# SOUTH CHINA HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 265)**

## 2005 INTERIM RESULTS ANNOUNCEMENT

### UNAUDITED INTERIM RESULTS

The board of directors (the "Board") of South China Holdings Limited (the "Company") announces that the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2005** | 2004 |
| | | **Unaudited** | Unaudited and Restated |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **Turnover** | 2 | **1,642,794** | 1,560,588 |
| Cost of sales | | **(1,492,154)** | (1,370,113) |
| Gross profit | | **150,640** | 190,475 |
| Other operating income (including interest income) | | **10,897** | 8,086 |
| Distribution costs | | **(44,073)** | (34,768) |
| Administrative expenses | | **(192,860)** | (166,658) |
| Gain on disposal of non-trading securities | | **–** | 235 |
| Gain on disposal of available-for-sale financial assets | | **20,938** | – |
| Unrealised holding loss of trading securities | | **–** | (7,456) |
| Unrealised holding loss of financial assets at fair value through profit or loss | | **(14,778)** | – |
| Impairment loss recognised on non-trading securities written back | | **–** | 25,325 |
| Gain from changes in fair value of investment properties | | **106,280** | 11,000 |
| Discount on acquisition of an additional interest in a subsidiary | | **–** | 15,665 |

| | | | |
|---|---|---|---|
| **Profit from operations** | *2&3* | **37,044** | 41,904 |
| Finance costs | | **(6,719)** | (4,484) |
| Share of results of associates | | **2,077** | (3,438) |
| Allowance for advances to an associate written back | | **19,094** | – |
| Profit before taxation | | **51,496** | 33,982 |
| Income tax expense | *4* | **(1,015)** | (898) |
| **Profit for the period** | | **50,481** | 33,084 |
| Attributable to: | | | |
| Equity holders of the Company | | **27,238** | 22,035 |
| Minority interests | | **23,243** | 11,049 |
| | | **50,481** | 33,084 |
| **Basic earnings per share** | *6* | **HK1.49 cent** | HK1.21 cent |

**CONDENSED CONSOLIDATED BALANCE SHEET**

| | *Notes* | **30 June 2005 Unaudited *HK$'000*** | 31 December 2004 Restated *HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Biological assets | | **68,000** | 68,000 |
| Property, plant and equipment | | **333,313** | 332,578 |
| Investment properties | *7* | **461,273** | 327,255 |
| Land pending development | | **–** | 36,362 |
| Interests in associates | *8* | **422,627** | 400,718 |
| Loans and advances receivables | | **7,359** | 5,228 |
| Available-for-sale financial assets | | **59,942** | – |
| Non-trading securities | | **–** | 43,817 |
| Goodwill | | **8,497** | 8,497 |
| Other non-current assets | | **49,641** | 45,113 |
| | | **1,410,652** | 1,267,568 |

| | | | |
|---|---|---|---|
| **Current assets** | | | |
| Inventories | | **451,498** | 329,555 |
| Properties held for sale | | **19,221** | 19,221 |
| Financial assets at fair value through profit or loss | | **79,359** | – |
| Trading securities | | **–** | 68,775 |
| Trade and other receivables | *9* | **547,825** | 379,140 |
| Loans and advances receivables | | **146,521** | 174,442 |
| Tax recoverable | | **8,693** | 6,684 |
| Amount due from a related company | | **127** | 182 |
| Bank balances and cash | *10* | **517,638** | 527,619 |
| | | **1,770,882** | 1,505,618 |
| **Total assets** | | **3,181,534** | 2,773,186 |
| **Capital and reserves** | | | |
| Share capital and share premium | | **298,818** | 298,818 |
| Other reserves | | **189,825** | 166,673 |
| Retained earnings | | **433,847** | 406,912 |
| Equity attributable to equity holders of the Company | | **922,490** | 872,403 |
| Minority interests | | **526,452** | 495,617 |
| **Total equity** | | **1,448,942** | 1,368,020 |
| **Non-current liabilities** | | | |
| Bank borrowings – due after one year | | **140,561** | 75,155 |
| Obligations under finance leases | | **7,787** | 9,065 |
| Advances from shareholders | | **26,921** | 9,018 |
| Advances from minority shareholders of subsidiaries | | **25,403** | 25,403 |
| Deferred tax liabilities | | **1,744** | 1,744 |
| | | **202,416** | 120,385 |
| **Current liabilities** | | | |
| Client deposits | | **197,001** | 294,993 |
| Trade and other payables | *11* | **816,074** | 637,156 |
| Bank borrowings – due within one year | | **494,913** | 332,400 |
| Obligations under finance leases | | **12,082** | 10,626 |
| Amount due to related companies | | **1,008** | 1,396 |
| Taxation payable | | **9,098** | 8,210 |
| | | **1,530,176** | 1,284,781 |
| **Total liabilities** | | **1,732,592** | 1,405,166 |
| **Total equity and liabilities** | | **3,181,534** | 2,773,186 |

**1. Principal accounting policies**

The unaudited condensed interim financial statements ("interim financial statements") have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and in compliance with the Hong Kong Accounting Standards ("HKAS") 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 2004 annual financial statements of the Group.

Save as disclosed below, 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 2004.

In 2005, the Group has adopted all new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and HKAS (herein collectively referred to as "new HKFRSs") which are effective for periods beginning or after 1 January 2005. The comparative figures in respect of 2004 have been amended as required and where necessary, in accordance with the relevant requirements.

| | |
|---|---|
| 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 16 | Property, Plant and Equipment |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings Per Share |
| HKAS 34 | Interim Financial Reporting |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |

The comparative figures had been amended in accordance with HKFRS 3 (which the Group had early adopted as disclosed in the 2004 audited financial statements). The change had resulted in an increase in profit of HK$14,224,000 for the six months ended 30 June 2004.

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Hong Kong Statement of Standard Accounting Practice 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. From 1 January 2005 onwards, the Group classifies and measures its investment in equity securities in accordance with HKAS 39. Under HKAS 39, the Group's financial assets are classified as "financial assets at fair value through profit or loss" or "available-for-sale financial assets". They are carried at fair value, with changes in fair values recognised in income statement and equity respectively. These changes have had no material effect on the previous carrying amount of assets and liabilities at 1 January 2005.

The adoption of other new HKFRSs does not result in substantial changes to the Group's accounting policies except certain presentation and disclosure of the accounts would be affected.

## 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 2005 and 2004 is as follows:

| | Turnover | | Contribution to profit (loss) from operations | |
|---|---|---|---|---|
| | Six months ended 30 June | | Six months ended 30 June | |
| | **2005** | 2004 | **2005** | 2004 |
| | **Unaudited** | Unaudited | **Unaudited** | Unaudited and Restated |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| By principal activity: | | | | |
| Trading and manufacturing | **686,966** | 672,007 | **(29,182)** | (5,591) |
| Property investment and development | **6,879** | 6,680 | **110,563** | 16,855 |
| Media and publications | **96,711** | 79,388 | **(34,044)** | (8,973) |
| Securities and financial services | **55,001** | 66,684 | **(14,853)** | 8,085 |
| Travel and related services | **766,087** | 718,305 | **5,162** | 8,708 |
| Information and technology | **30,588** | 16,862 | **(3,750)** | (3,275) |
| Agriculture | **562** | 652 | **(4,355)** | (3,648) |
| Investment holding | **–** | 10 | **7,503** | 29,743 |
| | **1,642,794** | 1,560,588 | **37,044** | 41,904 |
| By geographical location*: | | | | |
| The People's Republic of China including Hong Kong | **1,037,358** | 946,952 | **78,255** | 60,780 |
| United States of America | **383,814** | 397,292 | **(17,416)** | (12,777) |
| Europe | **147,821** | 168,109 | **(16,410)** | (5,042) |
| Japan | **6,780** | 2,382 | **(805)** | (95) |
| Others | **67,021** | 45,853 | **(6,580)** | (962) |
| | **1,642,794** | 1,560,588 | **37,044** | 41,904 |

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

## 3. Depreciation

Profit from operations for the period is arrived at after charging depreciation of approximately HK$23,325,000 (six months ended 30 June 2004: HK$26,077,000) in respect of the Group's property, plant and equipment.

## 4. Income tax expense

Hong Kong profits tax was provided at the rate of 17.5% (six months ended 30 June 2004: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated on the estimated assessable profits at rates of taxation prevailing in the countries in which the Group operates.

Share of tax attributable to associates amounting to approximately HK$32,000 (six months ended 30 June 2004: tax credit of HK$393,000) is included in "Share of results of associates" on the face of the condensed consolidated income statement.

**5. Interim dividend**

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2005 (six months ended 30 June 2004: 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$27,238,000 (six months ended 30 June 2004: HK$22,035,000) and on 1,823,401,376 shares (six months ended 30 June 2004: 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. Investment properties**

Investment properties of the Group were valued at their open market value at 30 June 2005 by BMI Appraisals Limited, an independent firm of qualified valuers.

**8. Interests in associates**

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

| Name of affiliated company | Proportion of issued capital held indirectly by the Company | Advances from the Group as at 30 June 2005 | Guarantees given by the Group |
|---|---|---|---|
| | | *HK$'000* | *HK$'000* |
| Firm Wise Investment Limited ("FWIL") *(note)* | 30% | 293,641 | 174,000 |

*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 affiliated company. The guarantees given is to be matured in August 2008 of which approximately HK$133,022,000 were utilized as at 30 June 2005.

The following details have been extracted from the unaudited financial statements of the Group's significant associate, FWIL, adjusted for the fair value of the investment property as at 30 June 2005 based on the valuation performed by an independent professional qualified valuer:–

| | As at 30 June 2005 |
|---|---|
| | *HK$'000* |
| Non-current assets | 1,500,079 |
| Current assets | 19,462 |
| Current liabilities | (86,780) |
| Non-current liabilities | (415,611) |
| | 1,017,150 |
| Attributable interest held by the Group | 305,145 |

**9. Trade receivables**

Trade receivables of approximately HK$409,240,000 (31 December 2004: HK$286,655,000) are stated net of impairment for trade receivables, substantially with an aging within 6 months.

An impairment is recognised 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. Bank balances and cash**

Approximately HK$20,280,000 (31 December 2004: HK$19,950,000) of bank deposits were pledged for the banking facilities granted to the Group.

The bank balances included an amount of approximately HK$216,391,000 (31 December 2004: HK$334,288,000) held on behalf of clients of securities and commodities broking business.

**11. Trade payables**

Trade payables of approximately HK$525,433,000 (31 December 2004: HK$471,445,000) are substantially with an aging within 6 months.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group recorded turnover of HK$1.6 billion and profit attributable to the equity holders of the Company of HK$27.2 million for the six months ended 30 June 2005, representing increases of 5% in turnover and 24% in profit as compared to the same period last year.

### Trading and Manufacturing

The trading and manufacturing business recorded a loss of HK$29.2 million over the period as compared with a loss of HK$5.6 million over the same period last year. This disappointing result was largely attributable to the underperformance of our manufacturing of toys division. Competitive pricing combined with rising material prices and labour costs adversely affected our margins. Our focus remains on reviewing internal weaknesses and strengthening management accountability.

On the other hand, the footwear manufacturing operation in Tianjin achieved a 63% growth in turnover and 3.5 times growth in net profit to HK$9.7 million for the period.

### Property Investment and Development

The Group has considerable property assets both in Hong Kong and in China. In view of rising property prices and increasing rents, the Group decided to make no sales of properties in the period. However it is actively seeking to exploit the potential of some of its properties, particularly those in China. We believe our strategy of holding our property assets has proved highly successful.

**Media and Publications**

The media business reported a loss of HK$34.0 million over the period as compared with HK$9.0 million loss for the first half of 2004. This was largely due to investments involved in the aggressive launch of two new weeklies, "8 Weekly" and "Friday" and a new monthly magazine, which have been well-received in the market in terms of circulation, brand recognition and advertising. Despite a demanding market environment, and increased paper costs, the media business saw much progress in market penetration and market share in each of its categories of magazines.

**Securities and Financial Services**

Our securities broking business has been facing fierce competition in the retail market from the banking industry. This together with the subdued market sentiment caused by China's austerity measures resulted in a fall in turnover, which adversely affected profits. In addition some losses were recorded in the margin financing and personal loans business.

**Travel and Related Services**

Hong Kong Four Seas Tours Limited ("Four Seas"), the travel business division recorded a turnover of HK$766.1 million representing a 7% growth from the corresponding period last year. Competitive conditions in the airline industry caused airlines to squeeze travel agents margins. As a result, profits for the division fell. However, we continued to try to expand our market share.

**Information and Technology**

The increase in turnover from HK$16.9 million in the corresponding period in 2004 to HK$30.6 million in the period primarily reflected the business growth and the full period effect of the acquisition of the remaining 51% equity interest in an associate in March 2004.

**Agricultural Business**

The agricultural business reported a loss of HK$4.4 million over the period as compared with a HK$3.6 million loss for the first half of 2004.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2005, the Group had a current ratio of 1.16 and a gearing ratio of 9.7% (31 December 2004: 1.17 and 5.5% respectively). The gearing ratio is computed on comparing the Group's total long-term bank borrowings of HK$140.6 million to total equity of HK$1,448.9 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 2005, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

## CAPITAL STRUCTURE

On 22 February 2005, South China Brokerage Company Limited ("SCB"), a subsidiary of the Company, placed 970,000,000 warrants of HK$0.026 each (the "Warrants") to independent investors. The Warrants entitle the holders to subscribe in cash for ordinary shares of HK$0.025 each in SCB at a subscription price of HK$0.1012 per share (subject to adjustment) and are exercisable on or before 2 March 2006. The net proceeds under the warrant placing of approximately HK$25 million will be used as working capital of the Group.

Save as disclosed above, the Group had no other debt securities or capital instruments as at 30 June 2005 and up to the date of this announcement.

## MATERIAL ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2005, the Group has no material acquisitions and disposals.

## 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.

## POST BALANCE SHEET EVENT

On 25 July 2005, a subsidiary of Wah Shing International Holdings Limited ("Wah Shing") entered into a conditional sale and purchase agreement to acquire a 75% equity interest in Liaoning Dafa Real Estate Company Limited at a consideration of RMB67.5 million.

## PROSPECTS

### Trading and Manufacturing

The Group is now much better positioned to benefit from the traditionally stronger second half as a result of management measures taken to improve performance in the first half.

The performance of Wah Shing should improve accordingly and the shoe manufacturing business is expected to be strong.

The Group is taking steps to increase its production capacity across the board, particularly in the fast-growing shoe manufacturing operation.

### Property Investment and Development

Although interest rates have increased, conditions in the property market remain buoyant. We expect to dispose of some of our Hong Kong portfolio during the second half and we are optimistic about successfully developing our property potential in China.

### Media and Publications

We look forward to a strong second half, riding on the foundations set by the first half. Our focus on the remainder of 2005 will turn the business to profitability and to shorten the maturity period for our newly launched titles.

### Securities and Financial Services

Facing increase in competition and rise of funding costs, we will persist to diversify our income mix through different financial products, while we will endeavour to maintain a lean and effective cost structure.

Business conditions should remain favourable with large fund raisings from PRC companies and a continuing inflow of foreign investment.

### Travel and Related Services

Four Seas is always looking for opportunities to sell a wider range of travel related products and believes that its extensive distribution network is a clear attraction to many clients. We expect a better second half with the easing of competition in the wholesale air ticketing industry and the development of more profitable new products.

### Information and Technology

The information and technology operation continues to strive for sales growth. The growing economy in the Mainland and the improving local economy will provide scope for the operation's development.

### Agricultural Business

We will continue the enforcement of our cost control measures in the second half. We expect to have a healthy contribution from our Nanjing fish rearing operation and Hebei winter-dates plantation in the second half of 2005.

## EMPLOYEES

As at 30 June 2005, the total number of employees of the Group was approximately 29,000. 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.

## INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2005 (six months ended 30 June 2004: Nil).

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the period ended 30 June 2005.

## CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules, except for the following deviations from code provisions A.4.1 and A.4.2 of the Code.

1. Non-executive directors of the Company were not appointed for a specific term as required by the Code. However, they are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association.

2. In accordance with the Company's Articles of Association, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire from office by rotation at each annual general meeting of the Company, but the directors were not required to retire by rotation at least once every three years. In addition, according to the Company's Articles of Association, any directors appointed to fill a casual vacancy shall hold office only until the next following annual general meeting and shall then be eligible for re-election at that meeting.

To comply with the code provisions of the Code, relevant provisions of the Company's Articles of Association will be reviewed and amendment will be proposed in order that every director shall be subject to retirement by rotation at least once every three years and all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

## AUDIT COMMITTEE

The Company has established an audit committee in accordance with Rule 3.21 of the Listing Rules and with written terms of reference in compliance with the code provisions of the Code. 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 members namely Mr David Michael Norman who is an non-executive director of the Company, Mr David John Blackett, Mrs Tse Wong Siu Yin Elizabeth and Mr Cheng Hong Kei who are independent non-executive directors of the Company.

The audit committee has reviewed with the management the financial reporting matters, including the unaudited condensed financial statements, related to the preparation of the interim report for the six months ended 30 June 2005.

On behalf of the Board
**Ng Hung Sang Robert**
*Chairman*

Hong Kong, 27 September 2005

*As at the date of this announcement, the Board of the Company comprises (1) Mr Ng Hung Sang Robert, Mr Richard Howard Gorges, Ms Cheung Choi Ngor Christina and Mr Ng Yuk Fung Peter as executive directors; (2) Ms Ng Jessica Yuk Mui and Mr David Michael Norman 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.*

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