

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries consist of securities, bullion and commodities broking and trading, margin financing, money lending, provision of corporate advisory and underwriting services, property investment and investment holding.

There were no significant changes in the nature of these activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity for the years ended 31 December 2000 and 1999 is as follows:

	Turnover		Contribution to profit from operating activities	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Securities, bullion and commodities broking	144,454	115,054	27,792	27,687
Securities, bullion and commodities trading	48,738	5,530	(25,951)	5,323
Margin financing and money lending	63,139	27,581	(38,006)	33,458
Corporate advisory and underwriting services	7,404	10,917	137	423
Property investment	372	342	7,463	5,320
Investment holding	1,432	426	56,134	(3,147)
	265,539	159,850	27,569	69,064

The Group's turnover and contribution to profit from operating activities were principally derived from operations in Hong Kong.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 18 to 52.

An interim dividend of 0.525 HK cent per share was declared and paid during the year. The directors recommend the payment of a final dividend of 0.6 HK cent per share in respect of the year to shareholders on the register of members on 25 May 2001. This recommendation has been incorporated in the financial statements.

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SUMMARY FINANCIAL INFORMATION

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

	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000
RESULTS					
Turnover:					
Continuing operations	265,539	159,850	113,124	387,507	187,055
Discontinued operation	—	—	1,934	7,363	5,166
	265,539	159,850	115,058	394,870	192,221
Profit/(loss) before tax:					
Continuing operations	24,864	65,242	(110,442)	31,562	72,101
Discontinued operation	—	—	968	408	(1,435)
	24,864	65,242	(109,474)	31,970	70,666
Tax	(1,186)	(1,439)	(363)	(5,916)	(9,403)
Net profit/(loss) from ordinary activities attributable to shareholders	23,678	63,803	(109,837)	26,054	61,263
Earnings/(loss) per share (HK cent):					
Basic	0.49	1.31	(2.26)	0.59	1.53
Diluted	N/A	N/A	N/A	0.53	1.49
Dividends per share (HK cent)	1.125	0.50	0.05	0.50	0.90
ASSETS AND LIABILITIES					
Total assets	871,149	966,066	514,984	1,589,625	2,019,734
Total liabilities	(459,585)	(685,991)	(291,683)	(1,092,895)	(1,530,320)
Net assets	411,564	280,075	223,301	496,730	489,414

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FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group are set out in note 12 to the financial statements.

INVESTMENT PROPERTY

Details of movements in the Group's investment property are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 16 to the financial statements.

BANK BORROWINGS

Details of the Group's bank borrowings at 31 December 2000 are set out in note 23 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year, together with reasons therefor, are set out in note 25 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 26 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

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.

REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the directors and the five highest paid employees disclosed pursuant to Section 161 of the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are set out in notes 6 and 7 to the financial statements, respectively.

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DIRECTORS

The directors of the Company during the year were:

Executive directors:

Ng Hung Sang, Robert

Richard Howard Gorges

Cheung Choi Ngor, Christina

Li Siu Tak

Ng Chun Sang

Non-executive director:

Tan Boon Seng

Independent non-executive directors:

Tse Wong Siu Yin, Elizabeth

Raymond Arthur William Sears Q.C. (appointed on 24 March 2000)

Terry John Miller (resigned on 15 February 2000)

Subsequent to the balance sheet date on 1 February 2001, Shing Shin Cheung, Stewart was appointed as an executive director of the Company.

In accordance with article 99 of the Company's articles of association, Shing Shin Cheung, Stewart will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

In accordance with article 116 of the Company's articles of association, Ng Hung Sang, Robert and Cheung Choi Ngor, Christina will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in note 31 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Company to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party at the balance sheet date or at any time during the year.

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DIRECTORS' INTERESTS IN EQUITY SECURITIES

At 31 December 2000, the interests of the directors in the equity securities of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

(i) The Company

Name of directors	Number of ordinary shares		Number of Outstanding share options (Note a)
	Personal interests	Corporate interests	
Ng Hung Sang, Robert	3,078,000	—	100,000,000
Richard Howard Gorges	16,174,000	—	50,000,000
Cheung Choi Ngor, Christina	—	—	100,000,000
Li Siu Tak	—	—	40,000,000
Ng Chun Sang	—	—	20,000,000

(ii) Ultimate holding company — South China Holdings Limited ("South China Holdings")

Name of directors	Number of ordinary shares		Number of warrants		Number of Outstanding share options (Note d)
	Personal interest (Note b)	Corporate interest (Note b)	Personal interest (Note c)	Corporate interests (Note c)	
Ng Hung Sang, Robert	18,886,800	318,132,403	3,777,360	63,626,480	4,199,000
Richard Howard Gorges	—	121,987,440	—	24,397,488	4,198,000
Cheung Choi Ngor, Christina	—	121,987,440	—	24,397,488	4,198,000

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN EQUITY SECURITIES (Continued)

(iii) Fellow subsidiaries

(1) *South China Industries Limited ("South China Industries")*

Name of directors	Number of ordinary shares		Number of Outstanding share options <i>(Note e)</i>
	Personal interests	Corporate interests	
Ng Hung Sang, Robert	—	—	13,000,000
Richard Howard Gorges	—	—	13,000,000
Cheung Choi Ngor, Christina	—	—	13,000,000

(2) *South China Information and Technology Limited ("South China IT")*

Name of directors	Number of ordinary shares		Number of Outstanding share options <i>(Note f)</i>
	Personal interests	Corporate interests	
Cheung Choi Ngor, Christina	—	—	17,000,000
Li Siu Tak	—	—	1,000,000

(3) *The Express News Limited ("Express News")*

Name of director	Number of ordinary shares		<i>(Note g)</i>
	Personal interests	Corporate interests	
Ng Hung Sang, Robert	—	—	30

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DIRECTORS' INTERESTS IN EQUITY SECURITIES (Continued)

Notes:

- (a) Under the employee share option scheme of the Company adopted on 12 July 1993, the options are exercisable on or before 11 July 2003 at the respective initial subscription prices of HK\$1.80, HK\$0.118 and HK\$0.238 per share (subject to adjustment).

During the year, Ng Chun Sang was granted 20,000,000 shares options which entitle him to subscribe for ordinary shares in the Company at an initial subscription price of HK\$0.238 per share (subject to adjustment).

Further details of the Company's share option scheme are set out in note 25 to the financial statements.

- (b) Ng Hung Sang, Robert, Richard Howard Gorges and Cheung Choi Ngor, Christina, through companies wholly-owned and controlled by them, have interests in 121,987,440 shares in South China Holdings. Ng Hung Sang, Robert personally owns 18,886,800 shares and, through companies wholly-owned and controlled by him, beneficially owns 196,144,963 shares in South China Holdings.
- (c) Ng Hung Sang, Robert, Richard Howard Gorges and Cheung Choi Ngor, Christina through companies wholly-owned and controlled by them, have interests in 24,397,488 warrants in South China Holdings. Ng Hung Sang, Robert personally owns 3,777,360 warrants and, through companies wholly-owned and controlled by him, beneficially owns 39,228,992 warrants in South China Holdings.
- (d) Under the employee share option scheme of South China Holdings adopted on 29 July 1992, the options are exercisable on or before 28 July 2002 at the respective initial subscription prices of HK\$1.36 and HK\$0.88 per share (subject to adjustment).
- (e) Under the employee share option scheme of South China Industries adopted on 10 August 1992, the options are exercisable on or before 28 July 2002 at an initial subscription price of HK\$1.18 per share (subject to adjustment).
- (f) Under the employee share option scheme of South China IT adopted on 13 October 1997, Cheung Choi Ngor, Christina and Li Siu Tak were granted a total of 17,000,000 and 1,000,000 options, respectively during the year. These options are exercisable on or before 12 October 2007 at the respective initial subscription prices of HK\$1.28 and HK\$0.51 per share (subject to adjustment).
- (g) Ng Hung Sang, Robert and his family, through a company wholly-owned and controlled by them, have an interest in 30 shares in Express News.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Other than the Company's, its holding company's and its fellow subsidiaries' share option schemes to subscribe for their own ordinary shares, at no time during the year was the Company, its holding companies, its subsidiaries or any of its fellow subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS

Executive directors

Ng Hung Sang, Robert, aged 51, is the chairman of the Company, South China Holdings, South China Industries, South China IT, Wah Shing International Holdings Limited (“Wah Shing”) and Fourseas.com Limited (“Four Seas”). He holds a Master’s degree in marketing from Lancaster University, the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. He was appointed as a director in December 1988.

Richard Howard Gorges, aged 57, is the vice-chairman of the Company and South China Industries, a director of South China Holdings, South China IT and Four Seas, and the deputy chairman of Wah Shing. He holds a Master’s degree in law from Cambridge University, the United Kingdom. He was appointed as a director in December 1988.

Cheung Choi Ngor, Christina, aged 47, is the vice-chairman of the Company, the vice-chairman and chief executive of South China Industries, the deputy chairman and chief executive of Wah Shing, the deputy chairman of Four Seas and a director of South China Holdings and South China IT. She holds a Master’s degree in business administration from the University of Illinois, the United States of America. She was appointed as a director in December 1988.

Shing Shin Cheung, Stewart, aged 53, is the chief executive officer of the Company. He holds a Master’s degree in business administration from the University of New South Wales, Australia. He is a fellow member of the Hong Kong Society of Accountants. He was the chief executive of the Hong Kong Securities Clearing Company Limited and the head of Clearing Business Unit of Hong Kong Exchanges and Clearing Limited. He served as a member of the working groups for various regulatory bodies and stockbroking associations in Hong Kong. He was also a founding member of the Asia-Pacific Central Securities Depository Group and a member of the Board of the International Securities Services Association. He was appointed as a director in February 2001.

Li Siu Tak, aged 43, is the managing director of the Company. He holds a Bachelor’s degree in business administration from the South Illinois State University, the United States of America. He has extensive experience in securities, foreign exchange and commodities broking. He was appointed as a director in April 1998.

Ng Chun Sang, aged 38, holds a Bachelor’s degree in science from the University of London, the United Kingdom. He has extensive experience in securities and commodities broking. He is a brother of Mr Ng Hung Sang, Robert. He was appointed as a director in October 1999.

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BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS (Continued)

Non-executive director

Tan Boon Seng, aged 45, is the chairman of Lee Hing Development Limited and a joint managing director of IGB Corporation Berhad, a listed company in Malaysia and is an independent non-executive director of Wo Kee Hong (Holdings) Limited and Star Cruise Limited. He is also a non-executive director of South China Holdings and South China Industries. He holds a Master's degree in arts from Cambridge University, the United Kingdom. He has extensive experience in property development, corporate finance and trading businesses. He was appointed as a director in December 1988.

Independent non-executive directors

Tse Wong Siu Yin, Elizabeth, aged 43, is the chairman of the Hong Kong Flower Retailers Association and Friend of Community Chest (Southern District). She holds a Bachelor's degree of science in nutrition from the University of Western Ontario, Canada. She is also an independent non-executive director of South China IT. She was appointed as an independent non-executive director in November 1992.

Raymond Arthur William Sears Q.C., aged 68, is a retired High Court Judge. He holds a Master's degree in law from Cambridge University, the United Kingdom. He became a Queen's Counsel in 1975 and was the former vice-chairman of the Judicial Section of the International Bar Association. In the United Kingdom, he had been leading Counsel in England to the government and large authorities on redevelopment and construction projects and to the General Medical Council. In 1986 and 1987, he was a Justice of the Supreme Court of Hong Kong and the Commissioner to the Sultan of Brunei, respectively. From 1994 to 1999, he was the Senior Civil High Court judge. He was appointed as an independent non-executive director in March 2000.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2000, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Shareholders	Number of ordinary shares
East Hill Development Limited ("East Hill")	1,800,000,000
Tek Lee Finance and Investment Corporation Limited ("Tek Lee")	3,626,452,500 (Note a)
South China (BVI) Limited ("South China (BVI)")	3,626,452,500 (Note b)
South China Holdings	3,626,452,500 (Note b)

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SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

- (a) Tek Lee is the holding company of East Hill. The 3,626,452,500 shares referred to above include the 1,800,000,000 shares held by East Hill.
- (b) South China Holdings is the holding company of South China (BVI), which in turn is the holding company of Tek Lee. The 3,626,452,500 shares referred to are the same parcel of shares as in (a) above.

CONNECTED TRANSACTIONS

The connected transactions undertaken by the Group during the year are set out in note 31 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed to the board that, in their opinion, the connected transactions as set out in note 31 to the financial statements were conducted in the ordinary and usual course of the Group's business; on terms in accordance with respective agreements governing these transactions or where these were no such agreements, or on terms no less favourable than those offered to/by independent third parties; and are fair and reasonable to the shareholders of the Company.

PURCHASE, SALE OR REDEMPTION 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.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group and the employer's retirement benefits costs charged to the profit and loss account for the year are set out in notes 2 and 4 to the financial statements, respectively.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Company are set out in note 32 to the financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice ("the Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association. In the opinion of the directors, this meets the objectives of the Code.

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DISTRIBUTABLE RESERVES

At 31 December 2000, the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with Section 79B of the Companies Ordinance, amounted to HK\$4,640,000.

In addition, the Company's share premium account of HK\$201,285,000 is available for distribution in the form of fully paid bonus shares.

AUDITORS

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

ON BEHALF OF THE BOARD

Ng Hung Sang, Robert

Chairman

Hong Kong Special Administrative Region of the People's Republic of China

24 April 2001