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$9.2 million (2003: HK$1.8 million), representing an increase of 408% over 2003 while the turnover of the Group raised approximately by HK$767 million to HK$843 million on a year-on-year comparison (2003: HK$76 million).

The Group continued to focus on its stockbroking and dealing businesses covering principally Hang Seng Index constituent stocks, Hang Seng China-Affiliated Corporations Index constituent stocks and Hang Seng China Enterprises Index constituent stocks listed on the Stock Exchange of Hong Kong as well as B shares listed on the Shenzhen and Shanghai Stock Exchanges. The stockbroking business contributed HK$36 million to the Group's turnover while the number of clients increased by approximately 6% for the six months ended 30 June 2004.

In respect of corporate finance services, the significant improvement in market sentiment as compared to the corresponding period last year had resulted in more fund raising activities undertaken by Shenyin Wanguo Capital (H.K.) Limited, a wholly owned subsidiary of the Company. It acted as sponsor to the listing of the H shares of Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and participated in the offering of B shares of BOE Technology Group Co., Ltd. and H shares of China Shipping Container Lines Company Limited. In the area of advisory services, it acted as financial advisers to several listed companies including Jiangsu Expressway Company Limited and Shanghai Zendai Property Limited.

Business Review *(continued)*

On the asset management front, as the investment manager, Shenyin Wanguo Asset Management (Asia) Limited, together with Aizawa Securities Co., Ltd. in Japan, have successfully launched the SYWG Aizawa China "A" Share Number 1 Fund (the "Fund") in Japan in June. The Fund is the first open ended unit trust in Japan that invests entirely in the China "A" share market through the Qualified Foreign Institutional Investor Scheme with a fund size of US$24 million.

Market Review

The economy has continued to build momentum after rebounding from the impact of SARS last year. Along with the strong economic rebound in the second half of last year, Hong Kong's deflationary situation that exerts considerable pressure on the overall economy and people's livelihood has been showing signs of improvement. According to the Hong Kong's Composite Consumer Price Index ("CCPI"), overall consumer prices fell by 0.1% in June 2004 from a year earlier, distinctly smaller than the 0.9% decrease in May. The CCPI went up for 5 months in a row since the beginning of this year from -1.5% to -0.1%. Continuous narrowing of the decline in the CCPI represents the steady improvement of consumption demand in Hong Kong.

On top of that, China's Individual Visit Scheme has boosted retail, tourist and restaurant industries and the turnover of consumer durables and luxury goods such as electronic appliances, cosmetics, watches, gold and jewelry have remarkably increased. In summary, Hong Kong's economic growth in the first half of this year is not only strong but comprehensive as well. All expenditure components have recorded respectable growth. The Hong Kong economy has exhibited a strong, broad-based upturn. In the first quarter of 2004, real Gross Domestic Product grew by 6.8% from a year earlier. The unemployment rate fell from a historic high of 8.7% in the three months ended July 2003 to 7% in the three months ended this May.

Market Review *(continued)*

In conjunction with the ameliorating economic environment, the Hong Kong stock market experienced a rebound in the first six months of 2004. In the six months ending June this year, the turnover value of the Hong Kong stock market was HK$2,035 billion, representing a year-on-year increase of 142%. The benchmark Hang Seng Index closed at 12,285 at end-June 2004, which was 28% higher than that at end-June 2003. By period end, the Hang Seng China Enterprises Index ended 4,291 points, representing an increase of 57% when compared to the corresponding period last year.

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 122.2 (82.7) and 315.8 (235.3), respectively, during the period. The average daily turnover of the B-shares increased to RMB152.1 million and RMB290.6 million from RMB136.7 million and RMB179.8 million on the Shanghai and Shenzhen Stock Exchanges, respectively, over the same period as last year.

Looking Ahead

While the Hong Kong economy appears poised for solid growth this year with the momentum gathering force under the Mainland and Hong Kong Closer Economic Partnership Arrangement "CEPA" and further relaxation on outbound travel from Mainland China in the offing, market sentiment appears to remain mixed. There should be little doubt that the growth rate in Hong Kong will slow down in the second half of the year due to the high base in the first half year and the ongoing uncertainties. As a small and open economy, Hong Kong is susceptible to external shocks. The way the global economy moves is of vital importance. Investors are concerned about the efficacy of macro economic measures implemented for adjusting the Mainland economy, the likelihood of interest rate rises in the United States and the forthcoming US Presidential Election. In addition, volatility in the currency and commodity markets could have a dampening effect on market sentiment.

Looking Ahead *(continued)*

As such, on one hand, in the second half of the year Hong Kong will continue to face daunting challenges; on the other hand, the many favourable internal elements should be able to offset many of the negative impacts of external uncertainties, and Hong Kong will probably bid farewell to the deflation that has haunted the territory for almost six years and attain positive economic growth in the second half year of 2004.

Our Group is a Hong Kong based securities firm, specializing in the brokerage of stocks of listed indigenous PRC companies. Although we expect an upward economic growth, we remain wary of the economy's vulnerability to external shocks as the economic transformation is still underway. Apart from those known uncertainties such as rate hikes and oil price surges, there are others such as the geopolitical climate, the ongoing war on terrorism and structural deficiencies embedded in the global economy and markets.

In this kind of environment, we have been taking a conservative approach in our proprietary share trading, provision of margin financing to clients and business expansion while prudent cost controls remain in place. At the same time, 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 work closely with our parent company, Shenyin & Wanguo Securities Co. Ltd., in co-marketing efforts, on several fronts, in order to strengthen existing, and establish new, institutional brokerage business for our Group and our parent company and we shall continue to recruit sales professionals to sustain a growth in our market share and our operating revenue amidst stiff competition in the industry.

Capital Structure

During the period, there was no change to the share capital of the Company. As at 30 June 2004, the total number of the issued ordinary shares was 530,759,126 shares and total equity attributable to shareholders was HK$684 million.

Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2004, the Group had a cash holding of HK$36.2 million and short term marketable securities of HK$59.1 million. As at 30 June 2004, the Group's total unutilised banking facilities amounted to HK$445 million, of which HK$107 million could be drawn down without the need of notice nor completion of condition precedent.

As at 30 June 2004, the Group had outstanding bank loans amounting to HK$1.3 million, of which HK$0.3 million was repayable within one year. The liquidity ratio (current assets to current liabilities) and gearing ratio (borrowings to net asset value) as at 30 June 2004 were 1.27 and 0.002 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 ("NCHK"), which in turn held a 60% interest in Sichuan Chengmian Expressway Co., Ltd. ("SCECL"). In accordance with the terms of the joint venture agreement, from 22 December 2003 to 21 December 2008, NCHK is entitled to 60% (before 22 December 2003: 100%) of the net profit generated by SCECL which are derived from the financial statements of SCECL prepared under generally accepted accounting principles in the People's Republic of China. The investment had a carrying value of HK$219 million, including the goodwill of HK$58 million, as at 30 June 2004.

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

Charges on the Group's Asset

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 2004, the outstanding loan was HK$1.3 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 30 June 2004, the advances to customers included direct loans of HK$0.4 million (31 December 2003: Nil) and margin financing of HK$158.4 million (31 December 2003: HK$284 million). All direct loans were advanced to individual borrowers. In respect of margin financing, 12% (31 December 2003: 7%) 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 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 is 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 2004.

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 2004.

Employees and Training

As at 30 June 2004, the total number of full-time employees was 127. The total staff costs for the period (excluding directors' fees) amounted to approximately HK$20 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 September 2004 for all licensed staff members.

Disclosure under Listing Rule 13.20

As at 30 June 2004, 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, representing approximately 18% of the Group's total assets at the balance sheet date and 74% of the Company's total market capitalisation calculated based on the average closing price for the 5 business days immediately preceding 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 associates and accrued interest income. These receivables are guaranteed by CCIH, partially secured by listed securities and are due for repayment. As the Directors consider that the receivable is unlikely to be recovered within the next 12 months, the amount has been classified

Disclosure under Listing Rule 13.20 *(continued)*

as a long term receivable and a provision of HK$110,000,000 was made during the year ended 31 December 2002. The amounts receivable from the CC Group bear interest at rates ranging from the prime rate plus 3.05% to 4% per annum, however no interest has been recognised due to the uncertainty of the recoverability of the receivable.

Additional Information

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2004, the interests and short positions of the Directors in the shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise 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	Number of ordinary shares directly beneficially owned	Approximate percentage of the Company's shares in issue
Lee Man Chun Tony	1,300,000	0.24

Saved as disclosed above, none of the Directors of the Company had, as at 30 June 2004, registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.