



**SOUTH CHINA LAND LIMITED**

**南華置地有限公司**

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

**(Stock Code: 8155)**

**FIRST QUARTERLY REPORT  
FOR THE THREE MONTHS ENDED 31 MARCH 2007**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*This report, for which the directors of South China Land Limited 南華置地有限公司 (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## QUARTERLY RESULTS

The board of directors (the “Board”) of the Company hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31 March 2007, together with the comparative unaudited figures for the corresponding period in 2006, as follows:

### CONSOLIDATED INCOME STATEMENT – UNAUDITED

		<b>Three months ended</b>	
		<b>31 March</b>	
		<b>2007</b>	<b>2006</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	2	<b>6,670</b>	5,664
Direct operating expenses		<b>(4,149)</b>	(3,771)
Other operating income		<b>7</b>	5
Selling and distribution costs		<b>(2,460)</b>	(1,638)
Administrative expenses		<b>(754)</b>	(416)
		<hr/>	<hr/>
<b>Loss before tax</b>	3	<b>(686)</b>	(156)
Income tax expense	4	<b>–</b>	–
		<hr/>	<hr/>
<b>Net loss for the period</b>		<b>(686)</b>	(156)
		<hr/> <hr/>	<hr/> <hr/>
<b>Loss per share</b>	6		
– <b>Basic</b>		<b>HK(0.14) cents</b>	HK(0.03) cents
		<hr/> <hr/>	<hr/> <hr/>
– <b>Diluted</b>		<b>N/A</b>	N/A
		<hr/> <hr/>	<hr/> <hr/>

Notes:

## **1 BASIS OF PRESENTATION**

The unaudited consolidated income statement for the three months ended 31 March 2007 has not been audited by the Company's auditors but has been reviewed by the Company's audit committee.

These quarterly financial statements should be read in conjunction with the 2006 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, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of the quarterly financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006.

## **2 REVENUE**

Turnover comprises sales of magazines, advertising income and promotion project income.

The Group is principally engaged in magazine publishing and advertising activities in Hong Kong during the period. Accordingly, the directors of the Company consider there is only one business and one geographical segment and no analysis of segmental turnover and results by business and geographical location is presented.

## **3 LOSS BEFORE INCOME TAX**

Loss before income tax for the three months ended 31 March 2007 is arrived at after charging depreciation of approximately HK\$96,000 (three months ended 31 March 2006: HK\$101,000).

## **4 TAXATION**

No Hong Kong profits tax was provided as the Group had no estimated assessable profit arising in or derived from Hong Kong during the three months ended 31 March 2007 (three months ended 31 March 2006: Nil).

## **5 DIVIDEND**

The Board resolved not to declare the payment of an interim dividend for the three months ended 31 March 2007 (three months ended 31 March 2006: Nil).

## **6 LOSS PER SHARE**

The calculation of basic loss per share for the three months ended 31 March 2007 is based on the unaudited loss attributable to shareholders of HK\$686,000 (three months ended 31 March 2006: HK\$156,000) and on the number of 506,498,344 shares in issue (three months ended 31 March 2006: 506,498,344 shares).

For the three months ended 31 March 2006 and 2007, no diluted loss per share has been presented as it is anti-dilutive.

7 **MOVEMENT OF RESERVES**

Movements of reserves were:

	<b>Share premium</b> <i>HK\$'000</i>	<b>Capital reserve</b> <i>HK\$'000</i>	<b>Employee compensation reserve</b> <i>HK\$'000</i>	<b>Convertible notes reserve</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
As 1 January 2006	11,483	6,044	816	–	(22,565)	(4,222)
Loss for the period	–	–	–	–	(156)	(156)
	<u>11,483</u>	<u>6,044</u>	<u>816</u>	<u>–</u>	<u>(22,721)</u>	<u>(4,378)</u>
As 31 March 2006	<u>11,483</u>	<u>6,044</u>	<u>816</u>	<u>–</u>	<u>(22,721)</u>	<u>(4,378)</u>
As 1 January 2007	<b>11,483</b>	<b>6,044</b>	–	–	<b>(21,596)</b>	<b>(4,069)</b>
Loss for the period	–	–	–	–	<b>(686)</b>	<b>(686)</b>
Issue of convertible notes	–	–	–	<b>75,594</b>	–	<b>75,594</b>
Employee share-based compensation	–	–	<b>35</b>	–	–	<b>35</b>
	<u>–</u>	<u>–</u>	<u>35</u>	<u>–</u>	<u>–</u>	<u>35</u>
<b>As 31 March 2007</b>	<b><u>11,483</u></b>	<b><u>6,044</u></b>	<b><u>35</u></b>	<b><u>75,594</u></b>	<b><u>(22,282)</u></b>	<b><u>70,874</u></b>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group recorded an increase in turnover of HK\$1.01 million for the three months ended 31 March 2007 to HK\$6.67 million, representing a 18% increase from the corresponding period last year. However, the Group also experienced a big increase in overall production costs of HK\$1.54 million, representing a 26.4% increase to HK\$7.36 million.

The end result for the three months ended 31 March 2007 was a net loss of HK\$686,000; an increase of HK\$530,000 as compared with last year.

The increase in turnover was due to the successful hosting of more client events and promotional campaigns. The Group continued to build upon the previous experience of hosting such prestigious client events and has firmly established its reputation in the field. The increase in the number of events did however also lead to a rise in production costs.

Other increases in production costs relate to one off marketing and promotional campaigns for the image building of the Capital brand name, which were absent in the corresponding period last year. The acquisition of 51% equity interest in Praise Rich Limited (“Praise Rich”) also incurred additional costs for the Group.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 March 2007, the Group had net current assets of HK\$34.3 million (31 December 2006: HK\$0.28 million).

The Board is of the opinion that, taking into account the internal financial resources of the Group, the Group has sufficient working capital for its present requirements.

A bank loan granted to the Group was secured by the entire issued share in a subsidiary and corporate guarantee executed by South China Industries Limited (“SCI”, a related company of the Company).

As at 31 March 2007, the Group’s long term bank borrowings amounted to HK\$80 million (2006: Nil), which, when related to the Group’s equity of HK\$381 million, represent a gearing ratio of approximately 21% (2006: Nil).

### **MATERIAL ACQUISITION AND DISPOSAL**

During the three months ended 31 March 2007, the Group has acquired 51% of the equity interest in Praise Rich from a subsidiary of SCI for a consideration of HK\$408 million by way of issuance of convertible note of the Company to Skychance Group Limited (“Skychance”), details of which were disclosed in a circular of the Company dated 12 February 2007.

### **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES**

During the three months ended 31 March 2007, the Group had no significant exposure to fluctuations in exchange rates and any related hedges.

## **PLEDGE OF ASSETS AND CONTINGENT LIABILITIES**

At the balance sheet date, the Group had no charges on its assets and did not have any contingent liabilities.

## **POST BALANCE SHEET EVENT**

On 30 April 2007, the Company entered into an agreement with SCI and WTS International (BVI) Limited (“WTS”, a wholly owned subsidiary of SCI) in relation to the proposed acquisition by the Company of the remaining 49% equity interest in Praise Rich (which is owned as to 51% by the Company and as to 49% by WTS), at a consideration of HK\$392 million by way of issuance of convertible note of the Company to Skychance, details of which were disclosed in a joint announcement of the Company, South China Holdings Limited (“SCH”) and SCI dated 30 April 2007.

## **PROSPECTS**

### **Publication business**

The Group will seek to host several more client events in the coming year. Additional resources and focus will be diverted to this area of the business including more personnel. With the improving economy, the Group sees a rising demand for such promotional events.

The three magazines will continue to develop within their own active circles by launching partnerships with various groups and entities relevant to their own sphere. This will further strengthen the recognition and brand name of the “Capital” title.

### **Property Investment and Development**

In January 2007, the Group acquired a 51% interest in the property development project of a prime retail shopping complex in Shenyang from SCI. In April 2007, the Group has announced to acquire the remaining 49% interest in the project. The project is one of the very few remaining pieces of land located in “Zhong Jie”, the central commercial and tourism district of Shenyang City and one of the ten major pedestrianized commercial zones in China. The average pedestrian flow each day is around 300,000 people and continues to see a significant increase each year.

The site area of the project is 22,000 square meters and will be developed into a seven-storey multi-functional shopping mall with a gross floor area of approximately 117,000 square meters by the end of year 2008. Shenyang has a current population of 7 million people and the local/ provincial Government predicts that this figure will reach 10 million by the end of year 2015. The Company’s management believes that the prime location, continual yearly increase in pedestrian flow, forecast of strong population growth and surging consumer spending power will lead to high yields and strong cash flow for the Group. The project will form a fundamental base for the further development opportunities in Shenyang.

In April 2007, the Group entered into an agreement with the local government of Tianjin-Bohai Coastal Economic Development Area. This project, in which the Group has 70% interest, has exclusive rights to carry out re-location and property development for 400,000 square metres of town area.

The Group also signed a joint development contract to reclaim and redevelop 20 square kilometres of land adjacent to the HuangHua Port for Industrial and Residential purposes.

The Group is very confident in widening its property investment scope to other areas of the PRC. After an extensive countrywide selection process, the Company's management believes that most notable prospects include the city areas of Chongqing, Xian, Harbin, Nanjing and Tianjin.

We are looking forward to an aggressive expansion plan that would encompass each of these regions. However, if the Group commits to the new projects on hand, the Company's management foresees short and long term funding requirements. Thus, fund raising is a key issue for the Company's management in the immediate future.

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 31 March 2007, the interests and short positions of the Directors and the Chief Executive 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 were as follows:

### **(i) Interests in ordinary shares of HK\$0.01 each of the Company (the "Shares")**

<b>Name of director</b>	<b>Capacity</b>	<b>Number of Shares held</b>	<b>Approximate percentage of shareholding</b>
Mr. Ng Hung Sang ("Mr. Ng")	Beneficial owner	20,120,800	3.97%
	Interest of controlled corporations	326,588,403 (Note a)	64.48%

### **(ii) Interests in underlying Shares of the Company**

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of underlying shares</b>	<b>Approximate percentage of shareholding</b>
Mr. Ng	Interest of controlled corporation	5,440,000,000 (Note c)	1,074.04%

*Notes:*

- (a) The 326,588,403 Shares referred to above include 101,422,000 Shares held by Parkfield Holdings Limited ("Parkfield"), 99,012,563 Shares held by Fung Shing Group Limited ("Fung Shing"), 4,166,400 Shares held by Ronastar Investments Limited ("Ronastar") and 121,987,440 Shares held by Eartrade Investments Limited ("Eartrade"), which is owned as to 60%, 20% and 20% by Mr. Ng, Ms. Cheung Choi Ngor ("Ms. Cheung"), and Mr. Richard Howard Gorges ("Mr. Gorges"), directors of SCH, respectively. The 121,987,440 Shares referred to above include the 59,325,840 Shares held by Bannock Investment Limited ("Bannock"), which is a wholly-owned subsidiary of Eartrade. Each of Parkfield, Fung Shing and Ronastar is wholly-owned by Mr. Ng.
- (b) Mr. Ng, Ms. Cheung and Mr. Gorges, through companies wholly-owned and controlled by them, had interests in 487,949,760 shares in SCH. Mr. Ng personally owned 71,652,200 shares in SCH and through companies wholly-owned and controlled by him, beneficially owned 784,579,852 shares in SCH.

- (c) The convertible note with the right to convert into 5,440,000,000 Shares at a conversion price of HK\$0.075 each was issued to Skychance, a subsidiary of SCI. By virtue of the said interests in SCH shares in relation to which Mr. Ng has a duty of disclosure under SFO as described in Note (b) above and SCI is a subsidiary of SCH, Mr. Ng is taken to have a duty of disclosure in relation to the said underlying Shares of the Company under the SFO.
- (d) All interests disclosed above represent long position in the Shares of the Company.

Save as disclosed above and the interests as disclosed under the section headed “Share Option Scheme” below, none of the Directors or Chief Executives of the Company had, as at 31 March 2007, any interests 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 required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors of listed issuers as referred to therein.

### SHARE OPTION SCHEME

The Company’s existing share option scheme (the “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 Scheme during the three months ended 31 March 2007 were as follows:–

Name and category of participant	Number of shares in relation to share option granted						Date of grant of share options	Exercise period of share option (Note a)	Share price		
	Held as at 1/1/2007	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding as at 31/3/2007			Initial exercise price per share HK\$	Immediately preceding the grant	Immediately preceding the exercise
										date of the share option (Note b)	date of the share option (Note c)
<b>Director</b>											
Ng Yuk Yeung, Paul	-	5,000,000	-	-	-	5,000,000	14/3/2007	14/3/2008 – 13/3/2012	0.2166	0.20	N/A
Ng Yuk Fung, Peter	-	5,000,000	-	-	-	5,000,000	14/3/2007	14/3/2008 – 13/3/2012	0.2166	0.20	N/A
Other participant	-	1,000,000	-	-	-	1,000,000	14/3/2007	14/3/2008 – 13/3/2012	0.2166	0.20	N/A
<b>Total</b>	<b>-</b>	<b>11,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,000,000</b>					



*Notes:*

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

<b>Exercise period</b>	<b>Exercisable Percentage</b>
14/3/2007 to 13/3/2008	Nil
14/3/2008 to 13/3/2010	33 <sup>1</sup> / <sub>3</sub> %
14/3/2009 to 13/3/2011	33 <sup>1</sup> / <sub>3</sub> %
14/3/2010 to 13/3/2012	33 <sup>1</sup> / <sub>3</sub> %

- (b) The price of the shares disclosed as immediately preceding the grant date of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.
- (c) The weighted average closing price of the shares immediately before the date on which the options were exercised.
- (d) The fair values of options granted under the Scheme on 14 March 2007, measured at the date of grant, were approximately HK\$2,199,999. The following significant assumptions were used to derive the fair values, using the Black-Scholes option pricing model:

<b>Date of grant</b>	<b>14 March 2007</b>
Expected volatility	457%
Expected life (in years)	5.01
Risk-free interest rate	4.2%
Expected dividend yield	Nil

In total, HK\$35,171 of employee compensation expense has been included in the consolidated income statement for the three months ended 31 March 2007 (2006: Nil) with a corresponding credit in equity.

**SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

As at 31 March 2007, the following persons, other than the Directors or Chief Executive 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 the SFO:

**(i) Interests in the Shares**

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of Shares held</b>	<b>Approximate percentage of shareholding</b>
Parkfield	Beneficial owner	101,422,000 <i>(Note a)</i>	20.02%
Fung Shing	Beneficial owner	99,012,563 <i>(Note a)</i>	19.55%
Earntrade	Beneficial owner	62,661,600 <i>(Note b)</i>	12.37%
	Interest of controlled corporation	59,325,840 <i>(Note b)</i>	11.71%
Bannock	Beneficial owner	59,325,840 <i>(Note b)</i>	11.71%

**(ii) Interests in the underlying Shares of the Company**

<b>Name</b>	<b>Capacity</b>	<b>Number of Underlying Shares</b>	<b>Approximate percentage of shareholding</b>
SCI	Interest of controlled corporations	5,440,000,000 <i>(Notes c and d)</i>	1,074.04%
SCH	Interest of controlled corporations	5,440,000,000 <i>(Notes c and d)</i>	1,074.04%

*Notes:*

- (a) Each of Parkfield and Fung Shing is wholly owned by Mr. Ng, the Chairman of the Company.
- (b) Earntrade, which is owned as to 60%, 20% and 20% by Mr. Ng, Ms. Cheung and Mr. Gorges, directors of SCH, respectively, was the holding company of Bannock. Thus, Earntrade is deemed to be interested in the 59,325,840 Shares of the Company held by Bannock.
- (c) The convertible note with the right to convert into 5,440,000,000 Shares at a conversion price of HK\$0.075 each was issued to Skychance, a subsidiary of SCI.

- (d) SCI is a 74.79% owned subsidiary of SCH. Thus SCH is deemed to be interested in 5,440,000,000 underlying Shares of the Company to be issued to Skychance upon full exercise of the conversion right.
- (e) All interests disclosed above represent long position in the shares of the Company.

Save as disclosed above, as at 31 March 2007, the Company had not been notified by any other persons, other than the Directors or Chief Executive of the Company, who had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

### **Directors' and Management Shareholders' Interests in Competing Business**

Mr. Ng, the Chairman and management shareholder of the Company, is also the Chairman of SCH and Jessica Publications Limited ("Jessica"). Mr. Ng, personally and through Parkfield, Fung Shing and Ronastar, has interest in SCH and Jessica. Mr. Ng together with Ms. Cheung and Mr. Gorges, management shareholders of the Company and executive directors of SCH and SCI, have beneficial interests in Earntrade, which directly and indirectly through Bannock holds shares in SCH and Jessica. Ms. Cheung and Mr. Gorges are also directors of various members of SCH and SCI and involve in the day-to-day management of SCH and SCI, particularly the property investment and development, they are regarded to be interested in such competing business of the Group. As Jessica and certain members of South China Media Limited, a subsidiary of SCH, are principally engaged in magazine publication, Mr. Ng is regarded to be interested in such competing business of the Group. Mr. Ng Yuk Fung, Peter, an Executive Director of the Company, is also an executive director of SCH and SCI and an executive director and the chief executive officer of Jessica. He is regarded to be interested in such competing businesses of the Group.

Ms. Ng Yuk Mui, Jessica, a Non-executive Director of the Company, is also a non-executive director of SCH and Jessica. She is not regarded to have any businesses competing with the business of the Group since she is not involved in the day-to-day running of the businesses of SCH and Jessica.

Save as disclosed above (including the information of Mr. Ng, Ms. Cheung, Mr. Gorges, Mr. Ng Yuk Fung, Peter and Ms. Ng Yuk Mui, Jessica), none of the Directors or the management shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group for the three months ended 31 March 2007.

### **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group. The audit committee comprises three independent non-executive directors, namely Mr. Law Cho Wa, Richard (Chairman of the Committee), Dr. Lo Wing Yan, William, JP and Mr. Cheng Yuk Wo.

The Group's unaudited results for the three months ended 31 March 2007 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2007.

As at the date of this report, the Board of the Company comprises (1) Mr. Ng Hung Sang, Mr. Ng Yuk Yeung, Paul, Mr. Hui Ping and Mr. Ng Yuk Fung, Peter as executive directors; (2) Ms. Ng Yuk Mui, Jessica as non-executive director; and (3) Mr. Law Cho Wa, Richard, Dr. Lo Wing Yan, William, JP and Mr. Cheng Yuk Wo as independent non-executive directors.

On behalf of the Board

**Ng Hung Sang**

*Chairman*

Hong Kong, 8 May 2007