



SOUTH CHINA (CHINA) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 413)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2012

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 2012. 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	
		2012	2011
		Unaudited	Unaudited
	<i>Notes</i>	HK\$'000	and Restated
			HK\$'000
Revenue	2	869,612	1,121,918
Cost of sales		(766,578)	(952,460)
Gross profit		103,034	169,458
Other income and gain, net		14,152	13,580
Selling and distribution costs		(15,996)	(18,875)
Administrative and operating expenses		(207,347)	(147,871)
Equity-settled share award expense		(1,278)	(192)
(Loss)/gain on disposal of assets and investments	3	(64)	4,117
Changes in fair value of assets	4	51,098	65,679
(Loss)/profit from operations	2&5	(56,401)	85,896
Finance costs		(17,678)	(8,940)
Impairment of advances to an associate		(26)	(309)
Share of profits and losses of associates		146,181	195,593
Profit before tax		72,076	272,240
Income tax expense	6	(2,351)	(11,177)
Profit for the period		69,725	261,063
Attributable to:			
Owners of the Company		76,818	258,433
Non-controlling interests		(7,093)	2,630
		69,725	261,063
Basic earnings per share attributable to owners of the Company	8	HK2.6 cents	HK8.7 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June

2012

2011

Unaudited

Unaudited

and Restated

HK\$'000

HK\$'000

Profit for the period

69,725

261,063

Other comprehensive income for the period

Exchange differences on translation of foreign operations

275

25,094

Total comprehensive income for the period

70,000

286,157

Attributable to:

Owners of the Company

77,111

282,005

Non-controlling interests

(7,111)

4,152

70,000

286,157

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2012	31 December 2011	1 January 2011
		Unaudited	Restated	Restated
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment		226,747	214,017	248,814
Investment properties		1,680,241	1,648,393	1,445,134
Prepaid land lease payments		87,882	90,000	64,371
Construction in progress		86,761	84,711	51,256
Interests in associates	9	1,022,813	892,232	777,017
Biological assets		178,335	155,625	161,735
Available-for-sale financial assets		45,987	45,987	53,432
Other non-current assets		16,666	16,666	16,666
Trade receivable, prepayments and deposits		21,301	30,119	22,490
Goodwill		3,152	3,152	3,071
Total non-current assets		3,369,885	3,180,902	2,843,986
CURRENT ASSETS				
Inventories		503,158	346,537	382,420
Trade receivables	10	270,571	252,562	142,134
Prepayments, deposits and other receivables		308,585	210,670	87,293
Financial assets at fair value through profit or loss		27,079	26,885	25,698
Due from a non-controlling shareholder of a subsidiary		320	245	–
Due from affiliates		78,000	78,000	7,499
Tax recoverable		21,558	14,530	1,997
Cash and bank balances		441,303	427,980	136,358
Non-current assets classified as held for sale		1,650,574	1,357,409	783,399
		353,791	331,990	435,339
Total current assets		2,004,365	1,689,399	1,218,738
CURRENT LIABILITIES				
Trade and bills payables	11	363,497	354,371	293,861
Other payables and accruals		324,885	339,242	347,694
Interest-bearing bank and other borrowings		1,023,152	737,795	466,251
Due to a non-controlling shareholder of subsidiaries		21,390	21,390	23,943
Due to affiliates		–	–	36,883
Tax payable		36,258	40,860	31,480
Total current liabilities		1,769,182	1,493,658	1,200,112
NET CURRENT ASSETS		235,183	195,741	18,626
TOTAL ASSETS LESS CURRENT LIABILITIES		3,605,068	3,376,643	2,862,612

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	30 June 2012 Unaudited HK\$'000	31 December 2011 Restated HK\$'000	1 January 2011 Restated HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	238,235	68,468	38,148
Advances from non-controlling shareholders of subsidiaries	31,851	31,851	30,411
Due to an associate	132,988	140,724	–
Other non-current liabilities	90,178	90,410	87,302
Deemed consideration for acquisition of subsidiaries under merger accounting	–	–	41,796
Deferred tax liabilities	243,911	244,139	224,539
Total non-current liabilities	737,163	575,592	422,196
Net assets	2,867,905	2,801,051	2,440,416
EQUITY			
Equity attributable to owners of the Company			
Issued capital	59,773	59,773	59,773
Reserves	2,697,431	2,623,711	2,253,036
Proposed final dividend	–	–	29,886
Non-controlling interests	2,757,204 110,701	2,683,484 117,567	2,342,695 97,721
Total equity	2,867,905	2,801,051	2,440,416

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 2012								
As previously reported	66,497	(10,751)	344,033	2,107,884	-	2,507,663	117,567	2,625,230
Adjusted for HKAS 12								
Amendments	-	-	-	175,821	-	175,821	-	175,821
As restated	66,497	(10,751)	344,033	2,283,705	-	2,683,484	117,567	2,801,051
Capital contribution from								
a non-controlling								
shareholder of								
a subsidiary	-	-	-	-	-	-	245	245
Recognition of equity-settled								
share based compensation	-	-	773	-	-	773	-	773
Shares purchased for								
share award scheme	-	(4,164)	-	-	-	(4,164)	-	(4,164)
Total comprehensive income								
for the period	-	-	293	76,818	-	77,111	(7,111)	70,000
At 30 June 2012	66,497	(14,915)	345,099	2,360,523	-	2,757,204	110,701	2,867,905
At 1 January 2011								
As previously reported	66,497	-	263,605	1,845,697	29,886	2,205,685	97,721	2,303,406
Adjusted for HKAS 12								
Amendments	-	-	-	137,010	-	137,010	-	137,010
As restated	66,497	-	263,605	1,982,707	29,886	2,342,695	97,721	2,440,416
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 (restated)	-	-	23,572	258,433	-	282,005	4,152	286,157
At 30 June 2011	66,497	(9,693)	320,677	2,241,289	-	2,618,770	101,704	2,720,474

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June

	2012	2011
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(369,851)	(298,266)
Net cash outflow from investing activities	(53,222)	(45,251)
Net cash inflow from financing activities	<u>425,499</u>	<u>406,515</u>
Net increase in cash and cash equivalents	2,426	62,998
Cash and cash equivalents at beginning of the period	427,270	128,113
Effect of foreign exchange rate changes, net	<u>-</u>	<u>1,699</u>
Cash and cash equivalents at end of the period	<u><u>429,696</u></u>	<u><u>192,810</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

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 2011 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 2012, as disclosed in the annual financial statements for the year ended 31 December 2011.

These interim financial statements should be read, where relevant, in conjunction with the 2011 annual financial statements of the Group.

1.1 Changes in accounting policies

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and interpretations issued by the HKICPA, for the first time for the interim financial statements for the six months ended 30 June 2012. Such HKFRSs have become effective for the accounting periods beginning on or after 1 January 2012, and include:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

Other than as further explained below regarding the impact of HKAS 12 Amendments, the adoption of the above new and revised HKFRSs has had no significant impact on the accounting policies of the Group, the methods of computation used in the preparation of the Group’s interim financial statements and the Group’s results of operations and financial position.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets measured by using the revaluation model in HKAS 16 should always be measured on a sale basis.

In prior years, deferred tax was provided on the basis that the carrying amounts of investment properties will be recovered through use. Upon adoption of HKAS 12 Amendments, deferred tax is provided on the basis that the carrying amounts of the investment properties will be recovered through sale except that the basis of recovery through use will continue to apply to those investment properties which are depreciable and are held with an objective to consume substantially all of the economic benefits embodied in the investment properties over time rather than through sale. This change in accounting policy has been applied retrospectively and the effect of such retrospective application on the comparative financial statements is summarised in tables (a), (b) and (c) below.

1. BASIS OF PREPARATION (CONTINUED)

1.2 Common control combinations

During the year ended 31 December 2011, the Group acquired:

- (i) the entire interest in Thousand China Investments Limited (“Thousand China”);
- (ii) the entire interest in Autowill Limited (“Autowill”) and the shareholder’s loan due to vendor immediately before the acquisition; and
- (iii) the entire interest in Surplus Access International Limited (“Surplus Access”) and the shareholder’s loan due to vendor immediately before the acquisition

(collectively the “Acquired Businesses”) from companies ultimately controlled by the substantial shareholder of the Company at a consideration of HK\$67.3 million in aggregate. Further details about the acquisition of interests in Thousand China and Autowill have been set out in the announcements dated 11 January 2011 and the details about the acquisition of interests in Surplus Access have been set out in the announcement dated 28 October 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 acquisitions of the Acquired Businesses have been accounted for 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 of Thousand China and Autowill has been accounted for in the 2011 interim financial statements by merger accounting and the acquisitions of Thousand China, Autowill and Surplus Access have been accounted for by merger accounting in the audited consolidated financial statements for the year ended 31 December 2011. As the acquisition of Surplus Access took place in November 2011 and, hence, was not being accounted for in the 2011 interim financial statements, which had been restated to account for the acquisitions of Thousand China and Autowill as common control combinations, the consolidated income statement and the consolidated statement of comprehensive income for the six months ended 30 June 2011 were restated to incorporate the results of Surplus Access by merger accounting. The effect of the acquisition of Surplus Access on and, hence, the items so restated in the comparative consolidated income statement and consolidated statement of comprehensive income are summarised in table (c) below.

1. BASIS OF PREPARATION (CONTINUED)

(a) Effect of adoption of HKAS 12 Amendments on the consolidated statement of financial position as at 1 January 2011

	As previously reported <i>HK\$'000</i>	Adjusted for HKAS 12 Amendments <i>HK\$'000</i>	As restated <i>HK\$'000</i>
NON-CURRENT ASSETS			
Interests in associates	664,184	112,833	777,017
Others*	2,066,969	–	2,066,969
Total non-current assets	2,731,153	112,833	2,843,986
CURRENT ASSETS			
Total current assets*	1,218,738	–	1,218,738
CURRENT LIABILITIES			
Total current liabilities*	1,200,112	–	1,200,112
NET CURRENT ASSETS	18,626	–	18,626
TOTAL ASSETS LESS CURRENT LIABILITIES	2,749,779	112,833	2,862,612
NON-CURRENT LIABILITIES			
Deferred tax liabilities	248,716	(24,177)	224,539
Others*	197,657	–	197,657
Total non-current liabilities	446,373	(24,177)	422,196
Net assets	2,303,406	137,010	2,440,416
EQUITY			
Retained profits	1,845,697	137,010	1,982,707
Others*	457,709	–	457,709
Total equity	2,303,406	137,010	2,440,416

1. BASIS OF PREPARATION (CONTINUED)

(b) Effect of adoption of HKAS 12 Amendments on the consolidated statement of financial position as at 31 December 2011

	As previously reported <i>HK\$'000</i>	Adjusted for HKAS 12 Amendments <i>HK\$'000</i>	As restated <i>HK\$'000</i>
NON-CURRENT ASSETS			
Interests in associates	747,549	144,683	892,232
Others*	2,288,670	–	2,288,670
Total non-current assets	3,036,219	144,683	3,180,902
CURRENT ASSETS			
Total current assets*	1,689,399	–	1,689,399
CURRENT LIABILITIES			
Total current liabilities*	1,493,658	–	1,493,658
NET CURRENT ASSETS	195,741	–	195,741
TOTAL ASSETS LESS CURRENT LIABILITIES	3,231,960	144,683	3,376,643
NON-CURRENT LIABILITIES			
Deferred tax liabilities	275,277	(31,138)	244,139
Others*	331,453	–	331,453
Total non-current liabilities	606,730	(31,138)	575,592
Net assets	2,625,230	175,821	2,801,051
EQUITY			
Retained profits	2,107,884	175,821	2,283,705
Others*	517,346	–	517,346
Total equity	2,625,230	175,821	2,801,051

1. BASIS OF PREPARATION (CONTINUED)

- (c) **Effects of adoption of HKAS 12 Amendments and the acquisition of Surplus Access accounted for as common control combination on the consolidated income statement and consolidated statement of comprehensive income for the six months ended 30 June 2011**

	As previously reported HK\$'000	Acquisition of Surplus Access HK\$'000	Adjusted for HKAS 12 Amendments HK\$'000	As restated HK\$'000
CONSOLIDATED INCOME STATEMENT				
Administrative expenses	(147,869)	(2)	–	(147,871)
Share of profits and losses of associates	165,326	–	30,267	195,593
Others*	224,518	–	–	224,518
Profit before tax	241,975	(2)	30,267	272,240
Tax	(18,530)	–	7,353	(11,177)
Profit for the period	223,445	(2)	37,620	261,063
Attributable to:				
Owners of the Company	220,815	(2)	37,620	258,433
Non-controlling interests*	2,630	–	–	2,630
	223,445	(2)	37,620	261,063
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Profit for the period	223,445	(2)	37,620	261,063
Other comprehensive income for the period				
Exchange differences on translation of foreign operations	24,950	144	–	25,094
Total comprehensive income for the period	248,395	142	37,620	286,157
Attributable to:				
Owners of the Company	244,243	142	37,620	282,005
Non-controlling interests*	4,152	–	–	4,152
	248,395	142	37,620	286,157

* Being aggregate of items not being affected by the adoption of the HKAS12 Amendments and the common control combination and, hence, not being restated

2. REVENUE AND SEGMENTAL INFORMATION

An analysis of the Group's consolidated revenue and contribution to profit/(loss) from operations by principal activity and geographical location for the six months ended 30 June 2012 and 2011 is as follows:

	Revenue		Contribution to profit/(loss) from operations	
	Six months ended 30 June 2012	2011	Six months ended 30 June 2012	2011
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited and Restated HK\$'000
By principal activity:				
Trading and manufacturing	812,298	1,042,839	(22,974)	3,681
Property investment and development	48,584	72,506	13,938	121,393
Agriculture and forestry	8,730	6,573	(16,305)	(10,218)
Investment holding	–	–	(31,060)	(28,960)
	<u>869,612</u>	<u>1,121,918</u>	<u>(56,401)</u>	<u>85,896</u>

By geographical location*:

The People's Republic of China (the "PRC")				
including Hong Kong and Macau	139,542	127,057	(26,492)	80,488
United States of America	355,126	572,292	(16,964)	2,247
Europe	188,737	214,623	(7,708)	917
Japan	2,956	30,742	(329)	342
Others	183,251	177,204	(4,908)	1,902
	<u>869,612</u>	<u>1,121,918</u>	<u>(56,401)</u>	<u>85,896</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 2012	31 December 2011	30 June 2012	31 December 2011	30 June 2012	31 December 2011	30 June 2012	31 December 2011	30 June 2012	31 December 2011
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Restated HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Restated HK\$'000
Segment assets	1,455,718	1,269,131	2,400,061	2,253,444	301,969	268,997	172,131	171,967	4,329,879	3,963,539
Interests in associates	14,795	14,278	1,008,018	877,954	–	–	–	–	1,022,813	892,232
Tax recoverable									21,558	14,530
Total assets									5,374,250	4,870,301
Segment liabilities	1,219,582	1,123,303	472,190	362,996	14,166	11,781	520,238	286,171	2,226,176	1,784,251
Tax payable									36,258	40,860
Deferred tax liabilities									243,911	244,139
Total liabilities									2,506,345	2,069,250

3. (LOSS)/GAIN ON DISPOSAL OF ASSETS AND INVESTMENTS

	Six months ended 30 June	
	2012	2011
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Gain on disposal of investment properties	-	4,000
(Loss)/gain on disposal of items of property, plant and equipment	(64)	69
Gain on disposal of available-for-sale financial assets	-	48
	<u>-</u>	<u>48</u>
	<u>(64)</u>	<u>4,117</u>

4. CHANGES IN FAIR VALUE OF ASSETS

	Six months ended 30 June	
	2012	2011
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Fair value loss on financial assets at fair value through profit or loss	(1,382)	(4,611)
Fair value gain on investment properties	30,740	44,720
Fair value gain on non-current assets classified as held for sale	21,740	25,570
	<u>-</u>	<u>25,570</u>
	<u>51,098</u>	<u>65,679</u>

5. DEPRECIATION

Profit from operations for the period is arrived at after charging depreciation of approximately HK\$19,351,000 (six months ended 30 June 2011: HK\$20,839,000) in respect of the Group's property, plant and equipment.

6. 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 2011: 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.

7. INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

8. BASIC 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\$76,818,000 (six months ended 30 June 2011 (restated): approximately HK\$258,433,000) and the weighted average numbers of ordinary shares used in the calculation are as follows:

	2012 Unaudited	2011 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	<u>2,946,808,266</u>	<u>2,975,677,305</u>

No diluted earnings per share has been presented for the six months ended 30 June in both 2011 and 2012 because the Company's outstanding share options and the shares awarded under the share award scheme had no diluting effect on the basic earnings per share for both periods.

9. 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\$554,400,000 was utilized as at 30 June 2012. The banking facilities are due to be mature in November 2012. FWIL holds an investment property, The Centrium, which is a Grade-A commercial building located in Central, Hong Kong.

10. TRADE RECEIVABLES

Trade receivables of approximately HK\$270,571,000 (31 December 2011: HK\$252,562,000), 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.

11. TRADE PAYABLES

Trade payables of approximately HK\$363,497,000 (31 December 2011: HK\$352,980,000) are substantially with an age within 6 months.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded revenue of HK\$869.6 million and profit of HK\$69.7 million for the six months ended 30 June 2012. Comparing to the corresponding period in 2011, revenue and profit decreased by 22.5% and 73.3% respectively.

Trading and Manufacturing

The trading and manufacturing segment mainly comprises three principal business units, Wah Shing Toys, Wah Shing Electronics and South China Shoes. The segment recorded a 22.1% decrease in revenue to HK\$812.3 million and reported operating loss of HK\$23.0 million for the six months ended 30 June 2012.

The decrease in revenue of the trading and manufacturing segment in 2012 first half was largely the impact of the weak global economy and European debt crisis that hampered the consumers' confidence and, hence, weakened the market demand.

The decrease in customers' orders and the relatively slow delivery schedule in 2012 first half resulted in the decrease in revenue and, hence, loss from operations of HK\$23.0 million. Wah Shing Toys, which accounted for approximately 77.6% of the segment revenue in 2012 first half, recorded a 18.3% decrease in revenue in the current period. Despite the decrease in revenue, Wah Shing Toys, as opposed to the other principal business units mentioned above which recorded losses from operations in 2012 first half, reported a profit from operations of HK\$1.9 million through management's effort in cost control and savings in response to the change in market conditions. Given the seasonal trend of the toy manufacturing business that first half is the historical low season, management expected that, based on the historical trend, the segmental revenue and operating performance will improve in the second half when the principal business units enter the peak season.

The Group witnessed the easing of negative impact from rising wages and raw material prices and the appreciation of Renminbi coming along with the slow market that released the pressure on gross profit to some extent in the low season in 2012 first half. As the prices of the key cost components have been relatively stable in 2012 first half, the management is confident that there will be a gradual improvement in profit margin in view of the management's continuing effort in cost control and profitability improvement.

Property Investment and Development

Revenue from the property investment and development segment decreased by 33.0% to HK\$48.6 million for the six months ended 30 June 2012 as compared to the corresponding period in 2011. This is largely attributable to the one-off retrospective rental adjustment of HK\$34.2 million agreed with a tenant in Nanjing in 2011 first half and, hence, recognized in that period. Although revenue other than the non-recurring one-off rental adjustment increased by 27.0% or HK\$10.3 million in 2012 first half, profit from operations decreased by 88.5% to HK\$13.9 million. The abovementioned one-off retrospective rental adjustment did not recur in 2012 first half and the Group incurred leasing and preliminary costs, totaling HK\$52.2 million, for the shopping mall in Shenyang after the commencement of the entrusted management agreement as further detailed in the circular dated 19 December 2011. These, coupled with the decrease in fair value gain on investment properties including those classified as held for sale by HK\$17.8 million, resulted in a decrease in profit from operations. The Group is in the process of vacating the shopping mall in Shenyang to re-build its tenants portfolio and study renovation and redevelopment options.

The Group's 30% owned principal associate that holds The Centrium, a Grade-A commercial building in Central, Hong Kong, recorded an increase in profit before tax and fair value change on investment property in 2012 first half due to the renewal of certain tenancy agreements. Our share of the increase amounts to approximately HK\$2.6 million. The Group's share of profit before tax and fair value change on investment property and the fair value gain on the investment property were HK\$20.3 million and HK\$126.0 million, respectively.

Agriculture and Forestry

In line with the Group's target to be one of the active market players in the Mainland's agriculture industry, we continued our effort in expanding our farmland and woodland gradually. In 2012 first half, the Group entered into new leases for approximately 53,000 mu of woodlands in Chongqing.

Revenue from the agriculture and forestry segment increased by 32.8% to HK\$8.7 million for the six months ended 30 June 2012.

The agriculture and forestry segment recorded a loss before change in fair value of HK\$16.3 million in 2012 first half as compared to a loss before change in fair value of HK\$10.2 million in the corresponding period in 2011.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group had a current ratio of 1.1 and a gearing ratio of 8.3% (31 December 2011 (restated): 1.1 and 2.4%, respectively). The gearing ratio is computed by comparing the Group's total long-term bank and other borrowings of HK\$238.2 million to the Group's equity of HK\$2.9 billion. The Group's operation 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 2012, 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 ACQUISITION

On 4 July 2012, after trading hours, Even Dragon Limited (the "Purchaser"), an indirect wholly-owned subsidiary of the Group, entered into a sale and purchase agreement with a direct wholly-owned subsidiary of South China Land Limited ("SCL"), the vendor, whereby the Purchaser conditionally agreed to acquire and the vendor conditionally agreed to sell the sale shares, being the entire issued share capital of Splendor Sheen Limited, at a consideration of approximately HK\$1,596 million. SCL is an exempted company incorporated in the Cayman Islands with limited liability and its shares listed on the Growth Enterprise Market of the Stock Exchange. The deed to terminate the entrusted management agreement was signed by the relevant subsidiaries of the Group and SCL on the same date of the abovementioned sale and purchase agreement whereby the entrusted management agreement is terminated subject to and upon completion of the transaction contemplated under the sale and purchase agreement.

Details of the acquisition have been set out in the Company's announcement dated 12 July 2012.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

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

EMPLOYEES

As at 30 June 2012, the total number of employees of the Group was approximately 21,000 (30 June 2011: 29,000).

Employees' costs (including directors' emoluments) amounted to approximately HK\$354.9 million for the six months ended 30 June 2012 (six months ended 30 June 2011: HK\$415.2 million).

In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidized training programmes are offered to employees of the Group. The Group also operates share option and share award schemes, and may, at its discretion, grant share option or award shares to its employees under respective schemes.

Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on his/her performance.

PROSPECTS

Trading and Manufacturing

The 2012 second half will remain challenging for trading and manufacturing segment as the relief measures for the European debt crisis have not been effectively proposed and implemented and, hence, the recovery in the global economy is still uncertain. On the back of the seasonal factor of this segment and the expectation that the production costs, in particular wages and raw materials, and the Renminbi exchange rate would stabilize or increase at a much smaller magnitude, the Group is confident that the results of this segment in 2012 second half will improve over the first half of the year.

The Group is cautiously optimistic about the ongoing performance of our trading and manufacturing segment. The mixed economic indicators published in recent months continued to suggest that the US economy has gone through its toughest period, and is accumulating strength to kick start its economic recovery. In addition, the Group will continue with its effort to expand its product range, enlarge our customer base and continuously negotiate with customers to ensure that our current costs are reflected in the pricing. On Wah Shing Toys, the Group has launched a profit improvement programme in April this year, aiming at inspiring employees' initiative in cost improvement in every aspect of the manufacturing processes. We have received a number of suggestions and proposals from the worker level and above. The profit improvement committee is currently evaluating the possibility of implementing these suggestions. We believe that this effort will bring long term positive contribution to the bottom line of the segment in 2012 second half and beyond.

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 at prime locations which 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 at 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. The rental income generated from these shops carries potential for further increase on the expiry of the current lease agreements. 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, there is a great potential to explore fully the hidden strength and value of the site through redevelopment into a residential and/or commercial property in the future.

In Guangdong province, the negotiation with the government to redevelop part of its lychee plantation in Zengcheng into a commercial/residential estate is in progress. This will be the first phase of the development of this plantation area, which is adjacent to Guangzhou's third ring road opened in 2010. 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.

On 4 July 2012, the board approved an acquisition whereby the Group will, subject to the independent shareholders' approval, acquire through Even Dragon, an indirect wholly owned subsidiary, the entire issued share capital of Splendor Sheen Limited at a consideration of approximately HK\$1,596 million. As part of the agreement, the entrusted management agreement will be terminated subject to and upon the completion of the acquisition and the Group will then become the owner of the shopping mall in Shenyang. We believe that this acquisition does not only enable the Group to widen its property leasing business to cover shopping mall related operations in the medium to long term but also provides the Group with another stable recurring income source.

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

Agriculture and Forestry

The Group currently has long-term leases of approximately 400,000 mu of woodland, farmland, fishpond and lake space in various major provinces in China. We are focusing on the plantation of fruits such as apples, melons, lychee, winter date fruits, peach, crops such as corns and potatoes and breeding of livestock such as pigs and fishes for sale. The Group will continue with its effort in exploring plantation opportunities for high profit margin species.

During the period, the Group had strengthened its management team through recruiting several senior executives with years of management experience at senior level to assist in implementing the Group's agriculture and forestry strategy. With the plantation experience gained in the past years and more resources being allocated to this segment, we expect that the agriculture and forestry segment will gradually generate sustainable profit to the Group.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

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 2012, 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 <i>(Note a)</i>		
Ng Yuk Fung, Peter	Beneficial owner	162,032,000	162,032,000	5.42%
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 Eartrade Investments Limited ("Eartrade"), 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 South China Holdings Limited, which is owned as to 73.72% by Mr. Ng, while Bannock is a wholly-owned subsidiary of Eartrade which is owned as to 60% by Mr. Ng, 20% by Mr. Richard Howard Gorges and 20% by Ms. Cheung. As such, Mr. Ng is deemed to have interest in the 64,128,416 shares held by Worldunity and the 603,535,030 shares held by Bannock and Eartrade.
- (b) Please refer to details set out in the section headed "Share Option Schemes".
- (c) Prime Prospects was a 70% owned subsidiary of the Company.

Save as disclosed above, as at 30 June 2012, 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 2012, 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 shareholder	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 2012, 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 SCHEMES

(i) 2002 Share Option Scheme

The share option scheme adopted by the Company on 31 May 2002 (the “2002 Share Option Scheme”) was terminated on 5 June 2012. Share options granted under the 2002 Share Option Scheme prior to its termination shall continue to be valid and exercisable pursuant to the terms of the 2002 Share Option Scheme. Particulars and movements of the outstanding share options granted under the 2002 Share Option Scheme during the six months ended 30 June 2012 were as follows:

Name or category of participant	Number of share options					Outstanding as at 30 June 2012	Date of grant of share options (DD/MM/YYYY) (Note a)	Exercise period of share options (DD/MM/YYYY)	Subscription price per share HK\$ (Note b)
	Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period				
Directors									
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	1,333,333	-	-	-	-	1,333,333	18/09/2007	18/09/2008 to 17/09/2017	1.500
	1,333,333	-	-	-	-	1,333,333	18/09/2007	18/09/2009 to 17/09/2017	1.500
	1,333,334	-	-	-	-	1,333,334	18/09/2007	18/09/2010 to 17/09/2017	1.500
	2,099,999	-	-	-	-	2,099,999	25/09/2007	25/09/2008 to 24/09/2017	1.500
	2,099,999	-	-	-	-	2,099,999	25/09/2007	25/09/2009 to 24/09/2017	1.500
	2,100,002	-	-	-	-	2,100,002	25/09/2007	25/09/2010 to 24/09/2017	1.500
Sub-total	10,300,000	-	-	-	-	10,300,000			
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
	500,000	-	-	(100,000)	-	400,000	25/09/2007	25/09/2008 to 24/09/2017	1.500
	500,000	-	-	(100,000)	-	400,000	25/09/2007	25/09/2009 to 24/09/2017	1.500
	500,000	-	-	(100,000)	-	400,000	25/09/2007	25/09/2010 to 24/09/2017	1.500
Sub-total	31,700,000	-	-	(300,000)	-	31,400,000			
Total	94,000,000	-	-	(300,000)	-	93,700,000			

Notes:

- a. All share options granted are subject to a vesting period and exercisable in the following manner:

From the date of grant of share options	Exercisable percentage
Within 12 months	—
13th – 24th month	not more than $33\frac{1}{3}$
25th – 36th month	not more than $66\frac{2}{3}$
37th – 120th month	100

- b. 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.

During the six months ended 30 June 2012, no share option had been granted, exercised or cancelled and no share option expense was recognized by the Company (2011: Nil).

(ii) 2012 Share Option Scheme

The Company adopted a new share option scheme on 5 June 2012 (the “2012 Share Option Scheme”) and it became effective on 11 June 2012. Subject to early termination of the 2012 Share Option Scheme pursuant to the terms thereof, the 2012 Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which it became effective. No share option had been granted under the 2012 Share Option Scheme since its adoption.

EMPLOYEES’ SHARE AWARD SCHEME

On 18 March 2011, the Company formally adopted an employees’ share award scheme (the “Share Award 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 Share Award Scheme, a sum up to HK\$40 million will be used until 31 December 2013 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 vested, the Share Award Scheme shall be valid and effective for a term of 15 years commencing on the date of adoption.

As at 30 June 2012, 9,760,000 shares of the Company and 37,360,000 shares of SCL had been granted to the Group’s selected employees (without directors of the Company) under the Share Award Scheme, out of which, 1,776,000 shares of the Company and 5,936,000 shares of SCL lapsed. The outstanding Shares granted as at 30 June 2012 were 7,984,000 shares of the Company and 31,424,000 shares of SCL with various vesting dates from 31 December 2012 to 31 December 2014.

No awarded Shares had vested during the six months ended 30 June 2012. The Group recognized a share award expense of approximately HK\$1,278,000 (2011: approximately HK\$192,000) for the six months ended 30 June 2012.

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

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Saved as disclosed above, as at 30 June 2012, the Company's subsidiary, Skychance Group Limited, acting in the capacity as the trustee of the Share Award Scheme, had purchased, inter alia, 26,008,000 shares of the Company on the Stock Exchange at a total consideration of approximately HK\$14.9 million for the purpose of the Share Award Scheme.

CORPORATE GOVERNANCE

The Company had complied with all the code provisions as set out in the Code of Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct regarding directors' securities transactions. All directors of the Company 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 six months ended 30 June 2012.

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 of the Company, namely Ms. Li Yuen Yu, Alice (Committee Chairman), Mr. Chiu Sin Chun and Mrs. Tse Wong Siu Yin, Elizabeth.

The Group's unaudited consolidated results for the six months ended 30 June 2012 have been reviewed by the audit committee.

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

Hong Kong, 28 August 2012

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.