

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 2004.

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 profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 63.

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 2004 to the shareholders whose names appear on the Register of Members of the Company on 25 May 2005. 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 and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	Year ended 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
RESULTS					
Turnover	131,953	117,715	102,756	127,984	265,539
Profit/(loss) before tax	72,955	29,804	(225,255)	21,172	24,864
Tax	(4,352)	3,659	(403)	(981)	(1,186)
Profit/(loss) before minority interests	68,603	33,463	(225,658)	20,191	23,678
Minority interests	(27)	(34)	(3)	(217)	–
Net profit/(loss) from ordinary activities attributable to shareholders	68,576	33,429	(225,661)	19,974	23,678

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SUMMARY FINANCIAL INFORMATION (Continued)

RESULTS (Continued)

	2004	Year ended 31 December			
		2003	2002	2001	2000
Earnings/(loss) per share (HK cent):					
Basic	1.41	0.69	(4.64)	0.41	0.49
Diluted	N/A	N/A	N/A	0.40	N/A
Dividends per share (HK cent)	0.20	0.20	N/A	0.525	1.125

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2004 HK\$'000	Year ended 31 December			
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Total assets	832,359	775,613	640,787	872,860	871,749
Total liabilities	(523,948)	(527,734)	(425,927)	(510,320)	(430,411)
Minority interests	(1,371)	(1,749)	(2,240)	(2,332)	–
	307,040	246,130	212,620	360,208	441,338

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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 AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in notes 27 and 28 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF 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.

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 2004, 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 Hong Kong 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.

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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. Chan Hing Wah (*Managing Director*)
Mr. Ng Chun Sang
Mr. Ng Yuk Yeung Paul

Non-executive director:

Mr. Tan Boon Seng (*resigned on 21 September 2004*)

Independent non-executive directors:

Mrs. Tse Wong Siu Yin, Elizabeth
Hon. Raymond Arthur William Sears, Q.C.
Mr. Tung Woon Cheung, Eric (*appointed on 21 September 2004*)

In accordance with articles 99 and 116 of the Company's articles of association, Mr. Ng Hung Sang, Robert, Mr. Ng Chun Sang, Mrs. Tse Wong Siu Yin, Elizabeth and Mr. Tung Woon Cheung, Eric 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, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding companies, or any of its 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2004, 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 its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company, pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

1. The Company

Name of Director	Capacity	Number of Ordinary Shares	Total Number of Ordinary Shares	Approximate percentage of shareholding
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	74.74%
Mr. Richard Howard Gorges ("Mr. Gorges")	Beneficial owner	12,174,000	12,174,000	0.25%

2. Associated Corporations

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

Name of Director	Capacity	Number of Ordinary Shares	Total Number of Ordinary Shares	Approximate percentage of shareholding
Mr. Ng	Beneficial owner Interests of controlled corporations	71,652,200 1,272,529,612 (Note c)	1,344,181,812	73.72%
Mr. Gorges	Interests of controlled corporations	487,949,760 (Note c)	487,949,760	26.76%
Ms. Cheung Choi Ngor, Christina ("Ms. Cheung")	Interests of controlled corporations	487,949,760 (Note c)	487,949,760	26.76%

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

2. Associated Corporations (Continued)

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

Name of Director	Capacity	Number of Ordinary Shares	Approximate percentage of shareholding
Mr. Ng	Interests of controlled corporations	396,621,357 (Note e)	74.79%

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

Name of Director	Capacity	Number of Ordinary Shares	Approximate percentage of shareholding
Mr. Ng	Interests of controlled corporations	114,118,540 (Note g)	42.52%

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

Name of Director	Capacity	Number of Ordinary Shares	Approximate percentage of shareholding
Mr. Ng	Interests of controlled corporations	169,669,688 (Note i)	62.34%

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

Name of Director	Capacity	Number of Ordinary Shares	Approximate percentage of shareholding
Mr. Ng Yuk Yeung, Paul	Beneficial owner	250,000 (Note j)	0.59%

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

2. Associated Corporations (Continued)

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

Name of Director	Capacity	Number of Ordinary Shares	Approximate percentage of shareholding
Mr. Ng	Interests of controlled corporations	30 (Note l)	30%

Save as disclosed above, as at 31 December 2004, none of the directors or chief executive registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in 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) Mr. Ng, Ms. Cheung and Mr. Gorges, through companies wholly owned and controlled by them, have interests in 487,949,760 shares in SCH. Mr. Ng personally owns 71,652,200 shares and through companies wholly owned and controlled by him, beneficially owns 784,579,852 shares in SCH.
- (d) SCI is a 74.79% owned subsidiary of SCH.
- (e) The 396,621,357 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 42.52% shareholding in Nority and is considered as SCI's associated corporation.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes: (Continued)

- (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) Wah Shing, a Singapore listed company, is a 62.34% owned subsidiary of SCI.
- (i) The 169,669,688 shares in Wah Shing 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 Wah Shing under the SFO.
- (j) SCFC is a 97.41% 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.
- (m) All interests disclosed above represent long positions in the shares of the Company.

SHARE OPTION SCHEME

No share option has been granted or outstanding as at 31 December 2004.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' and chief executives' 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, its holding company, or any of its 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 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of SFO showed that the following shareholders had relevant interests in the issued share capital of the Company:

Name of shareholders	Capacity and nature of interest	Number of ordinary shares held	Notes	Percentage holding of the Company's issued share capital
East Hill Development Limited ("East Hill")	Beneficial owner	1,800,000,000		37.02%
Tek Lee Finance and Investment Corporation Limited ("Tek Lee")	Beneficial owner, interests of controlled corporations	3,626,452,500	(a)	74.59%
South China (BVI) Limited	Interests of controlled corporations	3,626,452,500	(b)	74.59%
SCH	Interests of controlled corporations	3,626,452,500	(b)	74.59%
Mr. Ng	Beneficial owner, interests of controlled corporations	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.
- (d) All interests disclosed above represent long positions in the shares of the Company.

Save as disclosed above, as at 31 December 2004, no persons, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares or underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company, that was required to be recorded pursuant to section 336 of the SFO.

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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.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 34 to the financial statements.

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 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 compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

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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
10 March 2005