SOUTH CHINA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 265)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

GROUP RESULTS

The Board of Directors (the "Board") of South China Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries and associates (collectively the "Group") for the year ended 31 December 2005 together with the comparative figures for the last financial year as follows:-

CONSOLIDATED INCOME STATEMENT

	Notes	**2005** **HK$'000**	2004 *HK$'000* *(Restated)*
REVENUE	4	4,305,120	3,785,632
Cost of sales		(3,806,504)	(3,326,867)
Gross profit		498,616	458,765
Interest income		3,074	2,571
Other operating income		21,039	22,639
Fair value gains on investment properties		144,948	77,528
Fair value gains/(losses) on biological assets		(5,588)	123
Excess over the cost of a business combination		15,071	15,665
Provision for bad and doubtful debts		(14,719)	(792)
Selling and distribution costs		(103,523)	(90,033)
Administrative expenses		(397,993)	(336,013)
Gain/(Loss) on disposal of available-for-sale financial assets/non-trading securities		28,827	(87)
Reversal of impairment of non-trading securities/(impairment) of available-for-sale financial assets		(553)	3,220
Fair value gains/(losses) on financial assets at fair value through profit or loss/trading securities		(16,046)	11,445
Interest expense for margin financing and money lending operations		(6,636)	(4,118)
Impairment of land pending development		—	(5,000)

	Notes	**2005**	2004
		HK$'000	*HK$'000*
			(Restated)
PROFIT FROM OPERATIONS	4 & 5	166,517	155,913
Finance costs		(20,622)	(10,408)
Share of profits and losses of associates		46,099	(10,056)
Write-back of provision for advances to associates		20,657	57,918
PROFIT BEFORE TAX		212,651	193,367
Tax	6	(31,796)	(7,432)
PROFIT FOR THE YEAR		180,855	185,935
Attributable to:			
Equity holders of the Company		96,574	124,201
Minority interests		84,281	61,734
		180,855	185,935
DIVIDEND	7	—	—
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	8	HK5.3 cents	HK6.8 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Biological assets		62,000	68,000
Property, plant and equipment		324,830	317,014
Investment properties		497,483	327,255
Prepaid land lease payments		18,070	15,201
Construction in progress		97,162	—
Land pending development		—	13,402
Loans receivable		6,401	5,228
Interests in associates		376,576	400,718
Goodwill		7,872	8,497
Intangible assets		836	836
Available-for-sale financial assets/non-trading securities		41,328	43,817
Other non-current assets		45,740	64,445
Deferred tax assets		14,021	2,792
Total non-current assets		1,492,319	1,267,205
CURRENT ASSETS			
Inventories		352,370	329,555
Properties held for sale		—	19,221
Trade and other receivables	9	440,959	379,503
Loans receivable		152,404	174,442
Financial assets at fair value through profit or loss/trading securities		59,925	68,775
Due from a related company		561	182
Tax recoverable		14,965	6,684
Pledged bank deposits		20,980	19,950
Cash held on behalf of clients		236,463	334,288
Cash and cash equivalents		256,575	173,381
Total current assets		1,535,202	1,505,981

At 31 December 2005

	Notes	**2005** **HK$'000**	2004 HK$'000 (Restated)
CURRENT LIABILITIES			
Client deposits		255,467	294,993
Trade and other payables	10	729,580	637,156
Interest-bearing bank and other borrowings		280,636	343,026
Advances from minority shareholders of subsidiaries		11,537	—
Due to related companies		985	1,396
Tax payable		28,682	8,210
Total current liabilities		1,306,887	1,284,781
NET CURRENT ASSETS		228,315	221,200
TOTAL ASSETS LESS CURRENT LIABILITIES		1,720,634	1,488,405
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		112,495	84,220
Advances from shareholders		26,913	9,018
Advances from minority shareholders of subsidiaries		24,951	25,403
Deferred tax liabilities		15,782	1,744
Total non-current liabilities		180,141	120,385
Net assets		1,540,493	1,368,020
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		45,584	45,584
Reserves		926,845	826,819
		972,429	872,403
Minority interests		568,064	495,617
Total equity		1,540,493	1,368,020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2005	2004
	HK$'000	*HK$'000*
At beginning of the year, as previously reported as equity	872,403	758,041
At beginning of the year, as previously separately reported as minority interests	495,617	478,751
At beginning of the year	1,368,020	1,236,792
Exchange realignment	4,856	87
Changes in fair value of available-for-sale financial assets/non-trading securities	(4,476)	(822)
Total income and expense recognised directly in equity	380	(735)
Transfer to income statement on disposal of available-for-sale financial assets	4,459	(143)
Profit for the year	180,855	185,935
Total income and expense for the year	185,694	185,057
Acquisition of subsidiaries	21,635	3,109
Acquisition of additional interest in a subsidiary	(27,643)	(37,796)
Repurchase of shares in a subsidiary from minority shareholders of a subsidiary	(10)	(405)
Issue of warrants	7,790	—
Dividends paid to minority shareholders of subsidiaries	(14,993)	(8,708)
Final dividend of 2003 paid	—	(10,029)
At end of year	1,540,493	1,368,020

Notes:

1. Principal accounting policies and basis of preparation

The accounting policies and basis of preparation adopted in these financial statements are consistent with those adopted in the Group's audited 2004 annual financial statements except for the adoption of the new HKFRSs ("HKFRS") (which also include Hong Kong Accounting Standards ("HKASs") and interpretations) as disclosed in note 2 below.

2. Impact of new and revised Hong Kong Financial Reporting Standards

The following new and revised HKFRSs affect the Group and are adopted for the first tine for the current's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes - Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 31, 33, 37 and HKFRS 2, 5 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 32 and HKAS 39 — Financial Instruments

Equity securities

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at their fair values on an individual basis with gains and losses recognised as movements in the investment revaluation reserve. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$43,817,000 are designated as available-for-sale financial assets under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$68,775,000 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities. Comparative amounts have been reclassified for presentation purpose.

The effects of the above are summarised in note 3. In accordance with the transitional provision of HKAS 39, comparative amounts have not been restated.

(b) HK(SIC)-Int 21 - Income Taxes - Recovery of Revalued Non-depreciable Assets

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that certain investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The effect of the above changes are summarised in note 3.

The changes in accounting policies has had no impact to the balance of equity at 1 January 2004 and 2005.

3. **Summary of the impact of changes in accounting policies**

(a) Effect on the consolidated balance sheet

At 1 January 2005 **Effect of new policies (Increase/(decrease))**	**Effect of adopting** HKASs 32 and 39* **Change in classification of equity investments** *HK$'000*
Assets	
Available-for-sale financial assets	63,036
Non-trading securities	(43,817)
Financial assets at fair value through profit or loss	68,775
Trading securities	(68,775)
Non-current assets	(19,219)
	—
Liabilities/ equity	
Investment revaluation reserve	15,826
Available-for-sale financial assets revaluation reserve	(15,826)
Adjustments/presentation taken effect retrospectively	—

* Adjustments taken effect prospectively from 1 January 2005

The changes in accounting policies have no impact to the balance of equity at 1 January 2004.

At 31 December 2005	Effect of adopting HKASs 32 and 39	HKAS 39	HKAS 39	HK(SIC)-Int 21	
Effect of new policies (Increase/(decrease))	**Change in classification of equity investments**	**Amortisation on loans receivable**	**Individual impairment/ collective impairment assessment on loans receivable**	**Deferred tax on revaluation of investment properties**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Available-for-sale financial assets	41,328	—	—	—	41,328
Non-trading securities	(22,662)	—	—	—	(22,662)
Loans receivable	—	(1,427)	2,553	—	1,126
Financial assets investments at fair value through profit or loss	59,925	—	—	—	59,925
Trading securities	(59,925)	—	—	—	(59,925)
Non-current assets	(18,666)	—	—	—	(18,666)
					1,126
Liabilities/equity					
Deferred tax liabilities	—	—	—	19,795	19,795
Investment revaluation reserve	(15,826)	—	—	—	(15,826)
Available-for-sale financial assets revaluation reserve	15,826	—	—	—	15,826
Minority interest	—	(390)	698	—	308
Retained profits	—	(1,037)	1,855	(19,795)	(18,977)
					1,126

(b) Effect on the balances of equity at 1 January 2005 and 2004.

	Effect of adopting HKAS 39
Effect of new policies (Increase/(decrease))	**Designation of available-for-sale financial assets**
	HK$'000
1 January 2005	
Investment revaluation reserve	(15,826)
Available-for-sale financial assets revaluation reserve	15,826
	—

The changes in accounting policies has had no impact to the balance of equity at 1 January 2004.

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policies	Effect of adopting HKAS 1 Share of post- tax profits and losses of associates	HKAS 39 Amortisation on loans and receivables	HKAS 39 Individual impairment/ collective impairment assessment on loans receivable	HK(SIC)-Int 21 Deferred tax on revaluation of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2005					
Decrease/(increase) in other operating expenses	—	(1,427)	2,553	—	1,126
Increase in share of profits and losses of associates	(28,060)	—	—	—	(28,060)
Decrease/(increase) in tax	28,060	—	—	(19,795)	8,265
Total increase/(decrease) in profit	—	(1,427)	2,553	(19,795)	(18,669)
Increase/(decrease) in basic earnings per share	—	(0.08) cents	0.14 cents	(1.08) cents	(1.02) cents
Increase/(decrease) in diluted earnings per share	N/A	N/A	N/A	N/A	N/A
Year ended 31 December 2004					
Increase in share of profits and losses of associates	(553)	—	—	—	(553)
Decrease/(increase) in tax	553	—	—	—	553
Total increase/(decrease) in profit	—	—	—	—	—
Increase/(decrease) in basic earnings per share	—	—	—	—	—
Increase/(decrease) in diluted earnings per share	N/A	N/A	N/A	N/A	N/A

4. **Turnover and segmental information**

An analysis of the Group's revenue and segment results by principal activity and geographical location for the two years ended 31 December 2005 and 2004 is as follows:

By principal activity

	Trading and manufacturing	Property development	Travel and related services	Securities and financial services	Media and publications	Information technology	Agriculture produce	Investment holding	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2005:									
Segment revenue:									
External sales	2,254,878	12,765	1,629,861	113,845	210,059	82,406	1,306	—	4,305,120
Segment results before unrealised/realised gain/(loss)	117,011	9,171	13,716	9,573	(49,079)	914	(4,882)	(36,203)	60,221
Depreciation and amortisation	(35,209)	(24)	(1,548)	(2,624)	(3,800)	(963)	(681)	(170)	(45,019)
Impairment of goodwill	—	—	—	—	—	—	—	(625)	(625)
Excess over the cost of a business combination	—	—	—	—	—	—	—	15,071	15,071
Gain on disposal of available-for-sale financial assets	—	—	—	—	—	—	—	28,827	28,827
Fair value losses on financial assets at fair value through profit and loss	—	—	—	(16,046)	—	—	—	—	(16,046)
Fair value gains on investment properties	—	144,948	—	—	—	—	—	—	144,948
Fair value losses on biological assets	—	—	—	—	—	—	(5,588)	—	(5,588)
Write-back of/(provision for) bad and doubtful debts	(319)	—	—	(14,285)	(1,497)	—	—	1,382	(14,719)
Impairment of available-for-sale financial assets	—	—	—	—	—	—	—	(553)	(553)
Segment results	81,483	154,095	12,168	(23,382)	(54,376)	(49)	(11,151)	7,729	166,517
Year ended 31 December 2004:									
Segment revenue:									
External sales	1,939,636	14,014	1,461,904	128,110	176,646	64,195	1,127	—	3,785,632
Segment results before unrealised/realised gain/(loss)	60,930	9,798	18,720	33,670	(10,235)	690	(3,989)	(5,690)	103,894
Depreciation and amortisation	(38,284)	(446)	(1,023)	(4,293)	(4,040)	(974)	(769)	(254)	(50,083)
Excess over the cost of a business combination	—	—	—	—	—	—	—	15,665	15,665
Loss on disposal of non-trading securities	—	—	—	—	—	—	—	(87)	(87)
Fair value gains on trading securities	—	—	—	11,445	—	—	—	—	11,445
Impairment of land pending development	—	(5,000)	—	—	—	—	—	—	(5,000)

	Trading and manufacturing	Property development	Travel and related services	Securities and financial services	Media and publications	Information technology	Agriculture produce	Investment holding	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fair value gains on investment properties	—	77,528	—	—	—	—	—	—	77,528
Fair value gains on biological assets	—	—	—	—	—	—	123	—	123
Write-back of/(provision for) bad and doubtful debts	8,019	—	—	(7,428)	(2,457)	—	—	1,074	(792)
Reversal of impairment of non-trading securities	—	—	—	—	—	—	—	3,220	3,220
Segment results	30,665	81,880	17,697	33,394	(16,732)	(284)	(4,635)	13,928	155,913

By geographical location*	Sales revenue by geographical market		Segment results by geographical market	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The People's Republic of China (the "PRC") and Hong Kong	2,210,943	2,009,088	91,871	125,621
United States of America	1,293,659	1,162,240	52,631	24,433
Europe	515,504	463,511	13,685	3,950
Japan	34,168	20,027	947	163
Others	250,846	130,766	7,383	1,746
	4,305,120	3,785,632	166,517	155,913

* Sales revenue and segment results by geographical location is determined on the basis of the location where merchandise or services are delivered.

5. **Depreciation**

Profit from operations for the year is arrived at after charging depreciation of approximately HK$45,019,000 (2004 (restated): HK$49,921,000) in respect of the Group's property, plant and equipment.

6. **Tax**

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. 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.

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Group — Hong Kong		
Current	4,767	5,575
Underprovision/(overprovision) in prior years	12,983	(1,604)
— Elsewhere		
Current	8,235	1,270
Underprovision in prior years	3,002	—
Deferred taxation	2,809	2,191
Total tax charge for the year	31,796	7,432

7. **Dividend**

	2005	2004
	HK$'000	*HK$'000*
Final dividend proposed — Nil (2004: Nil)	—	—

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

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the Company of approximately HK$96,574,000 (2004: HK$124,201,000) and 1,823,401,000 (2004: 1,823,401,000) ordinary share in issue during the year.

Diluted earnings per share for the two years ended 31 December 2004 and 2005 have not been disclosed as no diluting events existed during both years.

9. **Trade and other receivables**

The Group's trading terms with its customers are on credit with credit period ranging from period of 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 minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Included in trade and other receivables of the Group are trade receivables of HK$322,202,000 (2004: HK$286,655,000) and their aged analysis, based on invoice date, is as follows:

	2005	2004
	HK$'000	*HK$'000*
Within 90 days	303,164	266,289
91 to 180 days	17,599	14,023
181 to 365 days	1,439	6,343
	322,202	286,655

10. **Trade and other payables**

Included in trade and other payables of the Group are trade payables of HK$536,082,000 (2004: HK$471,445,000) and their aged analysis based on invoice date is as follows:

	2005	2004
	HK$'000	*HK$'000*
Within 90 days	453,139	349,207
91 to 180 days	50,929	93,539
181 to 365 days	17,684	15,892
Over 365 days	14,330	12,807
	536,082	471,445

The trade payables are non-interest-bearing and are normally settled on up to 210-day terms. The trade payables related to securities, bullion and commodities dealings are non-interest bearing and payable on the settlement dates of the relevant trades or upon demand of customers.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded turnover of HK$4.3 billion and profit attributable to the equity holders of the Company of HK$96.6 million for the year ended 31 December 2005, representing an increase of 14% in turnover and a decrease in profit of 22% as compared to 2004.

Trading and Manufacturing

The trading and manufacturing operations of the Group recorded a 16% increase in turnover to HK$2.3 billion and a segment profit of HK$81.5 million in 2005 which is a significant improvement over the 2004 results (HK$1.9 billion and HK$30.7 million respectively).

Our footwear manufacturing operation continued to achieve outstanding performance in 2005. It was again awarded "International Supplier of the Year 2005" by Wal-Mart, a major customer of the footwear manufacturing operation, in three consecutive years.

Property Investment and Development

Our property portfolio reported rental income of HK$12.8 million and a revaluation of HK$144.9 million for the year 2005 (HK$14.0 million and HK$77.5 million respectively for the year 2004). A slight decease in this segment result before accounting for depreciation and amortisation and fair value gains by HK$0.6 million was caused by the increase in areas occupied by the Group companies.

Travel and Related Services

Hong Kong Four Seas Tours Limited ("Four Seas"), our travel business division achieved a 11% increase in turnover to HK$1.6 billion and recorded an operating profit of HK$12.2 million for the year 2005. 2005 has been another year of expansion as our core ticketing services continue to increase market share in a competitive environment. Our travel business suffered cut throat competition in the second quarter of 2005 that caused a decrease in operating profit as compared to the previous year.

Securities and Financial Services

During the year 2005, performance of the Group's broking business dropped substantially, which was, attributed to the low market stock turnover during the first half of the year. The stock market remained difficult for local brokerage firms as the statutory regulations continued to favour banks and sizable international firms. The segment results from the securities and financial services turned from profit of HK$33.4 million in 2004 to a loss of HK$23.4 million. The turnaround to loss was mainly related to an unrealized holding loss of equity investments of HK$16.0 million and a provision for bad and doubtful debts of HK$14.3 million.

Media and Publications

Our media and publications achieved a 19% year-on-year increase in turnover to HK$210.1 million for the year 2005. The year has been a high investment period for the Group as we sought to maintain or enlarge market share by aggressively expanding our magazine portfolio. On top of launching two new weekly titles (namely "Friday" and "完全女人手冊") and one monthly title, we also launched four new titles in the PRC market.

Information and Technology

Our portfolio of information technology business units in the PRC recorded a 28% year-on-year increase in turnover to HK$82.4 million and a minor loss of approximately HK$49,000.

Agriculture

Our agricultural business continues to be in the investment period. Our acreage expansion program has been focused on Hebei province in 2005.

Share of profits and losses of associates

The share of profits and losses of associates included share of loss from Nority International Group Limited, and share of profits and appreciation in fair value of an investment property from associates in Hong Kong and in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group had a current ratio of 1.17 and a gearing ratio of 6.7% (31 December 2004: 1.17 and 5.5% respectively). The gearing ratio is computed on comparing the Group's total non-current bank borrowings of HK$103.1 million to the Group's equity of HK$1,540.5 million. The Group's operations and investments continue to be financed by internal resources and bank borrowings. The Directors believe that the Group has sufficient banking facilities and working capital for its operations.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2005, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

INVESTMENTS

For the year ended 31 December 2005, the Group reduced its available-for-sale equity investments and financial assets at fair value through profit or loss by HK$21.1 million and HK$8.9 million respectively, after accounting for the decreases in fair values of HK$2.7 million and HK$16.0 million for available-for-sale equity investments and financial assets at fair value through profit or loss respectively by the end of the year.

CAPITAL STRUCTURE

At the balance sheet date, SCB had 970,000,000 outstanding warrants ("SCB Warrants"). Except for 142,900,000 SCB Warrants had been exercised by the warrant holders in March 2006, all remaining SCB Warrants had been expired.

Save as disclosed above, the Group had no other debt securities or capital instruments as at 31 December 2005 and up to the date of this announcement.

POST BALANCE SHEET EVENT

(a) On 24 March 2006, Micon Limited ("Micon"), a subsidiary of SCI, acquired 9.31% equity interest of Nority International Group Limited ("Nority") from independent third parties at a consideration of HK$11.7 million. Pursuant to Rule 26.1 of the Codes on Takeovers and Mergers and Share Repurchases, Micon is required to make a mandatory unconditional cash offer for all the remaining issued share capital of Nority.

(b) At the Special General Meeting of Wah Shing International Holdings Limited ("Wah Shing") held on 20 February 2006, the resolution in relation to the proposed voluntary delisting of Wah Shing from the Official List of Singapore Exchange Securities Trading Limited pursuant to Rule 1306 of the SGX-ST Listing Manual was duly passed by its shareholders. Up to the date of this Announcement, SCI had further acquired approximately 26.4% of Wah Shing for total consideration of approximately HK$62.2 million. As at the date of this Announcement, the Group holds 257,283,175 shares in Wah Shing, representing 94.5% of the total issued share capital of Wah Shing.

(c) A wholly-owned subsidiary of SCB entered into an agreement to acquire 51% equity interest in a company with a controlling interest in exploration/mining rights in Gold, Copper and Tungsten mines for a consideration of HK$38,250,000 to be satisfied by way of allotment and issuance of additional 294 million SCB shares subject to certain precedent conditions.

(d) In March 2006, the SCB warrant holders exercised 142,900,000 SCB warrants at an exercise price of HK$0.1012, resulting in the issuance of additional 142,900,000 ordinary shares of HK$0.025 each of SCB with gross proceed of approximately HK$14,461,000. As a result, the Company's attributable equity interest in SCB is diluted from 74.7% to 72.5%.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2005, the Group acquired further approximately 5.8% equity interests of Wah Shing for successive considerations of HK$12.6 million in connection with the proposed privatisation of Wah Shing.

Save as disclosed above, there were no material acquisitions and disposals during the year.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES

As at 31 December 2005, a significant portion of the short-term borrowings was for normal trading purposes with the level of borrowings depending on the level of trading activities. Certain of the property, plant and equipment and a significant portion of investment properties of the Group secured the long term banking facilities.

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

PROSPECTS

Trading and Manufacturing

The privatization of the Singapore listed company, Wah Shing, a principal subsidiary of South China Industries Limited ("SCI"), was officially passed in the Special General Meeting held on 20 February 2006. Management foresees improvement to operating result, as the delisting will allow us to exercise greater management flexibility in utilizing and deploying the resources of the Group. We stand to gain from streamlining operations with the other industrial business units in our portfolio.

In March 2006, SCI has additionally acquired 9.31% equity interest in a listed associate, Nority. Following the acquisition, SCI holds approximately 51.83% controlling stake in Nority. In April 2006, SCI has made an unconditional cash offer to the shareholders of Nority for all the issued shares not already owned by SCI. Management expects to control Nority as a subsidiary and to incorporate this shoes manufacturing business unit to our existing industrial portfolio. The production capacity of our shoes manufacturing operation will increase substantially.

Management expects 2006 to be a busy year for consolidating and restructuring of our manufacturing operations due to the successful privatization of Wah Shing and the acquisition of the controlling stake in Nority. We remain optimistic that we should be able to produce solid results for the coming years with our immediate focus on fortifying our industrial platform for the future.

Property Investment and Development

In the longer term, the Group is looking forward to set the stage to ride on the rising property market in Hong Kong and the PRC. On top of foreseeing more significant property appreciation in the next two years on our existing property portfolio, the management is actively seeking properties at prime retail locations in the PRC.

We are currently engaging in the development of a prime retail shopping complex in Shenyang with a site area of approximately 17,000 square meters located in "Zhong Jie (中街)", the city's central business district. The project is expected to complete in 2007, which will give us gross retail rental floor areas of approximately 130,000 square meters.

By the second half of 2006, we are expecting to increase our stake in a joint venture which owns a prime retail site in the centre of Nanjing city. The site is larger than the Shenyang project and located in Yunan North Road (雲南北路), Gulou District, the city's main shopping district. We expect to put in greater efforts to tap its full development potential, and upgrade its current rental mix.

Furthermore, by virtue of strategically made industrial investments in the early nineties, the Group's numerous factories in the PRC currently occupy a number of sizeable pieces of land in the city centers of Nanjing and Tianjin. These properties are held under various joint venture companies in Nanjing and Tianjin, and we are in the process of increasing our controlling stake in these joint venture companies where possible.

Due to their prime location and our early involvement at relatively low cost, these parcels of land are all grossly undervalued with an extremely attractive redevelopment potential. In the coming five years, the Group intends to rapidly increase shareholders' value by focusing on maximizing the value of each location. The most noteworthy piece of land is located in Tianjin with an extensive site area of 500,000 square meters.

Travel and Related Services

Four Seas is seeking global joint venture partners to expand global corporate customers. Four Seas is looking for several acquisition opportunities and will acquire a PRC ticketing company in Guangzhou to expand its sales and distribution network in the Mainland. We intend to engage more chartered flight destinations for further development as the business has been generating fruitful results in the last two years. Amidst a competitive environment, we expect continuing growth of turnover and profit in the current year. We are exploring opportunities to list it on the Main Board of The Stock Exchange of Hong Kong Limited in the coming year.

Securities and Financial Services

Management believes the securities trading division will continue to operate under an adverse environment for local brokerage firms in the foreseeable future. As such, the Group will re-position itself to focus on investments in natural resources.

Precious Metals Mining

A wholly-owned subsidiary of South China Brokerage Company Limited is to become engaged in the mining industry through the acquisition of 51% equity interest in a PRC company with mining rights in Gold, Copper and Tungsten. The demand for natural resources is huge and we believe that the acquisition will provide a good opportunity to expand into this business. Upon completion, this new strategic acquisition will allow us to further enhance shareholders' value by participating in the mining industry in the PRC.

The Group takes the view that the precious metals mining industry in the PRC is a new activity that could rapidly become a very promising major cornerstone amongst our diverse businesses. We plan to grow this division by acquisition and the purchase of the equity interest in a PRC company with mining rights in Gold, Copper and Tungsten is the Group's very first step. Due to the recent active seeking of investment opportunities in this industry, the Group is currently presented with a number of joint venture partners or offers for further expansion. The offers cover widespread geographical mining zones in the Mainland, including Gansu, Guizhou, Guangxi, Yunan, Xinjiang, Tibet, Mongolia, Shanxi. We have already formed special task force for studying the potential projects. The management expects that there will be more significant commitments to mining in the near future.

Media and Publications

Overall, we expect our media platform as a whole to outperform last year in terms of circulation and advertising incomes as we are confident that the 2006 market environment will favour our diversified magazine portfolio. From the view of individual magazines, we are cautiously optimistic that every title can breakeven within this year. In the long term, management is confident that our early involvement in the PRC market will pay off and fuel the future growth of our media and publications division.

Information and Technology

We foresee that each individual business unit will continue to expand healthily in the near future. The primary direction of 2006 will be to achieve synergies across the information and technology business units, to tackle larger projects through sharing of extensive sales networks and technical expertise. We are investigating the possibility of a possible listing in London's AIM Exchange.

Agriculture

We continue to focus on cost savings for individual business units to refine our business models to a minimum cost structure. Acreage expansion will still be centered within Hebei province due to its relatively low acquisition cost.

EMPLOYEES

As at 31 December 2005, the total number of employees of the Group was approximately 20,600. Employees' cost (including directors' emoluments) amounted to approximately HK$556.0 million for the year.

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") through the adoption of relevant practices and procedure during the year ended 31 December 2005 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 of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors set out in Appendix 10 of the Listing Rules for Directors. In addition, the Board has established similar guidelines for relevant employees who are likely in possession of unpublished price sensitive information in relation to the Group or its securities.

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors throughout the year ended 31 December 2005.

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

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2005 (2004: Nil).

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at 28/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 30 May 2006 at 12:00 noon. Notice of the Annual General Meeting will be issued in due course.

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 financial reporting matters, including the audited annual results of the Group, relating to the preparation of the financial statements for the year ended 31 December 2005.

The audit committee was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

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.

On behalf of the Board
Ng Hung Sang
Chairman

Hong Kong, 19 April 2006

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

南 華 集 團 成 員
A Member of South China Group

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