

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	<u>34,114</u>	<u>33,766</u>	<u>9,581</u>	<u>84,794</u>
	<u>369,993</u>	<u>353,504</u>	<u>143,102</u>	227,812
Share of profits and losses of				
Associated companies			25,827	11,931
Jointly controlled entities			<u>7,717</u>	<u>342</u>
			<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
	<u>22,374</u>	<u>32,284</u>

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)	<u>15,042</u>	<u>46,503</u>

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)	<u>341,650,403</u>	<u>68,331</u>
Balance as at 30 June 2001	<u>1,504,223,465</u>	<u>300,845</u>

(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
Liabilities						
Bank loans and overdrafts	-	729,118	-	-	-	729,118
Long term loan	-	927	2,854	17,271	4,061	25,113
As at 31 December 2000						
	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	After 5 years	Total
	HK\$'000	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
Liabilities						
Bank loans and overdrafts	-	967,367	-	-	-	967,367
Long term loan	-	739	2,304	14,818	8,896	26,757

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.