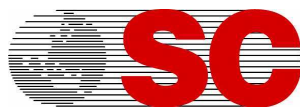


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## **SOUTH CHINA HOLDINGS LIMITED**

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

**(Stock Code: 265)**

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008**

#### **GROUP RESULTS**

The Board of Directors (the “Board”) of South China Holdings Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2008 together with comparative figures for the last financial year as follows:

#### **CONSOLIDATED INCOME STATEMENT**

	<i>Notes</i>	<b>2008 HK\$'000</b>	<b>2007 HK\$'000 (Restated)</b>
<b>Turnover</b>	2	<b>4,425,327</b>	4,615,990
Cost of sales		<b>(4,055,535)</b>	(4,190,413)
Gross profit		<b>369,792</b>	425,577
Interest income		<b>1,458</b>	4,635
Other income and gains		<b>20,769</b>	51,781
Gain on disposal of assets and investments ( <i>net</i> )	3	<b>35,145</b>	189,935
Excess over the cost of business combinations	4	<b>172,831</b>	-
Selling and distribution costs	5	<b>(44,595)</b>	(104,823)
Administrative and operating expenses		<b>(350,494)</b>	(340,125)
Non-cash equity share option expense provision		<b>(49,373)</b>	(23,876)
Change in fair value of assets	6	<b>(45,345)</b>	146,557
<b>Profit from operations</b>	2	<b>110,188</b>	349,661
Finance costs		<b>(24,359)</b>	(26,206)
Share of profits and losses of associates		<b>(823)</b>	202,180
Impairment of advances to an associate	7	<b>(28,306)</b>	(10,500)
<b>Profit before tax</b>	8	<b>56,700</b>	515,135
Tax	9	<b>(15,190)</b>	(12,223)
<b>Profit for the year from Continuing Operations</b>		<b>41,510</b>	502,912
<b>(Loss)/profit for the year from Discontinued Operation</b>	10	<b>(149,736)</b>	75,320
<b>(Loss)/profit for the year</b>		<b>(108,226)</b>	578,232

	<i>Notes</i>	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000 ( <i>Restated</i> )
Attributable to:			
- <b>Equity holders of the Company</b>		<b>(65,129)</b>	416,809
- Minority interests		<b>(43,097)</b>	161,423
		<b>(108,226)</b>	578,232
<b>Dividends</b>			
Special interim distribution	10	<b>127,638</b>	-
Interim dividend		-	25,528
Proposed final dividend		<b>2,006</b>	25,528
<b>Earnings per share attributable to ordinary equity holders of the Company</b>	11		
- <b>Basic</b>			
(Loss)/profit for the year		<b>HK(3.6)cents</b>	HK22.9 cents
From continuing operations		<b>HK2.4 cents</b>	HK19.9 cents
- <b>Diluted</b>			
(Loss)/profit for the year		<b>HK(3.6)cents</b>	HK22.6 cents
From continuing operations		<b>HK2.4 cents</b>	HK19.9 cents

## CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2008	2007
		HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		296,938	356,628
Investment properties		1,605,674	1,229,827
Prepaid land lease payments		48,323	20,027
Construction in progress	12	27,279	263,444
Interests in associates		298,449	304,227
Biological assets		84,904	71,000
Loans receivable		-	6,913
Available-for-sale financial assets		44,741	38,990
Others non-current assets		48,165	47,900
Deferred tax assets		-	3,255
Goodwill		12,041	9,882
Intangible assets		-	836
Total non-current assets		<u>2,466,514</u>	<u>2,352,929</u>
<b>CURRENT ASSETS</b>			
Properties under development	12	448,734	-
Inventories		322,478	290,853
Trade and other receivables	13	410,950	578,052
Loans receivable		-	229,711
Financial assets at fair value through profit or loss		10,945	241,036
Due from affiliates		457	239,203
Advances to minority shareholders of subsidiaries		27,480	14,105
Tax recoverable		5,016	8,972
Pledged bank deposits		14,342	18,730
Cash held on behalf of clients		-	538,546
Cash and cash equivalents		193,072	281,881
Total current assets		<u>1,433,474</u>	<u>2,441,089</u>
<b>CURRENT LIABILITIES</b>			
Client deposits		-	518,718
Trade and other payables	14	644,860	793,015
Interest-bearing bank and other borrowings		487,606	590,971
Advances from minority shareholders of subsidiaries		22,048	2,128
Due to affiliates		2,180	13,207
Tax payable		29,284	24,642
Total current liabilities		<u>1,185,978</u>	<u>1,942,681</u>
<b>NET CURRENT ASSETS</b>		<u>247,496</u>	<u>498,408</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,714,010</u>	<u>2,851,337</u>

	<b>As at 31 December</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	<b>281,845</b>	235,445
Advances from shareholders	<b>7,876</b>	14,529
Advances from minority shareholders of subsidiaries	<b>29,226</b>	54,842
Other non-current liabilities	<b>85,419</b>	41,259
Promissory notes	<b>97,079</b>	95,959
Deferred tax liabilities	<b>232,079</b>	150,261
Total non-current liabilities	<b>733,524</b>	592,295
Net assets	<b>1,980,486</b>	2,259,042
<b>EQUITY</b>		
Equity attributable to equity holders of the Company		
Issued capital	<b>45,584</b>	45,584
Reserves	<b>1,332,647</b>	1,528,764
	<b>1,378,231</b>	1,574,348
Minority interests	<b>602,255</b>	684,694
Total equity	<b>1,980,486</b>	2,259,042

*Notes:*

# **1. Principal accounting policies and basis of preparation**

The accounting policies and basis of preparation adopted in these financial statements are generally consistent with those adopted in the Group's audited 2007 annual financial statements. The changes in accounting policies as required by accounting standards which came into effect during the year do not have any significant impact on the Group's financial statements.

## **Merger accounting**

In 2007, the Group acquired 67.69% equity interest in South China Land Limited 南華置地有限公司 (the "SCL") from a substantial shareholder who is also a director of the Company. In early 2008, the Group acquired an additional 0.79% equity interest in SCL from the same substantial shareholder.

The Company and SCL are ultimately controlled by the substantial shareholder of the Company before and after the acquisition. As such, the acquisitions in 2007 and 2008 have been accounted for by merger accounting in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the Hong Kong Institute of Certified Public Accountants as if the acquisitions had occurred on the date when the combining entities first came under the control of the substantial shareholder.

Certain comparative amounts have been adjusted to conform with the current year's presentation and to show separately comparative amounts in respect of items disclosed in 2007 in relation to the discontinued operation.

## 2. Turnover and segmental information

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered and gross rental income received and receivable from investment properties during the year.

An analysis of the Group's turnover and contribution to profit/(loss) from operations by principal activities and geographical location is as follows:

	Turnover		Contribution to profit/(loss) from operations	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
<b>Continuing operations</b>				
Trading and manufacturing	1,913,065	2,092,199	53,955	73,869
Property investment and development	48,054	41,057	(9,960)	188,293
Travel and related services	2,356,116	2,170,221	24,606	36,775
Information technology	72,675	80,228	952	1,664
Agriculture and woods	3,423	1,399	(9,617)	125
Media and publications	31,994	230,886	(993)	(44,813)
Investment holding	-	-	51,245	93,748
	<u>4,425,327</u>	<u>4,615,990</u>	<u>110,188</u>	<u>349,661</u>
<b>Discontinued operation</b>				
Securities and financial services	<u>79,564</u>	<u>276,985</u>	<u>(143,480)</u>	<u>82,514</u>

	Turnover		Contribution to profit/(loss) from operations	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
By geographical location <sup>#</sup> :				
The People's Republic of China ("PRC", including Hong Kong and Macau)	2,765,898	2,964,733	(79,705)	341,475
United States of America	1,144,591	1,260,659	39,616	61,215
Europe	372,747	457,341	3,169	20,201
Japan	15,983	11,898	121	539
Others	205,672	198,344	3,507	8,745
	<u>4,504,891</u>	<u>4,892,975</u>	<u>(33,292)</u>	<u>432,175</u>

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

**3. Gain on disposal of assets and investments (net)**

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000 (Restated)
Gain on disposal of interests in subsidiaries	<b>34,849</b>	65,956
(Loss) / gain on disposal of financial assets at fair value through profit or loss	<b>(1,390)</b>	37,023
Gain on disposal of available-for-sale financial assets	<b>-</b>	82,325
Gain on disposal of investment properties	<b>1,424</b>	-
Gain on disposal of items of property, plant and equipment	<b>262</b>	4,631
	<b><u>35,145</u></b>	<b><u>189,935</u></b>

**4. Excess over the cost of business combinations**

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

**5. Selling and distribution costs**

The substantial reduction in the selling and distribution costs was accounted for the disposal of the entire interest in South China Media Limited in early 2008. Please refer to the section “MATERIAL ACQUISITIONS AND DISPOSALS” for details.

**6. Changes in fair value of assets**

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000 (Restated)
Fair value (loss)/gain on investment properties	<b>(23,467)</b>	144,530
Fair value gain on biological assets	<b>5,893</b>	6,217
Fair value loss on financial assets at fair value through profit or loss	<b>(27,771)</b>	(4,190)
	<b><u>(45,345)</u></b>	<b><u>146,557</u></b>

**7. Impairment of advances to an associate**

It included a provision for financial guarantee to the associate for HK\$14,700,000.

**8. Profit before tax**

For the year ended 31 December 2008, profit before tax is arrived at after charging depreciation of approximately HK\$50,592,000 (2007: HK\$52,707,000) in respect of the Group's properties, plants and equipments.

**9. Tax**

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

**10. (Loss) / profit for the year from Discontinued Operation and Special interim distribution**

In December 2008, the Group disposed of its interest in South China Financial Holdings Limited (“SCF”), representing 72.52% of SCF's issued share capital, by way of distribution in specie. SCF is a company principally engaging in securities and financial related services with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 619).

On 16 December 2008, the Group paid a special dividend distribution of approximately HK7 cents to the then shareholders in specie on the basis of two shares of SCF for every share of the Company held by the shareholders on 2 December 2008.

# 11. Earnings per share attributable to ordinary equity holders of the Company

The calculation of basic and diluted earnings per share are based on:

	2008 HK\$'000	2007 HK\$'000 (Restated)
<b>Earnings</b>		
Profit attributable to equity holders of the Company, used in the basic earnings per share calculation:		
From continuing operations	43,872	361,983
From discontinued operation	(109,001)	54,826
	<u>(65,129)</u>	<u>416,809</u>
Less:		
Effect of dilution of dilutive potential ordinary shares of subsidiaries on earnings	-	(5,618)
Profit attributable to equity holders of the Company, used in the diluted earnings per share calculation:		
From continuing operations	43,872	361,983
From discontinued operation	(109,001)	49,208
	<u>(65,129)</u>	<u>411,191</u>
	2008	2007
<b>Shares</b>		
Number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	<u>1,823,401,376</u>	<u>1,823,401,376</u>

# 12. Construction in progress and Properties under development

During the year, the cost of construction in progress for building of the commercial complex in Shenyang, the PRC was reclassified from Construction in progress to Properties under development to signify the intention of the said property being held for sale.

# 13. Trade receivables

Included in trade and other receivables of the Group are trade receivables of HK\$295,079,000 (2007: HK\$383,004,000). The Group's trading terms with its customers are on credit with credit period ranging from period of one to three months (2007: two days to three months), depends 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 maintains strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by the senior management and would be handled closely by the credit control department.

An aging analysis of trade receivables as at the balance sheet date based on invoice date is as follows:

	2008 HK\$'000	2007 HK\$'000
Within 90 days	263,901	345,839
91 to 180 days	21,505	29,819
181 to 365 days	4,395	3,434
Over 365 days	5,278	3,912
	<u>295,079</u>	<u>383,004</u>

#### 14. Trade payables

Included in trade and other payables of the Group are trade payables of HK\$362,374,000 (2007: HK\$529,948,000) and their aging analysis based on invoice date is as follows:

	2008 HK\$'000	2007 HK\$'000
Within 90 days	281,295	428,172
91 to 180 days	26,534	54,970
181 to 365 days	3,166	26,834
Over 365 days	51,379	19,972
	<u>362,374</u>	<u>529,948</u>

The trade payables are non-interest-bearing and normally settled on 15 to 210-days' terms (2007: 2 to 210 days).

### MATERIAL ACQUISITIONS AND DISPOSALS

During the year, the Group had the following material acquisitions and disposals:

1. In January 2008, the Group acquired the controlling stake in certain associates of the Group at a total cash consideration of RMB55.8 million through the acquisition of the entities set out below:
  - a) the entire interest in 南京第二壓縮機有限公司, which is engaged in property holding and manufacturing of compressor;
  - b) the entire interest in 南京電機有限公司, which is engaged in property holding and trading of flowers; and
  - c) 85% interest in 南京液壓件二廠有限公司, which is engaged in property holding, and has a 49% owned associate engaged in manufacturing of hydraulic press.

The Group recognised a gain of HK\$172.8 million on acquisition.

2. In February 2008, the Group disposed of its entire interest in South China Media Limited and the shareholders' loan to Broaden Base Investments Limited, a BVI incorporated company of which a director of the Company is the controlling shareholder, for a consideration of HK\$30.0 million payable in cash.

The Group recognised a gain of HK\$34.5 million on disposal.

3. In December 2008, the Group disposed of its interest in SCF, representing 72.52% of SCF's issued share capital, by way of distribution in specie. SCF is a company principally engaging in securities and financial related services with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 619).

On 16 December 2008, the Group paid a special dividend of approximately HK7 cents to the then shareholders in specie on the basis of two shares of SCF for every share of the Company held by the shareholders on 2 December 2008.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group recorded a turnover of HK\$4.4 billion and a loss attributable to the equity holders of the Company of HK\$65.1 million for the year ended 31 December 2008. As compared to 2007, turnover decreased by 4% while the annual results turned from profit to loss mainly because of the share of loss from the discontinuing operations of securities and financial services of HK\$149.7 million, of which over HK\$116.3 million was the write-down on trading and investment portfolio to its fair value at the disposal date.

The profit from the continuing operations was HK\$41.5 million for the year ended 31 December 2008. The Group's principal businesses of trading and manufacturing, property investment and development (before fair value loss), travel and related services and information technology remained profitable and fundamentally sound.

During the year, the Group acquired the controlling stake in certain associates engaging in property holding and manufacturing operations in Nanjing, the PRC, and disposed of its entire equity interest in South China Media Limited and South China Financial Holdings Limited. The details are shown on the section "Material Acquisitions and Disposals".

#### **Trading and Manufacturing**

The segment recorded a 9% reduction in turnover to HK\$1.9 billion and an operating profit of HK\$54.0 million, a decrease of 27% as compared to HK\$73.9 million in 2007.

The year 2008 was a very tough year for manufacturers. In the first half of last year, profit margins were eroding by the appreciation of Renminbi, high labour costs and spiraling commodity prices. In the later part of the year, the collapse of the giant financial institutions in the US spiked the downturn of the US consumer market. In face of the unpredictable adverse impacts on both costs and a weaker consumer market, our management team took a more conservative approach in bidding for new products to try to ensure a reasonable gross profit margin and that accounted for the substantial reduction in turnover from our toys segment. As compared to 2007, the turnover of our toys business reduced from HK\$1.5 billion to HK\$1.2 billion in 2008. Our shoe manufacturing operation, however, had a year-on-year increase in turnover by 14%.

Overall our manufacturing operations of toys, electronics and shoes made reasonable operating profits in spite of the severely adverse market conditions through a series of stringent overhead and material costs control measures during last year. The Group's other smaller size trading and manufacturing operations in Tianjin and Nanjing are focused on domestic sales and recorded minor losses.

#### **Property Investment and Development**

##### **Investment properties**

Early last year, our Group expanded its interests in the PRC by increasing our controlling stake in certain joint ventures that holds sizeable property sites within the central district in Nanjing. The value of net assets attributable to the Group acquired, including investment properties, prepaid land lease payments and leasehold buildings, all being at fair value, exceeds the consideration paid for the acquisition, giving rise to an excess over the cost of business combination of HK\$172.8 million recognised.

The 17% rise in turnover from our investment properties was the effect of consolidating the rental income from those subsidiaries after our increase in controlling interests, together with an increase in rental on renewal of tenancies for our local properties. The investment property segment reported a HK\$12.1 million rental profit and recognised a fair value loss of HK\$23.5 million for the year.

Our share of profits of the Group's 30% owned principal associate that holds the Grade-A commercial building in Central, The Centrium, reflected a 32% increase in rental income as a result of the great demand for office space in a prime location. The fair value change on the property however was a net loss of HK\$18.5 million on revaluation at the year-end (2007: a gain of HK\$193.5 million) which rendered the share of results of associates for the year 2008 to a net loss position.

### **Development properties**

The Group's property development projects are mainly in China and held under South China Land Limited 南華置地有限公司, a subsidiary listed in the GEM Board. The development projects are all construction in progress at the present stage and have not contributed any turnover or profits to the Group yet.

#### ***Shenyang property project***

Despite the cooling of the property market in China, the demand for commercial property in Shenyang remains strong, especially in the prime commercial area where we are located. Our major property development project, the building of the upscale 7-storey shopping complex, *Fortuna Plaza* (formerly known as *South China Landmark Plaza*), is well underway. The principal contractor was appointed during the third quarter of 2008 and at the end of 2008 construction up to the ground floor was partially completed. The construction of the upper levels is now progressing on schedule. We have commenced the marketing campaign for the project which looks promising on testing of the market interest so far.

#### ***Cangzhou/Hebei property projects***

Since signing our first Hebei project in 2007 of 420,000 square metres site area in Zhongjie (中捷), we signed an additional three projects in the Tianjin-Bohai Coastal Economic Development Zone in the year 2008. Specifically, we have a further 866,000 square metres of site area for a high-class commercial/residential development project in Zhongjie, a framework agreement for a development project of 450,000 square metres of site area in the commercial district of Huanghua (黃驊市) and a development project in the commercial district of Nandagang (南大港) for 620,000 square metres of site area.

Our phase one pilot relocation and redevelopment project in Zhongjie performed within expectation last year. The 6,000 square metres of site area was successfully demolished and existing tenants relocated, with 89% of the available units were sold up to the end of December 2008. With the construction work expected to complete in April 2009, we are confident to continue this business model for the remaining areas of the project.

The relocation projects in the commercial district of Nandagang (南大港) have been put on hold as the negotiation with local government regarding the terms of the project is under review. However, we are open to any option to resume the project if the forecasted return meets our expectation.

#### ***Chongqing Nanchuan (重慶南川) property project***

During the year, we also signed a preliminary agreement with Chongqing Nanchuan Municipal Government in relation to a property development project that covers up to 13,334,000 square metres of suburban area in Chongqing. The project includes development and construction of new and modern agricultural estates, agricultural related tourism centre, country parks and hot springs holiday resorts. Details of the development plans are still under negotiation.

## **Travel and Related Services**

The rising oil prices in the first half of last year and the slowing down of the world economy in the later half-year had an adverse impact on global air travel. Travel agencies have also faced increasing pressure of higher operating costs with wages and rent in particular. In light of these adverse factors, Fourseas Travel recorded a profit of HK\$24.6 million, a 33% decrease compared with the results in 2007 despite a 9% growth in turnover. This was mainly due to the increase in operating costs and the setting up of four branches in Mainland China which the Group sees as a necessary investment for future development. We have already seen satisfactory growth in turnover and customer base from our Mainland branches. More experienced staff have been recruited for the development of global corporate travel business for both Hong Kong and the China markets during the year.

## **Information Technology**

The IT segment reported a decrease of 9% in turnover to HK\$72.7 million for the year as compared to 2007. Administrative costs increased in various areas including the cost of retaining key personnel due to market competition for IT people in Chongqing where most of our operations are situated, and also recruiting a new team for setting up a new subsidiary in the high technology industrial park for software development for overseas buyers. The high technology industrial park is a special concession scheme made available by the local government to reputable software developers. Our IT operations in the Mainland recorded a minor profit of around HK\$ 1.0 million for the high running costs during the year.

## **Agriculture and Woods**

Our expansion into the forestry business last year has been re-focused on higher quality land that is closer to the populated areas of Chongqing as well as Wuhan and Xi'An. During the financial crisis in the second half of the year, many sizeable competitors for forestry land pulled out of the market, leaving us with a better selection of land available. We continue to face pressure of rising acquisition prices as time goes on despite the financial crisis, and we expect the asking price to continue to increase in the foreseeable future.

Our agricultural business units reported an operating loss of HK\$15.5 million for last year, before a fair value gain on revaluation of the biological assets of HK\$5.9 million, as they are largely at investment stage. The loss for the year mainly attributable to the initial costs of the newly established Chongqing, Wuhan and Xi'An units. Our first crop in Hebei province of the winter dates plantation was realised in the year producing a minor gross profit margin for the year. Although this is only the first crop of the farm with the majority of the crops in the investment stage, it is a promising indicator for the outlook of the fruit plantation overall.

In view of the increasing demand and rising sales prices for agricultural produce in the Mainland, the segment will be a main growth direction in the foreseeable future as we continue to expand our current portfolio of farmlands and woodlands. Backed by the current government macro policies to transform massive rural area in realisation of its commercial market value in the Mainland, it is expected that our agricultural operations will bring new business opportunities to the Group. In Guangzhou, we are now in the process of negotiating with the local government on the usage conversion of our lychee farmland there. If it was materialised, those farmlands could be converted to development sites (建設用地) for commercial constructions and usage.

## **Media and Publications**

The Group disposed a substantial part of the media operation early last year. We intend to divest the remaining media and publication business in the near future.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2008 the Group had a current ratio of 1.21 and a gearing ratio of 14.2% (31 December 2007: 1.26 and 10.3% respectively). The gearing ratio is computed by comparing the Group's total long-term bank borrowings of HK\$281.8 million (31 December 2007: HK\$233.4 million) to total equity of HK\$1,980.5 million (31 December 2007: HK\$2,259.0 million). The Group's operations and investments continue to be financed by internal resources and bank borrowings.

## **PROSPECTS**

### **Trading and Manufacturing**

We expect the year 2009 is still a challenging year to the Group's manufacturing operations. The overall market demand worldwide will be weakened especially in the first half of the year due to poor spending sentiment amidst the lingering economic slump. High-priced products will move much slower as compared to those basic categories. Keener price competition among manufacturers on middle to low-end items may squeeze profit margins.

The Group is cautiously optimistic as to the ongoing performance of our two main manufacturing units Wah Shing Toys (WST) and Tianjin South China Shoes. WST has run an aggressive lean program to rationalise organisation structure and manufacturing activities in improving operational efficiency with the help of implementing the new enterprise resource planning (ERP) system. Late last year, it laid the foundation of original design manufacturing (ODM) business with a few new ventures successfully launched in the market. We hope to capitalise our strength in research and development on expanding our ODM capacity in the creation of new consumer products that will give us greater growth momentum in the coming years. Likewise, our shoe manufacturing unit in Tianjin is anticipated to keep up with its steady growth this year with its strong management team and tight long-term relationship with its customers, of which, one is the biggest consumer product retailer in the world.

Barring unforeseen circumstances, we expect this segment to record better results in 2009 than the previous year.

### **Property Investment and Development**

The acquisition of an equity stake in our Nanjing's property portfolio is expected to bring further increase in rental income as well as high development value to the Group in the coming years. Given time for renovation and restructuring the tenant mix, it will bring greater returns to the Group in the foreseeable future.

We anticipate long-term growth in demand in the PRC consumer/retail market, especially in the second tier PRC cities, which will provide excellent investment opportunities to the Group. The demand for commercial properties remains strong and the expected return from the property market of PRC will be promising.

For the development of *Fortuna Plaza* in Shenyang, the construction progress of the shopping complex is satisfactory and is expected to be completed before the end of 2009. Pre-sale is expected to commence in the first half of 2009. With the continuous increase of spending power in the region, we expect our retail spaces will attract keen interest and the successful launch will provide strong support to the Group's cash flow in the near future.

In Hebei, our current relocation projects and land redevelopment projects have a total site area of around 1,286,000 square metres in Zhongjie. With the completion of the sales process and legal documentation of the first phase's property, we anticipate that the project will start to bring revenue contribution to the Group in 2009. Phase two of the relocation project in Zhongjie is expected to be launched in the first half of 2009, which would involve the re-development of a residential area covering 9,092 square metres.

For other development projects in Hebei, we are considering very carefully the expected return from relevant projects. Negotiation with the local government regarding the terms of the projects is undergoing. We, however, are confident that the economic growth of the area will bring considerable value to our investments.

### **Travel and Related Services**

Air travel is expected to face even stiffer challenges this year as consumer demand continues to fall due amidst a poor economic environment. Notwithstanding the negative macro economic factors, the management of Fourseas Travel looks to build upon its current market share with the opening up of the Mainland market through the four new branches in the major cities of China. With the steady growth and well established sales network in the Mainland, we shall continue to strengthen its service quality and take advantage of the economic stimulus policies of the Central Government.

### **Information Technology**

It is expected the increase in administrative costs will stabilise and the increase in remuneration of the existing work force will be conducive to the growth in production and profitability this year and going forward.

### **Agriculture and Woods**

The new focus for this year will be on expanding the quality agricultural land in Chongqing, Wuhan and Xi'An as during 2008 we have already identified and negotiated a number of sites suitable for development over the regions. We expect to finalise land acquisition within the year and initiate large-scale production during the later half of this year with a sizeable fruit production base.

Looking ahead, the future of agriculture and forestry is very promising for the Group. The segment is least affected by the global financial meltdown because of the hiking demand for basic commodities. Upon realisation of the macro policies in commercialising rural lands for constructive usage, our agricultural and forestry land bank portfolio in the Mainland will reflect its real and significant economic asset value in the market.

## **CODE ON CORPORATE GOVERNANCE PRACTICE**

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices containing in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2008.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **FINAL DIVIDEND**

The directors recommend the payment of a final dividend of HK0.11 cents (2007: HK\$1.4 cents) per share, which amounted to approximately HK\$2.0 million (2007: HK\$25.5 million) in respect of the year ended 31 December 2008 to the shareholders whose names appear on the register of members of the Company on 9 June 2009. A special dividend satisfied by distribution in specie of shares in South China Financial Holdings Limited (“SCF Shares”) on the basis of two SCF Shares for every share of the Company held by the Shareholders registered on the register of members of the Company on 2 December 2008 has been paid on 16 December 2008 (please refer to the circular of the Company dated 11 November 2008 for details).

Subject to the approval by the shareholders of the final dividend at the forthcoming annual general meeting of the Company, the final dividend will be paid on or about 10 July 2009.

## **CLOSURE OF REGISTER FOR ENTITLEMENT TO FINAL DIVIDEND**

The register of members of the Company will be closed from 4 June 2009 to 9 June 2009, both days inclusive, during which period no share transfers will be registered. To qualify for the final dividend, all transfers accompanied by the relevant share certificates of the Company, must be lodged for registration with the Company’s Share Registrar, Union Registrars Limited of Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 4:00 p.m. on 3 June 2009.

## **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 and one non-executive director, namely Mr. Cheng Hong Kei (Chairman of the audit committee), Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth and Mr. David Michael Norman.

The Group’s annual results for the year ended 31 December 2008 were reviewed by the audit committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

On behalf of the board of  
**South China Holdings Limited**  
**Ng Hung Sang**  
Chairman

Hong Kong, 21 April 2009

*As at the date of this announcement, the Board comprises (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges, and Mr. Ng Yuk Fung, Peter as executive directors; (2) Mr. David Michael Norman and Ms. Ng Yuk Mui, Jessica as non-executive directors; and (3) Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth, and Mr. Cheng Hong Kei as independent non-executive directors.*