

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 2000.

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 2000 is as follows:

	Turnover \$'000	Profit (Loss) from operations \$'000
a. By principal activity:		
Trading and manufacturing — sales of merchandise	1,940,023	(42)
Securities and commodities brokerage	144,454	27,792
Securities, bullion and commodities trading	53,027	(35,624)
Interest income from margin financing and money lending operations	63,139	(38,006)
Provision of financial services	7,404	137
Real estate development — sale of properties	5,991	355
Real estate investments — rental income	3,632	3,095
Information and technology related business	59,915	(25,315)
Publishing, printing and the provision of related services	242,319	(32,222)
Investment holding	1,432	152,717
	2,521,336	52,887
b. By geographical location*:		
United States of America	954,409	(10,326)
Europe	558,684	(6,044)
The People's Republic of China ("the PRC")	251,235	16,537
Hong Kong	515,968	55,328
Japan	86,203	(933)
Others	154,837	(1,675)
	2,521,336	52,887

* 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 2000, 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 47% of the Group's total turnover. In addition, the largest customer of the Group accounted for approximately 14% 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 2000 are set out in the consolidated income statement on page 19 of this annual report. An interim dividend of 5.0 cents per share, amounting to approximately \$22,783,000, was declared and paid during the year. The directors recommend the payment of a final dividend of 5.0 cents per share, which will bring the total dividends for the year ended 31 December 2000 to approximately \$45,566,000.

REPORT OF THE DIRECTORS*(Amounts expressed in Hong Kong dollars)***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				
	2000 \$'000	1999 \$'000	1998 \$'000	1997 \$'000	1996 \$'000
RESULTS					
Turnover	2,521,336	2,382,827	1,869,703	2,223,357	1,765,706
(Loss) Profit before share of (loss) profit of associates	(21,684)	174,824	(58,433)	160,010	135,841
Share of (loss) profit of associates	(40,721)	(60,011)	8,917	(20,810)	2,452
(Loss) Profit before taxation	(62,405)	114,813	(49,516)	139,200	138,293
Taxation	(7,716)	(9,744)	(17,166)	(24,236)	(15,096)
(Loss) Profit before minority interests	(70,121)	105,069	(66,682)	114,964	123,197
Minority interests	27,608	(47,139)	19,955	(21,839)	(54,297)
(Loss) Profit attributable to shareholders	(42,513)	57,930	(46,727)	93,125	68,900
(Loss) Earnings per share (cents)					
— Basic	(9.3)	12.7	(10.6)	24.5	18.1
— Diluted	N/A	N/A	N/A	24.1	18.0
Dividends per share (cents)	10.0	7.0	3.2	5.5	11.0
ASSETS AND LIABILITIES					
Total assets	2,921,410	2,983,374	2,358,697	3,809,727	3,913,246
Total liabilities and minority interests	(1,930,059)	(2,005,446)	(1,445,744)	(2,781,573)	(2,916,551)
Shareholders' equity	991,351	977,928	912,953	1,028,154	996,695

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(Amounts expressed in Hong Kong dollars)

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital, warrants and share options of the Company are set out in Notes 29 and 30, 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 31 to the accompanying financial statements. Movements in retained profit of the Group during the year are set out in the consolidated income statement on page 19 of this annual report.

As at 31 December 2000, approximately \$739,325,000 (1999: \$739,325,000) of the Company's reserves and approximately \$29,532,000 (1999: \$25,227,000) 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 2000.

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 15 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 11 and 12 to the accompanying financial statements.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts as at 31 December 2000 are set out in Notes 25 and 27 to the accompanying financial statements.

SUBSEQUENT EVENT

Details of a significant subsequent event are set out in Note 38 to the accompanying financial statements.

REPORT OF THE DIRECTORS*(Amounts expressed in Hong Kong dollars)***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 *(Appointed on 25 May 2000)*
Law Cheung Kwok *(Resigned on 9 February 2000)*

In accordance with Article 116 of the Company's Articles of Association, David Michael Norman and Tan Boon Seng 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).

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars)

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31 December 2000, 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		Number of warrants		Number of outstanding share options (Note c)
	Personal interests (Note a)	Corporate interests (Note a)	Personal interests (Note b)	Corporate interests (Note b)	
Ng Hung Sang, Robert	18,886,800	318,132,403	3,777,360	63,626,480	4,199,000
Richard Howard Gorges	—	121,987,440	—	24,397,488	4,198,000
Cheung Choi Ngor, Christina	—	121,987,440	—	24,397,488	4,198,000
Yuen Kam Tim, Francis	—	—	—	—	719,000

B. The subsidiaries

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

Directors	Number of ordinary shares		Number of outstanding share options (Note d)
	Personal interests	Corporate interests	
Ng Hung Sang, Robert	—	—	13,000,000
Richard Howard Gorges	—	—	13,000,000
Cheung Choi Ngor, Christina	—	—	13,000,000

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

Directors	Number of ordinary shares		Number of outstanding share options (Note e)
	Personal interests	Corporate interests	
Cheung Choi Ngor, Christina	—	—	17,000,000

REPORT OF THE DIRECTORS*(Amounts expressed in Hong Kong dollars)***DIRECTORS' INTERESTS IN EQUITY SECURITIES (Continued)****B. The subsidiaries (Continued)**

(iii) South China Online Limited ("South China Online")

Directors	Number of ordinary shares		Number of outstanding share options <i>(Note f)</i>
	Personal interests	Corporate interests	
Ng Hung Sang, Robert	3,078,000	—	100,000,000
Richard Howard Gorges	16,174,000	—	50,000,000
Cheung Choi Ngor, Christina	—	—	100,000,000
Yuen Kam Tim, Francis	7,175,000	—	—

(iv) The Express News Limited ("Express News")

Directors	Number of ordinary shares	
	Personal interests	Corporate interests <i>(Note g)</i>
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 121,987,440 shares in the Company. Ng Hung Sang, Robert personally owns 18,886,800 shares and through companies wholly-owned and controlled by him, beneficially owns 196,144,963 shares in the Company.
- (b) Ng Hung Sang, Robert, Richard Howard Gorges and Cheung Choi Ngor, Christina through companies wholly-owned and controlled by them, have interests in 24,397,488 warrants in the Company. Ng Hung Sang, Robert personally owns 3,777,360 warrants and through companies wholly-owned and controlled by him, beneficially owns 39,228,992 warrants in the Company.
- (c) Under the employee share option scheme of the Company adopted on 29 July 1992, the options are exercisable on or before 28 July 2002 at the respective initial subscription prices of HK\$1.36 and HK\$0.88 per share (subject to adjustment).
- (d) 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).
- (e) Under the employee share option scheme of South China IT adopted on 13 October 1997, Cheung Choi Ngor, Christina was granted a total of 17,000,000 options during the year. 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).

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(Amounts expressed in Hong Kong dollars)

DIRECTORS' INTERESTS IN EQUITY SECURITIES (Continued)

B. The subsidiaries (Continued)

- (f) Under the employee share option scheme of South China Online adopted on 12 July 1993, the options are exercisable on or before 11 July 2003 at an initial subscription price of HK\$1.80 per share (subject to adjustment).
- (g) Ng Hung Sang, Robert and his family, through a company wholly-owned and controlled by them, have interests in 30 shares in Express News.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable any of the Company's directors or members of its management 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 51, is the chairman and chief executive of South China Information and Technology Limited ("South China IT"), the chairman of the Company, South China Online Limited ("South China Online"), South China Industries Limited ("South China Industries"), Wah Shing International Holdings Limited ("Wah Shing") and Fourseas.com Limited ("Four Seas"). 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.

Richard Howard Gorges, aged 57, is the vice-chairman of South China Online and South China Industries, a deputy chairman of Wah Shing and a director of the Company, South China IT and Four Seas. 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 47, is the vice-chairman of South China Online, the vice-chairman and chief executive of South China Industries, the deputy chairman and chief executive of Wah Shing, the deputy chairman of Four Seas 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.

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(Amounts expressed in Hong Kong dollars)

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS (Continued)

Executive directors (Continued)

Yuen Kam Tim, Francis, aged 47, is a director of the Company and Four Seas. 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 director

Tan Boon Seng, aged 45, is the chairman of Lee Hing Investment Company Limited and a joint managing 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 the non-executive director of the Company, South China Online and South China Industries. 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.

Independent non-executive directors

David Michael Norman, aged 45, 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 50, 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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(Amounts expressed in Hong Kong dollars)

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, 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	121,987,440	(a)	26.77%
Bannock Investment Limited	59,325,840	(a)	13.02%
Ng Hung Sang, Robert	215,031,763	(b)	47.19%
Parkfield Holdings Limited	92,966,000	(b)	20.40%
Fung Shing Group Limited	99,012,563	(b)	21.73%

Notes:

- (a) Eartrade Investments Limited is the holding company of Bannock Investment Limited. The 121,987,440 shares referred to above include the 59,325,840 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 215,031,763 shares referred to above include 92,966,000 shares held by Parkfield Holdings Limited, 99,012,563 shares held by Fung Shing Group Limited and 4,166,400 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 2000.

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.

REPORT OF THE DIRECTORS*(Amounts expressed in Hong Kong dollars)***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 2001