

Report of the Directors

(Amounts expressed in Hong Kong dollars)

The directors have the pleasure of presenting their annual report together with the audited financial statements of South China Holdings Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in trading and manufacturing, securities and commodities brokerage and trading, margin financing, money lending, provision of corporate advisory services, information and technology related businesses, real estate investment and development, implementation and marketing of software applications, publishing and printing businesses, marketing and promotional services, sale of air tickets and provision of other related travel services.

An analysis of the Group's turnover by principal activity and geographical location, together with their respective contributions to profit (loss) from operations for the year ended 31 December 2001 is as follows:

	Turnover \$'000	Contributions to profit (loss) from operations \$'000
a. By principal activity:		
Trading and manufacturing – sales of merchandise	1,651,925	(101,838)
Media publishing business	209,080	(48,791)
Securities and financing related business	130,662	11,824
Property development and investment	8,407	(10,345)
Information and technology related business	108,950	(7,384)
Investment holding and others	24	(43,622)
	2,109,048	(200,156)
b. By geographical location*:		
United States of America	1,020,969	314
Europe	324,518	(13,174)
The People's Republic of China ("the PRC") and Hong Kong	612,793	(178,362)
Japan	29,651	(5,997)
Others	121,117	(2,937)
	2,109,048	(200,156)

* Turnover by geographical location is determined on the basis of the location where merchandise is delivered.

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CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2001, the five largest suppliers of the Group accounted for less than 30% of the Group's total purchases while the five largest customers of the Group accounted for approximately 50% of the Group's total turnover. In addition, the largest customer of the Group accounted for approximately 15% of the Group's turnover. None of the directors, their associates, or any shareholders (which to the knowledge of the directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or the five largest suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2001 are set out in the consolidated income statement on page 22 of this annual report. An interim dividend of 0.1 cents per share, amounting to approximately \$1,823,000, was declared and paid during the year.

On 24 August 2001, the Directors declared a special dividend of 0.0279 cents to the shareholders, totalling approximately \$509,000 (2000: Nil). The special dividend was paid in specie on the basis of one share of Jessica Publications Limited, a then wholly-owned subsidiary, for every four ordinary shares (before the share subdivision) held by shareholders on 10 September 2001.

The Directors do not recommend a final dividend (2000: 1.25 cents) in respect of the year ended 31 December 2001.

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SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

		Year ended 31 December			
	2001	2000	1999	1998	1997
	\$'000	\$'000	\$'000	\$'000	\$'000
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
TURNOVER	2,109,048	2,521,336	2,382,827	1,869,703	2,223,357
(Loss) Profit before share of results of associates	(256,590)	(48,112)	182,699	(58,433)	161,261
Share of results of associates	(21,200)	(40,721)	(60,011)	8,917	(20,810)
(Loss) Profit before taxation	(277,790)	(88,833)	122,688	(49,516)	140,451
Taxation	(36,588)	(7,716)	(9,744)	(17,166)	(24,236)
(Loss) Profit before minority interests	(314,378)	(96,549)	112,944	(66,682)	116,215
Minority interests	127,347	27,608	(47,139)	19,955	(21,839)
(Loss) Profit attributable to shareholders	(187,031)	(68,941)	65,805	(46,727)	94,376
(Loss) Earnings per share (cents)					
– Basic	(10.3)	(3.8)*	3.6*	(2.6)*	6.2*
– Diluted	N/A	N/A	N/A	N/A	6.1*
Dividends per share (cents)	0.1	2.5**	1.75**	0.8**	1.38**

* The comparative figures have been adjusted to reflect the changes in accounting policies and share subdivision.

** The comparative figures have been adjusted for the effect of share subdivision.

ASSETS AND LIABILITIES

Total assets	2,637,123	2,921,410	2,983,374	2,358,697	3,809,727
Total liabilities and minority interests	(1,870,508)	(1,907,276)	(1,975,828)	(1,436,623)	(2,777,012)
Shareholders' equity	766,615	1,014,134	1,007,546	922,074	1,032,715

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SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital, warrants and share options of the Company are set out in Notes 32 and 33, respectively, to the accompanying financial statements.

RESERVES AND RETAINED PROFIT

Movements in reserves of the Group and the Company during the year are set out in Note 34 to the accompanying financial statements. Movements in retained profit of the Group during the year are set out in the consolidated income statement on pages 22 and 23 of this annual report.

As at 31 December 2001, approximately \$539,719,000 (2000 – \$739,325,000) of the Company's reserves and approximately \$227,402,000 (2000 – Nil) of the Company's retained profit were available for distribution to its shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2001.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and the laws in the Cayman Islands.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 18 to the accompanying financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in fixed assets and investment properties during the year are set out in Notes 14 and 15 to the accompanying financial statements.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts as at 31 December 2001 are set out in Notes 28 and 30 to the accompanying financial statements.

SUBSEQUENT EVENT

Details of a significant subsequent event are set out in Note 42 to the accompanying financial statements.

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DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report were:

Executive directors

Ng Hung Sang, Robert
Richard Howard Gorges
Cheung Choi Ngor, Christina
Yuen Kam Tim, Francis

Non-executive director

Tan Boon Seng

Independent non-executive directors

David Michael Norman
David John Blackett

In accordance with Article 116 of the Company's Articles of Association, Cheung Choi Ngor, Christina and Yuen Kam Tim, Francis will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In addition, all non-executive directors are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the provisions of the Company's Articles of Associations.

None of the directors has an unexpired contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

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DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31 December 2001, the directors of the Company had the following beneficial interests in the shares of the Company and its subsidiaries within the meaning of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance") as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

A. The Company

Directors	Number of ordinary shares	
	Personal interests (Note a)	Corporate interests (Note a)
Ng Hung Sang, Robert	71,547,200	1,272,529,612
Richard Howard Gorges	—	487,949,760
Cheung Choi Ngor, Christina	—	487,949,760

B. The subsidiaries

- (i) South China Brokerage Company Limited ("South China Brokerage")

Directors	Number of ordinary shares		Number of warrants	
	Personal interests	Corporate interests	Personal interests (Note b)	Corporate interests
Ng Hung Sang, Robert	2,578,000	—	615,600	—
Richard Howard Gorges	16,174,000	—	3,234,800	—
Yuen Kam Tim, Francis	7,175,000	—	435,000	—

- (ii) The Express News Limited ("Express News")

Directors	Number of ordinary shares	
	Personal Interests	Corporate Interests (Note c)
Ng Hung Sang, Robert	—	30

Notes:

- (a) Ng Hung Sang, Robert, Richard Howard Gorges and Cheung Choi Ngor, Christina, through companies wholly-owned and controlled by them, have interests in 487,949,760 shares in the Company. Ng Hung Sang, Robert personally owns 71,547,200 shares and through companies wholly-owned and controlled by him, beneficially owns 784,579,852 shares in the Company.
- (b) Such warrants expired on 18 April 2002.
- (c) Ng Hung Sang, Robert and his family, through a company wholly-owned and controlled by them, have interests in 30 shares in Express News.

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Apart from the above, none of the Directors had any personal, family, corporate or other interests in the equity or debt securities of the Company or its associated corporations as at 31 December 2001 recorded in the register required to be kept under Section 29 of the SDI Ordinance.

SHARE OPTION SCHEME

A. The Company

On 29 July 1992, the Company adopted a Share Option Scheme (the "Scheme") which would lapse on 28 July 2002, pursuant to which the directors may, at their discretion to grant to selective employees of the Group including the directors to subscribe for shares of the Company up to a maximum aggregate number of shares equal to 10 per cent of the total issued shares of the Company. The purpose of the Scheme is to allow grantee the opportunity to obtain equity interest in the Company. No guarantee would be granted option which would exceed 25 per cent of the total option available. The grant is subject to acceptance within 21 days of the offer. The consideration payable for the option is HK\$1.00. The exercisable price of the option is determined by the directors which may be the higher of the nominal value of the share or 80 per cent of the average five business days' closing price of the shares on The Stock Exchange of Hong Kong Limited immediate preceding the date of the grant.

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The following table discloses movements in the Company's share options during the year and options outstanding at the beginning and end of the year. The number of share options is adjusted after the subdivision of Shares on 16 August 2001.

Directors	Number of share options outstanding at 1 January 2001	Cancelled during the year	Granted during the year	Number of share options outstanding at 31 December 2001	Initial exercise price* HK\$	Exercisable period
Ng Hung Sang, Robert	13,796,000	-	-	13,796,000	1.36	29/7/1993- 28/7/2002
	3,000,000	-	-	3,000,000	0.88	22/7/1996- 28/7/2002
Richard Howard Gorges	13,792,000	-	-	13,792,000	1.36	29/7/1993- 28/7/2002
	3,000,000	-	-	3,000,000	0.88	22/7/1996- 28/7/2002
Cheung Choi Ngor, Christina	13,792,000	-	-	13,792,000	1.36	29/7/1993- 28/7/2002
	3,000,000	-	-	3,000,000	0.88	22/7/1996- 28/7/2002
Yuen Kam Tim, Francis	2,876,000	-	-	2,876,000	1.36	29/7/1993- 28/7/2002
Employees	2,892,000	-	-	2,892,000	1.36	29/7/1993- 28/7/2002
Employee	9,000,000	-	-	9,000,000	0.88	22/7/1996- 28/7/2002
Employees	564,000	452,000	-	112,000#		
Total	65,712,000	452,000	-	65,260,000		

No share options was exercised by the Directors / other employees to subscribe for a share in the Company during the year.

* The exercise price was subject to adjustment.

Such share options were cancelled after the year end date.

The directors are of the view that the value of the theoretical value of the share options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained on a number of theoretical basis and speculative assumptions. Accordingly, the directors believed that any calculation of the value of options will not be meaningful and may be misleading to shareholders in the circumstances.

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B. The subsidiaries

(i) South China Industries Limited ("South China Industries")

Under the employee share option scheme of South China Industries adopted on 10 August 1992, the options are exercisable on or before 28 July 2002 at an initial subscription price of HK\$1.18 per share (subject to adjustment). The number of outstanding share options as at 31 December 2001 is as follows:

Directors	Number of share options		
	At 1 January 2001	Granted during the year	At 31 December 2001
Ng Hung Sang, Robert	13,000,000	–	13,000,000
Richard Howard Gorges	13,000,000	–	13,000,000
Cheung Choi Ngor, Christina	13,000,000	–	13,000,000

No share option was exercised by the directors to subscribe for a share in South China Industries during the year.

(ii) South China Information and Technology Limited ("South China IT")

Under the employee share option scheme of South China IT adopted on 13 October 1997, the options are exercisable on or before 12 October 2007 at the respective initial subscription prices of HK\$1.28 and HK\$0.51 per share (subject to adjustment). The number of outstanding share options as at 31 December 2001 is as follows:

Director	Number of share options		
	At 1 January 2001	Granted during the year	At 31 December 2001
Cheung Choi Ngor, Christina	17,000,000	–	17,000,000

No share option was exercised by the director to subscribe for a share in South China IT during the year.

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(iii) South China Brokerage Company Limited ("South China Brokerage")

Under the employee share option scheme of South China Brokerage adopted on 12 July 1993, the options are exercisable on or before 11 July 2003 at an initial subscription price of HK\$1.80 (subject to adjustment). The number of outstanding share options as at 31 December 2001 is as follows:

Directors	At 1 January 2001	Number of share options	
		Granted during the year	At 31 December 2001
Ng Hung Sang, Robert	100,000,000	–	100,000,000
Richard Howard Gorges	50,000,000	–	50,000,000
Cheung Choi Ngor, Christina	100,000,000	–	100,000,000

No share option was exercised by the directors to subscribe for a share in South China Brokerage during the year.

Other than the share option schemes of the Company, its ultimate holding company and its fellow subsidiaries to subscribe for their own ordinary shares, at no time during the year ended 31 December 2001 was the Company, its ultimate holding company, its fellow subsidiaries or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

Executive Directors

Ng Hung Sang, Robert, aged 52, is the Chairman and chief executive of South China Information and Technology Limited ("South China IT"), the chairman of the Company, South China Brokerage Company Limited ("South China Brokerage"), South China Industries Limited ("South China Industries"), Wah Shing International Holdings Limited ("Wah Shing") and Jessica Publications Limited. He holds a Master's degree in marketing from Lancaster University, the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. He was appointed as a director of the Company in June 1992.

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Richard Howard Gorges, aged 58, is the vice-chairman of South China Brokerage and South China Industries, a deputy chairman of Wah Shing and a director of the Company and South China IT. He holds a Master's degree in law from Cambridge University, the United Kingdom. He was appointed as a director of the Company in June 1992.

Cheung Choi Ngor, Christina, aged 48, is the vice-chairman of South China Brokerage, the vice-chairman and chief executive of South China Industries, the deputy chairman and chief executive of Wah Shing, and a director of the Company and South China IT. She holds a Master's degree in business administration from the University of Illinois, the United States of America. She was appointed as a director of the Company in June 1992.

Yuen Kam Tim, Francis, aged 48, is a director of the Company. He is responsible for the finance and administration of the Group. He is a fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. He has extensive experience in corporate administration work. In April 1989, he joined the Group and in August 1992 was appointed as a director of the Company.

Non-executive directors

Tan Boon Seng, aged 46, is the chairman of Lee Hing Investment Company Limited, an executive director of IGB Corporation Berhad, a listed company in Malaysia and is the independent non-executive director of Wo Kee Hong (Holdings) Limited and Star Cruise Limited. He is also a director of ASAT Holdings Limited, a listed company in the United States. He holds a Master's degree in arts from Cambridge University, the United Kingdom. He has extensive experience in property development, corporate finance and trading business. He was appointed as a director of the Company in June 1992 and is also the non-executive director of the Company, South China Brokerage and South China Industries.

Independent non-executive directors

David Michael Norman, aged 46, is a partner in the international law firm of Richards Butler, based in its Hong Kong office. He studied philosophy and psychology at Oxford University, the United Kingdom and was admitted as a solicitor in England in 1981 and in Hong Kong in 1984. He was appointed as an independent non-executive director of the Company in January 1995.

David John Blackett, aged 51, was the chairman for the Asia Pacific region of the CIT Group Inc. of the USA. He studied commerce at Edinburgh University and also became a member of the Institute of Chartered Accountants in Scotland. He has extensive experience in investment banking and finance, having previously been the managing director of NM Rothschild & Sons (Hong Kong) Limited. He is also a director of Shanghai Chlor-Alkali Chemical Company Limited in the PRC. He was appointed as an independent non-executive director of the Company in May 2000.

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following entities had registered an interest in 10% or more of the issued share capital of the Company:

Name	Number of issued shares	Notes	Percentage holding
Eartrade Investments Limited	487,949,760	(a)	26.76%
Bannock Investment Limited	237,303,360	(a)	13.01%
Ng Hung Sang, Robert	856,127,052	(b)	46.95%
Parkfield Holdings Limited	371,864,000	(b)	20.39%
Fung Shing Group Limited	396,050,252	(b)	21.72%

Notes:

- (a) Eartrade Investments Limited is the holding company of Bannock Investment Limited. The 487,949,760 shares referred to above include the 237,303,360 shares held by Bannock Investment Limited. Ng Hung Sang, Robert, Richard Howard Gorges and Cheung Choi Ngor, Christina have beneficial interests in Eartrade Investments Limited.
- (b) The 856,127,052 shares referred to above include 371,864,000 shares held by Parkfield Holdings Limited, 396,050,252 shares held by Fung Shing Group Limited and 16,665,600 shares held by Ronastar Investments Limited. Ng Hung Sang, Robert has beneficial interests in Parkfield Holdings Limited, Fung Shing Group Limited and Ronastar Investments Limited.

Save as disclosed above, the Company had no notice of any interest to be recorded under Section 16(1) of the SDI Ordinance as at 31 December 2001.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practices ("the Code") as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report, 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. In the opinion of the Directors, this meets the same objective of the Code of Best Practice.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

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2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
855.45	855.89	-0.5	8.56	986.12	895.45	653.11	562.98	265.33	859.45	855.45	855.89	855.45	855.89
855.45	855.89	0.00	-0.3	0.55	886.12	562.12	895.33	365.12	456.29	853.12	855.45	855.45	855.89
855.45	855.89	235.44	652.78	-5.6	5.65	568.99	895.45	598.45	158.25	855.45	855.45	855.45	855.89
855.45	855.89	265.45	856.45	-9.9	8.52	265.18	589.33	526.45	156.45	855.45	855.45	855.45	855.89
855.45	855.89	569.45	735.12	-0.6	5.65	154.89	856.59	856.25	265.98	853.46	855.45	855.45	855.89
855.45	855.89	435.00	345.99	-2.8	1.76	456.87	567.90	567.99	364.87	142.77	855.45	855.45	855.89
855.45	855.89	145.90	567.87	-4.6	7.89	456.87	657.00	567.71	564.89	567.87	855.45	855.45	855.89
855.45	855.89	756.89	456.89	-6.8	6.99	657.44	213.54	253.44	262.55	213.64	855.45	855.45	855.89
855.45	855.89	235.11	256.99	-5.5	9.88	263.55	215.44	256.78	256.48	265.98	855.45	855.45	855.89
855.45	855.89	344.34	598.78	-6.8	4.89	265.45	875.89	265.99	568.44	256.98	855.45	855.45	855.89
855.45	855.89	457.98	895.44	-9.9	7.84	218.56	895.45	265.99	265.99	256.98	855.45	855.45	855.89
855.45	855.89	858.73	853.96	-1.5	8.53	896.45	895.45	568.45	256.98	256.98	855.45	855.45	855.89
855.45	855.89	453.55	853.55	-0.6	6.56	896.45	895.45	895.45	256.98	256.98	855.45	855.45	855.89

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AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for the re-appointment of Messrs. Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

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

Hong Kong Special Administrative Region of
the People's Republic of China
24 April 2002.