

# **DIRECTORS' REPORT**

The directors have pleasure in presenting the annual report and audited accounts of the Company and the Group for the year ended 31 December 2000.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of the Company's major subsidiary companies are securities, forex, bullion, commodities and futures broking, provision of online financial services and online financial information distribution, money lending including the provision of term loans, share margin financing, corporate finance, property investment and insurance consultancy.

The respective analysis of the principal activities of the Group during the year is set out in note 2 to the accounts on page 40.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31 December 2000 are set out in the consolidated profit and loss account on page 29.

An interim dividend of HK4 cents per share was paid to shareholders on 17 October 2000 and the directors recommend the declaration of a final dividend of HK1 cent per share payable on 6 July 2001 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.

## **FIXED ASSETS**

Particulars of the movements in fixed assets during the year are detailed in note 23 to the accounts on page 61.

## **CHARITABLE DONATIONS**

The total donations made by the Group for charitable purposes during the year amounted to HK\$13,600.

## **SHARES, WARRANTS AND CONVERTIBLE LOAN NOTES**

Details of the movements in share capital, warrants and convertible loan notes of the Company during the year are set out in note 24 to the accounts on page 63.

## **RESERVES**

Details of the movements in reserves during the year are set out in note 25 to the accounts on page 64.

## **DIRECTORS**

The Board of Directors, as now constituted, is listed on page 11.

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

### **Executive Directors**

David Hui Yip Wing

Gary Cheung Wai Kwok

Stephen Chong Yuet Luk

Lee Seng Huang

Patrick Lee Seng Wei

Chung Tze Hien *(resigned on 6 December 2000)*

Lee Seng Hui *(resigned on 1 June 2000)*

### **Non-Executive Directors**

Arthur George Dew

David Craig Bartlett

Sir Gordon Macwhinnie

Gerard Joseph M<sup>c</sup>Mahon

Tsoi Kee Yan

Dieter Yih

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

In accordance with the above Article, Messrs. Arthur George Dew, David Hui Yip Wing, Gary Cheung Wai Kwok and Patrick Lee Seng Wei retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

## **BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF**

### **Executive Directors**

**David Hui Yip Wing**, aged 51, was appointed an executive director on 25 October 1996 and as Chief Executive Officer and Deputy Chairman of the Company as from 1 May 2000 and 1 August 2000 respectively. Mr. Hui is also the managing director of Tian An China Investments Company Limited. Before joining the Company, Mr. Hui was for 7 years a director of a listed textile group, where he had overall responsibility for its operations, with special emphasis on strategic planning, financial control, and the re-

engineering and implementation of the concept of total quality management. Prior to joining the industrial sector in 1989, Mr. Hui was the managing director of a financial institution and had over 10 years of experience in banking.

**Gary Cheung Wai Kwok**, aged 47, initially joined the Group in 1980 and was appointed an executive director of the Company on 2 July 1998. Mr. Cheung has Bachelor of Arts Degrees in Economics and Business Administration. He has over 20 years of experience in the areas of securities, foreign exchange, commodities and futures, and is now the head of the Gold/Forex/Commodities Division of the Group.

**Stephen Chong Yuet Luk**, aged 34, was appointed an executive director of the Company on 20 June 1997. Mr. Chong holds a Bachelor of Science Degree in Industrial & Systems Engineering. He is the Deputy Managing Director of the Vicwood Group of Companies based in Hong Kong, the President of Vicwood Developments B.C. Inc. in Canada and the Vice-President of Vicwood Development Corp. in Seattle, the United States of America. He is also a director of Vicwood Hong Kong Limited.

**Lee Seng Huang**, aged 26, was appointed a non-executive director of the Company on 16 April 1999 and became an executive director as from 29 October 1999. Mr. Lee was educated in Australia and has had previous experience in corporate administration in Malaysia and within the region. He is also a director of Lippo Limited, Lippo China Resources Limited, Auric Pacific Group Limited in Singapore and Export and Industry Bank, Inc. of the Philippines.

**Patrick Lee Seng Wei**, aged 49, was appointed an executive director of the Company on 22 June 1996. An architect, he worked for IBM Australia before becoming involved in property development in Malaysia and Hong Kong for more than 18 years. He has extensive experience in the property field. He is also the Chief Executive of Allied Properties (H.K.) Limited, a deemed substantial shareholder of the Company, and an executive director of Tian An China Investments Company Limited.

### **Non-Executive Directors**

**Arthur George Dew**, aged 59, was appointed an independent non-executive director on 22 June 1996 and Chairman of the Company on 20 June 1997. He graduated from the Law School of the University of Sydney, Australia, and was admitted as a solicitor and later as a barrister of the Supreme Court of New South Wales, Australia. He is currently a non-practising barrister. He has a broad range of corporate and business experience and has served as a director, and in some instances chairman of the board of directors, of a number of public companies listed in Australia, Hong Kong and elsewhere. He is an

independent non-executive director of Allied Group Limited, a deemed substantial shareholder of the Company.

**David Craig Bartlett**, aged 35, was appointed an independent non-executive director of the Company on 26 November 1999. Mr. Bartlett graduated with honours in law from the University of Exeter in England before qualifying as a solicitor in England and Hong Kong and becoming a partner in the international law firm of Clyde & Co. He regularly acted for the Company and its subsidiaries before leaving private practice for a career in industry. Now based in Ireland, he is also an independent non-executive director of Allied Group Limited, a deemed substantial shareholder of the Company.

**Sir Gordon Macwhinnie**, C.B.E., J.P., aged 78, was appointed a non-executive director of the Company on 26 January 1999. Sir Gordon is a chartered accountant and has had a distinguished career in both public and private sectors in the fifty years that he has been in Hong Kong. He was the Chairman of The Royal Hong Kong Jockey Club and the Ocean Park Corporation, and a member of the Council of the University of Science and Technology of Hong Kong for ten years. He is currently a director of The Bank of Bermuda in Hong Kong and he is the non-executive Chairman of Allied Properties (H.K.) Limited and Allied Group Limited, deemed substantial shareholders of the Company.

**Gerard Joseph M<sup>c</sup>Mahon**, aged 57, was appointed a non-executive director of the Company on 20 June 1997. Mr. M<sup>c</sup>Mahon was previously an executive director of the Securities and Futures Commission (“SFC”), a member of the Hong Kong Takeovers and Mergers Panel and the SFC representative on the Hong Kong Standing Committee on Company Law Reform. Mr. M<sup>c</sup>Mahon is also a director of The Hongkong Chinese Bank, Limited, The HKCB Bank Holding Company Limited, Guangnan (Holdings) Limited and AcrossAsia Multimedia Limited. He was admitted as a barrister in Hong Kong.

**Tsoi Kee Yan**, aged 51, was appointed a non-executive director of the Company on 26 June 1997. Mr. Tsoi has been the Deputy General Manager of Vicwood Group of Companies since 1991. Mr. Tsoi holds a Bachelor of Applied Science Degree in Electrical Engineering from the University of Toronto. He has over 20 years of experience in international trade, shipping and timber industries.

**Dieter Yih**, aged 38, was appointed an independent non-executive director of the Company on 6 August 1997. He is a practising solicitor in Hong Kong and is a partner of Kwok & Yih. He graduated from King’s College, University of London, England with a Bachelor’s Degree in Law and is also qualified as a solicitor in Australia, England and Singapore.

Mr. Yih has extensive experience in the field of corporate finance and corporate transactions, with an emphasis on listed company related transactions.

### **Senior Management Staff**

**David Charles Parker**, aged 47, has been the Group Chief Operating Officer as from September 2000. He was educated in Australia and the U.K. and is a graduate of the University of Western Australia. Based in Hong Kong since 1990, Mr. Parker has consulted and directly participated in the areas of capital markets, direct investment and project development.

**Mak Pak Hung**, aged 54, joined the Group as the Chief Financial Officer in February 2001. Mr. Mak holds a Bachelor of Arts Degree in Economics from the University of Hong Kong and a Masters Degree in Business Administration from University of Western Ontario, Canada. Prior to joining the Group, Mr. Mak was with A.S. Watson & Company Limited as Chief Operating Officer. He has also held senior positions with Canadian Imperial Bank of Commerce, Manufacturers Hanover Trust Co. and Citibank N.A., and has extensive experience in banking, retailing, manufacturing, trading and marketing.

**Gilbert Chu Kwok Tsu**, aged 44, joined the Group in 1997. Mr. Chu is a director of Sun Hung Kai Securities Limited, Sun Hung Kai Investment Services Limited, Sun Hung Kai Research Limited and SHK Online (Securities) Limited and is the Chief Economist of the Company. Prior to joining the Group, Mr. Chu was a director of Socgen-Crosby Securities (Hong Kong) Limited. He holds Bachelor of Science and Master of Business Administration Degrees, both from University of California, Berkeley.

**Chan Kam Hop**, aged 51, joined the Group in 1973. Mr. Chan is a director of Sun Hung Kai Commodities Limited, Sun Hung Kai Bullion Company Limited and Sun Hung Kai Forex Limited and is in charge of the Sales-Gold/Forex/Commodities Department.

**Edmond Chau Chin Hung**, aged 51, joined the Group in 1997. Mr. Chau is a director of Sun Hung Kai Investment Services Limited and Sun Hung Kai Commodities Limited and is in charge of the Hong Kong Shares Dealing II Department. Prior to joining the Group, Mr. Chau was a director of Goodwill Investment Services Limited, Goodwill (HK) Securities Limited and Goodwill Commodities Limited. Mr. Chau has over 20 years of experience in the securities business. He has a Bachelor of Science Degree from University of London.

**Cheung Yau Kwong**, aged 45, joined the Group in August 2000. Mr. Cheung is a director of Sun Hung Kai Investment Services Limited and is in charge of the Product

Development Department. Prior to joining the Group, Mr. Cheung had been trading in securities and derivative products for the proprietary positions of financial institutions including the Union Bank of Switzerland and Wardley Financial Services Limited. He has a Bachelor of Science Degree in Economics.

**Douglas Chen Wai Huen**, aged 36, joined the Group in March 2000. Mr. Chen is a director and the Chief Executive Officer of SHK Online Limited, in charge of the SHK Online Department. He is also a director of SHK Online (Securities) Limited. Prior to joining the Group, Mr. Chen was Managing Director in the equity derivatives department of Bear Stearns Asia Limited. He has a Bachelor of Science Degree.

**Jimmy Fong Tsun Kuen**, aged 42, joined the Group in 1997. Mr. Fong is a director of Sun Hung Kai Investment Services Limited and Sun Hung Kai Commodities Limited and is in charge of the Corporate Sales II Department. He has over 15 years of experience in the securities and commodities business.

**Florence Ho Hau Ching**, aged 51, joined the Group as the Director of Human Resources in October 2000. Prior to joining the Group, Miss Ho was Head of Human Resources with the Hong Kong Futures Exchange. She has a Bachelor of Arts Degree from the University of Hong Kong and a Master Degree in Education (Administrative Leadership) from Simon Fraser University, Canada. She is also a Fellow of the Hong Kong Institute of Human Resources Management. Miss Ho has over 20 years' experience in the fields of human resources management, training and development, and organization development.

**Stanley Ho Lung Wai**, aged 43, joined the Group in 1986. Mr. Ho is a director of Sun Hung Kai Insurance Consultants Limited and is in charge of the Insurance Consultants Department. He is a fellow member and a chartered insurance practitioner of the Chartered Insurance Institute, U.K. Mr. Ho has over 15 years of experience in insurance consultancy. He has extensive knowledge in the global insurance plans adopted by infrastructure and multinational companies. He also has over 10 years of experience in developing the China business.

**Ip Moon Che**, aged 46, joined the Group in 1999. Mr. Ip is in charge of the Hong Kong Shares Retail II Department. He is an experienced manager of private banking activities in the Asia Pacific region and a dynamic financial adviser in foreign exchange and international securities. Prior to joining the Group, Mr. Ip held senior positions in CEF CIBC Private Clients Investment Services Limited and CEF Brokerage Limited. He has Bachelor of Arts Degrees in Economics and Accounting from Sheffield University, U.K.

**Kwok Chee Chung**, aged 49, joined the Group in 1980. Mr. Kwok is a director of Sun Hung Kai Securities Limited and is in charge of the Finance Department. He is an associate member of the Chartered Institute of Management Accountants and the Hong Kong Society of Accountants.

**Christophe Lee Kin Ping**, aged 31, joined the Group in August 2000. Mr. Lee is the Chief Operating Officer of SHK Online Limited. Prior to joining the Group, Mr. Lee was an executive director at Goldman Sachs (Asia) LLC. He has a Bachelor of Applied Science Degree from the University of Pennsylvania.

**Leung King Yuen**, aged 48, joined the Group in July 2000. Mr. Leung is the Chief Operating Officer of Sun Hung Kai Securities Limited, in charge of the Operations and Margin as well as the Credit Departments. He is also a director of Sun Hung Kai Investment Services Limited and Sun Tai Cheung Credits Limited. Mr. Leung is a fellow member of The Association of Chartered Certified Accountants and an associate member of Hong Kong Society of Accountants. He has over 15 years of experience in securities brokerage, commodities, foreign exchange and finance.

**Thomas Leung Siu Wing**, aged 44, joined the Group in 1979. Mr. Leung is the Senior Manager of the Information Technology Department. He has over 20 years of experience in information technology.

**Joseph Marian Laurence Ozorio**, aged 46, joined the Group in March 2000. Mr. Ozorio is the head of the Corporate Sales III and Branch Operations Departments. Prior to joining the Group, Mr. Ozorio was a director of Lippo Securities Limited and possesses over 20 years of experience in the securities industry.

**David Pong Hei Ming**, aged 41, joined the Group in 1999. Mr. Pong is the Chief Technology Officer of the Company, in charge of the Information Technology Department. Before joining the Group, Mr. Pong had held senior management positions in banks and financial institutions responsible for technology strategy and planning, systems development and technology infrastructure management in the region. He has Bachelor and Masters Degrees in Business Administration.

**Manus Tam Ping Chung**, aged 38, joined the Group in 1999. Mr. Tam is a director of Sun Hung Kai International Limited and is the Head of the Corporate Finance Department. He holds Bachelor and Master of Business Administration Degrees. He is a qualified practising accountant and holds a post-graduate diploma in the P.R.C. law. He has approximately 12 years' experience in merger and acquisitions, initial public offerings and finance.

**Tham Yok Mui**, aged 51, joined the Group in 1990. Miss Tham is the Director and Head of Internal Audit and Compliance. She has a Bachelor of Science (Economics) with Honours Degree from the London School of Economics and Political Science, and is an associate member of the Institute of Chartered Accountants in England and Wales.

**Francis Tsui Pui Ki**, aged 48, joined the Group in 1982. Mr. Tsui is a director of Sun Hung Kai Investment Services Limited and is the Senior Manager of the Operations and Margin Department.

**Patrick Wong Kwok Hing**, aged 41, joined the Group in 1985. Mr. Wong is a director of Sun Hung Kai Investment Services Limited and Sun Hung Kai Research Limited and is in charge of the Corporate Sales I and Hong Kong Shares Retail I Departments. He has Master of Science and Business Administration Degrees.

**Hester Wong Lam Chun**, aged 41, joined the Group in 1989. Miss Wong is the Company Secretary of the Company and is in charge of the Secretarial Department. She is a fellow member of the Institute of Chartered Secretaries and Administrators.

**Fred Yeung Yiu Mo**, aged 35, joined the Group as the Director of Corporate Communications in November 2000. Mr. Yeung has 10 years of experience in corporate communications and public affairs. He has a Bachelor of Social Sciences Degree from the University of Hong Kong and a Law Degree from the University of London.

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

As at 31 December 2000, none of the directors and their associates had interests in the equity or debt securities of the Company and its associated corporations according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance").

No right to subscribe for equity or debt securities of the Company had been granted to the directors and their associates, nor had there been any exercise of such right during the year.

## **ARRANGEMENT FOR THE ACQUISITION OF SHARES OR DEBENTURES**

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

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY

As at 31 December 2000, 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 (“the Register”) 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	222,539,000	19.14	
Besford International Limited	222,539,000	19.14	5, 6
China Online (Bermuda) Limited	222,539,000	19.14	5, 7
Vigor Online Offshore Limited	222,539,000	19.14	5, 8
China Sci-Tech Holdings Limited	222,539,000	19.14	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 61.43% 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 222,539,000 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 34.30% 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.

The interest of AP Emerald Limited increased to 711,718,216 shares, representing approximately 47.31% of the issued share capital of the Company, as a result of the allotment of new shares by the Company on 12 January 2001 pursuant to the mandatory

conversion of the Company's 8% listed non-redeemable convertible loan notes which were due on 31 December 2000.

According to the Register, Gold Chopsticks Limited and AP Emerald Limited held 225,793,000 shares and 749,264,216 shares, representing an interest of approximately 15.01% and 49.81% of the Company's issued share capital as at 16 January 2001 and 9 February 2001 respectively.

## **CONNECTED TRANSACTIONS**

In an announcement dated 17 June 2000, the Company informed the market that Upper Selection Investments Limited ("Upper Selection"), an indirect wholly-owned subsidiary of the Company held through Ranbridge Finance Limited ("Ranbridge"), had entered into a shareholders' agreement ("the Agreement") on 17 June 2000 with Easy Capital Investments Limited, a wholly-owned subsidiary of United Asia Finance Limited ("UAF").

Pursuant to the terms of the Agreement, the parties established a joint venture company for the acquisition of an investment holding company, Top Progress Investments Limited, and its wholly-owned subsidiary, Miliconcept Credit Limited (now known as SHK Finance Limited) which carries on the personal loan business and was the only asset acquired in the transaction, at a consideration of HK\$130 million. The joint venture company was indirectly owned as to 50% by the Company and 50% by UAF. The total initial investment amount of the joint venture company of approximately HK\$130 million was financed by a cash contribution equivalent to approximately HK\$65 million by the Company and approximately HK\$65 million by UAF. The profits and losses of the joint venture company, and any further capital commitment would be shared by the parties in their respective proportion of equity interests in the joint venture company. The board of directors of the joint venture company would consist of not more than eight directors and Upper Selection has the right to nominate up to four directors who would not have any casting vote.

The principal business of Ranbridge, a licensed money lender, is the provision of term loans to customers. The acquisition of the interest would enhance the business of Ranbridge by enabling it to diversify its money lending business and to acquire a branch network and expand its customer base and its loan book in association with UAF which has skills in retail money lending.

Allied Group Limited, a deemed substantial shareholder of the Company under the SDI Ordinance, through a wholly-owned subsidiary, held 70% of the issued share capital of United Asia Finance (Group) Limited which in turn held 72.73% of the issued share

capital of UAF on the date of the Agreement. Accordingly, the transaction contemplated under the Agreement constituted a connected transaction pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”) and required disclosure by way of a press notice. Details of the transaction are disclosed above in accordance with the requirements of the Listing Rules.

The above transaction also constitutes a related party transaction of the Group during the year. Details of the related party transactions of the Group are disclosed pursuant to the requirements under the Statement of Standard Accounting Practice 20 in note 36 to the accounts on page 80.

### **PRACTICE NOTE 19 OF THE LISTING RULES**

As at 31 December 2000, no circumstances existed giving rise to the disclosure obligation of the Company under Practice Note 19 of the Listing Rules.

### **BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS**

Particulars of bank loans, overdrafts and other borrowings of the Group are set out in notes 17 and 27 to the accounts on pages 53 and 67.

### **SUBSIDIARY COMPANIES**

Particulars regarding the principal subsidiary companies are set out in note 34 to the accounts on page 75.

### **INTEREST CAPITALISED**

No interest was capitalised by the Group during the year.

### **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

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

### **SERVICE CONTRACTS**

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

### **MAJOR CUSTOMERS**

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

## **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

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

1. Mr. Lee Seng Huang is a director of Lippo Limited and Lippo China Resources Limited while Mr. Arthur George Dew and Sir Gordon Macwhinnie were also directors of these companies during the year. The said companies, through their subsidiaries and associate, are partly engaged in the businesses of securities broking, securities trading and the provision of financial, insurance and other related services. Sir Gordon Macwhinnie and Mr. Dew resigned from both companies on 31 May 2000 and 21 June 2000 respectively.
2. Mr. Gerard Joseph M<sup>c</sup>Mahon is a director of The HKCB Bank Holding Company Limited and its wholly-owned subsidiary, The Hongkong Chinese Bank, Limited. The subsidiaries and associates of The HKCB Bank Holding Company Limited are principally engaged in the provision of commercial banking, consumer finance, securities brokerage, insurance and other related financial services. Mr. M<sup>c</sup>Mahon is also a director of Asian Capital (Corporate Finance) Limited which is engaged in the provision of corporate finance advisory services.
3. Mr. Patrick Lee Seng Wei is a director of Allied Properties (H.K.) Limited and was during the year a director of Allied Group Limited. Mr. Lee Seng Hui, a former director of the Company who resigned on 1 June 2000, is also a director of Allied Group Limited. Two subsidiaries of the said companies are engaged in the businesses of money lending and provision of financial services. Mr. Patrick Lee resigned from Allied Group Limited on 17 May 2000.

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

## **DIRECTORS' INTERESTS IN CONTRACTS**

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

## **MANAGEMENT OF RISKS**

### **Policies and Procedures**

The Group has established policies and procedures for risk management which are reviewed regularly by the management and various Group committees, including the Credit & Risks Management Committee (the “CRM”), which reports to the Executive Committee of the Board of Directors, to ensure the proper monitoring and control of all major risks arising from the Group’s activities at all times. The Group’s Internal Audit and Compliance Department (which reports independently to the non-executive Chairman and the Audit Committee as well as to the Chief Executive Officer) also performs regular reviews to supplement the various internal control measures adopted by the management and various divisions within the Group to ensure compliance with policies and procedures. These various control procedures are also examined and separately reported upon to the Audit Committee and the Board of Directors by the external auditors at least annually.

### **Credit Risk**

Credit risk arises from a number of areas. These include the possibility that the counterparty in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market-making, derivatives trading and other activities undertaken by the Group.

The Group’s credit manual sets out in detail the credit approval and monitoring procedures, which are established in accordance with sound business practices, the requirements and provisions of the relevant ordinances and where applicable, the guidelines issued by The Securities and Futures Commission of Hong Kong.

Day-to-day credit management is performed by the Credit Department with reference to the aforementioned criteria including creditworthiness, collateral pledged and risk concentration of the counter parties. Decisions made by the Credit Department are reviewed daily by the executive directors of the Group and by the CRM at its regular meetings.

### **Liquidity Risk**

The Group manages its liquidity position to ensure the Group maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management, comprising the executive directors, the Chief Financial Officer and relevant senior managers monitoring the liquidity position of the Group on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Financial Resources Rules applying to various

registered subsidiaries. The monitoring process and the results of the same are reported to the CRM, the Audit Committee and the Board of Directors at the regular meetings.

### **Capital Risk**

The Group maintains a strong capital base to support the development of its businesses and to comply, where necessary, with the minimum statutory ratios.

Capital is allocated to the various activities of the Group depending on requirements and the degree of risk appropriate to various activities.

### **Interest Rate Risk**

Interest rate risk primarily results from timing differences in the repricing of interest bearing assets, liabilities and commitments. The Group's interest rate risk exposure arises mainly from margin financing and other lending activities undertaken. The Group has the legal capacity to quickly recall such loans or reprice its margin loans to an appropriate level. Its interest-sensitive positions can readily be identified. Interest rates paid by the Group are managed by the Finance Department with the aim of maximizing the spread of interest consistent with liquidity and funding obligations.

### **Foreign Exchange Risk**

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates.

The Group's foreign exchange risk primarily arises from currency exposures originating from its leveraged foreign exchange business or purchases on behalf of clients of foreign securities. Foreign exchange risk is managed and monitored by the relevant department under the limits approved by the Group's directors. In relation to our leveraged foreign exchange activity, our position is that of a market-maker and accordingly our risk is primarily a derivative foreign exchange risk for a client who does not or cannot meet margin calls following any period of substantial currency turbulence. Our principal lending operations are carried out in local currency to obviate foreign exchange risk.

### **Market Risk**

Market risk is the risk arising from changes in interest rates, foreign exchange rates, equity, real property or commodity prices. It may affect the prices of financial instruments or other assets held by the Group. Financial instruments taken or held by the Group include foreign exchange contracts, futures contracts, equity, derivative and fixed income securities.

Market risk limits are approved by the Group's various Committees and in some cases by the Board of Directors. Actual positions are compared with approved limits and monitored regularly by the relevant divisional head, the Credit Department and by the senior management of the Group. Exposures are measured and monitored on a "mark-to-market" basis with stop-loss limits. Market risk trading positions are subject to daily mark-to-market valuation, which is also reported daily to the senior management for their review. The Group's Internal Audit and Compliance Department also performs regular audits to supplement the above controls to ensure compliance with the established market risk limits and guidelines.

### **CODE OF BEST PRACTICE**

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

### **AUDITORS**

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



**Arthur George Dew**

*Chairman*

4 April 2001