



# 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 2008

### 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 2008 together with comparative figures for the last financial year as follows:

### CONSOLIDATED INCOME STATEMENT

	Notes	2008 HK\$'000	2007 HK\$'000
<b>Turnover</b>	2&4	<b>90,862</b>	285,952
Other revenue	4	<b>3,456</b>	4,922
Fair value (loss)/gain on an investment property		<b>(46,215)</b>	47,079
Gains on disposal of available-for-sale financial assets		-	72,413
Fair value loss on financial assets at fair value through profit or loss		<b>(114,619)</b>	(12,257)
(Impairment)/reversal of impairment of loans and trade receivables, net		<b>(8,467)</b>	21,472
Other operating expenses		<b>(112,963)</b>	(204,572)
<b>(Loss)/profit from operating activities</b>	4	<b>(187,946)</b>	215,009
Finance costs	5	<b>(4,087)</b>	(5,690)
<b>(Loss)/profit before tax</b>	3	<b>(192,033)</b>	209,319
Tax	6	<b>5,569</b>	(9,775)
<b>(Loss)/profit for the year</b>		<b>(186,464)</b>	199,544
Attributable to:			
Equity holders of the Company		<b>(186,451)</b>	199,536
Minority interests		<b>(13)</b>	8
		<b>(186,464)</b>	199,544
Dividend per share			
Proposed final		<b>0.04 HK cent</b>	0.60 HK cent
(Loss)/earnings per share	7		
Basic		<b>(3.71) HK cents</b>	3.98 HK cents
Diluted		<b>N/A</b>	3.83 HK cents

## CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Notes	2008	2007
		HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		4,063	33,010
Investment properties	8	161,700	180,000
Intangible assets		836	836
Other assets		5,681	5,725
Loans receivable		2,130	6,913
Available-for-sale investments		1,570	360
Deferred tax assets		10	2,782
Total non-current assets		175,990	229,626
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss		115,764	186,523
Loans receivable		111,421	245,566
Trade receivables	9	28,187	86,365
Other receivables, prepayments and deposits		9,544	7,958
Tax recoverable		74	7,117
Pledged time deposits		5,750	5,750
Cash held on behalf of clients		341,716	538,546
Cash and cash equivalents		101,642	79,544
Total current assets		714,098	1,157,369
<b>CURRENT LIABILITIES</b>			
Amount due to an intermediate holding company		-	4,652
Amount due to a related company		437	-
Client deposits		320,929	518,718
Trade payables	10	38,111	86,141
Tax payable		38	3,028
Other payables and accruals		6,261	24,182
Interest-bearing bank and other borrowings		103,523	143,481
Total current liabilities		469,299	780,202
NET CURRENT ASSETS		244,799	377,167
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		420,789	606,793

	<i>Notes</i>	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		<b>87,310</b>	53,984
Deferred tax liabilities		<b>5,410</b>	13,651
Total non-current liabilities		<b>92,720</b>	67,635
Net assets		<b>328,069</b>	539,158
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		<b>125,721</b>	125,715
Reserves		<b>199,440</b>	382,277
Proposed final dividend		<b>2,012</b>	30,172
		<b>327,173</b>	538,164
<b>Minority interests</b>		<b>896</b>	994
Total equity		<b>328,069</b>	539,158

## 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 2007 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

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Commission and brokerage income	<b>73,762</b>	159,866
Interest income from loans receivable	<b>19,402</b>	43,798
Interest income on impaired loans and trade receivables	<b>5,293</b>	5,685
Interest income from bank and financial institutions	<b>5,726</b>	20,432
(Loss)/profit on trading of securities, bullion and futures contracts	<b>(21,427)</b>	40,103
Dividend income from listed investments	<b>2,719</b>	543
Rendering of services	<b>1,924</b>	9,969
Gross rental income	<b>3,463</b>	5,556
	<b>90,862</b>	285,952

### 3. (Loss)/profit before tax

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
<b>The Group's (loss)/profit is arrived at after charging:</b>		
Cost of services provided	<b>28,391</b>	74,662
Depreciation	<b>3,309</b>	2,958
Interest expenses for margin financing and money lending operations	<b>3,424</b>	26,271

#### 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 2008 and 2007 is as follows:

	2008	2007	2008	2007
	Revenue	Revenue	Contribution to operating profit/ (loss)	Contribution to operating profit/ (loss)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Securities and futures broking	76,215	162,371	2,290	45,432
Margin financing and money lending	30,877	69,747	9,419	57,100
Securities trading and investment	(18,708)	40,646	(137,201)	80,483
Corporate advisory and underwriting	2,158	10,762	(9,066)	(10,446)
Property investment	3,776	7,348	(45,146)	51,552
Corporate and others	-	-	(8,242)	(9,112)
	<b>94,318</b>	<b>290,874</b>	<b>(187,946)</b>	<b>215,009</b>

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 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.

#### 7. (Loss)/earnings per share

The calculations of basic and diluted (loss)/earnings per share are based on:

	2008	2007
	HK\$'000	HK\$'000
<u>Earnings</u>		
(Loss)/profit attributable to ordinary equity holders of the Company	<b>(186,451)</b>	<b>199,536</b>
	<b>2008</b>	<b>2007</b>
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<b>5,028,759,139</b>	<b>5,012,649,007</b>
Effect of dilution – weighted average number of ordinary shares:		
Share options	<b>-</b>	<b>201,122,516</b>
	<b>5,028,759,139</b>	<b>5,213,771,523</b>

The Company's share options have no dilution effect for the year ended 31 December 2008 because the exercise price of the Company's share options was higher than average market price for shares for the year ended 31 December 2008.

**8. Investment property**

Investment property was revalued at 31 December 2008 by BMI Appraisals Limited, an independent firm of qualified valuers on an open market, existing use basis.

**9. Trade receivables**

The Group allows a credit period up to the respective settlement dates of securities, bullion and commodities transactions or a credit period mutually agreed between the contracting parties. The following is the ageing analysis of net trade receivable at the balance sheet date:

	2008 HK\$'000	2007 HK\$'000
Current to 90 days	28,187	82,302
91 days to 1 year	-	4,063
	<u>28,187</u>	<u>86,365</u>

**10. Trade payables**

All of the Group's trade payables are aged within 30 days.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The overall business environment in 2008 was affected by the uncertain global economic conditions that in turn led to poor investment sentiment and subdued market activities. The situation further deteriorated in the last quarter of the year onslaught of a financial tsunami that originated in the US.

For the year ended 31 December 2008, the Group recorded turnover of HK\$90.9 million and a net loss of HK\$186.5 million. When compared to the previous year, the Group's turnover dropped by approximately 68% while the operating results in the current year were directly impacted by the market downturn. The greater than expected loss was mainly the result of an unrealized holding loss of HK\$114.6 million on writing down the trading and investment portfolio to their market values and a fair value loss of HK\$46.2 million on an investment property at 31 December 2008.

Other than the unrealized holding loss on investment in financial assets, the Group's principal businesses of securities broking and margin financing remained profitable and fundamentally sound.

### **Securities broking, trading and investment**

Affected by record low daily turnover in the local stock market and the substantial decrease in number of initial public offerings, our securities broking income dropped by 53% to HK\$76.2 million and reported operating profit of HK\$2.3 million.

The result of securities trading and investment for the year ended 31 December 2008 was a loss of HK\$137.2 million which included HK\$114.6 million of unrealized holding loss as compared with a gain of HK\$80.5 million in the previous year. The Group had financial assets at fair value through profit and loss of HK\$115.8 million in value after provision for unrealized holding loss as at the end of the year.

### **Margin financing and money lending**

The slowdown of IPO activities coupled with the current narrowing of borrowing and lending spreads continued to exert pressure on our margin financing and money lending businesses. Revenue from interest income recorded a fall of 56% and contribution from this segment reduced from HK\$57.1 million to HK\$9.4 million when compared to the previous year. Our loan and advances portfolio for margin financing and personal loan contracted by 55.0% during the year to HK\$113.6 million.

### **Corporate advisory and underwriting**

Revenue from corporate advisory and underwriting business decreased by 80% to HK\$2.2 million and operating loss slightly reduced to HK\$9.1 million as the segment was directly affected by the lack of merger and acquisitions and IPO activities in the market during the year.

### **Property investment and others**

Gross rental income from the investment property at Lippo Centre was HK\$3.8 million for the year under review, a decline of 48.6% when compared to the previous year. The reduction in income is primarily due to a vacant period between tenancies. A loss of HK\$45.1 million after deferred tax provision was reported on revaluation at year-end.

### **South China finance leasing business**

Our South China finance leasing business had gotten off to a slow start due to the deteriorating credit environment in China. Management is still evaluating the type of transactions and risks that we want to undertake before making a bigger capital commitment.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has obtained bank credit facilities that are all renewable on a yearly basis. 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 credit facilities are guaranteed by the Company.

As at 31 December 2008, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$87.3 million (2007: HK\$54.0 million), which, when related to the Group's equity of HK\$328.1 million (2007: HK\$539.2 million), represent a gearing ratio of approximately 26.7% (2007: 10.0%).

The Group has cash balance of HK\$101.6 million at the current year-end, an increase of over 25% from last year-end. The Group has sufficient working capital to meet its operational needs.

## **PROSPECTS**

The financial tsunami that started with the sub-prime crisis in the US and spread to Europe has begun to impact the Asian economies in 2008. Japan's economy contracted at its sharpest pace since 1974 in its fiscal third quarter, shrinking 3.3% from its previous quarter, an annualized rate of 12.7%. China has also seen its exports decline and revised its economic growth forecast for 2009 to a single digit growth of 8%, the lowest rate in recent years. This crisis may turn out to be the worst global recession since the US Great Depression of the 1930's.

Governments and central banks worldwide have started to pour money into their financial systems in order to resuscitate the credit markets and revive their economies. Rescue plans are aplenty from the major economies around the world.

China has also announced a 4 trillion yuan stimulus plan to support its economy and has instructed the Chinese banks to start loosen credit and lending. In January 2009 alone, bank lending more than doubled the year before to a record of 1.62 trillion yuan. This loosening of credit should arrest the economic downturn and stimulate domestic consumption.

Hong Kong in turn will benefit from China's stimulus package and the Group believes that confidence will return to the investment market in the second half of the year and thus is preparing for expansion to its businesses in order to reap the benefits when the financial markets rebound.

## **DIVIDEND**

The Board recommends the payment of a final dividend of 0.04 HK cent (2007: 0.6 HK cent) per share, which amount to approximately HK\$2,012,000 (2007: HK\$30,172,000) 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. No interim dividend was paid during the year ended 31 December 2008.

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 15 June 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 pm on 3 June 2009.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

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 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 2008.

## **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 namely, Mr. Tung Woon Cheung, Eric (Chairman of the Audit Committee), Mrs. Tse Wong Siu Yin, Elizabeth and Hon. Raymond Arthur William Sears, Q.C.

The Group's annual results for the year ended 31 December 2008 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 of  
**South China Financial Holdings Limited**  
**Ng Hung Sang**  
*Chairman*

Hong Kong, 24 March 2009

*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.*