Chairman's Statement and Management Discussion and Analysis

I am pleased to report the activities of South China Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2003.

BUSINESS REVIEW

The year 2003 saw a very marked difference in economic circumstances between the first and the second half of the year. The Group experienced significant improvement in overall performance amid the rebound in the local economy from its worst in the second quarter of last year. After a prolonged period of economic hardship, Hong Kong was back on the recovery track with some support from the central government after Severe Acute Respiratory Syndrome ("SARS") period. The Closer Economic Partnership Agreement with Hong Kong and the Individual Travel Permit Scheme allowing residents of the major cities in the PRC to visit Hong Kong helped to bolster consumer spending as well as to bring back favourable investment sentiment to the local economy. Our securities and travel businesses, being closely connected to the general market conditions, benefited greatly from these measures.

The Group's results turned around from a loss in 2002 to a profit of HK$93.4 million for the year 2003. Our businesses overall returned to profitability in August last year which reversed the loss position in the first half of the year. The Group recorded a significant increase in turnover of 72% to HK$3.4 billion for the year 2003 when compared to the preceding financial year. The Group's two core subsidiaries, South China Industries Limited ("SCI") and South China Brokerage Company Limited ("SCB") both reported satisfactory profit for the year 2003.

Against the backdrop of the economic upturn, the Group recognised a gain on disposal of non-trading securities of HK$13.0 million; and reported an unrealised gain of HK$33.9 million on holding trading securities at the end of the year. In addition, there was a write-back of allowance for advances to an associate of HK$40.0 million due to the significant appreciation in property value of our 30% owned Grade-A commercial building, "The Centrium" in Central, as compared to the provision of HK$75.0 million made in 2002.

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Trading and Manufacturing

Wah Shing International Holdings Limited ("Wah Shing") reported an impressive growth of 48% in turnover to HK$1.83 billion, principally due to increased orders from certain customers. Wah Shing faced a number of challenges during the year. The continuing consolidation of toy companies and concentration of retailers both in the United States and Europe and the over supply of production capacity in China continued to exert price reduction pressure. As the US military conflicts in Iraq along with SARS fallout had delayed the merchandising cycle of overseas buyers to later months, Wah Shing had to incur extra costs to fulfil customers orders with shorter delivery times. The weak US dollar, the rising material prices and labour costs in Mainland China also added to the manufacturing costs. Against these adverse factors, Wah Shing continued to improve its cost control and efficiency and, with some bad debts recovered, reported a net profit of HK$43.3 million.

Wah Shing Electronics Company Limited ("WSE"), a subsidiary of Wah Shing, faced a decrease in revenue and, despite imposition of strict cost control schemes, reported a loss of HK$5.5 million for the year.

First half figures for our footwear and garment businesses fell substantially due to cancellation of orders by major overseas customers as a result of the outbreak of SARS. However, major sales efforts in the second half made up for most of the revenue gap, contributing to a net profit of HK$5.7 million for the year.

Likewise, the Group's associate Nority International Group Limited ("Nority") which engages in the manufacture and export of athletic-style leisure footwear, was also adversely affected by the war in Iraq and the SARS epidemic and reported a loss of HK$22.6 million in 2003.

Securities and Financial Services

The average stock market daily turnover dramatically leapt from HK$6.5 billion in 2002 to HK$10.3 billion in 2003. The results from broking operations recovered from its worst in 2002 to profitability in 2003. Both the trading volume and the number of clients for online securities trading continued to expand, in particular with the growth in the number of initial public offers ("IPOs") during the last quarter of the year. Margin finance business grew satisfactorily in the second half of the year with some of the IPOs being well received by the market.

Personal loan business, on the other hand, suffered substantially from the deteriorating unemployment rate and personal bankruptcy petitions in the year 2003. Although the Hong Kong economy staged a rapid rebound in the second half of the year, individuals did not benefit immediately, and further provisions for doubtful debts had to be made. We were prudent in granting loans and setting limits and continue to exercise tight credit control to ensure the quality of our loan portfolio.

Our corporate finance division was successful in securing an increased number of deals in corporate advisory services, rights issues and placements of shares as well as IPO sponsorship and underwriting on both the Main and GEM boards.

For the year under review, SCB's turnover increased by 15% to HK$117.7 million and reported profit attributable to shareholders of HK$33.4 million.

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Travel and Related Services

2003 was a particularly difficult period for all travel related industries due to the effects of SARS. However, for our Hong Kong Four Seas Tours Limited ("Fourseas"), 2003 was an exceptionally successful year. Fourseas was able to capitalise on a weak competitive market during the SARS period to cement its position as one of Hong Kong's leading airline consolidators. This was reflected in the posting of a very strong second half performance.

Fourseas began to develop Mainland market in the year by opening an office in Guangzhou, and so far its performance has been satisfactory.

Property Investment and Development

The property market picked up steadily after the SARS period with a rise in general property prices and transaction volume. Our property arm recorded a net profit of HK$7.2 million, as a result of increased rental revenues from higher property occupancy rates and a reviving commercial sector, offset by increased property areas occupied by the Group and the absence of revenue from sales of properties during the year. The investment property at Lippo Centre was fully leased out by September 2003. In 2003, the Group recognised an unrealised gain on revaluation of HK$0.6 million. In comparison, the Group recorded a deficit on revaluation on investment properties of HK$23.6 million in 2002. A more significant appreciation in property value was recognised as a write-back of allowance for advances to an associate in respect of the 30% owned Grade-A commercial building, "The Centrium" in Central. Over 85% of the gross floor area was leased out at the end of 2003, generating satisfactory revenue.

In Shanghai, a 20.4% owned property development declared dividends to the Group.

Media and Publications

The media business made overall improvements in operating results, despite the effect of SARS on cutting of advertising budgets in the second quarter of 2003. Advertising orders returned rapidly following the picking up of the economy and consumer spending in the second half of the year. Individual titles saw good improvement and were profitable. Several magazines were re-positioned in terms of style, content and publishing intervals during the year in order to better meet the needs of readers and advertisers.

Information and Technology

The Group consolidated its IT portfolio to divest loss-making interests and pooled together its product base and market resources. The turnover of the IT business declined by 55% to HK$37.4 million with an aggregated loss of HK$4.5 million for the year 2003. For each separate IT joint venture on Mainland China, our strategic direction was to focus heavily on market development, which has given us a head start for the coming year. Furthermore, our joint ventures continue to provide low-cost programming services to strengthen our Hong Kong products, of which our turn-key stock-trading solution is expected to be marketed in the near future.

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Agricultural Business

The Group's agricultural business in the PRC was not profitable in 2003, as fluctuating market prices and operational difficulties made this a challenging period. The plantation of litchi and longan trees in Zhengcheng and Boluo, Guangdong had much lower average production costs taking advantage of economies of scale as more trees matured to become fruit bearing. The lake farm in Nanjing has been changed from a pure crab rearing farm to one which rears several species of fishes. This will have lower margins, but it is considered justified by its lower risk factor and higher diversification. The Group commenced its investment in a new plantation farm of winter dates ("dongzhao") in Haixing County Hebei Province, the PRC at the end of December 2003.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group had a current ratio of 1.16 and a gearing ratio of 13.5% (31 December 2002: 1.10 and 15.3% respectively). The gearing ratio is computed by comparing the Group's total long-term bank borrowings of HK$102.2 million to the Group's shareholders' fund of HK$757.2 million. The Group's operations and investments continue to be financed by internal resources and bank borrowings. The Directors believe that the Group has sufficient banking facilities and working capital for its operations.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2003, the Group had no significant exposure to fluctuations in exchange rates and any related hedges.

INVESTMENTS

For the year ended 31 December 2003, the Group increased its non-trading and trading securities portfolio by HK$21.3 million and HK$22.0 million respectively, after accounting for the adjustments of decrease and increase in fair values of HK$0.2 million and HK$33.9 million for non-trading and trading securities respectively at the end of the year.

CAPITAL STRUCTURE

The Group had no debt securities or other capital instruments as at 31 December 2003 and up to the date of this report.

MATERIAL ACQUISITION AND DISPOSAL

Details of the material disposal are set out in note 10 to the financial statements.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES

As at 31 December 2003, a significant portion of the short-term borrowings was for normal trading purposes with the level of borrowings depending on the level of trading activities. The long term banking facilities were mostly secured by the property, plant and equipment and the development and investment properties of the Group. Details of charges on assets of the Group are set out in note 45 to the financial statements.

As at 31 December 2003, the details of the Group's contingent liabilities are set out in note 44 to the financial statements.

EMPLOYEES

As at 31 December 2003, the total number of employees of the Group was approximately 16,000. Employees' cost (including directors' emoluments) amounted to approximately HK$544 million for the year.

The Group considers its employees as its most valuable asset. In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidised training programmes are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employee may also receive a discretionary bonus at the end of each year based on performance. The Company adopted an employee share option scheme which came into effect on 18 June 2002.

PROSPECTS

Trading and Manufacturing

A number of industry-wide challenges continue to impact our toy manufacturing business. Amongst them are mounting price reduction pressure from customers and, the ever-increasing manufacturing costs exacerbated by stringent product and workplace safety requirements, market demand for more products and wider variety of novelty designs, and pressure on the revaluation of the Renminbi. To meet these challenges, Wah Shing is striving to enhance its own product development and design capabilities, to upgrade the machinery and equipment, and to improve the production workflow and factory environment in order to capture larger volume orders. Wah Shing will also continue to identify sources of lower cost fabric and raw materials to save on the overall procurement costs. The progress of its new factory in Yunan, Guangdong, which started operation in the second half of 2003, is being closely monitored.

WSE is experiencing good sales on a few new projects and is likely to return to the profitability.

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In March 2004, our shoes business won Wal-Mart's "International Supplier of the Year 2003" award in recognition of its quality, on-time shipment and good co-operation. In view of the positive impact on turnover resulting from this, our strategy in the coming months is to focus on building up a strong customer base and continue to push our production units to fuller capacity.

Nority has a sound financial position and is seeking to diversify its income.

We have obtained a final judgment dated 20 December 2003 in favour of the Group from The Supreme Court of The People's Republic of China in respect of the litigation between a wholly-owned subsidiary of the Company and Nanjing Micromotor Co., our Nanjing joint venture partner. The joint venture owns a street of valuable investment properties located in the prime commercial area at the heart of the city (the "Properties"). The Properties presently generate annual rental income of over RMB11 million. Under the final judgement, the joint venture partner was ordered to compensate the Group for the damages as a result of the breach of the joint venture agreement. We are planning to use the compensation to buy out the entire group companies of our joint venture partners and the negotiation process is now underway.

Securities and Financial Services

The recent announcement from the Financial Secretary to strengthen the financial co-operation between Hong Kong and the Mainland and reinforce our status as an international financial centre are all favourable to the market. There will be an increasing number of enterprises from China seeking to list in Hong Kong. Our corporate finance team expects to be more active in obtaining IPO deals and advisory services for the PRC enterprises.

Our securities broking business began the year very well amid the active daily stock turnover. Margin financing income was bolstered by the overwhelming response from the general public to the latest IPOs. Online trading through our website www.sctrade.com continues to increase. New online business for trading futures and options started in early 2004.

The unemployment rate and the number of personal bankruptcies are expected to reduce gradually in the future, doubtful debt provisions should decrease in this circumstance. The personal loan business is still expected to be very competitive in 2004. We will focus on marketing and promoting personal loans to selected market segments that we perceived to have lower risk.

We are optimistic about the prospects in the current year.

Travel and Related Services

The agency side of the businesses remains the strength and central focus of the travel and related services. Backed by year 2003's performance, the Group is confident that our travel business is on the road to success. Fourseas, having proven that it is highly competitive in ticketing consolidation, will further develop its corporate travel services in Hong Kong and certain related services in Mainland China.

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Property Investment and Development

The PRC government policy to extend the Individual Travel Permit Scheme for more cities in Mainland China will boost the local economy. The Group's rental properties around tourist districts are expected to generate higher rental income on renewals or new leases. The improved market sentiment should attract more investment in Hong Kong and greater demand for high quality offices. We expect the rental income from The Centrium in Central to continue to rise and expect full occupancy very soon.

Looking forward to a rising property market, we shall re-tune our property portfolio to divest non-core assets, and seek attractive investment properties in both Hong Kong and Mainland China.

Media and Publications

As the Group's other businesses that are sensitive to market environment, our view for the media and publications in 2004 is optimistic. Helped by the stronger economy, our media group will focus on building stronger brands for the existing magazines, expand revenue sources and services and also consider new titles when market opportunities arise. In the longer run, we plan to aggressively expand into the rapidly growing China market with Mainland local publishers.

Information and Technology

The operating environment is still difficult due to the keen competition in the IT market in the PRC. The Group's target is to make a profit in the IT segment in 2004 and the prospects of our Mainland IT joint ventures are improving. In Hong Kong, plans to further develop in-house platforms at a low cost structure should benefit the Group's customer products and overall operational efficiency.

Agricultural Business

Management maintains the view that the agricultural industry in Mainland China has great potential. Having already gained control of 36 square kilometers of agricultural land and lake areas across Jiangsu, Guangdong and Hebei provinces, we intend to further expand so as to attain the size and diversification we need to guarantee a promising future. Government support in developing agricultural sector provides a promising future where we can take advantage of subsidies and stable markets in the years to come.

Overview

Looking ahead, the upturn in the global economy will continue to benefit our trading and manufacturing businesses that mainly export products to overseas markets. The significant improvement in local consumer and investor sentiment, gradual pick up in employment and a rebound in asset prices in the recent period further validate the general domestic economic growth forecasts. We believe the Group would benefit accordingly with sound businesses and considerable property portfolio in Hong Kong and Mainland China.

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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 2004