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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 2011

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 2011 together with comparative figures for the last financial year as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	2011 HK\$'000	2010 HK\$'000
Revenue	2&4	61,578	192,343
Other income		223	330
Fair value gain on investment properties		-	6,900
Fair value gain / (loss) on financial assets at fair value through profit or loss		(79,081)	17,964
Gain / (loss) on disposal of available-for-sale financial assets		(8,895)	3,862
Impairment of loans and trade receivables, net		(6,596)	(1,951)
Other operating expenses		(125,992)	(127,392)
Profit / (Loss) from operating activities	4	(158,763)	92,056
Finance costs	5	(5,500)	(3,392)
Profit / (Loss) before tax	3	(164,263)	88,664
Income tax credit / (expense)	6	2,128	(684)
Profit / (Loss) for the year		(162,135)	87,980
Attributable to:			
Equity holders of the Company		(162,136)	87,977
Non-controlling interests		1	3
		(162,135)	87,980
Earnings / (Loss) per share attributable to equity holders of the Company	7		
Basic and diluted		(3.22 HK cents)	1.75 HK cents

Details of the dividends paid and proposed for the year are disclosed in note 8 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	Notes	2011	2010
		HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		186,875	190,888
Intangible assets		836	836
Available-for-sale investments	9	21,795	38,167
Other assets		7,087	6,962
Long term loans receivable		495	145
Long term deposits		5,574	-
Deferred tax assets		-	5
Total non-current assets		<u>222,662</u>	<u>237,003</u>
CURRENT ASSETS			
Financial assets at fair value through profit or loss		246,787	279,825
Loans receivable		128,460	216,492
Trade receivables	10	100,420	105,769
Other receivables, prepayments and deposits		13,269	10,169
Tax recoverable		45	-
Pledged time deposits		5,500	5,750
Cash held on behalf of clients		414,648	369,243
Cash and bank balances		125,811	114,140
Total current assets		<u>1,034,940</u>	<u>1,101,388</u>
CURRENT LIABILITIES			
Client deposits		401,099	363,920
Trade payables	11	91,740	94,779
Other payables and accruals		8,132	9,058
Tax payable		11	28
Interest-bearing bank borrowings		272,737	249,869
Total current liabilities		<u>773,719</u>	<u>717,654</u>
NET CURRENT ASSETS		<u>261,221</u>	<u>383,734</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>483,883</u>	<u>620,737</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		159,950	113,726
Deferred tax liabilities		6,669	8,850
Total non-current liabilities		<u>166,619</u>	<u>122,576</u>
Net assets		<u>317,264</u>	<u>498,161</u>

		As at 31 December	
	<i>Notes</i>	2011	2010
		HK\$'000	HK\$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	12	125,708	125,721
Reserves		190,984	355,777
Proposed final dividends		-	16,092
		<u>316,692</u>	<u>497,590</u>
Non-controlling interests		572	571
Total equity		<u>317,264</u>	<u>498,161</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 2010 annual financial statements except that the Group has adopted the newly issued and revised Hong Kong Financial Reporting Standards, which are effective for the annual period beginning on 1 January 2011 as disclosed in the audited 2010 annual financial statements. The adoption of these new Hong Kong Financial Reporting Standards does not have significant impact on the Group's results of operations and financial position.

2. Revenue

	2011	2010
	HK\$'000	HK\$'000
Commission and brokerage income	57,213	68,779
Profit / (loss) on trading of securities, bullion, forex and futures contracts	(20,066)	92,338
Interest income from loans receivable	14,872	21,463
Interest income from bullion and forex	1,077	406
Interest income on impaired loans and trade receivables	177	155
Interest income from banks and financial institutions	597	265
Rendering of services	2,589	2,447
Gross rental income	-	1,680
Handling fee income	2,394	2,778
Dividend income from listed investments	2,725	2,032
	<u>61,578</u>	<u>192,343</u>

3. Profit / (loss) before tax

	2011	2010
	HK\$'000	HK\$'000
The Group's profit / (loss) is arrived at after charging:		
Cost of services provided	26,667	29,297
Depreciation	6,596	5,896
Interest expenses for margin financing and money lending operations	2,348	3,313
Loss on disposal of items of property, plant and equipment	-	7
	<u>-</u>	<u>7</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 2011 and 2010 is as follows:

	2011	2010	2011	2010
	Revenue	Revenue	Contribution to operating profit/ (loss)	Contribution to operating profit/ (loss)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Broking	57,280	70,670	(12,550)	913
Trading and investment	(12,783)	95,664	(128,316)	89,354
Margin financing and money lending	16,541	21,913	2,226	14,181
Corporate advisory and underwriting	540	2,416	(8,492)	(7,189)
Corporate and others	-	1,680	(11,631)	(5,203)
	61,578	192,343	(158,763)	92,056

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 mainly represent interest on mortgage loan secured by the Group's property, plant and equipment.

6. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) 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 / (Loss) per share

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

	2011	2010
	HK\$'000	HK\$'000
<u>Earnings / (loss)</u>		
Profit / (loss) attributable to equity holders of the Company	(162,136)	87,977
	2011	2010
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings / (loss) per share calculation	5,028,501,623	5,028,834,500

No adjustment has been made to the basic earnings / (loss) per share amounts presented for the years ended 31 December 2011 and 2010 in respect of dilution because the exercise price of the Company's share options was higher than the average market price of shares for both years.

8. Dividends

	2011	2010
	HK\$'000	HK\$'000
Interim – Nil (2010: HK0.15 cent) per ordinary share	-	7,543
Proposed final – Nil (2010: HK0.32 cent) per ordinary share	-	16,092
	-	23,635

9. Available-for-sale investments

	2011 HK\$'000	2010 HK\$'000
Club debentures, at fair value	2,475	1,945
Listed equity investments, at fair value	19,320	36,222
	<u>21,795</u>	<u>38,167</u>

10. Trade receivables

The Group allows a credit period up to the respective settlement dates of securities, forex, 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:

	2011 HK\$'000	2010 HK\$'000
Current to 90 days	<u>100,420</u>	<u>105,769</u>

11. Trade payables

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

12. Issued Capital

	2011 HK\$'000	2010 HK\$'000
Shares		
Authorised:		
8,000,000,000 (2010: 8,000,000,000) ordinary shares of HK\$0.025 each	200,000	200,000
Issued and fully paid:		
5,028,334,500 (2010: 5,028,834,500) ordinary shares of HK\$0.025 each	125,708	125,721

During the year ended 31 December 2011, the Company repurchased the ordinary shares on the Stock Exchange as follows:

Month	Number of ordinary shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Consideration HK\$'000
May 2011	500,000	0.107	0.107	54

The repurchased shares were cancelled during the year ended 31 December 2011 and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of shares of HK\$41,000 was charged to retained profits. In accordance with section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Hang Seng Index fell by 20% from 23,035 at the end of 2010 to 18,434 at the end of 2011. Dragged by this deterioration of the market performance, the Group recorded a loss of HK\$162.1 million in the year ended 31 December 2011.

Broking, trading and investment

Hit by the fierce competition in the market, revenue recorded for the broking business decreased from HK\$70.7 million to HK\$57.3 million although average daily market turnover increased slightly by 1% from HK\$69.1 billion to HK\$69.7 billion. Operating loss of HK\$12.6 million for broking business was recorded for the year ended 31 December 2011.

Reflecting the severe downturn in the equity market and including unrealized fair value loss of HK\$79.1 million, trading and investment incurred a loss of HK\$128.3 million for the year as compared with a profit of HK\$89.4 million for the last year.

Margin financing and money lending

Our loan and advance portfolio for margin financing and personal loan was HK\$129.0 million as at 31 December 2011 as compared with HK\$216.6 million as at the end of 2010. Due to the decreased average loan amount throughout the year, revenue decreased by 25% from HK\$21.9 million to HK\$16.5 million for the year ended 31 December 2011. Contribution from this segment was HK\$2.2 million including net impairment provision for loans of HK\$6.8 million.

Corporate advisory and underwriting

Revenue from our corporate advisory and underwriting business was HK\$0.5 million and operating loss was HK\$8.5 million for the year ended 31 December 2011.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has obtained short term bank credit facilities which are reviewed on a yearly basis and a long term mortgage loan. The facilities for the share margin finance operations are secured by the securities of our margin clients and the Group. The facilities for the money lending operations are clean loans. All the outstanding credit facilities are guaranteed by the Company.

As at 31 December 2011, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$160.0 million (31 December 2010: HK\$113.7 million), which, when related to the Group's equity of HK\$317.3 million (31 December 2010: HK\$498.2 million), represented a gearing ratio of approximately 50.4% (31 December 2010: 22.8%).

The Group had a cash balance of HK\$125.8 million at the end of the year, an increase of 10% from the end of last year. The Group has sufficient working capital to meet its operational needs.

PROSPECTS

The Group continues to be an active player in the market.

In view of the current economy and the political uncertainties, we anticipate fierce price competition to prevail with cut-throat pricing offers in 2012. We will continue to take a competitive stance at all fronts. While we are aggressive on pricing, we aim at providing the best values to our customers by constantly improving and expanding our service range, product offerings and customer services. We put great efforts to improve our operational efficiency which are backed by enhanced technical capabilities.

We will continue to maintain a high quality brand image and awareness amongst the consumers with well-orchestrated integrated marketing campaigns to hit home our strong competitive edges. We are committed to providing flexible and value added brokerage services to meet the needs of the sophisticated customers.

2012 is set for a year of expansion. We are diversifying and strengthening our business in the following areas: Corporate Finance, Equities Capital Markets, Derivatives Markets and Wealth Management.

To pave the way for a strong growth, we have made preparations during the last quarter of 2011 including the revamping of the corporate finance team, strengthening our network in conducting Equities Capital Markets (ECM) activities and enhancing our trading capabilities in a wide range of derivatives products. We have seen preliminary good signs on all these business areas and have the confidence to further developing these areas into major sources of revenue other than brokerage commission.

In addition, we have been making a major effort to develop wealth management business. In January 2012, South China Wealth Management Limited was incorporated to provide the platform for this purpose. In March 2012, we were accepted as a Member of the Professional Insurance Brokers Association. This grants us the licence to offer insurance products to clients. We are actively recruiting and expanding our sales teams and signing up products for sale. As of now, we have made available most of the Hong Kong registered fund products on our platform. We are in the process of signing up with several insurance companies to carry their financial planning and insurance products. We have been making good progress in the wealth management thus far.

All in all, we are confident that our expanded capabilities and improved operational efficiency will further enhance our client servicing and acquisition capabilities, expand our reach and access to greater investor communities and segments to create more business opportunities. It thereby leads us into a promising future with expanded revenue growth prospect.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: HK0.32 cent per share).

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company complied with all the code provisions as set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout the year ended 31 December 2011 with exception to code provision E.1.2 that the Chairman of the Board did not attend the annual general meeting of the Company.

According to code provision E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting to answer questions at the meeting. The Chairman of the Board was unable to attend the annual general meeting of the Company held on 31 May 2011. There were Executive Directors attending the annual general meeting in the absence of the Chairman to answer questions on the Group's businesses at the meeting. The Company will endeavour to ensure future compliance with code provision E.1.2.

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

During the year ended 31 December 2011, the Company repurchased ordinary shares of the Company in the market through the Stock Exchange and details of which are as follows:

Month	Number of ordinary shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Consideration HK\$'000
May 2011	500,000	0.107	0.107	54

The share repurchase was effected by the Board for the enhancement of shareholders' value.

The repurchased shares were cancelled during the year ended 31 December 2011 and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of shares of HK\$41,000 was charged to retained profits. In accordance with section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

Saved as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year.

AUDIT COMMITTEE

The Company 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 2011 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 were made.

By order of the Board
South China Financial Holdings Limited
Ng Hung Sang
Chairman

Hong Kong, 27 March 2012

As at the date of this announcement, the Directors of the Company are (1) Mr. Ng Hung Sang, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor, Mr. Ng Yuk Yeung, Paul and Mr. Chan Hing Wah as executive directors; (2) Mr. Ng Tze Wai as non-executive director and (3) Mrs. Tse Wong Siu Yin, Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung, Eric as independent non-executive directors.