Management Discussion and Analysis

Business Review

In the first half of the year, the Group recorded an unaudited net profit attributable to shareholders of HK$1.8 million (2002: HK$17 million), representing a decrease of 89% over 2002 while the turnover of the Group fell approximately by HK$60 million to HK$76 million on a year-on-year comparison (2002: HK$136 million).

The Group continued to focus on its stockbroking and dealing businesses on Hong Kong, Shanghai, Shenzhen and some other Asian stock exchanges. On 1 April 2003, the minimum brokerage commission was abolished in Hong Kong as scheduled, which had a noticeable but small effect on our business during the period. On the other hand, to sharpen our competitive edge to cope with the ever-intensifying market conditions, the North Point branch was closed in March as an implementation of stringent cost control. The stockbroking business contributed HK$17 million to the Group's turnover while the number of clients increased by 10% for the six months ended 30 June 2003.

In respect of corporate finance services, due to the outbreak of Severe Acute Respiratory Syndrome ("SARS") and poor market conditions for the period under review, fund raising activities undertaken by Shenyin Wanguo Capital (H.K.) Limited, a wholly owned subsidiary of the Company, were adversely affected. On the other hand, it continued to provide financial advisory services to several listed companies, including Guorun Holdings Limited, in relation to their notifiable transactions.

Market Review

Hong Kong's economy during the first half of 2003 was adversely affected by the slow growth in the global economy as a result of high oil prices and the outbreak of the war in Iraq. The local business environment was further affected by onset of SARS, weakening property market, worsening structural fiscal deficit and weak investment and consumer confidence, leading to persistent high unemployment and deflation. On a seasonal quarter-to-quarter comparison, real GDP growth contracted by 3.7% in the second quarter, down for the second consecutive quarter, meaning that the territory fell into a technical recession. The unemployment rate, measured over the three months to May, rose to 8.3%, its highest in 30 years.

Market Review *(continued)*

With a nervous political environment due to the war in Iraq, negative economic growth, a worsening structural fiscal deficit and unfavourable investment sentiment prevailing in the global market, the business environment was extremely harsh for the securities and the investment banking industry in Hong Kong for the period under review. For the first six months of the year, the average daily turnover on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") dropped by 5% to HK$6,956 million, compared with HK$7,341 million in the same period of last year, reflecting the continued weakness in the equity market. The drop in market activity could also be attributed to the slowdown of turnover velocity and the poor market performance. The Hang Seng Index closed at 9,577 at end-June 2003, which was 10% lower than that at end-June 2002.

B-share activity remained subdued during the first six months of the year. A moratorium on new issues remained in place. The B-share indices on the Shanghai and Shenzhen Stock Exchanges reached highs (and lows) of 130.2 (111.2) and 232.7 (184.9), respectively, during the period. The average daily turnover of the B-shares declined to RMB136.7 million and RMB179.8 million from RMB308.6 million and RMB180.4 million on the Shanghai and Shenzhen Stock Exchanges, respectively, over the same period as last year.

Looking Ahead

Our Group is a Hong Kong based securities firm, specializing in the brokerage of listed stocks in indigenous PRC companies. As such, whilst in the second half of the year Hong Kong will continue to face daunting challenges, such as deciding on how to tackle the future fiscal deficits; continuing deflation; high unemployment and minimal or negative economic growth, nevertheless there have been specific positive factors which have led to a recent rekindling of interest in Hong Kong listed China stocks, thereby helping to benefit our brokerage business. These factors started in May, coinciding with the recedence of SARS in Hong Kong. After the recedence of SARS, the stock markets in Asia, and in particular Hong Kong's, rebounded strongly. Our Group's brokerage business strongly recovered during May as well, in tandem. However, because the strong recovery in our brokerage business started only in May, this phenomenon was not fully reflected in the period under review. Because of the speed of recovery, though, we remain sanguine about prospects for the Group for the second half of the year.

Looking Ahead *(continued)*

One of the positive factors described above was the formal implementation of the Qualified Foreign Institutional Investor Scheme ("QFII"), first announced in November 2002. The first entrants to QFII provided a positive investment environment for investment in China stocks. Another major factor was the confirmation that the majority of the Hong Kong listed China companies were well on their way to reaping benefits from capital investment made over the previous two to three years. The benefits were clearly evident in their financial reports for the financial year 2002 and the first quarter of the financial year 2003.

More recently, in the wider Hong Kong economy, improved local consumer confidence has been clearly evident, as indicated by improved retail sales figures, sales of residential properties, and tourism. There are other factors which will bode Hong Kong well for the future.

First is the signing of the long-awaited Closer Economic Partnership Arrangement ("CEPA") with China on 29 June 2003 which will take effect on 1 January 2004. CEPA allows Hong Kong companies to access to the Mainland market before competitors from elsewhere and eliminates substantial trade and investment barriers between Hong Kong and the Mainland, thus strengthening Hong Kong companies first mover advantage. Under CEPA, the Mainland supports Chinese banks in relocating their international treasury and foreign exchange trading centres to Hong Kong. Chinese banks are also encouraged to expand their banking business in Hong Kong through acquisition. In the process of financial reform on the Mainland, the financial intermediaries in Hong Kong will be fully utilized. In a nutshell, CEPA would strengthen Hong Kong's role as an international financial centre for China and the region.

In addition, attention should be paid to the possible launch in the foreseeable future of the Qualified Domestic Institutional Investor Scheme ("QDII"). It is likely that QDII would allow Mainland individuals and corporations, which are believed to hold about US$150 billion in foreign exchange deposits, to channel some of those funds into the Hong Kong stock market, thereby benefitting the entire economy as a whole.

Looking Ahead *(continued)*

On one hand, our Group shall continue to focus proactively on tapping business opportunities to provide financial advisory and capital raising services to predominately PRC corporations, strengthening our traditional stockbroking business and maintaining high liquidity to respond to opportunities which may appear at any moment. Further, we shall continue to recruit sales professionals to sustain a growth in our market share and our operating revenue amidst the on-going keen competition in the industry. On the other hand, we will remain conservative on our approach to our proprietary share trading, the provision of margin finance to clients and business expansion.

Capital Structure

During the period, there was no change to the share capital of the Company. The total number of the issued ordinary shares as at 30 June 2003 was 530,759,126 shares. Total equity attributable to shareholders was HK$651 million.

Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2003, the Group had a cash holding of HK$28.9 million and marketable securities of HK$79.3 million. As at 30 June 2003, the Group's total unutilised banking facilities amounted to HK$401 million, of which HK$112 million could be drawn down without the need of completion of condition precedent.

As at 30 June 2003, the Group had outstanding bank loans amounting to HK$113 million, of which HK$111 million was repayable within one year. The liquidity ratio (current assets to current liabilities) and gearing ratio (borrowings to net asset value) as at 30 June 2003 were 1.27 and 0.19 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 period, 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 Company Limited. The investment had a carrying value of HK$231 million as at 30 June 2003.

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

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 30 June 2003, the amount of the Group's borrowings outstanding under this loan facility was HK$65 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 30 June 2003, the outstanding loan was HK$1.6 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 documented in the Operational Manual which is 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 30 June 2003, the advances to customers included direct loans of HK$10 million (31 December 2002: HK$33 million) and margin financing of HK$211 million (31 December 2002: HK$252 million). All direct loans were advanced to financial industry sector (31 December 2002: 39% to financial industry sector and 61% to property development sector), according to the business activities of the borrowers. In respect of margin financing, 17% (31 December 2002: 18%) was attributable to corporate borrowers, while the remaining was 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 stock 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 30 June 2003.

Future Plans for Material Investments or Capital Assets

Except the future plans as disclosed in the paragraph of "Looking Ahead", the Group had no other future plans for material investments or capital assets as at 30 June 2003.

Employees and Training

As at 30 June 2003, the total number of full-time employees was 115. The total staff costs for the period (excluding directors' fees) amounted to approximately HK$22 million.

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

Disclosure under Practice Note 19

As at 30 June 2003 and 31 December 2002, the Group had amounts receivable from Century City International Holdings Limited ("CCIH") and its subsidiaries (collectively the "CC Group") in the aggregate amount of HK$292,767,388. A provision of HK$110,000,000 was made against this receivable in last year. The net amount of HK$182,767,388 represented approximately 28% of the Group's net assets at the balance sheet date. The aggregate balance comprises receivables arising from securities and options trading, a claim under an indemnity in relation to the acquisition of the interests in jointly-controlled entities and accrued interest income. These receivables are guaranteed by CCIH, partially secured by listed securities and are due for repayment. The amounts receivable from the CC Group bear interest ranging from prime rate plus 3.05% to 4% per annum but no interest has been recognised due to the uncertainty of the recoverability of the receivable.

Additional Information

Directors' Interests in Share Capital

As at 30 June 2003, the interests or short positions of the Directors and chief executives of the Company in shares, underlying shares of equity derivatives and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code") were as follows:

Long Positions in Ordinary Shares of the Company

Name of Director	*Nature of Interest*	*Number of Ordinary Shares*	*Approximate % of Shareholding*
Lee Man Chun Tony	Personal	1,300,000	0.24%