



SOUTH CHINA FINANCIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 619)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

GROUP RESULTS

The board of directors (the “Board”) of South China Financial 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	285,952	156,873
Other revenue	4	4,922	4,215
Fair value gain on an investment property		47,079	7,000
Gains on disposal of available-for-sale financial assets		72,413	540
Fair value gain/(loss) on financial assets at fair value through profit or loss		(12,257)	2,605
Reversal of impairment/(impairment) of loans and trade receivables, net		21,472	(11,290)
Other operating expenses		(204,572)	(129,102)
Profit from operating activities	4	215,009	30,841
Finance costs	5	(5,690)	(4,162)
Profit before tax	3	209,319	26,679
Tax	6	(9,775)	(1,358)
Profit for the year		199,544	25,321
Attributable to:			
Equity holders of the Company		199,536	25,300
Minority interests		8	21
		199,544	25,321
Dividend per share			
Proposed final		0.60 HK cent	0.40 HK cent
Earnings per share	7		
Basic		3.98 HK cent	0.51 HK cent
Diluted		3.83 HK cent	0.51 HK cent

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Notes	2007	2006
		HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		33,010	3,580
Investment property	8	180,000	162,000
Intangible assets		836	836
Other assets		6,085	6,916
Available-for-sale financial assets		–	23,193
Loans receivable		6,913	5,979
Deferred tax assets		2,782	2,787
Total non-current assets		<u>229,626</u>	<u>205,291</u>
CURRENT ASSETS			
Financial assets at fair value through profit or loss		186,523	81,162
Loans receivable		245,566	207,726
Trade receivables		86,365	69,811
Other receivables, prepayments and deposits		7,958	14,697
Tax recoverable		7,117	7,149
Pledged time deposits		5,750	5,750
Cash held on behalf of clients		538,546	363,372
Cash and cash equivalents		79,544	96,007
Total current assets		<u>1,157,369</u>	<u>845,674</u>
CURRENT LIABILITIES			
Amount due to intermediate holding company		4,652	–
Client deposits		518,718	361,719
Trade payables		86,141	85,669
Tax payable		3,028	1,835
Other payables and accruals		24,182	10,050
Interest-bearing bank and other borrowings		143,481	172,031
Total current liabilities		<u>780,202</u>	<u>631,304</u>
NET CURRENT ASSETS		<u>377,167</u>	<u>214,370</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>606,793</u>	<u>419,661</u>

	<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		53,984	46,196
Deferred tax liabilities		13,651	5,412
Total non-current liabilities		<u>67,635</u>	<u>51,608</u>
Net assets		<u>539,158</u>	<u>368,053</u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		125,715	125,122
Reserves		382,277	221,900
Proposed final dividend		30,172	20,020
		<u>538,164</u>	<u>367,042</u>
Minority interests		994	1,011
Total equity		<u>539,158</u>	<u>368,053</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. Save for amended and additional disclosures, the change in accounting policies as required by accounting standards which came into effect during the year does not have any significant impact on the Group's financial statements.

2. Turnover

	2007 HK\$'000	2006 HK\$'000
<u>Turnover</u>		
Commission and brokerage income	159,866	82,222
Profit on the trading of securities, bullion and futures contracts	40,103	11,959
Dividend income from listed investments	543	1,346
Interest income on impaired loans and trade receivables	5,685	5,258
Interest income from loans receivable	43,798	29,935
Interest income from bank and financial institutions	20,432	14,359
Rendering of services	9,969	8,211
Gross rental income	5,556	3,583
	<u>285,952</u>	<u>156,873</u>

3. Profit before tax

	2007 HK\$'000	2006 HK\$'000
The Group's profit is arrived at after charging:		
Cost of services provided	74,662	42,304
Depreciation	2,958	2,096
Interest expenses for margin financing and money lending operations	<u>26,271</u>	<u>16,697</u>

4. Revenue and segmental information

An analysis of the Group's revenue and contribution to operating profit/(loss) by business segment for the years ended 31 December 2007 and 2006 is as follows:

	2007 Revenue HK\$'000	2006 Revenue HK\$'000	2007 Contribution to operating profit (loss) HK\$'000	2006 Contribution to operating profit (loss) HK\$'000
Securities and futures broking	162,371	84,376	45,432	9,714
Securities trading and investment	40,646	13,305	80,483	10,250
Margin financing and money lending	69,747	49,434	57,100	13,500
Corporate advisory and underwriting	10,762	9,031	(10,446)	(3,711)
Property investment	7,348	4,405	51,552	9,345
Corporate and others	-	537	(9,112)	(8,257)
	<u>290,874</u>	<u>161,088</u>	<u>215,009</u>	<u>30,841</u>

Over 90% of the Group's revenue and contribution to operating profit/(loss) were derived from operations in Hong Kong.

5. Finance Costs

Finance costs represent interest on mortgage loan and finance lease secured by the Group's certain property, plant and equipment and investment properties.

6. 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.

7. Earnings per share

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

	2007 HK\$'000	2006 HK\$'000
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the Company	<u>199,536</u>	<u>25,300</u>

	2007	2006
<u>Shares</u>		
Weighted average number of ordinary shares in issued during the year used in the basic earnings per share calculation	5,012,649,007	4,997,876,967
Effect of dilution – weighted average number of ordinary shares:		
Share options	201,122,516	-
	<u>5,213,771,523</u>	<u>4,997,876,967</u>

The Company's warrants have no dilution effect for the year ended 31 December 2007 because the exercise price of the Company's warrant was higher than average market price for shares for the year ended 31 December 2007.

The Company's share options have no dilution effect for the year ended 31 December 2006 because the exercise price of the Company's share options was higher than average market price for shares for the year ended 31 December 2006.

8. Investment property

Investment property was revalued at 31 December 2007 by BMI Appraisals Limited, an independent firm of qualified valuers on an open market, existing use basis.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Benefiting from the record high daily trading turnover in the local stock market together with the substantial increase in the number of initial public offers listing on the Hong Kong Stock Exchange, we experienced an unprecedented robust financial market in the year 2007. The Group achieved a turnover of HK\$286.0 million and a profit attributable to equity holders of the Company of HK\$199.5 million for the year 2007. This represents an increase of 82% in turnover and 689% in profit as compared to HK\$156.9 million and HK\$25.3 million respectively in the previous year.

Securities broking, trading and investment

The strong stock market sentiment boosted the Group's rise in commission income from the securities and futures broking business. The segment recorded a high level of revenue of HK\$162.4 million and a profit of HK\$45.4 million for 2007, that was an increase of 92% in revenue and 368% increase in profit over the results in the year 2006.

During the year, the Group made a gain of HK\$72.4 million on disposal of available-for-sale financial assets. At the year-end, a fair value loss of financial assets at fair value through profit or loss was booked for the amount of HK\$12.3 million. At balance sheet date, the Group held HK\$186.5 million financial assets at fair value through profit or loss while all available-for-sale financial assets were disposed of during the year.

Margin financing and money lending

Revenue from this sector rose from HK\$49.4 million in 2006 to HK\$69.7 million in 2007, resulting in a profit of HK\$57.1 million (including the increase in market value of collateral from margin clients) for 2007, a 323% increase from HK\$13.5 million of last year due to the great demand for share financing in an actively traded market.

Our loan and advances portfolio for margin financing and personal loans increased by 18% to HK\$252.5 million by the end of the year.

Corporate advisory and underwriting

Income from this sector rose slightly over the previous year, but with more extensive recruitment in qualified professionals to join our corporate finance team and expansion cost on investing new offices in the major cities in the PRC market, higher operating costs were incurred during last year. The sector reported a loss HK\$10.4 million in 2007 compared to a loss of HK\$3.7 million in the previous year.

According to the 4th Quarter M&A Financial Advisory Review conducted by Thomson Financial, South China Capital Limited has been ranked No. 13 based on number of merger and acquisition transactions in Asia (ex-Japan) for the year ended 31 December 2007. In addition, according to the 4th Quarter Mid-Market M&A Review conducted by Thompson Financial, South China Capital Limited has been ranked No.2 based on value and number of merger and acquisition transactions in Hong Kong valued up to US\$100 million for the year ended 31 December 2007.

Property Investment and others

The rising trend in local property market sustained a growth in rental income for our investment property of Lippo Centre at the Central District. It reported an increase in gross rental income of 56% to HK\$5.6 million for 2007. A gain of HK\$47.1 million was reported on revaluation at the year-end.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has obtained facilities which are renewable on a yearly basis from a number of banks. The facilities for the share margin finance operations are secured by the securities of margin clients and the Group. The facilities for the money lending operations are clean loans. All the facilities are guaranteed by the Company.

As at 31 December 2007, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$54.0 million (2006: HK\$46.2 million), which, when related to the Group's equity of HK\$539.2 million (2006: HK\$368.1 million), represents a gearing ratio of approximately 10.0% (2006: 12.6%).

PROSPECTS

The market 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 would have generally been expected as affecting the global stock market. It is hard to expect the subsequent negative effects to disappear in a short period of time.

On the other hand, the China Central Government has already announced that they are determined in continuing to implement necessary macro-policies to control inflation and to cool down the overheated market. This coupled with some large size fund-raising activities in the China A-shares market is believed to further adversely affect the investors' sentiment, in particular on H-shares companies listed in the local stock market. We expect the Hong Kong stock market will continue to be very volatile this year.

Notwithstanding the above factors, we still expect a double-digit economic growth in Mainland China, which in turn will benefit the financial market of Hong Kong in the medium to long run. The Group is now in the progress of establishing a leasing company in Nanjing, the PRC. With a well-managed risk policy and appropriate cost control measures, we remain cautiously optimistic in meeting any challenges in the year 2008.

ISSUE OF BONUS WARRANTS

The Company issued 1,003,678,188 warrants which entitle the holders thereof to subscribe at any time during the period from 23 October 2007 to 22 October 2008 for fully paid shares of the Company at an initial subscription price of HK\$0.168 per share on the basis of one bonus warrant for every five shares held by the shareholders of the Company on 12 October 2007.

DIVIDEND

The Board propose the payment of a final dividend of 0.6 HK cent (2006: 0.4 HK cent) per share, totaling approximately HK\$30,172,000 (2006: HK\$20,020,000) 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 0.4 HK cent per share paid on 25 September 2007, will give a total dividend of 1.0 HK cent per share for the whole year. The final dividend will be paid on or about 3 June 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 or in the case of warrant holders of the Company all subscription forms accompanied by the relevant warrant certificates and exercise money, 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 pm on 13 May 2008.

CODE ON CORPORATE GOVERNANCE PRACTICES

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; (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; and (iii) to code provision E.1.2 that the Chairman of the Board had not attended the annual general meeting.

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.

According to code provision E.1.2 of CG Code, the chairman of the board shall attend the annual general meeting to answer questions. The Chairman of the Board was unable to attend the

annual general meeting of the Company held on 22 May 2007. The Vice-Chairman of the Company attended the annual general meeting in the absence of the Chairman to answer questions on the Group's businesses at the meeting. The Directors believe that this was an exceptional incident and the Company ensures future compliance with code provision E.1.2.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year ended 31 December 2007.

SCOPE OF WORK OF ERNST & YOUNG

The preliminary announcement of the Group's results for the year ended 31 December 2007 have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

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, review of the independence of auditors, the Group's financial statements and system of internal control. The audit committee comprises three independent non-executive directors namely, Mr. Tung Woon Cheung, Eric (newly appointed as Chairman of the Committee on 19 February 2008), Mrs. Tse Wong Siu Yin, Elizabeth (resigned as Chairman of the Committee on 19 February 2008) and Hon. Raymond Arthur William Sears, Q.C.

The Group's annual results for the year ended 31 December 2007 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

On behalf of the Board
Ng Hung Sang
Chairman

Hong Kong, 18 March 2008

As at the date of this Announcement, the Board comprises (1) Mr. Ng Hung Sang, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor, Mr. Ng Chun Sang and Mr. Ng Yuk Yeung, Paul as executive directors; and (2) Mrs. Tse Wong Siu Yin, Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung, Eric as independent non-executive directors.