

## CHAIRMAN'S STATEMENT

I am pleased to report the activities of the Group for the year 2000.

### REVIEW

The Group recorded turnover of HK\$2.5 billion and loss attributable to shareholders of HK\$42.5 million for the year ended 31 December 2000. The loss incurred by the Group was largely due to the reduction in profit from the manufacturing operations, extensive expansion costs in our brokerage, information and technology and media operations, and substantial provisions for investments. During the year, the Group disposed of some of its interest in a subsidiary and an associate and recognized gains on these disposals.

The Group made very satisfactory progress in advancing its businesses technologically as well as penetrating into software and the information and technology related businesses ("IT" businesses) in the PRC.

### South China Online Limited ("SCO")

SCO's turnover rose 66% compared with last year due to a very strong first quarter. Interest income from margin finance business continued to improve. Brokerage commission income increased moderately. Income from placement and underwriting of securities and fee income from corporate finance dropped due to the sluggish market. Contributions from the 13 retail branch offices were satisfactory. The newly set-up personal loan businesses made reasonable progress. Administrative and operating expenses increased due to the growth in turnover and the costs incurred in the setting up of the on-line internet trading and the personal loan business together with the additional branch expenses.

### South China Industries Limited ("SCI")

The principal subsidiary of SCI, Wah Shing International Holdings Limited ("Wah Shing"), reported a multi-year low operating profit of HK\$10.4 million, a 94% drop as compared to previous year. The keen competition in the industry and drastic surge in material prices and manufacturing costs adversely affected the operations of Wah Shing. Further provisions on investments and property and for doubtful debts and related inventories due to a problem customer, contributed to a loss of HK\$55.5 million in 2000.

South China Information and Technology Limited ("SCIT") has achieved a promising initial result in the year 2000 from its diversification into IT businesses since late 1999. It recorded over ten times increase in turnover to \$63.6 million for the year 2000, and around 30% reduction in loss attributable to shareholders to HK\$39.0 million as compared to the preceding financial year. SCIT had concluded fourteen joint ventures by the end of 2000 to make it one of the biggest software companies in the PRC, with nationwide market coverage. The joint venture companies are engaging in development and marketing of industry specific applications software, integration systems as well as providing professional IT services.

The large Grade "A" commercial/office project in Arbuthnot Road/Wynham Street in Central district, in which SCIT holds a 30% interest, has progressed satisfactory and is due to be completed in mid-2001.

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The performance of Nurity International Group Limited ("Nurity") was adversely affected by the declining trend of wearing athletic footwear. Its loss attributable to shareholders amounted to HK\$44.7 million. The drop in product prices and the Company's change of depreciation policy of certain fixed assets significantly affected the operating expenses and the operating result.

Wah Shing Electronics Company Limited ("WSE") continued to make profit contribution to the Group, though its profit dropped last year due to the upsurge in prices of materials. Other joint ventures engaged in manufacturing of leather shoes and safety products in Tianjin also contributed satisfactory profit to the Group in 2000.

The legal proceedings instituted by the Group against the subordinate corporations of Tianjin Second Bureau of Light Industry, our Chinese joint venture partner in tools and a tannery, which are in breach of the joint venture agreement, are still in progress.

During the year, SCI and SCIT made partial disposals of equity interests in Wah Shing and Fourseas.com Limited ("Fourseas") respectively.

### South China Media

South China Media is presently Hong Kong's largest magazines publications group with a total of 18 regular titles. Established titles are individually profitable, with strong advertising growth and steady circulation. An overall loss was sustained as a result of newly launched weeklies, which are still at the investment stages of development, and the very fierce competition in the industry. During the year, the Group scaled down some of its online media interests to cut costs.

### Other Investments

The joint venture engaged in pharmaceutical business in Shenyang and Tianjin in the PRC had very successful sales in 2000. A further range of products was introduced during last year and it is expanding its factory space. The Group wholly owns one of the largest lychee growing orchards in Guangdong in the PRC, which covers 1,800 hectares of land and will have 500,000 trees once planting is completed. Plantation progress is satisfactory and the trees are expected to produce a commercial yield next year.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity position remains strong and healthy, with its operations are mostly financed by internal resources and bank borrowings.

As at 31 December 2000, the Group had cash and bank balances of HK\$332.9 million, a current ratio of 1.23 and a gearing (long-term liabilities HK\$45.2 million to equity HK\$991.4 million) of less than 5%.

Details of bank borrowings are set out in Notes 25 and 27 to the financial statements.

Details of contingent liabilities are set out in Note 34 to the financial statements.

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### STAFF

Total number of staff as at 31 December 2000 was approximately 21,000.

The Group considers its staff as its most valuable asset. In addition to salary, other fringe benefits such as medical subsidies, life insurance, provident fund and subsidised training programmes are offered to all staff members of the Group. Performance of the staff is normally reviewed on an annual basis with adjustment compatible to the market. Individual staff may also receive a discretionary bonus at the end of each year based on performance. Share options have also been granted to certain employees of the Group.

### OUTLOOK

#### South China Online Limited

SCO will continue to focus on securities broking as its core business both in the online mode as well as in its traditional ways. It is expected there will be considerable growth in the volume of transactions through our trading platform "sctrade.com" owing to the ease of trading online on lower commission rates. Although the abolition of the minimum commission charge will definitely affect profitability, we have confidence in the growth prospects for online trading.

The business expansion into personal loan finance is progressing. We will utilize our existing branch offices more fully to aid with the growth in this operation. SCO has recruited experienced senior executives to manage the internet securities and personal loan businesses.

#### South China Industries Limited

The slowdown in the US economy has made customers more cautious in placing orders and the operating environment for Wah Shing is expected to remain uncertain but at least the costs of raw material have stabilized. Actions have been taken to reduce its workforce and manufacturing overhead. Its product design, research and development and engineering capabilities will be enhanced to develop its own Original Design Manufacturing ("ODM") business so as to provide value services to its existing Original Equipment Manufacturing customers. The financial position of Wah Shing will be enhanced following the expected completion of its Rights Issue in May 2001.

SCIT is one of the pioneers engaging in IT joint venture businesses in China and will continue this strategic more into IT businesses where good progress has been made. Acquisitions will concentrate on IT enterprises that have very solid businesses like contracted services or possession of certain key techniques and expertise in their specific area but just lack capital and necessary strategic marketing for further expansion. Under the direction of the Chinese government policies and the huge market development potential in the PRC, we believe progress in IT development will be very fast in the next few years. The best performing companies among our joint ventures will be selected for possible public listing in due course. For the longer term, SCIT is formulating a marketing strategy to achieve sales targets, increase business growth, explore overseas business opportunities and consolidate its market position to become the strongest IT group in Hong Kong and China, and so will continue to invest in new IT joint venture companies.

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The current operations of Fourseas are expected to be profitable before finance costs after continuing efforts in market expansion and efficient cost control measures. The recent several interest rate reductions have helped to lessen its financial burden. It has been announced that third parties have approached the Group with proposals for investment in Fourseas.

### South China Media

South China Media will continue to enhance the quality of its magazines and seek to improve the circulation and advertising income.

### Other Investments

In view of very satisfactory progress in the performance and prospects for the pharmaceutical company in Shenyang and the lychee plantations in Guangdong, future listings will be considered for both companies.

Looking ahead, the Group's diversified interests and commitments made over the last 10 years both in Hong Kong and China should provide a good foundation for future earnings growth.

### APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated service.

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

Hong Kong Special Administrative Region of the People's Republic of China  
24 April 2001