Chairman's Statement and Management Discussion and Analysis

I am pleased to report the activities of South China Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2005.

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.

Chairman's Statement and Management Discussion and Analysis

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 market of The People's Republic of China (the "PRC") .

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 ("Nority"), and share of profits and appreciation in fair value of investment properties 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.

Chairman's Statement and Management Discussion and Analysis

CAPITAL STRUCTURE

At as the balance sheet date, South China Brokerage Company Limited ("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 Annual Report.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2005, the Group acquired further an approximately 5.8% equity interests of Wah Shing International Holdings Limited ("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.

PLEDGE OF ASSETS AND 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.

Details of the Group's pledge of assets and contingent liabilities are set out in notes 46 and 45 to the financial statements respectively.

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$644.4 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 28 June 2002.

Chairman's Statement and Management Discussion and Analysis

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.

Chairman's Statement and Management Discussion and Analysis

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 SCB is to become engaged in the mining industry through the acquisition of 51% equity interest in a mining holding company in the PRC with exploration 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 exploration rights in Gold, Copper and Tungsten is the Group's very first step. Due to our recent active search for investment opportunities in this industry, the Group is currently negotiating with a number of joint venture partners with offers for further major expansion. The offers cover widespread geographical mining zones in the PRC, including Gansu, Guizhou, Guangxi, Yunan, Xinjiang, Tibet, Mongolia, Shanxi. We have already formed a special task force for studying the potential projects. The management expects that there will be more significant commitments to mining ventures in the near future.

Chairman's Statement and Management Discussion and Analysis

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.

APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated service.

Ng Hung Sang
Chairman

Hong Kong, 19 April 2006