

Management Discussion & Analysis of Performance

REVIEW OF OPERATIONS

Securities Trading and Broking

In 2003, 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 suffered badly in the first half of the year as a result of the outbreak of SARS, followed by a remarkable pick up in the second half of the year. In such circumstances, 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 second half of 2003. A number of marketing campaigns were organised timely in 2003 with a view to market the China-related stocks to clients and market practitioners. The stockbroking business contributed to approximately HK\$53 million to the Group’s turnover in 2003 with the number of clients growing 56% for the year ended 31 December 2003.

Securities Financing

In 2003, the Group recorded interest income of approximately HK\$31.3 million (2002: HK\$37.1 million), a drop of 15.6%, mainly due to the reduction in average level of margin financing and direct loans and lower interest rate level. Amidst the weakening credit environment in 2003, 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 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 2003, SW Capital actively participated in the underwriting of new issues, including that of Lianhua Supermarket Holdings Co., Ltd., Weiqiao Textile Company Limited and PICC Property and Casualty Company Limited. With regard to corporate advisory services, SW Capital was appointed as financial adviser to Long Far Pharmaceutical Holdings Limited and Guorun Holdings Limited (currently known as Geely Automobile Holdings Limited). SW Capital was also appointed as independent financial adviser in relation to a number of companies including Angang New Steel Company Limited, Shougang Concord International Enterprises Company Limited and Shougang Concord Technology Holdings Limited.

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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 2003, a total of 14 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

Year 2003 saw the gradual building up of client base, particularly corporate client portfolios. In addition, relationships building with selective financial institutions in Asia started to bear fruit with various new product development projects reaching final negotiation stage.

The post SARS market recovery in second half 2003 triggered a structural market re-rating of China equities, H shares in particular and Red Chips as well as Private Enterprises to a lesser extent. In addition, a number of qualified foreign institutional investors have commenced investment in the A share market since second quarter, leading to re-rating of major blue chip A share companies which in turn revived the A share index from a multi-quarter decline.

New share listing activities in Hong Kong have been exceptionally strong both in terms of number and value in the second half. Performance of most of the new issues since listing has been rewarding while Shenyin Wanguo Asset Management (Asia) Limited, through participating in some of these issues, has generated satisfactory returns to the clients' portfolios.

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CAPITAL STRUCTURE

During the year, there was no change to the share capital of the Company. As at 31 December 2003, the total number of the issued ordinary shares was 530,759,126 shares and total equity attributable to shareholders was HK\$685 million.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2003, the Group had a cash holding of HK\$37.7 million and marketable securities of HK\$80.1 million. As at 31 December 2003, the Group's total unutilised banking facilities amounted to HK\$425 million, of which HK\$139 million could be drawn down without the need of notice nor completion of condition precedent.

As at 31 December 2003, the Group had outstanding bank loans amounting to HK\$106.5 million, of which HK\$105.3 million was repayable within one year. The liquidity ratio (current assets to current liabilities) and gearing ratio (borrowings to net asset value) as at 31 December 2003 were 1.15 (2002: 1.36) and 0.16 (2002: 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.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

During the year, the Group continued to derive a stable earnings stream from its 26.19% interest in The New China Hong Kong Highway Limited, which in turn held a 60% interest in Sichuan Chengmian Expressway Co., Ltd. The investment had a carrying value of HK\$228 million as at 31 December 2003.

During the year, there was no material acquisition and disposal of subsidiaries or associated companies.

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CHARGES 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 2003, the amount of the Group's borrowings outstanding under this loan facility was HK\$105 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 2003, the outstanding loan was HK\$1.5 million.

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 reviewed and updated regularly.

The management closely monitors the market condition so that precautionary measures will be taken to eliminate the risk that the Group may encounter. As at 31 December 2003, all advances to customers of HK\$284 million were margin financing (2002: direct loans of HK\$33 million and margin financing of HK\$252 million) of which 7% (2002: 18%) was attributable to corporate borrowers with the remaining attributable to individual borrowers.

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.

CONTINGENT LIABILITIES

There were no material contingent liabilities as at 31 December 2003.

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FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except the future plans as disclosed in the paragraph of “Future Plan & Prospects” in the Chairman’s Statement, the Group had no other future plans for material investments or capital assets as at 31 December 2003.

EMPLOYEES AND TRAINING

As at 31 December 2003, the total number of full-time employees was 114. The total staff costs for the year (excluding directors’ fees) amounted to approximately HK\$45 million.

The Group is committed to professional training for its employees. In compliance with the relevant requirement of the Securities & Futures Commission, the Group had organised a Continuous Professional Training seminar in September 2003 for all licensed staff members.