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## **INTERIM DIVIDEND**

The Directors do not recommend the declaration of an interim dividend (2000: Nil). It should be noted however that the Company took advantage of the Company's relatively low share prices as well as that of Allied Properties (H.K.) Limited ("Allied Properties")'s shares compared to their respective net asset values and accordingly repurchased a total of approximately 38.1 million shares during the period. The Group's shareholding in Allied Properties also increased from 61.43% at the beginning of this year to the present level of 66.02%.

For the six months ended 30th June, 2000, the Company did not declare an interim dividend.

## **FINANCIAL REVIEW**

The Group reported a profit attributable to shareholders for the period of approximately HK\$189.3 million, increasing by 12.4% compared to the corresponding period of last year of approximately HK\$168.4 million. The Group's financial statements have since May 2001 consolidated those of Sun Hung Kai, when it became a subsidiary of Allied Properties and the Company. The increase in shareholdings in Sun Hung Kai and Allied Properties during the period has significantly contributed to the increase in profit attributable to shareholders.

### **Financial Resources, Liquidity and Capital Structure**

The Group's capital expenditure and investments for the period were primarily funded by net cash inflow from operating activities, loans and advances from banks and net proceeds from rights issue of a subsidiary.

At 30th June, 2001, the net assets of the Group amounted to HK\$4,466.4 million, representing an increase of HK\$153.7 million or approximately 3.6% from that of 31st December, 2000. The Group's short-term bank deposits, bank balances and cash were HK\$685.1 million (At 31st December, 2000: HK\$283.4 million) The Group's bank loans, overdrafts and other borrowings were HK\$3,255.9 million (At 31st December, 2000: HK\$2,364.7 million) of which the portion due on demand or within one year was HK\$2,419.4 million (At 31st December, 2000: HK\$1,456.8 million), and the remaining long term portion was HK\$836.5 million (At 31st December, 2000: HK\$907.9 million). The liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 1.83 times (At 31st December, 2000: 1.75 times). The Group's gearing ratio (net bank and other borrowings/net assets) was 57.6% (At 31st December, 2000: 48.3%).

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## FINANCIAL REVIEW (CONT'D)

### Risk of Foreign Exchange Fluctuation

Other than the Group's finance business conducted by Sun Hung Kai (the foreign exchange risk for which will be referred to in a later section of this interim report), the Group's other operating activities are mainly denominated in Hong Kong dollars. Accordingly, the Group has no other significant exposure to foreign exchange fluctuations.

### Acquisition of Additional Interest in Sun Hung Kai

During the period under review, Allied Properties acquired a further 4.97% interest in Sun Hung Kai, an associate of the Group, through the market at a cost of HK\$108.1 million. Allied Properties' interest in Sun Hung Kai increased from approximately 47.31% to approximately 52.28% at the period end. Sun Hung Kai was reclassified as a subsidiary of Allied Properties and its results, assets and liabilities were consolidated in the Group's financial statements. The Group's share of Sun Hung Kai's results up to 30th April, 2001 is included in the Group's financial statements on the equity accounting basis.

### Contingent Liabilities

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

- (a) The Group had guarantees given to banks of HK\$230.0 million (At 31st December, 2000: HK\$245.0 million) in respect of credit facilities utilised by a subsidiary of an unlisted jointly controlled entity.
- (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 (At 31st December, 2000: Nil), of which no facilities were utilised (At 31st December, 2000: Nil).
- (c) Sun Hung Kai Forex Limited ("SHK Forex") and Sun Hung Kai Bullion Company Limited ("SHK Bullion"), wholly-owned subsidiaries of Sun Hung Kai, 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 (At 31st December, 2000: Nil).

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## FINANCIAL REVIEW (CONT'D)

### Contingent Liabilities (cont'd)

- (d) Sun Hung Kai Securities Limited ("SHKSL"), a wholly-owned subsidiary of Sun Hung Kai, issued proceedings against New World Development Company Limited ("NWD") on 22nd December, 1998, claiming, inter alia, the repayment of approximately HK\$35.0 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 income statement as incurred. In the opinion of the management, no material contingency on legal costs will arise from these proceedings and accordingly no further provision is presently required.

### Pledge of Assets

At 30th June, 2001, certain of the Group's investment properties, hotel property, leasehold land and building, property under development, properties under development for sale and properties held for sale with an aggregate carrying value of HK\$3,506.5 million (At 31st December, 2000: HK\$3,542.8 million), consumer loan portfolio and bank balance of HK\$551.0 million (At 31st December, 2000: HK\$551.0 million), listed investments with a carrying value of HK\$54.2 million (At 31st December, 2000: Nil), listed investments belonging to margin clients with a carrying value of HK\$2,463.4 million (At 31st December, 2000: Nil) together with certain securities in respect of listed subsidiaries held by the Company and its subsidiaries, the net book value of which in their respective accounts totalling HK\$3,732.9 million (At 31st December, 2000: HK\$3,485.4 million) were pledged to secure loans and general banking facilities to the extent of HK\$4,852.3 million (At 31st December, 2000: HK\$2,696.7 million) granted to the Group. Facilities amounting to HK\$3,085.3 million (At 31st December, 2000: HK\$2,310.7 million) were utilised at 30th June, 2001. At 30th June, 2001, certain of the Group's bank deposits of HK\$1.0 million (At 31st December, 2000: HK\$0.7 million) were pledged to secure banking facilities amounting to HK\$1.0 million (At 31st December, 2000: HK\$0.7 million).

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## **OPERATIONAL REVIEW**

### **Financial Services**

United Asia Finance Limited (“UAF”) recorded modest growth in its loan portfolio and profit contribution, which is particularly satisfactory, considering general market conditions. UAF opened two new branches respectively at Argyle Street and To Kwa Wan during the period, increasing the total number of branches to 28. The loan businesses conducted over the internet and digital telephone platform which were launched last year have been performing very well with significant increase in loan transaction volume. Exceeding expectations, SHK Finance Limited, the equal joint venture between UAF and Sun Hung Kai, achieved double-digit growth in loan business and profit, with the total number of branches increasing to 13.

During the period under review, Allied Properties’ interest in Sun Hung Kai increased to approximately 52.28%. Accordingly, Sun Hung Kai was reclassified as a subsidiary of the Company. Sun Hung Kai reported a 25.7% decrease in profit. This was largely due to the absence of the exceptional profit enjoyed last year from the sale of its stake in Lippo Capital Limited. If this profit was excluded from last year’s results, then on a strictly comparative basis, Sun Hung Kai’s profit attributable to its shareholders would increase by 166%, compared to the corresponding period in 2000. Overall, Sun Hung Kai benefited from reduced interest expenses in the period under review as well as a better performance from its term lending business. In addition to the branches in Mongkok, Tsuen Wan and North Point, a branch was opened in Kwun Tong in March.

### **Properties**

Allied Properties reported an increase of 30.7% in profit attributable to its shareholders for the period, compared to the corresponding period of last year of approximately HK\$69.5 million. The increase in its shareholding in Sun Hung Kai during the period has significantly contributed to this increase. China Online Centre, the commercial/office building at 333 Lockhart Road, Wanchai and completed last year, has been earning good rentals despite the business downturn of the information technology related companies who are tenants. The Century Inn North Point, at Java Road also completed last year, has continued to enjoy very good occupancy rates since its opening in early 2001. Planning for phase two is in progress and expected to add another 60 rooms to the present 210. The renovation of Hua Yuan Building, an existing commercial/residential building in Wanchai and now renamed as Century Court, has been completed and the individual units within the building are now available for lease. Allied Properties expects to market its St. George Apartments on Waterloo Road later this year. A rights issue raising approximately HK\$363 million was successfully completed by Allied Properties during June 2001.

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## **OPERATIONAL REVIEW (CONT'D)**

### **Properties (cont'd)**

Allied Kajima Limited, which is 50% indirectly owned by Allied Properties and the core properties of which group include Allied Kajima Building, Century Hong Kong Hotel and the Westin Philippine Plaza Hotel, contributed a profit of approximately 10% better than the corresponding period of last year.

Tian An, the listed associate of Sun Hung Kai and an established P.R.C. property developer and investor with a substantial P.R.C. residential landbank, reported a 175% increase in profit due to the robust property market in the P.R.C. The acquisition by Tian An of a controlling stake in Interform Ceramics Technologies Limited, a building materials provider, was completed in May 2001 and is expected to complement Tian An's core property operations.

### **EMPLOYEES**

The total number of staff of the Group at 30th June, 2001 was 1,834 (At 31st December, 2000: 1,361), the increase being mainly due to the consolidation of Sun Hung Kai. The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

### **MANAGEMENT OF RISKS**

The Group regularly controls and reviews the risks in respect of its consumer money lending business principally conducted by UAF. There have not been any significant changes in the management of such risks from that described in our annual report for 2000.

The management of risks in respect of the Group's other finance business is primarily conducted by Sun Hung Kai and described as follows:

#### **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.

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## **MANAGEMENT OF RISKS (CONT'D)**

### **Credit Risk (cont'd)**

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 criteria including creditworthiness, collateral pledged and risk concentration of the counter parties. Decisions made by the credit department are reviewed daily by the management and by the credit and risks management committee at its regular meetings.

### **Liquidity Risk**

The Group manages its liquidity position to ensure it maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management 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 management and various committees at the regular meetings.

### **Capital Risk**

The Group maintains a strong capital base to support the development of its finance business and to comply, where necessary, with 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.

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## **MANAGEMENT OF RISKS (CONT'D)**

### **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 with the aim of maximising 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 management. In relation to the leveraged foreign exchange activity, the Group's position is that of a market-maker and accordingly the Group's 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. The Group's lending operations and borrowings are carried out in local currency.

### **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 management and various committees. Actual positions are compared with approved limits and monitored regularly by the relevant divisional head, the credit department and by the senior management. 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 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.

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## BUSINESS OUTLOOK

The slowing of the U.S. economy, which has affected other economies as well as the economic growth of Hong Kong this year, remains a concern. This, and the associated uncertainty, is believed to be a principal reason why the successive interest rate reductions in Hong Kong since the beginning of the year have not yet produced the originally anticipated stimulation to the local economy and property market. The extraordinary and tragic events which have recently occurred in the U.S.A., and for which the Group wishes to express its sympathy and sorrow to the victims of the tragedy, will almost certainly also affect the U.S. economy, and this coupled with the current concerns facing Hong Kong means that we will face challenging times ahead. Hong Kong has faced situations of this type before, and with determination and caution will negotiate them successfully again.

## INDEPENDENT FINANCIAL REVIEW

At the request of the Directors, the Group's external auditors have carried out a review of the unaudited interim financial report for the six months ended 30th June, 2001 in accordance with the Statement of Auditing Standards No. 700 issued by the HKSA. The audit committee of the Company ("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. 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.

## DIRECTORS' INTERESTS IN SHARES

At 30th June, 2001, the following beneficial interests in the shares of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were held by Directors and their associates as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance:

<b>Name of Director</b>	<b>Number of shares</b>	<b>Nature of interest</b>
Lee Seng Hui	988,676,142 shares in the Company	Personal interest in 229,216 shares and other interest in 988,446,926 shares ( <i>Note</i> )
Lee Su Hwei	988,446,926 shares in the Company	Other interest ( <i>Note</i> )

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*Note:* Mr. Lee Seng Hui and Ms. Lee Su Hwei are trustees of Lee and Lee Trust, being a discretionary trust which indirectly held 988,446,926 shares of the Company.

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## DIRECTORS' INTERESTS IN SHARES (CONT'D)

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 equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) at 30th June, 2001.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

At 30th June, 2001, none of the Directors of the Company had any personal interests in share options to subscribe for shares in the Company granted under the share option scheme of the Company.

Save as disclosed above, no rights to subscribe for equity or debt securities of the Company had been granted to or exercised by any Directors, former Director or any of their spouses or children under eighteen years of age at any time during the period under review.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 30th June, 2001, according to the register required to be kept by the Company under Section 16(1) of the SDI Ordinance, the only shareholder who was interested in 10% or more of the issued share capital of the Company was as follows:

<b>Name of Shareholder</b>	<b>Number of shares held</b>	<b>%</b>
Lee and Lee Trust	988,446,926	28.94

*Note:* Mr. Lee Seng Hui and Ms. Lee Su Hwei, Directors of the Company, are trustees of Lee and Lee Trust, being a discretionary trust.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company at 30th June, 2001.

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## PURCHASE, SALE OR REDEMPTION OF SHARES

During the period under review, the Company made the following purchases of its own shares on the Stock Exchange:

Month of purchases	Number of shares purchased	Purchase consideration per share		Aggregate consideration paid <i>HK\$</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
January 2001	2,300,000	0.475	0.440	1,053,510
February 2001	4,040,000	0.510	0.455	2,006,220
March 2001	25,526,000	0.510	0.490	12,761,300
April 2001	2,372,000	0.430	0.370	934,340
May 2001	3,252,000	0.480	0.420	1,440,840
June 2001	600,000	0.485	0.450	278,000

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30th June, 2001.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicated that the Company is not, or was not for any part of the six months ended 30th June, 2001, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

By Order of the Board  
**Sir Gordon Macwhinnie**  
*Chairman*

13th September, 2001