

## 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:

<b>Name</b>	<b>Number of ordinary shares</b>	<b>Approximate % of the issued share capital</b>	<b>Notes</b>
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