



# SOUTH CHINA HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

## 2002 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 2002 are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2002	2001
		Unaudited	Unaudited
	Notes	HK\$'000	HK\$'000
<b>Turnover</b>	2	<b>716,959</b>	771,044
Cost of sales		<u>(576,060)</u>	<u>(652,557)</u>
Gross profit		<b>140,899</b>	118,487
Other revenue		<b>7,688</b>	10,198
Distribution and selling expenses		<b>(28,080)</b>	(32,307)
Administrative and operating expenses		<b>(193,077)</b>	(251,126)
Realisation of warrant subscription reserve of a subsidiary		—	63,050
Deficit on revaluation of investment properties		<b>(1,882)</b>	—
Provision for loss on properties held for sale		<b>(3,000)</b>	—
Impairment in value of land pending development		<b>(6,014)</b>	—
Changes in fair values of short-term listed investments		<b>(1,916)</b>	118,547
Impairment in fair value of long-term investments		<b>(11,448)</b>	(3,053)
Loss on disposal of long-term listed investments		<b>(23,357)</b>	—
Gain on disposal/deemed disposal of subsidiaries	4	<u><b>86,142</b></u>	—
<b>(Loss) Profit from operations</b>	2&3	<b>(34,045)</b>	23,796
Finance cost		<b>(7,135)</b>	(11,508)
Share of results of associates		<u><b>(77,301)</b></u>	<u>723</u>
(Loss) Profit before taxation		<b>(118,481)</b>	13,011
Taxation	5		
Company and subsidiaries		<b>(701)</b>	(36,454)
Associates		<u><b>(106)</b></u>	<u>(239)</u>
Loss before minority interests		<b>(119,288)</b>	(23,682)
Minority interests		<u><b>33,709</b></u>	<u>37,314</u>
<b>(Loss) Profit attributable to shareholders</b>		<u><b>(85,579)</b></u>	<u>13,632</u>
<b>Dividends</b>	6	<u><b>4,454</b></u>	<u>1,823</u>
<b>(Loss) Earnings per share</b>	7		
Basic		<u><b>(HK4.69 cents)</b></u>	<u>HK0.75 cent</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30 June 2002*

### 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 in 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 2001 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 2001, except that the Group has adopted the following new and revised SSAPs which became effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	Presentation of financial statements
SSAP 11 (revised)	Foreign currency translation
SSAP 15 (revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of the new and revised SSAPs has no material effect on the Group’s results other than presentational changes. Certain comparative figures have been reclassified to conform with the current period’s presentation.

## 2. Turnover and segmental information

An analysis of the Group's consolidated turnover and contribution to (loss) profit from operations by principal activity and geographical location for the six months ended 30 June 2002 and 2001 is as follows:

	Turnover		Contribution to (loss) profit from operations	
	Six months ended		Six months ended	
	30 June		30 June	
	2002	2001	2002	2001
	<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 unit	541,406	534,578	(14,920)	(62,646)
Media unit	74,599	105,330	(15,804)	(21,704)
Securities and financing unit	48,906	82,228	(30,614)	58,349
Information technology unit	43,674	44,659	(2,105)	(4,078)
Property development and investment unit	8,120	4,215	(6,696)	1,261
Investment holding and other unit	254	34	36,094	52,614
	<u>716,959</u>	<u>771,044</u>	<u>(34,045)</u>	<u>23,796</u>
By geographical location*:				
United States of America	281,254	272,981	(5,718)	(35,753)
Europe	190,095	125,956	(1,252)	(16,702)
The People's Republic of China and Hong Kong	204,279	298,845	(24,408)	85,464
Japan	10,170	20,102	(159)	(4,314)
Others	31,161	53,160	(2,508)	(4,899)
	<u>716,959</u>	<u>771,044</u>	<u>(34,045)</u>	<u>23,796</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) Profit from operations for the period is arrived at after charging depreciation of approximately HK\$27,124,000 (2001: HK\$36,864,000) in respect of the Group's property, plant and equipment.

## 4. Gain on disposal/deemed disposal of subsidiaries

The gain on disposal/deemed disposal of subsidiaries of approximately HK\$86,142,000 related to the financial restructuring of a former listed subsidiary of the Group. Please refer to the Business Review section for the details.

## 5. Taxation

Hong Kong profits tax was provided at the rate of 16% (2001: 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.

In 2001, approximately HK\$32,600,000 was principally related to the additional provision for taxation of prior years resulting from a field audit by the Hong Kong Inland Revenue Department on the transfer pricing policy of a subsidiary.

## 6. Dividends

On 21 January 2002, the Board of Directors declared a special dividend of HK0.18 cent per share, totalling approximately HK\$3,362,000 (six months ended 30 June 2001: Nil). The special dividend was paid in specie on the basis of one share of Jinchang Pharmaceutical Holdings Limited, a then wholly owned subsidiary, for every eight shares held by shareholders on 8 February 2002.

On 8 February 2002, the Board of Directors declared a special dividend of HK0.06 cent per share, totalling approximately HK\$1,092,000 (six months ended 30 June 2001: Nil). The special dividend was paid in specie on the basis of one share of Capital Publications Limited, a then wholly owned subsidiary, for every four shares held by shareholders on 25 February 2002.

The Directors resolved not to declare any interim dividend for the six months ended 30 June 2002 (six months ended 30 June 2001: HK0.1 cent per share).

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

The calculation of basic (loss) earnings per share is based on the loss attributable to shareholders of approximately HK\$85,579,000 (2001: profit of HK\$13,632,000) and on approximately 1,823,401,000 shares (2001: 1,822,652,000 shares) in issue during the period.

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

### **BUSINESS REVIEW**

Fading business confidence in Hong Kong and worldwide significantly hindered the Group's performance in the first half of 2002. For the period under review, the turnover and loss attributable to shareholders of the Group were HK\$717.0 million and HK\$85.6 million respectively, including significant non-cash losses arising from provisions. Turnover dropped by 7% while interim results turned from profit last year to loss this year.

Provisions of HK\$85.9 million were made on the Group's property projects, inevitably in the declining property market, of which HK\$75.0 million related to the property project held under an associate and reported in the share of results from associates during the period.

The performance of the Group's different businesses for the period was mixed. The shrinking daily turnover of the stock market and sharp diminution in equity values dragged the brokerage and securities trading businesses to considerable losses during the period. The Group's trading and manufacturing business, another major business of the Group, made significant improvements in performance both in terms of cutting costs and reduction of losses.

Overall the Group made major cost cuttings across the board, making significant cost savings, to remain competitive in the tough economic environment. With the committed effort to streamline operations and stringent cost control measures, the Group succeeded in reducing its administrative and operating expenses by 23% as a whole in comparison to the last interim period.

South China Information and Technology Limited (now known as Guorun Holdings Limited) ("SCIT"), previously a listed subsidiary of South China Industries Limited ("SCI"), completed a financial restructuring ("Financial Restructuring") on 28 June 2002. The effects of the Financial Restructuring on the Group were the acquisition of the entire property portfolio together with the related mortgages, 49% equity interest of its travel related business and a number of its subsidiaries engaged in information and technology related businesses in the PRC (the "Acquisition") and the dilution of SCI's equity interest in SCIT to 7.17% (the "Deemed Disposal"). SCI paid an aggregate consideration of HK\$239 million to SCIT for the Acquisition of which HK\$238 million was used to set off its outstanding

loans due to SCI and the remaining HK\$1 million was paid in cash. Simultaneously, SCI received HK\$65 million in cash from SCIT out of the Deemed Disposal as partial repayment of the balance of its outstanding loans due to SCI. Also, SCI subsequently disposed of part of the remaining interest in SCIT (the “Disposal”). As a result of the Deemed Disposal and the Disposal, the Group in total realised a gain amounting to HK\$86.1 million.

### ***Brokerage and Financial Services***

In the state of diminishing daily turnover of the stock market, the brokerage business sustained a loss. Traditional operations revenue from margin financing, securities trading and underwriting continued to decrease. Impairment in value of long-term investing portfolio was recorded while some of the long-term investments were disposed of at a loss during the period.

The turnover of securities trading from online clients through the platform of “sctrade.com” increased substantially but the operation is not yet making profit.

The personal loan business was profitable, and performance was satisfactory with its contribution increasing five times compared to over the previous first half-year result.

South China Brokerage Company Limited (“SCB”) recorded net loss of HK\$58.1 million for the period ended 30 June 2002.

### ***Trading and Manufacturing***

The turnover attributable from the trading and manufacturing operation was HK\$541.4 million, a slight increase of 1.3% over the last corresponding period. Wah Shing International Holdings Limited (“Wah Shing”), the major subsidiary of SCI, was most successful in reducing loss from HK\$84.4 million in interim 2001 to HK\$8.6 million in interim 2002, representing a 90% improvement in results. Persistent efforts were made to streamline and consolidate the workforce both in Hong Kong and the PRC. Optimization of economies of scale with enhancement of operational efficiency was achieved and resulted in an overall substantial reduction in production overheads.

In line with traditional industry low-season patterns, Wah Shing Electronics Company Limited (“WSE”), the toy-related electronics arm recorded a loss in the first half of the year. Orders historically start to accumulate after June for the immediate upcoming Christmas season. This year, however, WSE gained some benefit from a major customer which is evenly distributing its ordering pattern throughout the year, and this resulted in a 30% increase in turnover for the six months under review over the comparable period last year.

The trading and manufacturing of leather shoes products continued to make positive contributions to the Group, with turnover doubled and net profit rising four times over the previous interim period. Other leather products and garments operations improved despite not yet being profitable.

Nority International Group Limited (“Nority”), an associate of SCI engaged in manufacture and sale of athletic shoes, recorded net profit of HK\$2.1 million. The result was a 92% reduction over the same period last year due to the decline in global demand and fierce competition in the athletic shoes industry.

The aggregate loss of these trading and manufacturing companies fell by 76% from HK\$62.6 million last period to HK\$14.9 million for the current six months ended 30 June 2002.

### ***Information and Technology***

The information and technology (“IT”) related businesses recorded a slight decrease in turnover to HK\$43.7 million as compared to the last interim period. The IT businesses underwent a consolidation, in order to create a stronger platform for IT operations in the mainland. Although the IT businesses were not yet making any profits, the net loss of IT businesses in the first half of the year was HK\$2.1 million, which was a 48% reduction in loss over the last corresponding period.

### ***Development and Investment Properties***

In the still sluggish property market, provisions of HK\$10.9 million were made on revaluation which accounted for the net loss of HK\$6.7 million attributable from this business unit for the period.

As at the date of this report, the property project, “The Centrium” in the Central district had leased out around 40% of its total rentable area. The occupancy rate of other investment properties improved and contributed an increased amount of rental income to the Group, though the average rent per square foot dropped during the period.

### ***Travel and Related Services***

The travel industry worldwide was recovering slowly after the severe slump in the last quarter of 2001. The travel business associate was thus operating in a tough local market with an escalating unemployment rate and persistently conservative consumer spending, so more resources and efforts were required to sustain the sales level. Intense competition over air ticketing sales squeezed the profit margin.

### ***Media and Publications***

The media side saw improvements at the operation level over the same period in 2001, 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 are encouraging for the Group.

### ***Other Investments in the PRC***

Owing to a general decline in the price of lychees and longans of more than two-thirds this year, the total gross income from the sales of fruit products was unsatisfactory. There are now approximately 500,000 lychee and longan trees under cultivation by the Group and very stringent cost controls have been implemented to ensure the average cost is low enough to survive in the severe competition. Average monthly expenses were cut to approximately 60% of those in the last period.

The new joint venture formed in early 2002 with a lease to develop a lake area totalling 16,000 mu, in Lishui county in Nanjing, launched its pilot study of rearing hairy crabs in April and the first batch of crabs is planned to be available for sale in late 2002.

### **PROSPECTS**

#### ***Brokerage and Financial Services***

SCB is taking steps to ensure the necessary technical and logistical support is available to enhance its online trading and the expected extension of trading hours. It will seek to develop more product lines for traditional and online trading to expand its income base. SCB has recently formed a strategic alliance with an institutional brokerage firm in the US to provide its clients exclusive research, execution and clearing services for Hong Kong securities. This will enable SCB to expand its client base.

As more companies from the PRC are seeking to list in Hong Kong, demand for professional advisory services is expected to increase. South China Capital Limited, the Group's subsidiary engaging in corporate finance business has already received a number of assignments including new listings for some PRC companies and it will be more active in pursuing this business.

The personal loan business under South China Financial Credits Limited is seeking to source additional funding, including by way of possible introduction of strategic partners for its longer-term business expansion.

Overall, SCB will adopt a lean and mean approach for its operations and review constantly the costs of different sectors of its businesses in preparing for an eventual market recovery.

#### ***Trading and Manufacturing***

In spite of the uncertain pace of the global economic recovery, in particular in the US, the immediate outlook for Wah Shing in the coming half-year is positive. The aggressive cost cuttings and workforce reduction made over the last eighteen months and the consolidation of operations provide a strong platform for rebound in the toy manufacturing business. In view of these factors and the existing orders on hand, the full year results of Wah Shing for 2002 are expected to return to profitability, barring unforeseen circumstances and excluding any exceptional items. Investment will be made in new production processes in order to diversify the product mix and broaden its customer base. Further efforts will be put into research and development of its own design capability.

WSE will continue to make positive contribution to the Group, but the result in the second half of the year is not expected to be as good as the last year, as there was a sizable order for a hot production item in the last quarter of 2001. It will continue with cost tightening measures to ensure optimization of its profit margin and to improve its competitiveness by upgrading its manufacturing process.

New bank trade credit facilities have recently been arranged for the increasing sales volumes of shoes, leather products and garments. The outlook for these trading activities remains promising.

To explore the potential of the PRC market after its accession to the World Trade Organization, Nority has purchased land for building a production plant in Kunshan City, Jiangsu Province and has established a new subsidiary in the PRC.

### ***Information and Technology***

Following the financial restructuring of SCIT, the Group continues to strengthen its competitiveness by providing more value-added services to its customers. Our Hong Kong sales team is monitoring the IT joint venture companies in the PRC closely and a number of new IT agency contracts have been concluded recently. We intend to re-organize the structure of some of the smaller IT joint ventures to consolidate them into a bigger platform for further growth.

### ***Development and investment properties***

In the present declining property leasing market, we expect unit rental income to remain flat or move downward in the coming period. We are striving to keep a stable rental income by providing more flexible terms to retain and attract tenants and by renovating some of the poor-occupancy properties.

### ***Travel and related services***

In order to gain from the growing momentum of the PRC economy, we are in the process of establishing offices in the developed and highly populated major cities in the PRC. More resources will be allocated to the China related travel business. We expect the revenue from the mainland routes will continue to grow in the future. We are seeking every opportunity to cooperate and co-invest with the PRC local travel agents to expand our networks in the PRC travel market.

### ***Media and Publications***

Despite difficult conditions, the media and publications businesses are seeing improvement, with stringent cost controls, strengthened management and growth of business on a stronger consolidated platform. We shall focus on developing new channels of circulation and advertising revenue while maintaining tight cost controls.



### ***Other Investments in the PRC***

We have been reviewing and restructuring the lychee and longan farm project in Huaxing, Guangzhou since July 2002 in respect of administration, human resources, plantation and marketing channels. The workforce has been restructured to minimize staff cost in the slack season, as well as to keep the farm project more competent in terms of improved flexibility and responsiveness to changes in the market conditions. Crop yields are expected to improve in the next few years.

Regarding the hairy crab farm in Nanjing, we have gained much experience from the pilot study which will help us for the major crop next year. We will also try to rear other aquatic products to fully utilize the natural resources of the leased lake area.

### ***Overview***

There are some real concerns as to the global economic recovery. Nevertheless, the Group has sufficient resources on hand from various financial restructuring activities for its operations and business expansions. The Group will focus on cost controls in our operations, to pave the way for growth in a recovering environment in order to raise shareholders returns. Given our success in cost controls and enhanced operating efficiency and business flexibility, the Group's businesses are well positioned to face the coming challenges.

### **PUBLICATION OF FINANCIAL INFORMATION ON THE STOCK EXCHANGE'S WEBSITE**


The Company will submit a CD ROM to the Stock Exchange containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules for publication on the Stock Exchange's website on or before 30 September 2002.

On behalf of the Board  
**Ng Hung Sang, Robert**  
*Chairman*

Hong Kong Special Administrative Region of  
The People's Republic of China  
27 September 2002

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A copy of this announcement can be obtained  
from our website [www.sctrade.com](http://www.sctrade.com)

 南 華 集 團 成 員  
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Please also refer to the published version of this announcement in The Standard.