



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 2007

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 2007 together with comparative figures for the last financial year as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	2007 HK\$'000	2006 HK\$'000
TURNOVER	2	4,930,350	4,444,372
Cost of sales		(4,190,413)	(3,939,691)
Gross profit		739,937	504,681
Interest income		4,635	4,296
Other operating income		57,855	31,064
Gain on disposal of investments and others	3	171,244	245,263
Selling and distribution costs		(104,823)	(103,083)
Other operating expenses		(544,701)	(431,153)
Interest expense for margin financing and money lending operations		(26,272)	(16,717)
Changes in fair value of assets	4	134,300	71,229
PROFIT FROM OPERATIONS	2	432,175	305,580
Finance costs		(31,865)	(34,608)
Share of profits and losses of associates		191,680	35,772
PROFIT BEFORE TAX		591,990	306,744
Tax	5	(13,758)	(24,648)
PROFIT FOR THE YEAR		578,232	282,096
Attributable to:			
- Equity holders of the Company		416,809	205,318
- Minority interests		161,423	76,778
		578,232	282,096
PROPOSED FINAL DIVIDEND		25,528	-
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	6		
- Basic		HK22.9 cents	HK11.3 cents
- Diluted		HK22.6 cents	-

CONSOLIDATED BALANCE SHEET

	As at 31 December	
	2007	2006
	HK\$'000	HK\$'000
NON-CURRENT ASSETS		
Property, plant and equipment	356,628	364,321
Investment properties	1,229,827	950,618
Prepaid land lease payments	20,027	30,955
Construction in progress	263,444	208,737
Interests in associates	304,227	310,762
Biological assets	71,000	65,000
Available-for-sale financial assets	38,990	60,202
Others	55,649	54,273
Goodwill	9,882	21,445
Deferred tax assets	3,255	9,776
Total non-current assets	<u>2,352,929</u>	<u>2,076,089</u>
CURRENT ASSETS		
Inventories	290,853	361,283
Trade and other receivables	578,052	521,019
Loans receivable	229,711	207,726
Financial assets at fair value through profit or loss	241,036	132,496
Due from related parties	253,308	14,709
Tax recoverable	8,972	12,960
Pledged bank deposits	18,730	17,630
Cash held on behalf of clients	538,546	363,372
Cash and cash equivalents	281,881	365,891
	<u>2,441,089</u>	<u>1,997,086</u>
Non-current assets classified as held for sale	-	53,300
Total current assets	<u>2,441,089</u>	<u>2,050,386</u>
CURRENT LIABILITIES		
Client deposits	518,718	359,586
Trade and other payables	793,015	980,840
Interest-bearing bank and other borrowings	590,971	578,798
Due to related parties	15,335	62
Tax payable	24,642	35,785
Total current liabilities	<u>1,942,681</u>	<u>1,955,071</u>
NET CURRENT ASSETS	<u>498,408</u>	<u>95,315</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>2,851,337</u>	<u>2,171,404</u>

	As at 31 December	
	2007	2006
	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	235,445	188,539
Advances from related parties	69,371	75,145
Promissory notes	95,959	-
Other non-current liabilities	41,259	32,601
Deferred tax liabilities	150,261	139,755
Total non-current liabilities	<u>592,295</u>	<u>436,040</u>
Net assets	<u>2,259,042</u>	<u>1,735,364</u>
EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	45,584	45,584
Reserves	<u>1,528,764</u>	<u>1,148,310</u>
	<u>1,574,348</u>	<u>1,193,894</u>
Minority interests	<u>684,694</u>	<u>541,470</u>
Total equity	<u>2,259,042</u>	<u>1,735,364</u>

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 2006 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

During the year, the Group acquired 67.69% equity interest in South China Land Limited ("SCL") from a substantial shareholder who is also a director of the Company.

As the Company and SCL are ultimately controlled by the substantial shareholder of the Company, before and after the acquisition, 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 ("AG5") issued by the Hong Kong Institute of Certified Public Accountants, as if the acquisition had occurred on the date when the combining entities first came under the control of the substantial shareholder because the acquisition should be regarded as a business combination under common control. However, the directors considered that the comparative figures of SCL are insignificant to the Group and restatement of comparative figures under AG5 on SCL has no significant benefit to the readers. Accordingly, no restatement on comparative figures of SCL has been made in these financial statements.

2. Revenue and segmental information

Revenue, which is also the Group's 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 activity is as follows:

	Turnover		Contribution to profit/(loss) from operations	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Trading and manufacturing	2,092,199	2,081,985	73,869	45,438
Property investment and development	41,057	23,432	188,293	83,148
Travel and related services	2,170,221	1,908,586	36,775	25,427
Securities and financial services	314,360	159,240	116,692	19,923
Media and publications	230,886	197,815	(44,813)	(65,946)
Information technology	80,228	72,050	1,664	(794)
Agriculture and woods	1,399	1,264	125	(1,521)
Investment holding	-	-	59,570	199,905
	<u>4,930,350</u>	<u>4,444,372</u>	<u>432,175</u>	<u>305,580</u>

3. Gain on disposal of investments and others

	2007 HK\$'000	2006 HK\$'000
Gain on disposal of subsidiaries	65,956	-
Excess over the cost of business combinations and acquisition of minority interest	-	241,308
Gain on disposal of available-for-sale financial assets	82,325	1,045
Gain on disposal of investment properties	-	5,280
Reversal of impairment of property, plant and equipment	2,569	11,620
Reversal of impairment/(impairment) of loans and trade receivables	20,394	(13,990)
	<u>171,244</u>	<u>245,263</u>

4. Changes in fair value of assets

	2007 HK\$'000	2006 HK\$'000
Fair value gain on investment properties	144,530	66,304
Fair value gain on biological assets	6,217	3,664
Fair value (loss)/gain on financial assets at fair value through profit or loss	(16,447)	1,261
	<u>134,300</u>	<u>71,229</u>

5. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

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

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

	2007 HK\$'000	2006 HK\$'000
<u>Earnings</u>		
Profit attributable to equity holders of the Company, used in the basic earnings per share calculation	416,809	205,318
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	<u>411,191</u>	<u>205,318</u>
	2007	2006
<u>Shares</u>		
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>

Diluted earnings per share amounts for the year ended 31 December 2006 has not been disclosed as there was no diluting events existed during that year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded turnover of HK\$4.9 billion and profit attributable to the equity holders of the Company of HK\$416.8 million for the year ended 31 December 2007, representing an increase of 11% in turnover and an increase of 103% in profits over the results in 2006.

Corporate Restructuring

The Group renamed and restructured its principal listed subsidiaries and their core business assets during the year. South China Brokerage Company Limited was changed to **South China Financial Holdings Limited** to reflect more closely the diversified range of financial services it is engaging in, namely securities and commodities broking and trading, margin financing, money lending, provision of corporate advisory and underwriting services. South China Industries Limited now becomes **South China (China) Limited** ("SCC") to better reflect its business strategy, direction and plan for its future development, in particular in the PRC.

The travel business and information technology business were segregated from SCC and transferred to some wholly owned subsidiaries of the Company. This restructure will allow SCC to become more focus and to concentrate and foster its resources and expertise in three major segments of trading and manufacturing, property investment and development, and agriculture and woods. The restructuring of the subsidiaries will bring a clearer picture of SCC's core business activities to its investors thus benefiting both the shareholders of SCC and the Company as a whole.

The major changes include the acquisition of a majority shareholding in the listed company **South China Land Limited** ("SCL") by SCC. At present, SCL holds an 80% equity interest in a joint venture that owns a property development project in Shenyang, which was previously injected

from SCC. The acquisition of the controlling stake in SCL will allow SCC to capitalise the great potential of the Shenyang property project and will offer great value to its shareholders. We believe the acquisition also serves the purpose of streamlining the investment activities of SCC and SCL, with the latter to focus solely in property development activities in the PRC.

Overall, the general business environment for the year 2007 was favourable to the Group with the exception of those business units with exposure to foreign exchange risk, the Group managed to record satisfactory growth in turnover and improvement in results for all business units.

Trading and Manufacturing

The segment recorded a turnover of HK\$2.1 billion and an operating profit of HK\$73.9 million, an increase of 63% as compared to HK\$45.4 million in 2006. The increase in profit was mainly resulted from the disposal of a loss making listed subsidiary, Nority International Group Limited (“NIG”) in early last year, for which the Group no longer shared its losses in the year 2007. The Group realised a gain on disposal of approximately HK\$65.8 million and maintained 35% interest in a subsidiary of NIG engaging in shoe manufacturing, which was then accounted for as an associate of the Group in 2007.

Our OEM toy manufacturing business continues to suffer from the adverse market conditions facing every manufacturer in the Mainland who exports. The adverse factors including rising labour costs and appreciation of the Renminbi currency which affects the costs of production. Although we managed to maintain similar levels of annual turnover at around HK\$1.5 billion in 2007 as in the previous year, our increased prices could only marginally offset the continuing appreciation of the Renminbi and increase in raw material costs. Our shoes manufacturing business in Tianjin recorded over 30% increase in turnover, but had a slight decrease in profit. The Group’s other smaller size trading and manufacturing operations in Nanjing and Tianjin focused on domestic sales recorded an increase in turnover in general.

Securities and Financial Services

Benefiting from the record high daily trading turnover in the local stock market together with the substantial increase in the number of initial public offering activities on the Hong Kong Stock Exchange, we experienced a robust financial market in the year 2007. This segment reported an increase in turnover to HK\$314.4 million and a profit of HK\$116.7 million for the year 2007. This represented substantial rises of 97% in turnover and nearly 6 times the profit in the year 2006.

During the year the Group made a gain of HK\$82.3 million on disposal of available-for-sale financial assets.

Property Investment and Development

Our rental portfolio reported a gross rental income of HK\$41.1million, an increase of 75% as compared to 2006, and a revaluation gain of HK\$144.5 million. The increase in rental income was partly attributable to rental revision and to the additional contribution from the investment properties in Nanjing as a result of the increase in our controlling stake in some joint ventures that holds sizable site in the prime retail district in Nanjing. Our Hong Kong property portfolio held for lease recorded a double-digit growth in rental income.

SCL’s interest in the property development project named as “South China Landmark Plaza”, is to build a landmark shopping complex in the central commercial district of Shenyang with gross retail rental floor area of approximately 117,200 square metres. The project concept design has been accepted by the local City Planning Bureau. The project is strategically located only 50 metres from the main train station in Zhong Jie which is now in progress of construction. A tender has already been submitted for an underground direct connection with this Shenyang’s first mass transit railway. The initial soldier piles and excavation works have been completed for laying the foundation for full-scale construction in the second quarter of 2008.

During the year, SCL also signed a 400,000 square metres area re-location and re-development agreement with the government of the Tianjin-Bohai Coastal Economic Development Area. After redevelopment, it is expected the project will deliver one million square metres of saleable floor area. The first phase of the development on relocating work has commenced.

Travel and Related Services

With the significant increase of business and leisure travel in 2007, Fourseas travel group continued to achieve strong growth in both turnover and profit. The stock market boom last year was a great stimulus for consumer spending on luxury and long haul travel. This gave rise to an increase in both gross and net profit margins. As a result, Fourseas recorded a 14% increase to HK\$2.2 billion and a 45% increase to HK\$36.8 million in turnover and operating profit respectively over year 2006.

It further consolidated its position as a leading wholesale air ticketing sales agent in the Hong Kong market with continued growth in its market share. More experienced staffs have been recruited for the development of China market with the commencement of operations in four major cities.

Media and Publications

The Group divested several loss making magazines and tightened cost measures in both Hong Kong and the PRC in order to reduce the loss from the media arm. As a results, turnover increased slightly from HK\$197.8 million to HK\$230.9 million for 2007 while the loss cut down from 65.9 million to 44.8 million as compared with the results in the previous year.

As a post balance sheet event, the Group disposed the media and publications business in February 2008.

Information Technology

The IT segment reported an increase in turnover from HK\$72.1 million in 2006 to HK\$80.2 million in 2007; and a turnaround operating profit of HK\$1.7 million from the previous year loss of HK\$0.8 million.

The Group's investment in IT business in the form of joint ventures with local operators on the Mainland. These companies concentrate on development and provision of applied applications software and system integration services for governmental bodies and business enterprises in the PRC. Under the auspices and encouragement of the Chongqing Government, the Group recently set up a company in the high technology industrial park for developing software outsourcing operations for overseas customers. The company was granted subsidies and tax benefits for contemplating this new business direction.

As software development takes a long lead-time to mature, the Group after years of nurturing the software development companies, the year 2007 results began to show that the developed software enjoying gradual market popularity.

Agriculture and Woods

The agriculture business is in the incubation stage of development and reported an operating loss of HK\$6.1 million. However, the Group enjoyed a fair value gain on biological assets of HK\$6.2 million in 2007. The three existing agricultural operations in Guangdong, Jiangsu and Hebei remain largely at its investment stage. During the year, we expanded to the Chongqing region of the PRC with a primary focus on the forestry business. It is expected that the agricultural operations will bring new business opportunities to the Group in view of the increasing demand for agricultural produce in the Mainland.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year:

- (1) the Group disposed of its entire 95.35% interest in NIG to an independent third party at a consideration of HK\$105.4 million;
- (2) the Group disposed of its entire interest in Praise Rich Limited to SCL, a related company of the Group, at an aggregate consideration of HK\$800 million; and
- (3) the Group acquired 67.69% interest of SCL at a consideration of approximately HK\$96 million.

PROSPECTS

Trading and Manufacturing

The US economic slump will probably affect the export sales of the Group's trading and manufacturing operations during 2008. Adverse trends in currency, material prices, and transportation will continue, while the eventual total impact of the new PRC labour contract laws on the factory's labour costs remains to be seen. The current harsh environment is very challenging and not expected to get better in the short run. We will focus on price adjustments and operational efficiency to maintain our profit margin for the foreseeable future.

Securities and Financial Services

The market investing sentiment has been clearly affected by the aftermath of the sub-prime crisis in the US financial market since the end of last year. Its impact has been going deeper and more extensive than what would have generally been expected as affecting the global stock market. We expect continued volatility in the stock market this year.

Notwithstanding that the China Central Government's effort in implementing the necessary macro-policies to control inflation and to cool down the overheated market, the Group still expects a close to double-digit economic growth in Mainland China, which in turn will benefit the financial market of Hong Kong in the medium and long run. The Group is now in the progress of establishing a financial leasing company in Nanjing. Approval was obtained from Ministry of Commerce of the People's Republic of China and the Certificate of Approval was received in March 2008. With a well-managed risk policy and appropriate cost control measures, we remain cautiously optimistic about our financial business in meeting the challenges in the year 2008.

Property Investment and Development

The retail site in Nanjing main shopping district is in the process of a revamp of its current rental mix to tap its full development potential. Rental income is expected to improve significantly in the near future. On the one hand, our property redevelopment projects intend to achieve the unlocking the commercial hidden potential of our Nanjing property sites, and on the other hand, we shall endeavour to increase our total landbank portfolio size by completing acquisition of additional controlling stakes in our other joint ventures that own valuable land bank in Nanjing with high commercial value.

The outlook for property development projects in the PRC remains positive despite the overall slow down of the property market recently. Our shopping complex in Shenyang and our prime commercial sites in Nanjing will benefit from the increasing demand for central retail space. The projects acquired in Tianjin-Hebei are also very promising because of the high growth potential in the region.

In addition to the Shenyang project, SCL is actively accumulating land parcels in Tianjin-Bohai, Chongqing, Shenyang and other rapid development regions in the Mainland.

Our Hong Kong rental portfolio will benefit from the improving market conditions, and is expected to increase moderately this year.

Travel and Related Services

Despite the economic downturn in the US market and the implementation of macro-economic measures to cool down the economy of Mainland China, we expect stable growth within the aviation/travel industry. This is due to the fact that Hong Kong and multinational companies will continue to expand operations within Mainland China, making Hong Kong a necessary hub for business travelers. However, the increase of operating costs such as staff costs and office rent will also limit the potential for growth on the bottom line.

Business in Mainland China will become the major development focus of Four Seas group in the current year and onwards. The early capturing of a sizeable market share in this high growth market is vital for future development.

The Company currently has offices in Beijing, Shanghai, Guangzhou and Shenzhen. We plan to open four more offices at Chongqing, Xian, Nanjing and Tianjin in the coming future. In addition, we intend to establish a call centre in Guangzhou to develop internet business for expansion of mass ticketing sales and hotel bookings.

Information Technology

As most of the software developed by our IT companies are application software that can be used by different clienteles of similar businesses in China, it is expected that the usage of these software can be replicated in other cities and province outside the software manufacturing centers. Hence, sales are expected to spread over the PRC market in the long run.

Agriculture and Woods

In addition to the recent expansion of our agricultural operation into Chongqing, we are also seeing to expand acreage in Jiangsu and Hebei. On the business side, apart from developing the forestry plantation in Chongqing, the management's focus will be on replicating the successful pig rearing model in Hebei in light of rising pork prices as well as exploring a new revenue source in agricultural wholesale markets.

Agriculture and woods and animal husbandry will be a main growth direction in the foreseeable future as we continue to expand our current portfolio of farmlands and woodlands. We are confident in our ability to acquire large parcels of agricultural lands at a relatively low cost. Thus, our focus will be to accelerate the pace of accumulation of suitable acreage during the current year.

We believe the asset value of our substantial land bank and property portfolio in the Mainland will positively and significantly appreciate with the continuing upward revaluation of Renminbi and the strong economy.

CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has complied with the Code on Corporate Governance Practices (the “CG Code”) 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 2007 with exception (i) to code provision A.4.1 that non-executive directors of the Company were not appointed for a specific term; and (ii) to code provision A.4.2 that the Articles of Association of the Company did not provide that (a) every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting of the Company after their appointment.

In order to comply with the code provision A.4.2 of CG Code, a special resolution was passed at the annual general meeting of the Company on 22 May 2007 to amend the Articles of Association of the Company, inter alia, to the effect that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years and all newly appointed directors should be subject to re-election by shareholders at the first general meeting of the Company after their appointment.

All the directors of the Company (the “Directors”) are subject to the retirement by rotation in accordance with the Company’s Articles of Association. Each of the non-executive Directors has agreed and confirmed in writing with the Company that his term of appointment is three years commenced from the date of his last re-election by the shareholders at the annual general meeting. As such, the Board considers that the code provision A.4.1 of the CG Code of the Listing Rules is complied.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2007, 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 HK1.4 cents (2006: Nil) per share, which amounted to approximately HK\$25.5 million (2006 : Nil) in respect of the year ended 31 December 2007 to the shareholders whose names appear on the register of members of the Company on 20 May 2008. This, together with the interim dividend of HK1.4 cents per share paid on 23 October 2007, will give a total dividend of HK2.8 cents per share for the whole year.

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 8 August 2008.

CLOSURE OF REGISTER FOR ENTITLEMENT TO FINAL DIVIDEND

The register of members of the Company will be closed from 14 May 2008 to 20 May 2008, 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 13 May 2008.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The principal duties of the audit committee include the review of the Group's audit plan and process with the Auditors, the independence of the Auditors, the Group's financial statements and system of internal control. The audit committee comprises four Non-executive Directors, out of which three of them are Independent Non-executive Directors, namely Mr. Cheng Hong Kei (Committee Chairman), 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 2007 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

Ng Hung Sang

Chairman

Hong Kong, 15 April 2008

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.