

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 2001.

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 18 and 19, respectively, to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

Segment information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area for the year ended 31 December 2001 is set out in note 4 to the financial statements.

Results and dividend

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 68.

The directors recommend the payment of a final dividend of HK 1 cent per share in respect of 2001, to the shareholders whose names appear on the register of members of the Company on 29 May 2002.

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Summary financial information

A summary of the published results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. The amounts for the balance sheet as at 31 December 1997 have been adjusted for the effects of the retrospective changes in accounting policy affecting final proposed dividends.

	Year ended 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
RESULTS					
TURNOVER	368,685	509,204	188,454	410,615	1,220,067
Other revenue and gains	1,051	54,402	2,415	7,642	277
Write-back of prior years' accrued interest expenses on settlement of other loans	51,796	—	—	—	—
Cost of trading securities sold	(246,217)	(370,595)	(57,363)	(217,662)	(852,475)
Staff costs	(49,984)	(52,077)	(35,659)	(45,413)	(58,862)
Provision for bad and doubtful debts	(1,500)	(1,500)	—	(215,451)	(23,008)
Interest expenses for financial services operations	(19,462)	(72,655)	(37,723)	(53,021)	(103,996)
Impairment provisions on long term investments	(56,402)	—	—	—	—
Depreciation and amortisation expenses	(12,018)	(8,468)	(4,786)	(4,552)	(3,448)
Other operating expenses, net	(31,014)	(47,325)	(35,631)	(30,409)	(69,451)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4,935	10,986	19,707	(148,251)	109,104
Finance costs	(923)	(4,919)	(7,934)	(505)	(281)
Share of profits of:					
Jointly-controlled entities	17,124	19,304	13,844	—	—
An associate	24	—	—	—	—
Profit/(loss) before tax	21,160	25,371	25,617	(148,756)	108,823
Tax	(3,116)	(32)	434	888	(19,933)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	18,044	25,339	26,051	(147,868)	88,890
Minority interests	—	172	(1,410)	851	1,504
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	18,044	25,511	24,641	(147,017)	90,394

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Summary financial information *(Continued)*

	As at 31 December				
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i> <i>(Restated)</i>
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	1,478,230	1,454,636	1,572,132	1,321,197	1,695,127
Total liabilities	(834,863)	(829,553)	(970,900)	(748,319)	(964,216)
Minority interests	—	—	(2,515)	—	(851)
	<u>643,367</u>	<u>625,083</u>	<u>598,717</u>	<u>572,878</u>	<u>730,060</u>

Fixed assets

Details of movements in the fixed assets of the Group are set out in note 15 to the financial statements.

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 31 to the financial statements.

Purchase, redemption or sale of listed securities of the Company

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 32 to the financial statements.

Distributable reserves

At 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinances amounted to HK\$11,737,991. In addition, the Company's share premium account, in the amount of HK\$314,739,683, 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.

Directors

The directors of the Company during the year were:

Executive Directors

Jiang Guofang (*Chairman*)
Lee Man Chun Tony
Ying Niankang
Guo Chun

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, Chang Pen Tsao and Ng Wing Hang Patrick 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 44, 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 Industrial & Commercial Bank of China, Shanghai Branch for more than 12 years. He took 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 48, was appointed as a Director 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 50, 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 10 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 37, was appointed as an Executive Director of the Company in May 2000. He began his career in Industrial & Commercial Bank of China, Shanghai Branch in 1983. Other than the banking business, he has been working in the securities industry of the PRC 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 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.

Biographical details of the directors of the Company and senior management of the Group *(Continued)*

Non-executive Directors

Lu Wenqing, aged 43, 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 Industrial & Commercial Bank of China and as an attaché of the Chinese Embassy in Gabon.

Chang Pen Tsao, aged 62, 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 46, is a Non-executive Director of the Company. He is also a Director and Vice-President of Shanghai Industrial Investment (Holdings) Co. Ltd., Director and President of Shanghai Industrial Financial (Holdings) Co. Limited, Chairman and Managing Director of SIIC Finance Co. Ltd. and Chairman of SIIC Asset Management 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.

Ng Wing Hang Patrick, aged 49, 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.

Kwok Lam Kwong Larry, aged 46, is an Independent Non-executive Director of the Company. He is a practising solicitor in Hong Kong and is also 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 respectively as well as a Master's Degree in Law. He is currently the Vice-Chairman of the Consumer Council, a member of 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.

Biographical details of the directors of the Company and senior management of the Group *(Continued)*

Senior management

Chung Chin Hung Paul, aged 47, joined the Group in 1995. He is the Managing Director 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 47, 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.

Lee Siu Ming Simon, aged 40, 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's Degree in Science from University of Hong Kong and a Bachelor of Law Degree from University College of University of London in the United Kingdom.

Wong Che Keung Leslie, aged 37, is a Finance Director of the Group. Mr Wong had served as the Head of Compliance and Director of Shenyin Wanguo Securities (H.K.) Limited respectively before succeeding to the current position in 2001. 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 another 2 years. He is a Fellow of the Association of Chartered Certified Accountants. He gained his Bachelor's Degree in Economics at University of Hong Kong and a Master's Degree in Business Administration at Chinese University of Hong Kong.

Philip Chan, aged 39, joined the Group in 1994. He is a Director of Shenyin Wanguo Research (H.K.) Limited and has been based in Hong Kong for 13 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.

Yip Sin Ho Victor, aged 37, is the Legal and Compliance Officer and Secretary of the Company. Prior to joining the Group in 2000, he worked as a solicitor in a reputable law firm in Hong Kong. He has a Bachelor's Degree in Economics and another Bachelor's Degree in Laws. He further gained his Master's Degree in Laws at the University of Hong Kong.

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 of compensation, other than statutory compensation.

Directors' interests in contracts

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

Directors' interests in shares

At 31 December 2001, Lee Man Chun Tony had a personal interest in 1,350,000 shares 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").

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 2001.

Directors' rights to acquire shares or debentures

Apart from as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, 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 companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to employees who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors and other employees of the Group. The Scheme became effective on 12 December 1992 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The maximum number of share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 11,000,000, which represented approximately 2% of the Company's shares in issue as at that date. The offer of a grant of share options may be accepted within 28 days from the date of the offer with the payment of HK\$1.00 being consideration payable by the grantee to the Company. The exercise period of the share options granted is determinable by the directors, and in any event, commences on the expiry of one month after the share options are accepted (the "Commencement Date") and ends on the fifth anniversary of the Commencement Date or the expiry date of the Scheme, whichever is earlier.

Following the changes to the Rules Governing the Listing of Securities ("Listing Rules") of The Stock Exchange of Hong Kong Limited ("SEHK") on share option schemes coming into effect on 1 September 2001, the total number of shares issued and to be issued upon exercise of the share options granted or to be granted each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of a listed issuer at any time. Share options granted to a director, chief executive or substantial shareholder of a listed issuer, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of a listed issuer, or to any of their associates, resulting in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person representing in aggregate over 0.1% of the shares of the listed issuer in issue at any time or with an aggregate value (based on the share price of the listed issuer at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting. The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the shares on SEHK on the date of the offer of the share options; and (ii) the average closing price of the shares on SEHK for the five trading days immediately preceding the date of the offer. Yet, the Company has not granted any options on or after 1 September 2001.

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Share option scheme (Continued)

Movements of the share options under the Scheme during the year are as follows:

Name or category of participant	At 1 January 2001	Number Exercised during the year	At 31 December 2001	Date of grant*	Exercise period	Price of the Company's shares***		
						Exercise price** HK\$	At grant date HK\$	At exercise date HK\$
Director								
Lee Man Chun Tony	2,200,000	—	2,200,000	1-6-2000	1-7-2001 to 11-12-2002	0.50	0.41	—
	3,300,000	—	3,300,000	1-6-2000	1-12-2001 to 11-12-2002	0.50	0.41	—
	5,500,000	—	5,500,000	1-6-2000	1-6-2002 to 11-12-2002	0.50	0.41	—
Employee	200,000	(200,000)	—	4-11-1996	15-12-1996 to 14-12-2001	0.60	0.85	1.37
Employee	200,000	(200,000)	—	4-11-1996	20-12-1996 to 19-12-2001	0.60	0.85	1.15
	<u>11,400,000</u>	<u>(400,000)</u>	<u>11,000,000</u>					

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of grant is the closing price on SEHK on the trading day immediately prior to the date of grant.

Since there was no share option granted under the Scheme during the year, no value of share options granted has been disclosed accordingly.

The summarised details of the Scheme are also set out in note 31 to the financial statements.

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Substantial shareholders

At 31 December 2001, 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, no person had registered an interest in 10% or more of the issued share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

Connected transactions

Details of the connected transactions are set out in note 36 to the financial statements.

Practice Note 19 of the Listing Rules

The disclosures required by Practice Note 19 of the Listing Rules are set out in note 22 to the financial statements.

Post balance sheet events

Details of the significant post balance sheet events are set out in note 37 to the financial statements.

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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 Listing Rules, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Company's articles of association.

Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors and one non-executive director of the Company.

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

17 April 2002