



SOUTH CHINA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

2003 INTERIM RESULTS

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 2003 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Six months ended 30 June	
		2003	2002
		<i>Unaudited</i>	<i>Restated</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	1,330,234	716,959
Cost of sales		<u>(1,150,562)</u>	<u>(571,990)</u>
Gross profit		179,672	144,969
Other operating income (including interest income)		9,342	7,688
Distribution costs		(37,022)	(28,080)
Administrative expenses		(167,732)	(193,077)
Gain (Loss) on disposal of non-trading securities		3,076	(23,357)
Impairment of non-trading securities		(2,771)	(11,448)
Unrealised holding loss of trading securities		(3,010)	(1,916)
Deficit on revaluation of investment properties		(25,128)	(1,882)
Provision for loss of properties held for sale		—	(3,000)
Impairment of land pending development		—	(6,014)
Gain on changes in fair value of fruit trees		6,000	7,500
Expenses in relation to agricultural activities		<u>(3,902)</u>	<u>(5,404)</u>
Loss from operations	2&3	(41,475)	(114,021)
Finance cost		(5,250)	(7,135)
Share of results of associates		(6,436)	(2,301)
Loss on interest in an associate		—	(75,000)
Net gain on disposal of subsidiaries		<u>—</u>	<u>86,142</u>
Loss before taxation		(53,161)	(112,315)
Taxation	4		
Company and subsidiaries		(495)	(701)
Associate		<u>2,021</u>	<u>(106)</u>
Loss before minority interests		(51,635)	(113,122)
Minority interests		<u>24,209</u>	<u>33,709</u>
Loss attributable to shareholders		<u>(27,426)</u>	<u>(79,413)</u>
Loss per share	6		
Basic		<u>HK1.50 cents</u>	<u>HK4.36 cents</u>

Notes:

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 (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the compliance with the Statement of Standard Accounting Practice No. 25 (SSAP 25) Interim Financial Reporting issued by the Hong Kong Society of Accountants.

These condensed interim financial statements should be read in conjunction with the 2002 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 2002, except that the Group has adopted SSAP 12 (Revised) “Income Taxes” which became effective for accounting periods commencing on or after 1 January 2003 and SSAP 36 “Agriculture” which became mandatory for periods commencing on or after 1 January 2004.

In the previous year, partial provision on all timing differences was made for deferred tax using the income statement perspective. SSAP 12 (Revised) requires the recognition of full provision on all temporary differences using the balance sheet perspective. The adoption of SSAP 12 (Revised) has no material effect on the Group’s results other than presentational changes.

The principal effect of implementation of SSAP 36 is in relation to the agricultural activity. SSAP 36 requires the measurement of biological assets at their fair value and introduces certain new disclosure requirements for biological assets and agricultural produce. The effect of the change in policy on the Group’s results for the six months ended 30 June 2002 was the reduction of loss by approximately HK\$6,166,000. This adjustment relates to the recognition of the biological assets at their fair value as at the respective balance sheet dates.

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 2003 and 2002 is as follows:

	Turnover		Contribution to profit (loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002
	<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	761,160	541,299	6,880	(10,311)
Securities and financing	49,393	48,906	(8,106)	(30,614)
Property investment and development	6,679	8,120	(19,645)	(6,696)
Travel and related services	407,589	—	(682)	—
Media and publications	77,193	74,599	(8,456)	(15,804)
Information and technology	24,785	43,674	(3,998)	(2,105)
Agricultural business	3,341	107	3,724	1,557
Investment holding and others	94	254	(11,192)	(50,048)
	<u>1,330,234</u>	<u>716,959</u>	<u>(41,475)</u>	<u>(114,021)</u>

	Turnover		Contribution to profit (loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002
	<i>Unaudited</i> <i>HK\$'000</i>	<i>Unaudited</i> <i>HK\$'000</i>	<i>Unaudited</i> <i>HK\$'000</i>	<i>Unaudited</i> <i>HK\$'000</i>
By geographical location*:				
The People's Republic of China and Hong Kong	659,690	204,279	(29,315)	(104,384)
United States of America	443,071	281,254	(6,988)	(5,718)
Europe	184,327	190,095	(4,274)	(1,252)
Japan	11,518	10,170	(171)	(159)
Others	31,628	31,161	(727)	(2,508)
	<u>1,330,234</u>	<u>716,959</u>	<u>(41,475)</u>	<u>(114,021)</u>

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

3. Depreciation

Loss from operations for the period is arrived at after charging depreciation of approximately HK\$27,334,000 (six months ended 30 June 2002: HK\$31,070,000) in respect of the Group's property, plant and equipment.

4. Taxation

Hong Kong profits tax was provided at the rate of 17.5% (six months ended 30 June 2002: 16%) on the estimated assessable profit arising in or derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated 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 2003 (six months ended 30 June 2002: Nil).

6. Loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of approximately HK\$27,426,000 (six months ended 30 June 2002: HK\$79,413,000) and on approximately 1,823,401,000 shares (six months ended 30 June 2002: 1,823,401,000 shares) in issue during the period.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded turnover of HK\$1.3 billion for the six months ended 30 June 2003, representing an 85.5% increase over the last year interim. The increase was mainly attributable to the strong turnover growth for our trading and manufacturing operations, in particular, Wah Shing International Holdings Limited ("Wah Shing") and the full consolidation of the results of the travel business in which the Group acquired the entire equity interest last December. The gross profit margin declined nevertheless because of the relatively low margin pattern in the travel industry.

The overall business environment was at its worst in the first half of the year with the outbreak of atypical pneumonia that further weakened the already very fragile local economy. Some of the Group's businesses, like travel, media and property investment were most adversely affected. The Group's net loss attributable to shareholders for the period under review was HK\$27.4 million, of which HK\$30.9 million of non-cash provisions were made for devaluation in non-trading and trading securities and investment properties for HK\$2.8 million, HK\$3.0 million and HK\$25.1 million respectively. The Group's major operation in trading and manufacturing businesses, Wah Shing, continued with the turnaround of its results from the second half of last year, to begin to show better growth and profit. The securities and financing operation did not become profitable but reported substantial reduction in administrative expenses and losses due to its continuing efforts to maintain a lean operating structure.

Trading and Manufacturing

Wah Shing reported a strong growth in turnover to HK\$687 million, a 78% increase compared to the same period last year. The increase in turnover was attributable to the increase in orders from certain key customers whose products were well received by the markets. Wah Shing has also benefited from some of the major US retail chains which placed more orders to reliable toys manufacturers to minimize the risk of disruption in supply chains. Although Wah Shing managed to increase its turnover, its gross profit margin did not improve as expected due to mounting manufacturing costs.

Profit from trading and manufacturing of shoe and garment products diminished due to the impact of SARS outbreak in the second quarter of the year. Overseas customers either cancelled or deferred their trips to China and Hong Kong and sought sources from elsewhere.

Nority International Group Limited, a listed associate, announced turnover of HK\$239 million, a 37.6% increase over last year. Despite the increase in turnover, it incurred a loss of HK\$15.3 million which was mainly due to the squeeze in profit margin of its footwear products.

Securities and Financing

Turnover from securities and commodities broking recorded a fall of 24.9% against the 2002 interim, amid the low stock market daily turnover in the first half of the year whereas the abolition of minimum commission rate effective from 1 April 2003 did not have any impact. The broking operation suffered a loss of HK\$13.2 million though it was a reduction in loss of 31.3% compared to the same period last year. Online securities broking, however, made satisfactory growth of 6.8% in income. Both the trading volume and the number of clients of online securities trading continued to expand. During the period, part of the non-trading securities were sold and the Group realised a gain of HK\$3.1 million.

The loan and advances portfolio for margin financing and personal loan contracted by 6.3% to HK\$217.2 million. Keen market competition and the current low interest rate trend have been continuing to exert pressure on the interest income despite our low cost of funding. Contribution from financing business reduced to HK\$6.2 million owing to some extent to the increased personal loan bankruptcy and termination cases.

Revenue from corporate advisory improved more than doubled compared to the last interim period. Our corporate finance division successfully secured an increasing number of deals including initial public offerings on the Main and GEM boards and sponsorship, underwriting and corporate advisory services. Many of the continuing sponsorship services have been generating a stable source of income. The sudden outbreak of the deadly disease in March severely depressed investors' sentiment. Many of the already arranged corporate finance activities were delayed and the first half of the year resulted in a minor loss of HK\$0.3 million.

Property Investment and Development

This segment reported turnover and net loss of HK\$6.7 million and HK\$19.6 million respectively. The occupancy of the Group's properties actually increased during the current period. Had it not been the devaluation of properties of HK\$25.1 million, the segment should have reported net profit of HK\$5.7 million.

The 30%-owned commercial building "The Centrium" in Central had leased out more than 75% of its total gross floor area at the end of June 2003 and started to generate positive income to the Group.

Travel and Related Services

The travel business segment attributed turnover of HK\$407.6 million to the Group on consolidation of its results in June this year since Hong Kong Four Seas Tours Limited and its related companies became wholly-owned subsidiaries of the South China Industries Group ("SCI") in December last year. The local travel and retail industries were particularly hard hit by the SARS outbreak which caused our travel operation to move from a profit to a loss of HK\$0.7 million by the end of the first half of the year. Our rapid responses to operate flexible staff shifts and to offer special discounts helped to minimize costs and operating loss.

Media and Publications

The media business saw improvements at the operation level over the same period in 2002, with significant savings in costs and operation expenses. Individual titles saw good improvement and were profitable. The improvements made in such a difficult market environment, especially with the after-effects of SARS on advertising revenues, are encouraging for the Group.

Information and Technology

Turnover for the information technology ("IT") business amounted to HK\$24.8 million, a 43.2% decrease compared to the same period last year. This was mainly due to the divestment of our interests to our joint-venture partners in certain IT companies in the PRC. Some of the companies previously accounted as subsidiaries were treated as associates during the current

period. Loss for the period was HK\$4.0 million. In general, the severe competition in the PRC IT market continued to depress our profit margin. The outbreak of the SARS in the major cities of the PRC in the period also adversely impacted our business development for the retail clientele.

Agricultural Business

During the period, the Group first adopted SSAP 36 on accounting for agricultural activity which requires the measurement of biological assets at their fair value. The Group's agricultural business includes the plantation of fruit trees in Zhengcheng and Boluo, Guangdong and fish rearing in Lishui, Nanjing, the PRC. There are now approximately 500,000 lychee and longan trees under cultivation and a lake area of 16,000 mu for fish rearing. The Group recorded HK\$6 million gain on revaluation of fruit trees and net profit of HK\$3.7 million for the period under review.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, the Group had a current ratio of 1.09 and a gearing ratio of 21.9% (long-term liabilities of approximately HK\$140.0 million to equity of approximately HK\$637.7 million). The Group's operations continue to be financed by internal resources and bank borrowings.

As at 30 June 2003, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

CAPITAL STRUCTURE

On 23 July 2002, the Company issued 364,680,275 bonus warrants ("Warrants") to its shareholders on the basis of one Warrant for every five ordinary shares in the share capital of the Company, at the subscription price of HK\$0.42 per Warrant. As at 30 June 2003, the Company had 364,680,275 outstanding Warrants. No Warrants were exercised during the period under review and all the Warrants expired on 23 July 2003.

Save as disclosed above, the Group had no debt securities or other capital instruments as at 30 June 2003 and up to the date of this report.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions and disposals of subsidiaries or associates for the six months ended 30 June 2003.

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

During the last two months, we have begun to see signs of an economic rebound both locally and globally, after the fading SARS impact and the arising signs of recovery in the international market. Based on the past trend, the industry seasonal factor and barring any unforeseen circumstances, we expect turnover from the trading and manufacturing operations to continue to improve and bring in more profit in the second half of this year. However, to counteract the ever-increasing price pressure from our customers, the Group will put more efforts into reducing costs and enhancing efficiency in the coming months. To these ends, steps have been taken to replace obsolete machinery with advanced models so as to improve output. Wah Shing is currently monitoring progress of its new factory in Yunan, Guangdong which started operation in July 2003. The move of our manufacturing plant to the western part of Guangdong Province should further reduce our average labour cost in the long run.

Securities and Financing

The local stock market reported significant increases in average daily turnover of HK\$9.59 billion and HK\$12.02 billion respectively in July and August 2003. The bolstered investor confidence has induced more active securities trading activities which in turn benefit our securities broking business. Our continuing efforts made on electronic commerce have already resulted in the substantial growth in online trading volume. Both the online “SCtrade System” and the existing conventional trading engine are now in the last phase of upgrading to enhance operations.

Our corporate finance team has been strengthened with more experienced professionals to take on the considerable business potential originated from the Mainland. The completion of more corporate finance deals will generate significant revenues in the second half of the year.

The recent release of the Positive Consumer Credit Data has much facilitated us in monitoring credit risk of our personal loan business. We expect the quality of our personal loan portfolio will continue to improve with its assistance and the existing close control of our credit and compliance team, thus further reducing the amount of bad debts.

Property Investment and Development

Investors in general are gradually regaining confidence in the local property market as evidenced by the more active sales of both commercial and residential properties in recent months. We believe that the Hong Kong property market has reached its bottom and should move upward in the near future. We will continue to renovate some of the lower occupancy properties to boost our already increasing rental income.

Travel and Related Services

In addition to the CEPA, Hong Kong's economy, in particular the travel industry, is also bolstered by the policy of allowing residents of Beijing, Shanghai, Guangzhou and other major cities in the PRC to apply for individual travel permits to visit Hong Kong. Travelling activities for both business and leisure purposes have picked up substantially to recover the

previously lost period. Based on the businesses in the recent months since June, we are satisfied that our travel business can recoup its loss suffered in the second quarter of the year. With our experienced travel professionals and the closely monitored cost controls, we would expect the travel business segment to improve materially by the end of this year, barring interruptions to the travel industry.

Media and Publications

The media and publications businesses are seeing improvement, with strengthened middle and senior management, growth of business on a stronger consolidated platform and stringent cost controls. We shall introduce new business models for several of the titles to meet market needs. We are also looking aggressively into the mainland publications market in order to develop circulation and advertising revenues.

Information and Technology

In the short run the operating environment is still very difficult due to the serious competition in the IT market in the PRC. We will continue to reorganise and consolidate our IT joint ventures to strengthen their competitiveness.

Agricultural Business

On 30 July 2003, the company holding the fruit plantation was transferred from South China Holdings Group to SCI in order to consolidate all the agricultural businesses of the Group under SCI which already held the business of fish rearing. The agricultural business in the PRC experienced an impressive cumulative annual growth rate of 12.5% from 1992 to 2001. The Group's agricultural businesses are now still at their investment stage and it will be in the interest of SCI to participate in the market potential of the agriculture industry in the PRC and the overseas market in the long run.

Overview

In the past few months, most of the Group's operations have already made good progress amid the rapid economic recovery underway. We trust our experienced professional teams coupled with effective control on costs will provide us solid grounds to benefit from the positive business turnaround.

EMPLOYEES

As at 30 June 2003, the total number of employees of the Group was approximately 28,450. 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 2003 (2002: Nil).

ARRANGEMENTS TO PURCHASE, REDEEM OR SELL 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 2003.

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 2003.

CODE OF BEST PRACTICE

None of the Directors are 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.


PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The detailed information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board
South China Holdings Limited
Ng Hung Sang, Robert
Chairman

Hong Kong Special Administrative Region of
The People's Republic of China, 24 September 2003

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

 南 華 集 團 成 員
A Member of South China Group

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