

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 2003.

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.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 68.

No interim dividend was paid during the year. The Directors recommend the payment of a final dividend of 0.20 HK cent per ordinary share in respect of the year ended 31 December 2003 to the shareholders whose names appear on the Register of members of the Company on 25 May 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

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. This summary does not form part of the audited financial statements.

| | Year ended 31 December | | | | |
|---|------------------------|-----------|----------|----------|----------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| RESULTS | | | | | |
| Turnover | 117,715 | 102,756 | 127,984 | 265,539 | 159,850 |
| Profit/(loss) before tax | 29,804 | (225,255) | 21,172 | 24,864 | 65,242 |
| Tax | 3,659 | (403) | (981) | (1,186) | (1,439) |
| Profit/(loss) before minority interests | 33,463 | (225,658) | 20,191 | 23,678 | 63,803 |
| Minority interests | (34) | (3) | (217) | — | — |
| Net profit/(loss) from ordinary activities attributable to shareholders | 33,429 | (225,661) | 19,974 | 23,678 | 63,803 |

Report of the Directors

SUMMARY FINANCIAL INFORMATION (Continued)

RESULTS (Continued)

| | Year ended 31 December | | | | |
|--------------------------------------|------------------------|--------|-------|-------|------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| Earnings/(loss) per share (HK cent): | | | | | |
| Basic | 0.69 | (4.64) | 0.41 | 0.49 | 1.31 |
| Diluted | N/A | N/A | 0.40 | N/A | N/A |
| Dividends per share (HK cent) | 0.20 | N/A | 0.525 | 1.125 | 0.50 |

ASSETS, LIABILITIES AND MINORITY INTERESTS

| | Year ended 31 December | | | | |
|--------------------|------------------------|-----------|-----------|-----------|-----------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Total assets | 775,613 | 640,787 | 872,860 | 871,749 | 966,066 |
| Total liabilities | (527,734) | (425,927) | (510,320) | (430,411) | (664,111) |
| Minority interests | (1,749) | (2,240) | (2,332) | — | — |
| | 246,130 | 212,620 | 360,208 | 441,338 | 301,955 |

Report of the Directors

FIXED ASSETS

Details of movements in the fixed assets of 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 27 and 28 to the financial statements.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2003.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2003, 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 of no value to disclose the details of the Group's suppliers.

Report of the Directors

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. Ng Chun Sang

Mr. Shing Shin Cheung, Stewart (*Chief Executive Officer*) (resigned on 28 November 2003)

Mr. Chan Hing Wah (*Managing Director*) (appointed on 26 November 2003)

Mr. Ng Yuk Yeung Paul (appointed on 15 September 2003)

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 articles 99 and 116 of the Company's articles of association, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor, Christina will retire by rotation, and Mr. Chan Hing Wah and Mr. Ng Yuk Yeung Paul will retire 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, 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.

MANAGEMENT CONTRACTS

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

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

1. Long positions in Shares

(A) The Company

| Name of Director | Capacity | Number of Ordinary Shares | | |
|--|--|---------------------------|---------------------------|---------------|
| | | Personal interest | Corporate interest | Total |
| Mr. Ng Hung Sang, Robert ("Mr. Ng") | Beneficial owner, interests of controlled corporations | 7,378,000 | 3,626,452,500 (Note a) | 3,633,830,500 |
| Mr. Richard Howard Gorges ("Mr. Gorges") | Beneficial owner | 16,174,000 | — | 16,174,000 |

(B) Associated Corporations

(i) South China Holdings Limited ("SCH") (Note b)

| Name of Director | Capacity | Other interest | Number of Ordinary Shares | | Total |
|--|--|-------------------------|---------------------------|---------------------------|---------------|
| | | | Personal interest | Corporate interest | |
| Mr. Ng | Beneficial owner, interests of controlled corporations | — | 71,652,200 | 1,272,529,612 (Note c) | 1,344,181,812 |
| Mr. Gorges | Persons acting in concert | 487,949,760 (Note c) | — | — | 487,949,760 |
| Ms. Cheung Choi Ngor, Christina ("Ms. Cheung") | Persons acting in concert | 487,949,760 (Note c) | — | — | 487,949,760 |
| Mr. Ng Yuk Yeung Paul | Beneficial owner | — | 5,000 | — | 5,000 |

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(Continued)

1. Long positions in Shares (Continued)

(B) Associated Corporations (Continued)

(ii) South China Industries Limited ("SCI") (Note d)

| Name of Director | Capacity | Number of Ordinary Shares | | Total |
|------------------|--------------------------------------|---------------------------|-------------------------|-------------|
| | | Personal interest | Corporate interest | |
| Mr. Ng | Interests of controlled corporations | — | 396,391,357 (Note e) | 396,391,357 |

(iii) Nority International Group Limited ("Nority") (Note f)

| Name of Director | Capacity | Number of Ordinary Shares | | Total |
|------------------|--------------------------------------|---------------------------|-------------------------|-------------|
| | | Personal interest | Corporate interest | |
| Mr. Ng | Interests of controlled corporations | — | 114,118,540 (Note g) | 114,118,540 |

(iv) Wah Shing International Holdings Limited ("WSI") (Note h)

| Name of Director | Capacity | Number of Ordinary Shares | | Total |
|------------------|--------------------------------------|---------------------------|-------------------------|-------------|
| | | Personal interest | Corporate interest | |
| Mr. Ng | Interests of controlled corporations | — | 144,973,688 (Note i) | 144,973,688 |

(v) South China Financial Credits Limited ("SCFC") (Note j)

| Name of Director | Capacity | Number of Ordinary Shares | | Total |
|-----------------------|------------------|---------------------------|--------------------|---------|
| | | Personal interest | Corporate interest | |
| Mr. Ng Yuk Yeung Paul | Beneficial owner | 250,000 | — | 250,000 |

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(Continued)

1. Long positions in Shares (Continued)

(B) Associated Corporations (Continued)

(vi) *The Express News Limited* ("Express News") (Note k)

| Name of Director | Capacity | Number of Ordinary Shares | | Total |
|------------------|--------------------------------------|---------------------------|--------------------|-------|
| | | Personal interest | Corporate interest | |
| Mr. Ng | Interests of controlled corporations | — | 30 (Note l) | 30 |

Save as disclosed above, none of the directors or chief executive of the Company had, as at 31 December 2003, an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules.

Notes:

- (a) The 3,626,452,500 shares in the Company are held by certain wholly-owned subsidiaries of SCH. By virtue of the interests in the shares of SCH in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) below and as a director of SCH, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of the Company under the SFO.
- (b) The Company is a 74.59% owned subsidiary of SCH.
- (c) The 1,272,529,612 shares referred to above include 371,864,000 shares held by Parkfield Holdings Limited ("Parkfield"), 396,050,252 shares held by Fung Shing Group Limited ("Fung Shing"), 16,665,600 shares held by Ronastar Investments Limited ("Ronastar"), 237,303,360 shares held by Bannock Investment Limited ("Bannock") and 250,646,400 shares held by Earntrade Investments Limited ("Earntrade"). Parkfield, Fung Shing and Ronastar are all wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Ms. Cheung and 20% by Mr. Gorges, all of whom are considered as parties to an agreement to which Section 317 of the SFO applies. As such, Mr. Ng, Ms. Cheung and Mr. Gorges are deemed to have an interest in 487,949,760 shares in SCH, which are being held by both Bannock and Earntrade.
- (d) SCI is a 74.74% owned subsidiary of SCH.

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(Continued)

Notes: (Continued)

- (e) The 396,391,357 shares in SCI are held by certain wholly-owned subsidiaries of SCH. By virtue of the interests in the shares of SCH in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) above and as a director of SCH, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of SCI under the SFO.
- (f) SCI owns a 42.56% shareholding in Nority and is considered as SCI's associated corporation.
- (g) The 114,118,540 shares in Nority are held by an indirect wholly-owned subsidiary of SCI. By virtue of the interests in the shares of SCH in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) above and as a director of SCH, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of Nority under the SFO.
- (h) WSI, a Singapore listed company, is a 53.27% owned subsidiary of SCI.
- (i) The 144,973,688 shares in WSI are held by a wholly-owned subsidiary of SCI. By virtue of the interests in the shares of SCH in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) above and as a director of SCH, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of WSI under the SFO.
- (j) SCFC is a 96.45% owned subsidiary of the Company.
- (k) Express News is a 70% owned subsidiary of SCH.
- (l) Mr. Ng and his family, through a company wholly-owned and controlled by them, have interests in 30 shares in Express News.

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INFORMATION ON SHARE OPTIONS

On 18 June 2002, the new share option scheme (the “New Scheme”) of the Company became effective and the share option scheme of the Company adopted in 1993 (the “Old Scheme”) was terminated. Share options granted under the Old Scheme prior to its termination remained in force until they lapsed in accordance with the terms of the Old Scheme. Details of the outstanding share options under the New Scheme and the Old Scheme of the Company as at 31 December 2003 are as follows:

(a) New Scheme

No share option has been granted or outstanding under the New Scheme since its adoption.

(b) Old Scheme

| | Date of offer (Note 1) | Exercise period | Number of options as at 1 January 2003 | Lapsed during the year | Exercise price (Note 2) HK\$ | Number of options as at 31 December 2003 |
|------------|---------------------------|-----------------------------------|--|------------------------------|---------------------------------------|--|
| Mr. Ng | 15 August 1993 | 15 August 1994 to 11 July 2003 | 50,000,000 | 50,000,000 | 0.386 | — |
| | 15 August 1993 | 15 August 1995 to 11 July 2003 | 30,000,000 | 30,000,000 | 0.351 | — |
| | 15 August 1993 | 15 August 1996 to 11 July 2003 | 20,000,000 | 20,000,000 | 0.319 | — |
| Mr. Gorges | 15 August 1993 | 15 August 1994 to 11 July 2003 | 25,000,000 | 25,000,000 | 0.386 | — |
| | 15 August 1993 | 15 August 1995 to 11 July 2003 | 15,000,000 | 15,000,000 | 0.351 | — |
| | 15 August 1993 | 15 August 1996 to 11 July 2003 | 10,000,000 | 10,000,000 | 0.319 | — |
| Ms. Cheung | 15 August 1993 | 15 August 1994 to 11 July 2003 | 50,000,000 | 50,000,000 | 0.386 | — |
| | 15 August 1993 | 15 August 1995 to 11 July 2003 | 30,000,000 | 30,000,000 | 0.351 | — |
| | 15 August 1993 | 15 August 1996 to 11 July 2003 | 20,000,000 | 20,000,000 | 0.319 | — |

Report of the Directors

INFORMATION ON SHARE OPTIONS (Continued)

(b) Old Scheme (Continued)

| | Date of offer (Note 1) | Exercise period | Number of options as at 1 January 2003 | Lapsed during the year | Exercise price (Note 2) HK\$ | Number of options as at 31 December 2003 |
|-----------------------------------|---------------------------|----------------------------------|--|------------------------------|---------------------------------------|--|
| Mr. Ng Chun Sang | 15 March 2000 | 15 March 2001 to 11 July 2003 | 10,000,000 | 10,000,000 | 0.262 | — |
| | 15 March 2000 | 15 March 2002 to 11 July 2003 | 6,000,000 | 6,000,000 | 0.238 | — |
| | 15 March 2000 | 15 March 2003 to 11 July 2003 | 4,000,000 | 4,000,000 | 0.238 | — |
| Mr. Shing Shin Cheung, Stewart | 10 May 2001 | 10 May 2002 to 11 July 2003 | 10,000,000 | 10,000,000 | 0.138 | — |
| | 10 May 2001 | 10 May 2003 to 11 July 2003 | 6,000,000 | 6,000,000 | 0.138 | — |
| | 10 May 2001 | * | 4,000,000 | 4,000,000 | 0.138 | — |
| | | | 290,000,000 | 290,000,000 | | — |

Report of the Directors

INFORMATION ON SHARE OPTIONS (Continued)

(b) Old Scheme (Continued)

| | Date of offer (Note 1) | Exercise period | Number of options as at 1 January 2003 | Lapsed during the year | Exercise price (Note 2) HK\$ | Number of options as at 31 December 2003 |
|----------------------------------|---------------------------|----------------------------------|--|------------------------------|---------------------------------------|--|
| Other employees, in aggregate | 15 March 2000 | 15 March 2001 to 11 July 2003 | 7,500,000 | 7,500,000 | 0.262 | — |
| | 15 March 2000 | 15 March 2002 to 11 July 2003 | 4,500,000 | 4,500,000 | 0.238 | — |
| | 15 March 2000 | 15 March 2003 to 11 July 2003 | 3,000,000 | 3,000,000 | 0.238 | — |
| | 7 June 2001 | 7 June 2002 to 11 July 2003 | 8,000,000 | 8,000,000 | 0.168 | — |
| | 7 June 2001 | 7 June 2003 to 11 July 2003 | 4,800,000 | 4,800,000 | 0.168 | — |
| | 7 June 2001 | * | 3,200,000 | 3,200,000 | 0.168 | — |
| | 9 July 2001 | 9 July 2002 to 11 July 2003 | 10,000,000 | 10,000,000 | 0.180 | — |
| | 9 July 2001 | 9 July 2003 to 11 July 2003 | 6,000,000 | 6,000,000 | 0.180 | — |
| | 9 July 2001 | * | 4,000,000 | 4,000,000 | 0.180 | — |
| | | | 51,000,000 | 51,000,000 | | — |
| | | | 341,000,000 | 341,000,000 | | — |

* The exercise period of these share options falls beyond the expiry date of the Old Scheme and an approval from the directors is required for the exercise of these share options.

Notes:

1. The vesting period of the share options is from the date of grant till the commencement of the exercise period.
2. The exercise price of share options is subject to a 10% upward price adjustment annually and adjustments in the case of rights or bonus issues, or other similar changes in the Company's share capital.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" as set out above and in the share option scheme disclosures in note 28 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 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

As at 31 December 2003, the shareholders who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were directly, or indirectly, interested in 5% or more of the issued share capital of the Company, as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

| Name of shareholders | Number of ordinary shares held | Notes | Percentage holding 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") | 3,626,452,500 | (a) | 74.59% |
| South China (BVI) Limited | 3,626,452,500 | (b) | 74.59% |
| SCH | 3,626,452,500 | (b) | 74.59% |
| Mr. Ng | 3,633,830,500 | (c) | 74.74% |

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 Note (a) above.
- (c) Mr. Ng through his indirect interest in SCH is taken to be interested in 3,626,452,500 shares referred to Note (a) above in which SCH is interested by virtue of the SFO.

Save as disclosed above, as at 31 December 2003, the directors or chief executive of the Company were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Report of the Directors

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.

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
13 April 2004