

REVIEW OF OPERATIONS

Securities Trading and Broking

In 2001, Shenyin Wanguo Securities (H.K.) Limited (“SW Securities”), a wholly-owned subsidiary of the Company, continued to conduct securities trading and broking 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 whole stockbroking sector faced severe hardship as a result of the economic downturn and gloomy economic outlook. SW Securities, a leading player of mainland stocks in Hong Kong, was capable of tapping the regenerated buying interest in China-related stocks in the first half of 2001 by capitalising on its expertise and resources in this area. A number of warmly received seminars were organised in 2001 with a view to marketing the mainland stocks to clients and market practitioners. The stockbroking business contributed to HK\$78 million to the Company’s turnover in 2001 with the number of clients growing 41% and the market share in the local stock exchange growing 45% for the whole year, excluding B shares dealing.

Securities Financing

In 2001, the Group recorded interest income of approximately HK\$44 million (2000: HK\$79 million), a drop of 45%. It was mainly due to the reduction in the size of margin financing business and unprecedented number of interest rate cut. Amidst the weakening credit environment in 2001, we 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.

Corporate Finance

Our corporate finance activities are carried out by Shenyin Wanguo Capital (H.K.) Limited (“SW Capital”), a wholly-owned subsidiary of the Company. In 2001, SW Capital acted as sponsor and lead manager in the initial public offering of two Growth Enterprise Market (“GEM”) companies, namely M21 Technology Limited and GP NanoTechnology Group Limited respectively. In the same year, SW Capital also actively participated in the underwriting of new issues on both the Main Board and GEM. 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 open offer. SW Capital was also appointed as the post-listing sponsor to a GEM company, namely Intcera High Tech Group Limited.

REVIEW OF OPERATIONS *(Continued)*

Securities Research

Our 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 Co., Ltd. ("S&W"), which is one of the leading securities companies in China, our 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. Our research team also produces detailed company analyses from time to time and on an ad hoc basis, which are circulated to our clients. In 2001, a total of 18 investment analysts from S&W joined our exchange programs. They familiarised themselves with the local economy and stock market during their visits in Hong Kong. We believe that the exchange programs are beneficial to the collaboration between S&W and us on research and investment banking fronts.

Asset Management

As part of the expansionary drive, we completed the acquisition of 49% equity interest in Shenyin Wanguo Asset Management (Asia) Limited with the aim of designing products covering China-related stocks for distribution in Asia, in particular, Japan and Korea.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2001, the Group had a cash holding of HK\$74.5 million and marketable securities of HK\$37.5 million. At the same time, the Group's total unutilised banking facilities amounted to HK\$429 million, of which HK\$52 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 31 December 2001 was improved from 0.88 on 31 December 2000 to 0.52. 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.

During the year, the Group closely negotiated with lenders to restructure the borrowings so that the long-term assets of the Group are financed by medium and/or long-term loans. On 7 March 2002, the Group settled short-term loans of HK\$180 million by cash and by a 3-year convertible note. Such rearrangements improved the Group's liquidity from net current liabilities position to net current assets position.

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.

As at 31 December 2001, the advances to customers included direct loans of HK\$42 million (2000: HK\$10 million) and margin financing of HK\$207 million (2000: HK\$667 million). All direct loans were advanced to commercial and financial industry sectors, of which 48% were to property development sector with the remaining to financial sector, according to the business activities of the borrowers, while all direct loans as at 31 December 2000 were advanced to individual borrowers. In respect of margin financing, 27% (2000: 78%) is attributable to corporate borrowers, while the remaining is attributable to individual borrowers.

SIGNIFICANT INVESTMENT HELD

At 31 December 2001, 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\$257 million as at 31 December 2001.

CHARGE ON 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 31 December 2001, the outstanding loan was HK\$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 USD and HKD kept the Group's exchange risk exposure to a minimum and thus, no hedging is 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 2001, the total number of full-time employees was 211. The total staff costs for the year (excluding directors' fees) amounted to approximately HK\$50 million. During the year, the Group organised a Continuous Professional Training seminar for all licensed member staff in compliance with the relevant requirement of the Securities & Futures Commission. The Company has a share option scheme under which the directors may, at their discretion, grant options to eligible directors and employees of the Company and its subsidiaries, to subscribe for shares of the Company. During the year, no share options were granted.