

REVIEW OF OPERATIONS

Securities Trading and Broking

In 2004, 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 improved because of the upturn of the Hong Kong economy that became evident in the first two quarters extended into the second half of 2004. 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 2004 by capitalizing on its expertise and resources in this area. A number of marketing campaigns were organised in 2004 with a view to marketing mainland stocks to clients and market practitioners. The stockbroking business contributed to approximately HK\$63 million to the Group’s turnover in 2004 with the number of clients growing 7.59% for the year ended 31 December 2004.

Securities Financing

In 2004, the Group recorded interest income of approximately HK\$27.4 million (2003: HK\$31.3 million), a drop of 12%, mainly due to the reduction in average level of margin financing and direct loans and lower interest rate level. Despite the shrinking loan demand in 2004, 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.

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 2004, SW Capital actively participated in the underwriting of new issues, including that of China Shipping Container Lines Company Limited, China Netcom Group Corporation (HK) Limited and Air China Limited. In addition, it collaborated with our controlling shareholder, Shenyin & Wanguo Securities Co., Ltd (“S&W”), in the secondary placement of the B shares of BOE Technology Group Company Limited worth more than HK\$2 billion. With regard to corporate advisory services, SW Capital was appointed as financial adviser to Shanghai Zendai Property Limited and Jiangsu Expressway Company Limited. It was also appointed as the financial adviser to Sparkle China Development Limited in respect of its general offer for B&S Entertainment Holdings Limited and the placement of private equity by a U.S. firm specializing in display technology. Besides, SW Capital acted as independent financial adviser in relation to the privatization of Oxford Properties & Finance Limited.

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, 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 2004, a total of 19 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.

REVIEW OF OPERATIONS (Cont'd)

Asset Management

After more than 2 years of intensive business development effort, we have successfully launched, in collaboration with Aizawa Securities in Japan, the Shenyin Wanguo Aizawa China A Share Number 1 and Number 2 Fund in Japan in May and August of 2004. We believe the Fund was the first open-ended unit trust investing only in the China domestic A share market, through the Qualified Foreign Institutional Investor Scheme, offered to Japanese investors. Performance of the two Funds has been satisfactory despite the weak A share market.

New trenches of the A share Fund, together with other new products, were planned and developed in 2004 for existing and prospective institutional clients in Japan and other Asian markets, for launching in 2005.

At the end of first quarter 2004, the Chinese Government introduced the tightening program to curb over-investments in selective heavy industries, triggering major corrections in both the Hang Seng H share and Red Chip Indices in the second quarter, as well as a structural de-rating of the domestic A share and B share Indices. Further strengthening in prices of various commodities such as oil, petrochemicals and coal; which are well represented in the Hong Kong H share Index, together with continues strong growth in logistics and transportation sectors such as container ports and shipping; which are also well represented in the Hang Seng Red Chip Index, have led to strong recovery in both Indices in the second half. However, the local A share and B share markets, except for selective good quality companies with sustainable growth prospect, were further de-rated given their rich valuation, deterioration in growth momentum and lack of transparency.

CAPITAL STRUCTURE

During the year, there was no change to the share capital of the Company. As at 31 December 2004, the total number of the issued ordinary shares was 530,759,126 shares and total equity attributable to shareholders was HK\$652 million.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2004, the Group had a cash holding of HK\$102 million and short term marketable securities of HK\$80 million. As at 31 December 2004, the Group's total unutilised banking facilities amounted to HK\$560 million, of which HK\$200 million could be drawn down without the need of notice nor completion of condition precedent.

As at 31 December 2004, the Group had no outstanding bank loan. The liquidity ratio (current assets to current liabilities) and gearing ratio (borrowings to net asset value) as at 31 December 2004 were 1.30 and nil 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

At 31 December 2003, the Group had long term receivable from Century City International Holdings Limited ("CCIH") and its subsidiaries (collectively the "CC Group") in the aggregate amount of HK\$182.77 million after the provision of HK\$110 million. On 30 September 2004, the Group, together with the other creditors of the CC Group, entered into a restructuring agreement with the CC Group for restructuring the indebtedness of the CC Group.

The restructuring process was completed on 15 December 2004. As settlement of the long term receivable, the Group received 121,683,500 ordinary shares of Paliburg Holdings Limited (the "Paliburg Shares") and 2,651,472,241 convertible non-voting redeemable preference shares of HK\$0.10 each in the share capital of CCIH (the "Preference Shares"). The total fair values of the Paliburg Shares and the Preference Shares were valued at HK\$179.93 million as at 15 December 2004. A bad debt written off amounting to HK\$2.84 million was resulted. Furthermore, as part of the restructuring, other balances with the CC Group in net amount of HK\$1.85 million was also charged to the profit and loss account for the year.

The Paliburg Shares and the Preference Shares were classified as short term investment and long term investment, respectively, and stated at the fair value of HK\$26.8 million and HK\$166.3 million, respectively, as at 31 December 2004.

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 ("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\$170 million, including the goodwill of HK\$58 million, as at 31 December 2004.

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

CHARGES ON THE GROUP'S ASSET

The Group's interest in associates has been pledged to a bank as security for a short term loan facility. As at 31 December 2004, the Group did not utilise this loan facility.

During the year ended 31 December 2004, the Group repaid all long term bank loans which were originally secured by the Group's land and buildings.

RISK MANAGEMENT

The Group has properly put credit management policies in place which cover the examination of 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 2004, all gross advances to customers were margin financing and amounted to HK\$157 million (2003: HK\$284 million) of which 24% (2003: 7%) 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 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 31 December 2004.

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 2004.

EMPLOYEES AND TRAINING

As at 31 December 2004, the total number of full-time employees was 129. The total staff costs for the year (excluding directors' fees) amounted to approximately HK\$44 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 2004 for all licensed staff members.