

REVIEW OF OPERATIONS

Securities Broking

The Group focused its securities broking business on the stocks and futures market in Hong Kong as well as the B-share market in Chinese Mainland. In 2006, the markets of Chinese Mainland and Hong Kong were fairly active ending with a strong growth in turnover, indexes of which hit new high. As a result, the brokerage income of Hong Kong stocks also saw a great leap. The Hang Seng Index surged by 34.2% from 14876 at the beginning of the year to 19964 at the end, while the Hang Seng China Enterprises Index skyrocketed from 5330 to 10340 with the growth rate 94.0%. The average daily turnover of the Hong Kong Stock Exchange also increased from HK\$18.2 billion to HK\$33.6 billion. At the same time, one of our sales team, which joined the Group in 2005, has increased profit contribution. Furthermore, we have achieved remarkable success in expanding our client base of local and overseas institutional investors during the year as a result of our vigorous marketing efforts. The active participation of retail investors in stocks market was also a driving force of the increase of our market share in the Hong Kong Stock Exchange in 2006. In addition, a booming IPO market earned us considerable placing and underwriting commission.

The futures and options brokerage commission of the Group also enjoyed a huge surge for the same reason.

The brokerage business for the year recorded an income of HK\$85.7 million, increased by 84.3% as compared to HK\$46.5 million last year.

Securities Financing

The competition in the securities financing business remained keen during the year, leading to a downward adjustment for margin loan rate. To mitigate impact of reduced interest rate on our revenue, we successfully secured loans from banks at favourable rates. We also adopted a prudent and flexible credit policy to take advantage of the growing need of margin loan for IPO application and secondary market trading and successfully increased the total amount of margin loans. As a result, profit from financing activities increased significantly despite a reduced margin loan rate, most of all, no provision for bad debts was required for the year.

The Group recorded an interest income of HK\$48.5 million in 2006, representing an increase of 71.4%, as compared to HK\$28.3 million last year.

The Group will continue to exercise caution in the granting of securities financing to clients, closely monitor its credit policy and perform regular reviews and assessment on the gearing level, investment portfolio and credit record of individual borrowers.

Corporate Finance

In 2006, the main focus of equity capital markets in Hong Kong was the new issues of major PRC banks including Industrial and Commercial Bank of China Limited, Bank of China Limited and China Merchants Bank Company Limited. The Group participated in all of the above new issues as well as in the IPOs of Shanghai Prime Machinery Company Limited, Dalian Port (PDA) Company Limited, Champion Real Estate Investment Trust, Shanghai Jin Jiang International Hotels (Group) Company Limited, Haitian International Holdings Limited, Modern Beauty Salon Holdings Limited, SPG Land (Holdings) Limited, Golden Eagle Retail Group Limited and Kingboard Laminates Holdings Limited. In addition, the Group acted as financial adviser to several listed companies including Shanghai Donghua Petrochemical Co., Ltd., Shanghai Zendai Property Limited and Wai Yuen Tong Medicine Holdings 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, 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, which are circulated to our clients. In 2006, a total of 21 investment analysts from S&W joined our exchange programs. They familiarized 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 the research and investment banking fronts.

Asset Management

With the phenomenal performance of Chinese equity markets in 2006, couple with satisfactory investment returns from our Shenyin Wanguo-Aizawa Chinese Equities Prospective For Listing Fund and Shenyin Wanguo-Aizawa China A Share Fund, asset under management almost doubled in year 2006.

We remain optimistic on both primary and secondary markets for Chinese equities in 2007 at the back of strong economics and business fundamentals. Chinese equity valuation would continue to be supported by earnings growth and improving return on capital.

We have strengthened our coverage of the Japanese market, as well as expanded our business development initiative to cover other Asian institutional markets such as Korea and Malaysia, with a view to established more business relationships and to launch more new products that cater for different investors.

CAPITAL STRUCTURE

During the year, there was no change to the share capital of the Company. As at 31 December 2006, the total number of the issued ordinary shares was 530,759,126 shares and total equity attributable to shareholders was HK\$797 million.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2006, the Group had a cash holding of HK\$75 million and short-term marketable securities of HK\$60 million. As at 31 December 2006, the Group's total unutilised banking facilities amounted to HK\$425 million, of which HK\$120 million could be drawn down without the need of notice nor completion of condition precedent.

As at 31 December 2006, the Group had no outstanding borrowings and the liquidity ratio (current assets to current liabilities) was 1.26.

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\$101.5 million as at 31 December 2006.

Early in the year, the Group held 2,651,472,241 non-voting convertible redeemable preference shares ("Preference Shares") in Century City International Holdings Limited ("Century City"). The Preference Shares can be converted into fully paid ordinary shares in Century City on the basis of one Preference Share for one ordinary share. During the year, pursuant to the relative terms of the Preference Shares, 662,868,060 Preference Shares were converted into the same number of fully paid ordinary shares in Century City ("Equity Shares"). The Equity Shares were recorded under the equity investments at fair value through profit or loss. As at the balance sheet date, the Group held 1,988,604,181 Preference Shares which were recorded at a fair value of HK\$150.8 million. The Preference Shares can be converted into fully paid ordinary shares in Century City during the period from 15 December 2007 to 15 December 2009 by batches, whereas Century City has the right to redeem any or all Preference Shares at HK\$0.15 per Preference Share.

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 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 eliminate any risk that the Group may encounter. As at 31 December 2006, all advances to customers were margin financing and amounted to HK\$351.9 million (2005: HK\$146.99 million) of which 9% (2005: 13%) was attributable to corporate borrowers with the remaining attributable to individual borrowers. There were no direct loans as at 31 December 2006 (2005: HK\$0.03 million).

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 31 December 2006.

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 2006.

EMPLOYEES AND TRAINING

As at 31 December 2006, the total number of full-time employees was 133 (2005: 119). The total staff costs for the year (excluding directors' fees) amounted to approximately HK\$90.3 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 organized a Continuous Professional Training seminar in September 2006 for all licensed staff members.