



# SHENYIN WANGUO (H.K.) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 218)

## FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

### RESULTS

The Directors of Shenyin Wanguo (H.K.) Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2005 with comparative figures for the previous financial year as follows:

### CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>2005</b> <b>HK\$</b>	2004 <i>HK\$</i> (Restated)
REVENUE	3	<b>182,549,570</b>	1,067,193,097
Other gains	4	<b>144,607</b>	417,353
Cost of trading securities sold		<b>(97,279,597)</b>	(961,544,597)
Employee benefits expenses		<b>(42,651,283)</b>	(44,000,984)
Depreciation and amortisation expenses		<b>(2,028,359)</b>	(8,181,734)
Interest expenses for financial services operations		<b>(954,361)</b>	(1,680,833)
Fair value losses on listed equity investments at fair value through profit or loss		<b>(3,837,822)</b>	(10,958,401)
Fair value gain on an unlisted financial instrument at fair value through profit or loss		<b>10,806,166</b>	–
Write-back of impairment provisions/ (write off and impairment provisions) for accounts receivable and loans and advances		<b>3,200,000</b>	(8,689,753)
Other expenses, net		<b>(30,667,760)</b>	(34,098,210)
Finance costs	5	–	(37,724)
Share of profits of associates		<b>8,636,045</b>	11,022,829
<b>PROFIT BEFORE TAX</b>	6	<b>27,917,206</b>	9,441,043
Tax	7	<b>(1,054,000)</b>	(385,433)
<b>PROFIT FOR THE YEAR</b>		<b><u>26,863,206</u></b>	<u>9,055,610</u>
<b>DIVIDEND</b>			
Proposed final		<b><u>5,307,591</u></b>	<u>5,307,591</u>
<b>EARNINGS PER SHARE</b>	8		
Basic		<b><u>5.06 cents</u></b>	<u>1.71 cents</u>
Diluted		<b><u>N/A</u></b>	<u>N/A</u>

## CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>2005</b> <b>HK\$</b>	2004 <b>HK\$</b> (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>9,854,882</b>	2,657,193
Prepaid land lease payments		<b>1,521,975</b>	1,562,925
Stock and Futures Exchange trading rights		<b>4,211,831</b>	4,211,831
Other assets		<b>6,511,573</b>	7,576,724
Interests in associates		<b>102,935,686</b>	112,263,878
Goodwill		<b>57,632,404</b>	57,632,404
Financial instruments/long term investments	9	<b>207,411,615</b>	166,281,413
Deferred tax assets		–	470,000
		<hr/>	<hr/>
Total non-current assets		<b>390,079,966</b>	352,656,368
<b>CURRENT ASSETS</b>			
Equity investments at fair value through profit or loss/ short term investments		<b>39,886,687</b>	80,106,715
Accounts receivable	10	<b>118,935,510</b>	348,625,679
Loans and advances		<b>133,847,128</b>	138,466,972
Tax recoverable		<b>1,122,767</b>	1,187,402
Deposits, prepayments and other receivables		<b>7,051,151</b>	6,923,514
Bank balances held on behalf of customers		<b>503,253,784</b>	606,120,896
Cash and cash equivalents		<b>114,014,555</b>	102,458,585
		<hr/>	<hr/>
Total current assets		<b>918,111,582</b>	1,283,889,763
<b>CURRENT LIABILITIES</b>			
Accounts payable	11	<b>600,779,985</b>	960,834,738
Tax payable		<b>91,523</b>	186,000
Other payables and accruals		<b>17,501,631</b>	23,896,604
		<hr/>	<hr/>
Total current liabilities		<b>618,373,139</b>	984,917,342
<b>NET CURRENT ASSETS</b>			
		<hr/>	<hr/>
NET CURRENT ASSETS		<b>299,738,443</b>	298,972,421
<b>Net assets</b>			
		<hr/>	<hr/>
Net assets		<b>689,818,409</b>	651,628,789
<b>EQUITY</b>			
Issued capital		<b>265,379,563</b>	265,379,563
Reserves		<b>419,131,255</b>	380,941,635
Proposed final dividend		<b>5,307,591</b>	5,307,591
		<hr/>	<hr/>
Total equity		<b>689,818,409</b>	651,628,789
		<hr/>	<hr/>

Notes:

## 1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations (“HK-Int”)) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Companies Ordinance, and are in compliance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation adopted in the preparation of these financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except that in the current year, the Group has adopted the following new and revised HKFRSs for the first time:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39	Amendment Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 28, 33, 37 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s financial statements.

- HKAS 1 has affected the presentation in the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group’s share of tax attributable to associates was presented as a component of the Group’s total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group’s share of the post-acquisition results of associates is presented net of the Group’s share of tax attributable to associates.
- HKAS 24 has expanded the definition of related parties and affected the Group’s related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

**(a) HKAS 17 – Leases**

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

**(b) HKAS 32 and HKAS 39 – Financial Instruments**

*(i) Equity securities*

In prior years, the Group classified its investments in equity securities held for non-trading purposes as long term investments and they were stated at their fair values on an individual basis with gains and losses recognised as movements in the investment revaluation reserve. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK\$166,281,413 are designated as available-for-sale investments of HK\$227,708,436 with an embedded derivative liability of HK\$61,427,023 under the transitional provisions of HKAS 39. Accordingly, the available for-sale investments are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment and the embedded derivative liability is stated at fair value with gains and losses being recognised in the income statement.

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and they were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK\$80,106,715 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities.

*(ii) Club debentures*

In prior years, the Group classified its club debentures as non-current other assets, which were held for non-trading purposes and were stated at cost less impairment losses, on an individual basis. Upon the adoption of HKAS 39, these club debentures held by the Group at 1 January 2005 in the amount of HK\$2,470,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and are accordingly stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

The adoption of HKAS 39 has not resulted in any change in the measurement of these investments.

*(iii) Accrued interest expense of the associates*

In prior years, an interest-free amount representing the accrued interest expenses of loans from minority equity owner of the associates were stated at cost. Upon the adoption of HKAS 39, the accrued interest expenses are recognised initially at fair value less attributable transaction costs. Subsequent to the initial recognition, the accrued interest expenses are stated at amortised cost. This change in accounting policy has been accounted for by the associates by restating the accrued interest expenses, net of tax, of loans from minority equity owner by way of an opening adjustment to its retained profits and minority interests as at 1 January 2005.

As a result, adjustment has also been made in the Group's financial statements by way of an opening adjustment to the retained profits as at 1 January 2005 based on the Group's share of net assets in the associates.

**(c) HKAS 38 – Intangible Assets and HKAS 36 – Impairment of Assets**

In prior years, the Stock and Futures Exchange trading rights, being the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited (the "Trading Rights"), were amortised on the straight-line basis over their estimated useful life of 10 years and were subject to impairment testing when there was any indication of impairment.

The adoption of HKAS 38 and HKAS 36 has resulted in the Group determining the useful lives of the Trading Rights as indefinite, commencing reviewing the useful lives of the Trading Rights, ceasing annual amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

As a consequence, the Trading Rights is not amortised in the current year whereas the amortisation expense amounted to HK\$842,366 for the year ended 31 December 2004. In accordance with the transitional provisions of HKAS 38, comparative amounts have not been restated.

**(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets**

In prior years, goodwill arising on the acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill.

As a consequence, the Group's goodwill is not amortised in the current year whereas the amortisation expense amounted to HK\$3,033,284 for the year ended 31 December 2004. In accordance with the transitional provisions of HKFRS 3, the comparative amounts have not been restated.

## 2. SEGMENT INFORMATION

The Group's revenue and results by business segments are as follows:

	Securities trading and investment holding		Securities broking and dealing		Securities financing and direct loans		Investment advisory services		Eliminations		Total	Total
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Segment revenue:												
External customers	101,298,446	966,087,450	46,490,033	63,088,347	28,307,277	27,391,229	6,453,814	10,626,071	-	-	182,549,570	1,067,193,097
Inter-segment	-	-	-	-	-	763,934	2,664,000	1,200,000	(2,664,000)	(1,963,934)	-	-
<b>Total</b>	<b>101,298,446</b>	<b>966,087,450</b>	<b>46,490,033</b>	<b>63,088,347</b>	<b>28,307,277</b>	<b>28,155,163</b>	<b>9,117,814</b>	<b>11,826,071</b>	<b>(2,664,000)</b>	<b>(1,963,934)</b>	<b>182,549,570</b>	<b>1,067,193,097</b>
Segment results	8,361,916	(25,675,912)	(10,469,347)	4,743,802	23,105,999	19,844,777	(52,479)	4,505,115	-	-	20,946,089	3,417,782
Unallocated expenses											(1,664,928)	(4,961,844)
Finance costs											-	(37,724)
Share of profits of associates	8,636,045	11,022,829									8,636,045	11,022,829
Profit before tax											27,917,206	9,441,043
Tax											(1,054,000)	(385,433)
Profit for the year											<b>26,863,206</b>	<b>9,055,610</b>

The Group's revenue by geographical segments is as follows:

	2005 HK\$	2004 HK\$
The People's Republic of China		
Hong Kong	161,582,984	760,158,449
Mainland China	20,872,908	306,867,053
Others	93,678	167,595
	<b>182,549,570</b>	<b>1,067,193,097</b>

## 3. REVENUE

Revenue, which is also the Group's turnover, represents the aggregate of sales proceeds from securities and futures contracts trading, gross interest income, commission and brokerage income less rebates, income from rendering of services and dividend income. An analysis of revenue is as follows:

	2005 HK\$	2004 HK\$
Financial services:		
Sales proceeds from securities and futures contracts trading	99,695,457	964,008,748
Interest income from securities financing and direct loans	20,908,150	26,390,188
Commission and brokerage income	46,488,398	61,676,986
Income from rendering of services	6,453,293	12,093,479
	<b>173,545,298</b>	<b>1,064,169,401</b>

Others:		
Bank interest income	7,399,127	1,001,039
Dividend income from listed equity investments	1,546,345	1,952,040
Others	58,800	70,617
	<u>9,004,272</u>	<u>3,023,696</u>
	<u><b>182,549,570</b></u>	<u><b>1,067,193,097</b></u>
<b>4. OTHER GAINS</b>		
	<b>2005</b>	2004
	<b>HK\$</b>	<b>HK\$</b>
Exchange gains, net	<u><b>144,607</b></u>	<u>417,353</u>
<b>5. FINANCE COSTS</b>		
	<b>2005</b>	2004
	<b>HK\$</b>	<b>HK\$</b>
Interest on bank loans and overdrafts	<u><b>–</b></u>	<u>37,724</u>
<b>6. PROFIT BEFORE TAX</b>		
The Group's profit before tax is arrived at after charging/(crediting):		
	<b>2005</b>	2004
	<b>HK\$</b>	<b>HK\$</b>
		(Restated)
Depreciation	2,028,359	4,306,084
Amortisation of goodwill	–	3,033,284
Amortisation of Stock and Futures Exchange trading rights	–	842,366
Interest expenses for financial services operations on bank loans and overdrafts	954,361	1,680,833
Net realised losses/(gains) on trading of listed equity investments and futures contracts	(2,405,070)	7,041,622
Net realised gains on disposal of available-for-sale investments	<u><b>( 10,790)</b></u>	<u>(9,505,773)</u>
<b>7. TAX</b>		
Provision for Hong Kong profits tax has been made at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.		
	<b>2005</b>	2004
	<b>HK\$</b>	<b>HK\$</b>
		(Restated)
Current – Hong Kong		
Charge for the year	91,523	367,000
Underprovision in prior years	492,477	18,433
Deferred	470,000	–
Total tax charge for the year	<u><b>1,054,000</b></u>	<u><b>385,433</b></u>

The share of tax attributable to associates amounting to HK\$1,173,519 (2004: HK\$2,012,075) is included in the share of profits of associates.

## 8. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year of HK\$26,863,206 (2004: HK\$9,055,610) and 530,759,126 (2004: 530,759,126) ordinary shares in issue during the year.

### (b) Diluted earnings per share

No diluted earnings per share has been presented for the current and prior years because there was no dilutive potential ordinary shares in existence during the years ended 31 December 2005 and 2004.

## 9. FINANCIAL INSTRUMENTS/LONG TERM INVESTMENTS

	2005 HK\$	2004 HK\$
Available-for-sale investments:		
Listed equity investments in Hong Kong at fair value	18,786,000	–
Unlisted equity investment in Hong Kong at fair value/ long term investment	236,776,472	166,281,413
Unlisted club debentures at fair value	2,470,000	–
	<u>258,032,472</u>	166,281,413
Embedded derivative liability on an unlisted equity investment at fair value	(50,620,857)	–
	<u>207,411,615</u>	<u>166,281,413</u>

During the year, the gross gain of the Group's available-for-sale investments recognised directly in equity amounted to HK\$11,380,532 (2004: HK\$9,961,413).

During the year, the fair value gain of the Group's embedded derivative liability on an unlisted equity investment recognised in income statement amounted to HK\$10,806,166 (2004: Nil).

## 10. ACCOUNTS RECEIVABLE

	2005 HK\$	2004 HK\$
Accounts receivable	142,742,459	370,456,921
Less: Impairment	( 23,806,949)	( 21,831,242)
	<u>118,935,510</u>	<u>348,625,679</u>



An aged analysis of accounts receivable is as follows:

	<b>2005</b> <i>HK\$</i>	2004 <i>HK\$</i>
Current to 30 days	<b>112,909,487</b>	343,619,256
31 to 60 days	<b>2,173,340</b>	1,167,619
61 to 90 days	<b>2,895,925</b>	742,887
Over 90 days	<b>24,763,707</b>	24,927,159
	<b><u>142,742,459</u></b>	<b><u>370,456,921</u></b>

The Group allows a credit period up to the settlement day of the respective securities and commodities transactions or a credit period mutually agreed with the contracting parties. In view of the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Overdue accounts receivable from cash clients of HK\$47,891,467 (2004: HK\$34,266,840) bears interest at interest rates with reference to prime rate.

Included in the accounts receivable balance as at 31 December 2005 is a trade receivable amount due from a substantial beneficial shareholder of the Company, Shenyin & Wanguo Securities Co., Ltd. ("SWSC"), of HK\$1,295,299 (2004: HK\$113,473,320) which arose from securities dealing transactions. This balance is unsecured, interest-free and repayable on the settlement day of the relevant trades.

## 11. ACCOUNTS PAYABLE

An aged analysis of accounts payable based on the settlement day of the relevant trades is as follows:

	<b>2005</b> <i>HK\$</i>	2004 <i>HK\$</i>
Current to 30 days	<b><u>600,779,985</u></b>	<b><u>960,834,738</u></b>

Included in the accounts payable balance as at 31 December 2005 is a broker payable amount due to a substantial beneficial shareholder of the Company, SWSC, of HK\$9,104,695 (2004: HK\$26,184,888) which arose from securities dealing transactions. This balance is unsecured, interest-free and payable on the settlement day of the relevant trades.

Included in the accounts payable balance as at 31 December 2005 is segregated client money held on behalf of another substantial beneficial shareholder, Shenyin Wanguo (H.K.) Holdings Limited ("SWHKH"), of HK\$22,242,658 (2004: HK\$23,725,681) which also arose from securities dealing transactions. This balance is unsecured, bears interest at the bank deposit savings rate (2004: bank deposit savings rate) per annum and is payable on request.

Except for the accounts payable to clients of HK\$483,188,853 (2004: HK\$654,499,703), which bear interest at the bank deposit savings rate (2004: bank deposit savings rate) per annum and is payable on demand, the remaining accounts payable are non-interest-bearing and payable on the settlement day of the relevant trades.

## 12. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

## **DIVIDEND**

The Directors have resolved to recommend the payment of a final dividend of HK1 cent per ordinary share in respect of 2005, to shareholders whose names appear on the register of members of the Company on 19 May 2006. The proposed dividend will be paid on or about 26 May 2006 subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 15 May 2006 to Friday, 19 May 2006, both days inclusive, during which period no transfers of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars, Tengis Limited, at Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Friday, 12 May 2006.

## **MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE**

### **Review of market in 2005**

Hong Kong economy maintained the momentum of development in 2005, which was evidenced by a 7.3% growth (2004: 8.6%) in Gross Domestic Product ("GDP"). Exports of goods and services displayed a remarkable growth, investments in fixed assets continued to increase, employment condition improved significantly and consumer confidence kept rebounding. According to the statistics of the Hong Kong SAR government, Hong Kong's nominal GDP for the last year has exceeded the peak in 1997 and was at a record high of HK\$1,382.2 billion.

The continued growth of the PRC economy and staunch support to Hong Kong's policies from the Central Government have contributed to the recovery of the Hong Kong economy. In 2005, the GDP of the PRC was RMB182,300, increased by 9.9% from last year and the consumer price index went up by 1.8%. Total export and import trade generated US\$1,420 billion, representing an increase of 23.2%. Foreign direct investment reached US\$60.3 billion and the foreign exchange reserve totaled US\$818.9 billion at the end of the year. Through the partial opening of the RMB business to Hong Kong, further implementation of the CEPA and extension of the Individual Visit Scheme, the central government took concrete measures to promote the prosperous development of Hong Kong's financial, trade, tourism and commercial sectors.

Benefited from the continuous upturn of the overall economy, Hong Kong stock market traded actively in 2005. The Stock Exchange recorded an average daily turnover of HK\$18.2 billion for the year, up 13.7% from last year. Following the listing of various large scale state-owned enterprises in Hong Kong, such as Shenhua Energy, Shanghai Electric, Bank of Communications, China COSCO Holdings and China Construction Bank, the Hong Kong stock market set a new record for IPO financing and the funds raised in the year amounted to HK\$150 billion. As such, Hong Kong has become the most significant source for large scale state-owned enterprises in the PRC to seek for direct financing, and has surpassed Tokyo as Asia's largest and the world's third largest capital-raising market. According to the statistics of the Stock Exchange, the market capitalization of the stocks listed on the Stock Exchange as at the end of the 2005 amounted to HK\$8,100 billion, an increase of 22.3% as compared with last year.

Although the securities industry of Hong Kong has been benefited from the overall improvement in market condition, local brokerage firms are facing different challenges. In particular, the growth of the market share of large international brokerage firms and Hong Kong local banks are entering into the securities retailing market, small and medium-sized brokerage firms are under enormous pressure from competitions and the Group's market share was reduced from last year.

In spite of the fierce competition, the Group, by adjusting its business strategies and leveraging on its deep understanding of the PRC market, continued to improve its corporate governance and maintained a stringent cost control, thereby achieving sustained growth in corporate earnings and maximizing shareholders' value.

In view of the upward trend of the Hong Kong market's asset price, the influx of foreign capital and the improvement in the financial condition of local households and individuals, the Group has made satisfactory progress in business with its effort in developing the market for institutional customers and local retail clients. The Group further co-operated 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 aimed at proposing PRC Mainland enterprises for listing in Hong Kong and providing consultancy services for listed state-owned enterprises and such businesses have achieved substantial progress.

The Group has reinforced its corporate governance structure and has enforced the regulations laid down in the Company's Articles of Association. We have implemented new authorization system to reinforce internal control and legal compliance, which enhanced our efficiency in decision-making and our capability in risk control, and thereby laying a solid foundation for the system and long-term development of the Group.

## **REVIEW OF OPERATIONS**

### **Overall Review**

For the year ended 31 December 2005, the Group recorded a net profit of approximately HK\$26.9 million, representing an increase of 196.6% over 2004. The turnover dropped by 82.9% to HK\$183 million approximately (2004: HK\$1,067 million). The basic earnings per share increased by 196.6% to HK5.06 cents as compared to HK1.71 cents for the year 2004.

### **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.

## **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. Up to 25% of the 2,651,472,241 Preference Shares held can be converted into fully paid CCIH ordinary shares for each of the 4 calendar years starting from 15 December 2006. 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", 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.

### **FUTURE PLAN & PROSPECTS**

Looking forward, the annual GDP growth rate of the PRC in 2006 is expected to reach 8.0% and the annual average economic growth target for the next five years is set at 7.5% as mentioned by Premier Wen Jiabao in his Government Work Report presented in the 4th Conference of the 10th National People's Congress. In the Draft Outlines of 11th Five-Year Plan (十一五規劃綱要), Premier Wan expressed their support for Hong Kong to maintain its status as an international financial centre, trade and transport hub and stated that the CEPA between the PRC Mainland and Hong Kong and the Individual Visit Scheme will be further developed. It is anticipated that the continuous development of the PRC economy, and with the support of the government policies, will add impetus to the future growth of the Hong Kong economy.

It is also stated in the 2006 Policy Address of the Hong Kong SAR Government, by leveraging on the unique edge of having PRC Mainland as the hinterland and the global outlook and synchronizing in tandem with the pace of financial reform on the PRC Mainland, the financial and securities sector of Hong Kong shall proactively expand the RMB related businesses, improve Hong Kong's investment platform for qualified domestic investors, increase the scale of bond issuance for PRC Mainland enterprises in Hong Kong and reduce the transaction levy on securities, future and options contracts. The Hong Kong SAR Government is planning to take various measures to actively promote Hong Kong's brand name in financial services and provide an ideal platform for PRC Mainland funds and enterprises to reach out to the international market with our strengths in the stock and bond market and asset management businesses.

From the perspective of the nearby economic environments, even though the United States has weaseled out various adversities and maintained a steady growth in recent years, its heavy budget and trade deficit and the adjustment due to the surge in real estate price, as well as the issue of whether consumption can be supported by growing borrowings in the long run, have remained a deep concern of the global economy. The continuous growth in the economy of the eurozone and the recovery of the Japan economy from its long-time recession will be expected to benefit many other economic systems in Asia.

On the other hand, the impact of high oil prices and consecutive interest rate hikes of the US Federal Reserve is likely to reveal further this year. Local private consumption and investment expenditure may be hit by relatively high interest rate and oil prices while financial markets may fluctuate due to the inflamed tension in some regions, could possibly dampen the overall sentiment in the Hong Kong market. As estimated by the Hong Kong SAR Government, our economy will continue to grow in 2006 and the GDP will have an increase of 4.5% as compared with 2005, which is slightly higher than the average growth rate for the last decade. Inflation will still be moderate and there is an expected rise of 2-3% in Composite Consumer Price Index.

In the coming year, the Group, as a Hong Kong-listed security brokerage firm with a PRC Mainland background, will pay close attention to the development of the PRC Mainland and Hong Kong economy and adopt active and prudent business strategies based on the prevailing market environment and industry competition. We dedicate to maximize our market share and explore our institutional customer and retailing businesses. We will also consolidate our businesses for the PRC Mainland market and improve our services of the listing of PRC Mainland enterprises in Hong Kong and the financing and financial consultancy businesses. While making huge effort in business expansion, the Group will, with the concept of "legal, compliance and disciplined" operation, strengthen our risk management, improve corporate governance and promote a corporate culture of progressive and active development. By capitalizing our unique advantages, the Group will be able to sustain a healthy and steady growth in business.

Finally, I would like to take this opportunity to thank Mr. Qu Zihai, who resigned as a director on 31 December 2005, for his valuable contribution during his past services with the Company, also to express our sincere gratitude to all members of the Board of Directors and all our staff for their dedication, loyalty and contribution during the year, as well as all our shareholders and customers for their trust and support over the past year.

## **PURCHASE, REDEMPTION AND SALE OF LISTED SHARES**

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed shares during the year under review.

## **ANNUAL GENERAL MEETING**

The Annual General Meeting of the Company will be held at 9:00 a.m. on Friday, 19 May 2006 at The Dragon Room, The Hong Kong Bankers Club at 43rd Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting, which is expected to be published on or about 19 April 2006.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

To better the Company's transparency and accountability to the shareholders, the Company is, so far as practicable, committed to maintaining high standard of corporate governance. Save for the deviations from the following Code Provisions A.4.1 and A.4.2, the Company has met all the code provisions stipulated in Appendix 14, Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the financial year ended 31st December, 2005.

### **Code Provisions A 4.1 and A 4.2**

Code A 4.1 specifies that non-executive directors should be appointed for a specific term, subject to re-election.

Code A 4.2 specifies that all directors appointed to fill a casual vacancy should be subject to re-election by shareholders at the first general meeting after their appointment. Every director, should be subject to retirement by rotation at least once every three years.

Directors of the Company do not have specific term of appointment. However, in accordance with the existing Article 104 (A) of the Articles of Association of the Company, at each Annual General Meeting, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the number nearest to one-third shall retire from office.

In accordance with existing Article 95 of the Articles of Association of the Company, any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following Annual General Meeting of the Company and shall be eligible for re-election.

In compliance of Codes A4.1 and A4.2 in full, the Board has proposed the amendments to the existing Articles 95 and 104(A) of the Articles of Association of the Company for shareholders' approval at the forthcoming Annual General Meeting so that any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the first general meeting after appointment and shall be eligible for re-election. Also, every director shall be subject to retirement by rotation at least once every 3 years.



## **REVIEW BY AUDIT COMMITTEE**

The final results for the year ended 31 December 2005 of the Group have been reviewed by the audit committee.

The Board of Directors comprises Mr Feng Guorong, Mr Lu Wenqing, Mr Lee Man Chun Tony, Mr Guo Chun, Mr Ying Niankang, Mr Chang Pen Tsao, Mr Huang Gang, Mr Ng Wing Hang Patrick, Mr Kwok Lam Kwong Larry and Mr Zhuo Fumin.

On behalf of the Board  
**Feng Guorong**  
*Chairman*

Hong Kong, 31 March 2006

*A detailed results announcement containing all information required by paragraphs 45(1) to 45(8) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) in due course.*

Please also refer to the published version of this announcement in The Standard.