# 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 2003.

## RESULTS

The economic conditions in Hong Kong in the period under review were mixed with discouraging circumstances in the first half of the year followed by a remarkable pick up in the second half of the year. For the year ended 31 December 2003, the Group recorded a net profit attributable to shareholders of approximately HK$36 million, representing an increase of 235% over 2002. The turnover rose by 139% to HK$590 million approximately (2002: HK$247 million). The basic earnings per share increased by 229% to HK6.71 cents as compared to HK2.04 cents (restated) a year earlier.

## DIVIDEND

The directors have resolved to recommend the payment of a final dividend of HK2 cents per ordinary share in respect of 2003, to shareholders whose names appear on the register of members of the Company on 21 May 2004. This proposed dividend will be paid on or about 28 May 2004 subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company.

## REVIEW OF MARKET IN 2003

The year of 2003 was a year marked by contrasting economic circumstances, an unusual year for Hong Kong and its people. The first half of the year was extremely challenging as a result of the outbreak of the Severe Acute Respiratory Syndrome ("SARS"), poor domestic economic conditions, weak investment and consumer confidence, persistent high unemployment rate, perturbing deflationary pressure and continued weakness in the property market. The second half year saw the end of SARS and signs of returning confidence and economic health in Hong Kong with the enthusiasm about the signing of the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"), which serves to bolster the economic ties of Hong Kong with Mainland China. The local economy was further vitalized by the launch of the "individual visit" scheme for Mainland tourists.

The collapse in demand during the SARS epidemic triggered aggressive discounting and pushed the Consumer Price Index down sharply in May, June and July. The Hong Kong economy rebounded strongly in the second half of the year. The government's official update in November suggested 3% Gross Domestic Product growth and a mere 2% decline in the Composite Consumer Price Index for 2003.

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## REVIEW OF MARKET IN 2003 *(Continued)*

The ups and downs of Hong Kong during 2003 were mirrored in its securities market. In the first half of the year, trading activity and index level declined substantially. However, a significant strengthening in growth was evident in the third quarter, when positive investment sentiment had been driven by abundant liquidity and perceived synchronized recovery in global economic growth. The turnover value of the Hong Kong stock market for the whole year was HK$2,545.7 billion, representing an increase of 59% over the previous year. By year end, the benchmark Hang Seng Index had risen 35% over the start of the year, the highest and lowest points during the period were 12,594 points on 12 December and 8,409 points on 25 April. The turnover value of the Hang Seng China Enterprises Index Constituents increased 203% to HK$385.7 billion over a year. By year end, the Hang Seng China Enterprises Index ended 5,020 points, representing an increase of 152% when compared to the beginning of the year.

In 2003, China's B share markets saw mixed performances, compared to 2002. Shanghai's and Shenzhen's B share indices ended the year down 6.5% and up 47.1% respectively. Average daily turnover of B shares on both Shanghai and Shenzhen Stock Exchanges declined to RMB119.5 million and increased to RMB256.3 million respectively as compared to RMB217.8 million and RMB139.4 million in 2002. On the other hand, the domestic A share markets perked up during the year, buoyed by China's booming economy. A general recovery in operating profitability, the introduction of the Qualified Foreign Institutional Investors' Scheme, and more sanguine view over the proposed reduction of state-owned shares, helped lift Shanghai's and Shenzhen's A share indices to end the year up 13.4% and 21.8% respectively.

## FUTURE PLAN & PROSPECTS

The past year has seen patchy economic growth. Hong Kong was badly affected in the first half of 2003 by SARS and continued weakness in export demand. However, by the second half, there had been a turnaround, and providing the global economy performs as expected, the outlook of Hong Kong's economy in 2004 is sanguine.

There are good reasons for optimism. We are seeing a robust recovery in the global economy and stronger-than-expected economic growth in the Mainland. As a Hong Kong based securities firm specializing in the brokerage of listed stocks in indigenous PRC companies, these trends will definitely help to benefit our brokerage business. Furthermore, continued reform and liberalization in the Mainland hasten the reduction of asymmetry in the mobility of money and people, i.e. investors and consumers, between the Mainland and the rest of the world. Hong Kong stands to benefit to a much greater extent than others.

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

Another positive momentum is the World Trade Organization accession, a brief discussion of which had been made in our Annual Report of last year. With greater foreign ownership in telecommunications, banking, insurance and other sectors, more Mainland firms would be attracted to seek a listing in Hong Kong to tap overseas funds. Besides, restructuring of Mainland China's state-owned enterprises is likely to boost the mergers and acquisitions sector as the enterprises prepare themselves for intensified foreign competition. Restructured Mainland companies will rely more on equity finance for expansion as part of the regional trend, and Hong Kong is expected to be the main beneficiary of such demand.

Against this backdrop, the financial markets have been excited about the better economic prospects. It is anticipated that following the signing of the six Annexes to the main text of CEPA, the dynamic benefits such as trade-creating and investment-inducing effects will gradually be seen in the coming months. For instance, one major progress in financial business under the CEPA framework was the signing of a Memorandum of Cooperation concerning the operation of personal Renminbi (RMB) business in Hong Kong. The development of RMB business in Hong Kong will lay the foundation for Hong Kong to become an offshore RMB centre and enhance Hong Kong's role as an international financial centre. All in all, CEPA would not only pave the way for Hong Kong enterprises to tap Mainland's vast domestic market, but also provide an incentive for foreign companies to conduct strategic investments in Hong Kong.

With the hope of Hong Kong shaking off deflation and attaining positive economic growth in 2004, the mood of the community is improving. Our group shall seize every opportunity to provide financial advisory and capital raising services to PRC Corporations and to strength our traditional stockbroking business, while maintaining high liquidity to respond to opportunities which may appear at any moment for significant growth in Hong Kong and the PRC market to enhance our market share. Further, we shall continue to expand our sales professionals to cope with the on-going keen competition in the industry. But markets are unpredictable, we would continue to manage risk prudently in our proprietary share trading, provision of margin finance and business expansions.

Finally, all members of the Board of Directors and myself would like to express our sincere gratitude to Mr Jiang Guofang for his valuable contribution and support as Chairman of the Group during his term of office. Taking this opportunity, we would also like to thank all our staff for their dedication and hard work in weathering the hard times and our shareholders and clients for their trust and support over the past year.

**Feng Guorong**
*Chairman*

Hong Kong
16 April 2004