

REVIEW OF OPERATIONS

Securities Trading and Broking

In 2002, 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 continued to suffer badly from the economic downturn and gloomy economic outlook. In such circumstances, SW Securities, a leading player of mainland stocks in Hong Kong worked hard on leveraging its expertise and resources in this area. A number of marketing campaigns were organised in 2002 with a view to marketing the mainland stocks to clients and market practitioners.

Securities Financing

In 2002, the Group recorded interest income of approximately HK\$37.1 million (2001: HK\$43.5 million), a drop of 14.7%. It was mainly due to the lower interest rate level in 2002. The average prime rate dropped to 5% as compared to 7% in 2001.

Amidst the weakening credit environment in 2002, 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. The Group made provisions for potential bad and doubtful debts of HK\$110 million and HK\$9.4 million against the long-term and short-term receivables, respectively.

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 2002, SW Capital acted as sponsor and lead manager in the initial public offering of one Main Board company, namely Long Far Pharmaceutical Holdings Limited, and two Growth Enterprise Market companies, namely Linefan Technology Holdings Limited and QUASAR Communication Technology Holdings Limited. In the same year, SW Capital also actively participated in the underwriting of new issues, including that of Bee & Bee Natural Life Products Limited and B&S Entertainment Holdings Limited in which SW Capital acted as lead manager. With regard to corporate advisory services, SW Capital was appointed as financial adviser to CATIC International Holdings Limited and Fourseas.com Limited (currently known as Shanghai Century Holdings Limited). SW Capital was further appointed as independent financial adviser in relation to a number of companies including Angang New Steel Company Limited, Industrial Commercial Bank of China (Asia) Limited and Shougang Concord International Enterprises Company Limited.

REVIEW OF OPERATIONS (CONTINUED)

Securities Research

Our securities trading and broking 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 2002, a total of 16 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

We completed the acquisition of 100% equity interest in Shenyin Wanguo Asset Management (Asia) Limited ("SW Asset Management") in 2002 as the Group's asset management arm with the aim of designing products covering China concept stocks for distribution in Asia, in particular, Japan and Korea.

2002 has been a year of foundation building in terms of business and product development for SW Asset Management. SW Asset Management has established business relationships with various Asian financial institutions and has conducted marketing research as well as feasibility study on a number of investment products for distribution in the Japanese and Korean markets, which have shown positive and encouraging response.

CAPITAL STRUCTURE

The total number of the issued ordinary shares of the Company as at 31 December 2002 was 530,759,126 shares. Total equity attributable to shareholders was HK\$654 million.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2002, the Group had a cash holding of HK\$35.1 million and marketable securities of HK\$60.3 million. At the same time, the Group's total unutilised banking facilities amounted to HK\$378 million, of which HK\$78 million could be drawn down without the need of notice nor completion of condition precedent.

During the year, the Group closely negotiated with lenders to restructure the maturity profile of the borrowings from short-term to long-term. In March 2002, the Group settled short-term other loans of HK\$180 million by cash of HK\$36 million and by a 3-year convertible note in principal amount of HK\$132 million. In November 2002, the Group purchased the convertible note at a consideration of HK\$40 million and cancelled it immediately, resulting in a one-off gain of approximately HK\$92 million.

The liquidity ratio (current assets to current liabilities) and gearing ratio (borrowings to net asset value) as at 31 December 2002 were 1.36 and 0.27 respectively. 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.

MATERIAL DISPOSAL

On 11 June 2002, the Group completed its disposal of its entire interest in two subsidiaries, the major interest of which is an unconsolidated subsidiary, at a total consideration of HK\$50 million. A gain on disposal of HK\$19 million was resulted. The reason for the disposal is that it enables the Group to focus on its core business and can enhance the cash flow position of the Group.

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 2002, the advances to customers included direct loans of HK\$33 million (2001: HK\$42 million) and margin financing of HK\$252 million (2001: HK\$207 million). All direct loans were advanced to commercial and financial industry sectors, of which 61% (2001: 48%) were to property development sector with the remaining to financial sector, according to the business activities of the borrowers. In respect of margin financing, 18% (2001: 27%) is attributable to corporate borrowers, while the remaining is attributable to individual borrowers.

CHARGE ON THE GROUP'S ASSET

The Group's interest in jointly-controlled entities has been charged to a bank as security for a short-term loan facility. As at 31 December 2002, the amount of the Group's borrowings outstanding under this loan facility was HK\$115 million. The carrying value of the investment as at 31 December 2002 was HK\$234 million.

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 2002, the outstanding loan was HK\$1.7 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 was 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 AND TRAINING

As at 31 December 2002, the total number of full-time employees was 201. The total staff costs for the year (excluding directors' fees) amounted to approximately HK\$51 million. In September 2002, the Group organised a Continuous Professional Training seminar for all licensed member staff in compliance with the relevant requirement of the Securities & Futures Commission. During the year, no share option was granted under the Company's share option scheme which expired on 12 December 2002.