

Notes to the Financial Statements

31 December 2004

1. CORPORATE INFORMATION

The registered office of South China Brokerage Company Limited is located at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

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

- securities, bullion and commodities broking and trading
- margin financing and money lending
- provision of corporate advisory and underwriting services
- property investment
- investment holding

In the opinion of the directors, the ultimate holding company is South China Holdings Limited, which is incorporated in the Cayman Islands.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standard (“HKAS”), herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004, except for HKAS 40 “Investment property” as further explained below.

HKAS 40 prescribes the recognition and measurement criteria applying to investment properties, together with the required disclosure in respect thereof. The impact of the early adoption of this HKAS on the consolidated financial statements is that changes in the fair value of investment properties are recognised in the profit and loss account for the period in which they arise, whereas previously changes in the fair value of investment properties were dealt with as movements in the investment property revaluation reserve and, if the total of this reserve was insufficient to cover a deficit on a portfolio basis, the excess of the deficit was charged to the profit and loss account.

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2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”) (Continued)

The effect of the early adoption of HKAS 40 on the current year’s financial statements is that an amount of HK\$28,500,000 out of the total surplus on revaluation of the Group’s investment property of HK\$41,000,000 has been credited to the profit and loss account for the year ended 31 December 2004, whereas previously this amount would have been credited to the investment property revaluation reserve. The early adoption of this HKAS has had no significant impact on the amounts disclosed in the prior year’s financial statements. Further details of this change and the new disclosures required by HKAS 40 are included in notes 3 and 15 to the financial statements.

The Group has already commenced an assessment of the impact of the other new HKFRSSs but is not yet in a position to state whether these new HKFRSSs would have a significant impact on its result of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary is a company 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.

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

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the lease terms
Furniture and equipment	10% – 25%
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at fair value at the end of each financial year.

Changes in the values of investment properties are recognised in profit or loss account for the period in which they arise.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets, representing the eligibility rights to trade on or through the Hong Kong Stock Exchange (the “Stock Exchange Trading Rights”) and the Hong Kong Futures Exchange (the “Futures Exchange Trading Rights”), are stated at cost less accumulated amortisation and any impairment losses. Cost was determined by the directors according to the methodology detailed in note 16.

Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over their estimated useful life of ten years.

Other assets

Other assets are intended to be held on a long term basis and are stated at cost less any impairment losses, on an individual basis.

Long term investments

Long term investments are non-trading investments in listed equity securities intended to be held on a long term basis and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different periods directly in equity.

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 the initial recognition of an asset or liability 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, except 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.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets 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 assets 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 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, 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax (Continued)

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 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.

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) commission and brokerage income, accrued on all broking transactions on a trade date basis;
- (b) profit or loss on the trading of securities, bullion and futures contracts, on a trade date basis;
- (c) dividend income, when the shareholders' right to receive payment has been established;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (e) from the rendering of services, on the stage of completion of the transaction, provided that the costs involved can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction; and
- (f) rental income, on a time proportion basis over the lease terms.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves 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.

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 has to be made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

No provision has been made in respect of the possible future long service payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Company.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits (Continued)

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies (Continued)

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.

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 sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

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4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributable to the segments based on the location of the clients, and assets are attributable to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Hong Kong, and over 90% of the Group's assets are located in Hong Kong.

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. Summary details of the business segments are as follows:

- (a) the broking segment engages in securities, bullion and commodities broking;
- (b) the trading and investment segment engages in securities, bullion and futures contracts trading and investment holding;
- (c) the margin financing and money lending segment engages in the provision of margin and personal loan financing;
- (d) the corporate advisory and underwriting segment engages in the provision of corporate advisory and underwriting services;
- (e) the property investment segment engages in property rental; and
- (f) the corporate and other segment comprises corporate income, expense, asset and liability items.

Intersegment transactions are transacted with reference to the prices charged to third parties at the then prevailing market prices.

The amounts previously disclosed separately under the margin financing segment and money lending segment are now combined as a single business segment. In the opinion of the directors, these business segments are substantially similar and the combination of them would provide a more appropriate disclosure of the Group's segment information.

Notes to the Financial Statements

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4. SEGMENT INFORMATION (Continued)

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

2004

GROUP	Broking HK\$'000	Trading and investment HK\$'000	Margin		Property investment HK\$'000	Corporate and others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
			and money lending HK\$'000	Corporate advisory and underwriting HK\$'000				
Segment revenue:								
Sales to external customers	73,960	18,558	31,248	8,325	3,696	1,560	-	137,347
Intersegment sales	-	-	7,745	-	-	-	(7,745)	-
	73,960	18,558	38,993	8,325	3,696	1,560	(7,745)	137,347
Segment results	6,202	28,422	6,903	(1,632)	41,771	(7,569)	-	74,097
Finance costs								(1,142)
Profit before tax								72,955
Tax								(4,352)
Profit before minority interests								68,603
Minority interests								(27)
Net profit from ordinary activities attributable to shareholders								68,576
Segment assets	353,209	81,184	242,585	3,118	125,953	25,382	(1,862)	829,569
Unallocated assets								2,790
Total assets								832,359
Segment liabilities	288,903	2,120	192,027	333	39,997	747	(1,862)	522,265
Unallocated liabilities								1,683
Total liabilities								523,948
Other segment information:								
Depreciation and amortisation	(3,017)	(171)	(750)	(167)	(17)	(188)	-	(4,310)
Reversal of impairment of long term investments	-	3,220	-	-	-	-	-	3,220
Write-back of provisions/ (Provisions) for bad and doubtful debts	290	1	(7,720)	-	-	1	-	(7,428)
Capital expenditure	1,926	117	95	122	12	129	-	2,401

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4. SEGMENT INFORMATION (Continued)

2003

GROUP	Broking HK\$'000	Trading and investment HK\$'000	Margin		Property investment HK\$'000	Corporate and others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
			financing and money Lending HK\$'000	Corporate advisory and underwriting HK\$'000				
Segment revenue:								
Sales to external customers	62,390	730	40,823	14,590	2,199	2,194	-	122,926
Intersegment sales	-	-	6,676	-	-	-	(6,676)	-
	62,390	730	47,499	14,590	2,199	2,194	(6,676)	122,926
Segment results	(11,900)	37,893	14,035	(9,803)	7,129	(6,155)	-	31,199
Finance costs								(1,395)
Profit before tax								29,804
Tax								3,659
Profit before minority interests								33,463
Minority interests								(34)
Net profit from ordinary activities attributable to shareholders								33,429
Segment assets	362,337	63,766	252,972	1,571	85,249	7,075	(1,820)	771,150
Unallocated assets								4,463
Total assets								775,613
Segment liabilities	301,911	2,076	182,161	384	41,147	1,813	(1,820)	527,672
Unallocated liabilities								62
Total liabilities								527,734
Other segment Information:								
Depreciation and amortisation	(3,838)	(145)	(1,709)	(998)	(24)	(190)	-	(6,904)
Reversal of impairment of long term investments	-	1,832	-	-	-	-	-	1,832
Provisions for bad and doubtful debts	-	-	(14,484)	-	-	-	-	(14,484)
Capital expenditure	222	8	346	94	1	11	-	682

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5. TURNOVER

Turnover represents commission and brokerage income from securities, bullion and futures contracts broking; profit or loss on the trading of securities, bullion and commodities; dividend income; interest income; corporate advisory fees; commission income from share underwriting and placing; and rental income, after eliminations of all significant intercompany transactions.

Revenue from the following activities has been included in turnover:

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Commission and brokerage income	72,834	61,912
Profit on trading of securities, bullion and futures contracts, net	18,194	79
Dividend income	362	651
Interest income	30,864	39,463
Rendering of services	7,009	13,415
Gross rental income	2,690	2,195
	131,953	117,715

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	GROUP	
		2004 HK\$'000	2003 HK\$'000
Cost of services provided		24,812	27,292
Auditors' remuneration		737	675
Depreciation	14	4,148	6,742
Loss/(gain) on disposal of fixed assets		(1)	28
Amortisation of intangible assets	16	162	162
Operating lease rentals in respect of land and buildings		7,653	8,787

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6. PROFIT FROM OPERATING ACTIVITIES (Continued)

	Notes	GROUP	
		2004 HK\$'000	2003 HK\$'000
Staff costs (including directors' remuneration) (note 8):			
Pension scheme contributions		1,639	1,847
Less: Forfeited contributions		(402)	(699)
Net pension benefits contributions	(a)	1,237	1,148
Wages and salaries		39,405	46,030
		40,642	47,178
Interest expense for margin financing and money lending operations:			
Bank loans and overdrafts		3,899	6,985
Loan from ultimate holding company		115	108
Clients		104	495
		4,118	7,588
Gain on disposal of long term investments, including transfer of credit from long term investment revaluation reserve of HK\$191,000 (2003: Nil)		(181)	(4,138)
Profit on trading of short term investments		(18,198)	(254)
Foreign exchange gains, net		(2,714)	(1,702)
Interest income:	(b)		
Banks and financial institutions		(899)	(1,573)
Clients		(29,965)	(37,812)
Intermediate holding company		(1,444)	(2,078)
Fellow subsidiaries		-	(78)
		(32,308)	(41,541)
Gross rental income		(2,690)	(2,195)
Less: Direct operating expenses		947	964
Net rental income		(1,743)	(1,231)
Dividend income from listed investments		(362)	(651)

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6. PROFIT FROM OPERATING ACTIVITIES (Continued)

Notes:

- (a) At 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).
- (b) The Group's interest income was derived principally from margin financing and money lending operations, except for the interest income from an intermediate holding company, details of which are set out in notes 23 and 33 to the financial statements.

7. FINANCE COSTS

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Interest on:		
Mortgage loans	1,087	1,324
Finance leases	55	71
	1,142	1,395

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on Hong Kong Stock Exchange (the "Listing Rules") and Section 161 of the Companies Ordinance, is as follows:

	GROUP					
	Executive		Non-executive		Independent non-executive	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Fees	60	53	7	10	100	76
Other emoluments:						
Salaries, allowances and benefits in kind	4,765	4,628	–	–	–	–
Pension scheme contributions	188	169	–	–	–	–
	5,013	4,850	7	10	100	76

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8. DIRECTORS' REMUNERATION (Continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	8	8
HK\$1,000,001 – HK\$1,500,000	2	2
	10	10

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

During the year, no share options were granted to the directors in respect of their services to the Group (2003: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no directors (2003: three executive directors), details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining five (2003: two) non-director, highest paid employees for the year are as follows:

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	8,125	2,483
Pension scheme contributions	580	24
	8,705	2,507

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9. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2004	2003
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	2	–
HK\$1,500,001 – HK\$2,000,000	2	1
HK\$2,000,001 – HK\$2,500,000	–	–
HK\$2,500,001 – HK\$3,000,000	1	–
	5	2

During the year, no share options were granted to the five non-director, highest paid employees in respect of their services to the Group (2003: Nil).

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, practices and interpretations in respect thereof.

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Current – Hong Kong		
Charge for the year	(3,000)	(187)
Overprovision in prior years	–	17
Current – elsewhere	(152)	(163)
Deferred (note 21)	(1,200)	3,992
Total tax credit/(charge) for the year	(4,352)	3,659

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10. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax credit or expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

Group

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before tax	72,955		29,804	
Tax at statutory tax rates	(12,767)	(17.5)	(5,216)	(17.5)
Higher tax rates on profits arising elsewhere	(86)	(0.1)	(39)	(0.1)
Adjustments in respect of				
current tax of previous periods	–	–	17	0.1
Income not subject to tax	8,201	11.2	7,943	26.7
Expenses not deductible for tax	(917)	(1.3)	(1,963)	(6.7)
Tax losses not recognised	(344)	(0.5)	(1,553)	(5.2)
Tax losses utilised from				
previous periods	1,561	2.1	4,470	15.0
Tax credit/(charge) at the Group's effective rate	(4,352)	(6.1)	3,659	12.3

11. NET PROFIT FROM OPERATING ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from operating activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK\$123,060,000 (2003: net loss of HK\$605,000) (note 29(b)).

12. DIVIDENDS

	2004	2003
	HK\$'000	HK\$'000
Proposed final:		
0.20 HK cent (2003: 0.20 HK cent) per ordinary share	9,724	9,724

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

Notes to the Financial Statements

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13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$68,576,000 (2003: HK\$33,429,000) and the 4,861,990,940 (2003: 4,861,990,940) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2004 and 2003 have not been disclosed as no diluting events existed during these years.

14. FIXED ASSETS

GROUP

	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At beginning of year	16,252	33,102	3,316	52,670
Additions	354	2,047	–	2,401
Disposals	(31)	(334)	–	(365)
Exchange realignment	59	34	–	93
At 31 December 2004	16,634	34,849	3,316	54,799
Accumulated depreciation:				
At beginning of year	14,362	28,243	3,316	45,921
Provided during the year	716	3,432	–	4,148
Disposals	(31)	(277)	–	(308)
Exchange realignment	57	29	–	86
At 31 December 2004	15,104	31,427	3,316	49,847
Net book value:				
At 31 December 2004	1,530	3,422	–	4,952
At 31 December 2003	1,890	4,859	–	6,749

The net book value of the Group's fixed assets held under finance leases included in furniture and equipment at 31 December 2004 amounted to HK\$326,000 (2003: HK\$694,000).

Notes to the Financial Statements

31 December 2004

15. INVESTMENT PROPERTY

	GROUP	
	2004 HK\$'000	2003 HK\$'000
At beginning of year	84,000	78,000
Surplus on revaluation	41,000	6,000
At 31 December	125,000	84,000

The Group's investment property is situated in Hong Kong and is held under a long term lease. At the balance sheet date, the investment property was pledged to a bank to secure banking facilities granted to the Group (*note 30*).

The Group's investment property was revalued at 31 December 2004 by BMI Appraisals Limited, independent professional valuers, on an open market, existing use basis. The investment property is leased to third parties under operating lease arrangements, details of which are included in note 32 to the financial statements.

Details of the Group's investment property are as follows:

Location	Existing use
26/F, Tower One, Lippo Centre, 89 Queensway, Hong Kong.	Office rental

The Group early adopted HKAS 40 in the preparation of the current year's financial statements. Details of the effect of early adopting this HKAS are set out in note 2 to the financial statements.

Notes to the Financial Statements

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16. INTANGIBLE ASSETS

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Cost:		
At beginning of year and at 31 December	1,619	1,619
Accumulated amortisation:		
At beginning of year	621	459
Provided during the year	162	162
At 31 December	783	621
Net book value at 31 December	836	998

Pursuant to the restructuring of the Hong Kong Stock Exchange (the "Stock Exchange") and the Hong Kong Futures Exchange (the "Futures Exchange"), effective on 6 March 2001, the Group received four Stock Exchange Trading Rights, five Futures Exchange Trading Rights and 10,187,500 ordinary shares of HK\$1 each in Hong Kong Exchanges and Clearing Limited (the "HKEC Shares") in exchange for its four shares previously held in the Stock Exchange and five shares previously held in the Futures Exchange.

The carrying costs of the previously held shares in the Stock Exchange and Futures Exchange have been apportioned to the Stock Exchange Trading Rights, the Futures Exchange Trading Rights and the HKEC Shares on the basis of their respective estimated fair values on 6 March 2001.

The Stock Exchange Trading Rights and Futures Exchange Trading Rights have been classified as intangible assets as above and treated under the accounting policy as set out in note 3 to the financial statements.

17. OTHER ASSETS

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Membership in Chinese Gold and Silver Exchange	1,280	1,280
Statutory deposits in respect of securities and commodities dealings	4,319	4,315
Club debentures	360	360
	5,959	5,955

Notes to the Financial Statements

31 December 2004

18. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	100,894	100,489
Amounts due from subsidiaries	489,882	378,180
Amounts due to subsidiaries	(857)	(1,067)
	589,919	477,602
Provisions for impairment	(265,500)	(265,500)
	324,419	212,102

The balances with subsidiaries are unsecured, interest-free and have no specific terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name of company	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Polyluck Trading Limited	Hong Kong	HK\$2	100	100	Property investment
South China Capital Limited	Hong Kong	HK\$2	100	100	Provision of corporate advisory services
South China Commodities Limited	Hong Kong	HK\$10,000,000	100	100	Commodities broking
South China Finance Company Limited	Hong Kong	HK\$1,000,000	100	100	Provision of loan financing

Notes to the Financial Statements

31 December 2004

18. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
South China Finance and Management Limited	Hong Kong	HK\$2	100	100	Shares dealing and provision of management services
South China Finance (Nominees) Limited	Hong Kong	HK\$2	100	100	Provision of nominee services
South China Financial Credits Limited	Hong Kong	HK\$42,125,000	97.4	96.5	Money lending
South China Fund Management Limited	Hong Kong	HK\$600,000	100	100	Asset management
South China Precious Metal Limited	Hong Kong	HK\$2	100	100	Bullion broking
South China Research Limited	Hong Kong	HK\$600,000	100	100	Research publication
South China Securities Limited	Hong Kong	HK\$10,000,000	100	100	Securities broking, margin financing and underwriting
South China Securities (UK) Limited	United Kingdom	GBP200,000	100	100	Provision of securities broking services

Notes to the Financial Statements

31 December 2004

18. INTERESTS IN SUBSIDIARIES (Continued)

Except for Polyluck Trading Limited, all principal subsidiaries are directly held by the Company.

The above summary lists the principal 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.

19. INVESTMENTS

Long term investments

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Listed equity investments in Hong Kong, at market value	13,975	3,247

Short term investments

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Listed equity investments, at market value:		
Hong Kong	66,665	59,681
Elsewhere	29	120
	66,694	59,801

At 31 December 2004, certain listed equity investments totalling approximately HK\$40,423,000 (2003: HK\$28,243,000) were pledged to bank to secure banking facilities granted to the Group (note 30).

Notes to the Financial Statements

31 December 2004

20. LOANS AND ADVANCES

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Loans and advances	304,142	324,503
Provisions for bad and doubtful debts	(124,357)	(131,793)
	179,785	192,710
Market value of collateral at 31 December	779,664	546,361

At 31 December 2004, certain collateral of fellow subsidiaries and clients of approximately of HK\$292,956,000 (2003: HK\$252,510,000) was pledged to banks to secure banking facilities granted to the Group (*note 30*).

The maturity profile of loans and advances at the balance sheet date is analysed into the remaining periods to their contractual maturity dates as follows:

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Repayable:		
On demand	147,209	155,859
Within three months	7,736	12,394
Within one year but over three months	19,612	21,053
Within five years but over one year	5,228	3,404
	179,785	192,710
Portion classified as current assets	(174,557)	(189,306)
Portion classified as long term loans receivable under non-current assets	5,228	3,404

Notes to the Financial Statements

31 December 2004

21. DEFERRED TAX ASSETS

The movements of deferred tax assets during the year are as follows:

	GROUP			
	Loss available for offset against future taxable profits	Provision	Decelerated depreciation	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	-	-	-	-
Deferred tax credited to the profit and loss account during the year	1,200	2,765	27	3,992
At 31 December 2003 and 1 January 2004	1,200	2,765	27	3,992
Deferred tax debited to the profit and loss account during the year	(1,200)	-	-	(1,200)
At 31 December 2004	-	2,765	27	2,792

Apart from the above deferred tax asset on tax losses, the Group has tax losses arising in Hong Kong of HK\$312,401,000 (2003: HK\$313,619,000) 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 tax losses as they have arisen in subsidiaries that have been loss-making for some time.

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

22. TRADE DEBTORS

The Group's trade debtors arose from securities, bullion and commodities dealings and the provision of corporate advisory and underwriting services.

An aged analysis of the Group's trade debtors at the balance sheet date, net of provisions for bad and doubtful debts, is as follows:

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Current to 90 days	30,105	75,401

The Group allows a credit period of up to the settlement dates of the respective securities, bullion and commodities transactions or a credit period mutually agreed between the contracting parties.

Notes to the Financial Statements

31 December 2004

23. AMOUNT DUE FROM AN INTERMEDIATE HOLDING COMPANY

The amount due from Tek Lee Finance and Investment Corporation Limited is unsecured, bears interest at the Hong Kong Dollar Prime Rate per annum and has no specific terms of repayment.

24. TRADE CREDITORS

The Group's trade creditors arose from securities, bullion and commodities dealings and the provision of corporate advisory and underwriting services.

An aged analysis of the Group's trade creditors at the balance sheet date is as follows:

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Current to 90 days	64,323	100,423

Notes to the Financial Statements

31 December 2004

25. FINANCE LEASE PAYABLES

The Group leases certain office equipment for its business operations. These leases are classified as finance leases and have a remaining lease term of 28 months. (2003: 40 months)

At 31 December 2004, the total future minimum lease payments under finance leases and their present values were as follows:

	GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under finance leases:				
Within one year	242	242	205	187
In the second year	242	242	223	205
In the third to fifth years, inclusive	80	322	79	302
Total minimum finance lease payments	564	806	507	694
Future finance charges	(57)	(112)		
Total net finance lease payables	507	694		
Portion classified as current liabilities	(205)	(187)		
Non-current portion	302	507		

Notes to the Financial Statements

31 December 2004

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	GROUP		COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank overdrafts unsecured	4,955	1,161	–	32
Bank loans:				
Secured (<i>note 30</i>)	101,030	118,308	–	–
Unsecured	47,862	46,829	–	1,034
	148,892	165,137	–	1,034
Loan from ultimate holding company, unsecured	–	3,044	–	–
	153,847	169,342	–	1,066
Bank overdrafts, bank loans repayable:				
Within one year or on demand	124,325	142,279	–	1,066
In the second year	6,538	4,723	–	–
In the third to fifth years, inclusive	9,777	10,802	–	–
Beyond five year	13,207	11,538	–	–
	153,847	169,342	–	1,066
Portion classified as current liabilities	(124,325)	(142,279)	–	(1,066)
Non-current portion	29,522	27,063	–	–

The loan from the ultimate holding company in the prior year borne interest at 1% over the Hong Kong Dollar Prime Rate per annum.

Notes to the Financial Statements

31 December 2004

27. SHARE CAPITAL

Shares

	2004 HK\$'000	2003 HK\$'000
Authorised: 8,000,000,000 (2003: 8,000,000,000) ordinary shares of HK\$0.025 each	200,000	200,000
Issued and fully paid: 4,861,990,940 (2003: 4,861,990,940) ordinary shares of HK\$0.025 each	121,550	121,550

Share options

Details of the Company's share option scheme are included in note 28 to the financial statements.

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purposes of (i) providing incentives and rewards to eligible participants who contribute to the success of the Group's operations; and (ii) attracting and retaining employees with appropriate qualifications and experience to work for the Group. Eligible participants of the Scheme include the Company's directors (including executive, non-executive and independent non-executive directors), employees, customers, suppliers of goods or services, business partners and minority shareholders of the Company's subsidiaries. The Scheme will remain in force for a period of 10 years from the date of adoption on 18 June 2002.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the ordinary shares of the Company in issue at any time. The maximum number of ordinary shares issuable to each eligible participant under the Scheme within any 12-month period is limited to 1% of the ordinary shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. During the year, no share options were granted under the Scheme.

Notes to the Financial Statements

31 December 2004

28. SHARE OPTION SCHEME (Continued)

The offer of a grant of share options under the Scheme may be accepted within five business days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and is not later than 10 years from the date of the offer of the share options or the expiry of the Scheme, whichever is earlier.

The exercise price of the share options granted under the Scheme is determinable by the directors, but will not be less than the higher of (i) the nominal value of Company's ordinary shares; (ii) the closing price of the Company's shares on the Stock Exchange on the date of the offer of the grant; and (iii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the grant.

Share options do not confer rights on the holders to dividends or to vote at Shareholders' meetings. No share options have been granted under the Scheme since its adoption.

29. 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 24 of the financial statements.

(b) Company

	Note	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2003		201,674	1,601	(112,333)	90,942
Net loss for the year		-	-	(605)	(605)
Proposed final dividend	12	-	-	(9,724)	(9,724)
<hr/>					
At 31 December 2003 and at 1 January 2004		201,674	1,601	(122,662)	80,613
Profit for the year		-	-	123,060	123,060
Proposed final dividend	12	-	-	(9,724)	(9,724)
<hr/>					
At 31 December 2004		201,674	1,601	(9,326)	193,949

Subsequent to the year ended 31 December 2004 on 7 March 2005, certain subsidiaries of the Company declared interim dividends aggregating HK\$10,000,000 (2003: HK\$123,000,000) to the Company.

Notes to the Financial Statements

31 December 2004

30. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to secure banking facilities granted to the Group:

- (a) a time deposit of HK\$5,500,000 (2003: HK\$1,500,000); and
- (b) an investment property with a market value of HK\$125,000,000 (2003: HK\$84,000,000) (note 15).

In addition, listed equity investments belonging to the Group, fellow subsidiaries and clients totalling approximately HK\$333,379,000 (2003: HK\$280,753,000) were pledged to banks to secure banking facilities granted to a subsidiary of the Company at the balance sheet date.

Save as disclosed above, the Company and the Group did not have any material assets pledged to other independent third parties at 31 December 2004 (2003: Nil).

31. CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	–	–	541,000	589,000
Guarantees given to banks in connection with letters of guarantee issued by the banks	–	5,500	–	5,500
	–	5,500	541,000	594,500

At the balance sheet date, the guarantees provided by the Company to banks for banking facilities granted to its subsidiaries were utilised to the extent of approximately HK\$153,847,000 (2003: HK\$171,798,000).

In addition to the above, the company provided guarantees of approximately HK\$11,957,000 (2003: HK\$11,955,000) to certain financial institution for commodities and bullion trading facilities granted to its subsidiaries. None of these facilities (2003: Nil) was utilised at the balance sheet date.

Notes to the Financial Statements

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32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (*note 15*) under several operating lease arrangements, with the leases negotiated for terms of three years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	1,308	2,690
In the second to fifth years, inclusive	508	1,816
	1,816	4,506

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements, with leases negotiated for terms ranging from two to three years.

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	6,037	8,907
In the second to fifth years, inclusive	2,373	4,493
	8,410	13,400

At 31 December 2004, the Company had not entered into any arrangement under non-cancellable operating leases (2003: Nil).

Notes to the Financial Statements

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33. 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:

	Notes	2004 HK\$'000	2003 HK\$'000
Consulting and servicing fees paid to fellow subsidiaries*	(a)	10,500	3,420
Commission and brokerage income received from:	(b)		
Fellow subsidiaries*		89	88
Directors and companies in which certain directors have beneficial interests		547	208
Interest income received from:			
Intermediate holding company*	(c)	1,444	2,078
Fellow subsidiaries	(d)	–	78
Directors and companies in which certain directors have beneficial interests	(d)	262	329
Interest expenses paid to the ultimate holding company*	(e)	115	108
Rental expenses paid to fellow subsidiaries*	(f)	187	350

Notes:

- (a) Consulting and servicing fees relate to the advisory and management services provided by fellow subsidiaries for e-commerce consultation on feasibility's studies, infrastructure planning, core engine specification, security specification, the building up of internet platform and continuing maintenance; marketing and promotional services provided for image design, colour separation, typesetting, printing, publishing, and all necessary marketing and promotional arrangements through different media channels. These fees were calculated based on terms mutually agreed by the contracting parties.
- (b) Commission and brokerage income relates to the Group's securities broking business and was calculated by reference to commission and brokerage charged to third party clients.
- (c) Interest income relates to cash advances to Tek Lee Finance and Investment Corporation Limited, details of which are set out in note 23 to the financial statements.
- (d) Interest income relates to the Group's margin financing business and was calculated at 4% (2003: 4%) over the Hong Kong Dollar Prime Rate per annum.
- (e) Interest expenses relates to a loan from South China Holdings Limited, details of which are set out in note 26 to the financial statements.
- (f) Rental expenses relates to the leasing of certain office premises from fellow subsidiaries and was calculated by reference to market rentals.

* These related party transactions also constitute connected transactions or continuous connected transaction as defined in Chapter 14A of the Listing Rules.

Notes to the Financial Statements

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34. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 22 February 2005, the Company placed 970,000,000 warrants of HK\$0.026 each (the "Warrants") to independent investors. The Warrants entitle the holders to subscribe in cash for ordinary shares of HK\$0.025 each in the Company at a subscription price of HK\$0.1012 per share (subject to adjustment) and are exercisable on or before 2 March 2006. The net proceeds under the warrant placing of approximately HK\$25 million will be used as working capital of the Company.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 March 2005.