



SOUTH CHINA (CHINA) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 413)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2008

UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board”) of South China (China) Limited (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2008	2007
	<i>Notes</i>	Unaudited	Unaudited
		HK\$'000	HK\$'000
			(Restated)
Turnover	2	706,617	855,936
Cost of sales		(625,076)	(744,470)
Gross profit		81,541	111,466
Other income and gain		15,049	9,702
Selling and distribution costs		(17,297)	(17,359)
Administrative expenses		(150,367)	(126,527)
Fair value (loss)/gain on financial assets at fair value through profit or loss		(17,145)	1,859
(Loss)/gain on disposal of financial assets at fair value through profit or loss		(2,264)	7,329
Gain on disposal of available-for-sale financial assets		–	9,912
Fair value gain on investment properties		66,640	–
Excess over the cost of business combinations	11	215,103	3,779
Gain on disposal of subsidiaries		996	55,292
Profit from operations	2 & 3	192,256	55,453
Finance costs		(9,189)	(15,520)
Share of profits and losses of associates		55,599	171,435
Profit before tax		238,666	211,368
Tax	4	(17,471)	(3,410)
Profit for the period from continuing operations		221,195	207,958
Profit for the period from discontinued operations		–	10,936
Profit for the period		221,195	218,894

		Six months ended 30 June	
		2008	2007
		Unaudited	Unaudited
		HK\$'000	HK\$'000
			(Restated)
<i>Notes</i>			
Attributable to:			
Equity holders of the Company		230,239	223,680
Minority interests		(9,044)	(4,786)
		<u>221,195</u>	<u>218,894</u>
Earnings per share attributable to ordinary equity holders of the Company:			
		6	
Basic			
For profit for the period		<u>HK 8.7 cents</u>	<u>HK 8.4 cents</u>
For profit from continuing operations		<u>HK 8.7 cents</u>	<u>HK 8.0 cents</u>
Diluted			
For profit for the period		<u>HK 8.2 cents</u>	<u>—</u>
For profit from continuing operations		<u>HK 8.2 cents</u>	<u>—</u>

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		280,464	235,052
Investment properties		1,631,785	1,122,341
Prepaid land lease payments		58,754	20,027
Construction in progress	7	26,926	263,444
Interests in associates	8	369,181	303,617
Biological assets		71,000	71,000
Available-for-sale financial assets		40,944	38,169
Other non-current assets		21,534	16,666
Goodwill		3,384	3,384
Total non-current assets		2,503,972	2,073,700
CURRENT ASSETS			
Inventories		409,277	262,966
Property under development	7	345,874	–
Trade receivables	9	189,888	135,711
Prepayments, deposits and other receivables		125,116	141,022
Financial assets at fair value through profit or loss		21,352	54,513
Due from associates	8	4,199	234,045
Due from related companies		1,474	9,596
Due from minority shareholder of a subsidiary		12,359	12,561
Tax recoverable		9,182	1,855
Cash and bank balances		175,155	162,235
Total current assets		1,293,876	1,014,504
CURRENT LIABILITIES			
Trade and bills payables	10	293,773	267,634
Other payables and accruals		261,871	174,433
Interest-bearing bank and other borrowings		457,038	352,550
Due to related companies		2,426	30,226
Due to minority shareholders of subsidiaries		35,379	2,128
Tax payable		31,066	21,545
Dividend payable		26,519	–
Total current liabilities		1,108,072	848,516
NET CURRENT ASSETS		185,804	165,988
TOTAL ASSETS LESS CURRENT LIABILITIES		2,689,776	2,239,688

	30 June 2008 Unaudited HK\$'000	31 December 2007 Audited HK\$'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	216,312	181,134
Advances from minority shareholders of subsidiaries	53,796	51,576
Other non-current liabilities	86,230	41,259
Promissory notes	95,959	95,959
Deferred tax liabilities	228,523	134,112
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Total non-current liabilities	680,820	504,040
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Net assets	2,008,956	1,735,648
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EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	53,040	53,038
Reserves	1,851,375	1,562,238
Proposed final dividend	–	26,519
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	1,904,415	1,641,795
Minority interests	104,541	93,853
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Total equity	2,008,956	1,735,648
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital and share premium Unaudited HK\$'000	Other reserves Unaudited HK\$'000	Retained profits Unaudited HK\$'000	Dividends Unaudited HK\$'000	Attributable to equity holders of the Company Unaudited HK\$'000	Minority interests Unaudited HK\$'000	Total equity Unaudited HK\$'000
At 1 January 2008	246,526	257,573	1,111,177	26,519	1,641,795	93,853	1,735,648
Profit/(loss) for the period	–	–	230,239	–	230,239	(9,044)	221,195
Change in fair value of available-for-sale financial assets	–	2,130	–	–	2,130	–	2,130
Recognition of equity-settled share based compensation	–	2,880	–	–	2,880	278	3,158
Exchange realignment	–	53,852	–	–	53,852	9,032	62,884
Total recognised income and expenses for the period	–	58,862	230,239	–	289,101	266	289,367
Acquisition of subsidiaries	–	–	–	–	–	10,422	10,422
Issue of shares upon exercise of share warrants	38	–	–	–	38	–	38
Final 2007 dividend declared	–	–	–	(26,519)	(26,519)	–	(26,519)
At 30 June 2008	246,564	316,435	1,341,416	–	1,904,415	104,541	2,008,956
At 1 January 2007							
As previously reported	246,443	190,470	849,826	29,699	1,316,438	118,800	1,435,238
Adjusted for the acquisition of businesses from the ultimate holding company**	–	70,077	(82,901)	–	(12,824)	(24,808)	(37,632)
As restated**	246,443	260,547	766,925	29,699	1,303,614	93,992	1,397,606
Acquisition of SCL**	–	(80,706)	(14,617)	–	(95,323)	322	(95,001)
Profit/(loss) for the period**	–	–	223,680	–	223,680	(4,786)	218,894
Disposal of available-for-sale financial assets	–	(4,664)	–	–	(4,664)	–	(4,664)
Surplus on revaluation	–	5,250	–	–	5,250	–	5,250
Recognition of equity-settled share based compensation**	–	428	–	–	428	205	633
Exchange realignment**	–	9,701	–	–	9,701	1,359	11,060
Total recognised income and expenses for the period**	–	10,715	223,680	–	234,395	(3,222)	231,173
Acquisition of a subsidiary	–	–	–	–	–	1,791	1,791
Disposal of subsidiaries**	–	–	–	–	–	(2,922)	(2,922)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	(3,785)	(3,785)
Final 2006 dividend declared	–	–	–	(29,699)	(29,699)	–	(29,699)
Interim 2007 dividend proposed	–	–	(26,517)	26,517	–	–	–
At 30 June 2007**	246,443	190,556	949,471	26,517	1,412,987	86,176	1,499,163

** as restated

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
		(Restated)
Net cash outflow from operating activities	(272,301)	(140,421)
Net cash inflow from investing activities	155,679	63,913
Net cash inflow from financing activities	142,952	106,620
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Net increase in cash and cash equivalents	26,330	30,112
Cash and cash equivalents at beginning of the period	145,787	250,601
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Cash and cash equivalents at end of the period	172,117	280,713
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ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	175,155	280,857
Bank overdrafts	(3,038)	(144)
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	172,117	280,713
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2008

1. Principal accounting policies

The unaudited condensed interim financial statements (“interim financial statements”) have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Hong Kong Accounting Standards (“HKAS”) No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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 director of the Company and certain businesses, namely the investment holding of berth and club debentures and the investment property holding businesses from South China Holdings Limited, the ultimate holding company.

Such acquisition of businesses under common control was accounted for using merger accounting in accordance with Accounting Guideline 5 issued by the 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 and the other businesses mentioned above 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\$300,844,000 of which HK\$300,323,000 is attributable to the elimination of the gain on disposal of the said interest in subsidiaries to SCL.

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.

These interim financial statements should be read, where relevant, in conjunction with the 2007 annual financial statements of the Group.

2. Turnover and segmental information

An analysis of the Group’s consolidated turnover and contribution to profit 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		Six months ended 30 June	
	2008	2007	2008	2007
	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
		(Restated)		(Restated)
By principal activity:				
Continuing operations				
Trading and manufacturing	679,097	836,578	(25,702)	13,149
Property investment and development	26,073	18,408	72,942	7,548
Agriculture and woods	1,447	950	(4,791)	(2,550)
Investment holding	—	—	149,807	37,306
	<u>706,617</u>	<u>855,936</u>	<u>192,256</u>	<u>55,453</u>
Discontinued operations				
Travel business	—	1,087,516	—	17,391
Information technology	—	27,550	—	(2,407)
	<u>—</u>	<u>1,115,066</u>	<u>—</u>	<u>14,984</u>

	Turnover		Contribution to profit/ (loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007
	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
By geographical location [#] :				
Continuing operations				
The People's Republic of China (the "PRC")				
including Hong Kong and Macau	112,268	80,177	215,635	41,125
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>706,617</u>	<u>855,936</u>	<u>192,256</u>	<u>55,453</u>
Discontinued operations				
The PRC	<u>–</u>	<u>1,115,066</u>	<u>–</u>	<u>14,984</u>

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

3. Depreciation

Profit from operations for the period is arrived at after charging depreciation of approximately HK\$22,585,000 (six months ended 30 June 2007: HK\$24,519,000 (restated)) in respect of the Group's property, plant and equipment.

4. 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 profit arising in or derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated on the estimated assessable profit at rates of taxation prevailing in the countries in which the Group operates.

5. 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: HK1.0 cent per ordinary share, totalling approximately HK\$26,517,000).

6. Earnings per share attributable to ordinary 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\$230,239,000 (six months ended 30 June 2007: HK\$223,680,000 (restated)) and the weighted average number of 2,651,926,398 ordinary shares (six months ended 30 June 2007: 2,651,673,710 ordinary shares) in issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Diluted earnings per share is not presented for the six months ended 30 June 2007 as there was no diluting event during that period.

7. 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.

8. Interests in associates

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

Name of associate	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") (<i>Note</i>)	30%	3,250	396,000

Note: The advances are unsecured, interest bearing at 0.5% per annum, repayable on demand and subordinated to the bank loans of the associate. The guarantees given were to secure banking facilities granted to FWIL, of which approximately HK\$387,300,000 were utilized as at 30 June 2008. The banking facilities are due to be mature in November 2012. The advances to FWIL and guarantees given were used on refinancing an investment property, The Centrium, which is a Grade-A commercial building located in Central, Hong Kong.

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>

9. Trade receivables

Trade receivables of approximately HK\$189,888,000 (31 December 2007: HK\$135,711,000), substantially with an aging within 6 months, are stated net of provision for impairment.

Impairment is recognised when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

10. Trade payables

Trade payables of approximately HK\$264,072,000 (31 December 2007: HK\$263,857,000) are substantially with an aging within 6 months.

11. Excess over the cost of business combinations

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded turnover of HK\$706.6 million and profit of HK\$221.2 million for the six months ended 30 June 2008, representing a decrease of 17% in turnover and a minor increase in profit as compared to the corresponding period in 2007.

Trading and Manufacturing

The segment recorded a 19% reduction in turnover to HK\$679.1 million and a loss of HK\$25.7 million as compared to a profit of HK\$13.1 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 42% 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\$6.3 million rental profit and recognised a fair value gain of HK\$66.6 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.

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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008, the Group had a current ratio of 1.2 and a gearing ratio of 10.8% (31 December 2007: 1.2 and 10.4% respectively). The gearing ratio is computed by comparing the Group's total long-term bank and other borrowings of HK\$216.3 million to the Group's equity of HK\$2,009.0 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

There was no material change in the Group's capital structure as compared to the most recently published annual report.

MATERIAL ACQUISITIONS AND DISPOSALS

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.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

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

The Group has provided an additional guarantee of HK\$186 million to a bank in connection with banking facilities granted to an associate of the Company. Details are set out in note 8 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.

EMPLOYEES

As at 30 June 2008, the total number of employees of the Group was approximately 24,700. 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.

PROSPECTS

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.

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.

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: HK1.0 cent per ordinary 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 of Hong Kong Limited (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	Number of shares	Approximate % of issued share capital
Ng Hung Sang ("Mr. Ng")	Interest of controlled corporations	1,983,206,785 (Note b)	74.78%

(ii) Interests in underlying Shares

a) Warrants

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

b) Share options

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

(b) Associated corporations

(i) Interests in shares

(1) South China Holdings Limited (“SCH”)

Name of Director	Capacity and Number of shares		Total number of shares	Approximate % of issued share capital
	Beneficial owner	Interest of controlled corporations		
Mr. Ng	71,652,200	1,272,529,612	1,344,181,812 (Note a)	73.72%
Richard Howard Gorges (“Mr. Gorges”)	–	487,949,760	487,949,760 (Note a)	26.76%
Ms. Cheung	–	487,949,760	487,949,760 (Note a)	26.76%

(2) South China Financial Holdings Limited (“SCFH”)

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”)

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 controlled corporations	30	30%

(ii) **Interests in underlying shares**

(1) **SCH**

Share options

Name of Director	Capacity	Number of underlying shares	Approximate % of issued share capital
Mr. Gorges	Beneficial owner	18,000,000 (<i>Note i</i>)	0.99%
Ms. Cheung	Beneficial owner	18,000,000 (<i>Note i</i>)	0.99%
Ng Yuk Fung, Peter	Beneficial owner	18,000,000 (<i>Note i</i>)	0.99%
Ng Yuk Mui, Jessica	Beneficial owner	18,000,000 (<i>Note i</i>)	0.99%

(2) **SCFH**

a) **Warrants**

Name of Director	Capacity	Number of underlying shares	Approximate % of issued share capital
Mr. Ng	Interest of controlled corporations	679,350,500 (<i>Note j</i>)	13.51%
Mr. Gorges	Beneficial owner	2,434,800 (<i>Note j</i>)	0.05%
Ms. Cheung	Beneficial owner	2,000,000 (<i>Note j</i>)	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 k)	0.60%
Ms. Cheung	Beneficial owner	20,000,000 (Note k)	0.40%
Ng Yuk Fung, Peter	Beneficial owner	50,000,000 (Note k)	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 l)	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 m)	0.99%

Notes:

- (a) Mr. Ng, through controlled corporations, together with Ms. Cheung and Mr. Gorges, had interests in 487,949,760 shares of SCH. In addition, 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 of SCH. Therefore, Mr. Ng was deemed to have interest in a total of 1,344,181,812 shares of SCH, representing approximately 73.72% in the issued share capital of SCH. SCH held approximately 72.79% interest indirectly in SCFH and approximately 74.78% interest indirectly in the Company respectively. The Company held approximately 68.58% interest indirectly in SCL.
- (b) By virtue of note (a) above, Mr. Ng was deemed to have interest in those shares of the Company held by certain wholly-owned subsidiaries of SCH.
- (c) These were warrants of the Company 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 the Company at an initial subscription price of HK\$0.40 per share (subject to adjustments). By virtue of note (a) above, Mr. Ng was deemed to have interest in these underlying shares held by certain wholly-owned subsidiaries of SCH.
- (d) These share options were granted on 18 September 2007 at the exercise price of HK\$1.50 per share of the Company 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 director was 26,000,000.

- (e) By virtue of note (a), Mr. Ng was deemed to have interest in those shares of SCFH held by certain wholly-owned subsidiaries of SCH.
- (f) By virtue of note (a), Mr. Ng was deemed to have interest in those shares of SCL held by certain wholly-owned subsidiaries of the Company.
- (g) SCFC was a 98.48% owned subsidiary of SCFH.
- (h) Prime Prospects was a 70% owned subsidiary of the Company.
- (i) These share options were granted on 18 September 2007 at the exercise price of HK\$2.00 per share of SCH 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 director was 18,000,000.
- (j) 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 the Company at an initial subscription price of HK\$0.168 per share (subject to adjustments). By virtue of note (a) above, Mr. Ng was deemed to have interest in those underlying shares held by certain wholly-owned subsidiaries of SCH.
- (k) 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 an exercise price of HK\$0.128 per share. Ms. Cheung had exercised the share options to subscribe for 10,000,000 shares of SCFH. Ng Yuk Fung, Peter was granted with share options to subscribe for 30,000,000 shares of SCFH 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 periods are 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 of the total 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.
- (l) Two convertible notes were issued to a wholly-owned subsidiary of the Company with the rights to convert into 5,440,000,000 and 5,226,666,666 underlying shares of SCL respectively at a conversion price of HK\$0.075 per share. By virtue of note (a), Mr. Ng was deemed to have interest in those underlying shares in SCL.
- (m) These share options were granted on 14 March 2007 the exercise price of HK\$0.2166 per share of SCL with exercise periods 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) 1/3 of the total 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.
- (n) All interest disclosed above represent long position in the shares.

Save as disclosed above, none of the Directors or chief executives of the Company had registered, as at 30 June 2008, 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) 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 AND 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 positions

Name of shareholder	Capacity	Number of shares	Approximate % of issued share capital	Number of underlying shares (Note)	Approximate % of issued share capital
SCH	Interest of controlled corporations	1,983,206,785	74.78%	396,641,357	14.96%

Note: These are warrants of the Company 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 at an initial subscription price of HK\$0.40 per share (subject to adjustment).

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" 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 OPTION SCHEMES

Scheme of the Company

The Company's existing share option scheme was adopted on 31 May 2002 and became effective 28 June 2002. Particulars and movements of the outstanding share options granted under the share option scheme 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 year	As at 30 June 2008		
Directors						
Ms.Cheung	18/09/2007	26,000,000	–	26,000,000	18/09/2008 – 17/09/2017	1.500
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	1.500
Sub-total		52,000,000	–	52,000,000		

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 year	As at 30 June 2008		
Consultant						
In aggregate	18/09/2007	4,200,000	–	4,200,000	18/09/2008 – 17/09/2017	1.500
Sub-total		4,200,000	–	4,200,000		
Employees						
In aggregate	18/09/2007	46,800,000	6,200,000	40,600,000	18/09/2008 – 17/09/2017	1.500
	25/09/2007	11,500,000	600,000	10,900,000	25/09/2008 – 24/09/2017	1.500
Sub-total		58,300,000	6,800,000	51,500,000		
Total		114,500,000	6,800,000	107,700,000		

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 ¹ / ₃ %
25th – 120th month	not more than 66 ² / ₃ %
37th – 120th month	100%

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\$2,297,000 (2007: Nil) during the period ended 30 June 2008.

Scheme of SCL

SCL adopted a share option scheme 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		5,000,000	5,000,000		

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	As at 30 June 2008		
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	0.3150
Sub-total		<u>11,000,000</u>	<u>11,000,000</u>		
Total		<u>16,000,000</u>	<u>16,000,000</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 ¹ / ₃ %
25th – 48th month	33 ¹ / ₃ %
37th – 60th month	33 ¹ / ₃ %

No share options have been granted, exercised or cancelled 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 Ms. Li Yuen Yu, Alice (Committee Chairman), Mr. Chiu Sin Chun and Mrs. Tse Wong Siu Yin, Elizabeth.

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, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges and Mr. Ng Yuk Fung, Peter as executive directors; (2) Ms. Ng Yuk Mui, Jessica as non-executive director and (3) Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin, Elizabeth and Ms. Li Yuen Yu, Alice as independent non-executive directors.