



SOUTH CHINA (CHINA) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 413)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2011

The board of directors (the “Board”) of South China (China) Limited (the “Company”) is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2011. The unaudited condensed consolidated financial statements have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2011	2010
		Unaudited	Unaudited and
		HK\$'000	Restated
	Notes		HK\$'000
Revenue	3	1,121,918	1,063,061
Cost of sales		(952,460)	(900,635)
Gross profit		169,458	162,426
Other income and gain, net		13,580	14,418
Selling and distribution costs		(18,875)	(16,093)
Administrative and operating expenses		(147,869)	(127,726)
Non-cash equity-settled share award and option expenses		(192)	(8,774)
Gain on disposal of assets and investments, net	4	4,117	1,832
Changes in fair value of assets	5	65,679	57,543
Profit from operations	3&6	85,898	83,626
Finance costs		(8,940)	(7,876)
(Impairment)/reversal of impairment of advance to an associate		(309)	614
Share of profits and losses of associates		165,326	36,781
Profit before tax		241,975	113,145
Tax	7	(18,530)	(9,170)
Profit for the period		223,445	103,975
Attributable to:			
Owners of the Company		220,815	104,091
Non-controlling interests		2,630	(116)
		223,445	103,975
Earnings per share attributable to owners of the Company:	9		
Basic		HK7.4 cents	HK3.5 cents
Diluted		HK7.4 cents	HK3.4 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2011	2010
	Unaudited	Unaudited and
	HK\$'000	Restated
		HK\$'000
Profit for the period	223,445	103,975
Other comprehensive income for the period		
Exchange differences on translation of foreign operations	<u>24,950</u>	<u>531</u>
Total comprehensive income for the period	<u>248,395</u>	<u>104,506</u>
Attributable to:		
Owners of the Company	244,243	104,622
Non-controlling interests	<u>4,152</u>	<u>(116)</u>
Total comprehensive income for the period	<u>248,395</u>	<u>104,506</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2011 Unaudited HK\$'000	31 December 2010 Restated HK\$'000	1 January 2010 Restated HK\$'000
	Notes			
NON-CURRENT ASSETS				
Property, plant and equipment		245,790	248,814	236,643
Investment properties		1,517,922	1,445,134	1,396,616
Prepaid land lease payments		97,468	64,371	52,164
Construction in progress		81,165	51,256	27,597
Interests in associates	10	752,235	664,184	468,862
Biological assets		181,589	161,735	88,990
Available-for-sale financial assets		53,197	53,432	41,901
Other non-current assets		16,666	16,666	16,666
Trade receivable, prepayments and deposits		32,062	22,490	–
Goodwill		3,112	3,071	3,011
Total non-current assets		2,981,206	2,731,153	2,332,450
CURRENT ASSETS				
Inventories		653,145	382,420	306,403
Trade receivables	11	316,236	142,134	155,773
Prepayments, deposits and other receivables		105,817	87,176	75,012
Financial assets at fair value through profit or loss		35,152	25,698	22,052
Due from non-controlling shareholder of a subsidiary		200	–	–
Due from affiliates		78,000	7,499	19,647
Tax recoverable		13,653	1,997	6,808
Cash and bank balances		201,407	136,358	184,815
Non-current assets classified as held for sale		1,403,610 352,387	783,282 435,339	770,510 304,908
Total current assets		1,755,997	1,218,621	1,075,418
CURRENT LIABILITIES				
Trade and bills payables	12	453,602	293,861	288,390
Other payables and accruals		355,462	347,694	261,884
Interest-bearing bank and other borrowings		710,836	466,251	467,856
Due to non-controlling shareholders of subsidiaries		22,857	23,943	20,697
Due to affiliates		3,000	36,883	27,426
Dividend payable		29,738	–	–
Tax payable		37,863	31,480	30,266
Total current liabilities		1,613,358	1,200,112	1,096,519
NET CURRENT ASSETS/ (LIABILITIES)		142,639	18,509	(21,101)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,123,845	2,749,662	2,311,349

	30 June 2011 Unaudited HK\$'000	31 December 2010 Restated HK\$'000	1 January 2010 Restated HK\$'000
<i>Notes</i>			
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33,823	38,148	40,825
Advances from a director	–	–	38,409
Advances from non-controlling shareholders of subsidiaries	31,133	30,411	29,346
Due to an associate	162,150	–	–
Other non-current liabilities	89,058	87,302	85,170
Deemed consideration for acquisition of subsidiaries under merger accounting	–	41,464	32,247
Deferred tax liabilities	261,764	248,716	232,417
	<hr/>	<hr/>	<hr/>
Total non-current liabilities	577,928	446,041	458,414
	<hr/>	<hr/>	<hr/>
Net assets	2,545,917	2,303,621	1,852,935
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	59,773	59,773	59,424
Reserves	2,384,440	2,116,241	1,677,382
Proposed final dividend	–	29,886	29,714
	<hr/>	<hr/>	<hr/>
	2,444,213	2,205,900	1,766,520
Non-controlling interests	101,704	97,721	86,415
	<hr/>	<hr/>	<hr/>
Total equity	2,545,917	2,303,621	1,852,935
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital and share premium Unaudited HK\$'000	Shares held for share award scheme Unaudited HK\$'000	Other reserves Unaudited HK\$'000	Retained profits Unaudited HK\$'000	Proposed final dividend Unaudited HK\$'000	Attributable to owners of the Company Unaudited HK\$'000	Non- controlling interests Unaudited HK\$'000	Total equity Unaudited HK\$'000
At 1 January 2011								
As previously reported	66,497	–	286,356	1,852,828	29,886	2,235,567	97,721	2,333,288
Adjusted for common control combinations	–	–	(22,691)	(6,976)	–	(29,667)	–	(29,667)
As restated	66,497	–	263,665	1,845,852	29,886	2,205,900	97,721	2,303,621
Recognition of equity-settled share based compensation	–	–	111	–	–	111	–	111
Contributed surplus arising from the vendor's waiver of shareholder's loan in a common control combination	–	–	33,389	–	–	33,389	–	33,389
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	(169)	(169)
Shares purchased for share award scheme	–	(9,693)	–	–	–	(9,693)	–	(9,693)
Final 2010 dividend declared	–	–	–	–	(29,886)	(29,886)	–	(29,886)
Final dividend relating to 2010 for shares held for share award scheme	–	–	–	149	–	149	–	149
Total comprehensive income for the period	–	–	23,428	220,815	–	244,243	4,152	248,395
At 30 June 2011	<u>66,497</u>	<u>(9,693)</u>	<u>320,593</u>	<u>2,066,816</u>	<u>–</u>	<u>2,444,213</u>	<u>101,704</u>	<u>2,545,917</u>
At 1 January 2010								
As previously reported	59,520	–	231,292	1,471,069	29,714	1,791,595	86,415	1,878,010
Adjusted for common control combinations	–	–	(24,149)	(926)	–	(25,075)	–	(25,075)
As restated	59,520	–	207,143	1,470,143	29,714	1,766,520	86,415	1,852,935
Issue of shares upon exercise of share warrants	899	–	–	–	–	899	–	899
Recognition of equity-settled share based compensation	–	–	8,774	–	–	8,774	–	8,774
Final 2009 dividend declared	–	–	–	–	(29,714)	(29,714)	–	(29,714)
Total comprehensive income for the period	–	–	531	104,091	–	104,622	(116)	104,506
At 30 June 2010	<u>60,419</u>	<u>–</u>	<u>216,448</u>	<u>1,574,234</u>	<u>–</u>	<u>1,851,101</u>	<u>86,299</u>	<u>1,937,400</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2011	2010
	Unaudited	Unaudited and
	HK\$'000	Restated
		HK\$'000
Net cash outflow from operating activities	(298,266)	(162,019)
Net cash outflow from investing activities	(45,251)	(43,290)
Net cash inflow from financing activities	<u>406,515</u>	<u>166,034</u>
Net increase/(decrease) in cash and cash equivalents	62,998	(39,275)
Cash and cash equivalents at beginning of the period	128,113	184,815
Effect of foreign exchange rate changes, net	<u>1,699</u>	<u>–</u>
Cash and cash equivalents at end of the period	<u>192,810</u>	<u>145,540</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. Basis of preparation

The unaudited condensed consolidated 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 No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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 2010 except that the Group has adopted the newly issued and revised Hong Kong Financial Reporting Standards, which are effective for the annual period beginning on 1 January 2011, as disclosed in the annual financial statements for the year ended 31 December 2010. The adoption of these new or revised Hong Kong Financial Reporting Standards does not have significant impact on the Group’s results of operations and financial position.

These interim financial statements should be read, where relevant, in conjunction with the 2010 annual financial statements of the Group.

2. Common control combinations

During the six months ended 30 June 2011, the Group acquired:

- i) the entire interest in Thousand China Investments Limited (“Thousand China”); and
- ii) the entire interest in Autowill Limited (“Autowill”) and the shareholder’s loan thereto

(collectively the “Acquired Businesses”) from companies ultimately controlled by the substantial shareholder of the Company. Further details about the acquisition of interests in Thousand China and Autowill have been set out in the announcements dated 11 January 2011.

As the Company and the vendors are ultimately controlled by the aforesaid substantial shareholder who is also a director of the Company, the acquisitions were regarded as business combinations under common control. To consistently apply the Group’s accounting policy for common control combination, the financial statements of the Group have been prepared based on the principles of merger accounting in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* (“AG 5”) issued by the HKICPA as if the acquisitions had occurred on the date when the combining entities first came under the control of the substantial shareholder. Accordingly, the assets and liabilities acquired in the common control combinations are stated at their carrying amounts as if they had been held or incurred by the Group from the later of the date on which the combining entities first came under the control of the substantial shareholder or the relevant transactions giving rise to the assets or liabilities arose.

In accordance with AG 5, the comparative amounts of the financial statements of the Group have been restated to include the financial statement items of the Acquired Businesses. The effect of the acquisitions on and, hence, the items so restated in the comparative financial statements are summarized below:

(a) **Effect on the consolidated statement of financial position as at 31 December 2010**

	As previously reported HK\$'000	Acquisition of Thousand China HK\$'000	Acquisition of Autowill HK\$'000	Consolidation Total HK\$'000	Consolidation adjustments HK\$'000	As restated HK\$'000
NON-CURRENT ASSETS						
Property, plant and equipment	246,951	1,464	399	248,814	–	248,814
Prepaid land lease payments	42,000	17,726	4,645	64,371	–	64,371
Biological assets	160,471	1,264	–	161,735	–	161,735
Others *	2,256,233	–	–	2,256,233	–	2,256,233
Total non-current assets	2,705,655	20,454	5,044	2,731,153	–	2,731,153
CURRENT ASSETS						
Prepayments, deposits and other receivables	83,738	2,989	449	87,176	–	87,176
Cash and bank balances	118,741	7,081	10,536	136,358	–	136,358
Others *	995,087	–	–	995,087	–	995,087
Total current assets	1,197,566	10,070	10,985	1,218,621	–	1,218,621
CURRENT LIABILITIES						
Other payables and accruals	346,442	935	317	347,694	–	347,694
Due to affiliates	3,379	33,504	17,266	54,149	(17,266)	36,883
Others *	815,535	–	–	815,535	–	815,535
Total current liabilities	1,165,356	34,439	17,583	1,217,378	(17,266)	1,200,112
NET CURRENT ASSETS/(LIABILITIES)	32,210	(24,369)	(6,598)	1,243	17,266	18,509
TOTAL ASSETS LESS CURRENT LIABILITIES						
	2,737,865	(3,915)	(1,554)	2,732,396	17,266	2,749,662
NON-CURRENT LIABILITIES						
Deemed consideration for acquisition of subsidiaries under merger accounting	–	–	–	–	41,464	41,464
Others *	404,577	–	–	404,577	–	404,577
Total non-current liabilities	404,577	–	–	404,577	41,464	446,041
Net assets/(liabilities)	2,333,288	(3,915)	(1,554)	2,327,819	(24,198)	2,303,621
EQUITY						
Exchange fluctuation reserve	120,007	508	999	121,514	–	121,514
Retained earnings/(accumulated losses)	1,852,828	(4,423)	(2,553)	1,845,852	–	1,845,852
Merger reserve	10,805	–	–	10,805	(24,198)	(13,393)
Others *	349,648	–	–	349,648	–	349,648
Total equity/(deficiency in assets)	2,333,288	(3,915)	(1,554)	2,327,819	(24,198)	2,303,621

(b) **Effect on the consolidated statement of financial position as at 1 January 2010**

	As previously reported HK\$'000	Acquisition of Thousand China HK\$'000	Acquisition of Autowill HK\$'000	Consolidation Total HK\$'000	adjustments HK\$'000	As restated HK\$'000
NON-CURRENT ASSETS						
Property, plant and equipment	234,504	2,099	40	236,643	–	236,643
Prepaid land lease payments	42,484	9,680	–	52,164	–	52,164
Others *	2,043,643	–	–	2,043,643	–	2,043,643
Total non-current assets	2,320,631	11,779	40	2,332,450	–	2,332,450
CURRENT ASSETS						
Prepayments, deposits and other receivables	74,613	387	12	75,012	–	75,012
Cash and bank balances	174,907	2,131	7,777	184,815	–	184,815
Others *	815,591	–	–	815,591	–	815,591
Total current assets	1,065,111	2,518	7,789	1,075,418	–	1,075,418
CURRENT LIABILITIES						
Trade and bills payables	288,384	6	–	288,390	–	288,390
Other payables and accruals	258,674	3,210	–	261,884	–	261,884
Due to affiliates	15,688	11,738	8,049	35,475	(8,049)	27,426
Others *	518,819	–	–	518,819	–	518,819
Total current liabilities	1,081,565	14,954	8,049	1,104,568	(8,049)	1,096,519
NET CURRENT ASSETS/(LIABILITIES)	(16,454)	(12,436)	(260)	(29,150)	8,049	(21,101)
TOTAL ASSETS LESS CURRENT LIABILITIES						
	2,304,177	(657)	(220)	2,303,300	8,049	2,311,349
NON-CURRENT LIABILITIES						
Deemed consideration for acquisition of subsidiaries under merger accounting	–	–	–	–	32,247	32,247
Others *	426,167	–	–	426,167	–	426,167
Total non-current liabilities	426,167	–	–	426,167	32,247	458,414
Net assets/(liabilities)	1,878,010	(657)	(220)	1,877,133	(24,198)	1,852,935
EQUITY						
Exchange fluctuation reserve	87,355	63	(14)	87,404	–	87,404
Retained earnings/(accumulated losses)	1,471,069	(720)	(206)	1,470,143	–	1,470,143
Merger reserve	10,805	–	–	10,805	(24,198)	(13,393)
Others *	308,781	–	–	308,781	–	308,781
Total equity/(deficiency in assets)	1,878,010	(657)	(220)	1,877,133	(24,198)	1,852,935

(c) **Effect on consolidated income statement for the six months ended 30 June 2010**

	As previously reported HK\$'000	Acquisition of Thousand China HK\$'000	Acquisition of Autowill HK\$'000	Total HK\$'000
Other income and gain, net	13,877	535	6	14,418
Administrative and operating expenses	(123,427)	(4,056)	(243)	(127,726)
Others *	217,283	–	–	217,283
Profit/(loss) for the period	107,733	(3,521)	(237)	103,975
Attributable to:				
Owners of the Company	107,849	(3,521)	(237)	104,091
Non-controlling interests	(116)	–	–	(116)
	107,733	(3,521)	(237)	103,975

* Being aggregate of items not being affected by the common control combinations and, hence, not being restated

3. Revenue and segmental information

An analysis of the Group's consolidated revenue and contribution to profit from operations by principal activity and geographical location for the six months ended 30 June 2011 and 2010 is as follows:

	Revenue Six months ended 30 June		Contribution to profit/ (loss) from operations Six months ended 30 June	
	2011	2010	2011	2010
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited and Restated HK\$'000
By principal activity:				
Trading and manufacturing	1,042,839	1,026,281	3,681	55,239
Property investment and development	72,506	30,283	121,393	70,027
Agriculture and forestry	6,573	6,497	(10,218)	(11,318)
Investment holding	–	–	(28,958)	(30,322)
	<u>1,121,918</u>	<u>1,063,061</u>	<u>85,898</u>	<u>83,626</u>
By geographical location [#] :				
The People's Republic of China (the "PRC") including Hong Kong and Macau	127,057	89,565	80,490	32,996
United States of America	572,292	630,581	2,247	34,340
Europe	214,623	191,421	917	7,687
Japan	30,742	9,863	342	617
Others	177,204	141,631	1,902	7,986
	<u>1,121,918</u>	<u>1,063,061</u>	<u>85,898</u>	<u>83,626</u>

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

The following table presents the assets and liabilities information for the Group's business segments as at the reporting period end date:

	Trading and manufacturing		Property investment and development		Agriculture and forestry		Investment holding		Group	
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Restated HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Restated HK\$'000
Segment assets	1,433,402	951,690	2,007,161	1,980,028	318,199	256,100	212,553	95,775	3,971,315	3,283,593
Investment in associates	13,432	12,663	738,803	651,521	–	–	–	–	752,235	664,184
Tax recoverable									13,653	1,997
Total assets									4,737,203	3,949,774
Segment liabilities	1,411,064	930,001	298,571	159,553	13,893	84,806	168,131	191,597	1,891,659	1,365,957
Tax payable									37,863	31,480
Deferred tax liabilities									261,764	248,716
Total liabilities									2,191,286	1,646,153

4. Gain on disposal of assets and investments, net

	Six months ended 30 June	
	2011	2010
	Unaudited HK\$'000	Unaudited HK\$'000
Gain on disposal of investment properties	4,000	–
Gain on disposal of items of property, plant and equipment	69	1,781
Gain on disposal of available-for-sale financial assets	48	76
Loss on disposal of an associate	–	(25)
	<u>4,117</u>	<u>1,832</u>

5. Changes in fair value of assets

	Six months ended 30 June	
	2011	2010
	Unaudited HK\$'000	Unaudited HK\$'000
Fair value loss on financial assets at fair value through profit or loss	(4,611)	(2,396)
Fair value gain on investment properties	44,720	23,439
Fair value gain on non-current assets classified as held for sale	25,570	36,500
	<u>65,679</u>	<u>57,543</u>

6. Depreciation

Profit from operations for the period is arrived at after charging depreciation of approximately HK\$20,839,000 (six months ended 30 June 2010: HK\$19,364,000) in respect of the Group's property, plant and equipment.

7. Tax

Income tax comprises current and deferred tax.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2010: 16.5%) 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.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

8. Interim dividend

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

9. Earnings per share attributable to owners of the Company

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately HK\$220,815,000 (six months ended 30 June 2010: approximately HK\$104,091,000) and the weighted average numbers of ordinary shares used in the calculation are as follows:

	2011 Unaudited	2010 Unaudited
<u>Number of shares</u>		
Weighted average number of ordinary shares in issue less shares held for share award scheme during the period used in the basic earnings per share calculation	2,982,157,084	2,971,961,998
Effect on dilution – weighted average number of ordinary shares:		
Warrants	–	60,112,845
Share award scheme	6,479,779	–
	<u>2,988,636,863</u>	<u>3,032,074,843</u>
Weighted average number of ordinary shares used in the diluted earnings per share calculation		

The Company's share options have no dilutive effect for the six months ended 30 June in both 2010 and 2011 as the exercise price of the Company's share option was higher than the average market price of the shares in both periods.

10. Interests in associates

The amount includes interest in a principal associate indirectly held by the Company. Details about the associate are as follows:

Name of associate	Proportion of issued capital held indirectly by the Company	Guarantee given by the Group HK\$'000
Firm Wise Investment Limited ("FWIL")	30%	579,600

The guarantee given was to secure banking facilities granted to FWIL, of which approximately HK\$574,800,000 were utilized as at 30 June 2011. The banking facilities are due to mature in November 2012. FWIL holds an investment property, The Centrium, which is a Grade-A commercial building located in Central, Hong Kong.

11. Trade receivables

Trade receivables of approximately HK\$316,236,000 (31 December 2010: HK\$142,134,000), substantially with an age 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.

The Group's trading terms with its customers are on credit with credit periods ranging from period of one to three months depending on a number of factors including trade practices, collection history and location of customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor credit risk. Overdue balances are reviewed regularly by senior management.

12. Trade payables

Trade payables of approximately HK\$439,228,000 (31 December 2010: HK\$284,981,000) are substantially with an age within 6 months.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group recorded revenue of HK\$1.1 billion and profit of HK\$223.4 million for the six months ended 30 June 2011. Comparing to the corresponding period in 2010, revenue and profit increased by 6% and 115% respectively.

Trading and Manufacturing

The trading and manufacturing segment is mainly represented by three principal business units, Wah Shing Toys, South China Shoes and Wah Shing Electronics. The segment recorded revenue of HK\$1.0 billion for the six months ended 30 June 2011, at the level similar to the corresponding period in 2010.

The segment experienced a record growth of 68% increase in turnover during the first half of 2010. This was largely due to the fact that Wah Shing Toys was able to benefit from the consolidation of the toys industry after the financial tsunami in late 2008. The turnover achieved during the first half of 2011 suggested that the exceptional growth during the first half of 2010 is sustainable. This further strengthens our position as one of the leading players in the toys industry.

The trading and manufacturing segment reported an operating profit of HK\$3.7 million in the first half of 2011 as compared to an operating profit of HK\$55.2 million in the corresponding period of 2010. The drop in profit was largely due to the rising production cost on wages, raw materials, ongoing appreciation of Renminbi and non-recurring costs associated with the production of new complicated electronic products for our major customers. Riding on the seasonal factor of this industry, the management expects that under normal circumstances, the revenue and operating profit in the second half of the year will be higher than those of the first half of 2011.

Property Investment and Development

Revenue from the property investment and development segment increased by 139% to HK\$72.5 million for the six months ended 30 June 2011 as compared to the corresponding period in 2010 due to the renewal of certain tenancy agreements. In particular, rental income from subsidiaries in Nanjing increased by HK\$41.1 million or 196% to HK\$62.1 million as compared to the corresponding period in 2010. During the period, the Group reached an agreement for retrospective rental adjustment with a tenant in Nanjing and recognized a one-off rental income of HK\$34.2 million in respect of the adjustment to prior years' rental. Operating profit before the fair value gain from the segment increased by HK\$41.0 million to HK\$51.1 million as compared to the corresponding period in 2010. In addition, the segment recognized a fair value gain of total HK\$70.3 million for investment properties and investment properties held for sale during the period.

Our Group's share of the 30% owned principal associate that holds a Grade-A commercial building in Central Hong Kong, the Centrium, recorded a profit before tax from operation of HK\$17.7 million at the level similar to that of the corresponding period. The Group's share of fair value change in the property (net of the corresponding deferred tax charge) was HK\$153.2 million.

Agriculture and Forestry

As part of the Group's strategy to be one of the active market players in the Mainland's agriculture industry, we continue our effort in expanding our farmland. In the first half of 2011, the Group entered into new leases for approximately 245,000 mu of woodlands in Chongqing and Wuhan and approximately 27,000 mu of farmlands in Shenyang, Harbin and Hebei. The newly acquired farmlands in Shenyang, Harbin and Hebei are mainly used to plant cotton, corns and potatoes.

Revenue from the agriculture segment remained stable at HK\$6.6 million for the six months ended 30 June 2011, similar to that of the corresponding period in 2010.

The agriculture segment recorded a loss before change in fair value of HK\$10.2 million in the first half of 2011 as compared to a loss before change in fair value of HK\$11.3 million in 2010.

Liquidity and Financial Resources

As at 30 June 2011, the Group had a current ratio of 1.1 and a gearing ratio of 1.3% (31 December 2010: 1.0 and 1.7%, respectively). The gearing ratio is computed by comparing the Group's total long-term bank and other borrowings of HK\$33.8 million to the Group's equity of HK\$2.5 billion. The Group's operations and investments continued to be financed by internal resources and bank borrowings.

Exposure to Fluctuations in Exchange Rates and Related Hedges

As at 30 June 2011, 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

On 11 January 2011, the Group entered into an agreement to acquire certain subsidiaries engaged in forestry business in the PRC from a subsidiary of South China Holdings Limited ("SCH"), an exempted company incorporated in the Cayman Islands with limited liability and its shares are listed on the Stock Exchange, for a consideration of HK\$23.8 million subject to adjustment in accordance with the terms of the agreement. The Group and SCH are ultimately controlled by the substantial shareholder of the Company. The transaction was completed on 31 January 2011.

On 11 January 2011, the Group entered into an agreement to acquire certain subsidiaries engaged in agricultural business in the PRC from a subsidiary of South China Land Limited ("SCL") for a consideration of HK\$24.1 million subject to adjustment in accordance with the terms of the agreement. The Group and SCL are ultimately controlled by the substantial shareholder of the Company. The transaction was completed on 31 March 2011.

Details of the above acquisitions have been set out in the Company's announcements dated 11 January 2011.

Pledge of Assets, Contingent Liabilities and Commitments

There was no material change in the Group's pledge of assets, contingent liabilities and commitments as compared to the most recently published annual report.

Employees

As at 30 June 2011, the total number of employees of the Group was approximately 29,000. Performance of the staff is normally reviewed on an annual basis with adjustment comparable to the market.

Prospects

Trading and Manufacturing

The second half of 2011 will remain challenging for trading and manufacturing segment, we expect increase in material and labor cost and appreciation of Renminbi will continue but perhaps at a smaller magnitude than the first half of 2011 in the coming six months period.

On the back of seasonal factor of this segment, we are confident that results for this segment in the second half of 2011 will improve over the first half of the year. In addition, ongoing efforts have been made by our management team to reflect the adverse cost factors in price through negotiation with our major customers as we expect that this pricing strategy will also be adopted by our major competitors.

On Wah Shing Toys, we are planning to introduce more new products in the second half of 2011 and to continuously enlarge our customer base. We believe that these efforts should bring positive contribution to the profit margins in the second half of the year. Wah Shing Toys is in the process of relocating certain labor intensive production process to the plants in Guangxi.

Wah Shing Toys is planning to further expand its production capacity in the lower cost region in Huizhou.

For South China Shoes, we continuously seek to expand its customer base and have started to set up a new manufacturing plant to improve our production capacity in the future.

Property Investment and Development

The Group has a property portfolio of more than 400,000 square meters in China and 291,000 square feet in Hong Kong. The investment properties in China are mostly in prime locations, and they offer strong redevelopment potential as their average plot ratio is below 1.0. The Group is continuously looking for redevelopment opportunities for these properties in order to maximize their return to shareholders.

In Nanjing, the Group's principal investment properties are located in prime locations. The street-front shops at Shi Zi Qiao (Lion Bridge), the traditional pedestrian/food street in Golou district in the centre of Nanjing city, are one of our hidden gems. Given the location and the size of the site, the hidden strength and value of the site as a large-scale shopping mall would be fully exploited when a redevelopment plan is agreed with the government.

The 29,000 square meters site in Yuhuatai, Nanjing is currently being leased out as a flower wholesale market. Given its prime location and close proximity to the metro station, it has a great potential for redevelopment into a residential and/or commercial estate in future.

In Guangdong province, the Group is currently negotiating with the government to redevelop part of its lychee plantation in Zengcheng into a commercial/residential estate. This will be the first phase of the development of this plantation area, which is adjacent to Guangzhou's third ring road to be completed this year. We anticipate that the re-development of this plantation area is of substantial potential as it is only 30 kilometers from Guangzhou city.

In Tianjin, the Group is evaluating continuously the redevelopment potential of a number of industrial sites. In particular, a factory site near the metro station is being planned for commercial development.

With the existing lease agreements due for renewal in the future, the Group expects that revenue and contribution from property investment and development segment would continue to grow and become one of the Group's major recurring income sources. We will continue to unload our non-core investment properties in Hong Kong in order to reallocate more resources to our core business.

Agriculture and Forestry

The Group currently has long-term leases of about 99,000 mu of farmland, fishpond and lake space in various major provinces in China. We are focusing on the plantation of fruits such as apples, melons, lychee, longan, winter date fruits, crops such as corns and potatoes and breeding of livestock such as pigs and fishes for sale. The Group is also focused on exploring plantation opportunities for high profit margin species. With the acquisition of woodlands in 2011, it places the Group in a good position to capture opportunities available in China's forestry industry in the long run.

With the plantation experience gained in the initial years and the start-up costs to be absorbed gradually with apples, melons, lychee, longan, winter date fruits, corns and potatoes which start producing, we expect that the agriculture segment will generate a more significant and sustainable profit to the Group in the second half of 2011 and beyond.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

CHANGE IN INFORMATION OF DIRECTORS

The monthly salary of Ms. Cheung Choi Ngor, Vice-Chairman and Chief Executive Officer of the Company, was adjusted from HK\$124,500 to HK\$150,000 with effect from 1 January 2011.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company's most recently published annual report.

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 2011, 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") as set out in Appendix 10 of the Listing Rules, were as follows:

(a) The Company

(i) Long positions in shares

Name of Director	Capacity	Number of ordinary shares	Total number of ordinary shares	Approximate percentage of shareholding
Ng Hung Sang ("Mr. Ng")	Beneficial owner	185,706,917	1,883,283,829	63.01%
	Interest of spouse	53,500,000		
	Interest of controlled corporations	1,644,076,912 (Note a)		
Ng Yuk Fung, Peter	Beneficial owner	159,784,000	159,784,000	5.35%
Ng Yuk Mui, Jessica	Beneficial owner	68,280,000	68,280,000	2.28%

(ii) Long positions in underlying shares

Share options

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Cheung Choi Ngor ("Ms. Cheung")	Beneficial owner	26,000,000 (Note b)	0.87%
Ng Yuk Fung, Peter	Beneficial owner	26,000,000 (Note b)	0.87%

(b) **Associated corporation**

Long positions in shares

Prime Prospects Limited (“Prime Prospects”) (Note c)

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporation	30	30%

Notes:

- (a) The 1,644,076,912 shares of the Company held by Mr. Ng through controlled corporations include 489,866,418 shares held by Fung Shing Group Limited (“Fung Shing”), 465,933,710 shares held by Parkfield Holdings Limited (“Parkfield”), 310,019,381 shares held by Earntrade Investments Limited (“Earntrade”), 293,515,649 shares held by Bannock Investment Limited (“Bannock”), 20,613,338 shares held by Ronastar Investments Limited (“Ronastar”) and 64,128,416 shares held by Worldunity Investments Limited (“Worldunity”). Parkfield, Fung Shing and Ronastar are all wholly owned by Mr. Ng. Mr. Ng holds Worldunity indirectly via SCH, which is owned as to 73.72% by Mr. Ng, while Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Mr. Richard Howard Gorges and 20% by Ms. Cheung. As such, Mr. Ng was deemed to have interest in the 64,128,416 shares held by Worldunity and the 603,535,030 shares held by Bannock and Earntrade.
- (b) Please refer to details set out in section headed “Share Option Scheme”.
- (c) Prime Prospects was a 70% owned subsidiary of the Company.

Save as disclosed above, as at 30 June 2011, none of the Directors or chief executives of the Company had registered 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) 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 2011, 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 in shares

Name of shareholders	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Earntrade	Beneficial owner and interest of controlled corporation	603,535,030 (note a)	20.19%
Bannock	Beneficial owner	293,515,649 (note a)	9.82%
Parkfield	Beneficial owner	465,933,710	15.59%
Fung Shing	Beneficial owner	489,866,418	16.39%
Ng Lai King, Pamela (“Ms. Ng”)	Beneficial owner and interest of spouse	1,883,283,829 (note b)	63.01%

Notes:

- (a) Bannock is a wholly-owned subsidiary of Earntrade. The 603,535,030 shares of the Company held by Earntrade include 293,515,649 shares held by Bannock directly.
- (b) Ms. Ng, who holds 53,500,000 shares of the Company beneficially, is the spouse of Mr. Ng, the Chairman and an Executive Director of the Company. By virtue of the SFO, Ms. Ng is deemed to be interested in the 185,706,917 shares and 1,644,076,912 shares held by Mr. Ng beneficially and through controlled corporations respectively as disclosed under the section headed “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation” above.

Save as disclosed above, as at 30 June 2011, no person, other than the Directors or chief executives of the Company whose interests are set out in the section headed “Directors’ and Chief Executives’ Interests and Short Positions 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 in the register that was required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company’s existing share option scheme was adopted on 31 May 2002 and it became effective on 18 June 2002. Particulars and movements of the outstanding share options granted under the share option scheme during the six months ended 30 June 2011 were as follows:

Name or category of participant	Number of share options						Outstanding as at 30 June 2011	Date of grant of share options (DD/MM/YYYY) (Note 2)	Exercise period of share options (DD/MM/YYYY)	Subscription price per share HK\$ (Note 3)
	Outstanding as at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Re-classified (Note 1)				
Directors of the Company										
Cheung Choi Ngor	8,666,666	-	-	-	-	-	8,666,666	18/09/2007	18/09/2008 to 17/09/2017	1.500
	8,666,667	-	-	-	-	-	8,666,667	18/09/2007	18/09/2009 to 17/09/2017	1.500
	8,666,667	-	-	-	-	-	8,666,667	18/09/2007	18/09/2010 to 17/09/2017	1.500
Ng Yuk Fung, Peter	8,666,666	-	-	-	-	-	8,666,666	18/09/2007	18/09/2008 to 17/09/2017	1.500
	8,666,667	-	-	-	-	-	8,666,667	18/09/2007	18/09/2009 to 17/09/2017	1.500
	8,666,667	-	-	-	-	-	8,666,667	18/09/2007	18/09/2010 to 17/09/2017	1.500
Sub-total	52,000,000	-	-	-	-	-	52,000,000			
Employees										
In aggregate	1,533,333	-	-	(200,000)	-	-	1,333,333	18/09/2007	18/09/2008 to 17/09/2017	1.500
	1,533,333	-	-	(200,000)	-	-	1,333,333	18/09/2007	18/09/2009 to 17/09/2017	1.500
	1,533,334	-	-	(200,000)	-	-	1,333,334	18/09/2007	18/09/2010 to 17/09/2017	1.500
	2,099,999	-	-	-	-	333,333	2,433,332	25/09/2007	25/09/2008 to 24/09/2017	1.500
	2,099,999	-	-	-	-	333,333	2,433,332	25/09/2007	25/09/2009 to 24/09/2017	1.500
	2,100,002	-	-	-	-	333,334	2,433,336	25/09/2007	25/09/2010 to 24/09/2017	1.500
Sub-total	10,900,000	-	-	(600,000)	-	1,000,000	11,300,000			
Others										
In aggregate	10,066,665	-	-	-	-	-	10,066,665	18/09/2007	18/09/2008 to 17/09/2017	1.500
	10,066,666	-	-	-	-	-	10,066,666	18/09/2007	18/09/2009 to 17/09/2017	1.500
	10,066,669	-	-	-	-	-	10,066,669	18/09/2007	18/09/2010 to 17/09/2017	1.500
	1,033,333	-	-	(200,000)	-	(333,333)	500,000	25/09/2007	25/09/2008 to 24/09/2017	1.500
	1,033,333	-	-	(200,000)	-	(333,333)	500,000	25/09/2007	25/09/2009 to 24/09/2017	1.500
	1,033,334	-	-	(200,000)	-	(333,334)	500,000	25/09/2007	25/09/2010 to 24/09/2017	1.500
Sub-total	33,300,000	-	-	(600,000)	-	(1,000,000)	31,700,000			
Total	96,200,000	-	-	(1,200,000)	-	-	95,000,000			

Notes:

1. Due to internal re-organisation, one “Other Participant” holding options under the share option scheme had been re-classified. Consequently, 1,000,000 share options were re-classified from “Others” to “Employees”.
2. 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 – 24th month	not more than 33 ¹ / ₃ %
25th – 36th month	not more than 66 ² / ₃ %
37th – 120th month	100%

3. The subscription price of the share options is subject to adjustment in the case of rights or bonus issues, or other alteration in the capital structure of the Company.

No share options have been granted, exercised or cancelled during the six months ended 30 June 2011. The Company recognized nil share option expense (2010: HK\$8,774,000) during the six months ended 30 June 2011.

EMPLOYEES’ SHARE AWARD SCHEME

On 18 March 2011, the Company formally adopted an employees’ share award scheme (the “Scheme”) for recognizing the contributions by certain employees of the Group, giving incentive to them in order to retain them for the continual operation and development of the Group and attracting suitable personnel for the development of the Group. Pursuant to the Scheme, a sum up to HK\$20 million (less the sum already spent prior to 18 March 2011) will be used within one year from the date of adoption of the Scheme for the purchase of shares of the Company and/or SCL (the “Shares”) from market which will be held on trust by the trustee for the selected employees of the Group. The selected employees and the reference awarded sum for the purchase of Shares to be awarded shall be determined by the Board from time to time at its absolute discretion.

Unless terminated earlier by the Board or all awarded Shares have been vested, the Scheme shall be valid and effective for a term of 15 years commencing on the date of adoption.

As at 30 June 2011, 2,624,000 shares of the Company and 8,864,000 shares of SCL were granted to the Group’s selected employees (without Directors) under the Scheme, and the above Shares will be vested to the selected employees upon their completion of 18 months of services with the Group or on 31 December 2012, whichever is later.

No awarded Shares have been lapsed or vested during the six months ended 30 June 2011. The Company recognized a share award expense of HK\$192,000 (2010: Nil) during the six months ended 30 June 2011.

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

During the six months ended 30 June 2011, 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 complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2011.

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 2011 have been reviewed by the audit committee.

By order of the Board
South China (China) Limited
Ng Hung Sang
Chairman

Hong Kong, 30 August 2011

As at the date of this report, the Directors of the Company are (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.