

## CHAIRMAN'S STATEMENT

I have pleasure in presenting to the shareholders the annual report of Shenyin Wanguo (H.K.) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2001.

### RESULTS

The year 2001 presented wide fluctuations for the financial services industry. For the year ended 31 December 2001, the Group recorded a net profit attributable to shareholders of HK\$18 million, representing a decrease of 29% over 2000. The turnover fell by 28% to HK\$369 million approximately (2000: HK\$509 million). Approximately, two-thirds of our turnover and net profit for the whole year were recorded in the first half of the year when the China-related stocks were buoyant. Our turnover contracted considerably in the second half of the year due to the US 911 Incident. The basic earnings per shares dropped by 29% to HK3.47 cents as compared to HK4.91 cents a year earlier.

### DIVIDEND

The Directors recommend the payment of a final dividend of HK 1 cent per share in respect of 2001, to shareholders whose names appear on the register of members of the Company on 29 May 2002. The proposed dividend will be paid on or about 5 June 2002 subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company.

### REVIEW OF MARKET IN 2001

The gross domestic product index growth of 0.1 per cent for the year 2001 was better than the market predictions. The local economy experienced unprecedented number of interest rate cut, amounting to a total of 11 times during 2001. The interest rate cuts boosted the local stock market at the beginning of the year. Shortly after the Hang Seng Index reached 16164 on 1 February 2001, the worldwide price slump in telecom and technology counters soured the market sentiment. From March to May, the market sentiment was picked up by the rally of red chips and H shares after the China Securities Regulatory Commission announced the opening up of the B share market to mainland investors on 19 February 2001. However, the mediocre performance of the blue chips did not help push the Hang Seng Index higher, which fell to a low of 12064 on 4 April 2001. The tragic events in the US on 11 September 2001 plunged the local stock market into one of the most difficult times since the Asian financial crisis took place in the late 1997. The Hang Seng Index fell to a near three-year low of 8934 on 21 September 2001 but it gradually crept above 10000 following the recovery of the US stock market and the resurrecting local property market. The year 2001 was closed at 11397 points with an average daily turnover at HK\$8.2 billion and in respect of 2000, 15096 points and HK\$12.7 billion.

### REVIEW OF MARKET IN 2001 *(Continued)*

In 2001, China's B share markets outperformed other Asian stock markets. The opening up of the B share markets to mainland individual investors boosted a strong sentiment towards B share markets in both Shanghai and Shenzhen. Shanghai's and Shenzhen's B share indices ended the year up 92.2% and 91.2% respectively. Remarkable surges in the average daily turnover of B shares on both Shanghai and Shenzhen Stock Exchanges were recorded in 2001 with approximately RMB1,229 million and RMB1,004 million respectively as compared to RMB140 million and RMB 87 million in 2000. On the other hand, the domestic A share markets were under a consolidation during the year. The proposed reduction of state-owned shares dampened the sentiment but the better-than-expected economic growth and the aggressive regulatory reform continued to attract liquidity. Shanghai's and Shenzhen's A share indices ended the year down 23% and 27.9% respectively.

### FUTURE PLAN & PROSPECTS

We consider cautiously that the local economy will be in recession in the second and third quarters of this year, mirroring the slow recovery of the global economy. On a brighter side, with China's accession into the World Trade Organisation, Hong Kong will continue to benefit from providing services to China, which is believed to be the locomotive that will drive Asia's economy in the years to come. That said, Hong Kong with its well established regulatory, banking and legal systems is capable of continuing its status of an important financial centre for China and a vibrant international hub for foreign investors intending to establish a presence in China. We believe that the long-term prospects of the local economy is still optimistic.

With regard to the stockbroking business, we see that the proposed Qualified Domestic Institutional Investors ("QDII") Scheme will be an exceptionally favorable opportunity for us to enhance our position in a subdued environment. We have prepared ourselves to take full advantage of the potential enormous inflow of funds from the QDII to the local stock market. First, we shall put extra effort in marketing China concept stocks to our clients as well as local and overseas market practitioners. To that effect, we have strengthened our collaboration with Shenyin and Wanguo Securities Co., Ltd. ("S&W") on the securities research front. Having recognised that quality services are of paramount importance to maintain our leading status in the market, we shall continue to provide continuing professional training to our staff, in particular, the mainland stock market updates. We shall continue to expand our professional sales force to increase our immunity to the adverse effect brought by the intense competition and the proposed cancellation of minimum brokerage requirement. Following the acquisition of Shenyin Wanguo Asset Management (Asia) Limited, we are also designing products covering China-related stocks for distribution in Asia.

### **FUTURE PLAN & PROSPECTS** *(Continued)*

Equally important, we shall continue to enhance our presence in the primary market in the wake of the China's accession into the World Trade Organisation and the remarkable economic growth of the mainland. Shenyin Wanguo Capital (H.K.) Limited ("SW Capital") and Investment Banking Division of S&W will continue to work closely to tap business opportunities with renowned corporations in relation to financial advisory and fund raising services. SW Capital will also participate in the issuance of Chinese Depository Receipts for the red chips in the mainland, which is now under the study of China Securities Regulatory Commission. Apart from increasing income, we will continue to implement a stringent review of costs to sharpen our competitive edge to cope with the ever-intensifying market conditions.

We would like to take this opportunity to thank all our staff for their dedication and hard work in weathering the hard times, and finally our shareholders and clients for their trust and support over the past year

#### **JIANG GUOFANG**

*Chairman*

Hong Kong, 17 April 2002