



Interim Report 2001



SHENYIN WANGUO (H.K.) LIMITED

RESULTS

The Board of Directors of Shenyin Wanguo (H.K.) Limited (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2001 together with the comparative figures as follows:

Condensed Consolidated Profit and Loss Accounts

	Notes	Six months ended 30 June	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
TURNOVER	2	288,059	161,383
Other revenue		930	–
Cost of trading securities sold		(209,865)	(59,081)
Staff costs		(28,561)	(26,059)
Interest expenses for financial services operations		(27,548)	(31,960)
Depreciation and amortisation expenses		(5,557)	(3,289)
Other operating expenses		(13,215)	(33,261)
PROFIT FROM OPERATING ACTIVITIES	3	4,243	7,733
Finance costs	4	(867)	(2,880)
Share of profits of jointly-controlled entities		13,153	10,590
PROFIT BEFORE TAX		16,529	15,443
Tax	5	(2,193)	(1,626)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		14,336	13,817
EARNINGS PER SHARE	6		
Basic		2.76 cents	2.66 cents
Diluted		2.74 cents	2.66 cents

Other than the net profit from ordinary activities attributable to shareholders, the Group had no recognised gains or losses. Accordingly, a Condensed Consolidated Statement of Recognised Gains and Losses is not presented in these condensed financial statements.

Condensed Consolidated Balance Sheet

		30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		18,985	22,006
Stock and Futures Exchange trading rights		7,160	3,870
Other assets		6,420	6,060
Interests in jointly-controlled entities		198,429	213,815
Goodwill		62,660	62,958
Long term receivable	8	285,943	285,943
Long term investments	9	69,134	69,134
		<u>648,731</u>	<u>663,786</u>
CURRENT ASSETS			
Interests in an unconsolidated subsidiary		30,500	30,500
Short term investments		44,990	32,962
Accounts receivable	10	248,254	78,186
Loans and advances		423,456	448,730
Tax recoverable		-	247
Deposits, prepayments and other receivables		12,713	14,574
Bank balances held on behalf of customers		354,065	104,450
Cash and cash equivalents		178,931	81,201
		<u>1,292,909</u>	<u>790,850</u>
CURRENT LIABILITIES			
Accounts payable	11	146,222	63,851
Other payables and accruals		596,892	213,145
Interest-bearing bank and other borrowings		556,952	550,534
		<u>1,300,066</u>	<u>827,530</u>
NET CURRENT LIABILITIES		<u>(7,157)</u>	<u>(36,680)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>641,574</u>	<u>627,106</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		(1,915)	(2,023)
		<u>639,659</u>	<u>625,083</u>
CAPITAL AND RESERVES			
Issued capital	12	259,880	259,680
Reserves	13	379,779	365,403
		<u>639,659</u>	<u>625,083</u>

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June 2001 (Unaudited) HK\$'000
Net cash inflow from operating activities	70,920
Net cash inflow from returns on investment and servicing of finance	25,479
Tax	247
Net cash outflow from investing activities	<u>(5,466)</u>
Net cash inflow before financing activities	91,180
Net cash inflow from financing activities	<u>4,240</u>
Increase in cash and cash equivalents	95,420
Cash and cash equivalents at beginning of period	<u>(158,246)</u>
Cash and cash equivalents at end of period	<u><u>(62,826)</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS	
Bank balances and time deposits	178,931
Bank loans and overdrafts	<u>(241,757)</u>
	<u><u>(62,826)</u></u>

Notes to Condensed Financial Statements

1. Principal Accounting Policies

Basis of presentation

The Group had net current liabilities of approximately HK\$7 million as at 30 June 2001. The Group is currently negotiating for additional long term banking facilities by the pledge of certain Group's assets. The directors are of the opinion that, with the above arrangement, the Group will have sufficient cash resources to meet its future working capital and other financial requirements.

Basis of preparation

This unaudited condensed consolidated interim financial report has been prepared in accordance with the requirements of the Listing Rules of The Stock Exchange of Hong Kong Limited and is in compliance with the Statements of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants, except that comparative figures of the condensed consolidated cash flow statements have not been shown as the Company has taken advantage of the transitional provision set out in the Listing Rules. In preparation of this interim financial report, the same accounting policies and methods of computations adopted in the most recent published annual financial statements have been followed.

2. Segmental Information

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

	Turnover		Contribution to profit from operating activities	
	Six months ended 30 June 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000	Six months ended 30 June 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
By principal activities:				
Financial services:				
Sales proceeds from securities and futures contracts trading	203,923	74,607	(6,928)	(8,150)
Interest income from margin financing and direct loan operations	28,519	36,879	774	3,289
Commission and brokerage income	42,307	35,996	2,753	3,294
Rendering of services	3,513	3,061	428	887
	<u>278,262</u>	<u>150,543</u>	<u>(2,973)</u>	<u>(680)</u>
Others:				
Bank interest income	1,365	2,612	107	498
Dividend income from Listed investments	627	363	602	343
Unlisted investment – unconsolidated subsidiary	7,086	7,610	6,187	6,800
Others	719	255	320	772
	<u>9,797</u>	<u>10,840</u>	<u>7,216</u>	<u>8,413</u>
	<u><u>288,059</u></u>	<u><u>161,383</u></u>	<u><u>4,243</u></u>	<u><u>7,733</u></u>

2. Segmental Information (Continued)

	Turnover		Contribution to profit from operating activities	
	Six months ended 30 June		Six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
By geographical area:				
The People's Republic of China				
Hong Kong	232,746	151,789	(5,973)	215
Elsewhere	55,339	9,145	10,244	7,468
Singapore	(28)	65	(28)	65
Others	2	384	-	(15)
	<u>288,059</u>	<u>161,383</u>	<u>4,243</u>	<u>7,733</u>

3. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Depreciation	4,838	2,769
Amortisation of goodwill	298	276
Amortisation of intangible assets	421	244
Unrealised loss/(gain) on listed equity investments	(9,579)	19,249
Realised loss/(gain) on trading of listed equity investments	<u>6,931</u>	<u>(1,173)</u>

4. Finance Costs

	Six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	<u>867</u>	<u>2,880</u>

5. Tax

No Hong Kong profits tax has been provided because the Group companies either did not generate any assessable profits in Hong Kong, or had available tax losses brought forward to offset the assessable profits generated during the period (2000: Nil).

	Six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Share of tax attributable to jointly-controlled entities	<u>(2,193)</u>	<u>(1,626)</u>

6. Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the unaudited net profit from ordinary activities attributable to shareholders for the period of HK\$14,336,303 (2000: HK\$13,816,676) and the weighted average of 519,633,159 shares (2000: 519,319,566 shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the unaudited net profit from ordinary activities attributable to shareholders for the period of HK\$14,336,303 (2000: HK\$13,816,676). The weighted average number of ordinary shares used in the calculation comprises the 519,633,159 (2000: 519,319,566) ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 4,440,619 (2000: 11,701) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all options outstanding during the period.

7. Interim Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2001 (2000: Nil).

8. Long Term Receivable

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Amounts receivable	292,767	292,767
Less: portion classified as current and included in advances to customers	<u>(6,824)</u>	<u>(6,824)</u>
Long term receivable	<u>285,943</u>	<u>285,943</u>

At 30 June 2001, the Group had amounts receivable from Century City International Holdings Limited ("CCIH") and its subsidiaries (the "CC Group") in the aggregate amount of HK\$292,767,388 (2000: HK\$292,767,388), representing approximately 46% (2000: 47%) of the Group's net assets at the balance sheet date.

In view of the recent reported developments and financial position of the CC Group, the directors consider that the receivable of HK\$286 million is unlikely to be recovered within the next twelve months and, accordingly, it has been classified as a long term receivable. Notwithstanding the uncertainty surrounding the full recovery of this receivable, no provision against it has been made in the preparation of these interim financial statements. The amounts receivable from the CC Group bear interest ranging from prime rate plus 3.05% to 4% per annum.

9. Long Term Investments

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Listed equity investments in Hong Kong at fair value	<u>69,134</u>	<u>69,134</u>

The market value of the Group's long term listed equity investments at the date of approval of these condensed financial statements was approximately HK\$12,247,269 (2000: HK\$12,846,316). The directors are of the opinion that the fair values were not less than their carrying amounts at 31 December 2000 and 30 June 2001.

Certain listed investments of the Group are pledged to secure the Group's bank and other borrowings.

10. Accounts Receivable

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Accounts receivable	262,754	92,686
Less: Provisions for doubtful debts	<u>(14,500)</u>	<u>(14,500)</u>
	<u>248,254</u>	<u>78,186</u>

The aged analysis of accounts receivable is as follows:

Current to 30 days	249,458	78,329
31-60 days	37	63
61-90 days	8	102
Over 90 days	<u>13,251</u>	<u>14,192</u>
	<u>262,754</u>	<u>92,686</u>

The Group allows a credit period up to the settlement dates of respective securities and commodities transactions or a credit period mutually agreed with the contracting parties.

11. Accounts Payable

The aged analysis of accounts payable is as follows:

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Current to 30 days	<u>146,222</u>	<u>63,851</u>

12. Issued Capital

	Number of ordinary shares of HK\$0.50 each	HK\$'000
Authorised	<u>2,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 31 December 2000 and 1 January 2001	519,359,126	259,680
Issue of 400,000 shares on exercise of options	<u>400,000</u>	<u>200</u>
At 30 June 2001	<u>519,759,126</u>	<u>259,880</u>

Options

During the period ended 30 June 2001, 400,000 options were exercised. At the balance sheet date, the Company had 11,000,000 outstanding options entitling the holder, who is a director of the Company, to subscribe for shares in the Company in cash at any time during the exercise period. The exercise in full of such options would, under the present capital structure of the Company, result in the issue of 11,000,000 additional ordinary shares for aggregate proceeds, before the related issue expenses, of HK\$5,500,000.

13. Reserves

	Share premium account HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2001 (audited)	314,700	15	138	50,550	365,403
Issue of shares (unaudited)	40	-	-	-	40
Net profit for the period (unaudited)	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,336</u>	<u>14,336</u>
At 30 June 2001 (unaudited)	<u>314,740</u>	<u>15</u>	<u>138</u>	<u>64,886</u>	<u>379,779</u>

14. Commitments

(a) Capital commitments

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Contracted, but not provided for	<u>1,729</u>	<u>634</u>

(b) Operating lease commitments

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring		
– within one year	3,850	381
– in the second to fifth years, inclusive	<u>2,320</u>	<u>6,813</u>
	<u>6,170</u>	<u>7,194</u>

15. Connected and Related Party Transactions

The Group had the following material connected and related party transactions during the period:

- (i) On 10 January 2001, the Group completed an acquisition from Shanghai Shenyn Securities (H.K.) Limited, a related company of the Company, its securities dealing, trading, underwriting, advisory and margin financing business (including a Stock Exchange trading right attaching thereto) and certain assets in relation to such business for a cash consideration of HK\$3,785,000, based on an internal valuation of the business prepared by the directors.
- (ii) The Group had outstanding loans advanced from related parties, Venture-Some Investments Limited of HK\$20,000,000 (2000: HK\$20,000,000) and Shanghai Shenyn Securities (H.K.) Limited of HK\$20,000,000 (2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of the year, the turnover of the Group rose approximately by HK\$127 million to HK\$288 million on a year-on-year comparison (2000: HK\$161 million). The unaudited net profit attributable to shareholders for the six months ended 30 June 2001 amounted to HK\$14,336,303 (2000: HK\$13,816,676).

The Group continued to focus on its stockbroking and dealing businesses on Hong Kong, Shenzhen, Shanghai and some other Asian stock exchanges. We were able to underscore our expertise in China concept stocks when the interest in this area was rejuvenated in March. The number of our clients was increased by 25% and our market share grew 50% in the first half of the year.

On the corporate finance services front, Shenyin Wanguo Capital (H.K.) Limited, a wholly owned subsidiary of the Company, sponsored the initial share offering of M21 Technology Limited in the first half of the year apart from underwriting several other share offerings.

Market Review

The performance of the local economy was in line with the slack global economic conditions in the first half of 2001. The property market remained stagnant. Export demand was shrinking with the result of the sluggish US and Japanese markets. The economic slowdown prompted the Government to revise the Gross Domestic Product ("GDP") forecast from its original prediction a 4% down to a scant 1% growth for the year 2001 upon the release of the worse-than-expected GDP growth of the second quarter of the year.

The Hong Kong stock market experienced a rebound in the first quarter of 2001. The US interest rate cuts sent the Hang Seng Index to a high of 16,164 on 1 February 2001. In March, the market was dominated by China concept stocks after the China Securities Regulatory Commission announced the opening up of the B share market to mainland investors on 19 February 2001. However, the blue chips failed to surprise the market with satisfactory corporate earnings. On 4 April 2001, the Hang Seng Index fell to a low of 12,064. On the other hand, the Chinese government's tightening policy over foreign exchange trading and its cautious attitude towards the inflated stock markets slowed the momentum of mainland stock markets in June. As a consequence, the H Share market in Hong Kong has also been pressurised since then. For the first six months of the year, the average daily turnover of the Hong Kong Stock Exchange fell 35% to approximately HK\$9.3 billion, compared with the equivalent period of last year. The Hang Seng Index closed at 13,043 at end-June, which was 14% lower than at end-2000.

Generally speaking, B share market performance was remarkable in the first six months of the year. The B share index on Shenzhen and Shanghai Stock Exchanges reached a high of 435.6 and 239.7, both tripling their respective lowest indices for the first six months of the year. The average daily turnover of the B shares surged from approximately RMB79 million and RMB71.9 million to approximately RMB1.7 billion and RMB1.9 billion on the Shenzhen and Shanghai Stock Exchanges, respectively, over the same period last year.

Looking Ahead

The scant economic growth figures, the scale-back in the GDP growth forecast, the rise in unemployment and the worsened US and Japanese economic data increased the pessimism for the local economy and severely hammered investor confidence. Following the attack on the United States, the Hang Seng Index further fell through 9,000, closing at 8,943 on 21 September 2001. In view of the external political and economic uncertainties in the aftermath of the attack, we fail to see concrete signs which indicate a turn around of the global and local economies in the remaining months of the year. The local stock market cannot stand on its own with the other sectors remaining lackluster. Even though the interest rates are probably the lowest in more than 20 years, the investors are extremely cautious in investing. In that kind of environment, we have been taking a very conservative approach in our sole proprietary share trading, provision of margin finance to clients and business expansion. Rather, we shall continue to focus proactively on tapping business opportunities to provide financial advisory and capital raising services to renowned enterprises, traditional stockbroking business and maintaining high liquidity to respond to opportunities which may arise at any moment.

In respect of the abolition of the minimum brokerage commission in April 2002 and the proposed extended trading hours, our Group has taken prompt actions to upgrade our computer systems with a view to enhancing the operational efficiency and cutting the operating costs. Further, we shall continue to recruit sale professionals to sustain a growth in the market share and the operating revenue amidst the forthcoming keen competition in the industry.

Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2001, the Group had a cash holding of HK\$178.9 million and marketable securities of HK\$44.8 million. At the same time, the Group's total unutilised banking facilities amounted to HK\$462 million, of which HK\$181 million could be drawn down without the need of notice nor completion of condition precedent. The gearing ratio (borrowings to net asset value) as at 30 June 2001 was slightly improved from 0.88 on 31 December 2000 to 0.87. 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. The completion of such restructuring is expected to take place in the near future. The Group has sufficient financial resources for its day to day operations as well as spare financial capacity to take advantage of sound investment opportunities when they arise.

Employees and Training

As at 30 June 2001, the total number of full-time employees was 213. The total staff costs for the period (excluding directors' fees) amounted to approximately HK\$28.6 million.

The Company is committed to professional training for its employees who are registered with the Securities and Futures Commission. All those employees will attend a continuous professional training course organized by the Company in September 2001.

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.

Charges on the Group's Asset

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 30 June 2001, the outstanding loan was HK\$2.1 million.

Disclosure under Practice Note 19

At 30 June 2001, the Group had amounts receivable from Century City International Holdings Limited ("CCIH") and its subsidiaries (together, the "CC Group") in the aggregate amount of HK\$292,767,388 (31 December 2000: HK\$292,767,388), representing approximately 46% (31 December 2000: 47%) of the Group's net assets. The aggregate balance comprises receivables arising from securities and options trading, a claim under an indemnity in relation to the acquisition of the interests in jointly-controlled entities and accrued interest income. Apart from a balance of HK\$6.8 million (31 December 2000: HK\$6.8 million) arising from securities trading and accrued interest income which is adequately secured by marketable securities, all of the remaining balance of HK\$286 million is guaranteed by CCIH and due for repayment. The amounts receivable from the CC Group bear interest ranging from prime rate plus 3.05% to 4% per annum.

ADDITIONAL INFORMATION

Directors' Interests In Share Capital And Share Options

At 30 June 2001, the interests of the Directors in the share capital and share options 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:

a. Ordinary Shares

Lee Man Chun Tony had a personal interest in 1,350,000 shares in the Company.

b. Share Options

Lee Man Chun Tony was granted 11,000,000 share options on 1 June 2000 to subscribe for the Company's shares at a price of HK\$0.50 per share. A maximum of 20%, 50% and 100% of such options are exercisable after 31 May 2001, 30 November 2001 and 31 May 2002 respectively.

Save as disclosed above, none of the Directors or their associates had interests or rights in the share capital of the Company or its associated corporations recorded in the register required to be kept under Section 29 of the SDI Ordinance as at 30 June 2001.

Substantial Shareholders

At 30 June 2001, the following interests of 10% or more of the 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 of shareholder	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 Company Limited	2,045,000	268,334,875*

* 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.

Except as referred to above, no person had registered an interest in 10% or more of the issued share capital of the Company that was recorded in the register required to be maintained under Section 16(1) of the SDI Ordinance as at 30 June 2001.

Purchase, Redemption or Sale of Shares

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the period.

Audit Committee

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements.

Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in the Appendix 14 of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board
Jiang Guofang
Chairman

Hong Kong, 22 September 2001