MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of the year, the Group achieved an unaudited profit attributable to shareholders of HK$50.23 million (2005 : HK$5.22 million), representing an increase of 862% over 2005 while the turnover of the Group raised approximately by HK$59 million to HK$159 million on a year-on-year comparison (2005: HK$100 million).

The Group continued to focus on its stockbroking businesses principally on the stocks listed on the Stock Exchange of Hong Kong Limited as well as B shares listed on the Shanghai and Shenzhen Stock Exchanges. The stockbroking business contributed HK$38 million to the Group's revenue while the number of clients increased by 17% for the six months ended 30 June 2006.

In the first half of 2006, Bank of China Limited served as the core focus of capital raising activities and the market sentiment for subscribing new shares remained strong. Shenyin Wanguo Capital (H.K.) Limited, a wholly-owned subsidiary of the Company, respectively participated in the initial public offering ("IPO") of large H shares of Bank of China Limited, Dalian Port (PDA) Company Limited and Shanghai Prime Machinery Company Limited as well as in the issue of new shares of Champion Real Estate Investment Trust and Golden Eagle Retail Group Limited etc. Besides, Shenyin Wanguo Capital (H.K.) Limited acted as a financial adviser to several listed companies including Shanghai Donghua Petrochemical Co, Ltd., Shanghai Zendai Property Limited and Wai Yuen Tong Medicine Holdings Limited.

First quarter of 2006 saw very strong performance out of offshore listed (non A & B shares) Chinese equities driven by excess global liquidity pouring into emerging markets, including high energy and commodity prices, given that large proportion of offshore listed Chinese equities are commodity based enterprises. Performance of domestic listed A shares, caught up in the second quarter as positive results of the non trade-able share reform (management incentivised to maximize shareholders' value, merger & acquisition made possible) have started to emerge. All funds and segregated portfolios under management have recorded good performance as a result.

Against such backdrop, business development focus in second half 2006 will be to further penetrate and capture new institutional clients in existing markets as well as to develop new markets where expertise in investment in China are in good demand.

Market Review

The Hong Kong economy maintained a stable momentum of development in the first half of 2006, which was evidenced by a 5.2% growth in Gross Domestic Product ("GDP"), a 5.0% growth in local consumption and a 4.3% growth in fixed capital formation in the second quarter as compared to the corresponding period of last year. In the first half of 2006, Hong Kong's overall exports and imports of goods increased by 10.2% and 10.1%, respectively. According to the published statistics, the unemployment rate between April and June 2006 stayed at 5.0%, a further drop of 1% as compared with 6% of last year.

As benefited from the continuous upturn of the overall economy, the Hong Kong securities market traded actively. The Stock Exchange recorded an average daily turnover of HK$32.2 billion between January and June this year, a rise of 77% from that of last year. The IPO of Bank of China Limited raised HK$87.6 billion and its successful listing on the Stock Exchange on 1 June 2006 set a historic record for the largest IPO financing activity of the Stock Exchange. Between January and June this year, funds raised in the Hong Kong securities market amounted to HK$112 billion, driving up the market values of Hong Kong-listed securities to over HK$10 trillion.

In the first half of this year, the Group, by adjusting its business strategies and leveraging on its deep understanding of the PRC Mainland market, spared no effort in developing the market of institutional customers and local retail clients, and the progress was proved to be satisfactory. The Group further enhanced its cooperation with the parent company in the scope of research and dedicated to improve its services with a focus on the provision of professional consultancy services for customers investing in red-chip China enterprises stock. We also strived to propose PRC Mainland enterprises for listing in Hong Kong and providing various consultancy services for listed state-owned enterprises and such businesses have achieved substantial progress.

B-share activity picked up during the first six months of the year. However, a moratorium on new issues remained in place. The B-share indices on the Shanghai and Shenzhen Stock Exchanges reached highs (and lows) of 101.4 (62.9) and 324.1 (199.2), respectively, during the period. The average daily turnover of the B-shares increased to RMB220.6 million from RMB80.2 million for the Shanghai Stock Exchange and increased to RMB299.5 million from RMB203.3 million for the Shenzhen Stock Exchange, respectively, over the same period as of last year.

Looking Ahead

The GDP growth rate of the PRC Mainland in the first half of this year reached 10.3%, which provided staunch support for the expansion of the Hong Kong economy. It is anticipated that the continuous development of the PRC Mainland economy, and with support of the government policies, will add impetus to the future growth of the Hong Kong economy. According to the business prospect survey conducted by the Census and Statistics Department of Hong Kong, 38% of the respondents expected the business situation to be better in the third quarter over the second quarter this year, as compared to a mere 6% expecting it to be worse. All respondents expected an increase in turnover or output in the third quarter over the second quarter.

The implementation of QDII policy of the PRC Mainland and the anticipation for RMB appreciation will give a boost to Hong Kong market which is expected to be revealed in the second half of the year. The forth-coming financing activities of large state-owned enterprises, such as Industrial and Commercial Bank of China, will also push up the market values of the Hong Kong securities market. It is expected that the Hong Kong securities market will remain active in the second half of the year.

However, it should be noted that macro-economic measures of the Central Government, interest rate policies of the US Federal Reserve, fluctuations in commodity prices, sustained high oil prices and regional conflicts may have an unfavourable impact on the Hong Kong securities market in the second half of the year.

In this environment, we will take a conservative approach in our proprietary trading, provision of margin financing to clients and business expansion while prudent cost controls will remain in place. At the same time, the Group will continue to proactively tap business opportunities to provide financial advisory and capital raising services to PRC Mainland enterprises, strengthen our traditional stockbroking business and maintain high liquidity to respond to opportunities which may arise at any time. Further, we will continue to work closely with our parent company, SWSC, in co-marketing efforts on various aspects, in order to strengthen the existing institutional brokerage business of the Group and the parent company as well as establish new institutional brokerage business. The Group will continue to recruit sales professionals to maintain our market share and increase 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 2006, the total number of the issued ordinary shares was 530,759,126 shares and total equity attributable to shareholders was HK$754 million.

Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2006, the Group had a cash holding of HK$93.4 million and short-term marketable securities of HK$11.9 million. As at 30 June 2006, the Group's total unutilised banking facilities amounted to HK$515 million, of which HK$100 million could be drawn down without the need of notice nor completion of condition precedent.

As at 30 June 2006, the Group had no outstanding borrowings and the liquidity ratio (current assets to current liabilities) was 1.45.

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% 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$104.2 million as at 30 June 2006.

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$176.3 million as at 30 June 2006.

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 2006, 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 minimise any risk that the Group may encounter. As at 30 June 2006, the advances to customers included direct loans of HK$0.03 million (31 December 2005: HK$0.03 million) and margin financing of HK$254.21 million (31 December 2005: HK$146.99 million). All direct loans were advanced to individual borrowers. In respect of margin financing, 10% (31 December 2005: 13%) 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 revenue. 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 income statement. 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 2006.

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 2006.

Employees and Training

As at 30 June 2006, the total number of full-time employees was 122. The total staff costs for the period (excluding directors' fees) amounted to approximately HK$30.96 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 2006 for all licensed staff members.