



# SHENYIN WANGUO (H.K.) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 218)

## FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

### RESULTS

The Directors of Shenyin Wanguo (H.K.) Limited (the “Company”) are pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006 with comparative figures for the previous financial year as follows:

### CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>2006</b> <b>HK\$</b>	<b>2005</b> <b>HK\$</b>
REVENUE	3	<b>324,550,665</b>	182,549,570
Other gains	4	<b>892,075</b>	144,607
Cost of trading securities sold		<b>(136,008,854)</b>	(97,279,597)
Employee benefits expenses		<b>(92,010,431)</b>	(42,651,283)
Depreciation expenses		<b>(4,370,568)</b>	(2,028,359)
Interest expenses for financial services operations		<b>(282,541)</b>	(954,361)
Fair value losses on listed equity investments at fair value through profit or loss		<b>(7,248,327)</b>	(3,837,822)
Fair value gains on available-for-sale investments		<b>48,314,483</b>	–
Fair value gain on an unlisted financial instrument at fair value through profit or loss		<b>33,291,492</b>	10,806,166
Write-back of impairment of accounts receivable and loans and advances		<b>1,700,000</b>	3,200,000
Other expenses, net		<b>(48,080,245)</b>	(30,667,760)
Share of profits of associates		<b>15,373,215</b>	8,636,045
<b>PROFIT BEFORE TAX</b>	5	<b>136,120,964</b>	27,917,206
Tax	6	<b>(6,232,000)</b>	(1,054,000)
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b><u>129,888,964</u></b>	<b><u>26,863,206</u></b>
<b>DIVIDENDS</b>			
Interim		<b>10,615,183</b>	–
Proposed final		<b>10,615,183</b>	5,307,591
Proposed special final		<b>10,615,183</b>	–
		<b><u>31,845,549</u></b>	<b><u>5,307,591</u></b>
<b>EARNINGS PER SHARE</b>	7		
Basic		<b><u>24.47 cents</u></b>	<b><u>5.06 cents</u></b>
Diluted		<b><u>N/A</u></b>	<b><u>N/A</u></b>

## CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>2006</b> <b>HK\$</b>	2005 <b>HK\$</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>10,392,535</b>	9,854,882
Prepaid land lease payments		<b>1,481,025</b>	1,521,975
Stock and Futures Exchange trading rights		<b>4,211,831</b>	4,211,831
Other assets		<b>9,166,148</b>	6,511,573
Interests in associates		<b>101,505,176</b>	102,935,686
Goodwill		<b>57,632,404</b>	57,632,404
Financial instruments	8	<b>161,456,719</b>	207,411,615
Total non-current assets		<b>345,845,838</b>	390,079,966
<b>CURRENT ASSETS</b>			
Equity investments at fair value through profit or loss		<b>59,652,809</b>	39,886,687
Accounts receivable	9	<b>876,790,453</b>	118,935,510
Loans and advances		<b>338,731,082</b>	133,847,128
Tax recoverable		–	1,122,767
Deposits, prepayments and other receivables		<b>9,341,496</b>	7,051,151
Bank balances held on behalf of customers		<b>877,894,325</b>	503,253,784
Cash and cash equivalents		<b>74,640,291</b>	114,014,555
Total current assets		<b>2,237,050,456</b>	918,111,582
<b>CURRENT LIABILITIES</b>			
Accounts payable	10	<b>1,706,674,184</b>	600,779,985
Tax payable		<b>5,368,333</b>	91,523
Other payables and accruals		<b>58,488,706</b>	17,501,631
Total current liabilities		<b>1,770,531,223</b>	618,373,139
<b>NET CURRENT ASSETS</b>		<b>466,519,233</b>	299,738,443
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>812,365,071</b>	689,818,409
<b>NON-CURRENT LIABILITIES</b>			
Other payables		<b>14,900,000</b>	–
Net assets		<b>797,465,071</b>	689,818,409
<b>EQUITY</b>			
Issued capital		<b>265,379,563</b>	265,379,563
Reserves		<b>510,855,142</b>	419,131,255
Proposed dividends		<b>21,230,366</b>	5,307,591
Total equity		<b>797,465,071</b>	689,818,409

Notes:

## 1. BASIS OF PREPARATION AND 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 Hong Kong 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 2005 except that in the current year, the Group has adopted the following new and revised HKFRSs for the first time.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	The Fair Value Option
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new and revised HKFRSs has had no material effect on the Group’s accounting policies and on these financial statements.

## 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		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue:												
External customers	145,458,717	101,298,446	85,731,023	46,490,033	48,527,909	28,307,277	44,833,016	6,453,814	-	-	324,550,665	182,549,570
Intersegment	-	-	-	-	-	-	4,550,000	2,664,000	(4,550,000)	(2,664,000)	-	-
Total	<u>145,458,717</u>	<u>101,298,446</u>	<u>85,731,023</u>	<u>46,490,033</u>	<u>48,527,909</u>	<u>28,307,277</u>	<u>49,383,016</u>	<u>9,117,814</u>	<u>(4,550,000)</u>	<u>(2,664,000)</u>	<u>324,550,665</u>	<u>182,549,570</u>
Segment results	<u>48,737,329</u>	<u>8,361,916</u>	<u>7,703,976</u>	<u>(10,469,347)</u>	<u>36,355,579</u>	<u>23,105,999</u>	<u>34,025,124</u>	<u>(52,479)</u>	<u>-</u>	<u>-</u>	<u>126,822,008</u>	<u>20,946,089</u>
Unallocated expenses											(6,074,259)	(1,664,928)
Share of profits of associates	15,373,215	8,636,045	-	-	-	-	-	-	-	-	15,373,215	8,636,045
Profit before tax											136,120,964	27,917,206
Tax											(6,232,000)	(1,054,000)
Profit for the year											<u>129,888,964</u>	<u>26,863,206</u>

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

	<b>2006</b> <i>HK\$</i>	2005 <i>HK\$</i>
The People's Republic of China:		
Hong Kong	<b>319,783,658</b>	161,582,984
Chinese Mainland	<b>4,614,126</b>	20,872,908
Others	<b>152,881</b>	93,678
	<b><u>324,550,665</u></b>	<b><u>182,549,570</u></b>

### 3. REVENUE

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

	<b>2006</b> <i>HK\$</i>	2005 <i>HK\$</i>
Financial services:		
Sales proceeds from securities and futures contracts trading	<b>144,416,228</b>	99,695,457
Interest income from securities financing and direct loans	<b>37,822,836</b>	20,908,150
Commission and brokerage income	<b>85,714,453</b>	46,488,398
Income from rendering of services	<b>44,833,016</b>	6,453,293
	<b><u>312,786,533</u></b>	<b><u>173,545,298</u></b>
Others:		
Bank interest income	<b>10,705,073</b>	7,399,127
Dividend income from listed equity investments	<b>961,487</b>	1,546,345
Others	<b>97,572</b>	58,800
	<b><u>11,764,132</u></b>	<b><u>9,004,272</u></b>
	<b><u>324,550,665</u></b>	<b><u>182,549,570</u></b>

### 4. OTHER GAINS

	<b>2006</b> <i>HK\$</i>	2005 <i>HK\$</i>
Exchange gains, net	<b><u>892,075</u></b>	<b><u>144,607</u></b>

## 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	<b>2006</b>	2005
	<b>HK\$</b>	HK\$
Interest expenses for financial services operations on bank loans and overdrafts	<b>282,541</b>	954,361
Net realised gains on trading of listed equity investments and futures contracts	<b><u>(8,407,374)</u></b>	<b><u>(2,405,070)</u></b>

## 6. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

	<b>2006</b>	2005
	<b>HK\$</b>	HK\$
Current – Hong Kong		
Charge for the year	<b>5,013,000</b>	91,523
Underprovision in prior years	<b>1,219,000</b>	492,477
Deferred	<b>–</b>	470,000
	<b><u>6,232,000</u></b>	<b><u>1,054,000</u></b>

The share of tax attributable to associates amounting to HK\$4,660,550 (2005: HK\$1,173,519) is included in "Share of profits of associates" on the face of the consolidated income statement.

## 7. EARNINGS PER SHARE

### (a) *Basic earnings per share*

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$129,888,964 (2005: HK\$26,863,206) and the 530,759,126 (2005: 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 share in existence during the years ended 31 December 2006 and 2005.

## 8. FINANCIAL INSTRUMENTS

	2006 <i>HK\$</i>	2005 <i>HK\$</i>
Available-for-sale investments, at fair value:		
Listed equity investments in Hong Kong	8,179,600	18,786,000
Unlisted equity investment	168,136,484	236,776,472
Unlisted club debentures	2,470,000	2,470,000
	<u>178,786,084</u>	<u>258,032,472</u>
Embedded derivative liability on the unlisted equity investment, at fair value	<u>(17,329,365)</u>	<u>(50,620,857)</u>
	<u><u>161,456,719</u></u>	<u><u>207,411,615</u></u>

During the year, the gross gain of the Group's available-for-sale investments recognised directly in equity amounted to HK\$38,423,430 (2005: HK\$11,380,532) and HK\$48,314,483 was released from equity and recognised in the income statement for the year.

During the year, the fair value gain on the Group's embedded derivative liability on an unlisted equity investment recognised in the income statement amounted to HK\$33,291,492 (2005: HK\$10,806,166).

## 9. ACCOUNTS RECEIVABLE

	2006 <i>HK\$</i>	2005 <i>HK\$</i>
Accounts receivable	898,897,402	142,742,459
Less: Impairment	<u>(22,106,949)</u>	<u>(23,806,949)</u>
	<u><u>876,790,453</u></u>	<u><u>118,935,510</u></u>

An aged analysis of accounts receivable as at the balance sheet date is as follows:

	2006 <i>HK\$</i>	2005 <i>HK\$</i>
Current to 30 days	864,207,755	112,909,487
31 to 60 days	7,590,242	2,173,340
61 to 90 days	314,180	2,895,925
Over 90 days	<u>26,785,225</u>	<u>24,763,707</u>
	<u><u>898,897,402</u></u>	<u><u>142,742,459</u></u>

Save for credit period allowed by the Group, the accounts receivable shall be due on the settlement day of the respective securities and futures contracts transactions. 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\$80,076,010 (2005: HK\$47,891,467) bear interest at interest rates with reference to the prime rate.

Included in the accounts receivable balance as at 31 December 2006 is a broker receivable amount due from a substantial beneficial shareholder of the Company, Shenyin & Wanguo Securities Co., Ltd. ("SWSC"), of HK\$8,304,972 (2005: HK\$1,295,299) which arose from securities dealing transactions. This balance is unsecured, interest-free and repayable on the settlement day of the relevant transactions.

## 10. ACCOUNTS PAYABLE

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

	2006 HK\$	2005 HK\$
Current to 30 days	<u>1,706,674,184</u>	<u>600,779,985</u>

Included in the accounts payable balance as at 31 December 2006 is a broker payable amount due to a substantial beneficial shareholder of the Company, SWSC, of HK\$11,468,709 (2005: HK\$9,104,695) which arose from securities dealing transactions. This balance is unsecured, interest-free and payable on the settlement day of the relevant transactions.

Included in the accounts payable balance as at 31 December 2006 is segregated client money held on behalf of another substantial beneficial shareholder, Shenyin Wanguo (H.K.) Holdings Limited (“SWHKH”), of HK\$23,439,627 (2005: HK\$22,242,658) which also arose from securities dealing transactions. This balance is unsecured, bears interest at the bank deposit savings rate (2005: bank deposit savings rate) per annum and is payable on request.

Except for the accounts payable to clients of HK\$861,067,320 (2005: HK\$483,188,853), which bear interest at the bank deposit savings rate (2005: 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 transactions.

## DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of HK2 cents and a special final dividend of HK2 cents per share in respect of 2006, to shareholders whose names appear on the register of members of the Company on 11 May 2007. The proposed dividends will be paid on or about 18 May 2007 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, 7 May 2007 to Friday, 11 May 2007, 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 and special final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Registrars, Tengis Limited, at 26/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong for registration by no later than 4:30 p.m. on Friday, 4 May 2007.

## MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE

### Review of market in 2006

2006 was a record-making year for the Hong Kong stock market as the Hang Seng Index surpassed the 20,000 mark for the first time in history while the Hang Seng China Enterprises Index set a record level of over 10,000 points with a year-on-year increase of more than 90%. In October 2006, the largest global IPO in history, the Industrial and Commercial Bank of China successfully listed on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”). Besides taking the value of the listed companies of the Hong Kong Stock Exchange to a new high of HK\$13 trillion, it also enabled the Hong Kong Stock Exchange to outperform the New York Stock Exchange in terms of fund raised and became the world’s second largest primary market.

Chinese Mainland's economic growth was the greatest support to the economic recovery of Hong Kong and the revitalization of its securities market. 2006 marked the first year of the "11th Five-Year Plan" of the PRC. Its GDP rose by 10.4%, another double-digit growth in four consecutive years and became the fourth largest in the world. In the past year, the Chinese Mainland's capital market underwent groundbreaking changes. The successful Share Reform Scheme of A-share listed companies corrected a structural defect in the Chinese Mainland's capital market and substantially changed investors' market expectations which in turn boosted an unprecedented robust A-share bull market in Chinese Mainland. In 2006, the Shanghai Stock Index increased 130%, ranking second in the world in terms of stock market increase rate.

The Group has long been leveraged on the unique edge of having Chinese Mainland as the hinterland and Hong Kong as the stepping stone for a prosperous global outlook. In 2006, the Group was able to capitalize on the opportunity resulting from the momentous changes in the stock markets of both the PRC and Hong Kong to achieve the best results since of the Group's operation in Hong Kong in 1993. Significant achievements have been made in our operations, such as securities broking, corporate finance, fund management and proprietary trading. The Group also had a noticeable increase in the market share in the Hong Kong stock market, with rapid growth in the institutional customer base. Coverage of our fund management business has expanded to the other regional markets such as Japan, Taiwan and Korea. Taking advantage of the active stock market, the Group's margin loan volume had a rather substantial increase as compared with the previous year.

In spite of fierce competition in the industry, the Group achieved the goals of continued growth in corporate profits and maximized shareholders' value by adjusting its business strategies, making full use of thorough understanding of the PRC market as well as implementing continued improvements in corporate management and strict cost control.

In view of the upward trend of the Hong Kong economy, the influx of foreign capital to Hong Kong on the backdrop of the expectation for Renminbi appreciation and the improvement in the financial conditions of Hong Kong's local families and individuals, the Group has expanded its business in the institutional customers and the local retail markets with satisfactory progress. The Group has further strengthened its cooperation with its parent company in the scope of research and strived to improve its services with a focus on continuing the provision of professional consulting services for customers investing in red-chips and state enterprises. The Group also had made substantial progress under its continued dedication in recommending the PRC enterprises to become listed in Hong Kong and providing listed state enterprises with various consultancy services.

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

## **REVIEW OF OPERATIONS**

For the year ended 31 December 2006, the Group recorded a net profit of approximately HK\$129.9 million, representing an increase of 380% over 2005. The turnover increased by 78% to approximately HK\$325 million (2005: HK\$183 million). The basic earnings per share increased by 380% to HK24.47 cents as compared to HK5.06 cents for last year.



## **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 made for the period.

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 investment at fair value through profit and loss account. 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 and Prospects”, 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.

## **FUTURE PLAN & PROSPECTS**

During the recently held "China Central Economic Works Conference", the focus of Chinese Mainland economy in 2007 would be "To fully implement development under a scientific manner, maintain stable and brisk economic development, and prevent drastic fluctuations". It is estimated that the Chinese Mainland economy will experience a stable and brisk development under proper austerity measures. Premier Wen Jiabao, during the National Financial Work Conference held early this year, raised that Chinese Mainland should work towards various directions such as substantial development in the capital market, active exploration and expansion on the channels and methods for the use of its foreign currency reserves and continued promotion of financial cooperation between the PRC and Hong Kong. This reflects that in 2007, participants in the stock markets of the PRC and Hong Kong will face a relatively moderate market environment.

In January 2007, the Hong Kong SAR Government published "China's 11th Five-Year Plan and the Development of Hong Kong" and proposed action agenda. In particular, the report of the financial focus group pointed out that since the PRC has already become one of the largest economies in the world and is still growing rapidly, it would be of significant strategic value for the PRC to have a world-class international financial centre. The report recommended Hong Kong to develop into the international financial centre of the PRC to enable more companies of Chinese Mainland to have their A-shares and H-shares listed simultaneously in Hong Kong. As such, Hong Kong can fully function as an international platform of Chinese Mainland's capital and play a more important role in assisting Chinese Mainland's continued reform and economic development. It is expected that in the coming year, with the gradual implementation of the policies and measures of the PRC's "11th Five-Year Plan" such as "Assisting the development of Hong Kong's financial industry" and "Maintaining Hong Kong's status as an international financial centre", the Hong Kong stock market will be full of more opportunities and challenges.

In the coming year, the Group, as a Hong Kong-listed security brokerage firm with a Chinese Mainland background, will pay close attention to the economic development of Chinese Mainland and Hong Kong and adopt active and prudent business strategies based on the prevailing market environment and industry competition. We are committed to maximizing our market share and expanding our institutional customer base and local retail businesses. We will also consolidate our businesses in the PRC market and further improve our businesses such as the listing of the PRC enterprises in Hong Kong and financing and financial consultancy services. In addition, we also strive to expand our overseas fund businesses, with Japan being our main target market, and at the same time, develop the fund markets in Taiwan and Korea. The Group will continue to employ the operation philosophy of "legal, compliance and discipline", strengthen our risk management, improve corporate governance and promote a corporate culture of progressive and active development. By capitalizing on 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 the Board of Directors and the Group's staff for their dedication, loyalty and contribution during the past year, as well as the Group's 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, 11 May 2007 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 17 April 2007.

## **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 Code Provisions A.4.1 and A.4.2 which are explained as below, the Company has met all the code provisions stipulated in Appendix 14, Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the financial year ended 31 December 2006.

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 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.

At the Annual General Meeting of the Company held on 19 May 2006, a special resolution was passed to amend the relevant Articles of Association of the Company which provide that every director appointed by the Board during the year shall retire at the next general meeting. Every director shall be subject to retirement by rotation at least once every 3 years. Code Provisions A.4.1 and A.4.2 have been fully complied with since 19 May 2006.

## **REVIEW BY AUDIT COMMITTEE**

The final results for the year ended 31 December 2006 of the Group have been reviewed by the audit committee.

## **PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT**

This results announcement is published on the Stock Exchange's website (<http://www.hkex.com.hk>) and the Company's website (<http://www.sywg.com.hk>). The 2006 annual report will be dispatched to the shareholders and will be available on websites of the Stock Exchange and the Company in due course.

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, 30 March 2007

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