The Market

The Hong Kong stock market experienced setbacks in the first half of 2001 in respect of both share values and trading volume, as investors' concerns regarding the ongoing correction in the U.S. equities market and the apparent decline in the global economy continued. During this period, the Hang Seng Index declined by 2,053 points or 13.6%, as compared to the last trading day in 2000, to close at 13,042. Meanwhile, market turnover shrunk by 35.3% as compared to the same period in 2000, with the average daily turnover reaching HK\$9.3 billion. In line with the global slowdown, Hong Kong also experienced some corporate downsizing and a more difficult export market. Despite the generally uninspiring performance of the Hong Kong stock market, China B-shares enjoyed a spectacular run following the policy change by the P.R.C. government in February to open the 'foreigners-only' market to P.R.C. investors with access to foreign currency. Subsequently, that optimism influenced the market in H-shares and "red chips" listed in Hong Kong. The Group's profitability has been improved by the conversion of the 8% listed convertible loan notes to new shares as reported in our Annual Report for 2000. In summary, the performance of our core business was weaker compared with the equivalent period in 2000, offset to some degree by stronger performance in our term loan and consumer finance business, and by lower cost of funds.

Our Commitment

We continued the development of our commitment to provide quality services through our multiple service channels and expanded product offers. In April, SHK Online embarked on a major marketing campaign, resulting in a significant increase in new accounts, asset transfers and transactions through our straight through trading platform. In this half, we also introduced several new investment products and services. We have expanded our China Desk and promoted our services to Taiwan investors in an effort to capture further business opportunities in the Greater China region.

Securities

Despite the uncertain global economic outlook, support was provided to the sluggish Hong Kong market by the P.R.C.'s more positive economy and the better performance of its stock markets, together with the optimism surrounding the improving prospects of its anticipated entry into the World Trade Organization. Hong Kong with its efficient workforce, strong legal system and well-developed infrastructure is well positioned to secure long-term economic benefits as the P.R.C. continues to accelerate the internationalization of its markets. The liberalization of access to B-share trading to P.R.C. domestic investors in February helped boost trading volume in B-shares in both the Shanghai and Shenzhen markets, as well as H-shares and "red chips" in Hong Kong. In addition, a growing number of companies from the P.R.C. are seeking listing in Hong Kong, particularly on the GEM board.

During the period, the turnover and brokerage income of our securities broking division contracted with the slowdown of the market. However, the contribution from B-shares improved substantially, resulting in an increase in trading volume handled by our Shanghai and Shenzhen offices. Despite the difficult market conditions, the division's involvement in fund-raising activities remained brisk, with its participation in almost 40 placements and sub-underwritings in the period under review. These activities continued to form an important source of income for the division.

In addition to the Group's branches in Mongkok, Tsuen Wan and North Point, a branch was officially opened in Kwun Tong in March, whilst another new branch in Sheung Shui is scheduled to commence operation in the near future.

SHK Online

With the provision of straight through trading services following the introduction of AMS/3 last December, SHK Online (Securities) Limited launched a marketing campaign offering premium online trading services to existing and new customers. We managed to increase our online trading client base by over 300% and were able to attract significant increases in client assets held. Online trading accounts for an increasing percentage of our trading volume in securities. We will continue our efforts to further increase our market share in this area.

The division strengthened its marketing team. It also applied strong operational control and enhanced its technology platform for efficient delivery of quality services to our local and overseas clients. Meanwhile, we are also in the process of revamping and upgrading our SHKonline.com website which will provide more value-added online investment services and information.

Product Development

The Product Development Department built and developed mechanisms to support the origination, sourcing, customization and sale of new investment products, derivative products and equity-linked securities, traded mainly in over-the-counter markets. In the first half of the year, in cooperation with the investment bank Société Générale, we launched the “SHK LYXOR ELN FUND” to selected private investors as well as completing documentation for a Note Issuance Programme. We also established the securities borrowing and lending dealing platform. In addition, we developed the Bond Dealing Desk and further developed the ELN distribution network and dealing operations.

China Desk

The China Desk was further strengthened and developed into the China Operations Department in an effort to capture business opportunities in the P.R.C. Our current focus is to strengthen our corporate finance service in the P.R.C., both to support P.R.C. companies in their fund-raising activities and their listing ambitions in the B-share and Hong Kong markets. The establishment of our Beijing representative office was approved in July, which will further strengthen our office network. We are also strategically extending our services to Taiwan investors and developing products designed to satisfy their needs.



Securities Financing

Despite the sluggish performance of the market, the Group was able to maintain a steady margin loan portfolio throughout the period with reasonable interest spreads. We understand from our industry assessments that we are a very significant margin finance provider for the Hong Kong retail market. On 1 June 2001, the ongoing margin loan business was transferred from our subsidiary Sun Tai Cheung Credits Limited to our broker-dealer subsidiary Sun Hung Kai Investment Services Limited to ensure more effective management in view of the new legislative framework. The “SHK Opportunity Investment Account” was introduced to provide retail customers with greater flexibility in margin trading.

Term Lending

Our term loan portfolio operated under Ranbridge Finance Limited was maintained at a similar level to last year. The operation continued to be a substantial profit contributor to the Group. We intend to pursue opportunities to further expand this business.

Research

The Research Department continued to strengthen its research capabilities and coverage with the addition of analysts to its Shanghai and Hong Kong teams. By capitalizing on our strength in research in the P.R.C. capital market, we increased the number of B-share research reports as well as those on A-shares. Our research focus is designed to prepare for the further opening of the financial markets in the P.R.C. Our reports are also distributed worldwide through selected platforms targeting international institutional and other investors.

Electronic Financial Information Service

SHK Financial Data Limited continued to be the Group’s information content provider of comprehensive financial information covering the Hong Kong equities market, as well as the foreign exchange and bullion markets. We continued to serve major financial institutions, brokers, internet service providers, telecommunications operators, paging operators and market information providers. The company experienced a drop in revenue in the first half of 2001 due to the consolidation in the technology sector. However, the outlook for the second half of the year remains promising. New products, including enhanced Company Data Card, Java Charting, Situational Stock System and Market Monitor, were introduced or upgraded and launched recently to generate new profit potential.

Foreign Exchange, Bullion, Commodities and Futures

With the narrowing of the spread of pips in quotations, our turnover in foreign exchange increased considerably. Several new foreign exchange linked products are being developed and are expected to be launched in the second half of the year. By strengthening our sales team and introducing new products, we are hopeful that the division can, in time, return to contributing a reasonable income stream for the Group.

Corporate Finance

The Corporate Finance Division maintained its presence in sponsoring initial public offerings despite the bearish market sentiment. In the first half of the year, the division successfully completed the sponsoring of two initial public offerings, namely the listing of Kiu Hung International Holdings Limited and Luen Tai Group Limited on the main board of The Stock Exchange of Hong Kong Limited. Capitalizing on the Group's reputation and our registration as a sponsor on the Hong Kong GEM board in March, the division will continue to expand its exposure in primary markets. In addition, we are actively involved in the share placement and underwriting businesses, as well as in providing corporate financial advisory services.

Insurance Broking

The performance of this division was affected by the soft economy and strong competition in the general insurance market as premium levels dropped. With some improvement in the market environment and our enhanced service quality and business development initiatives, the division managed to achieve some growth in both revenue and profit for the period under review.

SHK Finance Limited

During the first half of the year, the company recorded an increase of more than 30% in the loan portfolio balances. Three new branches were opened and the branch network now covers thirteen key geographic locations. The company is considering proposals to further expand its branch network to cope with the growing business volume. A new property-related consumer finance product is expected to be launched. The marketing team also intends to provide new and innovative loan products in the dynamic market. A client-servicing website was launched in April 2001, which site provides a convenient channel for customers to obtain updated information on loan products and services, as well as in submitting finance applications.



Tian An China Investments Company Limited

The P.R.C. property market recorded significant recovery from its consolidation stage benefiting from government policy and improving purchasing power.

It is generally predicted that the GDP growth of the P.R.C. will reach 8% this year, and the economy will enjoy sustainable growth in the long term. The holding of the APEC meeting, the anticipated entry to the World Trade Organization and Beijing's successful bid for the 2008 Olympic Games should stimulate a wide range of industries including the property market. Tian An has increased its landbank in major cities so as to participate in the anticipated buoyant property market. Tian An's results, separately reported for the period under review, reflect its strengthening position.

The acquisition by Tian An of a controlling stake in Interform Ceramics Technologies Limited was completed on 15 May 2001. The management of Tian An believes this strategic move will be complementary and will eventually enhance the earnings of both companies.

FINANCIAL RESOURCES AND GEARING RATIO

The Group's financial strength remained robust.

As at 30 June 2001, the Group's total net bank borrowings (net of cash and bank balances of HK\$253 million) amounted to HK\$501 million, which, when related to Group shareholders' funds, resulted in a gearing ratio of approximately 11%. Net bank borrowings (excluding bank borrowings which were drawn down for the margin finance, term loan and personal finance business where the funds were on-lent to clients at a gross profit) amounted to HK\$63 million which represented a gearing ratio of 1.42%.

The liquidity of the Group is demonstrated by the current ratio (current assets/current liabilities) which was 2.12 times. This ratio showed improvement from the 1.73 times applicable in the previous year.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

As at 30 June 2001, 8.83% interest in a listed associated company held by the Group as trading account securities was reclassified as investment in associated company. Apart from that, there have been no material acquisition and disposal of subsidiaries and associated companies by the Group during the half year ended 30 June 2001.

The loan facility made available to Lippo Cayman Limited to assist it in financing its acquisition of the Group's former interest in Lippo Capital Limited as disclosed in our Annual Report for 2000 stood at HK\$300 million as at 10 February 2001, and was reduced to HK\$190 million as at 31 August 2001.

CHARGES ON GROUP ASSETS

Listed shares in an aggregate value of approximately HK\$54 million were pledged by subsidiaries as security for bank loans and overdrafts.

A property asset of the Group with a carrying value of approximately HK\$47 million was pledged by a subsidiary to a bank for an installment loan of HK\$25 million granted to the subsidiary.

CONTINGENT LIABILITIES

There was no material change in the contingent liabilities of the Group compared to the position outlined in the Annual Report for 2000.

EMPLOYEES

As of 30 June 2001, the total number of employees was 543.

The Group continued to strive to enhance competitiveness by planning longer-term recruiting strategies and development of pools of talent such as graduate trainees, and seasoned P.R.C. practitioners under the Admission of Professionals Scheme. To compete effectively in a dynamic market place, the Group has attempted to focus its training and development initiatives to meet current and future business goals by providing new product knowledge and continuous professional training for our sales teams.



MANAGEMENT OF RISKS

There has been no change in the Group's policies and practices, and its exposures in managing its risks to those which were previously reported in our Annual Report for 2000.

OUTLOOK

Our Research Department presently estimates that real GDP growth in the P.R.C. this year should reach 7.5%, which should provide a significant cushion to the Hong Kong economy, despite the overall world economic decline. However, the department now estimates that Hong Kong will only be able to record less than 1% economic growth in 2001, revised down from its 4% forecast at the year end of 2000.

We are cautiously optimistic on P.R.C. related counters in view of the P.R.C.'s stronger economy, the stimulation provided by its anticipated accession into the World Trade Organization, as well as favorable policies that promote development and internationalization of the P.R.C. financial services industry. However, the outlook for the Hang Seng and the Hong Kong market in general will also be strongly influenced by the U.S. and world economies and market conditions. The recent tragic terrorist attacks in the U.S. have exacerbated worldwide concerns over the slowing U.S. economy and the continuing Japanese difficulties. Coupled with the current economic concerns facing Hong Kong, it is certain that we face challenging times ahead. Determination, strength, and caution will be required to negotiate these challenges successfully.

The Group is committed to continue the careful upgrading of its technological and other support facilities to provide better services to clients and to thereby enable us to further expand our client base and distribution channels. We are enhancing the functionality of the SHKonline.com website to provide better and broader services to cater for the needs of investors. Meanwhile, we will continue to provide research support as well as providing more versatile financial products and more convenient service channels. We seek opportunities to continue to build the Group's presence and will consider expanding our branch network.

The accelerated market reforms in the P.R.C. should eventually enable greater participation for Hong Kong and foreign brokers in the restricted domestic capital market. We believe that we are well positioned to capture our share of these opportunities as they arise.

The Group will seek to develop business opportunities with a focus on achieving sustained growth, in order to provide satisfactory returns to our shareholders. Also, our Management will continue its policy of creating a challenging working environment for our staff in which they can develop their potential, and thereby provide the best possible services to our clients. However, these policies will be pursued with caution and costs will be addressed whenever possible so as to better position the Group to meet the challenges posed by the current uncertain economic condition. In view of the current situation, the performance of our core business is unlikely to improve in the balance of the financial year but overall Group profitability is dependant on a range of market factors which are not capable of prediction with any certainty.

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

As at 30 June 2001, Mr. Patrick Lee Seng Wei and Mr. Lee Seng Huang, directors of the Company, had the following interests in the shares of the Company's associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register required to be kept under Section 29 of the SDI Ordinance:

Name of director	Name of associated corporations	Number of shares	Nature of interest
Patrick Lee Seng Wei	Allied Properties (H.K.) Limited	2,700,000	Personal interest
	Allied Group Limited	5,500,000	Personal interest
Lee Seng Huang	Allied Group Limited	988,446,926	Other interest (Note)

Note: 758,446,926 shares and 230,000,000 shares are held by Minty Hong Kong Limited and Cashplus Management Limited respectively. The said companies are beneficially owned by a discretionary trust, namely the Lee and Lee Trust, of which Mr. Lee Seng Huang is a trustee.



Save as disclosed above, no interests were held or deemed or taken (under the SDI Ordinance) to be held by any directors and their associates in any securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) as at 30 June 2001.

There were no rights held at 30 June 2001, nor had there been any exercise of rights during the period under review, by any directors or any of their spouses or children under eighteen years of age to subscribe for securities of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY

As at 30 June 2001, those parties 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 were as follows:

Name	Number of ordinary shares	Approximate % of the issued share capital	Notes
AP Emerald Limited	786,388,216	52.28	
Grace Crown Limited	786,388,216	52.28	1, 2
Allied Properties (H.K.) Limited	786,388,216	52.28	1, 3
Allied Group Limited	786,388,216	52.28	1, 4
Gold Chopsticks Limited	244,198,000	16.23	
Besford International Limited	244,198,000	16.23	5, 6
China Online (Bermuda) Limited	244,198,000	16.23	5, 7
Vigor Online Offshore Limited	244,198,000	16.23	5, 8
China Sci-Tech Holdings Limited	244,198,000	16.23	5, 8

Notes:

1. The figure refers to the same holding of 786,388,216 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 65.86% 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 244,198,000 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 34.31% 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.

PURCHASE, SALE OR REDEMPTION OF OWN SECURITIES

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

CODE OF BEST PRACTICE

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.



AUDIT COMMITTEE

At the request of the directors, the Group's external auditors have carried out a review of the unaudited interim financial report in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants. The Audit Committee has reviewed with Management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30 June 2001. In carrying out this review the Audit Committee has relied on the review of the Group's external auditors as well as obtaining reports from Management. The Audit Committee has not undertaken detailed independent audit checks.

On behalf of the Board

Arthur George Dew

Chairman

12 September 2001