



# SOUTH CHINA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 265)

## INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2009

### UNAUDITED INTERIM RESULTS

The board of directors (the “Board”) of South China Holdings Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2009 are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 30 June</b>	
		<b>2009</b>	<b>2008</b>
		<b>Unaudited</b>	<b>Unaudited</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>and restated</b>
			<b>HK\$'000</b>
<b>CONTINUING OPERATIONS</b>			
<b>Revenue</b>	<b>2</b>	<b>920,414</b>	<b>1,286,476</b>
Cost of sales		<u>(876,803)</u>	<u>(1,235,042)</u>
Gross profit		<b>43,611</b>	<b>51,434</b>
Interest income		<b>63</b>	<b>264</b>
Other income and gains		<b>2,261</b>	<b>3,917</b>
Selling and distribution costs		<b>(4,545)</b>	<b>(6,066)</b>
Administrative and operating expenses		<b>(34,187)</b>	<b>(35,503)</b>
Non-cash equity-settled share option expenses		<b>(6,107)</b>	<b>(13,609)</b>
Impairment of trade and other receivables		<b>(1,200)</b>	<b>(610)</b>
Gain on disposal of assets and investments ( <i>net</i> )	<b>3</b>	<b>–</b>	<b>35,372</b>
Fair value gain on financial assets at fair value through profit or loss	<b>11</b>	<u><b>4,239</b></u>	<u><b>–</b></u>
<b>Profit from operations</b>	<b>2</b>	<b>4,135</b>	<b>35,199</b>
Finance costs		<b>(1,360)</b>	<b>(1,351)</b>
Share of profits and losses of associates		<u><b>4</b></u>	<u><b>(55)</b></u>
<b>Profit before tax</b>	<b>4</b>	<b>2,779</b>	<b>33,793</b>
Tax	<b>5</b>	<u><b>(1,818)</b></u>	<u><b>(2,886)</b></u>
<b>Profit for the period from Continuing Operations</b>		<b>961</b>	<b>30,907</b>
<b>DISCONTINUED OPERATIONS</b>			
<b>Profit for the period from Discontinued Operations</b>	<b>2&amp;6</b>	<u><b>10,564</b></u>	<u><b>169,922</b></u>
<b>Profit for the period</b>		<u><u><b>11,525</b></u></u>	<u><u><b>200,829</b></u></u>

		<b>Six months ended 30 June</b>	
		<b>2009</b>	<b>2008</b>
		<b>Unaudited</b>	<b>Unaudited</b>
		<b>and restated</b>	<b>and restated</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Notes</i>			
Attributable to:			
– <b>Equity holders of the Company</b>		<b>19,651</b>	<b>166,661</b>
– Minority interests		<b>(8,126)</b>	<b>34,168</b>
		<u><b>11,525</b></u>	<u><b>200,829</b></u>
<b>Dividends</b>			
Special interim distribution	6	<u><b>1,552,809</b></u>	<u><b>–</b></u>
Interim dividend	7	<u><b>–</b></u>	<u><b>–</b></u>
<b>Earnings per share attributable to ordinary equity holders of the Company</b>			
– <b>Basic</b>	8		
Profit for the period		<u><b>HK1.1 cents</b></u>	<u><b>HK9.1 cents</b></u>
For profit from continuing operations		<u><b>HK0.1 cent</b></u>	<u><b>HK1.8 cents</b></u>

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>HK\$'000</b>	<b>and restated</b>
		<b>HK\$'000</b>
<b>Profit for the period</b>	<b>11,525</b>	<b>200,829</b>
<b>Other comprehensive income for the period</b>		
Fair value change on available-for-sale financial assets	<b>33,127</b>	<b>2,132</b>
Surplus on revaluation of land and building	<b>–</b>	<b>12,021</b>
Exchange differences on translation of financial statements of overseas subsidiaries	<b>(211)</b>	<b>67,574</b>
<b>Total comprehensive income for the period</b>	<b><u>44,441</u></b>	<b><u>282,556</u></b>
Attributable to:		
– <b>Equity holders of the Company</b>	<b>52,622</b>	<b>225,665</b>
– Minority interests	<b>(8,181)</b>	<b>56,891</b>
<b>Total comprehensive income for the period</b>	<b><u>44,441</u></b>	<b><u>282,556</u></b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2009 Unaudited HK\$'000	As at 31 December 2008 Audited HK\$'000
	Notes		
<b>Non-current assets</b>			
Property, plant and equipment		16,684	296,938
Investment properties		25,000	1,605,674
Prepaid land lease payments		–	48,323
Construction in progress		–	27,279
Interests in associates		642	298,449
Biological assets		–	84,904
Available-for-sale financial assets	11	33,222	44,741
Other non-current assets	12	26,615	48,165
Goodwill		5,568	12,041
Total non-current assets		107,731	2,466,514
<b>Current assets</b>			
Properties under development		–	448,734
Inventories		32,720	322,478
Trade and other receivables	9	157,616	410,950
Financial assets at fair value through profit or loss	11	4,803	10,945
Due from affiliates		1,040	457
Advance to minority shareholders of subsidiaries		1,635	27,480
Tax recoverable		–	5,016
Pledged bank deposits		15,092	14,342
Cash and cash equivalents		58,816	193,072
Total current assets		271,722	1,433,474
<b>Current liabilities</b>			
Trade and other payables	10	138,109	644,860
Interest-bearing bank and other borrowings		60,233	487,606
Advances from minority shareholders of subsidiaries		1,582	22,048
Due to affiliates		931	2,180
Tax payable		1,926	29,284
Total current liabilities		202,781	1,185,978
<b>Net current assets</b>		68,941	247,496
<b>Total assets less current liabilities</b>		176,672	2,714,010

	As at 30 June 2009 Unaudited HK\$'000	As at 31 December 2008 Audited HK\$'000
<i>Notes</i>		
<b>Total assets less current liabilities</b>	<b>176,672</b>	<b>2,714,010</b>
<b>Non-current liabilities</b>		
Interest-bearing bank and other borrowings	–	281,845
Advances from shareholders	44,571	7,876
Advances from minority shareholders of subsidiaries	107	29,226
Other non-current liabilities	–	85,419
Promissory notes	–	97,079
Deferred tax liabilities	2,499	232,079
<b>Total non-current liabilities</b>	<b>47,177</b>	<b>733,524</b>
<b>Net assets</b>	<b>129,495</b>	<b>1,980,486</b>
<b>Equity</b>		
Equity attributable to equity holders of the Company		
Issued capital	45,584	45,584
Reserves	55,532	1,332,647
	<b>101,116</b>	<b>1,378,231</b>
Minority interests	28,379	602,255
<b>Total equity</b>	<b>129,495</b>	<b>1,980,486</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Issued capital Unaudited HK\$'000	Other reserves Unaudited HK\$'000	Retained profits Unaudited HK\$'000	Attributable to equity holders of the Company Unaudited HK\$'000	Minority interests Unaudited HK\$'000	Total equity Unaudited HK\$'000
	Notes						
At 1 January 2009		45,584	538,483	794,164	1,378,231	602,255	1,980,486
Acquisition of minority interest		–	–	–	–	(253)	(253)
Transfer to statutory reserve		–	639	(639)	–	–	–
Equity-settled share option arrangement		–	9,400	–	9,400	1,198	10,598
Dividend paid to minority shareholders of subsidiaries		–	–	–	–	(9,664)	(9,664)
2008 final dividend		–	–	(2,006)	(2,006)	–	(2,006)
Effect on distribution in specie	6	–	(290,577)	(1,046,554)	(1,337,131)	(556,976)	(1,894,107)
Total comprehensive income for the period		–	32,971	19,651	52,622	(8,181)	44,441
At 30 June 2009		<u>45,584</u>	<u>290,916</u>	<u>(235,384)</u>	<u>101,116</u>	<u>28,379</u>	<u>129,495</u>
At 1 January 2008		45,584	439,048	1,089,716	1,574,348	684,694	2,259,042
Equity-settled share option arrangement		–	17,716	–	17,716	1,738	19,454
Capital contribution from minority shareholders of subsidiary		–	(2,404)	–	(2,404)	2,486	82
Acquisition of subsidiaries		–	–	–	–	10,422	10,422
2007 final dividend		–	–	(25,528)	(25,528)	–	(25,528)
Dividend paid to minority shareholders of subsidiaries		–	–	–	–	(14,896)	(14,896)
Total comprehensive income for the period		–	59,004	166,661	225,665	56,891	282,556
At 30 June 2008		<u>45,584</u>	<u>513,364</u>	<u>1,230,849</u>	<u>1,789,797</u>	<u>741,335</u>	<u>2,531,132</u>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>HK\$'000</b>	<b>and restated</b>
		<b>HK\$'000</b>
Net cash outflow from operating activities	<b>(95,202)</b>	(109,944)
Net cash (outflow)/inflow from investing activities	<b>(117,474)</b>	37,669
Net cash inflow from financing activities	<b>95,143</b>	156,496
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	<b>(117,533)</b>	84,221
Cash and cash equivalents at beginning of period	<b>191,441</b>	264,581
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<b>73,908</b>	348,802
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ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<b>58,816</b>	367,430
Time deposits with original maturity of less than three months when acquired	<b>15,092</b>	21,492
Bank overdrafts	<b>–</b>	(40,120)
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	<b>73,908</b>	348,802
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# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

## 1. Basis of presentation

The unaudited consolidated financial statements for the six months ended 30 June 2009 have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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 2008 except that the Group has adopted certain newly issued Hong Kong Financial Reporting Standards, which are effective for the annual period beginning on 1 January 2009 as disclosed in the annual financial statements for the year ended 31 December 2008. The adoption of these new Hong Kong Financial Reporting Standards does not have significant impact on the Group's results of operations and financial position.

These interim financial statements should be read in conjunction with the 2008 annual report.

## 2. Revenue and segmental information

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered and gross rental income received and receivable from investment properties during the period.

An analysis of the Group's revenue and contribution to profit/(loss) from operations by principal activities and geographical location is as follows:

	Revenue		Contribution to profit/(loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008
	Unaudited	Unaudited and restated	Unaudited	Unaudited and restated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
<b>Continuing operations</b>				
Travel and related services	845,642	1,215,818	9,318	16,060
Information technology	41,639	37,439	(2,791)	(2,067)
Trading and manufacturing	33,133	33,219	(267)	260
Investment holding	—	—	(2,125)	20,946
	<b>920,414</b>	<b>1,286,476</b>	<b>4,135</b>	<b>35,199</b>
<b>Discontinued operations</b>				
Trading and manufacturing	598,008	660,701	2,706	(26,883)
Property investment and development	22,687	25,204	45,210	100,866
Securities and financial services	—	43,881	—	(88,418)
Agriculture and woods	1,789	1,447	(6,394)	(4,791)
Media and publications	10,989	18,395	(3,534)	185
Investment holding	—	—	(29,000)	169,498
	<b>633,473</b>	<b>749,628</b>	<b>8,988</b>	<b>150,457</b>
Total	<b>1,553,887</b>	<b>2,036,104</b>	<b>13,123</b>	<b>185,656</b>



	Revenue		Contribution to profit/(loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008
	Unaudited HK\$'000	Unaudited and restated HK\$'000	Unaudited HK\$'000	Unaudited and restated HK\$'000
By geographical location#:				
The People's Republic of China ("PRC", including Hong Kong and Macau)	1,008,610	1,441,755	16,032	209,035
United States of America	376,036	375,247	1,183	(5,311)
Europe	87,992	135,234	(3,221)	(12,123)
Japan	3,301	4,949	(201)	(491)
Others	77,948	78,919	(670)	(5,454)
	<u>1,553,887</u>	<u>2,036,104</u>	<u>13,123</u>	<u>185,656</u>

# Revenue by geographical location is determined on the basis of the location where merchandise is delivered and/or service is rendered.

### 3. Gain on disposal of assets and investments (net)

	Six months ended 30 June	
	2009	2008
	Unaudited HK\$'000	Unaudited and restated HK\$'000
Gain on disposal of interests in subsidiaries*	–	34,530
Gain on disposal of financial assets at fair value through profit or loss	–	874
Loss on disposal of plant and equipment	–	(32)
	<u>–</u>	<u>35,372</u>

\* In February 2008, the Group disposed of its entire interest in South China Media Limited and the related shareholders' loan to Broaden Base Investment Limited for the media operation. The Group recognised a gain of HK\$34.5 million on disposal.

### 4. Profit before tax

For the period ended 30 June 2009, profit before tax is arrived at after charging depreciation of approximately HK\$1,574,000 (six months ended 30 June 2008: HK\$1,372,000) in respect of the Group's properties, plants and equipments.

### 5. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

## 6. Profit for the period from Discontinued Operations and Special interim distribution

In June 2009, the Group distributed its interest in South China (China) Limited ("SCC"), representing approximately 72.88% of SCC's issued share capital, by way of distribution in specie. SCC is a company principally engaging in trading and manufacturing of toys, shoes, leather product, motors and capacitors, magazine publishing business, property investment and development and agriculture and woods with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 413).

The Group paid a special dividend distribution to the then shareholders in specie on the basis of 106 SCC shares and 21 SCC warrants for every 100 shares held by the shareholders on 19 June 2009. The aggregate fair value of SCC shares and SCC warrants distributed was amounted to HK\$1,552,809,000.

*After the completion of the above transaction, SCC was no longer a subsidiary of the Company since then. Accordingly, the Company ceased to consolidate SCC and its subsidiaries in the Company's consolidated financial statements from then on. The results of SCC for the period ended 19 June 2009 was thus classified as "Discontinued Operations".*

## 7. Interim Dividend

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

## 8. Earnings per share attributable to ordinary equity holders of the Company

The calculation of basic earnings per share is based on:

	Six months ended 30 June 2009	2008
	Unaudited HK\$'000	Unaudited and restated HK\$'000
<b>Earnings</b>		
Profit attributable to equity holders of the Company, used in the basic earnings per share calculation:		
From continuing operations	2,444	31,968
From discontinued operations	17,207	134,693
	<u>19,651</u>	<u>166,661</u>
<b>Shares</b>		
Number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	<u>1,823,401,376</u>	<u>1,823,401,376</u>

Diluted earnings per share is not presented for both periods as there was no diluting event during the periods.

## 9. Trade receivables

Included in trade and other receivables of the Group are trade receivables of HK\$117,290,000 (31 December 2008: HK\$295,079,000). The Group's trading terms with its customers are on credit with credit period ranging from period of one to three months (31 December 2008: one to three months), depends on a number of factors including trade practices, collection history and location of customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by the senior management and would be handled closely by the credit control department.

An aging analysis of trade receivables as at the balance sheet date based on invoice date is as follows:

	<b>As at 30 June 2009 Unaudited HK\$'000</b>	<b>As at 31 December 2008 Audited HK\$'000</b>
Within 90 days	107,212	263,901
91 to 180 days	9,601	21,505
181 to 365 days	477	4,395
Over 365 days	—	5,278
	<u>117,290</u>	<u>295,079</u>

#### 10. Trade payables

Included in trade and other payables of the Group are trade payables of HK\$102,468,000 (31 December 2008: HK\$362,374,000) and their aging analysis based on invoice date is as follows:

	<b>As at 30 June 2009 Unaudited HK\$'000</b>	<b>As at 31 December 2008 Audited HK\$'000</b>
Within 90 days	99,080	281,295
91 to 180 days	2,552	26,534
181 to 365 days	704	3,166
Over 365 days	132	51,379
	<u>102,468</u>	<u>362,374</u>

The trade payables are non-interest-bearing and normally settled on 15 to 210 days' terms (31 December 2008: 15 to 210 days).

#### 11. Financial assets at fair value through profit or loss and Available-for-sale financial assets

They are the remaining shares and warrants held by the Group in the former listed subsidiaries of South China Financial Holdings Limited and SCC after the distributions in specie of their shares to the Company's shareholders in December 2008 and June 2009 respectively.

#### 12. Other non-current assets

They include investment in lands in Panyu, Guangzhou (廣州番禺) and Tanggu, Tianjin (天津塘沽) in the PRC.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group recorded revenue of HK\$920.4 million and a profit of HK\$11.5 million for the six months ended 30 June 2009. The profits from continuing operations and discontinued operations were HK\$1.0 million and HK\$10.5 million respectively for the period.

In June 2009, the Group distributed its interest in South China (China) Limited ("SCC"), representing approximately 72.88% of SCC's issued share capital, by way of distribution in specie. SCC is a company principally engaging in trading and manufacturing of toys, shoes, leather product, motors and capacitors, magazine publishing business, property investment and development and agriculture and woods with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 413). During the period, the Group incorporated the results of SCC up to 19 June 2009, the completion date of the distribution, as profit from *Discontinued Operations*.

The principal businesses or continuing operations of the Group now include travel and related services, information technology and trading and manufacturing in the PRC.

#### Travel and Related Services

The significant decrease in corporate travelers, in particular from the financial sector, and the spread of H1N1 epidemics early this year hard hit the global travel industry. Fourseas Travel recorded a profit of HK\$9.3 million for the current period, a 42% decrease compared to the first half of 2008 and a 30% drop in revenue. Fortunately, business opportunities arose as most global corporations start seeking for travel agents that provides high quality services at reasonable prices. This enabled us to expand our event management and related travel services and also successfully enlarging our global corporate client base in both local and the China market during the period.

#### Information Technology

The IT segment reported an increase of 11% in revenue over the last corresponding period to HK\$41.6 million in the first half of 2009. Our IT operations are engaging in system integration, software development and supply chain system development and are mainly located in Chongqing, the PRC. The new subsidiary set up last year in the high technology industrial park in Chongqing providing software development services for overseas buyers started to generate revenue in this year. The IT operations in the Mainland recorded a loss of HK\$2.8 million for the period (2008: HK\$2.1 million).

#### Trading and Manufacturing

The remaining trading and manufacturing operation after the distribution of SCC is engaging in jewelry production of precious stones, jade, gold and silver located in Nanjing, the PRC. Our products are distributed and sold through counters in sizable departmental stores as well as our own flagship shop in the Nanjing city. The operation sustained revenue of HK\$33.1 million and a minor loss of HK\$0.3 million during the period, closely the same as compared to the same period last year.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2009 the Group had a current ratio of 1.34 and a gearing ratio of 0% (31 December 2008: 1.21 and 14.2% respectively). The gearing ratio as at 31 December 2008 was computed by comparing the Group's total long-term bank borrowings of HK\$281.8 million to total equity of HK\$1,980.5 million. As at 30 June 2009, there was no long-term bank borrowing for the Group. The Group's operations and investments continue to be financed by internal resources and bank borrowings.

### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

During the six months ended 30 June 2009, the Group had no significant exposure to fluctuations in exchange rates and any related hedges.

### CAPITAL STRUCTURE

The Company had no other debt securities or capital instruments as at 30 June 2009 and up to the date of this report.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES**

In June 2009, the Group distributed its interest in South China (China) Limited (“SCC”), representing approximately 72.88% of SCC’s issued share capital, by way of distribution in specie. SCC is a company principally engaging in trading and manufacturing of toys, shoes, leather product, motors and capacitors, magazine publishing business, property investment and development and agriculture and woods with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 413).

The Group paid a special dividend distribution to the then shareholders in specie on the basis of 106 SCC shares and 21 SCC warrants for every 100 share held by the shareholders on 19 June 2009.

## **PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS**

The Group had no material contingent liabilities and capital commitment as at 30 June 2009 after the distribution of SCC.

Before the distribution of SCC, the Group’s investment properties, properties under development and majority of property, plant and equipments and inventories pledged for banking facilities were attributable to SCC group. Such items were excluded from the Group’s pledge of assets as at 30 June 2009 after the distribution of SCC.

## **MANAGEMENT OF RISKS**

The main risks arising from the Group’s financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below:

### **a) Interest rate risk**

The Group’s exposure to the risk of changes in market interest rate relates primarily to the Group’s net debt obligations with a floating interest rate. The majority of the bank borrowings bear interest at interest rates with reference to the HIBOR whereas loans to customers bear interest rate with reference to the prime rate. As the prime rate in Hong Kong basically changes in line with the HIBOR, the Group’s exposure to the risk of changes in market interest rate is minimal.

### **b) Foreign currency risk**

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Renminbi and United States dollar. The directors consider that the exchange rates of the Hong Kong dollar against the Renminbi and United States dollar in the foreseeable future are expected to be relatively stable and the appreciation in Renminbi against Hong Kong dollars is expected to be mild. There is no significant exposure to fluctuations in foreign exchange rates and any related hedges.

### **c) Credit risk**

The Group trades only with recognised and creditworthy third parties. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group’s exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

### **d) Liquidity risk**

The Group’s objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and other interest-bearing loans. The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

**e) Equity price risk**

The Group is exposed to equity price risk for its investments in equity securities. The board of directors manages the exposure by closely monitoring the portfolio of equity investments. The Group's listed investments are listed on the Hong Kong stock exchange and are valued at quoted market prices at the balance sheet date.

**EMPLOYEES**

As at 30 June 2009, the total number of employees of the Group was approximately 609. A significant decrease in number of employees of the Group is recorded after the distribution of SCC as most of the employees are employed by the SCC group. Performance of the staff is normally reviewed on an annual basis with adjustment compatible to the market. Save for the above, there was no material change in the information as compared to the most recently published annual report.

**PROSPECTS**

Fourseas Travel will continue its business development in the China market. At present, we already have five branches in the major cities of the Mainland. We believe they shall start making profit contribution to the Group very soon. More efforts will be devoted to enhance our existing IT system including the fare searching, online booking and performance reporting systems. These upgrading system developments can enrich our sales network and further improve our market competitiveness. With the steady growth of our global client base equipping with the advance information tools, we are confident to gain the most benefits once the market rebounds.

The Group will place more focus on revamping the existing IT and trading and manufacturing operations for improving their revenue and profit contributions in the coming days.

In addition, the piece of land the Group invested in Tanggu of Tianjin China (天津塘沽) since the early nineties is of 500,000 square meter in area and located in the economic development zone of the Tianjin city (天津市經濟技術開發區). According to a valuation report prepared by an independent unrelated professional firm in September 2009, the land in its present bare stage is worth RMB3.75 billion. It is a joint-venture with a PRC third party, of which the Group held 51% interest. Previously, there were some disputes with the joint-venture partner over the land title. We have been trying to resolve the disputes and hope to start development of the land as soon as possible. The investment is now recorded at cost as other non-current assets.

We will continue to seek appropriate investments for the Group whenever opportunities arise.

**CHANGE IN BIOGRAPHICAL DETAILS OF DIRECTORS**

Mr. Cheng Hong Kei, an independent non-executive director of the Company, ceased to be an independent non-executive director of Sino Resources Group Limited with effect from 30 April 2009.

Save as disclosed above, as at 30 June 2009, none of the Directors of the Company has his/her biographical details which are different from those as set out in the Annual Report of the Company for the year ended 31 December 2008.

**INTERIM DIVIDEND**

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

# **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**

As at 30 June 2009, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

## **The Company**

### **(i) Long positions in shares**

Name of Director	Capacity and number of shares		Total number of ordinary shares	Approximate percentage of shareholding
	Beneficial owner	Interest of controlled corporations		
Ng Hung Sang ("Mr. Ng")	71,652,200	1,272,529,612 (Note a)	1,344,181,812	73.72%
Richard Howard Gorges ("Mr. Gorges")	–	487,949,760 (Note a)	487,949,760	26.76%
Cheung Choi Ngor ("Ms. Cheung")	–	487,949,760 (Note a)	487,949,760	26.76%

### **(ii) Long positions in underlying shares**

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Gorges	Beneficial owner	18,000,000 (Note b)	0.99%
Ms. Cheung	Beneficial owner	18,000,000 (Note b)	0.99%
Ng Yuk Fung, Peter	Beneficial owner	18,000,000 (Note b)	0.99%
Ng Yuk Mui, Jessica	Beneficial owner	18,000,000 (Note b)	0.99%

*Notes:*

- (a) The 1,272,529,612 shares of the Company held by Mr. Ng through controlled corporations include 371,864,000 shares held by Parkfield Holdings Limited ("Parkfield"), 396,050,252 shares held by Fung Shing Group Limited ("Fung Shing"), 16,665,600 shares held by Ronastar Investments Limited ("Ronastar"), 237,303,360 shares held by Bannock Investment Limited ("Bannock") and 250,646,400 shares held by Earntrade Investments Limited ("Earntrade"). Parkfield, Fung Shing and Ronastar are all wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Mr. Gorges and 20% by Ms. Cheung, all of whom are considered as parties to an agreement to which Section 317 of the SFO applies. As such, Mr. Ng, Mr. Gorges and Ms. Cheung were deemed to have an interest of totally 487,949,760 shares held by Bannock and Earntrade.
- (b) These share options were granted on 18 September 2007 at the exercise price of HK\$2.00 per share of the Company with exercise period as follows: (i) not more than 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of the tenth year from the date of grant; (ii) not more than 2/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the tenth year from the date of grant; and (iii) all of the share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the tenth year from the date of grant.

Save as disclosed above, none of the directors or chief executives of the Company as at 30 June 2009 had registered any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register which was required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

#### **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

As at 30 June 2009, the following persons, other than the Directors and chief executives of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

##### **Long position in shares**

<b>Name of Shareholders</b>	<b>Capacity</b>	<b>Number of ordinary shares</b>	<b>Approximate percentage of shareholding</b>
Earntrade	Beneficial owner and interest of a controlled corporation	487,949,760 (Note)	26.76%
Bannock	Beneficial owner	237,303,360 (Note)	13.01%
Parkfield	Beneficial owner	371,864,000	20.39%
Fung Shing	Beneficial owner	396,050,252	21.72%

*Note:* Bannock is a wholly-owned subsidiary of Earntrade. The 487,949,760 shares in the Company held by Earntrade include 237,303,360 shares held by Bannock directly.

Save as disclosed above, as at 30 June 2009, no person, other than the Directors or chief executives of the Company whose interests are set out in the section "Directors' and Chief Executives' interests and Short Position in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation", had registered any interests or short positions in the shares or underlying shares of the Company as recorded in the register which was required to be kept by the Company under Section 336 of the SFO.



## SHARE OPTION SCHEME

The Company's existing share option scheme was adopted on 31 May 2002. Particulars and movements of the outstanding share options granted under the share option scheme of the Company during the six months ended 30 June 2009 were as follows:

Name or category of participant	Date of grant of share options	Number of outstanding share options			Exercise period of share options	Exercise price per share HK\$
		As at 1 January 2009	Lapsed during the period	As at 30 June 2009		
<b>Directors</b>						
Ms. Cheung	18/09/2007	18,000,000	–	18,000,000	18/09/2008 – 17/09/2017	2.00
Mr. Gorges	18/09/2007	18,000,000	–	18,000,000	18/09/2008 – 17/09/2017	2.00
Ng Yuk Mui, Jessica	18/09/2007	18,000,000	–	18,000,000	18/09/2008 – 17/09/2017	2.00
Ng Yuk Fung, Peter	18/09/2007	18,000,000	–	18,000,000	18/09/2008 – 17/09/2017	2.00
Sub-total		72,000,000	–	72,000,000		
<b>Employees</b>						
In aggregate	18/09/2007	29,800,000	1,000,000	28,800,000	18/09/2008 – 17/09/2017	2.00
Sub-total		29,800,000	1,000,000	28,800,000		
Total		101,800,000	1,000,000	100,800,000		

All share options granted are subject to a vesting period and becoming exercisable in whole or in part in the following manner:

From the date of grant of share options	Exercisable percentage
Within 12 months	Nil
13th – 120th month	Not more than 33 <sup>1</sup> / <sub>3</sub> %
25th – 120th month	Not more than 66 <sup>2</sup> / <sub>3</sub> %
37th – 120th month	100%

The unexercised share options of each exercise period shall lapse at the end of the respective exercise period.

No share options have been granted, exercised or cancelled during the six months ended 30 June 2009. The Company recognized a share option expense of HK\$6,107,000 (2008: HK\$13,609,000) during the period ended 30 June 2009.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period ended 30 June 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2009.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct regarding directors' securities transactions. All directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the period.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The audit committee comprises three independent non-executive directors namely Mr. Cheng Hong Kei (Committee Chairman), Mr. David John Blackett and Mrs. Tse Wong Siu Yin, Elizabeth and one non-executive director namely Mr. David Michael Norman.

The Group's unaudited results for the six months ended 30 June 2009 have been reviewed by the audit committee.

By order of the Board  
**South China Holdings Limited**  
**Ng Hung Sang**  
*Chairman*

Hong Kong, 22 September 2009

*As at the date of this report, the Board comprises (1) Mr. Ng Hung Sang, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor and Mr. Ng Yuk Fung, Peter as executive directors; (2) Mr. David Michael Norman and Ms. Ng Yuk Mui, Jessica as non-executive directors; and (3) Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth and Mr. Cheng Hong Kei as independent non-executive directors.*