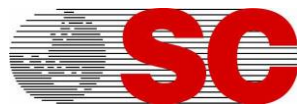


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SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 together with comparative figures for the last financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	2016 HK\$'000	2015 HK\$'000
Revenue	2&4	121,366	148,460
Other income		1,582	3,390
Fair value gain on investment properties		42,500	-
Fair value loss on financial assets at fair value through profit or loss		(66,667)	(3,189)
Reversal of impairment of loans and trade receivables, net		2,404	1,045
Other operating expenses		(148,261)	(147,105)
Profit/(loss) from operating activities		(47,076)	2,601
Finance costs	5	(8,791)	(7,551)
Impairment of investment in an associate		-	(688)
Share of loss of an associate		-	(3,627)
Loss before tax	3	(55,867)	(9,265)
Income tax expense	6	(836)	(5,613)
Loss for the year		(56,703)	(14,878)
Attributable to:			
Equity holders of the Company		(56,703)	(14,842)
Non-controlling interests		-	(36)
		(56,703)	(14,878)
Loss per share attributable to equity holders of the Company	7		(restated)
Basic and diluted		(HK0.53 cents)	(HK0.21 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss for the year	<u>(56,703)</u>	<u>(14,878)</u>
Other comprehensive income/(loss) for the year, net of tax		
To be reclassified to profit or loss in subsequent periods	<u>(10,254)</u>	<u>1,219</u>
Total comprehensive loss for the year	<u>(66,957)</u>	<u>(13,659)</u>
Attributable to:		
Equity holders of the Company	(66,957)	(13,623)
Non-controlling interests	<u>-</u>	<u>(36)</u>
	<u>(66,957)</u>	<u>(13,659)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2016	2015
		HK\$'000	HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		2,770	3,442
Investment properties	8	440,000	397,500
Intangible assets		1,111	836
Investment in associates		-	-
Available-for-sale investments	9,12	27,058	33,258
Other assets		7,236	6,369
Long term loans receivable		1,390	-
Long term prepayment and deposits		1,297	727
Total non-current assets		<u>480,862</u>	<u>442,132</u>
CURRENT ASSETS			
Financial assets at fair value through profit or loss	12	414,346	204,960
Loans receivable		321,718	285,258
Trade receivables	10	235,145	120,947
Other receivables, prepayments and deposits		35,074	31,763
Derivative financial instruments	12	1,019	-
Pledged time deposits		500	39,156
Cash held on behalf of clients		479,424	561,659
Cash and bank balances		355,406	110,721
Total current assets		<u>1,842,632</u>	<u>1,354,464</u>
CURRENT LIABILITIES			
Client deposits		530,863	613,391
Trade payables	11	29,616	27,093
Other payables and accruals		17,823	18,485
Derivative financial instruments	12	49,521	-
Tax payable		4,234	4,326
Interest-bearing bank borrowings		418,519	256,769
Total current liabilities		<u>1,050,576</u>	<u>920,064</u>
NET CURRENT ASSETS		<u>792,056</u>	<u>434,400</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,272,918</u>	<u>876,532</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		146,137	175,209
Deposits received		2,175	582
Deferred tax liabilities		30,146	29,741
Total non-current liabilities		<u>178,458</u>	<u>205,532</u>
Net assets		<u>1,094,460</u>	<u>671,000</u>

		As at 31 December	
	Notes	2016 HK\$'000	2015 HK\$'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	13	1,086,680	597,685
Reserves		7,780	73,315
Total equity		1,094,460	671,000

Notes:

1. Principal accounting policies and basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, available-for-sale investments, derivative financial instruments and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The Group has adopted the following new and revised standards for the first time for the current year’s financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11 HKFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-14 Cycle</i>	Amendments to a number of HKFRSs

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

1. Principal accounting policies and basis of preparation (continued)

The unaudited financial information relating to the year ended 31 December 2016 and the financial information relating to the year ended 2015 included in this announcement of annual results for the year ended 31 December 2016 does not constitute the Company's statutory annual consolidated financial statements for those years but, in respect of the year ended 2015, is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The financial statements for the year ended 31 December 2016 have yet to be reported on by the Company's auditor and will be delivered to the Registrar of Companies in due course.

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on these financial statements for the year ended 31 December 2015. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

2. Revenue

Revenue represents commission and brokerage income from securities, forex, bullion and futures contracts and insurance broking; profit on the trading of securities, forex, bullion and futures contracts; interest income; handling fee income; corporate advisory fees; commission income from share underwriting and placing; dividend income and gross rental income.

An analysis of revenue is as follows:

	2016 <i>HK\$ '000</i>	2015 <i>HK\$ '000</i>
Commission and brokerage income	27,610	67,272
Profit on the trading of securities, forex, bullion and futures contracts, net	28,875	30,786
Interest income from loans and trade receivables	20,072	23,512
Interest income from forex and bullion contracts trading	624	857
Interest income from banks and financial institutions	1,905	1,645
Rendering of services	21,774	7,947
Gross rental income	9,401	10,431
Handling fee income	4,539	4,535
Dividend income from listed investments	6,566	1,475
	121,366	148,460

3. Loss before tax

	2016 <i>HK\$ '000</i>	2015 <i>HK\$ '000</i>
The Group's loss before tax is arrived at after charging:		
Cost of services provided	21,993	33,177
Depreciation and amortisation	1,854	2,283
Interest expenses for margin financing and money lending operations	3,202	3,790

4. Operating segment information

An analysis of the Group's revenue, contribution to operating profit/(loss), assets and liabilities by business segment for the years ended 31 December 2016 and 2015 is as follows:

Year ended 31 December 2016

	Broking HK\$'000	Trading and investment HK\$'000	Margin financing and money lending HK\$'000	Corporate advisory and underwriting HK\$'000	Asset and wealth management HK\$'000	Property investment HK\$'000	Other business HK\$'000	Consolidated HK\$'000
Segment revenue:								
Revenue from external customers	30,324	36,437	22,138	21,284	968	9,401	814	<u>121,366</u>
Segment results:	(65,072)	(43,075)	17,672	7,747	(4,089)	50,515	(35)	(36,337)
<u>Reconciliation:</u>								
Corporate and other unallocated expenses, net#								(10,739)
Finance costs								(8,791)
Loss before tax								<u>(55,867)</u>
Segment assets:	689,699	569,935	368,275	14,010	2,131	441,190	2,003	2,087,243
<u>Reconciliation:</u>								
Corporate and other unallocated assets								236,251
Total assets								<u>2,323,494</u>
Segment liabilities:	(561,167)	(159,177)	(179,678)	(558)	(430)	(3,007)	(3,933)	(907,950)
<u>Reconciliation:</u>								
Corporate and other unallocated liabilities								(321,084)
Total liabilities								<u>(1,229,034)</u>
Other segment information:								
Fair value loss on financial assets at fair value through profit or loss	-	62,017	-	-	-	-	-	62,017
Fair value gain on investment properties	-	-	-	-	-	(42,500)	-	(42,500)
Impairment/ (reversal of impairment) of loans and trade receivables, net	(47)	-	(2,380)	-	23	-	-	(2,404)
Depreciation and amortisation	1,333	140	120	138	70	17	-	1,818
Capital expenditure*	799	83	93	133	41	10	-	1,159

4. Operating segment information (continued)

Year ended 31 December 2015

	Broking HK\$'000	Trading and investment HK\$'000	Margin financing and money lending HK\$'000	Corporate advisory and underwriting HK\$'000	Asset and wealth management HK\$'000	Property investment HK\$'000	Other business HK\$'000	Consolidated HK\$'000
Segment revenue:								
Revenue from external customers	69,394	33,716	25,284	6,381	1,470	10,431	1,784	148,460
Segment results:	(19,386)	4,213	13,337	(72)	(6,178)	9,298	998	2,210
<u>Reconciliation:</u>								
Corporate and other unallocated income, net#								391
Impairment of investment in an associate								(688)
Share of loss of an associate								(3,627)
Finance costs								(7,551)
Loss before tax								(9,265)
Segment assets:	777,217	243,023	329,819	5,891	2,119	398,212	2,393	1,758,674
<u>Reconciliation:</u>								
Corporate and other unallocated assets								37,922
Total assets								1,796,596
Segment liabilities:	(638,124)	(59,595)	(84,534)	(307)	(383)	(3,307)	(4,716)	(790,966)
<u>Reconciliation:</u>								
Corporate and other unallocated liabilities								(334,630)
Total liabilities								(1,125,596)
Other segment information:								
Fair value loss on financial assets at fair value through profit or loss	-	15,789	-	-	-	-	-	15,789
Impairment/ (reversal of impairment) of loans and trade receivables, net	127	-	(1,201)	-	29	-	-	(1,045)
Depreciation	1,668	193	161	85	151	25	-	2,283
Capital expenditure*	1,593	188	174	42	146	21	-	2,164

* Capital expenditure represents additions to property, plant and equipment.

Corporate and other unallocated expenses include fair value loss on financial assets at fair value through profit or loss designated for the Group's Employees' Share Award Scheme amounting to HK\$4,650,000 (2015: fair value gain of HK\$12,600,000).

4. Operating segment information (continued)

Geographical information

Non-current assets

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Hong Kong	453,715	408,773
Other jurisdictions	89	101
	<u>453,804</u>	<u>408,874</u>

The non-current assets information above is based on the location of assets and excludes available-for-sale investments.

5. Finance costs

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest on bank loans and overdrafts	<u>8,791</u>	<u>7,551</u>

6. Income tax

No provision for the Hong Kong profits tax has been made as the Group either had no estimated assessable profits or had available tax losses carried forward to offset the assessable profits arising in Hong Kong during the year. In the prior year, Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profit 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.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current – Hong Kong		
Charge for the year	-	2,591
Underprovision in prior years	-	1,939
Current – Elsewhere		
Charge for the year	268	346
Underprovision in prior years	163	-
Deferred	405	737
Total tax charge for the year	<u>836</u>	<u>5,613</u>

7. Loss per share

The calculation of basic and diluted loss per share is based on the loss for the year attributable to equity holders of the Company of approximately HK\$56,703,000 (2015: HK\$14,842,000) and the weighted average number of 10,795,610,887 (2015: 7,136,310,407 (restated)) ordinary shares in issue during the year. The basic loss per share amount for the year ended 31 December 2015 has been adjusted to reflect the rights issue during the year ended 31 December 2016 (note 13(a)).

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2016 and 31 December 2015 in respect of a dilution as the impact of the share options outstanding during the years had an anti-dilutive effect on the basic loss per share amounts presented.

8. Investment properties

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Carrying amount as at 1 January	397,500	397,500
Net gain from a fair value adjustment	42,500	-
Carrying amount at 31 December	<u>440,000</u>	<u>397,500</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 2016 based on valuations performed by Colliers International (Hong Kong) Limited, independent professionally qualified valuer, at HK\$440,000,000.

On 31 December 2016, the Group's investment properties with a carrying value of HK\$440,000,000 (2015: HK\$397,500,000) were pledged to secure general banking facilities granted to the Group.

9. Available-for-sale investments

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Listed equity investments in Hong Kong, at fair value	24,850	30,870
Club debentures, at fair value	2,208	2,388
	<u>27,058</u>	<u>33,258</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 date of statement of financial position:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current to 90 days	<u>235,145</u>	<u>120,947</u>

11. Trade payables

All of the Group's trade payables are with 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.

An aged analysis of the Group's trade payables at the end of the reporting period, based on the settlement due date, is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current to 30 days	<u>29,616</u>	<u>27,093</u>

12. Fair value and fair value hierarchy of financial instruments

The fair values of listed equity investments are based on quoted market prices. The fair value of unlisted available-for-sale investments which represented club debentures have been estimated based on market transaction prices. The fair value of derivative financial instruments are measured based on quoted market prices.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 31 December 2016	Fair value measurement using			Total <i>HK\$'000</i>
	Quoted prices in active markets (Level 1) <i>HK\$'000</i>	Significant observable inputs (Level 2) <i>HK\$'000</i>	Significant unobservable inputs (Level 3) <i>HK\$'000</i>	
<i>Assets measured at fair value:</i>				
<i>Available-for-sales investments:</i>				
Equity investments	24,850	-	-	24,850
Debt investments	-	2,208	-	2,208
Financial assets at fair value through profit or loss	414,346	-	-	414,346
<i>Derivative financial instruments:</i>				
Leveraged foreign exchange contracts	-	994	-	994
Leveraged bullion contracts	-	25	-	25
	<u>439,196</u>	<u>3,227</u>	<u>-</u>	<u>442,423</u>
<i>Liabilities measured at fair value:</i>				
<i>Derivative financial instruments:</i>				
Leveraged foreign exchange contracts	-	49,521	-	49,521
	<u>-</u>	<u>49,521</u>	<u>-</u>	<u>49,521</u>

12. Fair value and fair value hierarchy of financial instruments (Continued)

Fair value hierarchy (Continued)

As at 31 December 2015	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
<i>Assets measured at fair value:</i>				
Available-for-sales investments:				
Equity investments	30,870	-	-	30,870
Debt investments	-	2,388	-	2,388
Financial assets at fair value through profit or loss	204,960	-	-	204,960
	235,830	2,388	-	238,218

13. Share capital

Shares

	2016 HK\$'000	2015 HK\$'000
Issued and fully paid:		
15,084,253,500 (2015: 7,542,126,750) ordinary shares	1,086,680	597,685

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HK\$'000
At 31 December 2015 and 1 January 2016	7,542,126,750	597,685
Rights issue (note (a))	7,542,126,750	497,780
	15,084,253,500	1,095,465
Share issue expenses	-	(8,785)
At 31 December 2016	15,084,253,500	1,086,680

Notes:

- (a) A rights issue of one rights share for every existing share held by members on the register of members on 3 August 2016 was made, at an issue price of HK\$0.066 per rights share, resulting in the issue of 7,542,126,750 shares for a total cash consideration, before rights share issue expenses, of HK\$497,780,366.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded revenue of HK\$121.4 million and loss after tax of HK\$56.7 million for the year ended 31 December 2016, representing a decrease of 18.2% and an increase of 280.5% respectively, from the corresponding amounts reported in 2015.

2016 was a challenging yet transformational year for the Group. In tandem with a series of major global events during the year, including the decision of the United Kingdom to leave the European Union (“Brexit”) and Donald Trump’s unexpected victory of the US presidential election, global markets exhibited high volatility and the performance of global financial markets was mixed. The Hong Kong economy and financial market were inevitably affected by global volatility and further suppressed by the increasing concerns over China’s slowdown in economy that triggered fierce capital outflows and fast-paced devaluation of Chinese yuan during the year.

The Group’s brokerage business suffered from the slumbering stock market turnover, with the total value of the local market turnover for 2016 decreasing by 37% as compared to 2015, resulting in a significant decrease in revenue and an increase in loss for the year. The Group also reported a substantial loss on trading and investment under the volatile investment environment.

The Group focused on building and expanding its corporate advisory services, and saw this segment's performance turn around, despite that the market's overall IPO activities had slowed down with both the total number of new listings and the value of funds raised declining 36.6% and 26.0% respectively, from a year earlier. The Group also focused on strengthening its other business units, in diversifying its service focus from traditional brokerage service, to reestablishing its asset management business, growing its lending business as well as broadening its clientele base.

Broking, trading and investment

Revenue from the brokering segment decreased from HK\$69.4 million for the year ended 31 December 2015 to HK\$30.3 million for the year ended 31 December 2016, representing a decline of 56.3%. Operating loss for the brokering business amounted to HK\$65.1 million for the year ended 31 December 2016 as compared with HK\$19.4 million for the same corresponding period in 2015.

Securities portfolio as of 31 December 2016 increased to HK\$414.3 million as compared with HK\$205.0 million as of 31 December 2015. The Group’s shareholding interest in each of the securities represented not more than 5% of the issued share capital of the relevant listed companies.

The table below sets out a breakdown of financial assets at fair value through profit or loss as at 31 December 2016:

Stock code	Name of security	Carrying value as at 31 December 2016 <i>HK\$'000</i>	Percentage of shareholding interest	Fair value gain/(loss) during the year <i>HK\$'000</i>
670	China Eastern Airlines Corporations Limited	87,568	0.170	(18,949)
992	Lenovo Group Ltd.	85,305	0.163	(15,323)
1033	Sinopec Oilfield Service Corporation	52,065	0.244	(4,854)
1618	Metallurgical Corporation of China Limited	47,339	0.082	10,377
1171	Yanzhou Coal Mining Co Ltd	23,128	0.089	4,448
Others		<u>118,941</u>		<u>(42,366)</u>
Total		<u>414,346</u>		<u>(66,667)</u>

In light of the volatile market conditions in 2016, in particular the last quarter, the Group recorded a loss of HK\$43.1 million for the year ended 31 December 2016 under the trading and investment segment as compared with the gain of HK\$4.2 million recorded for the corresponding period in 2015. The Board considers the performance of the Group's trading investment portfolio may remain susceptible to external market conditions. The Group will continue to closely monitor the performance of its investment portfolio and maintain a strategy of diversification to reduce effects of price fluctuation of any single security from time to time.

Margin financing and money lending

Our margin loan and advance portfolio for margin financing and finance lease increased by 13.2% to HK\$323.1 million as at 31 December 2016 as compared with HK\$285.3 million as at 31 December 2015. Revenue from the margin financing and money lending segment was HK\$22.1 million for the year ended 31 December 2016 as compared with HK\$25.3 million for the corresponding period in 2015. Operating profit for this segment increased by 33.1% to HK\$17.7 million for the year ended 31 December 2016 as compared with HK\$13.3 million for the year ended 31 December 2015. The Group will continue to expand and diversify its lending portfolio.

In response to the Hong Kong Monetary Authority's tightened regulation of mortgage loan business by non-bank financial institutions, the Group shifted its money lending business from property-related lending to personal lending. The Group resumed its personal lending business starting from December of 2016. The loan portfolio of money lending as of 31 December 2016 was HK\$1.9 million (2015: HK\$Nil) and recorded revenue therefrom of HK\$0.1 million in 2016.

Corporate advisory and underwriting

In comparison to 2015, the Hong Kong IPO market slowed down in the first half of 2016. The fundraising size tumbled 56.6% in the first 6 months to June 2016 with the number of new listings falling from 51 to 40 over the same period last year. Hong Kong IPO activities saw revival and regained momentum in the second half of 2016, with a total of 126 new listings and IPO fundraising reaching approximately HK\$196 billion, making Hong Kong the global leader in the latter for the second consecutive year in 2016 according to the Hong Kong Stock Exchange's news release.

The Group's investment banking team reestablished its foothold in the market in 2016 after efforts to bolster the Group's investment banking service platform in the second half of 2015. During the year, we completed one Main Board IPO case in which we acted as sole sponsor, sole global coordinator, sole underwriter and sole bookrunner. We also completed a number of structured financing transactions and participated in several primary and secondary market placings, and continued to extend our footprint in the corporate advisory sector.

Revenue from our corporate advisory and underwriting business increased by 232.8% from HK\$6.4 million for the year ended 31 December 2015 to HK\$21.3 million for the year ended 31 December 2016. Profit for the segment for the year ended 31 December 2016 was HK\$7.7 million, compared to an operating loss of approximately HK\$72,000 for the year ended 31 December 2015.

Asset and wealth management

With an overall corporate strategy to develop the Group into a full-fledged financial services institution, the Group resolved to apply for a type 9 license from the Securities and Futures Commission to carry on the regulated activity in asset management during the year. With the approval of the license, the Group restarted its asset management business in November, with initial focus on product development for the Group.

The Group is committed to providing a full range of financial planning and wealth management services for customers. Products include mutual funds, unit trusts, MPF, a variety of insurance products and investment-linked products. The Group's wealth management arm, South China Wealth Management Limited is a member of the Professional Insurance Brokers Association and registered with the Mandatory Provident Fund Schemes Authority.

Revenue from the asset and wealth management segment was HK\$1.0 million for the year ended 31 December 2016 as compared with HK\$1.5 million for the corresponding period in 2015. Operating loss decreased from HK\$6.2 million for the year ended 31 December 2015 to HK\$4.1 million for the year ended 31 December 2016.

Property investment

As of 31 December 2016, approximately 80% of the total gross floor areas under the investment properties were rented out to third parties. Rental income decreased by 9.6% to HK\$9.4 million in 2016 as opposed to the corresponding period in 2015.

There was a fair value gain of HK\$42.5 million on the investment properties recorded for the year ended 31 December 2016 whereas neither revaluation gain nor loss was booked in 2015. Operating profit of HK\$50.5 million was recorded in 2016, an improvement of HK\$41.2 million from the operating profit recorded in 2015.

FUND RAISING

On 20 April 2016, the Company announced for a proposed right issue of 7,542,126,750 rights shares to the qualifying shareholders on the basis of one rights share for every one share of the Company held on the record date at a subscription price of HK\$0.066 per rights share (the “Rights Issue”). The Rights Issue was completed on 11 August 2016 and raised gross proceeds of approximately HK\$497.8 million before expenses. For details of the Rights Issue, please refer to the Company’s prospectus dated 20 July 2016 (the “Prospectus”).

The estimated net proceeds of the Rights Issue presented in the Prospectus was approximately HK\$489.3 million and the intended use of the net proceeds from the Rights Issue together with the part of the net proceeds amounting to HK\$249.4 million raised from the rights issue completed in June 2015 intended to be applied for the money lending business, which remained un-utilized, of approximately HK\$80 million, totaling approximately HK\$569.3 million, is set out below:

- approximately HK\$263.0 million for expanding lending business, including, but not limited to, margin financing, money lending, structure financing and other financing services based on the estimated amount capital resources required;
- approximately HK\$280.0 million for establishing a securities joint venture in China based on relevant minimum registered capital requirement and the shareholding of the joint venture which the Group targets to own;
- approximately HK\$20 million for expanding the placing and underwriting business based on the estimated amount of capital resources required; and
- approximately HK\$6.3 million for developing the brokerage business and as general capital of the Group.

The actual amount of net proceeds from the Rights Issue was HK\$489.0 million as opposed to the estimated HK\$489.3 million owing to higher costs incidental to the Rights Issue incurred. The total net proceeds, comprising the approximately HK\$80 million un-utilized proceeds from the rights issue completed in June 2015 and the net proceeds from the Rights Issue, was approximately HK\$569.0 million. For details of the HK\$80 million un-utilized proceeds from the rights issue completed in June 2015, please refer to “Funds Raising Activities Involving Issue of Securities in the Past 12 Months” under the Letter from the Board of the Prospectus.

CHANGE IN USE OF PROCEEDS

As at 28 February 2017, the unutilized Proceeds amounted to HK\$391.2 million, of which approximately HK\$280 million and HK\$87.2 million, were intended to be used to set up a securities joint-venture in mainland China, and for use towards the lending business. Subsequent to the completion of the Rights Issue, the Group identified parties for the purpose of establishing a securities joint venture in mainland China, but such initial negotiations did not come to fruition. The Company is of the view that the process is unlikely to complete in the offing, and shall continue to actively seek appropriate partners. In order to further the Company's overall business strategy in strengthening all business units of its financial services, as well as developing new business units, the Company has reconsidered the optimal allocation and use of Proceeds, and has revised the allocation as follows:

Uses	Original allocation of estimated net proceeds disclosed in the Prospectus	Revised allocation of actual net proceeds	Utilized amount of revised allocation as at 28 February 2017	Unutilized amount of revised allocation as at 28 February 2017
	<i>HK\$ million (Approximately)</i>	<i>HK\$ million (Approximately)</i>	<i>HK\$ million (Approximately)</i>	<i>HK\$ million (Approximately)</i>
Securities Joint Venture	280.0	280.0	--	280.0
Lending business	263.0	103.0	15.8	87.2
Placing and underwriting business	20.0	20.0	20.0	--
Brokerage business and working capital (Note 1)	6.3	82.0	82.0	--
Asset management related business (Note 2)	--	34.0	10.0	24.0
Bullion business (Note 3)	--	25.0	25.0	--
Acquisition of financial magazines publications companies and development of FPR related business (Note 4)	--	25.0	25.0	--
Total	569.3	569.0	177.8	391.2

Notes:

1. mainly utilized in the Group's general operating expenses, including staff remuneration costs, as well as repayment of part of mortgage loans due.
2. mainly utilized in meeting the capital requirement relating to asset management business as well as towards seed capital in fund products developed by the Company and the costs incidental to setting up of fund products.
3. mainly utilized in meeting capital requirements under the bullion business.
4. mainly utilized on the acquisition of financial magazines and establishing the operation and recruitment of professionals specializing in financial public relations.

Consistent with the long term goal of supporting the sustainable and healthy development of the Company's principal operating activities, the Company intends to apply the following capital management and interim deployment strategies in respect of the abovementioned approximately HK\$391.2 million of the Proceeds, pending the identification and conclusion of a securities joint venture and subject to the progress in growing the lending business and launch of the fund products under asset management business:-

1. Used as standby capital to support the securities brokerage business, the securities financing business and lending business when needed; and
2. For better effectiveness and returns in respect of the Company's capital management, and to improve cash flow management, the Company shall adopt a treasury management model that may involve (but shall not be limited to) repayment of revolving bank loans, holding fixed income instruments, high grade equity instruments and other financial investments.

Other than as stated above, the original proposed application of the funds remains unchanged, and the Company shall continue to deploy resources to build and strengthen its capabilities to deliver full-fledged financial and media related services.

The Company considers the above adjustment in the use of the net Proceeds is fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

EVENT AFTER THE REPORTING PERIOD

Reference was made to the Company's announcements dated 3 and 24 November 2016 and 13 December 2016 in relation to acquisition of the entire issued share capital of Golden Ways Limited and Media Bonus Limited (the "Acquisition"). The Acquisition was completed on 18 January 2017 (the "Completion Date") and Golden Ways Limited and Media Bonus Limited and its subsidiaries (collectively, the "Target Companies Group") became the wholly-owned subsidiaries of the Company upon the completion. For details of the Acquisition, please refer to the Company's announcements dated 3 and 24 November 2016 and 13 December 2016 and the circular dated 29 December 2016 (the "Circular").

The consideration of the Acquisition was HK\$20 million (the "Consideration"), subject to the adjustment set out in the sub-paragraph headed "3. Consideration and adjustment to the Consideration" under the paragraph headed "II. The Agreement" under the Letter from the Board of the Circular. As the aggregate of the net assets of the Target Companies Group immediately before completion as at the Completion Date amounted to HK\$2.3 million, the Group was liable to pay the vendors of the Target Companies Group HK\$2.3 million being the amount of adjustment to the Consideration, on a dollar-for-dollar basis. Both the Consideration and the amount of adjustment to the Consideration were settled in cash by bank remittance in accordance with the payment terms stipulated in the Circular.

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 outstanding credit facilities were guaranteed by the Company.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank borrowings, other borrowings, less cash and bank balances. Capital represents total equity. As at 31 December 2016, net debt amounted to HK\$209.3 million (31 December 2015: HK\$321.3 million), which, when related to the Group's capital and net debt of HK\$ 1,303.7 million (31 December 2015: HK\$992.3 million), represented a gearing ratio of approximately 16.1% (31 December 2015: 32.4%).

The Group had a cash balance of HK\$355.4 million at the end of the year (31 December 2015: HK\$110.7 million). The Group had sufficient working capital to meet its operational needs.

ENVIRONMENTAL POLICIES

We are committed to building an environmental-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials. We also promote the services of e-statement to our clients which helps to reduce on paper usage. Details of the discussion and performance of the environmental policies are set out in our Environmental, Social and Governance Report which will be available on the website of the Company.

POSSIBLE RISKS AND UNCERTAINTIES

The Group has reviewed the possible risks and uncertainties which may affect its business, financial condition, operations and prospects based on its risk management and internal control systems and considered that the major risks and uncertainties that may affect the Group include (i) the Hong Kong economic conditions and a series of major global events such as Brexit vote, the US presidential election and high volatility of global markets which may directly affect the performance of the Group; (ii) a slowdown in China's economy that triggered fierce capital outflow and fast-paced devaluation of Chinese Yuan during the year; (iii) fluctuations of fair value gain or loss incurred on financial assets, foreign exchange and investment properties; (iv) changes in market interest rates may expose the Group to high interest expense on its net debt obligations carrying floating interest rates; and (v) credit risk and recoverability of provision of finance which may incur bad debts during the downturn of economy. In response to the above mentioned possible risks, the Group has a series of risk mitigation controls and risk management policies to cope with the possible risks and has serious scrutiny over the selection of quality customers. The Group has formed various committees to develop and review strategies, policies and guidelines on risk control; which enable the Group to monitor and response to risk effectively and promptly.

PROSPECTS

2016 was not just a year full of challenges, but also a year of transformational changes for the Group. We have expanded new business teams to further develop our market and business horizons, broadening the scope of services and businesses, with intent to reshape ourselves as an even more competitive financial institution in the market. To this end, the Group has resurrected asset management as well as money lending businesses in 2016 and expects these two business lines to bring to us satisfactory and sustainable returns in 2017 and beyond.

Hong Kong IPO activities will remain strong, as Hong Kong maintains its role as a leading financial hub in the region, with an edge in gaining access to international investors. Not only does Hong Kong serve as a key gateway for mainland enterprises for fundraising, but Hong Kong also attracts companies across the globe as their listing destination. To capitalize on such market potential, we will continue to optimize our investment banking platform and diversify our investment banking service offerings.

In line with the Group's overall mission as a distinctive "one-stop services" financial institution, we launched a new business unit to develop its financial public relations ("FPR") business in late 2016. The recent acquisition of the companies engaged in the publication of "Capital" series magazines, a well established financial magazine brand in the market, is expected to create synergy to new FPR business and current businesses of the Group by offering tailor-made public relations and marketing communication solutions to existing and potential customers with the renowned media platform, thereby creating more business opportunities and expanding the Group's revenue sources going forward.

The Group aims to bridge the services provided by its FPR business with the companies acquired under the Acquisition in order to expand its scope of services to corporate clients as a whole after Completion. It is of our view that the combined services of the FPR and media businesses, would distinguish the positioning of the Company as a financial public relations and corporate marketing consultancy service supplier, and create a more comprehensive and competitive service set.

Looking ahead, the Company expects new and expanded businesses will bring to the shareholders satisfactory and sustainable returns in the years to come.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

CORPORATE GOVERNANCE CODE

The Company had complied with all the code provisions as set out in the Corporate Governance Code (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 2016 except that (1) the chairman of the Board and an independent non-executive director of the Company were unable to attend the annual general meeting of the Company held on 7 June 2016 and the chairman of the Board and two independent non-executive directors of the Company were unable to attend the extraordinary general meeting of the Company held on 30 June 2016 which deviated from code provisions A.6.7 and E.1.2 of the CG Code as they had other business engagements at the relevant time; and (2) since the resignation of company secretary of the Company with effect from 8 January 2016, the Company no longer complied with the requirement under Rule 3.28 of the Listing Rules and, hence, the relevant code provisions in respect of company secretary. The Company is in the process of identifying a suitable candidate to fill the vacancy in the office of company secretary.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2016, the trustee of the Company’s employees’ share award scheme (the “Share Award Scheme”) had not purchased any share of the Company pursuant to the terms of the rules and trust deed of the Share Award Scheme. In addition, there was no purchase, sale or redemption of the Company’s listed securities by the Company or any of its subsidiaries 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), Hon. Raymond Arthur William Sears, Q.C. and Mrs. Tse Wong Siu Yin Elizabeth.

The Group’s annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such annual 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
南華金融控股有限公司
Ng Hung Sang
Chairman and Executive Director

Hong Kong, 28 March 2017

As at the date of this announcement, the directors of the Company are (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Ms. Ng Yuk Mui Jessica and Dr. Wang Wei Hsin as executive directors; and (2) Hon. Raymond Arthur William Sears, Q.C., Mrs. Tse Wong Siu Yin Elizabeth and Mr. Tung Woon Cheung Eric as independent non-executive directors.