



SOUTH CHINA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 265)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

UNAUDITED CONSOLIDATED INTERIM RESULTS

The Board of Directors (the “Board”) of South China Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2006 together with comparative figures as follows:–

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2006	2005
		Unaudited	Unaudited
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	2	1,773,514	1,642,794
Cost of sales		(1,625,261)	(1,492,154)
Gross profit		148,253	150,640
Interest income		1,785	2,032
Other operating income		11,762	8,865
Selling and distribution costs		(43,955)	(44,073)
Administrative expenses		(202,831)	(192,860)
Excess over the cost of business combinations		228,206	–
Gain on disposal of investment properties		5,100	–
Gain on disposal of available-for-sale financial assets		1,618	20,938
Gain on dilution of subsidiary		3,633	–
Fair value losses on financial assets at fair value through profit or loss		(6,543)	(14,778)
Fair value gains on investment properties		–	106,280
Profit from operations	2 & 3	147,028	37,044
Finance costs		(13,048)	(6,719)
Share of results of associates		(2,769)	2,077
Write-back of provision for advances to associates		–	19,094
Profit before tax		131,211	51,496
Tax	4	(3,874)	(1,015)
Profit for the period		127,337	50,481
Attributable to:			
Equity holders of the Company		96,786	27,238
Minority interests		30,551	23,243
		127,337	50,481
Basic earnings per share	6	HK5.31 cent	HK1.49 cent

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2006 Unaudited HK\$'000	31 December 2005 Audited HK\$'000
	Notes		
Non-current assets			
Biological assets		62,000	62,000
Property, plant and equipment		362,625	324,830
Investment properties		504,546	497,483
Prepaid land lease payments		29,294	18,070
Construction in progress		114,311	97,162
Loans receivables		7,263	6,401
Interests in associates	7	321,555	376,576
Goodwill and intangible assets		21,058	8,708
Available-for-sale financial assets	8	85,202	41,328
Other non-current assets		46,635	45,740
Deferred tax assets		15,759	14,021
Total non-current assets		1,570,248	1,492,319
Current assets			
Inventories		445,726	352,370
Trade and other receivables	9	748,777	440,959
Loans receivables		157,804	152,404
Financial assets at fair value through profit or loss		72,732	59,925
Due from related companies		1,352	561
Tax recoverable		13,786	14,965
Pledged bank deposits		16,130	20,980
Cash held on behalf of clients		313,658	236,463
Bank balances and cash		282,984	256,575
Total current assets		2,052,949	1,535,202
Current liabilities			
Client deposits		302,474	225,467
Trade and other payables	10	875,698	759,580
Interest-bearing bank and other borrowings		627,479	280,636
Advances from minority shareholders of subsidiaries		11,537	11,537
Due to related companies		–	985
Taxation payable		28,716	28,682
Total current liabilities		1,845,904	1,306,887
Net current assets		207,045	228,315
Total assets less current liabilities		1,777,293	1,720,634
Non-current liabilities			
Interest-bearing bank and other borrowings		167,074	112,495
Advances from shareholders		24,016	26,913
Advances from minority shareholders of subsidiaries		24,808	24,951
Retirement benefit obligations		3,970	–
Deferred tax liabilities		16,772	15,782
Total non-current liabilities		236,640	180,141
Net assets		1,540,653	1,540,493
Capital and reserves			
Share capital and share premium		298,818	298,818
Reserves		773,584	673,611
Equity attributable to equity holders of the Company		1,072,402	972,429
Minority interests		468,251	568,064
Total equity		1,540,653	1,540,493

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

1. 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 on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and in compliance with the Hong Kong Accounting Standards No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These interim financial statements should be read, where relevant, in conjunction with the 2005 annual financial statements of the Group.

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 2005.

2. Turnover and segmental information

An analysis of the Group’s consolidated turnover and contribution to profit (loss) from operations by principal activity and geographical location for the six months ended 30 June 2006 and 2005 is as follows:

	Turnover		Contribution to profit (loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005
	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Trading and manufacturing	630,557	686,966	(37,974)	(29,182)
Property investment and development	6,648	6,879	8,373	110,563
Travel and related services	917,963	766,087	11,308	5,162
Securities and financial services	78,859	55,001	9,069	(14,853)
Media and publications	98,621	96,711	(47,607)	(34,044)
Information and technology	39,984	30,588	(4,398)	(3,750)
Agriculture	882	562	(2,374)	(4,355)
Investment holding	–	–	210,631	7,503
	<u>1,773,514</u>	<u>1,642,794</u>	<u>147,028</u>	<u>37,044</u>
By geographical location*:				
The People’s Republic of China (including Hong Kong)	1,220,386	1,037,358	190,953	78,255
United States of America	337,724	383,814	(17,279)	(17,416)
Europe	148,165	147,821	(17,799)	(16,410)
Japan	7,402	6,780	(2,408)	(805)
Others	59,837	67,021	(6,439)	(6,580)
	<u>1,773,514</u>	<u>1,642,794</u>	<u>147,028</u>	<u>37,044</u>

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

3. Profit from operations

Profit from operations for the period is arrived at after charging (crediting):

	Six months ended 30 June	
	2006	2005
	Unaudited HK\$'000	Unaudited HK\$'000
Depreciation	28,880	23,325
Bad and doubtful debts in relation to financial business	7,333	10,722
Interest expense for margin financing and money lending operations	8,021	2,689
Gains from securities, bullion and commodities trading, net	(5,716)	(3,912)
Interest income from margin financing and money lending operations	(24,476)	(16,124)

4. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 June 2005: 17.5%) 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.

5. Interim dividend

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

6. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately HK\$96,786,000 (six months ended 30 June 2005: HK\$27,238,000) and on 1,823,401,376 shares (six months ended 30 June 2005: 1,823,401,376 shares) in issue during the period.

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

7. Interests in associates

The amounts included advances to an associate indirectly held by the Company and details are as follows:

Name of associate	Proportion of issued capital held indirectly by the Company	Advances from the Group as at 30 June 2006 HK\$'000	Guarantee given by the Group HK\$'000
Firm Wise Investment Limited ("FWIL") (<i>note</i>)	30%	213,880	210,000

Note: The advances and guarantees given were used to finance a property development project in Hong Kong. The advances are unsecured, interest bearing at 0.5% per annum, repayable on demand and subordinated to the bank loans of the associate. The guarantees given is to be matured in November 2010 of which approximately HK\$207,450,000 were utilized as at 30 June 2006.

The following details have been extracted from the unaudited financial statements of the Group's significant associate, FWIL:—

	As at 30 June 2006 HK\$'000
Assets	1,562,863
Liabilities	<u>(1,485,258)</u>

8. Available-for-sale financial assets

Available-for-sale financial assets included listed equity securities in Hong Kong at market value of HK\$66,896,000 (31 December 2005: HK\$22,662,000).

9. Trade receivables

Trade receivables of approximately HK\$428,603,000 (31 December 2005: HK\$322,202,000) are stated net of impairment for trade receivables, substantially with an aging within 6 months.

Impairment is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

10. Trade payables

Trade payables of approximately HK\$681,029,000 (31 December 2005: HK\$536,082,000) are substantially with an aging within 6 months.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded turnover of HK\$1.8 billion and profit attributable to the equity holders of the Company of HK\$96.8 million for the six months ended 30 June 2006, representing increases of 8% in turnover and 3.6 times in profit as compared to the same period last year. During the period, the Group recognised excess over the cost of business combinations of HK\$228 million arising from privatisation of Wah Shing International Holdings Limited (“Wah Shing”) and increase in controlling stake in a joint venture in the PRC.

Trading and Manufacturing

The trading and manufacturing business continued to be affected by the factors facing manufacturers with production plants in the People’s Republic of China (the “PRC”), i.e. increase in the minimum wages of local workers due to the worker shortage in Southern China, surging raw material prices, and the appreciation of renminbi. Coupled with these factors, the normal seasonal factor of a slow first-half affected our toys manufacturing operations. Overseas clients also delayed their orders more than usual which further concentrated the busy season into a severely short shipping window in the second half of the year.

During the period, the Group successfully privatised Wah Shing, a principal subsidiary previously listed on the Singapore Exchange Securities Trading Limited; and acquired additional interest of 52.8% of Nority International Group Limited (“Nority”), a principal associate listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), which then became a subsidiary of the Group. We are now in the process of consolidating and restructuring our manufacturing operations to strengthen our expanded industrial capacity and profitability.

The segment recorded a loss of HK\$38.0 million for the first half of 2006, a 30% rise in operating loss as compared to the corresponding period last year, which was also accounted for by the consolidation of the loss attributable to Nority. Overall our manufacturing operations were under-performing, except the footwear manufacturing operation in Tianjin, the award winning best supplier honoured by Wal-Mart that continued to generate steady profit for the period.

Property Investment and Development

Our rental portfolio reported a profit of HK\$8.4 million. Most of the tenancies that expired during the period were renewed with higher rental yields. During the period, we disposed one of the investment properties and realised a gain on disposal of HK\$5.1 million.

During the period, the Group increased its controlling stake to 87% interest in a joint venture that owns a prime retail site in Yunan North Road, Gulou District, in the centre of Nanjing city, the PRC. We expect a higher rental revenue and profit contribution to the Group as a result of the acquisition.

Travel and Related Services

Buoyed by the improving economy and increasing consumer spending, Hong Kong's travel industry posted a solid 12% increase in air travel in the first half of year 2006. Hong Kong Four Seas Tours Limited ("Fourseas") successfully capitalised on the favourable environment by increasing turnover by 20% when compared to the same period last year. Despite the high growth, the market competition intensified which led to a decrease in gross profit margins. Nevertheless, Fourseas posted a net profit for the first six months of 2006 of HK\$11.3 million, a 1.2 times increase as compared with the corresponding period in year 2005.

Securities and Financial Services

Our securities and financial services segment turned around to a profit of HK\$9.1 million for the first half of 2006 as compared with a loss in the corresponding period. Commission income from securities and commodities broking benefited from increase in stock turnover. The income from margin financing activities also increased by 50% mainly due to a number of sizable initial public offers launched in the first half of the year.

Media and Publications

Overall it has been a slow beginning for advertising this year with no notable increase in advertising spending in any particular area within our magazine portfolio. Meanwhile, our results were severely affected by the prolonged investment period of several new titles as well as the rising overheads.

Information and Technology

The turnover increased 31% from HK\$30.6 million in the first half of 2005 to HK\$40.0 million in the first half of 2006 as a result of further growth in the systems integration business. The operating loss was roughly the same as the last year interim.

Agriculture

The agricultural business reported a loss of HK\$2.4 million over the period as compared with loss of HK\$4.4 million for first half of 2005. We benefited from some cost savings made in our Guangzhou Lychee farm operations, but due to our expanding winter dates project in Hebei, the business unit is still in its investment period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, the Group had a current ratio of 1.11 and a gearing ratio of 10.5% (31 December 2005: 1.17 and 6.7% respectively). The gearing ratio is computed on comparing the Group's total long-term bank borrowings of HK\$161.4 million to total equity of HK\$1,540.7 million. 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

As at 30 June 2006, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

CAPITAL STRUCTURE

The Group had no other debt securities or capital instruments as at 30 June 2006 and up to the date of this announcement.

MATERIAL ACQUISITIONS AND DISPOSALS

1. During the period, the Group further acquired 29.6% of Wah Shing for a total consideration of HK\$71,632,000.
2. During the period, the Group acquired 52.8% of Nority at a total consideration of HK\$67,310,000.
3. During the period, the Group acquired 87% of the Transferred Net Assets in 南京微分電機廠 at a consideration of RMB41,655,600, details of which were set out in circular of the Company dated 14 June 2006.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

There was no material change in the Group's pledges of assets, contingent liabilities and commitments as compared to the most recent published annual report.

MANAGEMENT OF RISKS

In the opinion of Directors, the market risk arising from the financial business is not considered as material.

EMPLOYEES

As at 30 June 2006, the total number of employees of the Group was approximately 32,700. Performance of the staff is normally reviewed on an annual basis with adjustment compatible to the market. There is no material change in the information as compared to the most recently published annual report.

PROSPECTS

Trading and Manufacturing

We are seeing stronger second half-year orders from clients for our trading and manufacturing operations. The performance of Wah Shing should improve accordingly and the shoe manufacturing in Tianjin is expected to have good results in the second half of the year as well.

In addition, we anticipate that the operating loss of the manufacturing of athletic and leisure shoes will be contained in the second half-year since our management has taken over control of Nority in May 2006. We are making our best efforts to minimise costs and soliciting more orders.

Property Investment and Development

The Group will benefit further from the rising local market demand for office space on renewal of leases of our commercial properties that are due to expire in the second half of the year.

The property development project of a prime retail shopping complex in Shenyang with a gross retail rental floor areas of approximately 130,000 square meters is underway and the pre-construction work is expected to commence later this year. The Group will continue to seek property projects in prime locations in the PRC with high development potential.

Travel and Related Services

Fourseas will continue to build upon the positive performance in the first half of the year. Various additional revenue sources are being tapped, including new products and new services. We intend to expand into the PRC market and preliminary discussions are in progress.

Securities and Financial Services

Our securities broking business still faces intense competition from banks offering related services. Riding on our long established reputation in the local broking business and our well-developed online trading platform, “Sctrade System”, we should be able to fortify our position among our competitors and continue to maintain steady growth. In fact, we are actively studying the feasibility of introducing more financial products onto our online trading platform. We expect that it would be able to further improve our services and use as an edge to attract more new clients.

The Group intends to channel more resources to redefine the market position of our securities brokerage business in the short run.

Media and Publications

After adjustments to our existing magazine portfolio and streamlining of costs across several magazine platforms, our media business unit will be a leaner operation going into the third and fourth quarter of the year. Management will continue to closely monitor the performance of individual magazines in Hong Kong, while more efforts will be placed in our PRC magazines which continue to gain ground in terms of advertising and circulation revenues.

Information and Technology

The information and technology operation will further expand in the provision of services and software development. It will not only provide steady and recurring revenue stream but also enhance the profit margin of the business unit. We are still investigating the possibility of a listing in London’s Alternative Investment Market and other similar exchange.

Agriculture

Recent rising prices in agricultural produce are generally a good sign for our business units. We are optimistic that the recent trend will benefit our freshwater produce which harvests in the fourth quarter, but remain cautious for our fruit products that harvest next year. Overall, we are still looking to expand acreage in Hebei as acquisition is still cheap, and may consider other Northern provinces in the PRC in the future.

We are exploring the possibility of deploying our agricultural lands for the other purposes in order to create more values and returns to our shareholders.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices of the Listing Rules during the six months ended 30 June 2006 with the exception that the Non-executive Directors are not appointed for a specific term, the Articles of Association of the Company does not provide that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years and that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the next following annual general meeting of the Company instead of the first general meeting of the Company after their appointment. In view of good corporate governance practices, all Non-executive Directors have agreed to comply with the Listing Rules and that their term of appointment will be limited accordingly. Furthermore, every director of the Company, including those appointed for a specific term, voluntarily retires from his office by rotation at least once every three years notwithstanding that he is not required to do so by the Articles of Association.

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

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group. The audit committee comprises four Non-executive Directors, out of which 3 of them are Independent Non-executive Directors, namely Mr. Cheng Hong Kei (Committee Chairman), Mr. David John Blackett, Ms. Wong Siu Yin, Elizabeth and Mr. David Michael Norman.

The audit committee has reviewed with the management the internal control procedures and financial reporting matters of the Group, including the review of unaudited condensed consolidated interim financial statements of the Group relating to the preparation of the interim report for the six months ended 30 June 2006.

On behalf of the Board
Ng Hung Sang
Chairman

Hong Kong, 19 September 2006

As at the date of this Announcement, 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 (3) Mr. David John Blackett, Ms. Wong Siu Yin, Elizabeth and Mr. Cheng Hong Kei as Independent Non-executive Directors.

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



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