

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company consists of investment holding. Details of the principal activities of the subsidiaries and the jointly-controlled entities are set out in notes 15 and 16, respectively, to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to operating profit by principal activities and geographical area is as follows:

	2000		1999	
	Turnover	Contribution	Turnover	Contribution
	HK\$'000	to profit from	HK\$'000	to profit from
		operating		operating
		activities		activities
		HK\$'000		HK\$'000
By principal activities:				
Financial services:				
Sales proceeds from securities and futures contracts trading	344,519	10,454	65,486	1,525
Interest income from margin financing and direct loan operations	74,324	385	47,779	2,703
Commission and brokerage income	67,706	754	38,830	4,817
Rendering of services	6,551	521	18,398	3,450
	<u>493,100</u>	<u>12,114</u>	<u>170,493</u>	<u>12,495</u>
Others:				
Bank interest income	4,888	101	9,265	524
Dividend income from Listed investments	719	696	295	295
Unlisted investment — unconsolidated subsidiary	7,610	6,495	7,893	6,182
Others	2,887	(8,420)	508	211
	<u>16,104</u>	<u>(1,128)</u>	<u>17,961</u>	<u>7,212</u>
	<u>509,204</u>	<u>10,986</u>	<u>188,454</u>	<u>19,707</u>

Report of the Directors

SEGMENTAL INFORMATION (continued)

	2000		1999	
	Turnover HK\$'000	Contribution to profit from operating activities HK\$'000	Turnover HK\$'000	Contribution to profit from operating activities HK\$'000
By geographical area:				
The People's Republic of China:				
Hong Kong	495,868	3,106	162,930	5,823
Elsewhere	12,783	7,628	12,724	8,611
Singapore	127	127	12,258	4,731
Others	426	125	542	542
	<u>509,204</u>	<u>10,986</u>	<u>188,454</u>	<u>19,707</u>

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 65.

The directors do not recommend the payment of any dividend in respect of the year.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five financial years/ periods, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

	Year ended 31 December				Six months ended
	2000	1999	1998	1997	31 December 1996
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RESULTS					
TURNOVER	509,204	188,454	410,615	1,220,067	464,424
Other revenue	54,402	2,415	7,642	277	185
Cost of trading securities sold	(370,595)	(57,363)	(217,662)	(852,475)	(370,310)
Staff costs	(52,077)	(35,659)	(45,413)	(58,862)	(21,380)
Provisions for bad and doubtful debts	(1,500)	—	(215,451)	(23,008)	—
Interest expenses for financial services operations	(72,655)	(37,723)	(53,021)	(103,996)	(22,718)
Depreciation and amortisation expenses	(8,468)	(4,786)	(4,552)	(3,448)	(1,801)
Other operating expenses	(47,325)	(35,631)	(30,409)	(69,451)	(23,435)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	10,986	19,707	(148,251)	109,104	24,965
Finance costs	(4,919)	(7,934)	(505)	(281)	(140)
Share of profits of jointly-controlled entities	19,304	13,844	—	—	—
Profit/(loss) before tax	25,371	25,617	(148,756)	108,823	24,825
Tax	(32)	434	888	(19,933)	(1,840)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	25,339	26,051	(147,868)	88,890	22,985
Minority interests	172	(1,410)	851	1,504	(972)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	25,511	24,641	(147,017)	90,394	22,013

Report of the Directors

SUMMARY FINANCIAL INFORMATION (continued)

	As at 31 December				
	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000
ASSETS AND LIABILITIES					
Total assets	1,454,636	1,572,132	1,321,197	1,695,127	1,475,463
Total liabilities	829,553	970,900	748,319	974,540	994,975
Minority interests	—	2,515	—	851	2,355
Net assets	<u>625,083</u>	<u>598,717</u>	<u>572,878</u>	<u>719,736</u>	<u>478,133</u>

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 12 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal consolidated subsidiaries and its unconsolidated subsidiary are set out in notes 15 and 21, respectively, to the financial statements.

JOINTLY-CONTROLLED ENTITIES

Particulars of the Group's interests in its jointly-controlled entities are set out in note 16 to the financial statements.

BANK AND OTHER BORROWINGS

Details of the bank loans, overdrafts and other borrowings of the Company and the Group are set out in note 26 to the financial statements.

Report of the Directors

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, are set out in note 28 to the financial statements.

The Company has a share option scheme under which the directors may grant to employees and directors of the Company the right to subscribe for shares in the Company. Details of share options granted and exercised under the scheme are set out under the heading "Directors' rights to acquire shares" below and in note 28 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2000, the Company had reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance and available for distribution in specie amounting to HK\$4,721,473. In addition, the Company's share premium account in the amount of HK\$314,699,683 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

None of the directors of the Company or any of their associates or any shareholders (who to the best knowledge of the directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

Executive Directors

Jiang Guofang (*Chairman*)

Lee Man Chun, Tony

(appointed on 1 June 2000)

Ying Niankang

Guo Chun

(appointed on 22 May 2000)

Chong Sok Un, Shirley

(resigned on 18 July 2000)

Non-executive Directors

Lu Wenqing

Chang Pen Tsao

Xu Zhigang

Independent Non-executive Directors

Ng Wing Hang, Patrick

Kwok Lam Kwong, Larry

In accordance with article 104.(A) of the Company's articles of association, Lu Wenqing and Xu Zhigang will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

Executive Directors

Jiang Guofang, aged 43, has been the Chairman of the Board of the Company since 1996. He holds a Master's Degree in Business Administration from The Asia (Macau) International Open University. Prior to joining the Group in 1996, he worked in the People's Bank of China, Shanghai Branch and the Industrial & Commercial Bank of China, Shanghai Branch for more than 12 years. He took up the position of Executive Vice-President of the former Shanghai Shenyin Securities Co., Ltd. in 1992 and that of Shenyin & Wanguo Securities Co., Ltd. after the merger of Shanghai Shenyin Securities Co., Ltd. and Shanghai International Securities Co., Ltd in 1996.

Lee Man Chun, Tony, aged 47, was the Finance Director of the Group prior to his appointment as a Director in June 2000 and Chief Executive Officer of the Company in July 2000. He is a Fellow of the Association of Chartered Certified Accountants and an Associate of the Hong Kong Society of Accountants. He has more than 20 years experience in accounting, finance and banking. He held senior positions with Standard Chartered Bank and Sanwa International Finance Ltd before he joined the Group in 1995.

Ying Niankang, aged 49, was appointed as an Executive Director of the Company in August 1997. He was a Deputy General Manager of the International Business Division of Shenyin & Wanguo Securities Co., Ltd. and has more than 9 years experience in corporate finance. He was the Chief of Division of Technology & Economics, Department of Project Management, College of Civil Engineering, in Shanghai between 1983 and 1991. He holds a Master's Degree and a Bachelor's Degree from the Department of Industrial Economics at Shanghai University of Finance and Economics.

Guo Chun, aged 36, was appointed as an Executive Director of the Company in May 2000. He began his career in the Industrial & Commercial Bank of China, Shanghai Branch in 1983. Other than the banking business, he has been working in the PRC securities industry since 1987. In 1990, he joined the former Shanghai Shenyin Securities Co., Ltd. He has had more than 10 years broad experience in stockbroking and investment banking in the PRC and served as a regional superintendent in Shanghai. He was appointed as Deputy Managing Director of Shenyin Wanguo (H.K.) Holdings Limited on his secondment to Hong Kong in early 1997 after the merger of Shanghai Shenyin Securities Co., Ltd. and Shanghai International Securities Co., Ltd. He holds a Master's Degree in Business Administration from Murdoch University, Perth, Australia.

Chong Sok Un, Shirley, aged 46, resigned as a Director and Chief Executive Officer of the Company on 18 July 2000.

Report of the Directors

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP *(continued)*

Non-executive Directors

Lu Wenqing, aged 42, is a Non-executive Director of the Company and the Managing Director of the International Business Division of Shenyin & Wanguo Securities Co., Ltd. He graduated from Shanghai University of Finance and Economics. He also holds a Master's Degree in Business Administration from The Asia (Macau) International Open University. Prior to joining the former Shanghai Shenyin Securities Co., Ltd., he served as a senior officer in Shanghai Trust & Investment Corporation of the Industrial & Commercial Bank of China and as an attaché of the Chinese Embassy in Gabon.

Chang Pen Tsao, aged 61, is a Non-executive Director of the Company. He is the Founder and Chairman of Taiwan International Securities Group, Global Securities Finance Corp., The Business Development Foundation of The Chinese Straits, Unitech Electronics Corp., and Ideal Bike Corp. He served as a Senator of Taiwan for 9 years and was the Chairman of Kwang Hua Securities Investment & Trust Co., Ltd. He has more than 20 years experience in legal practice as a lawyer, prosecutor and district judge, as well as in business management and he has more than 10 years experience in securities investment. He received his L.L.B. Degree from Chung Hsin University, Taiwan in 1967.

Xu Zhigang, aged 45, is a Non-executive Director of the Company. He is also an Assistant President of Shanghai Industrial Investment (Holdings) Co. Ltd., Chairman of SIIC Asset Management Ltd, Chairman and Managing Director of SIIC Finance Co. Ltd. and Director of Salomon-Shanghai Industrial Asset Management Co. Ltd. He graduated from the Graduate School of the People's Bank of China and Fudan University of Shanghai with a Master's Degree and a Doctorate in Economics, respectively. In 1979, he joined the People's Bank of China, Shanghai Branch. In 1984, he was transferred to Industrial and Commercial Bank of China and was a director in the Administration Department and Financial Research Department at the Shanghai Branch, as well as the Executive Vice-President at the Pudong Branch. He has more than 20 years experience in the banking and finance industry.

Independent Non-executive Directors

Ng Wing Hang, Patrick, aged 48, is an Independent Non-executive Director of the Company. He is a practising Certified Public Accountant in Hong Kong and is the sole proprietor of his certified public accountants firm, Messrs. Patrick Ng & Company. He also serves on the boards of several listed companies in Hong Kong.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP *(continued)*

Independent Non-executive Directors *(continued)*

Kwok Lam Kwong, Larry, aged 45, is an Independent Non-executive Director of the Company. He is a practising solicitor in Hong Kong and is qualified to practise as a solicitor in Australia, England and Singapore. He is also qualified as an accountant in Hong Kong and Australia. He graduated from University of Sydney, Australia with a Bachelor's Degrees in Economics and Law as well as a Master's Degree in Law. He is currently a member of the Consumer Council, the Hospital Governing Committee of Princess Margaret Hospital, the Criminal & Law Enforcement Injuries Compensation Board and the Trade and Industry Advisory Board in Hong Kong. He is a member of the Political Consultative Committee of Guangxi in the People's Republic of China. He also serves on the boards of several listed companies in Hong Kong.

Senior management

Terence Howard, aged 44, is the Managing Director of Shenyin Wanguo Securities (H.K.) Limited. He joined the Group in 1993 and was appointed as the Managing Director in 1994. He has more than 20 years experience in Asian markets and has served in various senior positions at Merrill Lynch (Asia Pacific) Ltd., Paribas Asia Equity Ltd., and Sun Hung Kai Investment Services Ltd. He holds a Bachelor of Arts Degree from Chaminade University of Honolulu, the United States of America.

Chung Chin Hung, Paul, aged 45, joined the Group in 1995. He is the Managing Director-Corporate Sales of Shenyin Wanguo Securities (H.K.) Limited. He has many years of experience in the securities industry and has served in various senior positions at County Natwest Securities Hong Kong Ltd., PBI Securities Hong Kong Ltd., and Magnum International Securities Ltd. He holds a Master's Degree in Business Administration from University of Santa Barbara, the United States of America.

Ho Kwong Chak, aged 46, is the Managing Director-Branch Operations of Shenyin Wanguo Securities (H.K.) Limited. He has been working in the securities industry for over 25 years. Prior to joining the Group in 1999, he served in senior positions at various renowned local brokerage houses.

Wong Che Keung, Leslie, aged 36, is a Director-Corporate Sales of Shenyin Wanguo Securities (H.K.) Ltd. Prior to joining the Group in 1996, he worked in the Securities and Futures Commission for 7 years and in the stockbroking and treasury field for a further 2 years. He is a Fellow of the Association of Chartered Certified Accountants. He gained his Bachelor's Degree in Economics at the University of Hong Kong and a Master's Degree in Business Administration at the Chinese University of Hong Kong.

Report of the Directors

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP *(continued)*

Senior management *(continued)*

Lee Siu Ming, Simon, aged 39, is the Head of Corporate Finance of Shenyin Wanguo Capital (H.K.) Limited. He is a member of The Law Society of Hong Kong and is qualified as a solicitor in Hong Kong and in England and Wales. He practised in the London and Hong Kong offices of Slaughter and May before he became the Deputy Secretary of the Takeovers and Mergers Panel of the Securities and Futures Commission. Prior to joining the Group in 1996, he held a senior position with Standard Chartered Bank in Hong Kong. He holds a Bachelor of Science Degree from University of Hong Kong and a Bachelor of Law Degree from University College of the University of London in the United Kingdom.

Philip Chan, aged 38, joined the Group in 1994. He is a Director of Shenyin Wanguo Research (H.K.) Limited and has been based in Hong Kong for 12 years, working first with Mansion House Group Ltd. and later for PBI Securities Hong Kong Ltd. (formerly part of the Dutch ABN-AMRO Group), as an analyst. Prior to working in Hong Kong, he worked in the United Kingdom for 3 years for two stockbroking firms, as an analyst. He was born in the United Kingdom and gained his Bachelor's Degree at University College, Cardiff, in Wales.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in notes 6 and 7 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

At 31 December 2000, the interests of the directors and the chief executive in the issued share capital of the Company as recorded in the register maintained by the Company, pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

Director	Number of ordinary shares and nature of interest
	Personal
Lee Man Chun, Tony	<u>1,350,000</u>

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance, as at 31 December 2000.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, the Company granted options on the Company's ordinary shares in favour of a director, the details of which are as follows:

Name of director	Number of share options granted during the year and at end of year	Exercise period of share options	Exercise price of share options HK\$
	2,200,000	1-6-2001 to 11-12-2002	0.50
	3,300,000	1-12-2001 to 11-12-2002	0.50
	<u>5,500,000</u>	1-6-2002 to 11-12-2002	0.50
Lee Man Chun, Tony	<u>11,000,000</u>		

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES *(continued)*

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

Further details of the Company's share option scheme are set out in note 28 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest in any contract of significance to the business of the Company to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2000, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	
	Direct	Indirect
Shenyin Wanguo Holdings (B.V.I.) Limited	268,334,875	—
Venture-Some Investments Limited	—	268,334,875*
Shenyin Wanguo (H.K.) Holdings Limited	—	268,334,875*
Shenyin & Wanguo Securities Co., Ltd.	<u>2,045,000</u>	<u>268,334,875*</u>

* These companies were deemed to have interests in 268,334,875 shares of the Company by virtue of their equity interests in Shenyin Wanguo Holdings (B.V.I.) Limited.

Save as disclosed above, the Company had not been notified of any other interest representing 10% or more of the issued share capital of the Company as at 31 December 2000.

CONNECTED TRANSACTIONS

- i) On 3 March 2000, the Group disposed of its entire interest in 1,368,000 ordinary shares of APS Asset Management Pte Ltd (“APS Asset”) to a substantial shareholder of APS Asset for a cash consideration of S\$600,000 (equivalent to approximately HK\$2,712,000).
- ii) On 15 September 2000, the Group agreed to acquire from Shanghai Shenyin Securities (H.K.) Limited its securities dealing, trading, underwriting, advisory and margin financing business (including a trading right attaching thereto) and certain assets in relation to such business for a cash consideration of HK\$3,785,000. The acquisition was completed on 10 January 2001 when the transfer of trading right was approved by The Stock Exchange of Hong Kong Limited.
- iii) During the year, the Group had an outstanding loan advanced from a related party, Venture-Some Investments Limited amounting to HK\$20,000,000 at 31 December 2000.
- iv) Reference is made to the Company’s press announcement dated 8 August 2000 regarding the provision of financial services by the Group to Ms Chong Sok Un, Shirley since her resignation from the Group on 18 July 2000. On 16 August 2000, The Stock Exchange of Hong Kong Limited granted a conditional waiver to the Company in respect of transactions under which such services were provided. For the period from 18 July 2000 to 31 December 2000, the Group received a sum of HK\$6,845, being the brokerage commission arising from the provision of stockbroking services to her.

Report of the Directors

EMPLOYEE SHARE OPTION SCHEME

On 12 December 1992, the Company adopted an employee share option scheme under which the directors may, at their discretion on or before 11 December 2002, grant options to eligible directors and employees to subscribe for shares of HK\$0.50 each in the Company. As at 31 December 2000, the outstanding options granted under the scheme were:

Date granted	Period during which options are exercisable	Price per share to be paid on exercise of options	Number of shares acquired on exercise of options during the year	Number of options outstanding at 31 December 2000
4 November 1996	6-12-1996 to 5-12-2001	HK\$0.60	1,200,000	—
4 November 1996	15-12-1996 to 14-12-2001	HK\$0.60	—	200,000
4 November 1996	20-12-1996 to 19-12-2001	HK\$0.60	—	200,000
1 June 2000	1-6-2001 to 11-12-2002	HK\$0.50	—	2,200,000
1 June 2000	1-12-2001 to 11-12-2002	HK\$0.50	—	3,300,000
1 June 2000	1-6-2002 to 11-12-2002	HK\$0.50	—	5,500,000
			1,200,000	11,400,000

Report of the Directors

STAFF RETIREMENT SCHEME

Details of the staff retirement scheme of the Group and the employer's contribution costs charged to the profit and loss account for the year are set out in notes 2 and 5 to the financial statements, respectively.

PRACTICE NOTE 19 DISCLOSURES

The disclosures required by Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are set out in note 18 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied 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 throughout the year ended 31 December 2000, except that the Company's Independent Non-executive Directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company, in accordance with the provisions of the Company's Articles of Association.

The Board of Directors established an audit committee in 1999 in accordance with paragraph 14 of the Code of Best Practice.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event are set out in note 34 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Jiang Guofang

Chairman

Hong Kong
20 April 2001