

## 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 2001.

### CHANGE OF COMPANY NAME

The name of the Company was changed to South China Brokerage Company Limited with effect from 9 July 2001.

### PRINCIPAL ACTIVITIES

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

### SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 66.

An interim dividend of 0.425 HK cent per ordinary share was declared and paid during the year. The directors recommend the payment of a final dividend of 0.10 HK cent per ordinary share in respect of the year to shareholders on the register of members on 31 May 2002. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.

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### SUMMARY FINANCIAL INFORMATION

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

	<b>2001</b>	2000	1999	1998	1997
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>RESULTS</b>					
Turnover					
Continuing operations	<b>127,984</b>	265,539	159,850	113,124	387,507
Discontinued operation	–	–	–	1,934	7,363
	<b>127,984</b>	265,539	159,850	115,058	394,870
Profit/(loss) before tax:					
Continuing operations	<b>21,172</b>	24,864	65,242	(110,442)	31,562
Discontinued operation	–	–	–	968	408
	<b>21,172</b>	24,864	65,242	(109,474)	31,970
Tax	<b>(981)</b>	(1,186)	(1,439)	(363)	(5,916)
Profit/(loss) before minority interests	<b>20,191</b>	23,678	63,803	(109,837)	26,054
Minority interests	<b>(217)</b>	–	–	–	–
Net profit/(loss) from ordinary activities attributable to shareholders	<b>19,974</b>	23,678	63,803	(109,837)	26,054
Earnings/(loss) per share (HK cent):					
Basic	<b>0.41</b>	0.49	1.31	(2.26)	0.59
Diluted	<b>0.40</b>	N/A	N/A	N/A	0.53
Dividends per share (HK cent)	<b>0.525</b>	1.125	0.50	0.05	0.50
<b>ASSETS, LIABILITIES AND MINORITY INTERESTS</b>					
Total assets	<b>872,860</b>	871,749	966,066	514,984	1,589,625
Total liabilities	<b>(510,320)</b>	(430,411)	(664,111)	(289,252)	(1,088,031)
Minority interests	<b>(2,332)</b>	–	–	–	–
Net assets	<b>360,208</b>	441,338	301,955	225,732	501,594

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### FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group are set out in note 14 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 note 26 to the financial statements.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

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

The Group is a provider of financial services. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

### DIRECTORS

The directors of the Company during the year were:

#### Executive directors:

Ng Hung Sang, Robert  
Richard Howard Gorges  
Cheung Choi Ngor, Christina  
Shing Shin Cheung, Stewart (appointed on 1 February 2001)  
Ng Chun Sang  
Li Siu Tak (resigned on 1 May 2001)

#### Non-executive director:

Tan Boon Seng

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### Independent non-executive directors:

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

In accordance with article 116 of the Company's articles of association, Ng Chun Sang and Tan Boon Seng 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, or any of its holding companies, subsidiaries or fellow subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in note 32 to the financial statements, no director had a material beneficial interest, either direct or indirect, 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.

### DIRECTORS' INTERESTS IN EQUITY SECURITIES

At 31 December 2001, the interests of the directors in the equity securities of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

#### i) The Company

Directors	Number of ordinary shares		Number of warrants	
	Personal interests	Corporate interests	Personal interests	Corporate interests
Ng Hung Sang, Robert	2,578,000	–	615,600	–
Richard Howard Gorges	16,174,000	–	3,234,800	–

(Note a)

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### ii) Ultimate holding company – South China Holdings Limited (“South China Holdings”)

Directors	Number of ordinary shares	
	Personal interests (Note b)	Corporate interests (Note b)
Ng Hung Sang, Robert	71,547,200	1,272,529,612
Richard Howard Gorges	–	487,949,760
Cheung Choi Ngor, Christina	–	487,949,760

### iii) Fellow subsidiaries – The Express News Limited (“Express News”)

Directors	Number of ordinary shares	
	Personal Interests	Corporate Interests (Note c)
Ng Hung Sang, Robert	–	30

Notes:

- (a) These warrants expired subsequent to the balance sheet date on 18 April 2002.
- (b) Ng Hung Sang, Robert, Richard Howard Gorges and Cheung Choi Ngor, Christina, through companies wholly-owned and controlled by them, have interests in 487,949,760 shares in South China Holdings. Ng Hung Sang, Robert personally owns 71,547,200 shares and through companies wholly-owned and controlled by him, beneficially owns 784,579,852 shares in South China Holdings.
- (c) Ng Hung Sang, Robert and his family, through a company wholly-owned and controlled by them, have interests in 30 shares in Express News.

Apart from the above, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as at 31 December 2001 of the SDI Ordinance.

## SHARE OPTION SCHEMES

### (i) The Company

On 12 July 1993, the Company adopted a share option scheme (the “Scheme”) which lapse on 11 July 2003, pursuant to which the directors may, at their discretion to grant to selective employees of the Group including the directors to subscribe for shares of the Company up to a maximum aggregate number of shares equal to 10 per cent of the total issued shares of the Company. The purpose of the Scheme is to allow grantee the opportunity to obtain equity interest in the Company. No grantee would be granted option which would exceed 25 per cent of the total option available. The grant is subject to acceptance within 21 days of the offer. The consideration payable for the option is HK\$1.00. The exercisable price of the option is determined by the directors which may be the higher of the nominal value of the share or 80 per cent of the average five business days’ closing price of the shares on The Stock Exchange of Hong Kong Limited immediate preceding the date of grant.

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The following table discloses movements in the Company's share options during the year and options outstanding at the beginning and end of the year.

Directors	Number of share options outstanding at 1 January 2001	Cancelled during the year	Granted during the year	Number of share options outstanding at 31 December 2001 HK\$	Initial exercise price*	Exercisable period
Ng Hung Sang, Robert	100,000,000	-	-	100,000,000	0.180	15/08/1994-11/07/2003
Richard Howard Gorges	50,000,000	-	-	50,000,000	0.180	15/08/1994-11/07/2003
Cheung Choi Ngor, Christina	100,000,000	-	-	100,000,000	0.180	15/08/1994-11/07/2003
Shing Shin Cheung, Stewart	-	-	20,000,000	20,000,000	0.138	10/05/2002-11/07/2003
Ng Chun Sang	20,000,000	-	-	20,000,000	0.238	15/03/2001-11/07/2003
Li Siu Tak	40,000,000	40,000,000	-	-	0.118	20/05/2000-30/04/2001
Employees	15,000,000	-	-	15,000,000	0.238	15/03/2001-11/07/2003
Employees	-	-	16,000,000	16,000,000	0.168	07/06/2002-11/07/2003
Employees	-	-	20,000,000	20,000,000	0.180	09/07/2002-11/07/2003
<b>Total</b>	<b>325,000,000</b>	<b>40,000,000</b>	<b>56,000,000</b>	<b>341,000,000</b>		

No share options was exercised by the Directors / other employees to subscribe for a share in the Company during the year.

\* The exercise price was subject to adjustment.

The directors are of the view that the value of the theoretical value of the share options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained on a number of theoretical basis and speculative assumptions. Accordingly, the directors believed that any calculation of the value of options will not be meaningful and may be misleading to shareholders in the circumstances.

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### (ii) Ultimate holding company – South China Holdings Limited (“South China Holdings”)

Under the employee share option scheme of South China Holdings adopted on 29 July 1992, the options are exercisable on or before 28 July 2002 at the respective initial subscription prices of HK\$1.36 and HK\$0.88 per share (subject to adjustment). The number of outstanding share options as at 31 December 2001 is as follows:

Directors	Number of share options		
	At 1 January 2001	Granted during the year	At 31 December 2001
Ng Hung Sang, Robert	16,796,000*	–	16,796,000*
Richard Howard Gorges	16,792,000*	–	16,792,000*
Cheung Choi Ngor, Christina	16,792,000*	–	16,792,000*

No share option was exercised by the directors to subscribe for a share in South China Holdings during the year.

\* adjusted after subdivision of shares on 16 August 2002

### (iii) Fellow subsidiaries

#### (1) South China Industries Limited (“South China Industries”)

Under the employee share option scheme of South China Industries adopted on 10 August 1992, the options are exercisable on or before 28 July 2002 at an initial subscription price of HK\$1.18 per share (subject to adjustment). The number of outstanding share options as at 31 December 2001 is as follows:

Directors	Number of share options		
	At 1 January 2001	Granted during the year	At 31 December 2001
Ng Hung Sang, Robert	13,000,000	–	13,000,000
Richard Howard Gorges	13,000,000	–	13,000,000
Cheung Choi Ngor, Christina	13,000,000	–	13,000,000

No share option was exercised by the directors to subscribe for a share in South China Industries during the year.

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

Under the employee share option scheme of South China IT adopted on 13 October 1997, the options are exercisable on or before 12 October 2007 at the respective initial subscription prices of HK\$1.28 and HK\$0.51 per share (subject to adjustment). The number of outstanding share options as at 31 December 2001 is as follows:

Director	Number of share options		
	At 1 January 2001	Granted during the year	At 31 December 2001
Cheung Choi Ngor, Christina	17,000,000	–	17,000,000

No share option was exercised by the director to subscribe for a share in South China IT during the year.

Other than the share option schemes of the Company, its ultimate holding company and its fellow subsidiaries to subscribe for their own ordinary shares, at no time during the year ended 31 December 2001 was the Company, its ultimate holding company, its fellow subsidiaries or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

#### Executive directors

**Ng Hung Sang, Robert**, aged 52, is the chairman of the Company, South China Holdings, South China Industries, South China IT, Wah Shing International Holdings Limited ("Wah Shing") and Jessica Publications Limited. He holds a Master's degree in marketing from Lancaster University, the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. He was appointed as a director in December 1988.

**Richard Howard Gorges**, aged 58, is the vice-chairman of the Company and South China Industries, a director of South China Holdings and South China IT and the deputy chairman of Wah Shing. He holds a Master's degree in law from Cambridge University, the United Kingdom. He was appointed as a director in December 1988.



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**Cheung Choi Ngor, Christina**, aged 48, is the vice-chairman of the Company, the vice-chairman and chief executive of South China Industries, the deputy chairman and chief executive of Wah Shing, and a director of South China Holdings and South China IT. She holds a Master's degree in business administration from the University of Illinois, the United States of America. She was appointed as a director in December 1988.

**Shing Shin Cheung, Stewart**, aged 54, is the chief executive officer of the Company. He holds a Master's degree in business administration from the University of New South Wales, Australia. He is a fellow member of the Hong Kong Society of Accountants. He is currently a member of the Membership Committee of the Hong Kong Securities Institute. He was appointed as a director in February 2001.

**Ng Chun Sang**, aged 39, holds a Bachelor's degree in science from the University of London, the United Kingdom. He has extensive experience in securities and commodities broking. He is a brother of Mr Ng Hung Sang, Robert. He was appointed as a director in October 1999.

### Non-executive directors

**Tan Boon Seng**, aged 46, is the chairman of Lee Hing Development Limited, an executive director of IGB Corporation Berhad, a listed company in Malaysia and is the independent non-executive director of Wo Kee Hong (Holdings) Limited and Star Cruise Limited. He is also a director of ASAT Holdings Limited, a listed company in the United States. He holds a Master's degree in arts from Cambridge University, the United Kingdom. He has extensive experience in property development, corporate finance and trading businesses. He was appointed as a director in December 1988 and is also the non-executive director of South China Holdings and South China Industries.

### Independent non-executive directors

**Tse Wong Siu Yin, Elizabeth**, aged 44, is the chairman of the Hong Kong Flower Retailers Association, Chairman of Friend of Community Chest (Southern District) and Honorary President of Southern District Scout Council and holds a Bachelor of Science in nutrition from the University of Western Ontario, Canada. She was appointed as a director in November 1992 and is also an independent non-executive director of South China IT.

**Raymond Arthur William Sears Q.C.**, aged 69, a retired High Court Judge, holds a Master's degree in law from Cambridge University, the United Kingdom. He became a Queen's Counsel in 1975 and was a former Vice-Chairman Judicial Section of the International Bar Association. In the United Kingdom, he had been leading counsel in England to the Government and large Authorities on redevelopment and construction projects and to the General Medical Council. In 1986 and 1987, he was a Justice of the Supreme Court of Hong Kong and the Commissioner to the Sultan of Brunei, respectively. During 1994 to 1999, he was the Senior Civil High Court Judge. He was appointed as an independent non-executive director in March 2000.

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### SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

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

Notes:

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

Same as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in equity securities", had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(c) of the SDI Ordinance.

### CONNECTED TRANSACTIONS

The connected transactions undertaken by the Group during the year are set out in note 32 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 32 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.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased certain of its shares on the Stock Exchange of Hong Kong Limited and these shares were subsequently cancelled by the Company. Further details of these transactions are set out in note 26 to the financial statements.

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Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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.

### DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$11,676,000. In addition, the Company's share premium account, in the amount of HK\$201,644,000 is available for distribution in the form of fully paid bonus shares.

### AUDITORS

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

ON BEHALF OF THE BOARD

**Ng Hung Sang, Robert**

Chairman

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

24 April 2002