



# SOUTH CHINA BROKERAGE COMPANY LIMITED

(Incorporated in the Hong Kong Special Administrative Region of the People's Republic of China with limited liability)

(Stock Code: 619)

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2003

### GROUP RESULTS

The directors (the "Directors") of South China Brokerage Company Limited (the "Company") announce that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2003 are as follows:-

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

	2003	2002
Notes	HK\$'000	HK\$'000
<b>Turnover</b>	<b>117,715</b>	102,756
Other revenue	5,211	7,028
Surplus / (deficit) on revaluation of an investment property	6,000	(18,500)
Gain / (loss) on disposal of long term investments	4,138	(61,225)
Reversal of impairment / (impairment) of long term investments	1,832	(22,560)
Increase/(decrease) in fair values of short term investments	33,269	(13,807)
Provisions for bad and doubtful debts	(14,484)	(53,246)
Other operating expenses	2 (122,482)	(164,242)
<b>Profit/(loss) from operating activities</b>	<b>31,199</b>	(223,796)
Finance cost	5 (1,395)	(1,459)
<b>Profit/(loss) before tax</b>	<b>29,804</b>	(225,255)
Tax	6 3,659	(403)
<b>Profit/(loss) before minority interests</b>	<b>33,463</b>	(225,658)
Minority interests	(34)	(3)
<b>Net profit/(loss) from operating activities attributable to shareholders</b>	<b>33,429</b>	(225,661)
<b>Dividends</b>		
Proposed final	9,724	—
<b>Earnings/(loss) per share</b>		
Basic	0.69 HK cent	(4.64) HK cent
Diluted	N/A	N/A

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Principal accounting policies and basis of preparation

The accounting policies and basis of preparation adopted in these financial statements are consistent with those adopted in the Group's audited 2002 annual financial statements except for the adoption of SSAP 12 (Revised) and Interpretation 20 "Income taxes - Recovery of revalued non-depreciable assets" that prescribes the accounting treatment for income taxes to account for the current and future tax consequences of the future recovery and settlement of the carrying amount of assets and liabilities of the Group.

#### 2. Other operating expenses

The amount includes brokerage expenses, money lending and margin finance funding costs and general expenses.

#### 3. Turnover and segmental information

An analysis of the Group's consolidated turnover and contribution to profit/(loss) from operating activities by business segments for the years ended 31 December 2003 and 2002 is as follows:

	2003		2002	
	Revenue	Revenue	Contribution to profit/(loss) from operating activities	Contribution to profit/(loss) from operating activities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Broking	62,390	44,668	(11,900)	(61,280)
Trading and investment	730	(12,337)	37,893	(115,601)
Margin financing	15,437	19,833	13,639	(23,915)
Money lending	32,062	39,918	396	293
Corporate advisory and underwriting	14,590	13,505	(9,803)	(2,057)
Property investment	2,199	1,438	7,129	(20,730)
Corporate and other	2,194	3,981	(6,155)	(506)
Eliminations of intersegment sales	(6,676)	(1,222)	—	—
<b>Consolidated</b>	<b>122,926</b>	<b>109,784</b>	<b>31,199</b>	<b>(223,796)</b>

Over 90% of the Group's revenue and contribution to profit/(loss) from operating activities were derived from operations in Hong Kong.

#### 4. Depreciation and amortisation

Profit from operations for the year is arrived at after charging depreciation and amortisation of approximately HK\$6,904,000 (2002: HK\$9,276,000) in respect of the Group's fixed assets.

#### 5. Finance Costs

Finance costs represent interest on a mortgage loan and finance lease secured by the Group's investment property and fixed assets.

#### 6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. 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	
	2003	2002
	HK\$'000	HK\$'000
Current - Hong Kong		
Charge for the year	(187)	(277)
Overprovision in prior years	17	59
Current - elsewhere	(163)	(185)
Deferred	3,992	—
Total tax credit/(charge) for the year	3,659	(403)

#### 7. Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share is based on the net profit from operating activities attributable to shareholders of HK\$33,429,000 (2002: net loss from operating activities attributable to shareholders of HK\$225,661,000) and 4,861,990,940 (2002: weighted average of 4,861,898,979) ordinary shares in issue during the year.

A diluted profit per share for the year ended 31 December 2003 has not been disclosed as no diluting events existed during the year.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### BUSINESS REVIEW

The Group went through a difficult period, following the outbreak of SARS in the first half of 2003, suffering from the impact of SARS on the economy. The second half of 2003 saw a dramatic reverse in the market conditions with a V-shaped rebound in the Hong Kong economy.

Such significant improvement of market sentiment especially in the final quarter of 2003, and the upsurge in turnover of the stocks and future market, led to a substantial increase in commission income from securities and commodities broking, and trading in equities became overall profitable for the year ended 31 December 2003.

The Group has continued to exert strict control over direct and indirect cost by reduction of personnel costs and consolidation of branch offices.

A copy of this announcement can be obtained from our website www.sctrade.com

Overall, the Group's turnover increased approximately 15% to HK\$117.7 million and our results took a turn from loss in 2002 to a profit of HK\$33.4 million for the full year of 2003.

#### Securities broking, trading and investment

The resumed investors' confidence brought back vibrant market activities and turnover velocity. The average stock market daily turnover dramatically leaped from HK\$6.5 billion in 2002 to HK\$10.3 billion in 2003. Our income from securities and commodities broking increased by 40% to HK\$62.4 million from the year 2002 to 2003. The result from broking operation recovered from its worst difficult market condition especially in the last quarter of 2003, yet it still reports a loss of HK\$11.9 million for the year of 2003. Although the figure was not satisfactory, it was a substantial positive change in comparing to its loss result of HK\$61.3 million in 2002.

Online securities broking made substantial growth in income in 2003, being 223% as compared with 2002. Both the trading volume and the number of clients for online securities trading continued to expand, in particular with the growth in the number of new listings during the last quarter of the past year. On the cost end, we consolidated some of the local branches to rationalise a more cost effective conventional broking operation in the first half of the year emanating from the onset of SARS. By the end of the last financial year, we have three retail branches together with the head office in Central.

During the past year, part of the non-trading securities was sold and had realised a gain of HK\$4.1 million. Previous provisions and impairments in the value of trading securities and non-trading securities recorded write-back of HK\$33.3 million and HK\$1.8 million respectively on revaluation to the closing prices at the end of the last year. The Group has trading securities of HK\$59.8 million and non-trading securities of HK\$3.2 million in value as at 31 December 2003.

#### Margin financing and money lending

Margin finance business recovered satisfactorily in the second half of the year with some of the initial public offers (IPOs) being well received by the market. Personal loan business, on the other hand, suffered substantially by the deteriorated unemployment rate and personal bankruptcy petitions in the year 2003. Although the Hong Kong's economy staged a rapid rebound in the second half of the year, individuals could not be benefited so immediately. Further, delinquent accounts of previous lending made to the overseas domestic helpers accelerated in face of sluggish domestic conditions during the past year. Inevitably, we made a total provisions for bad and doubtful debts of HK\$14.5 million for 2003. We consolidated and closed some local branches engaging in personal lending during the last year under the prevailing market situation, and remained four branches with larger customer base. The related staff administration and operating costs reduced accordingly.

The overall interest income from our loan portfolio for margin financing and personal loan declined by 28% to HK\$37.9 million. As at 31 December 2003, our loan and advances portfolio for margin financing and personal loan contracted by 17% to HK\$192.7 million. We will remain prudent in granting loans and setting limits, and will continue to exercise tight credit control to ensure the quality of our loan portfolio.

#### Corporate advisory and underwriting

With expansion in 2003, our corporate finance division was successful in securing an increasing number of deals in corporate advisory services, rights issues and placements of shares as well as IPO sponsorship and underwriting on both the Main and GEM boards. However, some of the deals arranged in the first half of the year were deferred to the second half of last year and even early 2004 because of the sudden outbreak of the deadly disease in March that severely hindered investors' sentiment. For the year 2003, the division had revenue income rose by 8% to HK\$14.6 million.

According to the Hong Kong Exchange, a total of 73 companies were listed including 20 Mainland enterprises in 2003. The newly listed Mainland enterprises raised total funds of HK\$50.4 billion which represented 85% of the total funds raised by IPOs in 2003. We are getting more active flow of PRC-related business in respect of Main Board IPO and corporate advisory assignments. Some of the assignments are still ongoing by the end of last year.

#### Property investment and others

The investment property at Lippo Centre was fully leased out by September 2003 and brought about higher yield of return and profit. The property has been providing steady cash income to the Group. In addition, we recorded a surplus on revaluation of the property for HK\$6 million due to the recovery of the local property market at the end of last year.

#### LIQUIDITY AND FINANCIAL RESOURCES

The Group has obtained facilities which are renewable on a yearly basis from a number of banks. The facilities for the share margin finance operations are secured by the securities of margin clients and the Group. The facilities for the money lending operations are clean loans. All the facilities are guaranteed by the Company.

As at 31 December 2003, the Group's total bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$21 million (2002: HK\$20 million), which, when related to the Group's shareholders' fund, are equivalent to a gearing ratio of approximately 8.6% (2002: 9.4%).

#### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2003, the Group had no significant exposure to fluctuations in exchange rates and any related hedges.

#### CAPITAL STRUCTURE

The Group had no other debt securities or capital instruments as at 31 December 2003 and up to the date of this announcement.

#### MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Group had no material acquisitions and disposals of subsidiaries and associates for the year ended 31 December 2003.

#### CHARGES ON ASSETS

As at 31 December 2003, the Group's leasehold land and building was mortgaged to a bank for installment and revolving loan facilities.

#### CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	589,000	853,900
Guarantees given to banks in connection with letters of guarantee issued by the banks	5,500	5,500	5,500	5,500
	<b>5,500</b>	<b>5,500</b>	<b>594,500</b>	<b>859,400</b>

#### PROSPECTS

In the recent months the US economy has remained strong and the European Union economy should be able to maintain its pace this year. Looking ahead, the external economic environment continues to be generally sanguine. The recent political events in Taiwan and outbreak of avian influenza in a number of places in East Asia has undoubtedly cast a shadow over the regional economic situation, but the impact should be temporary. Sustained rapid economic growth in the Mainland and the continued opening-up of its market will create abundant business opportunities for Hong Kong. With the further extension of the Individual Visit Scheme for Mainland visitors and a progressive rebound in international visitor arrivals, inbound tourism looks set for more growth this year. A high level of bank liquidity, low interest

rates, the improved employment situation in early 2004 and rebound in asset prices all act to raise demand and significantly improve both consumer and investor sentiment. The implications for the securities industry are remarkably encouraging and should boost activity in both the primary and secondary markets.

However, there are certain caveats that require our attention, including movements in US interest rates and the US dollar exchange rate, developments in the US economy following this year's presidential election, the ongoing situation of the European Union economy, and geopolitical risks. Changes in these factors will have implications on the global economic climate and the outlook of the local economy.

The Group will continue to apply effective control on our operations and capitalize the benefit from the positive economic turnaround.

#### Brokerage and Financial Services

Hong Kong economy has bottomed out with a V-shaped rebound, and businesses have revived with continuous improvement in both consumer and investor sentiment. In order to ride on the recovery of the securities industry and capitalize the growth in retail business with fierce competition from securities brokers and banks offering securities broking and related services, the Group will continue to strengthen the account executives teams and carefully consider the expansion of our branch network in forthcoming period. As the first step in strengthen our branch network, we have re-opened the branch in Kwan Tong in March 2004.

The online trading platform has enabled us to expand our customer base especially outside the territory and there is significant cost efficient and effective justification for more extensive use of the existing platform. We will add trading of futures contracts to the existing platform in coming months. The Group will continue to strengthen and diversify our product base such as bullion, futures and forex, and develop and explore new products such as equity linked instruments and other financial planning services in order to expand the income base. With more enterprises from the Mainland interested to have listing in Hong Kong, the Group will expand the corporate finance team to seize lucrative business opportunities from the Mainland.

#### Personal Loan

We will continue to exert strict control over costs and closely monitor the delinquency ratio so as to maintain the profit margin and further reduction in bad debts.

#### EMPLOYEES

As at 31 December 2003, the total number of employees of the Group was approximately 196 (31 December 2002: approximately 260). Employees' cost (including directors' emoluments) amounted to approximately HK\$47 million for the year (2002: HK\$66 million).

The Group considers its employees as its most valuable asset. Apart from salary payment, other staff benefits include medical subsidies, life insurance, provident fund and subsidized external training. Continuous Professional Training will continue to be arranged for those staff registered with the Securities and Futures Commission. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employee may also receive a discretionary bonus at the end of each year based on performance. The Company adopted an employee share option scheme on 18 June 2002.

#### ARRANGEMENTS 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.

#### INVESTMENTS

For the year ended 31 December 2003, the Group's portfolio of Hong Kong listed securities increased due to rise of market prices lead to increase in value on the balance of investment portfolio and realisation of certain investment portfolio during the year resulted in profits sustained.

As at 31 December 2003, the Group did not have any significant investment plans or significant investment held.

#### FINAL DIVIDEND

The Directors recommend the payment of a final dividend of 0.20 HK cent (2002: Nil) per share, which amounted to approximately HK\$9,724,000 (2002: Nil) 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. No interim dividend was paid during the year ended 31 December 2003.

Subject to the approval by shareholders at the forthcoming Annual General Meeting, it is intended that dividend warrants will be despatched to shareholders on or before 7 June 2004.

#### CLOSURE OF REGISTER FOR ENTITLEMENT TO FINAL DIVIDEND

The Register of Members of the Company will be closed from 24 May 2004 to 25 May 2004, both days inclusive, during which period no share transfers will be registered. To qualify for the final dividend, all transfers accompanied by the relevant share certificates of the Company, must be lodged for registration with the Company's Share Registrar, Standard Registrars Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 21 May 2004.

#### AUDIT COMMITTEE

The audit committee has reviewed with the management the financial reporting matters, including the audited financial statements, relating to the preparation of the financial statements for the year ended 31 December 2003.

The audit committee comprises two members, Hon. Raymond Arthur William Sears, Q.C. and Mrs. Tse Wong Siu Yin, Elizabeth, who are independent non-executive directors of the Company.

#### COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") except that the non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Articles of Association.

#### ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 25 May 2004. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting, which is expected to be published on or about 30 April 2004.

#### PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

Annual report of the Group for the year ended 31 December 2003 containing all information required to be disclosed according to Appendix 16 of the Listing Rules will be published on the web-site of the Stock Exchange in due course.

The board of Directors comprises:

#### 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 Chung Sang  
Mr. Ng Yuk Yeung Paul

#### Non-executive Director:

Mr. Tan Boon Seng

#### Independent Non-executive Directors:

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

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