



GREAT CHINA HOLDINGS LIMITED
大中華集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

**Announcement of unaudited interim results
for the six months ended 30th June 2003**

The board of directors of Great China Holdings Limited (the “Company”) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2003 with comparative figures for the corresponding period in 2002 are as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	(Unaudited)	
		Six months ended 30th June	
		2003	(As restated)
		HK\$'000	2002
		HK\$'000	HK\$'000
Turnover	2	495,138	359,088
Cost of sales		(436,328)	(325,637)
Gross profit		58,810	33,451
Other revenues		446	645
Selling expenses		(45,110)	(31,664)
Administration expenses		(10,884)	(11,992)
Gain on disposal of investment properties		–	41,102
Other operating income/(expenses)		888	(9,058)
Operating profit	2,3	4,150	22,484
Finance costs		(5,581)	(5,681)
		(1,431)	16,803
Share of profits of associated companies		953	1,473
(Loss)/profit before taxation		(478)	18,276
Taxation	4	(1,589)	(223)
(Loss)/profit after taxation		(2,067)	18,053
Minority interests		24	123
(Loss)/profit attributable to shareholders		(2,043)	18,176
Basic (loss)/earnings per share (<i>cents</i>)	5	(0.78)	6.94

Notes:

1. Principal accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (“HKSA”) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2002 except that the Group has changed its accounting policy following its adoption of SSAP 12 “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing difference between taxable profit and accounting profit to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

Under the revised SSAP 12, deferred tax liabilities are provided in full on all temporary differences while deferred tax assets are not recognised unless it is probable that future taxable profits will be available against which the temporary difference can be utilized. The change in accounting policy has been applied retrospectively, resulting in prior period adjustments with the opening balance of equity at 1st January 2002 and 2003 reduced by HK\$52,185,000 and HK\$52,179,000 respectively which represent the unprovided deferred tax liabilities. This change has resulted in an increase in deferred tax liabilities at 31st December 2002 by HK\$21,546,000 and a decrease in investment in associated company at 31st December 2002 by HK\$30,633,000. The profit for the six months ended 30th June 2002 has been increased by HK\$13,000 and the equity at that date has been reduced by HK\$51,389,000.

2. Turnover and segment information

The principal activities of the Group are general trading, property investment and real estate agency services.

An analysis of the Group’s turnover and segment results for the period by business and geographical segments is as follows:

Business segments

	(Unaudited)			
	Six months ended 30th June 2003			
	HK\$'000			
	General trading	Property investment	Real estate agency services	Group
Turnover	<u>467,170</u>	<u>27,532</u>	<u>436</u>	<u>495,138</u>
Segment results	<u>(3,168)</u>	<u>11,442</u>	<u>(727)</u>	7,547
Interest income				446
Unallocated corporate expenses				<u>(3,843)</u>
Operating profit				<u>4,150</u>

(As restated)
(Unaudited)
Six months ended 30th June 2002
HK\$'000

	General trading	Property investment	Real estate agency services	Group
Turnover	<u>347,298</u>	<u>11,171</u>	<u>619</u>	<u>359,088</u>
Segment results	<u>(11,516)</u>	<u>9,524</u>	<u>(1,041)</u>	(3,033)
Interest income				645
Judgement debt with related legal cost				(9,379)
Gain on disposal of investment properties				41,102
Unallocated corporate expenses				<u>(6,851)</u>
Operating profit				<u>22,484</u>

Geographical segments

	Turnover (Unaudited) Six months ended 30th June		Operating profit (Unaudited) Six months ended 30th June (As restated)	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	6,247	7,247	4,851	4,752
Mainland China	424,274	324,815	3,909	(6,992)
Philippines	37,871	24,704	(2,191)	(800)
Others	<u>26,746</u>	<u>2,322</u>	<u>978</u>	<u>7</u>
	<u>495,138</u>	<u>359,088</u>	7,547	(3,033)
Interest income			446	645
Judgement debt with related legal cost			-	(9,379)
Gain on disposal of investment properties			-	41,102
Unallocated corporate expenses			<u>(3,843)</u>	<u>(6,851)</u>
Operating profit			<u>4,150</u>	<u>22,484</u>

3. Operating profit

(Unaudited)
Six months ended 30th June
2003 2002
HK\$'000 HK\$'000

Operating profit is stated after crediting and charging the following:

Crediting

Gain on disposal of other fixed assets	107	-
Gain on disposal of investment properties	<u>-</u>	<u>41,102</u>

Charging

Depreciation of fixed assets	1,073	1,040
Judgement debt	<u>-</u>	<u>8,791</u>

4. Taxation

No provision for Hong Kong profits tax has been made in the accounts as the companies within the Group have no estimated assessable profit for the current period (6 months ended 30.6.2002: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	(Unaudited)	
	Six months ended 30th June	
	2003	(As restated) 2002
	HK\$'000	HK\$'000
Overseas taxation		
– current	(1,433)	(120)
Deferred taxation		
– origination and reversal of temporary differences	(56)	13
Share of taxation attributable to an associated company	(100)	(116)
	<u>(1,589)</u>	<u>(223)</u>

5. (Loss)/earnings per share

(Loss)/earnings per share is calculated based on the loss attributable to shareholders of the Group for the six months ended 30.6.2003 of HK\$2,043,000 (6 months ended 30.6.2002: profit of HK\$18,176,000) and 261,684,910 shares (6 months ended 30.6.2002: 261,684,910 shares) of the Company in issue during the period.

No diluted (loss)/earnings per share has been presented for both periods because the exercise of the outstanding potential ordinary shares would have no dilutive effect for those periods.

DIVIDEND

The Board of Directors does not recommend the payment of any interim dividend (30th June 2002: Nil) for the six months ended 30th June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The operating results for the six months ended 30th June 2003 reflected solid improvements in the underlying strengths of the Group's operations. Compared with the corresponding period last year, turnover increased by 37.9% to HK\$495,138,000, which was driven mainly by the strong sales growth of the trading operation. Gross profit increased by 76% to HK\$58,810,000, a remarkable improvement attributable to the trading operation and the property operation.

Due to the increase in freight charges and the Group's adoption of new sales initiatives for the long-term prosperity of the trading operation, there was an increase in the Group's selling expenses during the period under review. However, the Group's cost control measures remained sound as reflected by the further reduction in administration expenses. Loss before taxation amounted to HK\$478,000, compared to the profit before taxation of HK\$18,276,000 for the corresponding period last year as a result of a substantial gain from the disposal of investment properties of HK\$41,102,000 for the corresponding period last year. After taxation and minority interests, the Group recorded a loss of HK\$2,043,000 for the six months ended 30th June 2003, compared to a profit of HK\$18,176,000 for the corresponding period last year.

Trading Operation

The trading operation remained as the Group's core business, recording a turnover of HK\$467,170,000 which was 34.5% higher than that of the corresponding period last year – a reflection of the gradual success of the Group's new sales initiatives. Fishmeal trading continued to be the focus of the operation, and fishmeal market prices have stabilized following the encouraging news that the fishing ban in Peru waters was fully lifted in mid April 2003. However, the outbreak of severe acute respiratory syndrome ("SARS") has brought major interruptions to port operations in China, and the imports and exports of animal feeds were particularly affected. Furthermore, the war led by the United States against Iraq has pushed up oil prices, leading to an increase in freight charges. These incurred additional costs and resulted in a loss of HK\$3,168,000 for the trading operation, but the amount was significantly lower than the loss amount of HK\$11,516,000 recorded in the corresponding period last year.

The Group will continue to strengthen the marketing and distribution efforts of its trading operation in China and across the world to increase its economies-of-scale benefits and its specialist edge in order to further improve its cost efficiency.

Property Investment in Hong Kong

During the period under review, the Hong Kong economy remained weak with deflation and unemployment soaring to new highs. The SARS epidemic added salt to the wound, making a severe blow to several major sectors including the retail sector. Under the circumstances, shop tenants of the Group requested for rental concessions, to which the Group responded with flexible measures including the granting of some temporary relief. While such measures have led to a decline in the Group's rental income for the period under review, they have not materially affected the rental levels and, as such, the total amounts of rental income receivable under the leases. With hindsight, these measures proved to be sensible and accommodating, as the retail sector began to show signs of recovery following the subsiding of SARS and lately the huge increase in Mainland tourist arrivals.

Property Investment in China

The properties in Jing An District in Shanghai commenced sales in December 2002, with 10 of the total 48 residential units already sold and a profit of HK\$5,802,000 booked for the period under review. Further sales envisaged by the Group for the period under review did not materialize due to the outbreak of SARS, and the epidemic also affected the occupancy rates and thus the rental income of the Group's investment properties in China that comprise mainly service apartments.

With SARS brought under control, the occupancy rates of the Group's service apartments in China have been gradually returning to normal levels. The outlook for the Group's property investment business in China remains promising, as China continues to attract huge inflow of foreign investment and rising living standards of its citizens.

Real Estate Agency Services in China

Loss of this operation narrowed by 30.1% compared with the corresponding period last year. Turnover recorded a decline mainly due to the SARS outbreak which delayed the discussions on new projects. Such discussions have now been resumed and the Group is also exploring new avenues to increase the profitability of the operation.

Strategic Outlook

The Peruvian government has imposed the fishing ban in late July of 2003 and it is widely expected that the ban will last 90 days in line with past practice. However, there are signs that the new Peruvian minister in charge of fishing matters is adopting a policy for the long-term healthy development of the business. Thus some fishmeal producers in Peru are hoarding inventories in order to benefit from any unexpected prolonging of the fishing ban, which caused the market prices of fishmeal to stay firm in the market place. However, given the increasing demand for quality fishmeal in China as a result of the citizens' growing appetite for seafood, the Group will capitalize on the trend by seeking means to further penetrate the fishmeal distribution market in China to gain a higher leverage on the selling prices of the products.

Encouraging developments have taken place in Hong Kong for the retail sector following the return of tourists after SARS abated. Starting from mid-August 2003, residents from a number of Mainland cities can visit Hong Kong individually instead of joining tours, and signs are that this policy will be introduced in more Mainland cities in the coming future. Local retail sales are beginning to pick up which should provide a good support to retail property prices and rentals. The residential sector in China also saw marked recovery in the aftermath of SARS, and should continue to grow in light of China's booming economy. The Group will continue to adopt an appropriate strategy to benefit from these developments.

Liquidity and Financial Resources

The long term liabilities of the Group amounted to approximately 52% (31.12.2002: 58%) of its shareholders' funds as at 30th June 2003. The current ratio of the Group decreased from 2 of last year to 1.30.

The Group's borrowings were mainly denominated in Hong Kong Dollars and the United States Dollars. As at 30th June 2003, cash and bank balances of HK\$62,378,000 (31.12.2002: HK\$62,296,000) and certain land and buildings with an aggregate book value of HK\$444,521,000 (31.12.2002: HK\$442,089,000) and properties held for resale of HK\$91,008,000 (31.12.2002: HK\$92,281,000) were pledged to banks to secure banking facilities amounting to HK\$384,799,000 (31.12.2002: HK\$388,226,000). The aggregate amount of banking facilities available but not yet utilized by the Group was HK\$45,747,000 (31.12.2002: HK\$107,262,000) as at 30th June 2003.

Since the Group usually conducts its business transactions in Hong Kong Dollars and the United States Dollars, there seldom arises any need for the Group to make use of any financial instruments for hedging purposes.

Employees and Remuneration Policies

As at 30th June 2003, the total number of employees of the Group was about 136 (6 months ended 30.6.2002: 132) with staff cost amounting to approximately HK\$5,043,000 (6 months ended 30.6.2002: HK\$5,860,000). Remuneration policies are reviewed annually by the management. Remuneration packages, including share options, are structured to take into account the comparable level of the market.

Pursuant to the Employees Share Option Scheme approved by the shareholders on 29th March 1993, the Group had granted 12,180,000 share options to the directors and employees at an exercise price of HK\$0.94 per share which can be exercised between 2nd September 1993 to 1st September 2003.

As of the date of this report, all share options were lapsed.

Contingent liabilities

	(Unaudited) 30th June 2003 HK\$'000	(Audited) 31st December 2002 HK\$'000
Bills discounted with recourse	–	12,000
Guarantees for banking facilities utilized by an associated company	<u>21,593</u>	<u>23,272</u>
	<u><u>21,593</u></u>	<u><u>35,272</u></u>

Related party transactions

During the period, a minority shareholder of a subsidiary exercised his option to convert an advance with interest of HK\$6,915,010 into share capital of the subsidiary at an exercise price of HK\$1,234.13 per share. After exercising the option, the minority interest's equity in the subsidiary was increased from 4.82% to 14.41%.

The minority shareholder offered to dispose of his 14.41% interest in the subsidiary to the Group at a consideration of HK\$16,861,800 and accepted by the Group with 8 instalments payments.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information that would reasonably indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30th June 2003.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30th June 2003 with the directors.

PUBLICATION OF FINANCIAL INFORMATION

The interim report of the Group for the six months ended 30th June 2003 containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules will subsequently be published on The Stock Exchange of Hong Kong Limited's website (www.hkex.com.hk) in due course.

On behalf of the Board

John Ho Ming Tak

Managing Director

Hong Kong, 19th September 2003

Please also refer to the published version of this announcement in The Standard.