

Directors' Report

The directors of the Company (the "Directors") present their report and the audited financial statements of the Group for the year ended 31 December 2006.

CHANGE OF NAME

By a special resolution passed at an extraordinary general meeting held on 13 February 2007, the Company changed its name from "South China Brokerage Company Limited 南華證券有限公司" to "South China Financial Holdings Limited 南華金融控股有限公司" with effect from 26 February 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of securities, bullion and commodities broking and trading, margin financing, money lending, provision of corporate advisory and underwriting services, property investment and investment holding. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 69.

No interim dividend was paid during the year. The Directors recommend the payment of a final dividend of 0.4 HK cent (2005: Nil) per share, totalling approximately HK\$20,020,000 (2005: Nil) in respect of the year ended 31 December 2006 to the shareholders whose names appear on the register of members of the Company on 22 May 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 70 of this Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year are set out in notes 34 and 35 to the financial statements.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2006.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company had no reserves available for cash distribution. The Company's share premium account, in the amount of HK\$216,278,000 is available for distribution in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate turnover attributable to the Group's five largest customers accounted for less than 30% of the total turnover for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Ng Hung Sang (Chairman)
Mr. Richard Howard Gorges (Vice-chairman)
Ms. Cheung Choi Ngor (Vice-chairman)
Dr. Tang Kam Sun (Appointed as Executive Director and Managing Director on 12 February 2007)
Mr. Chan Hing Wah (Resigned as Executive Director and Managing Director on 19 December 2006)
Mr. Ng Chun Sang
Mr. Ng Yuk Yeung, Paul

Independent Non-executive Directors:

Ms. Wong Siu Yin, Elizabeth
Hon. Raymond Arthur William Sears, Q.C.
Mr. Tung Woon Cheung, Eric

In accordance with article 99 of the Articles of Association of the Company, Dr. Tang Kam Sun will retire from office at the forthcoming annual general meeting. In accordance with article 116 of the Articles of Association of the Company, Mr. Ng Hung Sang, Mr. Ng Chun Sang and Mr. Ng Yuk Yeung, Paul will retire from office at the forthcoming annual general meeting. All of the retiring Directors, being eligible, offer themselves for re-election.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the Independent Non-executive Directors namely, Ms. Wong Siu Yin, Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung, Eric for the year ended 31 December 2006 and as at the date of this report, the Company still considers the Independent Non-executive Directors to be independent.

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DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and other companies in which certain Directors of the Company have beneficial interests as disclosed under the heading "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" below are set out in note 40 to the financial statements.

Save as disclosed above, no contracts of significance in relation to the business of the Group to which the Company, or any of its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts for the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and 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 were as follows:

(a) The Company

(i) Long positions in ordinary shares of HK\$0.025 each

Name of Director	Capacity and nature of interest	Number of shares	Total number of shares	Approximate percentage of shareholding
Ng Hung Sang ("Mr. Ng")	Beneficial owner Interest of controlled corporations	7,378,000 3,641,102,500 (Note a)	3,648,480,500	72.90%
Richard Howard Gorges ("Mr. Gorges")	Beneficial owner	12,174,000	12,174,000	0.24%

(ii) Long positions in underlying shares

Name of Director	Capacity and nature of interest	Number of underlying shares*	Approximate percentage of shareholding
Cheung Choi Ngor ("Ms. Cheung")	Beneficial owner	30,000,000	0.60%
Mr. Gorges	Beneficial owner	30,000,000	0.60%
Ng Yuk Yeung, Paul ("Mr. Paul Ng")	Beneficial owner	50,000,000	1.00%

* Represents underlying shares subject to share options granted to the Directors under the share option scheme of the Company as follows:-

Name of Director	Date of grant (DD/MM/YY)	Subscription price	Number of share options granted	Exercise period (DD/MM/YY)
Ms. Cheung	16/03/2006	HK\$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Mr. Gorges	16/03/2006	HK\$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Mr. Paul Ng	16/03/2006	HK\$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
	26/04/2006	HK\$0.128	6,666,667	26/04/2007 – 25/04/2009
			6,666,667	26/04/2008 – 25/04/2010
		6,666,666	26/04/2009 – 25/04/2011	

(b) Long positions in ordinary shares of associated corporations

(i) South China Holdings Limited ("SCH") (Note b)

Name of Director	Capacity and nature of interest	Number of shares	Total number of shares	Approximate percentage of shareholding
Mr. Ng	Beneficial owner	71,652,200	1,344,181,812	73.72%
	Interest of controlled corporations	1,272,529,612 (Note c)		
Mr. Gorges	Interest of controlled corporations	487,949,760 (Note c)	487,949,760	26.76%
Ms. Cheung	Interest of controlled corporations	487,949,760 (Note c)	487,949,760	26.76%

(ii) South China Industries Limited ("SCI") (Note d)

Name of Director	Capacity and nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporations	396,621,357 (Note e)	74.79%

(iii) Nority International Group Limited ("Nority") (Note f)

Name of Director	Capacity and nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporations	255,885,561 (Note g)	95.35%

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(iv) South China Financial Credits Limited ("SCFC") (Note h)

Name of Director	Capacity and nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Paul Ng	Beneficial owner	250,000	0.59%

(v) The Express News Limited ("Express News") (Note i)

Name of Director	Capacity and nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporations	30 (Note j)	30%

Notes:

- The 3,641,102,500 shares in the Company were held by certain wholly-owned subsidiaries of SCH. By virtue of the interests in the shares of SCH in relation to which Mr. Ng had a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) below and as a director of SCH, Mr. Ng was taken to have a duty of disclosure in relation to the said shares of the Company under the SFO.
- The Company was a 72.75% owned subsidiary of SCH.
- Mr. Ng, Ms. Cheung and Mr. Gorges, through companies wholly owned and controlled by them, had interests in 487,949,760 shares in SCH. Mr. Ng personally owned 71,652,200 shares and through companies wholly owned and controlled by him, beneficially owned 784,579,852 shares in SCH.
- SCI was a 74.79% owned subsidiary of SCH.
- The 396,621,357 shares in SCI were held by certain wholly-owned subsidiaries of SCH. By virtue of the interests in the shares of SCH in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) above and as a director of SCH, Mr. Ng was taken to have a duty of disclosure in relation to the said shares of SCI under the SFO.
- Nority was a 95.35% owned subsidiary of SCI.
- The 255,885,561 shares in Nority were held by an indirect wholly-owned subsidiary of SCI. By virtue of the interests in the shares of SCH in relation to which Mr. Ng had a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) above and as a director of SCH, Mr. Ng was taken to have a duty of disclosure in relation to the said shares of Nority under the SFO.
- SCFC was a 98.36% owned subsidiary of the Company.
- Express News was a 70% owned subsidiary of SCH.
- Mr. Ng and his family, through a company wholly-owned and controlled by them, had interests in 30 shares in Express News.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 December 2006, 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) 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 of the Listing Rules.

SHARE OPTION SCHEMES

The Directors and employees of the Company and its subsidiaries are entitled to participate in the share option scheme of the Company and its ultimate holding company whereas certain Directors are entitled to participate in the share option schemes of certain fellow subsidiaries. Particulars of the share option scheme of the Company are set out in note 35 to the financial statements.

No option has been granted or exercised under the share option schemes of the ultimate holding company and the said fellow subsidiaries during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and "SHARE OPTION SCHEME" set out above, at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, other than the interests and short positions of the Directors and chief executives of the Company as disclosed above, the following persons 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 SFO.

Long positions in ordinary shares of HK\$0.025 each of the Company

Name of shareholder	Capacity and nature of interest	Number of shares	Approximate percentage of shareholding
SCH	Interest of controlled corporations	3,641,102,500	72.75%

Save as disclosed above, as at 31 December 2006, the Company had not been notified by any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO.

CONNECTED TRANSACTIONS

There were no transactions to be disclosed as connected transactions in accordance with the requirements of the Listing Rules during the year ended 31 December 2006.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Details of the compliance by the Company with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules are set out on pages 15 to 18 of this Annual Report.

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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, Ms. Wong Siu Yin, Elizabeth (Chairman of the Committee), Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung, Eric.

During the year, the audit committee held three meetings to review and comment on the Company's 2005 annual report and 2006 interim report as well as the Company's internal control procedures.

The Group's annual results for the year ended 31 December 2006 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules.

AUDITORS

Messrs. Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Ng Hung Sang

Chairman

Hong Kong, 3 April 2007