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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 2013

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 2013 together with comparative figures for the last financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	2013 HK\$'000	2012 HK\$'000
Revenue	2&4	104,989	122,749
Other income		1,433	285
Fair value gain on investment properties		72,030	34,200
Fair value gain / (loss) on financial assets at fair value through profit or loss		(26,237)	40,889
Impairment of available-for-sale investments		-	(3,710)
Reversal of impairment of loans and trade receivables, net		867	1,441
Other operating expenses		(136,981)	(133,495)
Profit from operating activities	4	16,101	62,359
Finance costs	5	(7,171)	(6,957)
Impairment of investment in an associate		(1,116)	-
Share of losses of associates		(6,673)	-
Profit before tax	3	1,141	55,402
Income tax credit	6	62	1,205
Profit for the year		1,203	56,607
Attributable to:			
Equity holders of the Company		1,218	56,610
Non-controlling interests		(15)	(3)
		1,203	56,607
Earnings per share attributable to equity holders of the Company	7		
Basic and diluted		HK 0.02 cent	HK 1.13 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	<i>Notes</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		5,884	7,206
Investment properties	8	430,000	357,900
Intangible assets		836	836
Investments in associates	9	7,134	14,923
Available-for-sale investments	10	22,867	23,957
Other assets		9,871	8,405
Long term loans receivable		13,074	4,605
Long term deposits		1,452	5,286
Total non-current assets		<u>491,118</u>	<u>423,118</u>
CURRENT ASSETS			
Financial assets at fair value through profit or loss		160,430	236,767
Loans receivable		210,946	204,204
Trade receivables	11	148,257	126,551
Other receivables, prepayments and deposits		21,529	11,614
Pledged time deposits		5,500	5,500
Cash held on behalf of clients		520,384	450,800
Cash and bank balances		102,121	107,018
Total current assets		<u>1,169,167</u>	<u>1,142,454</u>
CURRENT LIABILITIES			
Client deposits		452,652	437,358
Trade payables	12	169,546	142,614
Other payables and accruals		11,618	8,937
Tax payable		61	40
Interest-bearing bank borrowings		308,042	301,571
Total current liabilities		<u>941,919</u>	<u>890,520</u>
NET CURRENT ASSETS		<u>227,248</u>	<u>251,934</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>718,366</u>	<u>675,052</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		184,976	145,249
Deposits received		1,959	-
Deferred tax liabilities		28,868	29,227
Total non-current liabilities		<u>215,803</u>	<u>174,476</u>
Net assets		<u><u>502,563</u></u>	<u><u>500,576</u></u>

		As at 31 December	
	<i>Notes</i>	2013	2012
		HK\$'000	HK\$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	13	125,652	125,708
Reserves		376,357	374,299
		502,009	500,007
Non-controlling interests		554	569
Total equity		502,563	500,576

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 2012 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 2013 as disclosed in the audited 2012 annual financial statements and the accounting policies for fair value measurement and the presentation of items of other comprehensive income as described below. The adoption of these new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") as disclosed in the annual financial statements for the year ended 31 December 2012 does not have significant impact on the Group's results of operations and financial position except for HKFRS 13 and HKAS1 Amendments as described below.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of investment properties and financial instruments in the financial statements.

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been restated to reflect the changes. In addition, the Group has chosen to use the new title "consolidated statement of profit or loss" as introduced by the amendments in the financial statements.

2. Revenue

	2013 HK\$'000	2012 HK\$'000
Commission and brokerage income	57,658	48,003
Profit on trading of securities, bullion, forex and futures contracts	13,028	48,855
Interest income from loans and trade receivable	17,701	13,115
Interest income from bullion and forex	990	619
Interest income from banks and financial institutions	1,973	2,362
Rendering of services	5,335	4,151
Gross rental income	5,345	596
Handling fee income	2,050	2,059
Dividend income from listed investments	909	2,989
	104,989	122,749

3. Profit before tax

	2013 HK\$'000	2012 HK\$'000
The Group's profit before tax is arrived at after charging:		
Cost of services provided	31,991	25,480
Depreciation	3,787	5,173
Interest expenses for margin financing and money lending operations	4,080	3,089
Loss on disposal of items of property, plant and equipment	-	1,682

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 2013 and 2012 is as follows:

	2013 Revenue HK\$'000	2012 Revenue HK\$'000	2013 Contribution to operating profit/ (loss) HK\$'000	2012 Contribution to operating profit/ (loss) HK\$'000
Broking	55,461	47,754	(26,561)	(24,171)
Trading and investment	16,654	53,492	(33,122)	64,958
Margin financing and money lending	19,803	17,135	8,943	9,455
Corporate advisory and underwriting	4,276	2,317	(2,871)	(6,359)
Wealth Management	3,450	1,455	(1,639)	(2,030)
Property Investment	5,345	596	75,131	31,881
Corporate and others	-	-	(3,780)	(11,375)
	104,989	122,749	16,101	62,359

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

5. Finance costs

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Interest on:		
Bank loans wholly repayable within five years	2,734	2,632
Bank loans wholly repayable over five years	<u>4,437</u>	<u>4,325</u>
	<u>7,171</u>	<u>6,957</u>

6. Income tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year. Hong Kong profits tax was provided in the prior year at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions 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:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
<u>Earnings</u>		
Profit attributable to equity holders of the Company	<u>1,218</u>	<u>56,610</u>
	Number of shares	
	2013	2012
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>5,027,631,760</u>	<u>5,028,334,500</u>

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2013 and 2012 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. Investment properties

	2013 HK\$'000	2012 HK\$'000
Carrying amount as at 1 January	357,900	-
Transfer from owner-occupied properties	-	322,800
Additions	70	900
Net gain from a fair value adjustment	72,030	34,200
Carrying amount at 31 December	<u>430,000</u>	<u>357,900</u>

The Group's investment properties are situated in Hong Kong and are held under long term leases.

The Group's investment properties consist of commercial office premises in Hong Kong. The directors of the Company have determined that the investment properties consist of one class of asset, i.e., commercial, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2013 based on valuations performed by Roma Appraisals Limited, independent professionally qualified valuers, at HK\$430,000,000.

The increase of HK\$72,030,000 in the carrying amount was recognized through profit or loss. The investment properties are leased to third parties under operating leases.

On 31 December 2013, the Group's investment properties with a carrying value of HK\$430,000,000 (2012: HK\$357,900,000) were pledged to secure general banking facilities granted to the Group.

9. Investment in associates

	2012 HK\$'000	2012 HK\$'000
Share of net assets	8,250	14,923
Provision for impairment	(1,116)	-
	<u>7,134</u>	<u>14,923</u>

Particulars of the associates are as follows:

Name	Registered capital	Place of Incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
嘉田文化發展(天津)有限公司	RMB20,000,000	PRC/Mainland China	45%	Media and entertainment
上海華威創富股權投資管理有限公司	RMB20,000,000	PRC/Mainland China	50%	Provision of fund management services

10. Available-for-sale investments

	2013 HK\$'000	2012 HK\$'000
Listed equity investments in Hong Kong, at fair value	20,440	21,630
Club debentures, at fair value	2,427	2,327
	<u>22,867</u>	<u>23,957</u>

11. 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 date of statement of financial position:

	2013 HK\$'000	2012 HK\$'000
Current to 90 days	<u>148,257</u>	<u>126,551</u>

12. Trade payables

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

13. Issued capital

	2013 HK\$'000	2012 HK\$'000
Shares		
Authorised:		
8,000,000,000 (2012: 8,000,000,000) ordinary shares of HK\$0.025 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
5,026,084,500 (2012: 5,028,334,500) ordinary shares of HK\$0.025 each	<u>125,652</u>	<u>125,708</u>

During the year ended 31 December 2013, the Company repurchased the ordinary shares on The Stock Exchange of Hong Kong Limited (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
September	2,250,000	0.084	0.084	189

The repurchased shares were cancelled during the year ended 31 December 2013 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\$133,000 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

The market competition from the banks and Chinese securities firms is keen which continuously drives down the margin of this industry. Together with the demanding compliance requirement from regulators in recent years, the business environment is extremely tough to the brokerage firms. The Group recorded a profit of HK\$1.2 million for the year ended 31 December 2013, representing a drop of 98% when compared with the profit of HK\$56.6 million for the year ended 31 December 2012.

Broking, trading and investment

Average daily securities market turnover increased by 16% from HK\$53.9 billion in 2012 to HK\$62.6 billion in 2013. Our revenue of the brokerage business increased at the same pace from HK\$47.8 million to HK\$55.5 million. Operating loss of HK\$26.6 million was recorded for this segment for the year ended 31 December 2013.

Due to the volatility of the stock market, trading and investment recorded a loss of HK\$33 million for the year as compared with a profit of HK\$65.0 million for last year.

Margin financing and money lending

Our loan and advance portfolio for margin financing and personal loan was HK\$224.0 million as at 31 December 2013 as compared with HK\$208.8 million as at the end of 2012. Revenue increased by 16% from HK\$17.1 million to HK\$19.9 million for the year ended 31 December 2013. Contribution from this segment was HK\$8.9 million including net reversal of impairment of loans of HK\$1.4 million.

Corporate advisory and underwriting

The Initial Public Offerings (“IPO”) market was more active this year. Funds raised through IPO were HK\$166.5 billion in 2013, representing an increase of 85% comparing with HK\$90.0 billion in 2012. Revenue from our corporate advisory and underwriting business increased by 87% from HK\$2.3 million to HK\$4.3 million while the operating loss was reduced from HK\$6.4 million for the year ended 31 December 2012 to HK\$2.9 million for the year ended 31 December 2013.

Wealth management

This segment was newly set-up last year. Its performance is improving with revenue increased from HK\$1.5 million in 2012 to HK\$3.5 million in 2013. Operating loss of HK\$1.6 million was recorded for the year ended 31 December 2013.

Property investment

During 2012, the Group transferred the owner-occupied property to investment property. Most of the floor area was rented out to external third parties this year and rental income of HK\$5.3 million was recorded for the year ended 31 December 2013. In addition, due to the revaluation gain of HK\$72.0 million in 2013, contribution from this segment increased from HK\$31.9 million for the year ended 31 December 2012 to HK\$75.1 million for the year ended 31 December 2013.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2013, the Group’s long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$185.0 million (31 December 2012: HK\$145.2 million), which, when related to the Group’s equity of HK\$502.6 million (31 December 2012: HK\$500.6 million), represented a gearing ratio of approximately 36.8% (31 December 2012: 29.0%).

The Group had a cash balance of HK\$102.1 million at the end of the year (31 December 2012: HK\$107.0 million). The Group had sufficient working capital to meet its operational needs.

PROSPECTS

The overwhelming liquidity in the past years successfully helped many emerging markets escaping from damage. However, many of them are actually facing serious problems of heavy government debts and large current account deficits. Investors grew cautious after the announcement of tapering of quantitative easing program by United States Federal Reserve in November 2013. This has triggered the capital flight from emerging markets. Together with the slower growth and mounting worries about the shadow banking system in China, jittery investors looked for safer investments and caused the plunge in global stock market around the end of January 2014.

Under such a choppy stock market, together with the keen competition in the industry, we do not expect our equities brokerage income can have significant growth in 2014. Diversifying our income sources from other businesses becomes our first priority so as to improve the Group's performance. We shall persist in our strategies of transforming from a traditional local retail brokerage firm to a versatile financial institution.

We have acted as the co-managers in several IPO in the second half year of 2013 and we will keep on putting effort in soliciting more deals in 2014. We have also completed some jobs of acting as independent financial advisors to listed companies in 2013 and some mandates are in the pipeline for 2014. In addition, we are acting as sponsors in some IPO deals. The progress is satisfactory and retainer fees have already been received in 2013. It is expected that our income coming from equity capital market and corporate finance deals will be increasing in 2014. Apart from this, we have participated into the Capital Immigration Entrant Scheme business in order to explore a new source of income.

Regarding the asset management business, we have commenced discretionary accounts business in 2003. Our fund managers charge individual clients management and/or performance fees by managing their securities and commodities accounts opened in their own names. We are planning to launch an option fund. We are now in the process of building track records via the discretionary accounts services to clients. These track records can then assist us to solicit seeding capital to start up the option fund.

Meanwhile, our wealth management department will further increase the number of quality consultants and distribution channels. By selling products from other financial institutions, we hope that wealth management business can become another stable stream of income to our Group in the future.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: Nil).

CORPORATE GOVERNANCE CODE

The Company had complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2013 except that Mr. Ng Hung Sang, the Chairman and an Executive Director of the Company, was unable to attend the annual general meeting of the Company held on 4 June 2013 since he had other business engagements, which deviated from code provision E.1.2.

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

During the year ended 31 December 2013, the Company repurchased ordinary shares of the Company in the market through the Stock Exchange. Details of which are as follows:

Date of repurchase	Number of ordinary shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Consideration HK\$
9 September 2013	2,250,000	0.084	0.084	189,000

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

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 has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee presently comprises three Independent Non-executive Directors, namely Mr. Tung Woon Cheung Eric (Chairman of the 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 2013 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 and Executive Director

Hong Kong, 11 March 2014

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; 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.