

REVIEW OF OPERATIONS

Securities Trading and Broking

In 2005, Shenyin Wanguo Securities (H.K.) Limited (“SW Securities”), a wholly-owned subsidiary of the Company, continued to focus on its securities trading and broking businesses principally on the stocks listed on the Stock Exchange of Hong Kong as well as B shares listed on Shanghai and Shenzhen Stock Exchanges. The whole stockbroking sector improved because of the upturn of the Hong Kong economy that became evident in the second quarter of 2005 and extended into the second half of 2005. 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 2005 by capitalizing on its expertise and resources in this area. A number of marketing campaigns were organized in 2005 with a view to marketing mainland stocks to clients and market practitioners. The stockbroking business contributed to approximately HK\$46.5 million to the Group’s turnover in 2005 with the number of clients growing 13.6% for the year ended 31 December 2005.

Securities Financing

In 2005, the Group recorded interest income of approximately HK\$28.3 million (2004: HK\$27.4 million), an increase of 3.3%, mainly due to the higher deposit interest rate in the current year, the impact of which was partially offset by the reduction in average loan amount of securities financing. Just like past years, the Group will continue to exercise caution in the granting of securities financing packages to clients, carefully monitor its credit policy in this regard, perform 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 2005, SW Capital acted as the sponsor to Shanghai Donghua Petrochemical Co., Ltd. for its listing on the Growth Enterprise Market of the Hong Kong Stock Exchange. It also actively participated in the underwriting of new issues, including that of Shanghai Electric Group Company Limited, Bank of Communications Co., Ltd., China Construction Bank Corporation, China COSCO Holdings Company Limited, Dongfeng Motor Group Company Limited, Xiamen International Port Co., Ltd. and The Link Real Estate Investment Trust. With regard to corporate advisory services, SW Capital was appointed as financial adviser to Shanghai Zendai Property Limited and Shanghai Qingpu Fire fighting Equipment Co., Ltd. Besides, SW Capital acted as independent financial adviser to China Eastern Airlines in relation to its very substantial acquisition of Yunnan Airlines and Northwest Airlines.

REVIEW OF OPERATIONS *(Cont'd)*

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 2005, a total of 20 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

We continue to develop the Japanese market and expand our product range. We have successfully launched, also in collaboration with Aizawa Securities, the Shenyin Wanguo-Aizawa Chinese Equities Prospective For Listing Fund. The Fund primarily invests in IPOs and pre-IPOs of Chinese companies, which is defined as 'companies with not less than 50% earnings and/or assets derived from/located in China', while no restriction is imposed on the listing domicile of the companies' equity.

Year 2005 saw a basically flat year for China stocks listed in Hong Kong but a significant turning point for the domestic A share market. With the successful implementation of the non-tradable share reform, interest of major and minority shareholders are being re-aligned and value would be easier to unlocked through merger and acquisition activities. Despite undertaking by the CSRC to gradually issue additional US\$6 billion worth of new QFII quota, supply of quota remained extremely tight, which indicated strong demand for quality domestic, A share companies by foreign institutional investors.

CAPITAL STRUCTURE

During the year, there was no change to the share capital of the Company. As at 31 December 2005, the total number of the issued ordinary shares was 530,759,126 shares and total equity attributable to shareholders was HK\$690 million.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2005, the Group had a cash holding of HK\$114 million and short-term marketable securities of HK\$40 million. As at 31 December 2005, the Group's total unutilised banking facilities amounted to HK\$510 million, of which HK\$122 million could be drawn down without the need of notice nor completion of condition precedent.

As at 31 December 2005, the Group had no outstanding borrowings and the liquidity ratio (current assets to current liabilities) was 1.5.

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 ("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\$102.9 million as at 31 December 2005.

At the balance sheet date, the Group held 2,651,472,241 convertible non-voting redeemable preference shares of Century City International Holdings Limited ("CCIH") ("the Preference Shares"). The Preference Shares may be converted into fully paid CCIH ordinary shares on the basis of one CCIH ordinary share for one Preference Share. The Preference Shares can be converted into fully paid CCIH ordinary shares, in stages starting from 15 December 2006, up to 15 December 2009. CCIH has the right to redeem all or part of the Preference Shares at the rate of HK\$0.15 for every Preference Share. The Preference Shares are stated at the fair value of HK\$186.2 million as at 31 December 2005.

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

CHARGES ON THE GROUP'S ASSET

The Group's interests in associates has been pledged to a bank as security for a stand-by short-term loan facility. As at 31 December 2005, the Group did not utilise this stand-by loan facility.

RISK MANAGEMENT

The Group has properly put in place credit management policies 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 minimize any risk that the Group may encounter. As at 31 December 2005, the advances to customers included direct loans of HK\$0.03 million (2004: Nil) and margin financing of HK\$146.99 million (2004: HK\$156.82 million). All direct loans were advanced to individual borrowers. In respect of margin financing, 13% (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 31 December 2005.

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 2005.

EMPLOYEES AND TRAINING

As at 31 December 2005, the total number of full-time employees was 119. The total staff costs for the year (excluding directors' fees) amounted to approximately HK\$42.3 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 2005 for all licensed staff members.