



SOUTH CHINA BROKERAGE COMPANY LIMITED

(Incorporated in the Hong Kong Special Administrative Region of the People's Republic of China with limited liability)

2003 INTERIM RESULTS

UNAUDITED INTERIM RESULTS

The Directors of South China Brokerage Company Limited (the "Company") announce that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2003 are as follows:-

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2003 Unaudited HK\$'000	2002 Unaudited HK\$'000
Turnover	2	50,456	48,906
Other revenue	2	1,353	1,151
Gain (Loss) on disposal of non-trading securities		3,076	(26,623)
Increase (Decrease) in fair value of non-trading securities		611	(555)
Decrease in fair values of trading securities		(3,010)	(1,916)
Provision for doubtful debts		(3,469)	(5,844)
Administrative and operating expenses		(58,289)	(72,355)
Loss from operations	2 & 3	(9,272)	(57,236)
Finance costs		(716)	(731)
Loss before taxation		(9,988)	(57,967)
Taxation	4	16	(80)
Loss after taxation		(9,972)	(58,047)
Minority interest		(48)	(252)
Loss attributable to shareholders		(10,020)	(58,299)
Loss per share			
Basic	5	HK0.21 cents	HK1.20 cents

Notes:

(1) Principal 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 the 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 2002 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 2002, except that the Group has adopted SSAP 12 (Revised) "Income Taxes" which became effective for accounting periods commencing on or after 1 January 2003.

In the previous year, partial provision on all timing differences was made for deferred tax using the income statement perspective. SSAP 12 (Revised) requires the recognition of full provision on all temporary differences using the balance sheet perspective. The adoption of SSAP 12 (Revised) has no material effect on the Group's results other than presentational changes.

(2) Segment Information

2003 did not have any impact. The broking operation suffered a loss of HK\$13.2 million though it was a reduction in loss of 31.3% compared to the same period last year. Online securities broking, however, made satisfactory growth of 6.8% in income. Both the trading volume and the number of clients of online securities trading continued to expand. Some local branches were merged together to rationalise a more cost effective conventional broking operation.

During the period, part of the non-trading securities were sold and the Group realised a gain of HK\$3.1 million. Further provisions were made for decrease in fair value of trading securities for HK\$3.0 million. The Group had non-trading securities of HK\$2.6 million and trading securities of HK\$40.7 million in value remaining by the end of the period.

Margin financing and money lending

Our loan and advances portfolio for margin financing and personal loan contracted by 6.3% to HK\$218.4 million. The current low interest rate trend has been continuing to exert pressure on the interest income despite our low cost of funding. Contribution from this segment reduced to HK\$6.2 million from HK\$8.6 million in the preceding period owing to some extent to the increased personal loan bankruptcy and termination cases. Additional provision for doubtful debts of HK\$3.5 million was made which we believe would be adequate with our tightened credit control policy and frequent assessment of clients' portfolio and their collateral quality.

Corporate advisory and underwriting

Revenue from this segment more than doubled compared to the last interim period. Our corporate finance division successfully secured an increasing number of deals including initial public offerings on the Main and GEM boards and sponsorship, underwriting and corporate advisory services. Many of the continuing sponsorship services have been generating a stable source of income. The sudden outbreak of the deadly disease in March severely depressed investors' sentiment. Many of the already arranged corporate finance activities were delayed and the first half of the year resulted in a minor loss of HK\$0.3 million. Had it not been for the disease, we would have expected much better results from the division for the first half of the year.

Property investment and others

Rental income from the commercial property at Lippo Centre rose six times to HK\$1.0 million over the 2002 interim as the rentable area had been substantially leased out. Other corporate expenses were much reduced.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has obtained facilities which are renewable on a yearly basis from a number of banks. The facilities for the share margin finance operations are back-to-back secured by the securities of our margin clients. The facilities for the money lending operations are clean loans. All the facilities are guaranteed by the Company.

As at 30 June 2003, the Group had a current ratio of 1.31 and a gearing ratio of 11.0% (30 June 2002: 1.39 and 6.8% respectively). The gearing ratio is computed on comparing the Group's total long-term bank borrowings of HK\$22.3 million (apart from those for share margin finance business and personal loan business) to the Group's shareholders' fund of HK\$202.6 million. The Directors believe that the Group has sufficient banking facilities and working capital for its operations.

The Group has an internal credit and compliance division to closely monitor its loans and advances receivable and related financial risk. The credit control guidelines have constantly been updated for margin financing and personal loan lending. Frequent reviews are carried out in assessing clients' portfolio and to ensure necessary and adequate provisions have been made at all times.

As at 30 June 2003, the Group had no exposure to fluctuations in foreign exchange rates and related hedges.

CAPITAL STRUCTURE

On 21 June 2002, the Company issued 972,387,348 bonus warrants ("Warrants") to its shareholders on the basis of one Warrant for every five ordinary shares in the share capital of the Company, at the subscription price of HK\$0.08 per Warrant. As at 1 January 2003, the Company had 972,333,148 outstanding Warrants. No Warrants were exercised during the period under review and all the Warrants expired on 21 June 2003.

The Group had no debt securities or other capital instruments as at 30 June 2003 and up to the date of this report.

INVESTMENTS

For the six months ended 30 June 2003, the Group reduced part of its non-trading securities portfolio by HK\$5.9 million and increased its trading securities portfolio by HK\$4.7 million, after accounting for the adjustments of increase and decrease in fair values of HK\$0.6 million and HK\$3.0 million for non-trading and trading securities respectively by the end of the period.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions and disposals of subsidiaries or associates for the six months ended 30 June 2003.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

In the previous year, partial provision on all timing differences was made for deferred tax using the income statement perspective. SSAP 12 (Revised) requires the recognition of full provision on all temporary differences using the balance sheet perspective. The adoption of SSAP 12 (Revised) has no material effect on the Group's results other than presentational changes.

(2) **Segment Information**

(a) An analysis of the Group's revenue and contribution to the loss from operations by business segment is as follows:

For the six months ended 30 June 2003

	Securities broking	Securities trading and investment <i>(note)</i>	Margin financing and money lending	Corporate advisory and underwriting	Property investment and others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:							
Sales to external customers	18,896	—	23,271	8,581	1,061	—	51,809
Intersegment sales	—	—	192	—	—	(192)	—
	<u>18,896</u>	<u>—</u>	<u>23,463</u>	<u>8,581</u>	<u>1,061</u>	<u>(192)</u>	<u>51,809</u>
Contribution from segments	<u>(13,172)</u>	<u>(509)</u>	<u>6,169</u>	<u>(303)</u>	<u>(1,457)</u>		<u>(9,272)</u>

Note: Segment revenue of securities trading and investment included net loss on disposal of trading securities and futures contracts of approximately HK\$231,000 and dividend income from listed securities of approximately HK\$231,000. The segment revenue was therefore being net off.

For the six months ended 30 June 2002

	Securities broking	Securities trading and investment	Margin financing and money lending	Corporate advisory and underwriting	Property investment and others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:							
Sales to external customers	25,165	(11,901)	32,177	4,281	335	—	50,057
Intersegment sales	—	—	434	—	—	(434)	—
	<u>25,165</u>	<u>(11,901)</u>	<u>32,611</u>	<u>4,281</u>	<u>335</u>	<u>(434)</u>	<u>50,057</u>
Contribution from segments	<u>(19,169)</u>	<u>(42,732)</u>	<u>8,614</u>	<u>(1,317)</u>	<u>(2,632)</u>		<u>(57,236)</u>

(b) Over 90% of the Group's revenue, results, assets and liabilities are derived from Hong Kong.

(3) **Depreciation**

Loss from operations for the period is arrived at after charging depreciation of approximately HK\$3,697,000 (six months ended 30 June 2002: HK\$4,894,000) in respect of the Group's property, plant and equipment.

(4) **Taxation**

No Hong Kong profits tax has been provided as the Group had no estimated assessable profits arising in or derived from Hong Kong during the period (six months ended 30 June 2002: 16%). Taxes on profits assessable elsewhere have been calculated at rates of taxation prevailing in the countries in which the Group operates, based on existing legislation, practices and interpretations in respect thereof.

(5) **Loss per Share**

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$10,020,000 (six months ended 30 June 2002: HK\$58,299,000) and 4,861,990,940 ordinary shares (six months ended 30 June 2002: the weighted average of 4,863,801,133 ordinary shares) in issue during the period.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The overall business environment remained difficult in the first half of the year with poor investment sentiment and slow market activities. The average stock market daily turnover declined to HK\$6.95 billion from HK\$7.34 billion in the same period in 2002. Consumer spending and unemployment rate were aggravated by the outbreak of atypical pneumonia which further weakened the economic performance in the second quarter of 2003.

The Group, however, recorded a minor increase in turnover of 3.2% to HK\$50.5 million for six months ended 30 June 2003 when compared to the corresponding period last year. Our continuing efforts to consolidate local retail branches and maintain a lean operating structure, including the change of remuneration basis in the London office, saw its results in the period under review. Administrative and operating expenses were significantly reduced by 19.4% to HK\$58.3 million. Net loss attributable to shareholders reduced substantially to HK\$10.0 million, representing an 82.8% improvement over the last year interim.

Securities broking, trading and investment

Turnover from securities and commodities broking recorded a fall of 24.9% against the 2002 interim, amid the low stock market daily turnover in the first half of the year whereas the abolition of minimum commission rate effective from 1 April

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions and disposals of subsidiaries or associates for the six months ended 30 June 2003.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

As at 30 June 2003, the Group's investment property was mortgaged to a bank for installment and revolving loan facilities.

There is no material change in the Group's contingent liabilities and commitments as compared to the most recent published annual report.

PROSPECTS

The local retail market has already experienced a rapid rebound since July 2003 after the recovery from the deadly disease and the influx of tourists from the Mainland. The local stock market reported significant increases in average daily turnover of HK\$9.59 billion and HK\$12.02 billion respectively in July and August 2003. Signs of economic recoveries are appearing across the international arena with persistent rises in major overseas stock market indexes. This is bolstering investor confidence and has induced more active securities trading activities which in turn benefit our securities broking business.

Although the abolition of minimum commission rate did not trigger off a vigorous price war among securities brokers, it helped clear major uncertainties in the market. Competition especially from banks offering securities broking and related services remains very keen. Building on our long establishment in the local broking business, we strive to promote our quality of services and the variety of products to our customers.

Our continuing efforts made on electronic commerce have already seen results from the substantial growth in online trading volume. Both the online "SCTrade System" and the existing conventional trading engine are now in the last phase of upgrading to enhance operations. In anticipation of gaining greater market share and thus improving our income base, more variety of products have been put on our online trading platform to ensure our customers are trading the most at ease with the highest security control.

With the positive attitude of the central government in supporting the Hong Kong economy and through the signing of the Closer Economic Partnership Agreement, we believe more PRC companies will continue to seek listing in Hong Kong. Our corporate finance team has been strengthened with more experienced professionals to take on the considerable business potential originated from the Mainland. The completion of more corporate finance deals will generate us significant revenues in the second half of the year.

The recent release of the Positive Consumer Credit Data has much facilitated us in monitoring credit risk of our personal loan business. We expect the quality of our personal loan portfolio will continue to improve with its assistance and the existing close control of our credit and compliance team, thus further reducing the amount of bad debts.

Our investment property at Lippo Centre has now been fully leased out and will bring us higher yield of return and profit.

We trust our strengthened trading engines and experienced professional teams coupled with effective control on costs will provide us solid grounds to benefit from the positive business turnaround.

EMPLOYEES

As at 30 June 2003, the total number of employees of the Group was approximately 163.

Remuneration packages are compatible to the market and normally reviewed by senior management annually. Apart from salary payment, other staff benefits include medical subsidies, life insurance, provident fund and subsidized external training. Continuous Professional Training will continue to be arranged for those staff registered with the Securities and Futures Commission.

INTERIM DIVIDEND

The Directors resolved not to declare an interim dividend for the six months ended 30 June 2003 (2002: Nil).

ARRANGEMENTS TO PURCHASE, REDEEM OR SELL THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the period ended 30 June 2003.

AUDIT COMMITTEE

The audit committee has reviewed with the management the financial reporting matters, including the unaudited condensed financial statements, related to the preparation of the interim report for the six months ended 30 June 2003.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.


PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The detailed information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board
South China Brokerage Company Limited
Ng Hung Sang, Robert
 Chairman

Hong Kong Special Administrative Region of
 The People's Republic of China
 24 September 2003

A copy of this announcement can be obtained from our website www.sctrade.com

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 A Member of South China Group