

REVIEW OF OPERATIONS

Securities brokerage and dealing

In 2000, the Group continued to conduct its securities brokerage and dealing businesses, which largely cover Hang Seng Index constituent stocks, Hang Seng China-Affiliated Enterprise Index constituent stocks, H shares as well as B shares listed on the Shenzhen and Shanghai stock exchanges. The Group opened up two new branches in North Point and Mongkok, making a total of 6 retail branches. Furthermore, the Group acquired the business of Shanghai Shenyn Securities (H.K.) Limited including its Stock Exchange trading right at a total consideration of HK\$3.8 million. Despite the volatile business we have been engaging in, the Group's market share was stable throughout the year.

Having recognised the importance of technological development in the securities industry, the Group has invested approximately HK\$5 million in upgrading its trading infrastructure. In November 2000, the Group adopted a Broker Supplied System ("BSS") to cope with the launch of AMS/3 system by the Stock Exchange. The Group was one of the first batch of brokerage houses launching BSS which was verified, tested and approved by the Stock Exchange. The Group's BSS, which is able to complete a trade order within 2 seconds, connects to the Stock Exchange's Open Gateway to allow the trades to be processed straight through. Speed, accuracy and security of processing clients' trade orders have been greatly improved.

Securities financing

During the year under review, the Group recorded interest income from banks and margin financing operations of approximately HK\$79 million (1999: HK\$57 million). In 2000, the Group continued to exercise caution in the granting of securities financing packages to clients, carefully monitored its credit policy in this regard, performed regular reviews and assessments on individual cases on the basis of the gearing level, the portfolio contents and credit considerations relevant to the individual borrower.

Management Discussion and Analysis

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Corporate finance

The Group's corporate finance activities are carried out by Shenyin Wanguo Capital (H.K.) Limited ("SW Capital"), a wholly-owned subsidiary of the Company. In 2000, SW Capital acted as a sponsor in the initial public offering of Earnest Investments Holdings Limited and the listing of Interchina Holdings Company Limited by way of introduction. In the same year, SW Capital also actively participated in the underwriting of share offerings on both the Main Board and Growth Enterprise Market, and share placements in the secondary market. With regard to corporate advisory services, SW Capital was appointed as financial adviser to Dragonfield Holdings Limited (now re-named as Everbest Century Holdings Limited) in relation to its rights issues and as independent financial adviser to Chaifa Holdings Limited, China United Holdings Limited, Ecopro Hi-Tech Holdings Limited, Welback Holdings Limited, Qualipak International Holdings Limited and Quality HealthCare Asia Limited. SW Capital was also appointed as independent financial adviser to N P H International Holdings Limited (now re-named as Hong Kong Pharmaceutical Holdings Limited) in relation to its financial restructuring.

Securities research

The Group's securities brokerage and dealing businesses are supported by a securities research team. With the support of the Company's single largest shareholder, Shenyin & Wanguo Securities Company Limited, which is one of the leading securities companies in China, the Group's securities research team is a specialist in the securities market in China and produces regular reports on the securities market in China covering the macroeconomy, market strategy as well as comments on individual China-related enterprises listed on the Hong Kong, Shanghai and Shenzhen stock exchanges. The Group's research team also produces detailed company analyses from time to time and on an ad hoc basis, which are circulated to its clients.

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2000, the Group had a cash holding of HK\$81.2 million and marketable securities of HK\$32.8 million. At the same time, the Group's total unutilised banking facilities amounted to HK\$354 million, of which HK\$50 million could be drawn down without the need of notice nor completion of condition precedent. The gearing ratio (borrowings to net assets value) as at 31 December 2000 was improved from 1.04 on 31 December 1999 to 0.88. The Group is in close negotiation with its bankers to restructure the current banking arrangements so that the long term assets and/or investment of the Group will be financed by medium and/or long term loans. Upon completion of such restructuring, which is expected to take place in the third quarter of 2001, the Group's current assets deficit position will be rectified. The Group has sufficient financial resources for its day to day operations as well as spare capacity to take advantage of any investment opportunities when they arise.

RISK MANAGEMENT

The Group has properly put credit management policies in place which address the approval of clients' trading and credit limits, regular reviews of facilities granted, monitoring of credit exposures and the follow up of credit risks associated with overdue debts. The policies are documented in the Operational Manual which is updated regularly.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

At 31 December 2000, the Group held a 26.19% interest in The New China Hong Kong Highway Limited, which in turn held a 60% interest in Sichuan Chengmian Expressway Company Limited. Such investment had a carrying value of HK\$276 million as at 31 December 2000.

Upon the listing of the Hong Kong Exchanges and Clearing Limited ("HKEC") during the year, the Group, as members of The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited, received an aggregate of 3,808,500 HKEC shares, which were all subsequently disposed of in the open market during the year at a total consideration of HK\$54 million.

Management Discussion and Analysis

CHARGES ON THE GROUP'S ASSET

The Group's interest in jointly-controlled entities has been charged to a bank as security for a short term loan facility which was used to finance part of the acquisition cost of such interest. As at 31 December 2000, the amount of the Group's borrowings outstanding under this loan facility was HK\$26.8 million.

The Group's interests in land and buildings in Hong Kong have been pledged to banks to secure the Group's long term bank loans. As at 31 December 2000, the outstanding loan was HK\$2.2 million.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's exposure to fluctuations in exchange rates arises from its dealings in overseas share markets. Such dealings are entered into on behalf of clients of the Group and accounted for a small portion of the Group's turnover. A material portion of such overseas transactions are denominated in United States dollars. The pegged exchange rate between United States dollars and Hong Kong dollars kept the Group's exchange risk exposure to a minimum and thus, no hedging was required. Exchange gains and/or losses are dealt with in the profit and loss account. The Group closely monitors its foreign currency positions and takes necessary measures if the situations so justify.

EMPLOYEES

As at 31 December 2000, the total number of full-time employees was 185. The total staff costs for the year (excluding directors' fees) amounted to approximately HK\$52 million.

During the year, 11,000,000 share options with the rights to subscribe for a total of 11,000,000 shares of the Company at HK\$0.50 each were granted under a share option scheme approved by shareholders of the Company on 12 December 1992. Details of the share option scheme are set out in note 28 to the financial statements.