Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2017

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 2017 together with comparative figures for the last financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2017** ***HK$'000***	2016 *HK$'000*
Revenue	*2&4*	**254,335**	121,366
Other income		**3,521**	1,582
Fair value gain on investment properties		**40,000**	42,500
Fair value gain/(loss) on financial assets at fair value through profit or loss		**10,985**	(66,667)
Impairment of goodwill		**(351)**	–
Impairment of intangible assets		**(2,265)**	–
Reversal of impairment/(impairment) of loans and trade receivables, net		**(3,503)**	2,404
Other operating expenses		**(239,181)**	(148,261)
Profit/(loss) from operating activities		**63,541**	(47,076)
Finance costs	*5*	**(10,124)**	(8,791)
Profit/(loss) before tax	*3*	**53,417**	(55,867)
Income tax expense	*6*	**(878)**	(836)
Profit/(loss) for the year attributable to equity holders of the Company		**52,539**	(56,703)
Earnings/(loss) per share attributable to equity holders of the Company	*7*		
Basic and diluted		**HK0.35 cents**	(HK0.53 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2017	2016
	HK$'000	*HK$'000*
Profit/(loss) for the year	**52,539**	(56,703)
Other comprehensive income/(loss) for the year, net of tax		
To be reclassified to profit or loss in subsequent periods	**20,326**	(10,254)
Total comprehensive income/(loss) for the year attributable to equity holders of the Company	**72,865**	(66,957)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**3,132**	2,770
Investment properties	*8*	**480,000**	440,000
Intangible assets		**4,242**	1,111
Investment in associates		**–**	–
Available-for-sale investments	*9,12*	**42,135**	27,058
Other assets		**17,675**	7,236
Goodwill		**13,714**	–
Long term loans receivable		**9,981**	1,390
Long term prepayment and deposits		**1,588**	1,297
Total non-current assets		**572,467**	480,862
CURRENT ASSETS			
Financial assets at fair value through profit or loss	*12*	**625,183**	414,346
Loans receivable		**378,195**	321,718
Trade receivables	*10*	**147,293**	235,145
Other receivables, prepayments and deposits		**47,638**	35,074
Derivative financial instruments	*12*	**615**	1,019
Tax recoverable		**227**	–
Pledged time deposits		**500**	500
Cash held on behalf of clients		**597,368**	479,424
Cash and bank balances		**241,298**	355,406
Total current assets		**2,038,317**	1,842,632
CURRENT LIABILITIES			
Client deposits		**719,728**	530,863
Trade payables	*11*	**53,823**	29,616
Other payables and accruals		**23,853**	17,823
Derivative financial instruments	*12*	**289**	49,521
Interest-bearing bank borrowings		**430,620**	418,519
Tax payable		**2,820**	4,234
Total current liabilities		**1,231,133**	1,050,576
NET CURRENT ASSETS		**807,184**	792,056
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,379,651**	1,272,918

	Notes	As at 31 December 2017 HK$'000	2016 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**181,057**	146,137
Deposits received		**1,260**	2,175
Deferred tax liabilities		**30,638**	30,146
Total non-current liabilities		**212,955**	178,458
Net assets		**1,166,696**	1,094,460
EQUITY			
Share capital	*13*	**1,085,474**	1,086,680
Reserves		**81,222**	7,780
Total equity		**1,166,696**	1,094,460

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 and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These financial statements 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 revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Classification of the Scope of HKFRS 12*

The adoption of the above revised standards has had no significant financial effect on these financial statements. Amendments to HKAS 7 require an entity to provide disclosures that enabler users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is disclosed in the Group's financial statements.

The unaudited financial information relating to the year ended 31 December 2017 and the financial information relating to the year ended 31 December 2016 included in this announcement of annual results for the year ended 31 December 2017 do not constitute the Company's statutory annual consolidated financial statements for those years but, in respect of the year ended 31 December 2016, 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 Hong Kong Companies Ordinance is as follows:

The financial statements for the year ended 31 December 2017 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 2016 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 the financial statements of the Group for the year ended 31 December 2016. 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 Hong Kong Companies Ordinance.

2. REVENUE

Revenue represents commission and brokerage income from securities, forex, bullion and futures contracts and insurance broking; net 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; gross rental income; and media publications and financial public relation services income.

An analysis of revenue is as follows:

	2017	2016
	HK$'000	*HK$'000*
Commission and brokerage income	**53,386**	27,610
Profit on the trading of securities, forex, bullion and futures contracts, net	**104,217**	28,875
Interest income from loans and trade receivables	**24,901**	20,072
Interest income from forex and bullion contracts trading	**550**	624
Interest income from banks and financial institutions	**3,113**	1,905
Rendering of services	**26,238**	21,774
Gross rental income	**10,606**	9,401
Handling fee income	**3,891**	4,539
Media publications and financial public relation services	**17,609**	–
Dividend income from listed investments	**9,824**	6,566
	254,335	121,366

3. PROFIT/(LOSS) BEFORE TAX

	2017	2016
	HK$'000	*HK$'000*
The Group's profit/(loss) before tax is arrived at after charging:		
Cost of services provided	**47,715**	21,993
Depreciation and amortisation	**2,194**	1,854
Cost of media publications and financial public relation services	**21,193**	–
Interest expenses for margin financing and money lending operations	**3,944**	3,202

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 2017 and 2016 is as follows:

Year ended 31 December 2017

	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*	Media publications and financial public relation services *HK$'000*	Other business *HK$'000*	Consolidated *HK$'000*
Segment revenue:									
Revenue from external customers	52,707	114,713	28,069	26,124	3,288	10,606	17,609	1,219	254,335
Segment results:	(25,414)	105,840	9,330	(5,399)	(24,952)	49,857	(33,247)	630	76,645
Reconciliation:									
Corporate and other unallocated expenses, net#									(13,104)
Finance costs									(10,124)
Profit before tax									53,417
Segment assets:	812,667	721,251	460,299	14,967	5,324	483,272	22,520	1,613	2,521,913
Reconciliation:									
Corporate and other unallocated assets									88,871
Total assets									2,610,784
Segment liabilities:	(774,225)	(134,464)	(212,149)	(1,544)	(1,733)	(3,757)	(4,984)	(3,150)	(1,136,006)
Reconciliation:									
Corporate and other unallocated liabilities									(308,082)
Total liabilities									(1,444,088)
Other segment information:									
Fair value gain on financial assets at fair value through profit or loss##	–	(15,234)	–	–	–	–	–	–	(15,234)
Fair value gain on investment properties	–	–	–	–	–	(40,000)	–	–	(40,000)
Impairment of loans and trade receivables, net	275	–	3,228	–	–	–	–	–	3,503
Impairment of goodwill	–	–	–	–	–	–	351	–	351
Impairment of intangible assets	–	–	–	–	–	–	2,265	–	2,265
Depreciation and amortisation	616	68	155	248	468	–	639	–	2,194
Capital expenditure*	386	43	87	725	189	–	20,037	–	21,467

4. OPERATING SEGMENT INFORMATION (Continued)

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	121,366
Segment results:	(65,072)	(43,075)	17,672	7,747	(4,089)	50,515	(35)	(36,337)
Reconciliation:								
Corporate and other unallocated expenses, net#								(10,739)
Finance costs								(8,791)
Loss before tax								(55,867)
Segment assets:	689,699	569,935	368,275	14,010	2,131	441,190	2,003	2,087,243
Reconciliation:								
Corporate and other unallocated assets								236,251
Total assets								2,323,494
Segment liabilities:	(561,167)	(159,177)	(179,678)	(558)	(430)	(3,007)	(3,933)	(907,950)
Reconciliation:								
Corporate and other unallocated liabilities								(321,084)
Total liabilities								(1,229,034)
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

* Capital expenditure consists of additions to property, plant and equipment, goodwill and intangible assets including those arising from the acquisition of subsidiaries.

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$4,249,000 (2016: HK$4,650,000).

Fair value gain on financial assets at fair value through profit or loss includes fair value gain on derivative financial instruments of HK$174,000 (2016: a fair value loss of HK$48,502,000).

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

Non-current assets

	2017	2016
	HK$'000	*HK$'000*
Hong Kong	**529,832**	453,715
Other jurisdictions	**500**	89
	530,332	453,804

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

5. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**10,124**	8,791

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. 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.

	2017	2016
	HK$'000	*HK$'000*
Current – Elsewhere		
Charge for the year	**283**	268
Underprovision in prior years	**103**	163
Deferred	**492**	405
Total tax charge for the year	**878**	836

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to equity holders of the Company of approximately HK$52,539,000 (2016: loss of HK$56,703,000) and the weighted average number of 15,071,700,349 (2016: 10,795,610,887) ordinary shares in issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2017 in respect of a dilution as the impact of the share options outstanding during the year had no dilutive effect on the basic earnings per share amount presented.

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

8. INVESTMENT PROPERTIES

	2017	2016
	HK$'000	*HK$'000*
Carrying amount as at 1 January	**440,000**	397,500
Net gain from a fair value adjustment	**40,000**	42,500
Carrying amount at 31 December	**480,000**	440,000

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 these properties. The Group's investment properties were revalued on 31 December 2017 based on valuations performed by Ravia Global Appraisal Advisory Limited, independent professionally qualified valuer, at HK$480,000,000.

On 31 December 2017, the Group's investment properties with a carrying value of HK$480,000,000 (2016: HK$440,000,000) were pledged to secure general banking facilities granted to the Group.

9. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	HK$'000	*HK$'000*
Listed equity investments in Hong Kong, at fair value	**39,690**	24,850
Club debentures, at fair value	**2,445**	2,208
	42,135	27,058

10. TRADE RECEIVABLES

The Group allows a credit period up to the respective settlement dates of securities, forex, bullion and commodities transactions (normally two business days after the respective trade dates for Hong Kong stocks) or a credit period mutually agreed between the contracting parties. The credit period granted by the Group to its customers in relation to media publications and financial public relation services normally ranges from 0 to 90 days. An ageing analysis of the Group's trade receivables at the end of the reporting period, based on settlement due dates and net of provision for impairment, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Current to 90 days	**144,798**	235,145
Over 90 days	**2,495**	–
	147,293	235,145

11. TRADE PAYABLES

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. The credit period granted by the creditors in relation to media publications and financial public relation services ranges from 0 to 90 days.

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

	2017	2016
	HK\$'000	*HK\$'000*
Current to 30 days	**53,539**	29,616
Over 30 days	**284**	–
	53,823	29,616

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 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK\$'000	***HK\$'000***	***HK\$'000***	***HK\$'000***
Assets measured at fair value:				
Available-for-sales investments:				
Equity investments	**39,690**	**–**	**–**	**39,690**
Debt investments	**–**	**2,445**	**–**	**2,445**
Financial assets at fair value through profit or loss				
Held for trading	**609,685**	**–**	**–**	**609,685**
Designated upon initial recognition	**15,498**	**–**	**–**	**15,498**
Derivative financial instruments	**–**	**615**	**–**	**615**
	664,873	**3,060**	**–**	**667,933**
Liabilities measured at fair value:				
Derivative financial instruments	**–**	**289**	**–**	**289**

12. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*	Total *HK$'000*
Assets measured at fair value:				
Available-for-sales investments:				
Equity investments	24,850	–	–	24,850
Debt investments	–	2,208	–	2,208
Financial assets at fair value through profit or loss				
Held for trading	394,596	–	–	394,596
Designated upon initial recognition	19,750	–	–	19,750
Derivative financial instruments	–	1,019	–	1,019
	439,196	3,227	–	442,423
Liabilities measured at fair value:				
Derivative financial instruments	–	49,521	–	49,521

13. SHARE CAPITAL

Shares

	2017 *HK$'000*	2016 *HK$'000*
Issued and fully paid:		
15,063,853,500 (2016: 15,084,253,500) ordinary shares	**1,085,474**	1,086,680

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 2016 and 1 January 2017	15,084,253,500	1,086,680
Share repurchased	(20,400,000)	(1,206)
At 31 December 2017	15,063,853,500	1,085,474

13. SHARE CAPITAL (Continued)

Notes:

As disclosed in the interim report for the six months ended 30 June 2017, in the first half of 2017, the Company repurchased a total of 20,400,000 ordinary shares (2016: nil) on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of approximately HK$1,206,000 and surrendered such shares for cancellation (the "Repurchases"). These repurchased shares were cancelled prior to 30 June 2017. The Company subsequently filed with the Companies Registry the relevant returns in respect of the Repurchases for registration. On 27 November 2017, the Registrar of Companies informed the Company that the returns were not accepted for registration as the Repurchases did not comply with section 257(3) of the Companies Ordinance. On 8 January 2018, the Company filed with the Court of First Instance of Hong Kong an appeal against the decision of the Registrar of Companies in refusing the returns for registration, and alternatively an application for a rectification order to rectify the Company's information maintained by the Companies Registry. The hearing of the appeal and court application is scheduled to take place at the Court of First Instance in August 2018.

The maximum fine for a company which is found to have committed an offence under section 257(3) of the Companies Ordinance is an amount up to HK$1,250,000 on conviction on indictment, or on summary conviction up to HK$150,000. As at the date of this announcement, the Company has not received any indictment or notice of prosecution in respect of the above non-compliance with the Companies Ordinance. The Company has been advised that whether a prosecution, if any, would proceed by way of the summary or the indictable procedure would depend on the prosecutor's evaluation of the severity and complexity of the case and the level of penalty likely to be imposed, and an indictment would not normally be initiated except for relatively more serious cases. As advised, the Company understands that the Companies Registry rarely initiates prosecution of offences under the Companies Ordinance by way of an indictment.

14. BUSINESS COMBINATION

On 18 January 2017, the Group acquired 100% equity interest in Media Bonus Limited and Golden Ways Limited from Win Gain Investments Limited and Surge Fast Assets Limited, respectively, which were wholly owned by Mr. Ng Hung Sang, a director, the chairman of the Board and a substantial shareholder of the Company, for an aggregate cash consideration of HK$22,039,000, comprising the cash consideration of HK$20,000,000 and a cash adjustment to consideration of HK$2,039,000 that was paid pursuant to the adjustment to consideration clause contemplated in the relevant sales and purchase agreement, of which HK$18,224,000 were paid for the acquisition of Media Bonus Limited and HK$3,815,000 for the acquisition of Golden Ways Limited, respectively. Media Bonus Limited and its subsidiaries, and Golden Ways Limited are engaged in the financial media business, event management, marketing services and other related business. The acquisition was in line with the Group's overall mission as a distinctive "one-stop services" financial institution and was expected to create synergy to the financial public relation ("FPR") business and current businesses of the Group by offering value-added marketing communication solutions to existing and potential customers with the renowned media platform. The major assets acquired through this business combination include, amongst others, intangible assets and trade receivables. The aggregate fair values of the net identifiable assets of Media Bonus Limited and Golden Ways Limited as at the date of acquisition was HK$7,974,000 and resulting in the recognition of goodwill, in aggregate, of HK$14,065,000 in accordance with HKFRS 3 (Revised) *Business Combinations*.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded revenue of HK$254.3 million and profit after tax of HK$52.5 million for the year ended 31 December 2017 as compared with the revenue of HK$121.4 million and the post-tax loss of HK$56.7 million for the corresponding period last year. The strong growth in revenue and turning profit from loss in 2017 were largely attributable to an improvement in operating results of brokerage operations and a substantial gain on the Group's trading and investment amidst a market rally during the year under review, whilst a revaluation gain on the Group's investment properties recognized in the year contributed further to the Group's profit for the current year.

Broking, trading and investment

The average daily Hong Kong market turnover for the year ended 31 December 2017 was HK$88.2 billion, an increase of 31.8% when compared with HK$66.9 billion for the last year. Benefiting from the local market rally in the year, revenue from the broking business recorded a 73.8% year-on-year increase to HK$52.7 million. Operating loss for the broking business for the year decreased significantly to HK$25.4 million from the loss of HK$65.1 million for the same period of 2016. The decline in loss from the segment was largely attributable to internal business structure reshuffling, and corresponding changes to resource allocation during the year under review, as well as the buoyant brokerage income. As a result of the internal business structure reshuffling, the operating costs of broking segment decreased whereas the operating costs of asset and wealth management and corporate advisory and underwriting segments increased.

The Group's securities portfolio held for trading presented under financial assets at fair value through profit or loss as at 31 December 2017 increased to HK$609.7 million from HK$394.6 million as at 31 December 2016. The breakdown is set out in the following table:

Stock code	Name of security	Carrying value as at 31 December 2017 *HK$'000*	Percentage of shareholding interest	Fair value gain/(loss) during the year *HK$'000*
670	China Eastern Airlines Corporations Limited	171,047	0.647	57,946
992	Lenovo Group Ltd.	97,390	0.184	(8,097)
1033	Sinopec Oilfield Service Corporation	70,450	2.581	(11,115)
3988	Bank of China Limited	66,704	0.021	(88)
1097	i-CABLE Communications Limited	50,190	3.532	(12,695)
Others		153,904		(10,891)
Total		**609,685**		**15,060**

Hong Kong saw a rally in local market with the Hang Seng Index ("HSI") and the Hang Seng China Enterprises Index ("HSCEI") rising 36.0% and 24.6% respectively in 2017, outperforming after a year of relatively mild increase compared to the gains in other major markets in 2016. Strong performance in local market was largely attributable to rallies in leading global markets and the rebound of the Mainland market on a stabilized economy and strong corporate earnings. Persisting and strong southbound inflows through Stock Connect also partly supported the local market. The Group recognized a gain of HK$105.8 million from its trading and investment segment as opposed to the loss of HK$43.1 million for the same period last year. Fair value gain on investments held for trading in 2017 amounted to HK$15.2 million as compared with the fair value loss of HK$62.0 million in 2016.

Margin financing and money lending

The aggregate of the carrying value of loan portfolio increased 20.1% during the year to HK$388.2 million as at 31 December 2017 from HK$323.1 million as at 31 December 2016. Revenue recorded in 2017 was HK$28.1 million comparing to HK$22.1 million for the corresponding period in 2016. Earnings from this segment decreased from HK$17.7 million in 2016 to HK$9.3 million, mainly due to a higher costs incurred in growing the personal lending business team and developing relevant business and related impairment charge provided for in 2017. The money lending business was resumed in late 2016 and hence no corresponding impairment charge was recognized in the last year. The Group saw a 21.1% growth of net margin loan book as at 31 December 2017 from a year back on a market rally and strong market momentum. During the year under review, the personal lending portfolio increased to HK$13.4 million, albeit growing slower than expected, and we are prudently optimistic that money lending business will resurrect its pace of growth in the year to come with more new product offerings to spur the business.

Corporate advisory and underwriting

In 2017, total fundraising amount of the Hong Kong IPO market shrank 34.2% year-on-year. There were 160 newly listed companies in Hong Kong in 2017 as compared to 117 in 2016. Amidst strong momentum in IPO market, we completed one IPO deal as sole sponsor and lead manager and participated in another two IPO deals as co-lead manager in this year. We also participated in several primary and secondary market placings and continued to extend our footprint in the corporate advisory sector.

As a result, revenue from the Group's corporate advisory and underwriting business increased to HK$26.1 million in 2017 from HK$21.3 million in 2016. In order to build sustained growth and foster further expansion in our investment banking business, the investment banking teams were expanded to cope with the strong deal flow and greater resources were devoted to business development and engaged to assist in the identification of deals with IPO potential and merger and acquisition opportunities in the PRC and overseas. Therefore, the operating costs of the segment were higher in 2017 compared to 2016, turning its operating result to a loss of HK$5.4 million in 2017 from the profit of HK$7.7 million a year earlier.

Asset and wealth management

Revenue recorded in 2017 was HK$3.3 million as compared with HK$1.0 million in 2016. Operating loss was widened to HK$25.0 million for 2017 from HK$4.1 million in 2016. The increase in loss was largely attributable to a surge in operating costs of the segment resulting from increased staff costs and, as mentioned above, a redeployment and shift of certain business units between segments to support the business focus under new business direction starting early 2017.

The Group's asset management division commenced business in early 2017 and earned fee income from investment management and advisory services accordingly.

As mentioned in the interim report, the launch of an investment fund was put on hold in the first half of 2017 in light of the prevailing market conditions. In the second half of the year, the asset management division faced another headwind when launching Asia Pacific REITs in September as China escalated its capital outflow controls to stem capital outflows for investment overseas, impeding the asset management division to raise sufficient funds from the potential investors in mainland China and, hence, the launch of Asia Pacific REITs. As a result, the Group restructured the asset management division in an effort to curb the costs arising from the early rapid expansion. Meanwhile, we are also working on securing multiple investment mandates from various institutional clients that, if concluded, will expand our fee income from investment management and advisory services.

Hong Kong is a key conduit for foreign and Mainland investments. In consideration of the robust growth in insurance sector in Hong Kong and the growing affluent population in mainland China, we deployed more resources to expand and enhance our wealth management platform in the region and expanded its channels in China in an effort to tap more businesses from the thriving insurance sector and promote fund distributions in the first half of this year. We have established a network of sales distribution for wealth management via channels across China which contributes steady, albeit low level of regular income as part of the 2017 business development. The tightened grip over the capital outflows in China also boded ill on the Group's wealth management business, making it unable to grow at a rapid pace and produce income to the Group previously as expected, and the Group adjusted resource deployment accordingly until the relaxation of such control comes to light.

Media publications and financial public relation

The acquisition of a financial media group engaged in the publication of "Capital" series magazines was completed in January 2017. The acquisition was in line with the Group's overall mission as a distinctive "one-stop services" financial institution, and the Group has since then commenced the integration of the business, focusing on the capitalization of synergistic benefits.

The revenue and operating loss of the media publications and financial public relation business segment were HK$17.6 million and HK$33.2 million in 2017. The loss included one-off transaction costs amounting to HK$27,000 and HK$1.2 million during the year ended 31 December 2017 in relation to the acquisition of the financial media group and the Media Group Acquisition, respectively. More details in relation to the Media Group Acquisition are disclosed in the paragraph headed "Event After The Year End" of this announcement. Suffering from the sluggish economy and bleak consumer sentiment over the past 2 years, growth of local advertising spending was slow in the first half of 2017, but picked up in the second half with overall adspend in 2017 seeing growth of 4%, mainly attributable to increase in mobile adspend (1.5 times) as well as television and outdoor advertising. Yet, growth of adspend in traditional print media remains torpid.

During the year, the financial media group focused on investing on the research and development, and infrastructural development of its digital offerings and products, including very recently launching its new "Capital" website, Capital TV and new video-driven products, in order to build an integrated omni-channel media platform, to capture growing digital-related advertising budgets, and extend the reach of the Capital brand in the market. A new corporate services team was established and integrated with the FPR services arm, to focus on the development and servicing of corporate clients, in providing more comprehensive and competitive integrated marketing services. On higher research and development costs and sluggish adspend on traditional print media, the segment reported a loss in the current year. With the improving advertising market, re-accelerating economic growth in Hong Kong, and a developing new integrated-omni-channel media platform, we are cautiously confident that the operating performance of media sector will fare better in the near future.

Property investment

As of 31 December 2017, 100% of the total gross floor areas under the investment properties were rented out to third parties. Rental income rose by 12.8% to HK$10.6 million in 2017 as compared with the corresponding period a year earlier.

There was a fair value gain of HK$40.0 million recorded in 2017 as compared with a fair value gain of HK$42.5 million for the same corresponding period in 2016. Operating profit of HK$49.9 million was recorded in 2017, approximately 1.3% less than the same in 2016.

USE OF PROCEEDS UPDATE

As disclosed in the 2016 Annual Report dated 28 March 2017, the unutilized net proceeds from rights issue completed on 11 August 2016 amounted to HK$391.2 million as at 28 February 2017, of which (i) approximately HK$280 million was intended to be used to set up a securities joint venture in mainland China, (ii) HK$87.2 million earmarked for use towards the lending business, and (iii) HK$24 million for use as seed capital in fund products by the Company and the costs incidental to setting up of fund products.

The Group has continued to use the unutilized funds according to the revised intended use. As at 31 December 2017, the unutilized net proceeds have been reduced to HK$302.8 million, of which (a) the amount of HK$280 million was designated for setting up of a securities joint venture in Mainland China and (b) HK$22.8 million towards asset management related business. During the year, the Company has actively identified parties for the purpose of establishing a securities joint venture in mainland China, but no such initial negotiations came to fruition. The Company shall continue to actively seek appropriate partners but believes that the process is unlikely to complete in the imminent future.

Consistent with the long term goal of supporting the sustainable and healthy development of the Company's principal operating activities, the Company follows the prevailing practice and continues to apply the following capital management and interim deployment strategies in respect of the abovementioned unutilized proceeds of approximately HK$302.8 million, pending the identification and conclusion of a securities joint venture and subject to the progress of business and the 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.

EVENT AFTER THE YEAR END

Reference is made to the announcements of Company dated 14 July 2017, 11 September 2017, 10 November 2017, 11 December 2017 and 15 February 2018 in relation to, among others, the major and connected transaction on the acquisition of the entire issued share capital of Perfect Riches Limited, Super Bellax Ltd., Great Ready Assets Limited and Jade Fountain Limited (the "Media Group Acquisition") and the circular in relation thereto was dispatched to the shareholders of the Company on 9 March 2018 (the "Circular"). The Media Group Acquisition, approved by independent shareholders of the Company at an extraordinary general meeting held on 28 March 2018, was completed on 29 March 2018. Details in relation to the Media Group Acquisition are disclosed in the aforesaid announcements and the Circular.

The consideration of the Acquisition was HK$15 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 "III. The New Agreement" under the Letter from the Board of 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 the Group and its margin clients. 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 2017, net debt amounted to HK$370.4 million (2016: HK$209.3 million), which, when related to the Group's capital and net debt of HK$1,537.3 million (2016: HK$1,303.7 million), represented a gearing ratio of approximately 24.1% (2016: 16.1%).

The Group had a cash balance of HK$241.3 million at the end of the year (2016: HK$355.4 million). The Group had sufficient working capital to meet its operational needs.

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) fluctuations of fair value gain or loss on financial assets, foreign exchange and investment properties; (ii) changes in market interest rates may expose the Group to high interest expense on its net debt obligations carrying floating interest rates; (iii) credit risk and recoverability of provision of finance which may incur bad debts during the downturn of economy; and (iv) the uncertainties of fiscal, political and monetary policy developments would contribute partly to the high volatility of global markets which may directly affect the performance of the Group. 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 respond to risk effectively and promptly.

PROSPECTS

Starting 2016 up to the first half of 2017, the Group expanded new business teams including asset management and money-lending, and built up stronger and larger teams in the investment banking division as well as wealth management operation, to further develop our market and business horizons, broadening the scope of our financial services offerings in greater China region.

The Hong Kong stock market advanced and outperformed the major markets in the world in 2017 on the rally of leading global markets with US and other major markets rising to multi-year or historical highs during the year. Hong Kong IPO activities is expected to remain strong, as Hong Kong maintains its role as a leading financial hub in Asia, with an edge in gaining access to international institutional investors as well as high net-worth investors. In order to capitalize on such strong market potential, the Group will continue to optimize its investment banking platform and diversify its IPO sponsor, underwriting, fixed income underwriting, cross-border M&A and financial advisory services in this region.

Even as New York displaced Hong Kong as top IPO hub in 2017 and Hong Kong fell to the fourth place after Shanghai and London in term of the aggregate amount of fundraising, Hong Kong with its established legal and financial services framework is still a preferred fund raising venue to Mainland enterprises. The recently proposed changes to the listing regulations allowing dual class share listing and accepting young biotech firms to go listing before they turn profitable which are expected to take effect in mid-2018, once they take effect, will make Hong Kong more competitive among global bourse operators. The rule-easing is tipped to appeal the fast-growing Chinese giant technology and biotech companies to go listing in Hong Kong. This will broaden the bandwidth of business opportunities in the city's capital market, propping up the industry outlook as well. At as the date of this result announcement, the Group's investment banking teams have already secured several IPO deals in the pipeline and are thereby expected to see more IPO deals to be completed and approved for listing in 2018 and beyond.

On the back of a robust economic growth in the region, particularly from Greater China region, increased level of savings and exploding rise in wealthy population, it is expected that the asset management and wealth management sectors in Hong Kong will continue to grow. The Group's assets and wealth management businesses, for various reasons, were performing well behind the expected yardstick in 2017. As an interim measure to pare down the rising loss from this segment, the Group has restructured its asset and wealth management operations to more effectively develop the business and launch new products in a cost efficient manner as the market remains promising with ample opportunities. To this end, the Group needs to keep track the market changes closely and make corresponding changes to its strategy in order to reshape ourselves in a position to grasp business from thriving insurance sector and promote fund distributions.

In line with the Group's overall mission as a distinctive one-stop shopping platform, we have commenced its integration plan with the financial media group acquired in early 2017 by drawing on the strengths of the Group and the financial media group together to, among others, make use of the financial media group's digital and print media platforms, event management and marketing services to provide value-added marketing communications solutions to existing and potential clients and business partners, thereby building up the FPR business, fostering the Group's vision to be an one-stop shop financial services provider. The integration is in progress as at the date of this result announcement.

As a further step to optimize the value of building an integrated platform combining financial services and financial media business, the Directors have resolved to enter into an agreement for a conditional acquisition of the 100% interest in a media group engaged in the publication of lifestyle series magazines and related digital media assets, and creative services and event management services (the "Media Group") at the cash consideration of HK$15 million, subject to cash adjustment in a manner as contemplated in the relevant sales and purchase agreement for the Media Group Acquisition. The Media Group Acquisition was approved by independent shareholders of the Company on 28 March 2018 and the Media Group becomes the Company's wholly-owned subsidiaries thereafter. The Board is of view that the Media Group is able to augment the existing businesses of the Group by leveraging the combined strengths of the Group and the Media Group acquired under the Media Group Acquisition to create and maximize synergies in the sharing of resources, enhanced clientele, membership and audience base, digital abilities, bargaining power, cross referrals and aggregate contents, among others. The established media brand names, the ability to engage with a wide audience and readership of the financial media business and the business of the Media Group, the established membership base, clientele and editorial network, and the ability to produce and curate premium content, will, through data-driven technology and an integrated-digital platform, enable the Group to generate big data, to develop customized products which meet the needs of consumers more precisely, and target desired client groups more precisely through its omni-channel media products. The combined services of the FPR, the financial media business and the business of the Media Group would further enhance and distinguish the positioning of the enlarged Group as a full-fledged corporate marketing and financial public relations consultancy service supplier, and create a more comprehensive and competitive service set. It is our view that the combined services would distinguish the positioning of the Company to create a more comprehensive and competitive financial and media services set to our corporate clients in great China region. More importantly, it is a long term goal of the Group to build an integrated platform which is able to provide opportunities for growth, not only in its existing business but also into new business lines, to provide a full range of value added services to its end clients in Hong Kong and mainland China; and the digital world offers such an environment in the enlarged business ecosystem as the customer or audience base grows.

Looking ahead, the Company expects existing businesses, coupled with the integration and collaboration with financial media as well as the newly acquired non-financial media platforms, will broaden the revenue base and strengthen the competitive edge of the Group that will further enhance the investors' returns in the long term.

FINAL DIVIDEND

The Board has resolved not to recommend the declaration of any final dividend for the year ended 31 December 2017 (2016: Nil).

CORPORATE GOVERNANCE CODE

The Company complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules on the Stock Exchange throughout the year ended 31 December 2017, except that:

(i) the chairman of the Board was unable to attend the regular board meeting of the Company held on 28 March 2017, the chairman and the vice chairman of the Board were unable to attend the regular board meeting of the Company held on 30 March 2017 and the chairman of the Board was unable to attend the annual general meeting of the Company held on 14 June 2017 as they had other business engagements, which deviated from code provisions A.6.7 and E.1.2; and

(ii) the company secretary of the Company had resigned since 8 January 2016, as such the Company no longer complied with the requirement under Rule 3.28 of the Listing Rules and the relevant code provisions in respect of the company secretary. The Company subsequently complied with Rule 3.28 of the Listing Rule and the relevant code provisions as the Company had appointed a company secretary with effect from 21 December 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the period under review, the Company repurchased 20,400,000 ordinary shares on the Stock Exchange at an aggregate price of HK$1,201,100. The repurchased shares were subsequently cancelled. Details of the repurchased shares are as follows:

Month/Year	**Number of shares repurchased**	**Highest price** *(HK$)*	**Lowest price** *(HK$)*	**Aggregate price paid** *(HK$)*
May 2017	17,200,000	0.063	0.058	1,019,900
June 2017	3,200,000	0.057	0.056	181,200
	20,400,000			1,201,100
		Total expenses on share repurchased		4,707
				1,205,807

Details of the Repurchases are disclosed in note 13 above.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed by of the Company's listed securities.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") presently comprises all independent non-executive directors of the Company, namely Mr. Tung Woon Cheung Eric (chairman of the audit 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 2017 were reviewed by the Audit Committee which was of the opinion that the preparation of such annual results had 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, 29 March 2018

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.