Management Discussion And Analysis

Business Review

In the first half of the year, the Group achieved an unaudited profit attributable to shareholders of HK$5.2 million (2004 restated: HK$6.9 million), representing a decrease of 24% over 2004 while the turnover of the Group fell approximately by HK$743 million to HK$100 million on a year-on-year comparison (2004: HK$843 million).

The Group continued to focus on its stockbroking and dealing businesses principally on the stocks listed on the Stock Exchange of Hong Kong as well as B shares listed on the Shanghai and Shenzhen Stock Exchanges. The stockbroking business contributed HK$20 million to the Group's turnover while the number of clients increased by 5% for the six months ended 30 June 2005.

In respect of fund raising activities, due to changes in investor appetite for new issues, Shenyin Wanguo Capital (H.K.) Limited, a wholly owned subsidiary of the Company, actively participated in big capitalization H share IPOs including the new issue of Shanghai Electric, Bank of Communications and China COSCO. In the area of advisory services, it acted as financial advisers to several listed companies including Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. and Shanghai Zendai Property Limited and as independent financial advisers to China Eastern Airlines in relation to its very substantial acquisition of Yunnan Airlines and Northwest Airlines.

Shenyin Wanguo Asset Management (Asia) Ltd. continued to develop the overseas institutional market. Following the success of the SYWG Aizawa 'A' Share Funds, a new SYWG – Aizawa Chinese Equity Prospective for Listing Fund specializing in pre IPOs, IPOs and listed shares of Chinese related companies was launched in June, again in collaboration with Aizawa Securities Co., Ltd. in Japan, with the fund size of the first phase in the sum of US$18 million. A new team has joined this Company in June 2005, targeting the retail investors' market. They will set up a new fund with the theme of value investing and also provide discretionary account management services.

Market Review

Hong Kong economy grew solidly in the first half of 2005 as revealed in notable growth in consumer demand, renewed increase in investment and a generally brisk export performance. In the first quarter of 2005, Gross Domestic Product grew by 6% in real terms over a year earlier. In comparison with our neighboring economies in the region, the growth performance of Hong Kong is encouraging.

Local consumption demand held firm along with the more entrenched economic recovery and improving labour market. The unemployment rate fell steadily to below 6% in June 2005 following the increase in domestic consumer spending, vibrant inbound tourism, remarkable growth in external trade and rebound in property market. According to the Hong Kong's Composite Consumer Price Index, overall consumer prices raised by 1.2% in June 2005 over a year earlier. Return of resilient local consumer and business confidence has been clearly evident.

The local stock market, having stayed upbeat in 2004, consolidated in the first quarter of 2005, amidst a generally cautious investment sentiment. With solid growth momentum of the Hong Kong economy, the local stock market rebounded in the second quarter of 2005. For the first six months ended June this year, the turnover value of the Hong Kong stock market reached HK$2,027.5 billion representing a year-on-year increase of 0.97%. The benchmark Hang Seng Index closed at 14,201 at end-June 2005 which was 15.6% higher than that at end-June 2004. By period end, the Hang Seng China Enterprises Index ended 4,861.9 points, representing an increase of 13.3% when compared to the corresponding period of last year.

B-share activity remained mixed 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 84.0 (63.7) and 276.8 (211.6), respectively, during the period. The average daily turnover of the B-shares declined to RMB 80.2 million from RMB 136.7 million for the Shanghai Stock Exchange and increased to RMB 203.3 million from RMB 179.8 million on the Shenzhen Stock Exchange, respectively, over the same period as last year.

Looking Ahead

The Hong Kong economy will continue to grow steadily in the second half of the year with the momentum gathering force following the new exchange policy of RMB and further relaxation of holding fund by the mainland visitors. Capital inflows may give a boost to Hong Kong Market. The rapid growth in tourism, particularly after the opening of Hong Kong Disneyland, will boost retails sales and lift consumer sentiments.

However, as Hong Kong is an externally oriented economy, the unfavourable factors in external environment will exert significant impact on the economy of Hong Kong. Apart from rising interest rate, volatility in commodity prices, sustained higher crude oil prices and weaker regional economy outlook, different assessment towards Mainland China economic cycle and industry business cycle may also bring uncertainties to investment sentiments of Hong Kong.

Our Group is a Hong Kong based securities firm, specializing in stockbroking and dealing businesses principally on the stocks listed on the Stock Exchange of Hong Kong as well as B shares listed on the Shanghai and Shenzhen Stock Exchanges. Although we anticipate a steady upward economic growth, we remain cautious of the economy's exposure to external shocks since the economy transformation is still underway.

In this 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 businesses for our Group and our parent company. 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.

Capital Structure

During the period, there was no change to the share capital of the Company. As at 30 June 2005, the total number of the issued ordinary shares was 530,759,126 shares and total equity attributable to shareholders was HK$712 million.

Liquidity and Financial Resources

As at 30 June 2005, the Group had a cash holding of HK$93 million and short term marketable securities of HK$56 million. As at 30 June 2005, the Group's total unutilised banking facilities amounted to HK$590 million, of which HK$187 million could be drawn down without the need of notice nor completion of condition precedent.

As at 30 June 2005, the Group had no outstanding borrowings and the liquidity ratio (current assets to current liabilities) was 1.43.

The Group has sufficient financial resources for its day to day operations and capital expenditure 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% of the net profit generated by SCECL which are derived from the financial statements of SCECL. The interests in associates had a carrying value of HK$118 million as at 30 June 2005.

During the period, the Group did not have any material acquisition and disposal.

Charges on the Group's Asset

The Group's interest in associates has been pledged to a bank as security for a stand-by short term loan facility. As at 30 June 2005, the Group did not utilise this stand-by loan facility.

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 30 June 2005, the advances to customers included direct loans of HK$0.05 million (31 December 2004: Nil) and margin financing of HK$143 million (31 December 2004: HK$157 million). All direct loans were advanced to individual borrowers. In respect of margin financing, 13% (31 December 2004: 24%) 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 30 June 2005.

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 2005.

Employees and Training

As at 30 June 2005, the total number of full-time employees was 126. 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 organize a Continuous Professional Training seminar in September 2005 for all licensed staff members.