

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 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of securities, bullion and commodities broking and trading, margin financing, money lending, the provision of corporate advisory and underwriting services, property investment and investment holding. There were no significant changes in the nature of the Group's principal activities during the year.

FINANCIAL RESULTS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 65.

SUMMARY FINANCIAL INFORMATION

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

	Year ended 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
RESULTS					
Turnover:					
Continuing operations	102,756	127,984	265,539	159,850	113,124
Discontinued operation	—	—	—	—	1,934
	102,756	127,984	265,539	159,850	115,058
Profit/(loss) before tax:					
Continuing operations	(225,255)	21,172	24,864	65,242	(110,442)
Discontinued operation	—	—	—	—	968
	(225,255)	21,172	24,864	65,242	(109,474)
Tax	(403)	(981)	(1,186)	(1,439)	(363)
Profit/(loss) before minority interests	(225,658)	20,191	23,678	63,803	(109,837)
Minority interests	(3)	(217)	—	—	—
Net profit/(loss) from ordinary activities attributable to shareholders	(225,661)	19,974	23,678	63,803	(109,837)

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SUMMARY FINANCIAL INFORMATION (Continued)

RESULTS (Continued)

	2002	Year ended 31 December			
		2001	2000	1999	1998
Earnings/(loss) per share (HK cent):					
Basic	(4.64)	0.41	0.49	1.31	(2.26)
Diluted	N/A	0.40	N/A	N/A	N/A
Dividends per share (HK cent)	N/A	0.525	1.125	0.50	0.05

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2002	31 December			
		2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	640,787	872,860	871,749	966,066	514,984
Total liabilities	(425,927)	(510,320)	(430,411)	(664,111)	(289,252)
Minority interests	(2,240)	(2,332)	—	—	—
Net assets	212,620	360,208	441,338	301,955	225,732

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group are set out in note 15 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 the reasons therefor, are set out in notes 26 and 27 to the financial statements.

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ARRANGEMENTS TO PURCHASE, REDEEM OR SELL THE COMPANY'S LISTED SECURITIES

During the year, the Company repurchased, through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and cancelled an aggregate of 750,000 ordinary shares (2001: 4,050,000) of HK\$0.025 each in the share capital of the Company at prices ranging from HK\$0.107 to HK\$0.118 per share. The total purchase consideration was HK\$86,000 (2001: HK\$564,000).

The difference between the cash consideration and the nominal value of the share repurchased of HK\$68,000 (2001: HK\$464,000) has been charged to the Company's retained profits.

In addition, HK\$18,000 (2001: HK\$100,000), representing the nominal value of the cancelled shares, has been transferred from retained profits to the capital redemption reserve.

Other than as set out above, 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 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company had no reserves available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of Section 79B of the Companies Ordinance. The Company's share premium account, in the amount of HK\$201,674,000, is available for distribution in the form of fully paid bonus shares.

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 the details of the Group's suppliers.

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DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Ng Hung Sang, Robert (*Chairman*)
Mr. Richard Howard Gorges (*Vice-Chairman*)
Ms. Cheung Choi Ngor, Christina (*Vice-Chairman*)
Mr. Shing Shin Cheung, Stewart (*Chief Executive Officer*)
Mr. Ng Chun Sang

Non-executive director:

Mr. Tan Boon Seng

Independent non-executive directors:

Mrs. Tse Wong Siu Yin, Elizabeth
Hon. Raymond Arthur William Sears, Q.C.

In accordance with article 116 of the Company's articles of association, Mrs. Tse Wong Siu Yin, Elizabeth and Hon. Raymond Arthur William Sears, Q.C. 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 which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in note 33 to the financial statements, no director had a material interest 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.

MANAGEMENT CONTRACTS

No contracts for the management and administration of the whole or any substantial part of the business of the Company was entered into or subsisted during the year.

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DIRECTORS' INTERESTS IN SHARES AND WARRANTS

At 31 December 2002, the interests of the directors in the share capital and warrants 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 (the "SDI Ordinance"), were as follows:

(a) *The Company*

Name of director	Number of ordinary shares and nature of interest		Number of warrants and nature of interest	
	Personal interests	Corporate interests (Note 1)	Personal interests	Corporate interests (Note 1)
Mr. Ng Hung Sang, Robert	7,378,000	3,626,452,500	1,475,600	725,290,500
Mr. Richard Howard Gorges	16,174,000	—	3,234,800	—

(b) *Ultimate holding company - South China Holdings Limited ("SCH")*

Name of director	Number of ordinary shares and nature of interest		Number of warrants and nature of interest	
	Personal interests (Note 2)	Corporate interests (Note 2)	Personal interests	Corporate interests (Note 2)
Mr. Ng Hung Sang, Robert	71,587,200	1,272,529,612	14,317,440	254,505,922
Mr. Richard Howard Gorges	—	487,949,760	—	97,589,952
Ms. Cheung Choi Ngor, Christina	—	487,949,760	—	97,589,952

(c) *Subsidiary - South China Financial Credits Limited*

Name of director	Number of ordinary shares and nature of interest	
	Personal interests	Corporate interests
Mr. Shing Shin Cheung, Stewart	500,000	—

(d) *Fellow subsidiary - South China Industries Limited ("SCI")*

Name of director	Number of ordinary shares and nature of interest	
	Personal interests	Corporate interests (Note 3)
Mr. Ng Hung Sang, Robert	—	396,389,357

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DIRECTORS' INTERESTS IN SHARES AND WARRANTS (Continued)

(e) Fellow subsidiary - The Express News Limited ("Express News")

Name of director	Number of ordinary shares and nature of interest	
	Personal interests	Corporate interests (Note 4)
Mr. Ng Hung Sang, Robert	—	30

Notes:

- (1) Mr. Ng Hung Sang, Robert, through SCH in which he is a substantial shareholder, held interests in 3,626,452,500 shares and 725,290,500 warrants of the Company.
- (2) Mr. Ng Hung Sang, Robert, Mr. Richard Howard Gorges and Ms. Cheung Choi Ngor, Christina, through companies wholly owned and controlled by them, held interests in 487,949,760 shares and 97,589,952 warrants in SCH. Mr. Ng Hung Sang, Robert personally owns 71,587,200 shares and 14,317,440 warrants and, through companies wholly owned and controlled by him beneficially, owns 784,579,852 shares and 156,915,970 warrants in SCH.
- (3) Mr. Ng Hung Sang, Robert, through SCH in which he is a substantial shareholder, held interests in 396,389,357 shares of SCI.
- (4) Mr. 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.

The interests of the directors in the share options of the Company are separately disclosed in note 27 to the financial statements.

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 at 31 December 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "DIRECTORS' INTERESTS IN SHARES AND WARRANTS" above and in the share option scheme disclosures in note 27 to the financial statements, 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 children under 18 years of age, 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.

SHARE OPTION SCHEMES

Due to the adoption of Statement of Standard Accounting Practice 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option schemes have been moved to note 27 to the financial statements.

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SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following shareholders (other than a Director or a chief executive of the Company) had an interest of 10% or more of the issued share capital of the Company 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 held	Percentage of the Company's issued share capital
East Hill Development Limited ("East Hill")	1,800,000,000	37.02
Tek Lee Finance and Investment Corporation Limited ("Tek Lee") (Note a)	3,626,452,500	74.59
South China (BVI) Limited (Note b)	3,626,452,500	74.59
SCH (Note b)	3,626,452,500	74.59

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) SCH is the holding company of South China (BVI) Limited, which in turn is the holding company of Tek Lee. The 3,626,452,500 shares referred to the same parcel of shares in (a) above.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "DIRECTORS' INTERESTS IN SHARES AND WARRANTS" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

The connected transactions undertaken by the Group during the year are set out in note 33 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 33 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 there were no such agreements, on terms no less favourable than those offered to/by independent third parties, and are fair and reasonable to the shareholders of the Company.

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CONNECTED TRANSACTIONS *(Continued)*

A conditional underwriting and placing agreement dated 10 July 2002 (the "Underwriting Agreement") was entered into between South China Securities Limited ("SCS"), a wholly-owned subsidiary of the Company, and Capital Publications Limited ("CPL"), an associate of Mr. Ng Hung Sang, Robert, the Chairman and a substantial shareholder of the Company, for the placement of 50,648,000 new shares of HK\$0.01 each in CPL (the "Placing Shares") at a subscription price of HK\$0.30 each. The placement of the Placing Shares was completed on 16 July 2002 and SCS received an underwriting commission of HK\$380,000 in respect thereof. Details of this connected transaction has been announced on 15 July 2002.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's articles of association.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

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
25 April 2003