

**SOUTH CHINA HOLDINGS LIMITED***(Incorporated in the Cayman Islands with limited liability)***(Stock code: 265)****2004 INTERIM RESULTS ANNOUNCEMENT****UNAUDITED INTERIM RESULTS**

The Directors of South China Holdings Limited (the “Company”) announce that the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2004	2003
	<i>Notes</i>	<i>Unaudited</i>	<i>Unaudited</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	1,560,588	1,330,234
Cost of sales		<u>(1,370,113)</u>	<u>(1,150,562)</u>
Gross profit		190,475	179,672
Other operating income (including interest income)		8,086	9,342
Distribution costs		(34,768)	(37,022)
Administrative and operating expenses		(165,217)	(171,634)
Gain (Loss) on disposal of non-trading securities		235	3,076
Impairment of non-trading securities written back (made)		25,325	(2,771)
Unrealised holding loss of trading securities		(7,456)	(3,010)
Surplus (Deficit) on revaluation of investment properties		11,000	(25,128)
Gain arising from changes in fair value of fruit trees		<u>—</u>	<u>6,000</u>
Profit (Loss) from operations	2&3	27,680	(41,475)
Finance costs		(4,484)	(5,250)
Share of results of associates		<u>(3,831)</u>	<u>(6,436)</u>
Profit (Loss) before taxation		19,365	(53,161)
Income tax (expense) credit	4		
Company and subsidiaries		(898)	(495)
Associate		<u>393</u>	<u>2,021</u>
Profit (Loss) before minority interests		18,860	(51,635)
Minority interests		<u>(7,495)</u>	<u>24,209</u>
Profit (Loss) attributable to shareholders		<u>11,365</u>	<u>(27,426)</u>
Basic earnings (loss) per share	6	<u>HK0.62 cent</u>	<u>(HK1.50 cent)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

1. Accounting policies

The unaudited condensed interim financial statements (“interim financial statements”) have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited and the compliance with the Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These interim financial statements should be read in conjunction with the 2003 annual financial statements.

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2003.

2. Turnover and segmental information

An analysis of the Group’s consolidated turnover and contribution to profit (loss) from operations by principal activity and geographical location for the six months ended 30 June 2004 and 2003 is as follows:

	Turnover		Contribution to profit	
	Six months ended		(loss) from operations	
	30 June		30 June	
	2004	2003	2004	2003
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
By principal activity:				
Trading and manufacturing	672,007	761,160	(5,591)	6,880
Securities and financial services	66,684	49,393	8,085	(8,106)
Travel and related services	718,305	407,589	8,708	(682)
Property investment and development	6,680	6,679	16,855	(19,645)
Media and publications	79,388	77,193	(8,973)	(8,456)
Information and technology	16,862	24,785	(3,275)	(3,998)
Agriculture	652	3,341	(3,648)	3,724
Investment holding	10	94	15,519	(11,192)
	<u>1,560,588</u>	<u>1,330,234</u>	<u>27,680</u>	<u>(41,475)</u>
By geographical location*:				
The People’s Republic of China				
and Hong Kong	946,952	659,690	46,556	(29,315)
United States of America	397,292	443,071	(12,777)	(6,988)
Europe	168,109	184,327	(5,042)	(4,274)
Japan	2,382	11,518	(95)	(171)
Others	45,853	31,628	(962)	(727)
	<u>1,560,588</u>	<u>1,330,234</u>	<u>27,680</u>	<u>(41,475)</u>

* Turnover by geographical location is determined on the basis of the location where merchandise is delivered and/or service is rendered.

3. Depreciation

Profit (Loss) from operations for the period is arrived at after charging depreciation of approximately HK\$26,077,000 (six months ended 30 June 2003: HK\$27,334,000) in respect of the Group's property, plant and equipment.

4. Income tax (expense) credit

Hong Kong profits tax was provided at the rate of 17.5% (six months ended 30 June 2003: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated on the estimated assessable profits at rates of taxation prevailing in the countries in which the Group operates.

5. Interim dividend

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: Nil).

6. Basic earnings (loss) per share

The calculation of basic earnings (loss) per share is based on the profit attributable to shareholders of approximately HK\$11,365,000 (six months ended 30 June 2003: loss of HK\$27,426,000) and on approximately 1,823,401,000 shares (six months ended 30 June 2003: 1,823,401,000 shares) in issue during the period.

Diluted earnings (loss) per share is not shown, as there is no dilution effect for both periods.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

With the rebound in the local economy and the reviving global market conditions, the Group achieved satisfactory growth in both turnover and profit for the first half of 2004. The Group recorded turnover of HK\$1.6 billion and profit attributable to shareholders of HK\$11.4 million, respectively representing a 17.3 % increase in turnover and a turnaround in result as compared to the corresponding period in the last year. During the period, significant improvement of our travel business and the recovery of the securities and property prices attributed to the growth in profit.

Gross profit however declined slightly due to the substantial rise in raw material costs for the manufacturing businesses and the relatively low profit margin pattern of the travel business. The surging oil prices pushed up the direct material costs, in particular plastic for our toy manufacturing business. Distribution and administrative expenses were further reduced by our continuing efforts in bringing down costs at the operating level which helped to offset the adverse impacts from rising material prices in the current period.

The Group's two core subsidiaries, South China Industries Limited ("SCI") and South China Brokerage Company Limited ("SCB"), both reported satisfactory profits for the period.

Trading and Manufacturing

Wah Shing International Holdings Limited (“Wah Shing”) reported an interim turnover of HK\$635 million as compared with last year’s first half turnover of HK\$687 million. The performance in the US economy was the major contributing factor to our decrease in turnover. Over this period, despite Wah Shing continuing to improve operating efficiencies, our operating margins suffered from rising material costs as a result of increased oil prices.

The trading and manufacturing of leather shoes products continued to make positive contributions to the Group, while other leather products and garments operations improved though not yet profitable.

Likewise, the Group’s associate, Nority International Group Limited (“Nority”) engaging in manufacturing of athletic and leisure footwear, was also adversely affected by the surging price of raw materials. This coupled with fierce competition within the industry and falling unit price of shoe products accounted for its declining turnover and operating loss for the period.

Securities and Financial Services

For the period under review, SCB’s turnover increased by 36% to HK\$68.5 million and it reported a net profit of HK\$21.4 million.

The average stock market daily turnover increased from HK\$6.95 billion for the first half of 2003 to HK\$16.69 billion in the same period in 2004. Commission income from both conventional and online broking benefited directly from the active daily trading volume.

Margin financing business however suffered from a mild reduction in loans with revenue and profits notably decreasing in the second quarter, as investors became cautious about China stocks.

For corporate finance business, we deferred several deals that were arranged for the first half of 2004 in view of the poor market sentiment caused by decreased confidence in new listings as investors became more cautious in investing in the PRC companies.

Personal loan business has been improving with our stringent cost controls from consolidation and closure of some local branches in late 2003.

Travel and Related Services

Hong Kong Fourseas Tours Limited (“Fourseas”) gave satisfactory performance over the first six months with an increase in turnover of HK\$311 million to HK\$718 million. The main reason for the dramatic jump in turnover was mainly due to the effect of SARS in the previous year which crippled the local travel industry. Despite the improvement in performance, Fourseas is still experiencing cut-throat competition in a highly competitive market. Management forecasts a healthy bottom line this year amidst constantly diminishing margins. Fourseas looks to diversify its current product portfolio to control the decrease in margins.

Property Investment and Development

Rental income from the Group's investment properties for the first half of the year was satisfactorily stable with turnover of HK\$6.7 million and a net profit of HK\$16.8 million. As at 30 June 2004, over 90% of the total gross floor of our 30% owned Grade-A commercial building, "The Centrium", was leased out and generating satisfactory income to the Group.

As at 31st December 2003 the Group's entire property portfolio stood over HK\$900 million (including the holding through associates) and by the current period end, the Group recognised a revaluation surplus of HK\$11 million, representing approximately 1.2% appreciation in value.

In the first half we maintained a hold position for most of our property portfolio as we remain bullish on the property sector.

Media and Publications

The media business made overall progress in the market position and market penetration of our magazines. While several niche magazines suffered from niche-market specific decrease in advertising expenditure from advertisers, mature magazines experienced significant growth in advertising and related revenues, with lateral business development, greater advertiser confidence and stronger brand names, leading to individual improved results. The Group also launched a new lifestyle/entertainment Eight Weekly, which is still at an early launch stage, but achieving gradual acceptance in readers and advertisers.

Information and Technology

The operating environment is stabilizing in the IT market in the PRC. The business development of our Mainland IT joint ventures is picking up momentum during the past six months, as our products and services are becoming more refined over time. Overall, the Group's IT sector reported turnover of HK\$16.9 million and net loss of HK\$3.3 million.

Agricultural Business

Our fish rearing lake farm in Nanjing reported a minor loss of HK\$0.4 million, mainly representing operating expenses incurred during this period. The fruit farms in Guangzhou made a loss of HK\$3.3 million due to untimely heavy rain during flowering and fruit bearing periods and the resulting 2003/04 crop size was unable to produce significant revenue. The wholesale price of lychee and longan hit a new low this season, and in response we have implemented further cost cutting measures for the 2004/05 crop.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, the Group had a current ratio of 1.11 and a gearing ratio of 11.9% (31 December 2003: 1.16 and 13.4% respectively). The gearing ratio is computed on comparing the Group's total long-term bank borrowings of HK\$90.5 million to the Group's shareholders' fund of HK\$759.1 million. The Group's operations and investments continue to be financed by internal resources and bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 30 June 2004, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

CAPITAL STRUCTURE

The Group had no other debt securities or capital instruments as at 30 June 2004 and up to the date of this announcement.

MATERIAL ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2004, the Group has further acquired approximately 9% equity interests of Wah Shing for successive considerations of HK\$22 million.

On 31 March 2004, the Group acquired the remaining 51% equity interest in information and technology business from Geely Automobile Holdings Limited (formerly known as Guorun Holdings Limited) (“Geely”) for an aggregate consideration of HK\$5.5 million of which HK\$0.5 million was satisfied in cash and the remaining HK\$5 million was satisfied by a set-off against an equivalent amount owed from Geely to the Group.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

There was no material change in the Group’s pledges of assets, contingent liabilities and commitments as compared to the most recent published annual report.

PROSPECTS

Trading and Manufacturing

For Wah Shing we are facing a setback from the first half, and the second half will be an uphill struggle. Nevertheless we are confident to finish strong for the year as has always been the case as Christmas approaches. Reviewing the US toy market orders, Wah Shing looks to remain comfortably within the top three manufacturers worldwide for toys OEM business. The stringent cost environment, however, remains a major challenge for Wah Shing to overcome and our strategy for the second half will focus on thoroughly reviewing overheads and cost control measures to maintain a competitive cost structure.

Performances of the trading and manufacturing operations of other toy-related products, leather footwear and garments are expected to improve in line with the acceleration of sales orders in the second half of the year.

Nority’s management is confident of an improved second half. More efforts will be put on seeking business opportunities through various means for the purpose of market exploration and business development.

Securities and Financial Services

We remain optimistic about our securities and finance servicing operations in 2004. In August, SCB first launched the trading of future contracts to its online trading engine www.sctrade.com. We are positive about the growth rate of this new service in the coming future. SCB will continue to fortify and diversify its product base to generate more income from its online trading platform.

For our money lending business, we will ride on the business opportunities with the reduced unemployment and bankruptcy as a result of improved economic conditions, while continuing to exercise tight credit control to assure the quality of our loan portfolio.

Travel and Related Services

We expect Fourseas to continue its good performance in the remaining six months as traditionally stronger results are posted in the second half of the year with heavy traffic in Summer and Christmas. Further expansion online and into Mainland China is being mapped out.

Property Investment and Development

In view of the recent market indicators of the property market, the Group is highly optimistic on the future of our property arm, and depending on prices, may consider sales.

Media and Publications

We expect our media business to continue from a good first half, with a positive market environment and strong advertising spending. Mature magazines will achieve growth through further development of existing business platforms and border-line titles are expected to move out of the initial investment stages, into a stage of positive contribution as the brand names achieve greater reader and advertiser confidence.

The Group shall continue to look into possible untapped market segments and launch new titles on our existing reach and base, as well as expand into the PRC publishing industry when opportunities arise.

Information and Technology

Building up on the maturing products and services of our various IT joint ventures in the PRC, we intend to capitalise on this platform to generate revenue outside the Mainland with Hong Kong as a key business development and service center. The Group is investing additional resources in two strategic directions: offshore software development centers in China, and marketing of established software applications for the China market. It is anticipated that we will hit new revenue and profit streams in the foreseeable future. The Group will consider a spin-off of the IT division depending on the business performance and market conditions.

Agricultural Business

The second half looks comfortable for fish rearing and fruit tree growth at the operational level which gives management more time to focus on our main objective: expansion. We are looking to double our acreage in our production bases in Jiangsu province and Hebei province by the end of 2004, while growing our Guangdong base on a step-by-step approach.

Meanwhile, on a smaller scale we will be pilot studying fresh fruit trading, culturing new fruit sapling species, and food processing. We are aiming to develop a wider business platform for supplementing our future massive production base.

Overview

We believe Hong Kong will maintain its steady pace of economic growth in the second half of the year with the continuing increase in tourist arrivals from the Mainland and the massive business opportunities offered by the CEPA. We take the view that the rising interest rate trend in the US implies a stronger economic performance and is therefore favourable to our manufacturing products selling to the market.

EMPLOYEES

As at 30 June 2004, the total number of employees of the Group was approximately 27,600. Performance of the staff is normally reviewed on an annual basis with adjustment compatible to the market. There is no material change in the information as compared to the most recently published annual report.

INTERIM DIVIDEND

The Directors resolved not to declare an interim dividend for the six months ended 30 June 2004 (2003: Nil).

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the period ended 30 June 2004.

AUDIT COMMITTEE

The audit committee has reviewed with the management the financial reporting matters, including the unaudited condensed financial statements, related to the preparation of the interim report for the six months ended 30 June 2004.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim

report in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The interim report of the Company for the six months ended 30 June 2004 containing information required by paragraphs 46(1) to (6) of Appendix 16 of the Listing Rules prior to the amendments made on 31 March 2004, having regard to the transitional arrangements on the new financial information disclosure requirements issued by the Stock Exchange in its press release on 30 January 2004, will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Ng Hung Sang, Robert
Chairman

Hong Kong Special Administrative Region of The People's Republic of China,

21 September 2004

As at the date of this announcement, the board of directors of the Company comprises (1) Mr. Ng Hung Sang, Robert, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor, Ms Ng, Jessica Yuk Mui and Mr. Ng Yuk Fung, Peter as executive directors; and (2) Mr. David Michael Norman as non-executive director; and (3) Mr. David John Blackett and Mrs. Tse Wong Siu Yin Elizabeth as independent non-executive directors.

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



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A Member of South China Group

Please also refer to the published version of this announcement in The Standard.