

Report of the Directors

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2005.

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, 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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 96.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2005 (2004 : 0.20 HK cent).

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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 | | | | |
|--------------------------------------|------------------------|------------------|------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| RESULTS | | | | | |
| Turnover | 116,947 | 131,953 | 117,715 | 102,756 | 127,984 |
| Profit/(loss) before tax | 8,601 | 72,955 | 29,804 | (225,255) | 21,172 |
| Tax | (4,392) | (4,352) | 3,659 | (403) | (981) |
| Profit/(loss) for the year | 4,209 | 68,603 | 33,463 | (225,658) | 20,191 |
| Attributable to: | | | | | |
| Equity holders of the Company | 4,109 | 68,576 | 33,429 | (225,661) | 19,974 |
| Minority interests | 100 | 27 | 34 | 3 | 217 |
| | 4,209 | 68,603 | 33,463 | (225,658) | 20,191 |
| Earnings/(loss) per share (HK cent): | | | | | |
| Basic | 0.08 | 1.41 | 0.69 | (4.64) | 0.41 |
| Diluted | N/A | N/A | N/A | N/A | 0.40 |
| Dividends per share (HK cent) | N/A | 0.20 | 0.20 | N/A | 0.525 |

ASSETS, LIABILITIES AND MINORITY INTERESTS

| | Year ended 31 December | | | | |
|--------------------|------------------------|------------------|------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| TOTAL ASSETS | 775,001 | 832,359 | 775,613 | 640,787 | 872,860 |
| TOTAL LIABILITIES | (452,210) | (523,948) | (527,734) | (425,927) | (510,320) |
| MINORITY INTERESTS | (1,380) | (1,371) | (1,749) | (2,240) | (2,332) |
| | 321,411 | 307,040 | 246,130 | 212,620 | 360,208 |

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PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment 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 33 and 34 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY 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 2005.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

At 31 December 2005, 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 and up to the date of this report were:

Executive Directors:

Mr. Ng Hung Sang (*Chairman*)
Mr. Richard Howard Gorges (*Vice-chairman*)
Ms. Cheung Choi Ngor (*Vice-chairman*)
Mr. Chan Hing Wah (*Managing Director*)
Mr. Ng Chun Sang
Mr. Ng Yuk Yeung, Paul

Independent Non-executive Directors:

Ms. Wong Siu Yin, Elizabeth
Hon. Raymond Arthur William Sears, Q.C.
Mr. Tung Woon Cheung, Eric

In accordance with article 116 of the Company's Articles of Association, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor and Hon. Raymond Arthur William Sears, Q. C. will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the Independent Non-executive Directors namely, Ms. Wong Siu Yin, Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung, Eric for the year ended 31 December 2005 and as at the date of this report, the Company still considers the Independent Non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being 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.

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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and other companies in which certain Directors of the Company have beneficial interests as disclosed under the heading "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" below are set out in note 39 to the financial statements.

Save as disclosed above, no contracts of significance in relation to the business of the Group to which the Company, or any of its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

(a) *the Company*

(i) Long positions in ordinary shares

| Name of Director | Capacity and nature of interest | Number of shares | Total number of shares | Approximate percentage of shareholding |
|---|---|--|------------------------|--|
| Ng Hung Sang ("Mr. Ng") | Beneficial owner Interest of controlled corporations | 7,378,000 3,626,452,500 (Note a) | 3,633,830,500 | 74.74% |
| Richard Howard Gorges ("Mr. Gorges") | Beneficial owner | 12,174,000 | 12,174,000 | 0.25% |

(ii) Long positions in underlying shares

| Name of Director | Capacity and nature of interest | Number of underlying shares |
|------------------|-------------------------------------|-----------------------------|
| Mr. Ng | Interest of controlled corporations | 670,400,000 (Note b) |

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

(b) Long positions in ordinary shares of associated corporations

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

| Name of Director | Capacity and nature of interest | Number of shares | Total number of shares | Approximate percentage of shareholding |
|------------------------------------|-------------------------------------|---------------------------|------------------------|--|
| Mr. Ng | Beneficial owner | 71,652,200 | 1,344,181,812 | 73.72% |
| | Interest of controlled corporations | 1,272,529,612 (Note d) | | |
| Mr. Gorges | Interest of controlled corporations | 487,949,760 (Note d) | 487,949,760 | 26.76% |
| Cheung Choi Ngor ("Ms. Cheung") | Interest of controlled corporations | 487,949,760 (Note d) | 487,949,760 | 26.76% |

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

| Name of Director | Capacity and nature of interest | Number of shares | Approximate percentage of shareholding |
|------------------|-------------------------------------|-------------------------|--|
| Mr. Ng | Interest of controlled corporations | 396,621,357 (Note f) | 74.79% |

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

| Name of Director | Capacity and nature of interest | Number of shares | Approximate percentage of shareholding |
|------------------|-------------------------------------|-------------------------|--|
| Mr. Ng | Interest of controlled corporations | 114,118,540 (Note h) | 42.52% |

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

(b) Long positions in ordinary shares of associated corporations (Continued)

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

| Name of Director | Capacity and nature of interest | Number of shares | Approximate percentage of shareholding |
|------------------|-------------------------------------|-------------------------|--|
| Mr. Ng | Interest of controlled corporations | 185,528,688 (Note j) | 68.17% |

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

| Name of Director | Capacity and nature of interest | Number of shares | Approximate percentage of shareholding |
|--------------------|---------------------------------|------------------|--|
| Ng Yuk Yeung, Paul | Beneficial owner | 250,000 | 0.59% |

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

| Name of Director | Capacity and nature of interest | Number of shares | Approximate percentage of shareholding |
|------------------|-------------------------------------|------------------|--|
| Mr. Ng | Interest of controlled corporations | 30 (Note m) | 30% |

Notes:

- (a) The 3,626,452,500 shares in the Company were held by certain wholly-owned subsidiaries of SCH. By virtue of the interests in the shares of SCH in relation to which Mr. Ng had a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (d) below and as a director of SCH, Mr. Ng was taken to have a duty of disclosure in relation to the said shares of the Company under the SFO.
- (b) These were interests held under warrants of the Company which entitle the holders to subscribe for ordinary shares of the Company at an initial subscription price of HK\$0.1012 per ordinary share (subject to adjustment) exercisable on or before 2 March 2006. The 670,400,000 underlying shares in the Company were held by a wholly-owned subsidiary of SCH. By virtue of the interests in the shares of SCH in relation to which Mr. Ng had a duty of disclosure under the SFO as described in Note (d) below and as a director of SCH, Mr. Ng is taken to have a duty of disclosure in relation to the said underlying shares of the Company under the SFO.

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

Notes: *(Continued)*

- (c) SCH owned 74.59% in the issued share capital of the Company and 670,400,000 warrants issued by the Company.
- (d) Mr. Ng, Ms. Cheung and Mr. Gorges, through companies wholly owned and controlled by them, had interests in 487,949,760 shares in SCH. Mr. Ng personally owned 71,652,200 shares and through companies wholly owned and controlled by him, beneficially owned 784,579,852 shares in SCH.
- (e) SCI was a 74.79% owned subsidiary of SCH.
- (f) The 396,621,357 shares in SCI were 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 (d) above and as a director of SCH, Mr. Ng was taken to have a duty of disclosure in relation to the said shares of SCI under the SFO.
- (g) SCI owned a 42.52% shareholding in Nority and Nority was considered as SCI's associated corporation.
- (h) The 114,118,540 shares in Nority were held by a wholly-owned subsidiary of SCI. By virtue of the interest in the shares of SCH in relation to which Mr. Ng had a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (d) above and as a director of SCH, Mr. Ng was taken to have a duty of disclosure in relation to the said shares of Nority under the SFO.
- (i) Wah Shing, a Singapore listed company, was a 68.17% owned subsidiary of SCI.
- (j) The 185,528,688 shares in Wah Shing were 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 (d) above and as a director of SCH, Mr. Ng was taken to have a duty of disclosure in relation to the said shares of Wah Shing under the SFO.
- (k) SCFC was a 97.44% owned subsidiary of the Company.
- (l) Express News was a 70% owned subsidiary of SCH.
- (m) Mr. Ng and his family, through a company wholly-owned and controlled by them, had interests in 30 shares in Express News.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 December 2005, any interests or short positions 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) as recorded in the register required to be kept under 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 (the "Model Code") as contained in Appendix 10 of the Listing Rules.

SHARE OPTION SCHEME

The Directors and employees of the Company and its subsidiaries are entitled to participate in the share option scheme of the Company. Particulars of the share option scheme are set out in note 34 to the financial statements.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and "SHARE OPTION SCHEME" set out above, at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, other than the interests and short positions of the Directors and chief executives of the Company as disclosed above, the following persons had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of SFO.

(i) Long positions in ordinary shares of the Company

| Name of shareholders | Notes | Capacity and nature of interest | Number of shares | Approximate percentage of shareholding |
|--|-------|--|------------------|--|
| East Hill Development Limited ("East Hill") | | Beneficial owner | 1,800,000,000 | 37.02% |
| Tek Lee Finance and Investment Corporation Limited ("Tek Lee") | (a) | Beneficial owner and interest of controlled corporations | 3,626,452,500 | 74.59% |
| South China (BVI) Limited ("SC BVI") | (b) | Interest of controlled corporations | 3,626,452,500 | 74.59% |
| SCH | (b) | Interest of controlled corporations | 3,626,452,500 | 74.59% |
| Mr. Ng | (c) | Beneficial owner and interest of controlled corporations | 3,633,830,500 | 74.74% |

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

(ii) Long positions in the underlying shares of the Company

| Name of shareholders | Capacity and nature of interest | Number of underlying shares | Notes |
|----------------------|-------------------------------------|-----------------------------|-------|
| Tek Lee | Beneficial owner | 670,400,000 | (d) |
| SC BVI | Interest of controlled corporations | 670,400,000 | (d) |
| SCH | Interest of controlled corporations | 670,400,000 | (d) |
| Mr. Ng | Interest of controlled corporations | 670,400,000 | (d) |

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 SC BVI, which in turn is the holding company of Tek Lee. The 3,626,452,500 shares referred to above relate 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 in Note (a) above in which SCH is interested by virtue of the SFO.
- (d) These are interests held under warrants of the Company which entitle the holders to subscribe for ordinary shares of the Company at an initial subscription price of HK\$0.1012 per ordinary share (subject to adjustment) exercisable on or before 2 March 2006. The four references to 670,400,000 underlying shares relate to the same block of underlying shares of the Company which were held by Tek Lee. By virtue of the SFO, each of SC BVI, SCH and Mr. Ng is deemed to be interested in the same 670,400,000 underlying shares of the Company held by Tek Lee as described in Notes (a), (b) and (c) above.

Save as disclosed above, as at 31 December 2005, the Company had not been notified by any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONNECTED TRANSACTIONS

There were no transactions to be disclosed as connected transactions in accordance with the requirements of the Listing Rules during the year ended 31 December 2005.

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POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 41 to the financial statements.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Details of the compliance by the Company with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules are set out on pages 20 to 24 of the Corporate Governance Report in this report.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group. The audit committee comprises three Independent Non-executive Directors, namely Ms. Wong Siu Yin, Elizabeth (Chairman of the Committee), Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung, Eric .

During the year, the audit committee held two meetings to review and comment on the Company's 2004 annual report and 2005 interim report as well as the Company's internal control procedures.

The Group's audited results for the year ended 31 December 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules.

AUDITORS

Messrs. 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

Chairman

Hong Kong, 19 April 2006