



SOUTH CHINA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 265)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2008

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 2008 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Six months ended 30 June	
		2008	2007
		Unaudited HK\$'000	Unaudited and restated HK\$'000
Turnover	3	2,036,978	2,211,348
Cost of sales		(1,860,118)	(1,923,668)
Gross profit		176,860	287,680
Other operating income		24,186	10,571
Selling and distribution costs		(23,363)	(44,275)
Administrative expenses		(247,406)	(251,514)
(Impairment)/reversal of impairment of trade and loans receivable		(5,235)	1,385
Fair value (loss)/gain on financial assets at fair value through profit or loss		(79,125)	13,629
Fair value gains on investment properties		93,640	20,000
Gain on disposal of available-for-sale financial assets		-	82,326
Excess over the cost of business combinations	12	215,103	3,779
Gain on disposal of subsidiaries	12	30,996	55,292
Profit from operations	3&4	185,656	178,873
Finance costs		(12,721)	(19,148)
Share of profits and losses of associates		55,544	171,435
Profit before tax		228,479	331,160
Tax	5	(27,650)	(8,510)
Profit for the period		200,829	322,650
Attributable to:			
Equity holders of the Company		166,661	241,932
Minority interests		34,168	80,718
		200,829	322,650
Earnings per share attributable to equity holders of the Company			
Basic	7	HK 9.14 cents	HK 13.27 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2008 Unaudited HK\$'000	31 December 2007 Audited HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		363,430	356,628
Investment properties		1,808,876	1,229,827
Prepaid land lease payments		58,754	20,027
Construction in progress	8	26,926	263,444
Interests in associates	9	369,907	304,227
Biological assets		71,000	71,000
Available-for-sale financial assets		41,766	38,990
Loans receivable		5,441	6,913
Other non-current assets		53,967	47,900
Goodwill		9,911	9,882
Intangible assets		836	836
Deferred tax assets		15	3,255
		2,810,829	2,352,929
Total non-current assets			
Current assets			
Inventories		441,070	290,853
Property under development	8	345,874	–
Trade and other receivables	10	744,249	578,052
Loans receivable		165,001	229,711
Financial assets at fair value through profit or loss		153,308	241,036
Due from related companies		409	5,158
Due from associates	9	4,199	234,045
Advance to minority shareholders of subsidiaries		14,001	14,105
Tax recoverable		9,362	8,972
Pledged bank deposits		21,492	18,730
Cash held on behalf of clients		322,110	538,546
Cash and cash equivalents		367,430	281,881
		2,588,505	2,441,089
Total current assets			
Current liabilities			
Client deposits		317,918	518,718
Trade and other payables	11	970,929	793,015
Interest-bearing bank and other borrowings		694,555	590,971
Advances from minority shareholders of subsidiaries		40,746	2,128
Due to related companies		110	13,207
Tax payable		36,460	24,642
		2,060,718	1,942,681
Total current liabilities			
Net current assets		527,787	498,408
Total assets less current liabilities		3,338,616	2,851,337

	30 June 2008 Unaudited HK\$'000	31 December 2007 Audited HK\$'000
Total assets less current liabilities	<u>3,338,616</u>	<u>2,851,337</u>
Non-current liabilities		
Interest-bearing bank and other borrowings	306,961	235,445
Advances from shareholders	15,156	14,529
Advances from minority shareholders of subsidiaries	54,051	54,842
Provision for severance payment	86,230	41,259
Promissory notes	95,959	95,959
Deferred tax liabilities	<u>249,127</u>	<u>150,261</u>
Total non-current liabilities	<u>807,484</u>	<u>592,295</u>
Net assets	<u><u>2,531,132</u></u>	<u><u>2,259,042</u></u>
Equity		
Issued capital	45,584	45,584
Reserves	1,744,213	1,503,236
Proposed final dividend	<u>–</u>	<u>25,528</u>
Equity attributable to equity holders of the Company	1,789,797	1,574,348
Minority interests	<u>741,335</u>	<u>684,694</u>
Total equity	<u><u>2,531,132</u></u>	<u><u>2,259,042</u></u>

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 interest Unaudited HK\$'000	Total equity Unaudited HK\$'000
At 1 January 2008	45,584	439,048	1,089,716	1,574,348	684,694	2,259,042
Profit for the period	–	–	166,661	166,661	34,168	200,829
Surplus on revaluation of land and building	–	12,021	–	12,021	–	12,021
Change in fair value of available-for-sale financial assets	–	1,593	–	1,593	539	2,132
Exchange realignment	–	45,390	–	45,390	22,184	67,574
Total recognised income and expense for the period	–	59,004	166,661	225,665	56,891	282,556
Equity-settled share option arrangement	–	17,716	–	17,716	1,738	19,454
Capital contribution from minority shareholders of subsidiaries	–	(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)
At 30 June 2008	45,584	513,364	1,230,849	1,789,797	741,335	2,531,132
At 1 January 2007	45,584	437,431	710,879	1,193,894	541,470	1,735,364
Profit for the period (restated)	–	–	241,932	241,932	80,718	322,650
Surplus on revaluation of land and building	–	3,926	–	3,926	1,324	5,250
Disposal of available-for-sale financial assets	–	(2,925)	–	(2,925)	(965)	(3,890)
Exchange realignment (restated)	–	7,314	–	7,314	4,229	11,543
Total recognised income and expense for the period	–	8,315	241,932	250,247	85,306	335,553
Acquisition of additional interest from minority shareholders	–	–	–	–	(1,097)	(1,097)
Adjustment due to adoption of merger accounting (restated)	–	3,060	(10,932)	(7,872)	(2,332)	(10,204)
Acquisition of subsidiaries (restated)	–	(63,458)	–	(63,458)	(19,548)	(83,006)
Disposal of subsidiaries (restated)	–	–	–	–	(2,922)	(2,922)
Equity-settled share option arrangement (restated)	–	4,464	–	4,464	1,730	6,194
Transfer to statutory reserves	–	230	(230)	–	–	–
Dividend paid to minority shareholders of subsidiaries	–	–	–	–	(17,047)	(17,047)
At 30 June 2007 (restated)	45,584	390,042	941,649	1,377,275	585,560	1,962,835

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	and restated
		HK\$'000
Net cash outflow from operating activities	(109,944)	(287,692)
Net cash inflow from investing activities	37,669	105,871
Net cash inflow from financing activities	156,496	214,025
	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	84,221	32,204
Cash and cash equivalents at beginning of period	264,581	287,153
	<u> </u>	<u> </u>
Cash and cash equivalents at end of period	<u>348,802</u>	<u>319,357</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	367,430	395,410
Time deposits with original maturity of less than three months when acquired	21,492	18,330
Bank overdrafts	(40,120)	(94,383)
	<u> </u>	<u> </u>
	<u>348,802</u>	<u>319,357</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

1. Basis of presentation

The unaudited consolidated income statement for the six months ended 30 June 2008 has not been audited by the Company's auditors but has been reviewed by the Company's audit committee.

These interim financial statements should be read in conjunction with the 2007 annual report.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 2007.

2. Restatement of comparative figure

As detailed in the 2007 Annual Report, the Group acquired 67.69% equity interest in South China Land Limited 南華置地有限公司 ("SCL") from a substantial shareholder and a director of the Company. Such acquisition of businesses under common control was accounted for using merger accounting in accordance with Accounting Guideline 5 issued by HKICPA. Accordingly, financial statement items of the combining entities or businesses to which common control combination occurs are included in the consolidated financial statements as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. As such, the comparative figures are restated to include SCL in the consolidated financial statements and the gain on disposal of the interest in certain subsidiaries to SCL previously reported is eliminated. This results in a decrease in profit of HK\$300,633,000 of which HK\$300,323,000 is attributable to the elimination of the gain on disposal the said interest in subsidiaries to SCL.

3. 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 2008 and 2007 is as follows:

	Turnover		Contribution to profit/(loss) from operations	
	Six months ended 30 June 2008	2007	Six months ended 30 June 2008	2007
	Unaudited HK\$'000	Unaudited and restated HK\$'000	Unaudited HK\$'000	Unaudited and restated HK\$'000
By principal activity:				
Trading and manufacturing	693,920	847,517	(26,623)	12,304
Property investment and development	25,204	20,043	100,433	30,694
Travel and related services	1,215,818	1,087,516	16,060	17,391
Securities and financial services	44,755	120,797	(87,534)	43,796
Agriculture and woods	1,447	950	(4,791)	(2,550)
Information technology	37,439	27,550	(2,067)	(2,407)
Media and publications	18,395	106,975	185	(20,408)
Investment holding	—	—	189,993	100,053
	<u>2,036,978</u>	<u>2,211,348</u>	<u>185,656</u>	<u>178,873</u>

	Turnover		Contribution to profit/(loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007
	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)	1,442,629	1,435,589	209,035	164,545
United States of America	375,247	518,203	(5,311)	11,336
Europe	135,234	156,263	(12,123)	(33)
Japan	4,949	4,685	(491)	23
Others	78,919	96,608	(5,454)	3,002
	<u>2,036,978</u>	<u>2,211,348</u>	<u>185,656</u>	<u>178,873</u>

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

4. Depreciation

Profit from operations for the period is arrived at after charging depreciation of approximately HK\$25,599,000 (six months ended 30 June 2007: HK\$27,463,000) in respect of the Group's property, plant and equipment.

5. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2007: 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.

6. Interim dividend

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: HK1.4 cents per ordinary share, totalling HK\$25,528,000).

7. Earnings per share attributable to equity holders of the Company

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately HK\$166,661,000 (six months ended 30 June 2007: HK\$241,932,000) and on 1,823,401,376 shares (six months ended 30 June 2007: 1,823,401,376 shares) in issue during the period.

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

8. Construction in progress and Property under development

During the period, the cost of construction in progress for building of the commercial complex in Shenyang, the PRC was reclassified from Construction in Progress to Property Under Development to signify the intention of the said property being held for sale.

9. 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 2008 HK\$'000	Guarantees given by the Group HK\$'000
Firm Wise Investment Limited ("FWIL") (note)	30%	3,250	396,000

Note: The advances and guarantees given were used on refinancing an investment property, The Centrium, a Grade-A commercial building located in Central, 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 November 2012 of which approximately HK\$387,300,000 were utilized as at 30 June 2008.

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

	As at 30 June 2008 HK\$'000
Assets	<u>2,371,900</u>
Liabilities	<u>(1,545,183)</u>

10. Trade receivables

Trade receivables of approximately HK\$557,132,000 (31 December 2007: HK\$383,004,000) are stated net of impairment for trade receivables, substantially with an aging within 6 months.

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.

11. Trade payables

Trade payables of approximately HK\$602,924,000 (31 December 2007: HK\$529,948,000) are substantially with an aging within 6 months.

12. Excess over the cost of business combinations and Gain on disposal of subsidiaries

Please refer to the section "MATERIAL ACQUISITIONS AND DISPOSALS" for details.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded turnover of HK\$2,037 million and profit of HK\$200.8 million for the six months ended 30 June 2008, representing a decrease of 8% in turnover and decrease of 38% in profit as compared to the corresponding period in 2007.

Trading and Manufacturing

The segment recorded an 18% reduction in turnover to HK\$693.9 million and a loss of HK\$26.6 million as compared to a profit of HK\$12.3 million in the first six months of 2007.

The first half of 2008 continued to be a challenging period for both our toys and electronics manufacturing business. The appreciation of Renminbi, high labour costs and spiraling commodity prices are continuing to assert pressures on profit margins. The traditionally low season in the first half-year was coupled with the downturn of US consumer market after the outbreak of the sub-prime crisis which further affected the sentiment of overseas clients in delaying their orders to the second half of the year.

In face of the present unpredictable adverse impacts on both costs and a weaker consumer market, our management team took a more conservative approach in bidding for new products in order to ensure a reasonable gross profit margin and that has also partly accounted for the reduction in turnover from our toys segment. As compared to the corresponding period in 2007, our toys business had an exceptionally good first half result due to mainly unexpectedly high orders for some hot promotional toy products received together with the launch of movies in that spring season.

The shoe manufacturing operations had steady increase in turnover and were successful in keeping down costs further. Profit margins however decreased in the first half of 2008.

Property Investment and Development

Investment properties

Early this year, our Group expanded our interests in the PRC by increasing our controlling stake in certain joint ventures that holds sizeable property spaces within the central district in Nanjing. The value of net assets attributable to the Group acquired, including investment properties, prepaid land lease payments and leasehold buildings, all being at fair value, exceeds the consideration paid for the acquisition, giving rise to an excess over the cost of business combination of HK\$215.1 million recognised.

The 26% rise in turnover from our investment properties was the effect of consolidating the rental income from those subsidiaries after our increase in controlling interests, together with an increase in rental on renewal of tenancies for our local properties. The property segment reported a HK\$6.8 million rental profit and recognised a fair value gain of HK\$93.6 million during the period.

Our share of profits of the Group's 30%-owned principal associate that holds the Grade-A commercial building in Central, The Centrium, reflected a 35% increase in rental income as a result of the great demand for office space in prime location. The fair value gain on the property held however declined as compared to the corresponding period that led to the total amount of profit from the associate fell in the current period.

Development properties

The Group's property development projects are mainly in China and held under South China Land Limited 南華置地有限公司, a subsidiary listed in the GEM Board.

Shenyang property project

Building of the upscale 7-storey shopping complex with around 117,000 square metres of GFA, *South China Landmark Plaza*, located in the prime commercial district with heavy pedestrian flow of the Shenyang City is well underway. The evacuation and soil anchor work of the construction site was completed in the second quarter of 2008. The construction work of the superstructure has already commenced in September 2008.

Cangzhou/Hebei property projects

Currently we have various relocation and redevelopment project for development to commercial and residential properties in Hebei Province including Zhongjie (中捷) of approximately 1,286,000 square metres site area in the Tianjin-Bohai Coastal Economic Development Site; approximately 620,000 square metres in Nandagang (南大港), and approximately 450,000 square metres in Huanghua City (黃驊市). They are either at the initial stage of development or in the process of negotiating the terms and conditions for development. We believe the future commercial value and thus its profit margin for these redevelopment projects is promising.

Chongqing Nanchuan (重慶南川) property project

During the period, we also signed an agreement with Chongqing Nanchuan Municipal Government in relation to a property development project that covers 13,334,000 square metres of suburban area in Chongqing. The project includes development and construction of new and modern agricultural estates, agricultural related tourism centre, country parks and hot springs holiday resorts. Details of the development plans are still under negotiation.

Travel and Related Services

The rising oil prices and the slowing down of the world economy had an adverse impact on global air travel. Travel agencies have also faced increasing pressure of higher operating costs with wages and rent in particular. In light of these adverse factors, Fourseas Travel recorded a profit of HK\$16.1 million, an 8% decrease compared with the first half of 2007 despite a 12% growth in turnover. This was mainly due to the increase in operating costs and the setting up of four branches in Mainland China which the Group sees as a necessary investment for future development.

Securities and Financial Services

During the period, the Hong Kong equity market was characterized by a significant downturn in contrast with the rising trend experienced in the same corresponding period last year. The direction of the local stock market and the investing sentiment have been affected adversely by a mixture of external factors including the deteriorating sub-prime crisis leading to the slowing down of the US economy, the tightening austerity policies in China to control the inflationary pressures that accelerated the drastic downward correction in the Mainland stock markets as well as the surging oil price.

The operating result of the segment was directly impacted by the market downturn. The segment recorded turnover of HK\$44.8 million, a decrease of 63% when compared to the same period last year, and a loss of HK\$87.5 million during the first half of 2008. The greater than expected loss was mainly the result of an unrealized holding loss of HK\$79.1 million on writing down the trading and investment portfolio to their market values at 30 June 2008.

Other than the unrealised holding loss on investment in financial assets, the Group's principal financial businesses in securities broking and margin financing remained profitable and fundamentally sound.

Agriculture and Woods

Following our expansion into the forestry business last year, we were able to expand our Chongqing acquisition model successfully in the first half of 2008. During the period, we increased our forestry acreage from 40 square kilometers to 431.8 square kilometers in the Chongqing region as well as expanding into Wuhan of Hubei Province. As compared with our original target of achieving 600 square kilometers of forestry land by this year-end, our current progress will likely exceed this by 50%.

Our existing agricultural business units reported an operating loss of HK\$4.8 million for the period as they are largely at investment stage. However, the operations in fish and crab rearing in Jiangsu and winter-dates plantation in Hebei should start to yield returns in the second half of this year, and depending on the environmental and market factors some business units may achieve profit at the operation level for the year.

In view of the increasing demand and rising sales prices for agricultural produce in the Mainland, the segment will be a main growth direction in the foreseeable future as we continue to expand our current portfolio of farmlands and woodlands. At the back of the revolutionary government macro policies to transform massive rural area in realisation of its commercial market value in the Mainland, it is expected that our agricultural operations will bring new business opportunities to the Group. In Guangzhou, we are now in the process of negotiating with the local government on the usage conversion of our lychee farmland there.

Information Technology

The IT segment reported an increase of 36% in turnover over the last corresponding period to HK\$37.4 million in the first half of 2008. However, administrative costs increased in various areas including the cost of retaining key personnel due to market competition for IT people in Chongqing where most of our operations are situated, and also recruiting a new team for setting up a new subsidiary in the high technology industrial park for software development for overseas buyers. The high technology industrial park is a special concession scheme made available by the local government to reputable software developers. Our IT operations in the Mainland recorded a loss of HK\$2.1 million for the high running costs during the period.

Media and Publications

The Group disposed a substantial part of the media operation early this year. We intend to divest the remaining media and publication business in the near future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008, the Group had a current ratio of 1.26 and a gearing ratio of 12.1% (31 December 2007: 1.26 and 10.3% respectively). The gearing ratio is computed by comparing the Group's total long-term bank and other borrowings of HK\$307 million to total equity of HK\$2,531.1 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 2008, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

CAPITAL STRUCTURE

The Company had no other debt securities or capital instruments as at 30 June 2008 and up to the date of this report.

MATERIAL ACQUISITIONS AND DISPOSALS

During the period, the Group had the following material acquisitions and disposals:

1. In January 2008, the Group acquired the controlling stake in certain associates of the Group at a total cash consideration of RMB55.8 million through the acquisition of the entities set out below:
 - a) the entire interest in 南京第二壓縮機廠, which is engaged in property holding and manufacturing of compressor;
 - b) the entire interest in 南京電機廠, which is engaged in property holding and trading of flowers; and
 - c) 85% interest in 南京液壓件二廠, which is engaged in property holding, and has a 49% owned associate engaged in manufacturing of hydraulic press.

The Group recognised a gain of HK\$215.1 million on acquisition.

2. In February 2008, the Group disposed of its entire interest in South China Media Limited and the shareholders' loan to Broaden Base Investment Limited, a BVI incorporated company of which a director of the Company is the controlling shareholder, for a consideration of HK\$30.0 million payable in cash.

The Group recognised a gain of HK\$30.0 million on disposal.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

During the period, the Group pledged the property under development of a subsidiary to secure new banking facilities granted.

The Group has provided an additional guarantee of HK\$186 million to banks in connection with banking facilities granted to an associate of the Company. Details are set out in note 9 to the financial statements.

Save for the above, there was no material change in the Group's pledges of assets, contingent liabilities and commitments as compared to the most recently published annual report.

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 2008, the total number of employees of the Group was approximately 25,400. 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.

PROSPECT

Trading and Manufacturing

Although the adverse conditions facing trading and manufacturing operations are not expected to get better soon, the Group is cautiously optimistic about our toys segment as a stronger second half-year orders from our customers are picking up. Renegotiations of prices with major customers in relation to costs of currency, labour and materials have been satisfactory. Moreover, our toys operation has launched an aggressive lean program to rationalise organisation structure and manufacturing activities in improving operational efficiency. Both of these efforts should help improvement in profit margins in the second half of the year.

We believe the challenges to the manufacturing industry will bring lights after the darkness as the retirement or consolidation of manufacturers with low performance is inevitable. In the process of such consolidation, the profit margin for quality-focused and high-performing manufacturers will likely be rationalised after balancing supply and demand in the industry. Our two main manufacturing units of Wah Shing Toys and Tianjin Nanhua Shoes, with sizable production scales and fundamental strengths, should be benefited from this process.

Property Investment and Development

The acquisition of an equity stake in our Nanjing's property portfolio is expected to bring further increase in rental income as well as high development value to the Group in the coming years. Given time for renovation and restructuring the tenant mix, it shall bring greater returns to the Group in the foreseeable future.

We believe that the macro-economic policies implemented by the Central Government may have some adverse impact on the property market in China in the short term, but China's GDP has increased tenfold since 1978, we maintain our optimistic view on the China property market in the longer run. In particular, the demand for premium commercial areas is still very high. Our investment property portfolio in China is substantially comprised of commercial spaces in prime city location.

For the *South China Landmark Plaza* in Shenyang, pre-sales will commence in the last quarter of 2008, and we are now preparing our marketing and sales campaign. With the increasing spending power in the region and increasing demand for quality space in prime shopping area, we expect our retail spaces will attract strong interest.

In Hebei, our current relocation projects and land redevelopment projects have a total site area of 2,356,000 square metres. Their potential commercial value will be extensive if fully developed. Rising construction costs and relocation costs remain our main concern. We are considering very carefully the costs and the stages of development phases in our negotiations with the local government before finalising the future plans. However, we are confident that the economic growth of the area will allow property prices to outpace rising costs.

The Government of Hebei Province has announced a plan to speed up the development of the region and its transformation into new face in three years time. The development aims to increase the population in Huanghua City and the Tianjin-Bohai Coastal Economic Development Site which includes Zhongjie, Nandagang and Haxin to cater up to one million residents.

The relocation projects recently entered by the Group match the macro economic policies implemented by the Government of Hebei Province, and thus our projects in the region have received good support.

Travel and Related Services

Air travel is expected to face even stiffer challenges in the second half of the year as consumer demand continues to fall due to high fuel surcharges and a weaker economic environment. Notwithstanding the negative macro economic factors, the management of Fourseas Travel looks to build upon its current market share with the opening up of the Mainland market through the four new branches in the major cities of China. This will set a solid foundation for us to take advantage of any possible rebounds when the market upturns.

Securities and Financial Services

The Group remains positive about the future development of the financial market in Hong Kong in spite of the present depressing investor sentiment. With the existing infrastructure, Hong Kong will continue to be competitive among other major world capital markets as a centre of capital fund raising.

The current worldwide financial turmoil hits revenue but we see better opportunities available ahead. In China, the Ministry of Commerce of the PRC approved and issued us a license to operate a financial leasing company in Nanjing in March 2008. The leasing company is allowed to operate financial leasing business across China and has no territorial restrictions. The tightening of lending activities in the banking system in China exposes new business opportunities for second tier financial institutions such as financial leasing companies. The recruitment of key personnel has completed and this new business development is expected to bring new revenue streams to the Group in the near future.

Agriculture and Woods

Our focus for the year is the expansion of acreage for our forestry business. As of August 2008, our acreage in Chongqing was 732.6 square kilometers, and our new target for Chongqing is to achieve 1,000 square kilometers by this year-end. Beyond Chongqing, Wuhan of Hubei Province, and Xi'an of Shanxi Province will be our two new growth areas for the rest of the year.

Looking ahead, the future of agriculture and forestry is very promising for the Group. The segment is least affected by the global financial meltdown because of the hiking demand for basic commodities. We are still able to accumulate forestry land at reasonable cost that is important in the existing environment. Furthermore, government subsidies have continued to grow in favour of agriculture and forestry business in Chongqing, which have been boosted by the recent policy restructure regarding forestry asset rights in the PRC. Upon realization of the macro policies in commercialise rural lands for constructive usage, our agricultural and forestry land bank portfolio in the Mainland will reflect its real and significant economic asset value in the market.

Information Technology

It is expected the increase in administrative costs will stabilise and the increase in remuneration of the existing work force will be conducive to the growth in production and profitability to be materialised in the second half of the year.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: HK1.4 cent per share).

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 2008, 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:

(a) The Company

(i) Interests in Shares

Name of Director	Capacity and Number of shares		Total number of shares	Approximate % of issued share capital
	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) Interests in underlying Shares

Name of Director	Capacity	Number of underlying shares	Approximate % of issued share capital
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%

(b) **Associated corporations**

(i) **Interests in shares**

(1) **South China (China) Limited (“SCC”)** (Note c)

Name of Director	Capacity	Number of shares	Approximate % of issued share capital
Mr. Ng	Interest of controlled corporations	1,983,206,785 (Note d)	74.78%

(2) **South China Financial Holdings Limited (“SCFH”)** (Note c)

Name of Director	Capacity	Number of shares	Approximate % of issued share capital
Mr. Ng	Interest of controlled corporations	3,660,502,500 (Note e)	72.79%
Mr. Gorges	Beneficial owner	12,174,000	0.24%
Ms. Cheung	Beneficial owner	10,000,000	0.20%

(3) **South China Land Limited 南華置地有限公司 (“SCL”)** (Note c)

Name of Director	Capacity	Number of shares	Approximate % of issued share capital
Mr. Ng	Interest of controlled corporations	347,338,203 (Note f)	68.58%

(4) **South China Financial Credits Limited (“SCFC”)** (Note g)

Name of Director	Capacity	Number of shares	Approximate % of issued share capital
Ng Yuk Fung, Peter	Beneficial owner	250,000	0.59%

(5) **Prime Prospects Limited (“Prime Prospects”)** (Note h)

Name of Director	Capacity	Number of shares	Approximate % of issued share capital
Mr. Ng	Interest of a controlled corporation	30	30%

(ii) *Interests in underlying shares*

(1) SCC

a) Warrants

Name of Director	Capacity	Number of underlying shares	Approximate % of issued share capital
Mr. Ng	Interests of controlled corporations	396,641,357 (Note i)	14.96%

b) Share options

Name of Director	Capacity	Number of underlying shares	Approximate % of issued share capital
Ms. Cheung	Beneficial owner	26,000,000 (Note j)	0.98%
Ng Yuk Fung, Peter	Beneficial owner	26,000,000 (Note j)	0.98%

(2) SCFH

a) Warrants

Name of Director	Capacity	Number of underlying shares	Approximate % of issued share capital
Mr. Ng	Interests of controlled corporations	679,350,500 (Notes k and l)	13.51%
Mr. Gorges	Beneficial owner	2,434,800 (Note k)	0.05%
Ms. Cheung	Beneficial owner	2,000,000 (Note k)	0.04%

b) Share options

Name of Director	Capacity	Number of underlying shares	Approximate % of issued share capital
Mr. Gorges	Beneficial owner	30,000,000 (Note m)	0.60%
Ms. Cheung	Beneficial owner	20,000,000 (Note m)	0.40%
Ng Yuk Fung, Peter	Beneficial owner	50,000,000 (Note m)	0.99%

(3) SCL

a) Convertible Notes

Name of Director	Capacity	Number of underlying shares	Approximate % of issued share capital
Mr. Ng	Interest of controlled corporations	10,666,666,666 (Note n)	2,105.96%

b) Share options

Name of Director	Capacity	Number of underlying shares	Approximate % of issued share capital
Ng Yuk Fung, Peter	Beneficial owner	5,000,000 (Note o)	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 in the totalling 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. The number of share options outstanding at the beginning and at the end of the period for the six months ended 30 June 2008 for each of the directors was 18,000,000 respectively.
- (c) SCC was a 74.78% owned subsidiary of the Company and SCFH was a 72.79% owned subsidiary of the Company. SCL was a 68.56% owned subsidiary of SCC which in turn was a 68.56% owned subsidiary of the Company.
- (d) By virtue of Notes (a) and (c), Mr. Ng was deemed to have interest in those shares of SCC held by certain wholly-owned subsidiaries of the Company.
- (e) By virtue of Notes (a) and (c), Mr. Ng was deemed to have interest in those shares of SCFH held by certain wholly-owned subsidiaries of the Company.
- (f) By virtue of Notes (a) and (c), Mr. Ng was deemed to have interest in those shares of SCL held by a wholly-owned subsidiary of SCC.
- (g) SCFC was a 98.48% owned subsidiary of SCFH.
- (h) Prime Prospects was a 70% owned subsidiary of SCC.
- (i) These were warrants of SCC which entitle the holders thereof to subscribe at any time during the period from 7 September 2007 to 6 September 2010 (both days inclusive) for fully paid shares of SCC at an initial subscription price of HK\$0.40 per share (subject to adjustments). By virtue of Notes (a) and (c), Mr. Ng was deemed to have interest in those underlying shares of SCC held by certain wholly-owned subsidiaries of the Company.

- (j) These share options were granted on 18 September 2007 at the exercise price of HK\$1.50 per share of SCC with exercise periods 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. The number of share options outstanding at the beginning and at the end of the period for the six months ended 30 June 2008 for each of the directors was 26,000,000 respectively.
- (k) These were warrants of SCFH which entitle the holders thereof to subscribe at any time during the period from 23 October 2007 to 22 October 2008 (both days inclusive) for fully paid shares of SCFH at an initial subscription price of HK\$0.168 per share (subject to adjustments).
- (l) By virtue of Notes (a) and (c), Mr. Ng was deemed to have interest in those underlying shares of SCFH held by certain wholly-owned subsidiaries of the Company.
- (m) Each of Mr. Gorges and Ms. Cheung was granted with share options to subscribe for 30,000,000 shares of SCFH on 16 March 2006 at the exercise price of HK\$0.128 per share. Ms. Cheung had exercised the share options to subscribe for 10,000,000 shares. Mr. Ng Yuk Fung, Peter was granted with share options to subscribe for 30,000,000 and 20,000,000 shares of SCFH on 16 March 2006 and 26 April 2006 respectively at the exercise price of HK\$0.128 per share.
- The exercise period is as follows: (i) 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 third year from the date of grant; (ii) 1/3 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 fourth year from date of grant; and (iii) 1/3 share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the fifth year from the date of grant. The number of share options outstanding at the beginning and at the end of the period for the six months ended 30 June 2008 for Mr. Gorges, Ms. Cheung and Ng Yuk Fung, Peter were 30,000,000, 20,000,000, and 50,000,000 respectively.
- (n) Two convertible notes were issued to a wholly-owned subsidiary of SCC with the rights to convert into 5,440,000,000 shares of SCL and 5,226,666,666 shares of SCL respectively at a conversion price of HK\$0.075 per share. By virtue of Notes (a) and (c), Mr. Ng was deemed to have interest in those underlying shares of SCL.
- (o) These share options were granted on 14 March 2007 at the exercise price of HK\$0.2166 per share of SCL with exercise period as follows: (i) 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 third year from the date of grant; (ii) 1/3 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 fourth year from the date of grant; and (iii) the 1/3 share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the fifth year from the date of grant. The number of share options outstanding at the beginning and at the end of the period for the six months ended 30 June 2008 for the director was 5,000,000.
- (p) All interests disclosed above represent long positions.

Save as disclosed above, none of the directors or chief executives of the Company as at 30 June 2008 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 2008, 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 the Shares

Name of Shareholders	Capacity	Number of shares	Approximate % of issued share capital
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 2008, no person, other than the Directors or Chief Executives 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 OPTIONS SCHEMES

The directors and employees of the Company and its subsidiaries are entitled to participate in share option schemes operated by the Company and its subsidiaries (collectively the "Schemes"). Details of the Schemes are as follows:–

Scheme of the Company

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 2008 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 2008	Lapsed during the period	As at 30 June 2008		
Directors						
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		

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 2008	Lapsed during the period	As at 30 June 2008		
Employees						
In aggregate	18/09/2007	<u>31,800,000</u>	<u>1,000,000</u>	<u>30,800,000</u>	18/09/2008 – 17/09/2017	2.00
Sub-total		<u>31,800,000</u>	<u>1,000,000</u>	<u>30,800,000</u>		
Total		<u><u>103,800,000</u></u>	<u><u>1,000,000</u></u>	<u><u>102,800,000</u></u>		

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 $\frac{1}{3}$ %
25th – 120th month	Not more than 66 $\frac{2}{3}$ %
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 2008. The Company recognized a share option expense of HK\$13,609,000 (2007:Nil) during the period ended 30 June 2008.

Scheme of SCC

SCC'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 SCC was adopted during the six months ended 30 June 2008 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 2008	Lapsed during the period	As at 30 June 2008		
Directors						
Ms. Cheung	18/09/2007	<u>26,000,000</u>	<u>–</u>	<u>26,000,000</u>	18/09/2008 – 17/09/2017	1.50
Ng Yuk Fung, Peter	18/09/2007	<u>26,000,000</u>	<u>–</u>	<u>26,000,000</u>	18/09/2008 – 17/09/2017	1.50
Sub-total		<u>52,000,000</u>	<u>–</u>	<u>52,000,000</u>		
Employees						
In aggregate	18/09/2007	<u>51,000,000</u>	<u>6,200,000</u>	<u>44,800,000</u>	18/09/2008 – 17/09/2017	1.50
	25/09/2007	<u>11,500,000</u>	<u>600,000</u>	<u>10,900,000</u>	25/09/2008 – 24/09/2017	1.50
Sub-total		<u>62,500,000</u>	<u>6,800,000</u>	<u>55,700,000</u>		
Total		<u><u>114,500,000</u></u>	<u><u>6,800,000</u></u>	<u><u>107,700,000</u></u>		

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

From the date of grant of share options	Exercisable percentage
Within 12 months	Nil
13th – 120th month	Not more than 33 $\frac{1}{3}$ %
25th – 120th month	Not more than 66 $\frac{2}{3}$ %
37th – 120th month	100%

No share options have been granted, exercised or cancelled during the six months ended 30 June 2008. SCC recognized a share option expense of HK\$2,297,000 (2007:Nil) during the period ended 30 June 2008.

Scheme of SCFH

SCFH's existing a share option scheme was adopted on 31 May 2002 and became effective on 28 June 2002. Particulars and movements of the outstanding share options granted under the share option scheme of SCFH during the six months ended 30 June 2008 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 2008	Lapsed during the period	As at 30 June 2008		
Directors						
Ms. Cheung	16/03/2006	20,000,000	–	20,000,000	16/03/2008 – 15/03/2011	0.128
Mr. Gorges	16/03/2006	30,000,000	–	30,000,000	16/03/2007 – 15/03/2011	0.128
Ng Yuk Fung, Peter	16/03/2006	30,000,000	–	30,000,000	16/03/2007 – 15/03/2011	0.128
	26/04/2006	20,000,000	–	20,000,000	26/04/2007 – 25/04/2011	0.128
Sub-total		<u>100,000,000</u>	<u>–</u>	<u>100,000,000</u>		
Employees						
In aggregate	16/03/2006	63,500,000	–	63,500,000	16/03/2007 – 15/03/2011	0.128
	26/04/2006	20,000,000	–	20,000,000	26/04/2007 – 25/04/2011	0.128
	12/04/2007	81,250,000	5,750,000	75,500,000	12/04/2008 – 11/04/2012	0.161
	17/04/2007	3,000,000	–	3,000,000	17/04/2008 – 16/04/2012	0.161
	23/04/2007	4,000,000	–	4,000,000	23/04/2008 – 22/04/2012	0.161
	10/07/2007	17,500,000	–	17,500,000	10/07/2008 – 09/07/2012	0.172
	10/09/2007	6,000,000	–	6,000,000	10/09/2008 – 09/09/2012	0.227
	17/10/2007	24,000,000	12,000,000	12,000,000	17/10/2008 – 16/10/2012	0.227
Sub-total		<u>219,250,000</u>	<u>17,750,000</u>	<u>201,500,000</u>		
Total		<u><u>319,250,000</u></u>	<u><u>17,750,000</u></u>	<u><u>301,500,000</u></u>		

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 – 36th month	33 $\frac{1}{3}$ %
25th – 48th month	33 $\frac{1}{3}$ %
37th – 60th month	33 $\frac{1}{3}$ %

No share options have been granted, exercised or cancelled during the six months ended 30 June 2008. SCFH recognized a share option expense of HK\$2,687,000 (2007:HK\$5,561,000) during the period ended 30 June 2008.

Scheme of SCL

SCL's existing share option scheme was adopted on 24 June 2002 and became effective on 18 July 2002. Particulars and movements of the outstanding share options granted under the share option scheme of SCL during the six months ended 30 June 2008 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 2008	As at 30 June 2008		
Director					
Ng Yuk Fung, Peter	14/03/2007	<u>5,000,000</u>	<u>5,000,000</u>	14/03/2008 – 13/03/2012	0.2166
Sub-total		<u>5,000,000</u>	<u>5,000,000</u>		
Employees					
In aggregate	14/03/2007	6,000,000	6,000,000	14/03/2008 – 13/03/2012	0.2166
	02/04/2007	3,000,000	3,000,000	02/04/2008 – 01/04/2012	0.3150
	10/05/2007	<u>2,000,000</u>	<u>2,000,000</u>	10/05/2008 – 09/05/2012	0.3100
Sub-total		<u>11,000,000</u>	<u>11,000,000</u>		
Total		<u><u>16,000,000</u></u>	<u><u>16,000,000</u></u>		

All share options granted are subject to a vesting period and become 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 – 36th month	33 $\frac{1}{3}$ %
25th – 48th month	33 $\frac{1}{3}$ %
37th – 60th month	33 $\frac{1}{3}$ %

No share options have been granted, exercised, cancelled or lapsed during the six months ended 30 June 2008. SCL recognized a share option expense of HK\$861,000 (2007:HK\$633,000) during the period ended 30 June 2008.

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

During the period ended 30 June 2008, 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 2008.

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 2008 have been reviewed by the audit committee.

On behalf of the Board
Ng Hung Sang
Chairman

Hong Kong, 23 September 2008

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.