

CHAIRMAN'S STATEMENT

THE GROUP

Following the celebration of our 30th Anniversary in 1999, the Group approached the Millennium Year with a renewed determination to achieve tangible progress towards our goal of becoming one of the most successful integrated financial services providers in our region. We believe the Group possesses the necessary ingredients to succeed and we intend to pursue our goal with determination. The resurgence of the Hong Kong and regional economies provided favourable assistance to us in our efforts to build our core businesses during the year.

The Group was pleased to appoint Mr. David Hui as Chief Executive Officer and Deputy Chairman of the Company during the year following my retirement from executive duties. We are confident that Mr. Hui has the determination and skills to lead the Group during its current development.

Integrating the Group's Strengths

In order to demonstrate the broadening capabilities of the Group, we have decided to employ the name "SHK Financial Group" to encompass all our financial services industry businesses. Our intention is that this name should also build on the reputation and integrity of our name and be indicative of our financial strength. A corporate advertising campaign was conducted during November highlighting these strengths.

Extension of Financial Services Products

We are actively expanding the range of products which we can supply and amongst other initiatives, we have established a Product Development Department. We have further developed our SHK Online products and we have extended our money lending operations into the consumer finance area.

Extension of Client Service Capabilities

We have actively expanded service channels to clients as well as upgrading the quality of our service. Our branch network expansion is continuing with the opening of three new branches with others planned. The launch of SHKonline.com in March 2000 now directly provides investors with secure and reliable investment services. Following the introduction of AMS/3, we introduced direct online trading utilizing the Internet. In addition, we introduced AMS/3 direct trading to our sales staff utilizing our Broker Supplied System.

The P.R.C. Market

We are focusing on the opportunities that are expected to arise from the entry of the P.R.C. into the World Trade Organization. Accordingly, we have upgraded our China Desk into a China Operations Department and we are establishing a representative office in Beijing.

Human Resources and Training

We are acutely aware that our business is built around the quality of our management and staff. We are actively enhancing our human resources capabilities. We are also planning and organizing training systems designed to upgrade our skills base and service capabilities as well as providing more satisfying career paths for our staff. These programs are also expected to extend downwards into tertiary educational institutions with the objective of providing the Group with a pool of skilled personnel upon which to base its future development.

RESULTS FOR THE YEAR

During the year, the Group recorded a profit before taxation of HK\$139.4 million (1999: HK\$284.7 million). The Group's consolidated profit attributable to shareholders was HK\$116.2 million (1999: HK\$217.6 million). Turnover was HK\$619.6 million for the year, against HK\$658.1 million for the previous year, while basic earnings per share was HK10.0 cents (1999: HK18.7 cents).

The Board of Directors has declared a final dividend of HK1 cent per share (1999: HK4 cents) payable to shareholders whose names appear on the register of members of the Company on 30 May 2001, making a total dividend for the year 2000 of HK5 cents per share (1999: HK5 cents).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

Securities

The Hong Kong stock market experienced a volatile year in 2000. The Hang Seng Index reached a historical high of 18,301 in March, but it was adversely affected by a range of negative factors and finished the year at 15,095, down 1,867 or 11% from the opening level for the year, while the daily average turnover increased by 59% from 1999 to HK\$12.3 billion. As a result, the Group's securities broking division experienced a strong year with solid growth in turnover, broking commissions and profit. The year was also marked by the "boom and bust" of high-tech stocks, as the influence of the NASDAQ market correction affected Hong Kong. Concern during the year about the growth in inflationary pressure led the U.S. Federal Reserve Board to increase interest rates, thus dampening investors' confidence.

During the year, the Group's sales force was strengthened by the recruitment of additional sales teams including a third corporate sales team, as well as experienced investment consultants, in parallel with the expansion of the Group's client base and market share. The sales teams recorded satisfactory turnover, and commission increases resulting from rights issues, underwriting and placement of shares.

In addition to the existing Mongkok branch and Macau office, the Tsuen Wan and North Point branches were officially opened in May and November 2000 respectively. Moreover, another branch in Kwun Tong was officially opened in March 2001. It is the Group's strategy to continue the expansion of its branch network to offer more accessible services to our existing clients, as well as to provide the opportunity of broadening our client base.

The sales teams actively complemented our corporate finance, product development and research divisions, in offering a comprehensive range of financial services and products, such as securities, OTC products, commercial papers, China B-shares, Asean stocks, U.S. equities, foreign exchange and futures indices, to clients with diverse investment needs.

SHK Online

The SHKonline.com website was launched in March 2000 and with this support, SHK Online extended its membership base to 27,000 by the end of the year. In June 2000, the online services were broadened with the introduction of the SHKonline credit card. In September 2000, we entered into a strategic partnership agreement with Grand Orient Securities in Taiwan to develop cross-border trading facilities for Hong Kong and Taiwanese securities. Following the introduction of the AMS/3 online trading platform by The Stock Exchange of Hong Kong Limited, SHK Online (Securities) Limited was launched and was among the first batch of brokers offering straight-through Internet-based order processing in December 2000, utilizing our powerful Unix-based trade engine.

The Group has built a strong management team to develop its online business. We will in the future continue to pursue a fully integrated "clicks and mortar" platform, which will offer a comprehensive array of financial products to local and overseas clients. We will also continue to explore synergies with our associated companies, as well as external partnership opportunities, both locally and overseas.

Product Development

The Product Development Department commenced operations in the fourth quarter of 2000 to assist in the development of innovative investment products for distribution by

the sales and marketing units. In addition, the department assists in the introduction of derivative products such as Equity-linked Notes, Equity-linked Warrants, Equity-linked Debts, OTC equity options and structured products to enhance the product range and quality of our brokerage service. The department is also developing a securities borrowing and lending platform to facilitate client needs. The enhanced range of products will provide clients with additional investment opportunities and the means to more effectively manage their assets, as well as to deal in money market and capital market debt instruments, such as government and corporate papers. The Group is planning to launch a number of new investment products in the first half of 2001.

China Desk

The Group expanded its China Desk by the creation of the China Operations Department in the fourth quarter. Following the expected entry of the P.R.C. into the World Trade Organization, we foresee an opportunity for the involvement of Hong Kong and foreign financial institutions in the P.R.C.'s financial services industry, especially in the securities and fund management sectors. In addition to the Group's existing offices in Shanghai and Shenzhen, we are establishing a representative office in Beijing to expand our presence in the P.R.C. and to enhance our relationship with various government authorities in the industry.

Securities Financing

Securities financing continued as an important part of the Group's business portfolio. The Securities (Margin Financing) (Amendment) Ordinance 2000 came into effect on 12 June 2000. Sun Tai Cheung Credits Limited has been licenced under this ordinance. The Group's margin loan portfolio was maintained at approximately the same level throughout the year, while the interest spread remained satisfactory, although bad debt provisions were required this year following the significant decline in technology and telecom stock prices worldwide. We are planning to transfer the margin loan business from Sun Tai Cheung Credits Limited to Sun Hung Kai Investment Services Limited to more effectively manage the requirements of the new legislation.

Term Lending

The term lending business operated under Ranbridge Finance Limited continued to grow significantly and produced a significant contribution to our profit. We intend to pursue opportunities to expand this business.

Research

The Research Department was strengthened by the appointment of a new head and the

recruitment of additional analysts. Further enhancements of the production and quality of research reports were achieved to more comprehensively service the needs of investors. Since the establishment of the SHKresearch.com website in 1998, the Group has continued to implement a comprehensive content enrichment program through the Internet. Through this website, viewers can access the Group's full list of research reports on listed companies, key industries and market strategy, covering not only the local market, but also China corporations listed in the A-share and B-share markets. The Group continued to strengthen its leadership role in China research. We expect this service to be valuable when the restricted P.R.C. stock broking market is opened to foreign financial institutions. All our research reports are distributed worldwide through selected platforms, such as the Trapeze Research Network, Multex.com and Thomson Financial Securities Data, which target institutional investors. The Group is giving consideration to further expand its research capability for the P.R.C. market in 2001.

Electronic Financial Information Service

Our 51%-owned subsidiary SHK Financial Data Limited continued to be the Group's information content provider of comprehensive financial information covering Hong Kong's equity market, as well as the foreign exchange and bullion markets, to major financial institutions, brokers, Internet service providers, telecommunications operators, paging operators and market information providers. Turnover grew significantly in the year and the provision of financial information to Internet service providers contributed substantially to this growth. New products such as Company Data Cards, Java Charting, Situational Stock System and Quotes were developed and upgraded. Additional developments including the Advanced Alert System and Stock Query System are expected to be ready for release in 2001. After the launch of the AMS/3 trading system, the company's newly developed products received good response from banks, brokers, online trading solution providers and telecommunication operators.

Foreign Exchange, Bullion, Commodities and Futures

The performance of the Group's division devoted to foreign exchange, bullion, commodities and futures remained subdued, partly because of the general slowdown in foreign exchange activities in Hong Kong. However, the foreign exchange and bullion business continued to provide a steady contribution to the division's revenue. The turnover in the Hang Seng Index Futures fluctuated with the volatility of the local stock market, while the performance of execution in overseas futures was basically connected to the movement of the U.S. stock markets. The commission earned from these sources continued to be a regular income stream for the Group.

Corporate Finance

The Corporate Finance Division substantially improved its results in 2000 and re-established itself as a significant market force participating in initial public offerings exercises in Hong Kong. The division successfully completed three initial public offerings sponsorships during the year, namely the listing of Sun East Technology (Holdings) Limited, U-RIGHT International Holdings Limited and Mainland Headwear Holdings Limited on the main board of The Stock Exchange of Hong Kong Limited. It was also involved in various other transactions, including placements, rights issues, underwriting of shares and financial advisory services. In view of the potential of the P.R.C. market and the development of Hong Kong's Growth Enterprise Market, whilst we intend to continue our focus on capital formation in the primary market, we shall also focus on expanding our operations in Greater China.

Insurance Broking

The Group's insurance broking division was committed to the implementation of the Mandatory Provident Fund Scheme for its clients. In addition, the division also targeted the construction and information technology industries for new business development. Despite a soft market and intense competition, the division achieved steady growth in revenue and successfully secured a number of new, well-known multi-national clients.

Overseas Office

The unfavorable business environment in the industry in the Philippines led to a decision to apply for a voluntary suspension of the trading operations of our branch office in line with our decision to focus on Hong Kong and Greater China. The Philippine Stock Exchange has approved our request and the situation will be monitored for any future opportunities.

Office Premises

In addition to the new branch offices previously mentioned, the Group has purchased new office premises at 11th Floor, Tower II, Admiralty Centre. These premises will complement our existing offices at Levels 11 and 12, One Pacific Place and 4th Floor, Tower II, Admiralty Centre and allow the continuing expansion of our service capacity.

SHK Finance Limited

In June 2000, the Group joined with Easy Capital Investments Limited, a wholly owned subsidiary of United Asia Finance Limited, to acquire, in equal proportions, Top Progress Investments Limited which owns the entire issued share capital of Miliconcept Credit Limited (now renamed as "SHK Finance Limited") for a consideration of HK\$130 million. SHK Finance Limited is a company in the business of providing personal loans in Hong Kong.

SHK Finance Limited has recorded a significant increase in its consumer loan business.

A business restructuring exercise was conducted to streamline the branch and support operations. All loan transactions can now be captured online and real-time through the computer system, thus maximizing operational efficiency and competitiveness in the market. The company launched an advertising campaign to promote the new brand name and business focus. The company presently operates ten existing branches and plans to open more new branches in the forthcoming year. This acquisition complements the term loan business of the Group by expanding the scope of its money lending business into consumer finance, as well as adding to its existing branch network, through which other products can be offered.

Tian An China Investments Company Limited

The Group has maintained its strategic holding in Tian An China Investments Company Limited (“Tian An”). In November 2000, Tian An undertook a further rights issue of shares and following that rights issue, the Group’s interest in Tian An increased to approximately 43.27% as a result of the Group’s subscription of its own entitlements and the fulfillment of its underwriting obligations pursuant to the rights issue. In November 1999, the Group announced the sale of 770 million shares in Tian An which shares had been acquired pursuant to its underwriting of the Tian An rights issue in February 1999. The Group provided financing for the purchaser on a secured basis and the purchaser has presently defaulted under the security documents. Further legal advice is being taken and consideration is being given as to the courses of action available to the Group. We have taken the prudent course of accounting for an unrealised loss of approximately HK\$134 million by marking to market those 770 million shares in Tian An at the year end closing market price of HK\$0.134. This has adversely impacted on our results.

The continuing active measures adopted by the P.R.C. government to reform the property market, improve the credit arrangements of the banking system and encourage the purchasing of houses led to increases in both construction and sales of properties. The expected entry of the P.R.C. into the World Trade Organization also helped to improve rental opportunities and lower vacancy levels of investment properties in major cities. Record sales in the Eastern China region contributed significantly to the satisfactory performance. In 2000, Tian An achieved profit attributable to shareholders of HK\$67,919,000 (1999: HK\$10,637,000).

The pending acquisition by Tian An of a controlling interest in Interform Ceramic Technologies Limited, a listed company on The Stock Exchange of Hong Kong Limited, is expected to be completed in April 2001. The management of Tian An believes this strategic move will be complementary and will eventually enhance the earnings of both companies.

If the P.R.C. can maintain the existing trend of economic growth and continues to rationalize the relevant laws and regulations, Tian An is expected to capitalize on a continuing buoyancy of the property market.

Financial Resources and Gearing Ratio

The Group is in a strong position to weather cyclical downturns. Pursuant to the terms of an open offer of 8% listed non-redeemable convertible loan notes (the “Notes”) to shareholders for a total principal amount of HK\$512,475,604.50, the Notes were due on 31 December 2000 and automatically converted into new shares (with new warrants in the proportion of 1 new warrant for every 5 new shares). As a result of the conversion, the shareholders’ funds of the Group have further increased to HK\$4,219 million. As at 31 December 2000, the Group’s total bank borrowings amounted to HK\$994 million, which, when related to the Group’s shareholders’ funds, resulted in a gearing ratio of approximately 24%. Details regarding the Group’s bank borrowings, bank loan facilities available to the Group, and the assets pledged to banks are set out in notes 17, 27 and 33 to the accounts on pages 53, 67 and 74.

Material Acquisitions and Disposal of Joint Venture and Associated Companies

Pursuant to an agreement signed in May 2000, the Group sold its 49% interest in Lippo Capital Limited to Lippo Cayman Limited (“LCL”) 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 and the remaining HK\$461,100,000 was paid by LCL from a loan drawn under a loan facility agreement (the “Facility”) for the same amount between LCL as borrower and Ranbridge Finance Limited as the lender, a wholly-owned subsidiary of the Group which is in the business of providing term loans, for the period from 10 May 2000 to 10 February 2001. The outstanding amount of the Facility as at 10 February 2001 was HK\$300,000,000 and the same was extended for 12 months from 10 February 2001. Together with the Group’s original interest of approximately 1.36% held through its indirect subsidiary and the acquisition of a separate entity, which owns approximately 1.43% interest in Lippo Limited in February 2001, the Group now holds approximately 9.97% of Lippo Limited. Net profit of approximately HK\$149 million has been recognized from this divestment for the year.

As previously mentioned, in June 2000, the Group joined with Easy Capital Investments Limited, a wholly owned subsidiary of United Asia Finance Limited, to acquire, in equal proportions, Top Progress Investments Limited which owns the entire issued share capital of Miliconcept Credit Limited (now renamed as “SHK Finance Limited”) for a consideration of HK\$130 million.

Charges on Group Assets

Listed shares in an aggregate value of approximately HK\$62 million were pledged by a subsidiary as security for a bank loan.

The new office premises at 11th Floor, Tower II, Admiralty Centre, 18 Harcourt Road, Hong Kong were pledged as a first legal charge without limitation as to the amount by a subsidiary to a bank for an installment loan of HK\$27 million granted to the subsidiary.

Contingent Liabilities

Details regarding the contingent liabilities are set out in note 32 to the accounts on page 73.

Employees

As of 31 December 2000, the total number of employees was 474.

The Group remained responsive to market trends to ensure its remuneration packages remain competitive. The Group operated different remuneration schemes for sales and non-sales employees. For sales personnel, the package comprised a base pay or draw, and commission or bonus, whereas for non-sales personnel, it comprised base pay and performance-based bonus elements.

In addition, the Group also increased its emphasis on more comprehensive training to enhance employees' skills and product knowledge, as well as providing them with development and advancement opportunities. In 2001, we will concentrate on the Continuous Professional Training requirements now established by The Securities and Futures Commission of Hong Kong.

OUTLOOK

The economy of Hong Kong experienced a robust year in 2000, with real GDP growth at 10.5%. However, our Research Department anticipates that the growth rate will be slow in 2001, following the anticipated regional and global economic slowdown. We are hopeful that the slowdown in local economic growth will be cushioned in view of the stimulation which should be created by P.R.C.'s pending entry into the World Trade Organization, interest rate cuts, and anticipated growth in P.R.C.'s domestic consumption.

The financial services industry is presently confronted with both opportunities and challenges. The accelerated market reforms in the P.R.C. prior to its entry into the World Trade Organization are expected to allow more Hong Kong and foreign participation in the restricted domestic capital market. On the other hand, we anticipate increased

competition in the local industry from banks and other industry participants. In addition, the elimination of minimum stock brokerage commission in 2002 will significantly reduce margins. These factors are expected to be catalysts for consolidation in the securities industry.

Sun Hung Kai & Co. Limited is well positioned to capture the opportunities and face the challenges. Our long experience in the Hong Kong and P.R.C. markets, our management strength and our strong capital base supported by our development strategies provide us with confidence in facing the future. We intend to succeed in strengthening our position as a significant integrated financial services provider in the region.

The Group is committed to the upgrading of technological facilities, focused on providing better service to our clients thus enabling us to further develop our client base and our distribution channels. We will continue to provide enhanced research support, more versatile financial products and more convenient service channels to benefit all current and potential clients. Meanwhile, we will further build the Group's presence through the expansion of our branch network and investment in human resources, as well as greater involvement in the industry and the community. We are confident that we can develop our business in conjunction with market developments and opportunities.

I would like to express my appreciation to our shareholders, my fellow directors, our dedicated staff, professional advisors and clients for their consistent support over the years. Our Board of Directors is strongly supportive of the objective of sustained growth, in order that we may achieve satisfactory returns for our shareholders, create a challenging working environment for our staff in which to develop their potential, and provide comprehensive value-added services to our expanding client base.



Arthur George Dew

Chairman

4 April 2001