Shenyin Wanguo (H.K.) Limited
申銀萬國(香港)有限公司
(Stock Code 股份代號: 218)

穩健發展、力創佳績

To perform better with steady development

2006
Annual Report
年報

Contents

DIRECTORS

Executive Directors

Feng Guorong *(Chairman)*
Lu Wenqing
Lee Man Chun Tony *(Chief Executive Officer)*
Guo Chun
Ying Niankang

Non-executive Directors

Chang Pen Tsao
Huang Gang

Independent Non-executive Directors

Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Zhuo Fumin

AUDIT COMMITTEE

Ng Wing Hang Patrick *(Chairman)*
Kwok Lam Kwong Larry
Zhuo Fumin

COMPANY SECRETARY

Wong Che Keung Leslie

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd., Hong Kong Branch
China Construction Bank (Asia) Corporation Limited
Chong Hing Bank Limited
Dah Sing Bank Limited
DBS Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
Public Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and
Shanghai Banking Corporation Limited

AUDITORS

Ernst & Young

SOLICITORS

Fred Kan & Co.

REGISTERED OFFICE

28/F Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

SHARE REGISTRARS & TRANSFER OFFICE

Tengis Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

It is my pleasure in presenting to the shareholders the annual report of Shenyin Wanguo (H.K.) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2006.

RESULTS

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 the year 2005.

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 ordinary share in respect of 2006 which, together with the payment of an interim dividend of HK2 cents per ordinary share in October 2006 will constitute a total dividend of HK6 cents per ordinary share for the full year of 2006. This represents an increase of 500% over the total dividend of HK1 cent per ordinary share for the year 2005.

REVIEW OF MARKET IN 2006

2006 was a record-making year for the Hong Kong stock market as the Hang Seng Index surpassed the 20000 mark for the first time in history while the Hang Seng China Enterprises Index set a record level of over 10000 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 as compared with the previous year, 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.

REVIEW OF MARKET IN 2006 *(Cont'd)*

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.

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.

FUTURE PLAN & PROSPECTS *(Cont'd)*

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.

Feng Guorong
Chairman

Hong Kong
30 March 2007

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 Preferences 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.

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 3 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.

CORPORATE GOVERNANCE PRINCIPLES AND SHENYIN WANGUO'S PRACTICES:

A.1 The Board of Directors

Principle: An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

Four board meetings were held in the financial year ended 31 December 2006. The following is the attendance record of the meetings:–

Name of Directors	Number of meetings attended	Attendance rate
Executive Directors		
Feng Guorong *(Chairman)*	4	100%
Lu Wenqing	4	100%
Lee Man Chun Tony *(Chief Executive Officer)*	4	100%
Guo Chun	4	100%
Ying Niankang	4	100%
Non-executive Directors		
Chang Pen Tsao *(by attorney Yeh Wei Kuo/ Cheng Chen Te/Huang Ching Hsiang)*	4	100%
Huang Gang	4	100%
Independent Non-executive Directors		
Ng Wing Hang Patrick	3	75%
Kwok Lam Kwong Larry	4	100%
Zhuo Fumin	4	100%

Drafts of the agenda are sent to directors for comment. They can include matters in the agenda for board meetings.

Notice of at least 14 days are given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice will be given.

Directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed.

Minutes of the board meetings, and meetings of the Audit Committee and the Remuneration Committee are kept by the Company Secretary. Minutes of other board committees (as listed under D.2 Board Committees) are kept by the appointed secretary of each committee. Such minutes are open for inspection during office hour by any director by giving at least 2 days' notice to the Company Secretary.

Minutes of the board meetings and meetings of board committees have recorded in sufficient detail the matters considered by the board and the committees and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes of the board are sent to all directors for their comment and records respectively, in both cases normally within one month after the board meeting is held.

The Company has established a policy for any director to seek independent professional advice in appropriate circumstances, at the Company's expenses. The director is required to submit a request in writing to the Chairman stating the grounds for seeking the independent professional advice. The Chairman shall either approve the director's request directly, or if thinks fit, convene a board meeting to resolve the matter.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter shall not be dealt with by way of circulation or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a board meeting) but a board meeting shall be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction shall be present at such board meeting.

A.2 Chairman and Chief Executive Officer

Principle: There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

To ensure a balance of power and authority, the role of Chairman is separate from that of Chief Executive Officer. Mr. Feng Guorong presently acts as the Chairman and Mr. Lee Man Chun Tony acts as the Chief Executive Officer.

Their respective responsibilities are clearly established. The Chairman is responsible for the management of the board whilst the Chief Executive Officer is responsible for day-to-day management of the Company's business including the implementation of significant strategies formulated by the board.

The Chairman shall ensure that all directors are properly briefed on issues arising at board meetings.

The Chairman is responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.

A.3 Board Composition

Principle: The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

During the financial year, the board of the Company is composed of 10 directors – 5 executive directors, 2 non-executive directors and 3 independent non-executive directors. Their names and titles are set out below:–

Executive Directors

Feng Guorong *(Chairman)*
Lu Wenqing
Lee Man Chun Tony *(Chief Executive Officer)*
Guo Chun
Ying Niankang

Non-executive Directors

Chang Pen Tsao
Huang Gang

Independent Non-executive Directors

Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Zhuo Fumin

All directors are expressly identified by categories of executive directors, non-executive directors and independent non-executive directors in all corporate communications that disclose the names of the directors of the Company.

A.4 Appointments, Re-election and Removal of Directors

Principle: There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Any director appointed by the board during the year shall retire at the next general meeting after his appointment. Also, every director shall be subject to retirement at least once every three years.

The Company has not established a nomination committee. The functions of appointment and removal of directors are performed by the board. Proposals for the appointment of a new director will be considered and reviewed by the board. The proposal for appointment of a new director is resolved either at meeting of directors in persons or by way of circulating resolutions among directors. The successful candidate must possess with the necessary experience or qualification which can help the board to direct the Company's business. In addition, the newly appointed director must be able to meet the criteria stipulated in Rules 3.08 and 3.09 of the Listing Rules. A director who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

A.5 Responsibilities of Directors

Principle: Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Every newly appointed director of the Company shall receive guidance materials from the Company Secretary upon his appointment. The guidance materials comprise the group chart, annual report and a booklet relating to the duties and responsibilities of the director so as to enable the director having a proper understanding of the operations and business of the Company and to ensure him to be fully aware of his responsibilities under statue and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer. A director can also request the Company Secretary to arrange him to attend any relevant course and seminar.

The functions of non-executive directors have included the functions as specified in Code Provision A.5.2 (a) to (d) of the Code.

Each director is aware that he should give sufficient time and attention to the affairs of the Company. Directors have satisfactory attendance rates at both board meetings and committee meetings.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as its own code of conduct for dealings in securities of the Company by the directors or relevant employees as defined in the Model Code. The Company has made specific enquiry of all directors. According to their replies, all the directors have complied with the requirements set out in the Model Code during the financial year ended 31 December 2006. The Company has also complied with the other requirements stipulated in the Model Code.

A.6 Supply of and Access to Information

Principle: Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

In respect of regular board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all directors in a timely manner and at least 3 days before the intended date of a board meeting and board committee meeting.

As mentioned in D.1 below, there are matters reserved to be approved by the board. Management is aware of the duties to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. The information supplied must be complete and reliable. The board and each director shall have separate and independent access to the Company's senior management.

All directors are entitled to have access to board papers, minutes and related materials.

B.1 The Level and Make-up of Remuneration and Disclosure

Principle: An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors needed to run the issuer successfully, but the issuers should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration.

The Remuneration Committee of the Company was established in April 2005. The functions of the Remuneration Committee are mainly to review and make recommendations to the board on the Company's policy and structure for all remunerations of directors and senior management. The terms of reference of the Remuneration Committee include the specific duties set out in Code Provision B.1.3(a) to (f) of the Code, with appropriate modifications where necessary. Details of terms of reference of the Remuneration Committee are published in the Company's website.

The Remuneration Committee presently consists of three independent non-executive directors, namely, Mr. Kwok Lam Kwong Larry, Mr. Ng Wing Hang Patrick and Mr. Zhuo Fumin. Mr. Kwok Lam Kwong Larry acts as the chairman of the Remuneration Committee.

The Remuneration Committee held three meetings in the financial year ended 31 December 2006. The following is an attendance record of the meeting held by the Remuneration Committee for the financial year:–

Name of Committee Members	Number of meetings attended	Attendance rate
Kwok Lam Kwong Larry *(Chairman)*	3	100%
Ng Wing Hang Patrick	3	100%
Zhuo Fumin	3	100%

During the financial year, the Remuneration Committee reviewed and considered the remuneration policy, packages and fringe benefits of the directors and senior management of the Group. In addition, the Remuneration Committee also reviewed the remuneration adjustment conditions of the Group and compare with companies of similar scale as benchmark; also, the Committee approve the reward system, make recommendation for the increment of partial employees for 2007 and the reward of the Chief Executive Officer during 2006. None of the directors of the Company participate in the determination of the remuneration of their own. The Remuneration Committee was satisfied with the current remuneration policy and packages of the Group.

The Remuneration Committee shall consult the Chairman and/or Chief Executive Officer about their proposals relating to the remuneration of the directors and could have access to professional advice if considered necessary.

The Remuneration Committee is provided with sufficient resources to discharge its duties.

C.1 Financial Reporting

Principle: The board should present a balanced, clear and comprehensible assessment of the issuer's performance, position and prospects.

Management shall provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.

It is the responsibility of the directors to prepare accounts of the Company.

A statement by the external auditors about their reporting responsibilities is included in the Independent Auditors' Report on page 30.

The board shall present a balanced, clear and understandable assessment of the company's performance, position or prospects in annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

C.2 Internal Controls

Principle: The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

The Internal Audit Department is charged with the responsibilities to evaluate whether there are sound and effective internal controls in place to safeguard the shareholders' investment and the Company's assets. Such evaluation covers all material controls, including financial, operational and compliance controls and risk management functions. Internal Audit Department has reported twice during the year on significant findings on internal controls to the Audit Committee, which in turn has reported to the board accordingly. The board found that as at the publication of this report and financial statements, the internal controls are sound and effective which safeguard the shareholders' and customers' interests and the assets of the Group.

C.3 Audit Committee

Principle: The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the issuer's external auditors. The audit committee established by an issuer pursuant to the Exchange Listing Rules should have clear terms of reference.

The Audit Committee was set up in 1999. The roles of the Audit Committee are mainly to ensure integrity of financial statements, to oversee financial reporting system and internal control procedures as well as to provide advice and recommendations to the board. The details of the terms of reference of the Audit Committee are published in the Company's website.

The Audit Committee is currently composed of three independent non-executive directors, namely, Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Zhuo Fumin. Mr. Ng Wing Hang Patrick acts as the chairman of the Audit Committee.

The Audit Committee held two meetings in the financial year ended 31 December 2006. The following is an attendance record of the meeting held by the Audit Committee for the financial year:–

Name of Committee Members	Number of meetings attended	Attendance rate
Ng Wing Hang Patrick *(Chairman)*	2	100%
Kwok Lam Kwong Larry	2	100%
Zhuo Fumin	2	100%

A summary of the work performed by the Audit Committee during the financial year is listed below:–

(1) reviewing the financial statements and the auditors' report before their submission to the board;
(2) reviewing the results of the audit on the Company's system of internal controls;
(3) reviewing the results of the audit on the connected or continuing connected parties transactions; and
(4) nominating external auditors for re-appointments and propose the remuneration and terms of engagement of external auditors.

The work and findings of the Audit Committee have been reported to the board. During the year, no issues brought to the attention of management and the board were of sufficient importance to require disclosure in the Annual Report.

The board agrees with the Audit Committee's proposal for the re-appointment of Messrs. Ernst & Young as the Company's external auditors for 2007. The recommendation will be put forward for the approval of shareholders at the forthcoming Annual General Meeting.

Full minutes of Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings will be sent to all members of the Audit Committee for their comment and records respectively, in both cases normally within one month after the meeting.

The Company's Audit Committee does not have a former partner of the Company's existing external auditors.

During the financial year ended 31 December 2006, the amount of remuneration paid to the Auditors, Messrs. Ernst & Young was as below:–

Nature of Services	**HK$'000**
Audit services with recoverable expenses	1,240
Tax advisory services	170
Other advisory services	60

The Audit Committee is provided with sufficient resources, including the advice of external auditors and Internal Audit Department, to discharge its duties.

D.1 Management Functions

Principle: An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

The board is responsible for formulating overall strategy, monitoring and controlling the performance of the Company whilst managing the Company's day-to-day business is the responsibility of the management.

When the board delegates aspects of its management and administration functions to the management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances where management shall report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the Company.

Matters reserved to be approved by the board include:

(1) Appointment of directors;
(2) Business plans of the Company;
(3) Proposal for selection of external auditors;
(4) Financial statements and budgets;
(5) Substantial investments in assets other than those arising in the ordinary course of Company's businesses; and
(6) Formation of board committees.

D.2 Board Committees

Principle: Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Where Board Committees are established to deal with matters, the Board shall prescribe sufficiently clear terms of reference to enable such Committees to discharge their functions properly.

Apart from the Audit Committee (particulars are disclosed under C.3) and Remuneration Committee (particulars are disclosed under B.1), the Board has also established an Executive Committee and a Management Committee with specific terms of reference. The Executive Committee consists of all the executive directors and is responsible for formulating and reviewing the Company's important strategies on business and operations. The Management Committee consists of the Chief Executive Officer, general manager, deputy general manager, executive directors and the head of certain important departments. The Management Committee usually meets weekly for making policy and discussing issues relating to the Company's day-to-day management and business. A monthly management report will be submitted to the Executive Directors and Management Committee reporting their work and findings.

The terms of reference of the Audit Committee and the Remuneration Committee require such committees to report back to the board on their decisions and recommendations. Material matters will be reported to the board by the other board committees according to their respective terms of reference.

E.1 Effective Communication

Principle: The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

At the Annual General Meeting held in 2006, a separate resolution was proposed by the Chairman in respect of each substantially separate issue.

The chairman of the Board and the members of the Audit Committee and Remuneration Committee respectively attended the Annual General Meeting held in 2006 to answer questions of shareholders.

E.2 Voting by Poll

Principle: The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Exchange Listing Rules and the constitutional documents of the issuer.

The procedures for and rights of shareholders to demand a poll by the shareholders were disclosed in the circular to shareholders in respect of the Annual General Meeting held in 2006. The Chairman explained the procedure for demanding the poll at the commencement of that meeting. At the Annual General Meeting held in 2006, no poll was required and all resolutions were resolved by show of hands.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company consists of investment holding. Details of the principal activities of the principal subsidiaries and the associates are set out in notes 17 and 18, respectively, to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 78.

An interim dividend of HK2 cents per ordinary share was paid on 9 October 2006. The directors recommend the payment of a final dividend and a special final dividend of HK2 cents and HK2 cents per ordinary share, respectively, in respect of the year to shareholders on the register of members on 11 May 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
RESULTS					
REVENUE	**324,550,665**	182,549,570	1,067,193,097	589,505,339	247,418,435
Other income and gains	**892,075**	144,607	417,353	534,216	19,757,148
Cost of trading securities sold	**(136,008,854)**	(97,279,597)	(961,544,597)	(466,435,173)	(143,273,322)
Employee benefits expenses	**(92,010,431)**	(42,651,283)	(44,000,984)	(45,175,337)	(51,125,946)
Depreciation and amortisation expenses	**(4,370,568)**	(2,028,359)	(8,181,734)	(10,368,225)	(13,538,658)
Interest expenses for financial services operations	**(282,541)**	(954,361)	(1,680,833)	(4,893,127)	(9,939,030)
Fair value losses on listed equity investments at fair value through profit or loss	**(7,248,327)**	(3,837,822)	(10,958,401)	(17,825,590)	(4,053,400)
Fair value gains on available-for-sale investments	**48,314,483**	–	–	–	–
Fair value gain on an unlisted financial instrument at fair value through profit or loss	**33,291,492**	10,806,166	–	–	–
Write-back of prior years' accrued interest expenses on settlement of other loans and convertible note	**–**	–	–	–	12,000,000
Gain on cancellation of convertible note	**–**	–	–	–	92,000,000
Write-back of impairment/ (write-off and impairment) of accounts receivable and loans and advances	**1,700,000**	3,200,000	(8,689,753)	–	(119,400,000)
Write-back of impairment/ (impairment) of available-for-sale investments	**–**	–	–	5,382,802	(6,286,190)
Provision for claims	**–**	–	–	(4,000,000)	–
Other expenses, net	**(48,080,245)**	(30,667,760)	(34,098,210)	(34,258,913)	(36,470,318)
Finance costs	**–**	–	(37,724)	(48,576)	(58,539)
Share of profits/(losses) of:					
Associates (formerly jointly-controlled entities)	**15,373,215**	8,636,045	11,022,829	15,641,600	18,537,611
An associate	**–**	–	–	–	(24,386)
PROFIT BEFORE TAX	**136,120,964**	27,917,206	9,441,043	28,059,016	5,543,405
Tax	**(6,232,000)**	(1,054,000)	(385,433)	(136,580)	(906,687)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**129,888,964**	26,863,206	9,055,610	27,922,436	4,636,718

FIVE YEAR FINANCIAL SUMMARY *(Cont'd)*

	As at 31 December				
	2006	2005	2004	2003	2002
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
ASSETS AND LIABILITIES					
Total assets	**2,582,896,294**	1,308,191,548	1,636,546,131	2,305,493,217	1,207,367,733
Total liabilities	**(1,785,431,223)**	(618,373,139)	(984,917,342)	(1,662,266,268)	(586,755,629)
	797,465,071	689,818,409	651,628,789	643,226,949	620,612,104

The above summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL

There were no movements in either the Company's authorised or issued share capital during the year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK$53,967,011, of which HK$21,230,366 has been proposed as final and special final dividends for the year. In addition, the Company's share premium account, in the amount of HK$314,739,683, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

The Group is a provider of financial services. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Feng Guorong *(Chairman)*
Lu Wenqing
Lee Man Chun Tony *(Chief Executive Officer)*
Guo Chun
Ying Niankang

Non-executive directors:

Chang Pen Tsao
Huang Gang

Independent non-executive directors:

Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Zhuo Fumin

In accordance with Article 104(A) of the Company's Articles of Association, Messrs. Feng Guorong, Lu Wenqing, Lee Man Chun Tony and Guo Chun will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The Company has received annual confirmations of independence from Messrs. Ng Wing Hang Patrick, Kwok Lam Kwong Larry and Zhuo Fumin and as at the date of this report, still considers them to be independent.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP

Executive directors

Feng Guorong, aged 56, was appointed as an Executive Director and Chairman of the Company in February 2004. He is also the Vice Chairman and President of Shenyin & Wanguo Securities Co., Ltd. He holds a PhD in Economics and obtained high-ranking securities management recognition from China Securities Regulatory Commission. Prior to joining the Group, he worked as an officer at the President's Affairs Office of the Industrial and Commercial Bank of China, Shanghai Branch as well as the People's Bank of China, Shanghai Branch. He had also participated in the founding of China Everbright Bank, Shanghai Branch and worked as Governor. He also worked as the Managing Director and Deputy Governor at China Everbright Bank, Head Office. He also participated in the drafting of early securities rules and regulations in the new China and had more than 25 years experience in financial management. He also has in-depth study in risk management of financial enterprises.

Lu Wenqing, aged 48, was appointed as an Executive Director of the Company in August 1996. He is also the Assistant President and the Managing Director of the International Business Division of Shenyin & Wanguo Securities Co., Ltd. He graduated from Shanghai University of Finance and Economics. He also holds a Master's Degree in Business Administration from The Asia (Macau) International Open University and W.P. Carey School of Business at Arizona State University. Prior to joining the former Shanghai Shenyin Securities Co., Ltd., he served as a senior officer in Shanghai Trust & Investment Corporation of the Industrial and Commercial Bank of China and as an attache' of the Chinese Embassy in Gabon.

Lee Man Chun Tony, aged 53, was appointed as a Director and Chief Executive Officer of the Company in July 2000. He is an Associate of the Hong Kong Institute of Certified Public Accountants. He has more than 30 years' experience in accounting, finance and banking. He held senior positions with Standard Chartered Bank and Sanwa International Finance Ltd. before he joined the Group in 1995.

Guo Chun, aged 42, was appointed as an Executive Director of the Company in May 2000. He began his career with the Industrial & Commercial Bank of China, Shanghai Branch in 1983. Other than the banking business, he has been working in the securities industry of the People's Republic of China ("PRC") since 1987. In 1990, he joined the former Shanghai Shenyin Securities Co., Ltd. He has had more than 10 years' extensive experience in stockbroking and investment banking in the PRC and served as a regional superintendent in Shanghai. He was appointed as the Deputy Managing Director of Shenyin Wanguo (H.K.) Holdings Limited on secondment to Hong Kong in early 1997 after the merger of Shanghai Shenyin Securities Co., Ltd. and Shanghai International Securities Co., Ltd. He holds a Master's Degree in Business Administration from Murdoch University, Perth, Australia.

Ying Niankang, aged 55, was appointed as an Executive Director of the Company in August 1997. He was a Deputy General Manager of the International Business Division of Shenyin & Wanguo Securities Co., Ltd. and has more than 10 years' experience in corporate finance. He was the Chief of Division of Technology & Economics, Department of Project Management, College of Civil Engineering, in Shanghai, between 1983 and 1991. He holds a Master's Degree and a Bachelor's Degree from the Department of Industrial Economics at Shanghai University of Finance and Economics.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP *(Cont'd)*

Non-executive directors

Chang Pen Tsao, aged 68, is a Non-executive Director of the Company. He is the Founder and Chairman of Taiwan International Securities Group, Global Securities Finance Corp., The Business Development Foundation of The Chinese Straits, Unitech Electronics Corp., and Ideal Bike Corp. He served as a Senator in Taiwan for 9 years and was the Chairman of Kwang Hua Securities Investment & Trust Co., Ltd. He has more than 20 years' experience in legal practice as a lawyer, prosecutor and district judge, as well as in business management, and has more than 10 years' experience in securities investment. He received his L.L.B. Degree from Chung Hsin University, Taiwan in 1967.

Huang Gang, aged 40, is a Non-executive Director of the Company. He graduated from Xian Jiaotong University and holds a Master's Degree in Economics conferred by Shanghai University of Finance and Economics. He has over 14 years' management experiences with enterprises. From 1993 to 1999, he worked with Agricultural Bank of China (Shanghai Branch) as Assistant General Manager. In 2000, Mr. Huang joined Shanghai Industrial Investment (Holdings) Company Limited as Assistant General Manager. He also presently holds directorships in certain wholly owned subsidiaries of Shanghai Industrial Investment (Holdings) Company Limited.

Ng Wing Hang Patrick, aged 54, is an Independent Non-executive Director of the Company. He is a practising Certified Public Accountant in Hong Kong and is the sole proprietor of his certified public accountants firm, Messrs. Patrick Ng & Company. He also serves on the boards of several listed companies in Hong Kong.

Kwok Lam Kwong Larry, J.P., aged 51, is an Independent Non-executive Director of the Company. He is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Singapore. He is also qualified as an accountant in Hong Kong, Australia and the United Kingdom. He graduated from the University of Sydney, Australia with Bachelor's Degrees in Economics and Laws as well as a Master's Degree in Laws. He is currently the Vice-Chairman of the Consumer Council, a member of the Hospital Governing Committee of Kwai Chung Hospital / Princess Margaret Hospital, the Traffic Accident Victims Assistance Advisory Committee, the Insurance Claims Complaints Panel and The Telecommunications (Competition Provisions) Appeal Board in Hong Kong. He is also a member of the Political Consultative Committee of Guangxi in the People's Republic of China.

Zhuo Fumin, aged 56, is an Independent Non-executive Director of the Company. He graduated from Shanghai Jiaotong University's Electrical Engineering School with a Degree in Enterprise Management and holds a Master's Degree in Economics conferred by Fudan University. Mr. Zhuo has more than 31 years of experience in running joint stock companies and in corporate management and has extensive capital market experience. Mr. Zhuo currently serves as a General Partner and Chief Executive Officer in SIG Capital Limited. He had been a Chairman of SIIC Medical Science and Technology (Group) Limited, the Vice Chairman and an Executive Director of Shanghai Industrial Holdings Limited, a Non-executive Director of Imagi International Holdings Limited as well as the Chairman and Chief Executive Officer of Vertex China Investment Limited until he resigned on 25 January 2002, 30 June 2002, 8 April 2004 and 30 June 2005 respectively.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP *(Cont'd)*

Senior management

Bai Youge, aged 45, was appointed Deputy General Manager of the Group in 2004. He is a non-practising member of the Chinese Institute of Certified Public Accountants and has previously worked for Arthur Andersen & Co. He joined the former Shanghai International Securities Co., Ltd. in 1994 as Deputy General Manager of the Investment Bank Division. After the merger of Shanghai International Securities Co., Ltd. and Shanghai Shenyin Securities Co., Ltd. in 1996, he was appointed Deputy General Manager of the International Business and Brokerage Departments of Shenyin & Wanguo Securities Co., Ltd. respectively, and has over 10 years experience in the securities field of the PRC. He graduated from Sichuan University in Mathematics and holds a Master's Degree in Economics from the Shanghai Academy of Social Sciences and a Master's Degree in Finance and Securities from the University of Reading in the United Kingdom.

Fu Xingyi, aged 46, was appointed Assistant to General Manager of the Group in 2004. He previously worked for the International Business Division, Investment Bank Division and Merger & Acquisition Division of Shenyin & Wanguo Securities Co., Ltd. and has more than 10 years experience in corporate finance. He holds a Bachelor's Degree from Fudan University in Shanghai.

Wong Che Keung Leslie, aged 42, is the Finance Director and Company Secretary of the Group. Mr. Wong once served as the Head of Compliance of the Group and subsequently, a Director of Shenyin Wanguo Securities (H.K.) Limited before succeeding to the current position of Finance Director of the Group in 2001. Mr. Wong was appointed as the Company Secretary of the Group in December 2004. Prior to joining the Group in 1996, he worked in the Securities and Futures Commission for 7 years and in the stockbroking and treasury field for a further 2 years. He is a Fellow of the Association of Chartered Certified Accountants. He obtained his Bachelor's Degree in Economics at the University of Hong Kong and a Master's Degree in Business Administration at the Chinese University of Hong Kong.

Ting Kay Loong, Willis, aged 45, is the Head of Corporate Finance of the Group. He has over 18 years of experience in the securities industry. Prior to joining the Group in 2006, he worked for several international financial institutions and listed companies in Hong Kong, responsible for capital markets activities and equity investments. He holds a Bachelor of Economics Degree from Macquarie University, Australia and is a fellow member of the Australian Society of Certified Public Accountants.

Philip Chan, aged 44, joined the Group in 1994. He is a Director of Shenyin Wanguo Research (H.K.) Limited and has been based in Hong Kong for 18 years, working first with Mansion House Group Ltd. and later with PBI Securities Hong Kong Ltd. (formerly part of the Dutch ABN-AMRO Group), as an analyst. Prior to working in Hong Kong, he worked in the United Kingdom for 3 years for two securities brokerage firms as an analyst. He was born in the United Kingdom and obtained his Bachelor's Degree in Chemistry at University College, Cardiff in Wales.

Lo Chak Bong, Alfred Bing, aged 45, is a Director of Shenyin Wanguo Asset Management (Asia) Limited. He has 21 years' experience in the investment management industry, starting as an analyst, portfolio manager and subsequently investment director with Fidelity Investments, Union Bancaire Asset Management Asia Limited, Impac Asset Management and Rothschild Asset Management H.K. Limited and has worked in London, Sydney, Singapore as well as Hong Kong. Prior to joining the Group in 2001, he was one of the founding partners of Proactive Enterprise, a private equity and business consultancy group. He holds a Master's Degree in Business Administration from Ohio University, the United States of America.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2006, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long position in ordinary shares of the Company

Name of director	Number of ordinary shares directly beneficially owned	Percentage of the Company's issued share capital
Lee Man Chun Tony	1,300,000	0.24

Save as disclosed above, as at 31 December 2006, none of the directors of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

At 31 December 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Shenyin Wanguo Holdings (B.V.I.) Limited ("SWHBVI")	Directly beneficially owned	268,334,875*	50.56
Venture-Some Investments Limited ("VSI")	Through controlled corporation	268,334,875*	50.56
Shenyin Wanguo (H.K.) Holdings Limited ("SWHKH")	Through controlled corporation	268,334,875*	50.56
Shenyin & Wanguo Securities Co., Ltd. ("SWSC")	Through controlled corporation	268,334,875*	50.56
	Directly beneficially owned	2,045,000*	0.38

* *SWHBVI was held directly as to 50.51% by VSI. VSI was wholly owned by SWHKH. SWHKH was wholly owned by SWSC. Hence, VSI, SWHKH and SWSC were deemed to be interested in the same parcel of 268,334,875 shares held by SWHBVI under the SFO. SWSC also held directly 2,045,000 shares of the Company.*

Save as disclosed above, as at 31 December 2006, no person, other than one director of the Company, whose interest is set out in the section "Directors' interests in shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The connected transactions and continuing connected transactions of the Company and the Group during the year are disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange in note 35 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions (the "Transactions") as set out in note 35 to the financial statements were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to/from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, a non-executive director, Mr. Huang Gang, is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules. Mr. Huang Gang is also a director of SIIC Asset Management Company Limited, which is also involved in the provision of asset management services.

As the board of directors of the Company is independent from the board of directors of SIIC Asset Management Company Limited and Mr. Huang does not control the board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of SIIC Asset Management Company Limited.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Feng Guorong
Chairman

Hong Kong
30 March 2007

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

To the shareholders of Shenyin Wanguo (H.K.) Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Shenyin Wanguo (H.K.) Limited set out on pages 31 to 78, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
30 March 2007

Year ended 31 December 2006

	Notes	2006 HK$	2005 HK$
REVENUE	5	**324,550,665**	182,549,570
Other gains	6	**892,075**	144,607
Cost of trading securities sold		**(136,008,854)**	(97,279,597)
Employee benefits expenses		**(92,010,431)**	(42,651,283)
Depreciation expenses		**(4,370,568)**	(2,028,359)
Interest expenses for financial services operations		**(282,541)**	(954,361)
Fair value losses on listed equity investments at fair value through profit or loss		**(7,248,327)**	(3,837,822)
Fair value gains on available-for-sale investments		**48,314,483**	–
Fair value gain on an unlisted financial instrument at fair value through profit or loss		**33,291,492**	10,806,166
Write-back of impairment of accounts receivable and loans and advances		**1,700,000**	3,200,000
Other expenses, net		**(48,080,245)**	(30,667,760)
Share of profits of associates		**15,373,215**	8,636,045
PROFIT BEFORE TAX	7	**136,120,964**	27,917,206
Tax	10	**(6,232,000)**	(1,054,000)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	11	**129,888,964**	26,863,206
DIVIDENDS	12		
Interim		**10,615,183**	–
Proposed final		**10,615,183**	5,307,591
Proposed special final		**10,615,183**	–
		31,845,549	5,307,591
EARNINGS PER SHARE	13		
Basic		**24.47 cents**	5.06 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 December 2006

	Notes	2006 HK$	2005 HK$
NON-CURRENT ASSETS			
Property, plant and equipment	14	**10,392,535**	9,854,882
Prepaid land lease payments	15	**1,481,025**	1,521,975
Stock and Futures Exchange trading rights	16	**4,211,831**	4,211,831
Other assets		**9,166,148**	6,511,573
Interests in associates	18	**101,505,176**	102,935,686
Goodwill	19	**57,632,404**	57,632,404
Financial instruments	20	**161,456,719**	207,411,615
Total non-current assets		**345,845,838**	390,079,966
CURRENT ASSETS			
Equity investments at fair value through profit or loss	20	**59,652,809**	39,886,687
Accounts receivable	22	**876,790,453**	118,935,510
Loans and advances	23	**338,731,082**	133,847,128
Tax recoverable		**–**	1,122,767
Deposits, prepayments and other receivables		**9,341,496**	7,051,151
Bank balances held on behalf of customers	24	**877,894,325**	503,253,784
Cash and cash equivalents	25	**74,640,291**	114,014,555
Total current assets		**2,237,050,456**	918,111,582
CURRENT LIABILITIES			
Accounts payable	26	**1,706,674,184**	600,779,985
Tax payable		**5,368,333**	91,523
Other payables and accruals	27	**58,488,706**	17,501,631
Total current liabilities		**1,770,531,223**	618,373,139
NET CURRENT ASSETS		**466,519,233**	299,738,443
TOTAL ASSETS LESS CURRENT LIABILITIES		**812,365,071**	689,818,409
NON-CURRENT LIABILITIES			
Other payables	28	**14,900,000**	–
Net assets		**797,465,071**	689,818,409
EQUITY			
Issued capital	29	**265,379,563**	265,379,563
Reserves	30(a)	**510,855,142**	419,131,255
Proposed dividends	12	**21,230,366**	5,307,591
Total equity		**797,465,071**	689,818,409

Feng Guorong
Director

Lee Man Chun Tony
Director

Year ended 31 December 2006

	Note	Issued share capital HK$	Share premium account HK$	Capital reserve HK$	Available-for-sale investment revaluation reserve HK$	General reserve HK$	Exchange fluctuation reserve HK$	Retained profits HK$	Proposed dividends HK$	Total equity HK$
At 1 January 2005		265,379,563	314,739,683	15,043	9,961,413	138,611	–	58,243,502	5,307,591	653,785,406
Changes in fair value of available-for-sale investments		–	–	–	11,380,532	–	–	–	–	11,380,532
Share of exchange fluctuation reserve of associates		–	–	–	–	–	3,096,856	–	–	3,096,856
Total income and expense for the year recognised directly in equity		–	–	–	11,380,532	–	3,096,856	–	–	14,477,388
Profit for the year		–	–	–	–	–	–	26,863,206	–	26,863,206
Total income and expense for the year		–	–	–	11,380,532	–	3,096,856	26,863,206	–	41,340,594
Final 2004 dividend declared		–	–	–	–	–	–	–	(5,307,591)	(5,307,591)
Proposed final 2005 dividend	12	–	–	–	–	–	–	(5,307,591)	5,307,591	–
At 31 December 2005		265,379,563	314,739,683*	15,043*	21,341,945*	138,611*	3,096,856*	79,799,117*	5,307,591	689,818,409
At 1 January 2006		265,379,563	314,739,683	15,043	21,341,945	138,611	3,096,856	79,799,117	5,307,591	689,818,409
Changes in fair value of available-for-sale investments		–	–	–	38,423,430	–	–	–	–	38,423,430
Share of exchange fluctuation reserve of associates		–	–	–	–	–	3,571,525	–	–	3,571,525
Total income and expense for the year recognised directly in equity		–	–	–	38,423,430	–	3,571,525	–	–	41,994,955
Profit for the year		–	–	–	–	–	–	129,888,964	–	129,888,964
Total income and expense for the year		–	–	–	38,423,430	–	3,571,525	129,888,964	–	171,883,919
Release on derecognition		–	–	–	(48,314,483)	–	–	–	–	(48,314,483)
Final 2005 dividend declared		–	–	–	–	–	–	–	(5,307,591)	(5,307,591)
Interim 2006 dividend	12	–	–	–	–	–	–	(10,615,183)	–	(10,615,183)
Proposed final and special final 2006 dividends	12	–	–	–	–	–	–	(21,230,366)	21,230,366	–
At 31 December 2006		**265,379,563**	**314,739,683***	**15,043***	**11,450,892***	**138,611***	**6,668,381***	**177,842,532***	**21,230,366**	**797,465,071**
Reserves retained by:										
Company and subsidiaries		265,379,563	314,739,683	15,043	11,450,892	138,611	–	177,842,532	21,230,366	790,796,690
Associates		–	–	–	–	–	6,668,381	–	–	6,668,381
At 31 December 2006		**265,379,563**	**314,739,683**	**15,043**	**11,450,892**	**138,611**	**6,668,381**	**177,842,532**	**21,230,366**	**797,465,071**
Company and subsidiaries		265,379,563	314,739,683	15,043	21,341,945	138,611	–	79,799,117	5,307,591	686,721,553
Associates		–	–	–	–	–	3,096,856	–	–	3,096,856
At 31 December 2005		265,379,563	314,739,683	15,043	21,341,945	138,611	3,096,856	79,799,117	5,307,591	689,818,409

* These reserve accounts comprise the consolidated reserves of HK$510,855,142 (2005: HK$419,131,255) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$	2005 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**136,120,964**	27,917,206
Adjustments for:			
Bank interest income	*5*	**(10,705,073)**	(7,399,127)
Dividend income	5	**(961,487)**	(1,546,345)
Share of profits of associates		**(15,373,215)**	(8,636,045)
Fair value gains on available-for-sale investments (transfer from equity)		**(48,314,483)**	–
Net realised gains on disposal of available-for-sale investments		**–**	(10,790)
Depreciation	*14*	**4,370,568**	2,028,359
Recognition of prepaid land lease payments	*15*	**40,950**	40,950
Write-back of impairment of accounts receivable and loans and advances		**(1,700,000)**	(3,200,000)
Fair value gain on an unlisted financial instrument at fair value through profit or loss		**(33,291,492)**	(10,806,166)
Gain on disposal of items of property, plant and equipment	*7*	**(16,570)**	(42,800)
		30,170,162	(1,654,758)
Increase in other assets		**(2,654,575)**	(1,404,849)
Decrease in equity investments at fair value through profit or loss	*32*	**45,194,948**	40,220,028
Decrease/(increase) in accounts receivable		**(756,154,943)**	227,714,462
Decrease/(increase) in loans and advances		**(204,883,954)**	9,795,551
Increase in deposits, prepayments and other receivables		**(2,290,345)**	(127,637)
Decrease/(increase) in bank balances held on behalf of customers		**(374,640,541)**	102,867,112
Increase/(decrease) in accounts payable		**1,105,894,199**	(360,054,753)
Increase/(decrease) in other payables and accruals		**55,887,075**	(6,394,973)
Cash generated from/(used in) operations		**(103,477,974)**	10,960,183
Bank interest received		**10,705,073**	7,399,127
Dividends received from listed equity investments		**961,487**	1,546,345
Dividend received from an associate		**20,375,250**	23,217,710
Hong Kong profits tax refunded/(paid)		**167,577**	(613,842)
Net cash inflow/(outflow) from operating activities – page 35		**(71,268,587)**	42,509,523

Year ended 31 December 2006

	Notes	2006 HK$	2005 HK$
Net cash inflow/(outflow) from operating activities – page 34		**(71,268,587)**	42,509,523
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds received on disposals of available-for-sale investments		**52,708,748**	149,972
Purchases of available-for-sale investments		**–**	(16,612,686)
Purchases of items of property, plant and equipment	14	**(4,921,827)**	(9,231,548)
Proceeds from disposal of items of property, plant and equipment		**30,176**	48,300
Net cash inflow/(outflow) from investing activities		**47,817,097**	(25,645,962)
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid and cash outflow from financing activity		**(15,922,774)**	(5,307,591)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(39,374,264)**	11,555,970
Cash and cash equivalents at beginning of year		**114,014,555**	102,458,585
CASH AND CASH EQUIVALENTS AT END OF YEAR		**74,640,291**	114,014,555
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**36,465,742**	31,458,275
Time deposits with original maturity of less than three months when acquired	25	**38,174,549**	82,556,280
		74,640,291	114,014,555

Balance Sheet

31 December 2006

	Notes	2006 HK$	2005 HK$
NON-CURRENT ASSETS			
Interests in subsidiaries	*17*	**633,790,170**	612,532,084
CURRENT ASSETS			
Deposits, prepayments and other receivables		**1,506,264**	2,484,046
Cash and cash equivalents	*25*	**1,378,717**	1,213,025
Total current assets		**2,884,981**	3,697,071
CURRENT LIABILITIES			
Tax payable		**128,000**	–
Other payables and accruals	*27*	**2,460,894**	2,547,003
Total current liabilities		**2,588,894**	2,547,003
NET CURRENT ASSETS		**296,087**	1,150,068
Net assets		**634,086,257**	613,682,152
EQUITY			
Issued capital	*29*	**265,379,563**	265,379,563
Reserves	*30(b)*	**347,476,328**	342,994,998
Proposed dividends	*12*	**21,230,366**	5,307,591
Total equity		**634,086,257**	613,682,152

Feng Guorong
Director

Lee Man Chun Tony
Director

1. CORPORATE INFORMATION

Shenyin Wanguo (H.K.) Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is situated at 28th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

During the year, the Group was involved in the following principal activities:

- securities trading and investment holding
- securities broking and dealing
- securities financing and direct loans
- investment advisory services

In addition, the associates of the Group were involved in highway operations during the year.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Shenyin Wanguo Holdings (B.V.I.) Limited, which is incorporated in the British Virgin Islands with limited liability.

2.1 BASIS OF PREPARATION

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) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

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 principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 and 31 December 2005.

(b) HKAS 27 Consolidated and Separate Financial Statements

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 2.4 "Summary of significant accounting policies" below.

(c) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

(c) HKAS 39 Financial Instruments: Recognition and Measurement *(Cont'd)*

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(d) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to HKAS 34 Interim Financial Reporting, requires an entity to report selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued asset, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4%
Leasehold improvements	Over the lease terms
Furniture, fixtures and equipment	15% – $33^1/_3$%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Other assets

Other assets, mainly representing deposits, are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the other assets are derecognised or impaired, as well as through the amortisation process.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Intangible assets (other than goodwill) *(Cont'd)*

Intangible assets, which consist of 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 with indefinite useful lives, are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading or these financial assets are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments and other financial assets *(Cont'd)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities and club debentures that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Impairment of financial assets *(Cont'd)*

Assets carried at amortised cost (Cont'd)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Derecognition of financial assets *(Cont'd)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost

Financial liabilities including accounts and other payables are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Income tax *(Cont'd)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) securities and futures contracts trading revenue, on a trade date basis;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) commission and brokerage income, on a trade date basis;

(d) underwriting commission, when the obligation under the underwriting or sub-underwriting agreement has expired;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Revenue recognition *(Cont'd)*

(e) income from rendering of services, as the underlying services have been provided; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees entitled and carried forward.

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. The Group also retains its previous retirement scheme (the "ORSO Scheme") registered under the Occupational Retirement Scheme Ordinance as a top-up benefit for its employees.

Contributions are made based on a percentage of the employees' relevant income or basic salaries, whichever is greater, and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme and the ORSO Scheme. When the contribution exceeds the statutory maximum requirements, the excess contribution is credited as the employer's voluntary contribution to the ORSO Scheme. The employer's mandatory contributions vest fully with the employees when contributed into the MPF Scheme. The employer's voluntary contributions vest with the employees according to the vesting scale of the ORSO Scheme. Forfeited contributions in respect of employees who leave the Group before their contributions fully vest are available to the Group to offset its future voluntary contributions.

The assets of the MPF Scheme and the ORSO Scheme are held separately from those of the Group in independently administered funds.

Dividends

Final and special final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$57,632,404 (2005: HK$57,632,404). More details are given in note 19.

(b) Fair value of unlisted financial instruments

The unlisted financial instruments have been valued using a valuation technique based on assumptions that are not supported by observable market prices or rates. Estimating the value of the financial instruments requires the Group to make certain estimates and assumptions, further details of which are given in note 20.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. The summarised details of the business segments are as follows:

- securities trading and investment holding
- securities broking and dealing
- securities financing and direct loans
- investment advisory services

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the markets, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the terms and conditions used for similar transactions with third parties at the then prevailing market prices.

4. SEGMENT INFORMATION *(Cont'd)*

(a) Business segments

The following tables represent revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group

	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	**145,458,717**	101,298,446	**85,731,023**	46,490,033	**48,527,909**	28,307,277	**49,383,016**	9,117,814	**(4,550,000)**	(2,664,000)	**324,550,665**	182,549,570
Segment results	**48,737,329**	8,361,916	**7,703,976**	(10,469,347)	**36,355,579**	23,105,999	**34,025,124**	(52,479)	**–**	–	**126,822,008**	20,946,089
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											**129,888,964**	26,863,206

4. SEGMENT INFORMATION *(Cont'd)*

(a) Business segments *(Cont'd)*

Group

	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$*
Assets and liabilities												
Segment assets	**248,049,970**	263,158,782	**1,785,854,755**	724,167,684	**348,164,983**	139,742,703	**29,770,758**	5,072,825	**–**	–	**2,411,840,466**	1,132,141,994
Goodwill	**57,632,404**	57,632,404	**–**	–	**–**	–	**–**	–	**–**	–	**57,632,404**	57,632,404
Interests in associates	**101,505,176**	102,935,686	**–**	–	**–**	–	**–**	–	**–**	–	**101,505,176**	102,935,686
Unallocated assets											**11,918,248**	15,481,464
Total assets											**2,582,896,294**	1,308,191,548
Segment liabilities	**56,084,654**	11,317,746	**1,561,872,616**	477,260,954	**161,580,345**	129,566,634	**525,275**	136,282	**–**	–	**1,780,062,890**	618,281,616
Unallocated liabilities											**5,368,333**	91,523
Total liabilities											**1,785,431,223**	618,373,139
Other segment information:												
Capital expenditure	**–**	–	**1,913,986**	1,610,068	**–**	–	**–**	–	**–**	–	**1,913,986**	1,610,068
Depreciation of segment assets	**–**	–	**1,100,681**	522,572	**–**	–	**–**	–	**–**	–	**1,100,681**	522,572
Impairment/(write-back of impairment) of accounts receivable and loans and advances	**–**	–	**(1,700,000)**	1,975,707	**–**	(5,175,707)	**–**	–	**–**	–	**(1,700,000)**	(3,200,000)

4. SEGMENT INFORMATION *(Cont'd)*

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group

	2006 **HK$**	2005 HK$
Segment revenue:		
The PRC:		
Hong Kong	**319,783,658**	161,582,984
Mainland China	**4,614,126**	20,872,908
Others	**152,881**	93,678
	324,550,665	182,549,570
Segment assets:		
The PRC:		
Hong Kong	**2,341,509,317**	1,131,665,297
Mainland China	**181,612,041**	171,181,960
Others	**59,774,936**	5,344,291
	2,582,896,294	1,308,191,548
Capital expenditure:		
The PRC:		
Hong Kong	**4,921,827**	9,231,548

5. 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:

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

6. OTHER GAINS

	Group	
	2006	2005
	HK$	*HK$*
Exchange gains, net	**892,075**	144,607

7. PROFIT BEFORE TAX

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

	Group	
	2006	2005
	HK$	*HK$*
Employee benefits expenses		
(including directors' remuneration – note 8):		
Wages and salaries	**89,954,575**	40,484,885
Retirement benefits schemes contributions	**2,253,579**	2,955,922
Less: Forfeited contributions	**(197,723)**	(789,524)
Net retirement benefits schemes contributions*	**2,055,856**	2,166,398
	92,010,431	42,651,283
Interest expenses for financial services operations on bank loans and overdrafts	**282,541**	954,361
Minimum lease payments under operating leases in respect of land and buildings	**11,076,663**	10,303,050
Auditors' remuneration	**1,190,000**	960,000
Gain on disposal of items of property, plant and equipment	**(16,570)**	(42,800)
Net realised gains on trading of listed equity investments and futures contracts	**(8,407,374)**	(2,405,070)
Fair value gains on available-for-sale investments (transfer from equity)	**(48,314,483)**	–

* At 31 December 2006, the Group had forfeited contributions of HK$4,459 (2005: HK$49,846) available to reduce its contributions to the retirement benefits schemes in future years.

8. DIRECTORS' REMUNERATION

The directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$	*HK$*
Fees	**1,650,000**	300,000
Other emoluments:		
Salaries, allowances and benefits in kind	**2,417,750**	2,399,386
Performance related bonuses	**5,776,000**	–
Retirement benefits schemes contributions	**228,000**	228,000
	8,421,750	2,627,386
	10,071,750	2,927,386

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006	2005
	HK$	*HK$*
Ng Wing Hang Patrick	**250,000**	100,000
Kwok Lam Kwong Larry	**250,000**	100,000
Zhuo Fumin	**250,000**	100,000
	750,000	300,000

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8. DIRECTORS' REMUNERATION *(Cont'd)*

(b) Executive directors and non-executive directors

	Fees HK$	Salaries, allowances and benefits in kind HK$	Performance related bonuses HK$	Retirement benefits scheme contributions HK$	Total remuneration HK$
2006					
Executive directors:					
Feng Guorong	–	–	–	–	–
Lu Wenqing	–	–	–	–	–
Lee Man Chun Tony	–	2,417,750	5,776,000	228,000	8,421,750
Guo Chun	350,000	–	–	–	350,000
Ying Niankang	350,000	–	–	–	350,000
	700,000	2,417,750	5,776,000	228,000	9,121,750
Non-executive directors:					
Chang Pen Tsao	100,000	–	–	–	100,000
Huang Gang	100,000	–	–	–	100,000
	200,000	–	–	–	200,000
	900,000	2,417,750	5,776,000	228,000	9,321,750
2005					
Executive directors:					
Feng Guorong	–	–	–	–	–
Lu Wenqing	–	–	–	–	–
Lee Man Chun Tony	–	2,399,386	–	228,000	2,627,386
Guo Chun	–	–	–	–	–
Ying Niankang	–	–	–	–	–
	–	2,399,386	–	228,000	2,627,386
Non-executive directors:					
Chang Pen Tsao	–	–	–	–	–
Qu Zihai	–	–	–	–	–
Huang Gang	–	–	–	–	–
	–	–	–	–	–
	–	2,399,386	–	228,000	2,627,386

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2005: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2005: four) non-director, highest paid employees are as follows:

	Group	
	2006	2005
	HK$	*HK$*
Salaries, allowances and benefits in kind	**4,067,222**	4,754,835
Bonuses	**5,305,000**	285,000
Retirement benefits schemes contributions	**381,260**	466,488
	9,753,482	5,506,323

The number of the non-director, highest paid employees whose remuneration fell within the following bands is set out below:

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	3
HK$1,500,001 to HK$2,000,000	**3**	–
HK$2,000,001 to HK$2,500,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	–
	4	4

10. 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.

	2006	2005
	HK$	*HK$*
Group:		
Current – Hong Kong		
Charge for the year	**5,013,000**	91,523
Underprovision in prior years	**1,219,000**	492,477
Deferred (note 21)	**–**	470,000
Total tax charge for the year	**6,232,000**	1,054,000

10. TAX *(Cont'd)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax charge for the year is as follows:

	2006 HK$	2005 HK$
Profit before tax	**136,120,964**	27,917,206
Tax at the statutory tax rate of 17.5% (2005: 17.5%)	**23,821,169**	4,885,511
Adjustments in respect of current tax of previous periods	**1,219,000**	492,477
Profits attributable to associates	**(2,690,313)**	(1,511,308)
Income not subject to tax	**(2,668,207)**	(4,835,356)
Expenses not deductible for tax	**4,203,990**	738,724
Tax losses utilised from previous periods	**(18,409,586)**	(1,121,820)
Unrecognised deferred tax assets	**755,947**	2,405,772
Tax charge for the year	**6,232,000**	1,054,000

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.

11. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes a profit of HK$36,326,879 (2005: HK$19,970,098) which has been dealt with in the financial statements of the Company (note 30(b)).

12. DIVIDENDS

	2006 HK$	2005 HK$
Interim – HK2 cents (2005: Nil) per ordinary share	**10,615,183**	–
Proposed final – HK2 cents (2005: HK1 cent) per ordinary share	**10,615,183**	5,307,591
Proposed special final – HK2 cents (2005: Nil) per ordinary share	**10,615,183**	–
	31,845,549	5,307,591

The proposed final and special final dividends for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. 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.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings *HK$*	Leasehold improvements *HK$*	Furniture, fixtures and equipment *HK$*	Motor vehicles *HK$*	Total *HK$*
31 December 2006					
At 1 January 2006:					
Cost	2,047,500	15,302,681	31,802,107	4,253,739	53,406,027
Accumulated depreciation	(969,150)	(11,077,011)	(27,251,245)	(4,253,739)	(43,551,145)
Net carrying amount	1,078,350	4,225,670	4,550,862	–	9,854,882
At 1 January 2006, net of accumulated depreciation	1,078,350	4,225,670	4,550,862	–	9,854,882
Additions	–	1,496,257	3,020,863	404,707	4,921,827
Disposals	–	(3,150)	(10,456)	–	(13,606)
Depreciation provided during the year	(81,900)	(2,226,415)	(2,011,665)	(50,588)	(4,370,568)
At 31 December 2006, net of accumulated depreciation	996,450	3,492,362	5,549,604	354,119	10,392,535
At 31 December 2006:					
Cost	2,047,500	15,158,853	30,752,433	4,172,482	52,131,268
Accumulated depreciation	(1,051,050)	(11,666,491)	(25,202,829)	(3,818,363)	(41,738,733)
Net carrying amount	996,450	3,492,362	5,549,604	354,119	10,392,535

14. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

Group

	Buildings *HK$*	Leasehold improvements *HK$*	Furniture, fixtures and equipment *HK$*	Motor vehicles *HK$*	Total *HK$*
31 December 2005					
At 1 January 2005:					
Cost	2,047,500	13,245,455	35,922,924	4,253,739	55,469,618
Accumulated depreciation	(887,250)	(13,152,802)	(34,518,634)	(4,253,739)	(52,812,425)
Net carrying amount	1,160,250	92,653	1,404,290	–	2,657,193
At 1 January 2005, net of accumulated depreciation	1,160,250	92,653	1,404,290	–	2,657,193
Additions	–	4,843,916	4,387,632	–	9,231,548
Disposals	–	–	(5,500)	–	(5,500)
Depreciation provided during the year	(81,900)	(710,899)	(1,235,560)	–	(2,028,359)
At 31 December 2005, net of accumulated depreciation	1,078,350	4,225,670	4,550,862	–	9,854,882
At 31 December 2005:					
Cost	2,047,500	15,302,681	31,802,107	4,253,739	53,406,027
Accumulated depreciation	(969,150)	(11,077,011)	(27,251,245)	(4,253,739)	(43,551,145)
Net carrying amount	1,078,350	4,225,670	4,550,862	–	9,854,882

15. PREPAID LAND LEASE PAYMENTS

	Group 2006 HK$	Group 2005 HK$
Carrying amount at 1 January	**1,562,925**	1,603,875
Recognised during the year	**(40,950)**	(40,950)
Carrying amount at 31 December	**1,521,975**	1,562,925
Current portion included in deposits, prepayments and other receivables	**(40,950)**	(40,950)
Non-current portion	**1,481,025**	1,521,975

The leasehold land are held under long term leases and are situated in Hong Kong.

16. STOCK AND FUTURES EXCHANGE TRADING RIGHTS

	Group HK$
Cost and carrying amount at 1 January 2005, 31 December 2005 and 31 December 2006	4,211,831

17. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$	Company 2005 HK$
Unlisted shares, at cost	**144,910,152**	90,910,152
Due from subsidiaries	**617,662,686**	624,385,558
	762,572,838	715,295,710
Due to subsidiaries	**(47,015,114)**	(20,996,072)
	715,557,724	694,299,638
Impairment	**(81,767,554)**	(81,767,554)
	633,790,170	612,532,084

17. INTERESTS IN SUBSIDIARIES *(Cont'd)*

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for amounts due from subsidiaries aggregating HK$370,000,000 (2005: HK$320,000,000) and an amount due to a subsidiary of HK$189,578,563 (2005: HK$187,383,387) which bear interest at rates ranging from the bank deposit savings rate to the prime rate (2005: bank deposit savings rate to the prime rate) per annum. The carrying amounts of these amounts due from/(to) subsidiaries approximate to their fair values.

All of the principal subsidiaries, unless otherwise indicated, are incorporated and operate in Hong Kong. Details of the Company's principal subsidiaries at the balance sheet date are as follows:

Name	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company				Principal activities
		Direct		Indirect		
		2006	2005	**2006**	2005	
Shenyin Wanguo Securities (H.K.) Limited	HK$80,000,000	**100**	100	**–**	–	Securities broking and margin financing
Shenyin Wanguo Futures (H.K.) Limited	HK$13,000,000	**100**	100	**–**	–	Futures and options broking
Shenyin Wanguo Capital (H.K.) Limited	HK$10,000,000	**100**	100	**–**	–	Corporate finance
Shenyin Wanguo Asset Management (Asia) Limited	HK$1,000,000	**–**	–	**100**	100	Provision of asset management services
Shenyin Wanguo Research (H.K.) Limited	HK$300,000	**100**	100	**–**	–	Provision of securities research services
Shenyin Wanguo Strategic Investments (H.K.) Limited	HK$10,000	**100**	100	**–**	–	Securities trading and investment holding
Shenyin Wanguo Finance (H.K.) Limited	HK$25,000,000	**100**	100	**–**	–	Provision of financial services

17. INTERESTS IN SUBSIDIARIES *(Cont'd)*

Name	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company Direct 2006	Direct 2005	Indirect 2006	Indirect 2005	Principal activities
Shenyin Wanguo Enterprises (H.K.) Limited	HK$15,000,000	**100**	100	**–**	–	Provision of management and treasury services
Shenyin Wanguo Online Limited	HK$2	**100**	100	**–**	–	Leasing of computer equipment
Shenyin Wanguo Trading (H.K.) Limited	HK$375,000	**100**	100	**–**	–	Securities trading
Sparkle Well Limited	HK$2	**100**	100	**–**	–	Property holding
Wealthy Limited	HK$2	**100**	100	**–**	–	Property holding
Shenyin Wanguo (Holdings) Limited	HK$2	**100**	100	–	–	Investment holding
Shenyin Wanguo Nominees (H.K.) Limited	HK$1,000	**–**	–	**100**	100	Provision of share custodian and nominee services
First Million Holdings Ltd*	US$1	**100**	100	**–**	–	Securities trading and investment holding
Crux Assets Limited*	US$1	**–**	–	**100**	100	Investment holding

* Incorporated in the British Virgin Islands.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. INTERESTS IN ASSOCIATES

	Group 2006 HK$	2005 HK$
Share of net assets	**101,505,176**	102,935,686

Particulars of the associates are as follows:

Name	Class of issued shares/registered share capital held	Place of incorporation/ registration and operations	Percentage of Ownership interest	Voting interest	Profit sharing	Principal activities
The New China Hong Kong Highway Limited ("NCHK")#	Ordinary shares	British Virgin Islands	26.19	26.19	26.19	Investment holding
Sichuan Chengmian Expressway Co., Ltd. ("SCECL")#	Registered share capital	Mainland China	15.71	15.71	15.71	Highway operations

\# Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The above investments in associates were indirectly held by the Company.

NCHK holds a 60% equity interest in SCECL. In accordance with the terms of the revised joint venture agreement of SCECL dated 18 March 1994, NCHK is entitled to all of the net profit generated by SCECL from the date of registration of SCECL to 21 December 2003. Thereafter, NCHK is entitled to 60% and 50% of the net profit generated by SCECL for the periods from 22 December 2003 to 21 December 2008 and from 22 December 2008 to 21 December 2018, respectively. For the period from 22 December 2018 to the end of the joint venture period on 21 December 2024, NCHK is entitled to 40% of the net profit generated by SCECL.

As at 31 December 2006 and 2005, the interests in associates were pledged to secure certain of the Group's banking facilities, which were not utilised at the balance sheet dates (note 31).

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2006 HK$	2005 HK$
Assets	**1,278,282,249**	1,314,950,767
Liabilities	**641,176,111**	673,268,472
Revenues	**275,838,411**	260,667,144
Profit	**97,377,183**	66,417,517

19. GOODWILL

	Group
	HK$
Cost and carrying amount at 1 January 2005, 31 December 2005 and 31 December 2006	57,632,404

Impairment testing of goodwill

Goodwill arising from the acquisition of a subsidiary which holds the equity interests in the associates has been allocated to the cash-generating unit of associates for impairment testing.

The recoverable amount of the interest in associates and the related goodwill has been determined based on a value in use calculation using cash flow projections based on the financial results of the past three years and financial budgets approved by the senior management of the associates. The cash flow projections are discounted by the prevailing market rate of return of similar companies in the market adjusted with the specific risks relating to the cash-generating unit over the expected useful lives of the associates until the end of the joint venture period. No growth rate has been taken into account in the cash flow projections as the Group considers that the growth rate cannot be reliably measured. Key assumptions used in the cash flow projections included financial budgets and discount rates. Financial budgets are determined with reference to the financial results of previous years while the discount rates used reflect the specific risks relating to the cash-generating unit.

20. INVESTMENTS

	Group	
	2006	2005
	HK$	*HK$*
Financial instruments		
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
	178,786,084	258,032,472
Embedded derivative liability on the unlisted equity investment, at fair value*	**(17,329,365)**	(50,620,857)
	161,456,719	207,411,615
Equity investments at fair value through profit or loss		
Listed equity investments, at fair value^:		
Hong Kong	**59,652,809**	35,808,527
Elsewhere	**–**	4,078,160
	59,652,809	39,886,687

20. INVESTMENTS *(Cont'd)*

* The unlisted equity investment and the embedded derivative liability represented 1,988,604,181 (2005: 2,651,472,241) convertible non-voting redeemable preference shares (the "Preference Shares") in Century City International Holdings Limited ("CCIH"). The Preference Shares are not freely transferable, will not be entitled to any income distribution and are non-voting. The Preference Shares may be fully or partly converted into fully paid CCIH ordinary shares on the basis of one CCIH ordinary share for one Preference Share, subject to adjustment, in stages on or after 15 December 2006 pursuant to the terms of the Preference Shares, up to 15 December 2009 (the "Maturity Date"). The Preference Shares which have not been converted and remain outstanding on the Maturity Date shall be mandatorily converted into CCIH ordinary shares on the Maturity Date. CCIH has the right (the "Right") to redeem all or part of the Preference Shares at the rate of HK$0.15 for every Preference Share before the Maturity Date. The Right is classified as an embedded derivative and is measured at fair value. The holders of the Preference Shares have no right to require CCIH to redeem or buy back the Preference Shares and the holders of the Preference Shares have pre-emptive rights should CCIH propose to issue new CCIH ordinary shares.

On 15 December 2006, 662,868,060 Preference Shares were converted into 662,868,060 CCIH ordinary shares.

Pursuant to the disclosure requirement of Section 129(1) of the Hong Kong Companies Ordinance, the Group holds 79.3% of CCIH's issued convertible preference series C shares, exceeding 20% of the nominal value of CCIH's issued shares of that class at the balance sheet date. CCIH is incorporated in Bermuda.

^ The market values of the Group's listed equity investments at the balance sheet date and at the date of approval of these financial statements were approximately HK$67,832,409 (2005: HK$58,935,284) and HK$85,253,668 (2005: HK$81,014,375), respectively.

The listed equity investments at fair value through profit or loss at 31 December 2006 of HK$59,652,809 (2005: HK$39,886,687) were classified as held for trading.

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 (2005: Nil) 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).

The fair values of listed equity investments are based on quoted market prices. The fair value of unlisted available-for-sale equity investment has been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated balance sheet, and the related changes in fair values, which are recorded in the consolidated equity and income statement, are reasonable, and that they were the most appropriate values at the balance sheet date.

20. INVESTMENTS *(Cont'd)*

The valuation of the Preference Shares is subject to the limitations of the Binomial pricing model and the uncertainty in estimates used by the Group. The Binomial pricing model is modified for the features of the Preference Shares. Should the estimates including the volatility of underlying securities, risk-free interest rate and other factors relevant to the underlying securities be changed, there would be changes in the valuation of the Preference Shares and the fair value gains recognised in the available-for-sale investment revaluation reserve and the income statement.

Management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model, and considered that the differences in fair values using less or more favourable assumptions are not significantly different from the carrying value.

21. DEFERRED TAX ASSETS

The movement in deferred tax assets during the year is as follows:

Group	**Losses available for offset against future taxable profits** *HK$*
At 1 January 2005	470,000
Deferred tax charged to the income statement during the year *(note 10)*	(470,000)
At 31 December 2005, 1 January 2006 and 31 December 2006	–

The Group has tax losses arising in Hong Kong of HK$174,000,000 (2005: HK$278,745,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is considered not probable that future taxable profits will be available from these group companies against which the tax losses can be utilised.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

22. ACCOUNTS RECEIVABLE

	Group	
	2006	2005
	HK$	*HK$*
Accounts receivable	**898,897,402**	142,742,459
Less: Impairment	**(22,106,949)**	(23,806,949)
	876,790,453	118,935,510

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

	Group	
	2006	2005
	HK$	*HK$*
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	**26,785,225**	24,763,707
	898,897,402	142,742,459

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.

23. LOANS AND ADVANCES

	Group	
	2006	2005
	HK$	*HK$*
Loans and advances to customers:		
Secured	**349,691,946**	144,807,992
Unsecured	**2,212,158**	2,212,158
	351,904,104	147,020,150
Less: Impairment	**(13,173,022)**	(13,173,022)
	338,731,082	133,847,128

The maturity profile of the loans and advances to customers at the balance sheet date is analysed by the remaining period at the balance sheet date to the contractual maturity date as follows:

	Group	
	2006	2005
	HK$	*HK$*
Repayable on demand	**338,576,588**	133,692,634
Undated	**13,327,516**	13,327,516
	351,904,104	147,020,150

As at 31 December 2006, the total market value of securities pledged by customers as collateral in respect of the above loans and advances to customers was HK$1,435,459,037 (2005: HK$628,057,947).

In view of the fact that the Group's loans and advances relate to a large number of diversified customers, there is no significant concentration of credit risk. Loans and advances to margin clients of HK$338,576,588 (2005: HK$133,692,634) bear interest at interest rates with reference to the prime rate.

24. BANK BALANCES HELD ON BEHALF OF CUSTOMERS

The Group maintains segregated trust accounts with licensed banks to hold clients' monies in accordance with the relevant legislation. The Group has classified the clients' monies as cash held on behalf of customers in current assets section of the balance sheet and recognised the corresponding accounts payable to the respective customers in current liabilities section of the balance sheet. The Group is allowed to retain some or all of the interest on the clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$	*HK$*	***HK$***	*HK$*
Cash and bank balances	**36,465,742**	31,458,275	**1,378,717**	1,213,025
Time deposits	**38,174,549**	82,556,280	**–**	–
	74,640,291	114,014,555	**1,378,717**	1,213,025

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one week and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values.

26. ACCOUNTS PAYABLE

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

	Group	
	2006	2005
	HK$	*HK$*
Current to 30 days	**1,706,674,184**	600,779,985

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.

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$	*HK$*	***HK$***	*HK$*
Other payables	**5,648,292**	3,878,364	**272,427**	392,221
Accruals	**52,840,414**	13,623,267	**2,188,467**	2,154,782
	58,488,706	17,501,631	**2,460,894**	2,547,003

Other payables are non-interest-bearing and have an average term of within one month.

28. OTHER PAYABLES

Other payables are non-interest-bearing and the carrying amounts of other payables approximate to their fair values.

29. SHARE CAPITAL

	Company	
	Number of ordinary shares of HK$0.50 each	*HK$*
Authorised	2,000,000,000	1,000,000,000
Issued and fully paid:		
At 31 December 2005 and 31 December 2006	530,759,126	265,379,563

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

The Group's general reserve represents prior year appropriations of profits which are distributable to the shareholders.

30. RESERVES *(Cont'd)*

(b) Company

	Note	Share premium account HK$	General reserve HK$	Retained profits HK$	Total HK$
At 1 January 2005		314,739,683	656,293	12,936,515	328,332,491
Profit for the year		–	–	19,970,098	19,970,098
Proposed final 2005 dividend	12	–	–	(5,307,591)	(5,307,591)
At 31 December 2005 and 1 January 2006		314,739,683	656,293	27,599,022	342,994,998
Profit for the year		–	–	36,326,879	36,326,879
Interim 2006 dividend	12	–	–	(10,615,183)	(10,615,183)
Proposed final and special final 2006 dividends	12	–	–	(21,230,366)	(21,230,366)
At 31 December 2006		314,739,683	656,293	32,080,352	347,476,328

The Company's general reserve represents prior year appropriations of profits which are distributable to the shareholders.

31. BANKING FACILITIES

At the balance sheet date, the Group's unutilised banking facilities were secured by the pledge of interests in associates (note 18) and guarantees given by the Company.

32. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

(i) On 15 December 2006, available-for-sale investments with an aggregate fair value of HK$64,961,070 (2005: Nil) were reclassified as equity investments at fair value through profit or loss upon the conversion of 662,868,060 Preference Shares into 662,868,060 CCIH ordinary shares.

(ii) During the year ended 31 December 2005, club debentures of HK$2,470,000 were reclassified from other assets to available-for-sale investments.

33. CONTINGENT LIABILITIES

At the balance sheet date, the contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$	*HK$*	***HK$***	*HK$*
Guarantees in respect of bank loans and other facilities granted to subsidiaries	**–**	–	**618,500,000**	1,012,500,000

As at 31 December 2006 and 2005, the banking facilities granted to the subsidiaries subject to the guarantees given to the banks by the Company were not utilised.

34. COMMITMENTS

(a) Capital commitments

	Group	
	2006	2005
	HK$	*HK$*
Contracted, but not provided for the purchases of furniture, fixtures and equipment	**839,371**	1,136,513

(b) Operating lease commitments as a lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$	*HK$*
Within one year	**9,006,568**	8,963,899
In the second to fifth years, inclusive	**3,064,760**	10,243,875
	12,071,328	19,207,774

At 31 December 2006, the Company did not have any significant commitments (2005: Nil).

35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) The Group paid brokerage commissions totaling HK$2,634,520 (2005: brokerage commissions totaling HK$1,503,469 and a service fee of HK$429,694) to a substantial beneficial shareholder of the Company, SWSC, during the year. The brokerage commissions and the service fee were based on mutually agreed terms with reference to the prices and conditions similar to those offered to other customers by SWSC.

(b) The Group paid and accrued a research fee totaling HK$1,350,691 (2005: HK$1,200,000) to a subsidiary of SWSC during the year. The research fee was based on mutually agreed terms with reference to the prices and conditions similar to those offered to other customers by that subsidiary of SWSC. The accrued amount is included in "other payables and accruals" on the consolidated balance sheet.

(c) The Group received brokerage commission income totaling HK$75,332 (2005: HK$36,909) from a substantial beneficial shareholder of the Company, SWHKH, which was based on the published prices and conditions offered to the major customers of the Group.

(d) Compensation of key management personnel of the Group:

	2006 ***HK$***	2005 *HK$*
Short term employee benefits	**26,372,941**	11,303,718
Post-employment benefits	**1,050,915**	1,032,388
	27,423,856	12,336,106

Except for item (d), the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's business segments include securities broking, securities dealing, securities financing and the provision of direct loans. There is a constant need of funding for the settlement of securities transactions and for the provision of financing and loans to the customers. The source of funding is either from the Group's own capital or borrowings from financial institutions, if necessary. The Group's principal financial instruments comprise short-term deposits.

The purpose of drawing overdrafts is to satisfy the need of short term funding of the Group. For the need of long-term funding, the Group utilises the available banking facilities and drawdowns of bank loans. The Group maintains surplus cash in reputable financial institutions in Hong Kong to earn interest income.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Cash flow interest rate risk

The Group's borrowings from banks during the year are for the provision of financing and loans to customers. The majority of the bank borrowings bear interest at interest rates with reference to the HIBOR whereas loans to customers bear interest at interest rates with reference to the prime rate. As the prime rate in Hong Kong basically changes in line with the HIBOR, the Group's exposure to the risk of changes in market interest rates is minimal.

Foreign currency risk

The Group's securities broking and dealing business are primarily conducted in the stock markets of Hong Kong and the B-share markets of Mainland China, which are denominated in Hong Kong dollars or United States dollars. As Hong Kong dollar is pegged with the United States dollar, the Group's exposure to foreign currency risk is minimal.

Credit risk

The Group has put in place a well-established credit policy governing the granting of credit limit to customers. Customers are required to deposit their securities with the Group as collateral to their borrowings. The credit department is responsible for assisting the directors in formulating the credit policy of the Group, monitoring the credit risks of customers with reference to the realisable values of the collaterals and recommending measures to the directors for granting credit facilities which exceed the discretionary power limits of the credit department.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and available-for-sale investments, arises from the default of the counterparties, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group's borrowings from banks during the year are for the provision of financing and loans to customers for their purchases and continuous holding of securities. The maturity of bank borrowings of the Group usually ranges from overnight to one month, and they are either rolled over or repaid by the Group's own funding. In addition, for those customers who are unable to settle their settlement obligations or margin deficits, the Group may dispose of the securities collateral pledged by the customers to the Group. The Group always ensures that the securities collateral pledged by customers are able to be realised in the market within a reasonable period of time.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2007.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the members of Shenyin Wanguo (H.K.) Limited (the "Company") will be held at the Dragon Room, The Hong Kong Bankers Club at 43rd Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong, on Friday, 11 May 2007 at 9:00 a.m. for the following purposes:

1. To receive and consider the Audited Consolidated Financial Statements and the Reports of Directors and Independent Auditors for the year ended 31 December 2006;

2. To declare a final dividend and a special final dividend;

3. To re-elect Directors and authorize the Board of Directors to fix their remuneration;

4. To re-appoint Auditors and authorize the Board of Directors to fix their remuneration;

5. As special business to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

   "**THAT**:

   (a) subject to sub-paragraph (c) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue or otherwise deal with additional shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares, and to make or grant offers, agreements and options which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;

   (b) the approval in sub-paragraph (a) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in sub-paragraph (a) of this Resolution, otherwise than pursuant to:

      (i) a Rights Issue (as hereinafter defined);

      (ii) the exercise of rights of subscription or conversions attaching to any warrants issued by the Company or any securities which are convertible into shares;

      (iii) any option scheme or similar arrangements for the time being adopted for the grant or issue to officers and/or employees of the Company and/or its subsidiaries of shares or rights to acquire shares of the Company; or

(iv) any scrip dividend scheme or similar arrangements providing for the allotment of shares of the Company in lieu of the whole or a part of a dividend on such shares in accordance with the Articles of Association of the Company;

shall not exceed 20 per cent of the aggregate nominal value of the share capital of the Company in issue at the date of the passing of this Resolution, and this approval shall be limited accordingly; and

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and

(iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of or the requirements of any recognized regulatory body or any stock exchange in any territory applicable to the Company)."

6. As special business to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"**THAT**:

(a) subject to sub-paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of HK$0.50 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange on which the securities of the Company may be listed and is recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in sub-paragraph (a) above shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution, and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and

(iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting."

7. As special business to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"**THAT** conditional upon the passing of Ordinary Resolutions 5 and 6, the general mandate granted to the Directors of the Company to exercise the power of the Company to allot, issue and deal with shares pursuant to Ordinary Resolution 5 set out in the notice convening this Meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution 6 set out in the notice convening this Meeting, provided that such amount shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing of this Ordinary Resolution."

By order of the Board

Wong Che Keung Leslie
Company Secretary

Hong Kong, 17 April 2007

Notes:

1. 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 transfer of shares 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 not later than 4:30 p.m. on Friday, 4 May 2007.

2. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and on a poll, vote on his behalf and such proxy need not be a member of the Company.

3. In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of the power of attorney or authority, must be deposited at the registered office of the Company not later than 48 hours before the time appointed for holding the meeting (or the adjourned meeting as the case may be).

4. Concerning Ordinary Resolutions 5 to 7, the directors wish to state that they have no immediate plans to issue any new shares of the Company or repurchase any existing shares of the Company.

5. An explanatory statement as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in connection with the proposed repurchase mandate under Ordinary Resolution 6 above will be despatched to members together with 2006 Annual Report of the Company.