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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 2018**

#### **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 2018 together with comparative figures for the last financial year as follows:

#### **CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

	<i>Notes</i>	<b>2018</b> <i>HK\$'000</i>	<b>2017</b> <i>HK\$'000</i>
<b>CONTINUING OPERATIONS</b>			
<b>Revenue</b>	2&4	<b>143,913</b>	254,335
Other income		<b>2,613</b>	3,521
Fair value gain on investment properties		<b>49,000</b>	40,000
Fair value gain/(loss) on financial assets at fair value through profit or loss		<b>(146,911)</b>	10,985
Impairment of goodwill		–	(351)
Impairment of intangible assets		–	(2,265)
Impairment of loans and trade receivables, net		<b>(8,165)</b>	(3,503)
Other operating expenses		<b>(249,545)</b>	(239,181)
<b>Profit/(loss) from operating activities</b>		<b>(209,095)</b>	63,541
Finance costs	5	<b>(18,043)</b>	(10,124)

	<i>Notes</i>	<b>2018</b> <b>HK\$'000</b>	2017 HK\$'000
<b>Profit/(loss) before tax from continuing operations</b>	3	<b>(227,138)</b>	53,417
Income tax expense	6	<b>(894)</b>	(878)
Profit/(loss) for the year from continuing operations		<b>(228,032)</b>	52,539
<b>DISCONTINUING OPERATION</b>			
Loss for the year from a discontinuing operation	7	<b>(11,734)</b>	—
<b>Profit/(loss) for the year</b>		<b>(239,766)</b>	52,539
Attributable to:			
Equity holders of the Company			
— For profit/(loss) from continuing operations		<b>(228,016)</b>	52,539
— For loss from a discontinuing operation		<b>(11,734)</b>	—
— For profit/(loss) for the year		<b>(239,750)</b>	52,539
Non-controlling interests		<b>(16)</b>	—
		<b>(239,766)</b>	52,539
Earnings/(loss) per share attributable to equity holders of the Company	8		(Restated)
Basic and diluted			
— For profit/(loss) for the year		<b>(HK79.6 cents)</b>	HK17.4 cents
— For profit/(loss) from continuing operations		<b>(HK75.7 cents)</b>	HK17.4 cents

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Profit/(loss) for the year</b>	<b><u>(239,766)</u></b>	<b><u>52,539</u></b>
<b>Other comprehensive income/(loss)</b>		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<b>(3,020)</b>	20,326
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	<b><u>(9,240)</u></b>	<u>–</u>
Other comprehensive income/(loss) for the year, net of tax	<b><u>(12,260)</u></b>	<u>20,326</u>
<b>Total comprehensive income/(loss) for the year</b>	<b><u>(252,026)</u></b>	<b><u>72,865</u></b>
Attributable to:		
Equity holders of the Company	<b>(252,010)</b>	72,865
Non-controlling interests	<b><u>(16)</u></b>	<u>–</u>
	<b><u>(252,026)</u></b>	<b><u>72,865</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>As at 31 December</b>	
		<b>2018</b>	2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>3,591</b>	3,132
Investment properties	9	<b>529,000</b>	480,000
Intangible assets		<b>10,916</b>	4,242
Investment in associates		–	–
Available-for-sale investments	10, 13	–	42,135
Equity investments designated at fair value through other comprehensive income	10, 13	<b>30,520</b>	–
Debt investments at fair value through other comprehensive income	10, 13	<b>3,080</b>	–
Other assets		<b>7,514</b>	17,675
Goodwill		<b>89,948</b>	13,714
Long term loans receivable		<b>11,849</b>	9,981
Long term prepayment and deposits		<b>608</b>	1,588
		<hr/>	<hr/>
Total non-current assets		<b>687,026</b>	572,467
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories		<b>13,432</b>	–
Financial assets at fair value through profit or loss	13	<b>431,167</b>	625,183
Loans receivable		<b>285,428</b>	378,195
Trade receivables	11	<b>167,580</b>	147,293
Contract assets		<b>3,352</b>	–
Prepayments, other receivables and other assets		<b>41,348</b>	47,638
Derivative financial instruments	13	<b>541</b>	615
Tax recoverable		<b>227</b>	227
Pledged time deposits		–	500
Cash held on behalf of clients		<b>541,617</b>	597,368
Cash and bank balances		<b>108,456</b>	241,298
		<hr/>	<hr/>
		<b>1,593,148</b>	2,038,317
Assets of a disposal group classified as held for sale	7	<b>7,225</b>	–
		<hr/>	<hr/>
Total current assets		<b>1,600,373</b>	2,038,317
		<hr/>	<hr/>

		<b>As at 31 December</b>	
		<b>2018</b>	<b>2017</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CURRENT LIABILITIES</b>			
Client deposits		<b>485,171</b>	719,728
Trade payables	12	<b>170,473</b>	53,823
Other payables and accruals		<b>33,174</b>	23,853
Derivative financial instruments	13	<b>197</b>	289
Interest-bearing bank and other borrowings		<b>486,978</b>	430,620
Tax payable		<b>2,898</b>	2,820
		<b>1,178,891</b>	1,231,133
Liabilities directly associated with the assets classified as held for sale	7	<b>6,605</b>	–
Total current liabilities		<b>1,185,496</b>	1,231,133
<b>NET CURRENT ASSETS</b>		<b>414,877</b>	807,184
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,101,903</b>	1,379,651
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		<b>152,919</b>	181,057
Deposits received		<b>3,672</b>	1,260
Deferred tax liabilities		<b>30,952</b>	30,638
Total non-current liabilities		<b>187,543</b>	212,955
Net assets		<b>914,360</b>	1,166,696
<b>EQUITY</b>			
Share capital		<b>1,085,474</b>	1,085,474
Reserves		<b>(171,945)</b>	81,222
		<b>913,529</b>	1,166,696
Non-controlling interests		<b>831</b>	–
Total equity		<b>914,360</b>	1,166,696

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, equity investments, debt investments, derivative financial instruments and financial assets at fair value through profit or loss which have been measured at fair value. Disposal group held for sale is stated at the lower of its carrying amounts and fair values less cost to sell. 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 HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014–2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28

The adoption of these new and revised HKFRSs has had no significant financial effect on the Group’s results of operation and financial position, except for HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers* as described below.

- (a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

## Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the consolidated statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Notes	HKAS 39 measurement		Re- classification  HK\$'000	ECL  HK\$'000	HKFRS 9 measurement	
		Category	Amount HK\$'000			Amount HK\$'000	Category
<b>Financial assets</b>							
Equity investments designated at fair value through other comprehensive income		N/A	–	39,690	–	39,690	FVOCI <sup>1</sup> (equity)
From: Available-for-sale investments	(i)			39,690	–		
Available-for-sale investments		AFS <sup>2</sup>	42,135	(42,135)	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)			(39,690)	–		
To: Debt investments at fair value through other comprehensive income	(ii)			(2,445)	–		
Debt investments at fair value through other comprehensive income		N/A	–	2,445	–	2,445	FVOCI <sup>1</sup> (debt)
From: Available-for-sale investments	(ii)			2,445	–		
Other assets		L&R <sup>3</sup>	17,675	–	–	17,675	AC <sup>4</sup>
Loans receivable		L&R <sup>3</sup>	388,176	–	(1,313)	386,863	AC <sup>4</sup>
Trade receivables		L&R <sup>3</sup>	147,293	–	–	147,293	AC <sup>4</sup>
Derivative financial instruments		FVPL <sup>5</sup>	615	–	–	615	FVPL <sup>5</sup> (mandatory)
Financial assets at fair value through profit or loss		FVPL <sup>5</sup>	625,183	–	–	625,183	FVPL <sup>5</sup> (mandatory)
Financial assets included in prepayments, other receivables and other assets		L&R <sup>3</sup>	31,494	–	–	31,494	AC <sup>4</sup>
Pledged time deposits		L&R <sup>3</sup>	500	–	–	500	AC <sup>4</sup>
Cash held on behalf of clients		L&R <sup>3</sup>	597,368	–	–	597,368	AC <sup>4</sup>
Cash and bank balances		L&R <sup>3</sup>	241,298	–	–	241,298	AC <sup>4</sup>
			2,091,737	–	(1,313)	2,090,424	

	HKAS 39 measurement		Re- classification	ECL	HKFRS 9 measurement	
	Category	Amount HK\$'000			Amount HK\$'000	Category
<i>Notes</i>						
<b>Financial liabilities</b>						
Client deposits	AC <sup>4</sup>	719,728	–	–	719,728	AC <sup>4</sup>
Trade payables	AC <sup>4</sup>	53,823	–	–	53,823	AC <sup>4</sup>
Derivative financial instruments						FVPL <sup>5</sup>
	FVPL <sup>5</sup>	289	–	–	289	(mandatory)
Financial liabilities included in other						
payables and accruals	AC <sup>4</sup>	19,512	–	–	19,512	AC <sup>4</sup>
Deposits received	AC <sup>4</sup>	1,260	–	–	1,260	AC <sup>4</sup>
Interest-bearing bank and other						
borrowings	AC <sup>4</sup>	611,677	–	–	611,677	AC <sup>4</sup>
		<u>1,406,289</u>	<u>–</u>	<u>–</u>	<u>1,406,289</u>	

<sup>1</sup> FVOCI: Financial assets at fair value through other comprehensive income

<sup>2</sup> AFS: Available-for-sale investments

<sup>3</sup> L&R: Loans and receivables

<sup>4</sup> AC: Financial assets or financial liabilities at amortised cost

<sup>5</sup> FVPL: Financial assets or financial liabilities at fair value through profit or loss

*Notes:*

- (i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.
- (ii) As of 1 January 2018, the Group has assessed its liquidity portfolio of debt investments which had previously been classified as AFS debt investments. These debt investments represent the club debentures which are held for the purpose of business operations and the Group has no intention to dispose them in the foreseeable future. Accordingly, the Group has classified these investments as debt investments measured at fair value through other comprehensive income.

**Impairment**

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017 HK\$'000	Re- measurement HK\$'000	ECL allowances under HKFRS 9 at 1 January 2018 HK\$'000
Loans receivable	<u>24,348</u>	<u>1,313</u>	<u>25,661</u>



### Impact on accumulated losses

The impact of transition to HKFRS 9 on accumulated losses is as follows:

HK\$'000

#### Accumulated losses

Balance as at 31 December 2017 under HKAS 39	(67,091)
Recognition of expected credit losses for loans receivable under HKFRS 9	(1,313)
	<hr/>
Balance as at 1 January 2018 under HKFRS 9	(68,404)
	<hr/> <hr/>

- (b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract assets and liabilities account balances between periods and key judgements and estimates. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was not significant to the Group's consolidated financial statements. The comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

## 2. REVENUE

An analysis of revenue is as follows:

	<b>2018</b> <b>HK\$'000</b>	2017 HK\$'000
<i>Revenue from contracts with customers:</i>		
Commission and brokerage income	<b>42,396</b>	53,386
Rendering of services	<b>32,295</b>	26,238
Handling fee income	<b>3,334</b>	3,891
Media publications and financial public relation services* ("Media Services")	<b>54,889</b>	17,609
Sales of jewellery products	<b>9,092</b>	–
	<b>142,006</b>	101,124
<i>Revenue from other sources:</i>		
Profit/(loss) on the trading of securities, forex, bullion and future contracts, net	<b>(52,724)</b>	104,217
Interest income from loans and trade receivables	<b>24,896</b>	24,901
Interest income from forex and bullion contracts trading	<b>695</b>	550
Interest income from banks and financial institutions	<b>2,322</b>	3,113
Dividend income from listed investments	<b>14,779</b>	9,824
Gross rental income	<b>11,939</b>	10,606
	<b>1,907</b>	153,211
	<b>143,913</b>	254,335

\* Including advertising income, service income and circulation income

## Revenue from contracts with customers

### Disaggregated revenue information

Type of goods or services	Broking HK\$'000	Corporate advisory and underwriting HK\$'000	Jewellery business HK\$'000	Other business HK\$'000	Media publications and financial public relation services HK\$'000	Total HK\$'000
Commission and brokerage income	42,396	–	–	–	–	42,396
Underwriting service income	–	3,557	–	–	–	3,557
Corporate advisory fee income	–	27,732	–	–	–	27,732
Handling fee income	3,334	–	–	–	–	3,334
Sales of jewellery products	–	–	9,092	–	–	9,092
Other business income	–	–	–	1,006	–	1,006
Media publications and financial public relation services*	–	–	–	–	54,889	54,889
Total revenue from contracts with customers	<u>45,730</u>	<u>31,289</u>	<u>9,092</u>	<u>1,006</u>	<u>54,889</u>	<u>142,006</u>
<b>Geographical markets</b>						
Hong Kong	45,730	22,189	–	1,006	54,889	123,814
Mainland China	–	2,396	9,092	–	–	11,488
Other countries	–	6,704	–	–	–	6,704
Total revenue from contracts with customers	<u>45,730</u>	<u>31,289</u>	<u>9,092</u>	<u>1,006</u>	<u>54,889</u>	<u>142,006</u>

### 3. PROFIT/(LOSS) BEFORE TAX

	2018 HK\$'000	2017 HK\$'000
<b>The Group's profit/(loss) before tax is arrived at after charging:</b>		
Cost of services provided	33,357	47,715
Depreciation and amortisation	3,157	2,194
Cost of inventories sold	6,959	–
Cost of media publications and financial public relation services	37,352	21,193
Interest expenses for margin financing and money lending operations	<u>6,460</u>	<u>3,944</u>

#### 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 2018 and 2017 is as follows:

##### Year ended 31 December 2018

	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	Jewellery business HK\$'000	Other business HK\$'000	Consolidated HK\$'000
<b>Segment revenue:</b>										
Revenue from external customers	42,497	(37,225)	28,911	30,014	2,790	11,939	54,889	9,092	1,006	<u>143,913</u>
<b>Segment results:</b>	(24,287)	(188,032)	3,830	471	(15,521)	59,719	(29,085)	65	315	(192,525)
<i>Reconciliation:</i>										
Corporate and other unallocated expenses, net <sup>#</sup>										(16,570)
Finance costs										<u>(18,043)</u>
Loss before tax from continuing operations										<u>(227,138)</u>
<b>Segment assets:</b>	748,603	479,671	329,596	18,502	8,590	529,777	127,595	18,958	1,109	2,262,401
<i>Reconciliation:</i>										
Corporate and other unallocated assets										17,773
Assets related to a discontinuing operation										<u>7,225</u>
Total assets										<u>2,287,399</u>
<b>Segment liabilities:</b>	(645,500)	(140,800)	(193,038)	(6,023)	(1,486)	(4,479)	(21,283)	(25,816)	(2,084)	(1,040,509)
<i>Reconciliation:</i>										
Corporate and other unallocated liabilities										(325,925)
Liabilities related to a discontinuing operation										<u>(6,605)</u>
Total liabilities										<u>(1,373,039)</u>
<b>Other segment information:</b>										
Fair value loss on financial assets at fair value through profit or loss <sup>#</sup>	-	141,012	-	-	-	-	-	-	-	141,012
Fair value gain on investment properties	-	-	-	-	-	(49,000)	-	-	-	(49,000)
Impairment of loans and trade receivables, net	198	-	7,911	-	-	-	56	-	-	8,165
Depreciation and amortisation	580	10	150	255	395	3	1,742	22	-	3,157
Capital expenditure	114	2	26	41	34	1	85,236	226	-	<u>85,680</u>

## 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
<b>Segment revenue:</b>									
Revenue from external customers	52,707	114,713	28,069	26,124	3,288	10,606	17,609	1,219	<u>254,335</u>
<b>Segment results:</b>	(25,414)	105,840	9,330	(5,399)	(24,952)	49,857	(33,247)	630	76,645
<i>Reconciliation:</i>									
Corporate and other unallocated expenses, net <sup>#</sup>									(13,104)
Finance costs									<u>(10,124)</u>
Profit before tax									<u>53,417</u>
<b>Segment assets:</b>	812,667	721,251	460,299	14,967	5,324	483,272	22,520	1,613	2,521,913
<i>Reconciliation:</i>									
Corporate and other unallocated assets									<u>88,871</u>
Total assets									<u>2,610,784</u>
<b>Segment liabilities:</b>	(774,225)	(134,464)	(212,149)	(1,544)	(1,733)	(3,757)	(4,984)	(3,150)	(1,136,006)
<i>Reconciliation:</i>									
Corporate and other unallocated liabilities									<u>(308,082)</u>
Total liabilities									<u>(1,444,088)</u>
<b>Other segment information:</b>									
Fair value gain on financial assets at fair value through profit or loss <sup>##</sup>	-	(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 <sup>*</sup>	<u>386</u>	<u>43</u>	<u>87</u>	<u>725</u>	<u>189</u>	<u>-</u>	<u>20,037</u>	<u>-</u>	<u>21,467</u>

\* Capital expenditure consists of additions to property, plant and equipment, goodwill and intangible assets including those arising from the acquisitions 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\$5,899,000 (2017: HK\$4,249,000).

## Fair value gain/loss on financial assets at fair value through profit or loss includes fair value gain on derivative financial instruments of HK\$105,000 (2017: HK\$174,000).

## Geographical information

### Non-current assets

	2018 HK\$'000	2017 HK\$'000
Hong Kong	647,835	529,832
Other jurisdictions	5,591	500
	<u>653,426</u>	<u>530,332</u>

The non-current assets information above is based on the location of assets and excludes equity investments designated at fair value through other comprehensive income, debt investments at fair value through other comprehensive income and available-for-sale investments.

## 5. FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Interest on bank loans, overdrafts and other borrowings	<u>18,043</u>	<u>10,124</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. 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.

	2018 HK\$'000	2017 HK\$'000
Current — Elsewhere		
Charge for the year	559	283
Underprovision in prior years	21	103
Deferred	<u>314</u>	<u>492</u>
Total tax charge for the year	<u>894</u>	<u>878</u>

## 7. DISCONTINUING OPERATION

On 1 February 2019, the Company entered into a conditional sale and purchase agreement with South China Industries (BVI) Limited, a wholly-owned subsidiary of South China Holdings Limited, pursuant to which the Company agreed to dispose of the entire issued share capital of Year Blossom Limited, a wholly-owned subsidiary of the Company, together with its subsidiaries (the “Disposal Group”). The Disposal Group was principally engaged in food and beverage operations in Nanjing, the PRC.

The results of Disposal Group for the year are presented below:

	<b>2018</b> <b>HK\$'000</b>	2017 <i>HK\$'000</i>
Revenue	<b>2,478</b>	–
Cost of inventories consumed	<b>(1,762)</b>	–
	<hr/>	<hr/>
Gross profit	<b>716</b>	–
Other operating expenses	<b>(12,450)</b>	–
	<hr/>	<hr/>
Loss before tax from the discontinuing operation	<b>(11,734)</b>	–
Income tax	<b>–</b>	–
	<hr/>	<hr/>
Loss for the year from the discontinuing operation	<b>(11,734)</b>	–
	<hr/> <hr/>	<hr/> <hr/>

The major classes of assets and liabilities of the Disposal Group classified as held for sale as at 31 December are as follows:

	<b>2018</b> <b>HK\$'000</b>	2017 <i>HK\$'000</i>
<b>Assets</b>		
Property, plant and equipment	<b>4,716</b>	–
Inventories	<b>236</b>	–
Trade receivables	<b>43</b>	–
Prepayments, other receivables and other assets	<b>2,057</b>	–
Cash and bank balances	<b>173</b>	–
	<hr/>	<hr/>
Assets classified as held for sale	<b>7,225</b>	–
	<hr/>	<hr/>
<b>Liabilities</b>		
Trade payables	<b>(2,663)</b>	–
Other payables and accruals	<b>(3,942)</b>	–
	<hr/>	<hr/>
Liabilities directly associated with the assets classified as held for sale	<b>(6,605)</b>	–
	<hr/>	<hr/>
Net assets directly associated with the Disposal Group	<b>620</b>	–
	<hr/> <hr/>	<hr/> <hr/>

## 8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share amounts is based on the loss for the year attributable to equity holders of the Company of HK\$239,750,000 (2017: profit of HK\$52,539,000) and the weighted average number of 301,277,070 (2017: 301,434,007 (Restated)) ordinary shares in issue during the year.

The calculation of the basic earnings/(loss) per share amounts from continuing operations is based on the loss for the year from continuing operations attributable to equity holders of the Company of HK\$228,016,000 (2017: profit of HK\$52,539,000) and the weighted average number of 301,277,070 (2017: 301,434,007 (Restated)) ordinary shares in issue during the year.

The basic and diluted earnings per share amounts for the year ended 31 December 2017 had been adjusted to reflect the share consolidation of the Company during the year ended 31 December 2018.

No adjustment has been made to the basic earnings/(loss) per share amount presented for the years ended 31 December 2018 and 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/(loss) per share amount presented.

## 9. INVESTMENT PROPERTIES

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Carrying amount as at 1 January	<b>480,000</b>	440,000
Net gain from a fair value adjustment	<b>49,000</b>	40,000
	<hr/>	<hr/>
Carrying amount at 31 December	<b>529,000</b>	480,000
	<hr/> <hr/>	<hr/> <hr/>

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 2018 based on valuations performed by Ravia Global Appraisal Advisory Limited, independent professionally qualified valuer, at HK\$529,000,000.

On 31 December 2018, the Group's investment properties with a carrying value of HK\$529,000,000 (2017: HK\$480,000,000) were pledged to secure general banking facilities granted to the Group.



**10. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS**

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Equity investments designated at fair value through other comprehensive income</b>		
Listed equity investments, at fair value	<u><b>30,520</b></u>	<u>–</u>
<b>Debt investments at fair value through other comprehensive income</b>		
Club debentures, at fair value	<u><b>3,080</b></u>	<u>–</u>
<b>Available-for-sale investments</b>		
Listed equity investments, at fair value	–	39,690
Club debentures, at fair value	<u>–</u>	<u>2,445</u>
	<u><b>–</b></u>	<u>42,135</u>

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

**11. 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 Services is generally one month, extending up to four months for major customers. The Group's trading terms with its jewellery retail customers are mainly on cash and credit card settlement. 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:

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current to 90 days	<b>159,523</b>	144,798
Over 90 days	<u><b>8,057</b></u>	<u>2,495</u>
	<u><b>167,580</b></u>	<u>147,293</u>

## 12. 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 Services and jewellery business 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:

	<b>2018</b> <b>HK\$'000</b>	2017 <b>HK\$'000</b>
Current to 30 days	<b>162,180</b>	53,539
Over 30 days	<b>8,293</b>	284
	<b>170,473</b>	53,823

## 13. 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 debt investments at fair value through other comprehensive income/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 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) <b>HK\$'000</b>	Significant observable inputs (Level 2) <b>HK\$'000</b>	Significant unobservable inputs (Level 3) <b>HK\$'000</b>	Total <b>HK\$'000</b>
<i>Assets measured at fair value:</i>				
Equity investments designated at fair value through other comprehensive income	<b>30,520</b>	–	–	<b>30,520</b>
Debt investments at fair value through other comprehensive income	–	<b>3,080</b>	–	<b>3,080</b>
Financial assets at fair value through profit or loss				
Held for trading	<b>421,568</b>	–	–	<b>421,568</b>
Designated upon initial recognition	<b>9,599</b>	–	–	<b>9,599</b>
Derivative financial instruments	–	<b>541</b>	–	<b>541</b>
	<b>461,687</b>	<b>3,621</b>	–	<b>465,308</b>
<i>Liabilities measured at fair value:</i>				
Derivative financial instruments	–	<b>197</b>	–	<b>197</b>

As at 31 December 2017

	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-sale 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
	<u>664,873</u>	<u>3,060</u>	<u>–</u>	<u>667,933</u>
<i>Liabilities measured at fair value:</i>				
Derivative financial instruments	–	289	–	289

## 14. BUSINESS COMBINATIONS

### (a) Acquisition of King Link

On 18 September 2018, the Group acquired 85% equity interests in King Link Investments Limited (“King Link”) from Orient Victory Travel Group Company Limited, of which 15% equity interests of King Link were indirectly held 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\$4,800,000. King Link is an investment holding company which holds 65.5% equity interests in a PRC Subsidiary (the “PRC Subsidiary”). The PRC Subsidiary is principally engaged in sales and distribution of jewellery products through flagship store and counters of large department stores in Nanjing.

As per publicly available research information, it is expected that domestic demand for luxury goods in the PRC from 2018 to 2020 rocket up from about 50 billion Euros to about 74 billion Euros, i.e. a substantial increment of approximately 48% in these three years. Given economic benefits from the high revenue generating luxury goods market in the PRC, the Group considers the acquisition of King Link not only enhances the income of the Group but also widens the Group’s investment opportunities in different business sectors.

The major assets acquired through this business combination include, amongst others, inventories, prepayments and other receivables, and cash and bank balances. The aggregate fair values of the net identifiable assets of King Link as at the date of acquisition was HK\$5,647,000 and resulting in the recognition of non-controlling interests of HK\$847,000 in accordance with HKFRS 3 (Revised) *Business Combinations*.

**(b) Acquisition of Lifestyle Group**

On 29 March 2018, the Group acquired 100% equity interests in Perfect Riches Limited, Super Bellax Ltd., Great Ready Assets Limited and Jade Fountain Limited from Nicemate Investments Limited, Jessica Publication (BVI) Limited, Win Gain Investments Limited and Ace Market Investments 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\$52,020,000, comprising the cash consideration of HK\$15,000,000 and a cash adjustment to consideration of HK\$37,020,000 that was paid pursuant to the adjustment to consideration clause contemplated in the relevant sales and purchase agreement. Perfect Riches Limited, Super Bellax Ltd., Great Ready Assets Limited, Jade Fountain Limited and its respective subsidiaries (“Lifestyle Group”) are principally engaged in media business, including, among others, publishing printed and digital media assets and provision of event management, marketing and communication strategy, digital and creative, custom publishing, digital marketing, customer-relationship management and other related services and solutions, appealing to a client and audience base complementing to the target clients of the Group as well as owning the brand names and maintaining the relevant content archives.

The acquisition was in line with the Group’s overall strategy to make investments that would create synergy with its existing operations and diversify its revenue stream as well as implement a consumer oriented-business platform in the future. The popularity and widespread reach of the media assets produced by the Lifestyle Group would not only broaden the media platform of the Group since completion of the acquisition of Capital Group in 2017 but also create various business opportunities for the Group, including relationship-building across various business lines, and enable it to provide value-added services to its existing clients.

The major assets acquired through this business combination include, amongst others, intangible assets, trade receivables, other receivables, and cash and bank balances. The aggregate fair values of the net identifiable liabilities of Lifestyle Group as at the date of acquisition was HK\$24,214,000 and resulting in the recognition of goodwill, in aggregate, of HK\$76,234,000 in accordance with HKFRS 3 (Revised) *Business Combinations*.

**(c) Acquisition of Capital Group**

On 18 January 2017, the Group acquired 100% equity interests 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. Media Bonus Limited and its subsidiaries and Golden Ways Limited (“Capital Group”) 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 “onestop services” financial institution and was expected to create synergy to the financial public relation 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 Capital Group 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**

### **FINANCIAL SUMMARY**

The results of our core business segments, including broking, margin financing and money lending, corporate advisory and underwriting, asset and wealth management and media business improved during the year with a reduction in operating loss of 19% from HK\$79.7 million in the previous year to HK\$64.6 million in the current year.

The Group recorded revenue of HK\$143.9 million (2017: HK\$254.3 million) and loss after tax of HK\$228.0 million for the year ended 31 December 2018 as compared with the profit after tax of HK\$52.5 million for the corresponding period last year from continuing operations.

### **DIVIDEND**

No interim dividend was paid (2017: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

### **BUSINESS REVIEW**

The principal businesses of the Group include brokerage, margin financing and money lending, corporate advisory and underwriting, asset and wealth management, media, trading and investment and property investment.

#### **Brokerage**

The year of 2018 kicked off with a strong global economy and bullish stock markets. The Hang Seng Index climbed to a record high in January and trading volume was steadily rising. However, unexpected disruption came in June as the United States started a trade war with China and trade disputes with a number of its other trading partners. The tariff hike imposed by the U.S. and China on imported goods from each other clouded economic growth of the two countries. Stock markets worldwide fluctuated dramatically in the second half of 2018 as a result of monetary policy tightening in the U.S., uncertainty in trade negotiations between U.S. and China and signs of deceleration of the Chinese economy. Most investors cashed out from the market and took a wait-and-see attitude in the second half of the year. Market turnover dropped significantly from an average of HK\$127 billion per day in the first half of the year to an average of HK\$88.8 billion in the second half of the year whilst the average daily market turnover for the year ended 31 December 2018 increased by 21% to HK\$107 billion from HK\$88 billion in the corresponding period last year. The Group's brokerage commission income decreased from HK\$52.7 million for the year ended 31 December 2017 to HK\$42.5 million for the year ended 31 December 2018 and the operating loss of this business segment decreased from HK\$25.4 million in 2017 to HK\$24.3 million in 2018.

From November 2018 onwards, the Group launched a series of marketing campaigns to promote brand visibility through its unique media platform. This included digital advertising, using promotion trucks for recruiting new retail customers to open accounts and organising various kinds of seminars. The response was encouraging with an increase in the number of newly opened accounts. These newly opened accounts form a solid foundation for our brokerage business when the market turnover turns around and we will continue these marketing efforts.

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

This segment recorded income for the year ended 31 December 2018 of HK\$28.9 million compared with income of HK\$28.1 million in the corresponding period last year. Earnings from this segment decreased from HK\$9.3 million in 2017 to HK\$3.8 million in 2018. Under the Group's prudent risk management policy, the Group has made adequate provisions against money lending business for the year ended 31 December 2018.

Due to the loss of momentum in the equities market in the second half of 2018, the aggregate carrying value of the Group's margin loan portfolio reduced from HK\$374.8 million at the year end of 2017 to HK\$264.2 million at the year end of 2018 whilst the carrying value of the loan portfolio of the Group's other money lending businesses increased from HK\$13.4 million at the year end of 2017 to HK\$33.1 million at the year end of 2018 as a result of diversifying the business into the mortgage loan business and an increase in the Group's PRC finance lease loan portfolio.

### **Corporate advisory and underwriting**

In terms of the initial public offering (IPO) market, Hong Kong regained its championship in global IPO financing in 2018. The number of newly listed companies stood at 218 during the year which represented an increase of 25% compared with 174 companies for the previous year. Funds raised by IPOs increased from HK\$128 billion in 2017 to HK\$288 billion in 2018.

The Group's investment banking team completed two IPO deals in the first half of 2018 in which it acted as the sponsor and underwriter. The revenue of this segment increased from HK\$26.1 million in 2017 to HK\$30.0 million in 2018 and recorded a profit of HK\$0.5 million for the year ended 31 December 2018 as compared with a loss of HK\$5.4 million for the year ended 31 December 2017. Although no IPO deals were completed by the Group in the second half of the year as a result of the tightening of liquidity of the market since July 2018, it has submitted multiple IPO deal applications with Hong Kong Exchange and Clearing Limited ("HKEx") as at 31 December 2018. We believe that revenue will be crystalized from these submitted IPO deals in 2019.

### **Asset and wealth management**

During the year, the Group restructured the asset and wealth management teams in order to achieve operating efficiency. The loss for this business segment was significantly reduced by 38% to HK\$15.5 million for the year ended 31 December 2018 from HK\$25.0 million for the year ended 31 December 2017. The Group continued to maintain a prudent approach to cost management whilst also investing in key strategic initiatives for future growth.

During 2018, we redefined our strategy and reallocated resources towards client-first approach customising products for their specific needs. This change of business model in 2018, resulted in achieving Assets-under-management (“AUM”) of HK\$42.0 million in January 2019 which was a milestone of the Asset Management business.

### Media and financial public relations

The acquisition of the financial media group engaged in the publication of the “Capital” series of magazines in January 2017 followed by the acquisition of a lifestyle media group in March 2018 has resulted in a comprehensive media platform for the Group. South China Media is one of the top players of financial and lifestyle media brands magazines in Hong Kong and provides a broad spectrum of media related services from print and digital media platforms to event and marketing services. In the last quarter of 2018, the Media group commenced its collaboration with the Financial Services group in some brokerage promotion campaigns with a very positive response from existing and target clients. We believe such a synergy will continue to grow and bring value to our clients and shareholders in the future.

The revenue and operating loss of the media publications and financial public relation business segment for the year ended 31 December 2018 were HK\$54.9 million and HK\$29.1 million respectively. The loss included one-off transaction costs amounting to HK\$3.0 million incurred in relation to the acquisition of the lifestyle media group. The management has directed its strategy and resources towards events marketing, quality branded content and digital and multi-media services.

### Trading and investment

The Group’s investment portfolio, which was mainly booked under financial assets at fair value through profit or loss, decreased from HK\$625.2 million as at 31 December 2017 to HK\$431.2 million as at 31 December 2018. The major investment holdings and their fair value gains or losses are listed below:

Stock code	Name of security	Carrying amount as at 31 December 2018 HK\$'000	Percentage of shareholding interest	Fair value gain/(loss) during the year HK\$'000
992	Lenovo Group Ltd.	100,838	0.159	17,578
670	China Eastern Airlines Corporation Limited	99,752	0.158	(29,981)
3988	Bank of China Limited	43,105	0.004	(4,875)
1033	Sinopec Oilfield Service Corporation	34,452	0.302	(40,367)
1097	i-CABLE Communications Limited	30,668	4.188	(28,016)
Others		122,352		(61,250)
		<u>431,167</u>		<u>(146,911)</u>



The Hang Seng Index decreased by 13.6% from 29,919 at 31 December 2017 to 25,846 at 31 December 2018 and the Hang Seng China Enterprises Index decreased by 13.5% from 11,709 at 31 December 2017 to 10,125 at 31 December 2018. As a result, there was an unrealized fair value loss of HK\$146.9 million for the year ended 31 December 2018 resulting from the decreased mark-to-market of the financial assets as opposed to the unrealized gain of HK\$11.0 million for the year ended 31 December 2017. Such losses were subject to market sentiment and it is anticipated that such sentiments will change over time.

### **Property investment**

The strong demand from PRC companies for high-end office premises in core districts continued to drive up the commercial properties market. A revaluation gain of HK\$49 million, representing 10% of the fair value of our investment property as at 31 December 2017, was recorded for the year ended 31 December 2018. The fair value of the investment properties increased from HK\$480 million as at 31 December 2017 to HK\$529 million as at 31 December 2018. The Group's rental income rose by 12% to HK\$11.9 million in the year ended 31 December 2018 from HK\$10.6 million in the year ended 31 December 2017 and an operating profit of HK\$59.7 million was recorded for the year ended 31 December 2018 (2017: HK\$49.9 million).

### **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 2018, the unutilized net proceeds have been reduced to HK\$302.6 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\$22.6 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\$302.6 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.

## **EVENTS AFTER THE REPORTING PERIOD**

On 1 February 2019, the Company (as vendor) and South China Industries (BVI) Limited (as purchaser), a direct wholly-owned subsidiary of South China Holdings Limited entered into a conditional sale and purchase agreement (the "S&P Agreement"), pursuant to which the Company has agreed to dispose of one share of US\$1.00 in the capital of Year Blossom Limited, a direct wholly-owned subsidiary of the Company (the "Sale Share") and the purchaser has agreed to acquire the Sale Share subject to and in accordance with the terms and conditions of the S&P Agreement.

Upon completion of the disposal of the Sale Share, Year Blossom Limited and its subsidiaries will no longer be the subsidiaries of the Company and hence the continuing connected transactions (the "CCT") will cease accordingly.

Details of the cessation of the CCT were disclosed in the announcement of the Company dated 1 February 2019.

## **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 while capital represents total equity. As at 31 December 2018, net debt and capital amounted to HK\$531.4 million (2017: HK\$370.4 million) and HK\$914.4 million (2017: HK\$1,166.7 million) respectively, represented a gearing ratio of approximately 36.8% (2017: 24.1%).

The Group had a cash balance of HK\$108.5 million at the end of the year (2017: HK\$241.3 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**

According to the World Bank's estimate, growth in the global economy is anticipated to slow down to 2.9 percent in 2019. The world's financial markets will continue to experience bouts of volatility and investor sentiment will be dominated by uncertainties at least in the first half of the coming year.

In response to a rapidly changing landscape in the financial industry and rising competition in brokerage business, the Group will continue to make use of its unique media platform to promoting the business. At the same time, the Group will recruit more staff so as to strengthen the Group's sales force and provide better clients services. The PRC government is now promoting the economic integration and growth of the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA") and the country's the Belt and Road Initiative which are all providing us enormous opportunities to penetrate into the PRC market. We will leverage our competitive advantages deriving from the media platform of the Group and organize more targeted events to attract additional PRC clients in the future.

In view of the uncertainty of the equities market in 2019, the margin loan business is expected to remain stagnant. On the other hand, the properties market continues its upward trend as a result of the expectation of the end of US interest rate hike in 2019. The demand for mortgage loans is anticipated to remain strong. The Group will allocate more resources in developing the mortgage loan businesses in order to have a more diversified loan portfolio, in addition to the margin loan business.

The Group expects that the development to GBA will provide many opportunities in the financial services sector. Furthermore, the Belt and Road Initiative allows Hong Kong to perform its "super-connector" role giving rise to opportunities for the Group to facilitate UK/Europe and China dealflow.

HKEx implemented a significant listing reform to facilitate listing of companies from emerging and innovative sectors with weighted voting right structures and pre-revenue biotech companies. In addition, HKEx and China's National Equities Exchange and Quotations ("NEEQ") have agreed to open the door for NEEQ-listed companies to have public float in Hong Kong under a dual-listing model in 2018. These initiatives have established a more open and multi-layered capital markets and promote mutual access between the financial markets of the Mainland China and Hong Kong. With these favorable policies, we are cautiously optimistic for our corporate advisory and underwriting business.

We will dynamically realign our business model in asset management and wealth management business segment. In 2019, we have already successfully established our AUM, we will continue to use our expertise and connections in the industry to attract more investors to our asset management platform. Regarding the wealth management business, we will utilize our client base in different business units to expand into corporate insurance businesses, such as assisting corporates in selecting Mandatory Provident Fund services providers, group life and medical insurance products.

The Media Group will continue to act as the strategic media partners with clients and to provide the total media solutions by utilizing our skills and technology in events management, print, digital and multimedia offerings. In addition, we will continue to reinforce the elements of GBA, the Belt and Road Initiative, Green and Corporate Social Responsibility (CSR) into our business. By leveraging the resources advantages of South China Finance and South China Media team, Financial Public Relations team dedicated to provide tailor-made, comprehensive and integrated public relations as well as marketing services to our corporate clients at different development stage.

Leveraging our Group's long history and good reputation in the industry, the Group aims to create synergies across its business segments and secure its niche segment in a highly competitive market. We believe our strong foothold in Hong Kong provides a firm foundation for us to keep moving forward and hone our capabilities so as to better adapt to the increasingly sophisticated demands of our clients and to create long term value for our shareholders.

## **FINAL DIVIDEND**

The Board has resolved not to recommend the declaration of any final dividend for the year ended 31 December 2018 (2017: 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 Listing Rules of the Stock Exchange throughout the year ended 31 December 2018 except the following derivations as they had other business engagements, which deviated from code provisions E.1.2 and A.6.7 of the CG Code:

1. Mr. Ng Hung Sang (“Mr. Ng”), the chairman of the Board and an executive director of the Company, Ms. Cheung Choi Ngor (“Ms. Cheung”), the vice chairman of the Board and an executive director of the Company and Mr. Tung Woon Cheung Eric (“Mr. Tung”), an independent non-executive director of the Company were unable to attend the annual general meeting of the Company held on 14 June 2018;
2. Mr. Ng, Ms. Ng Yuk Mui Jessica, the executive vice chairman of the Board and an executive director of the Company, Hon. Raymond Arthur William Sears, Q.C., an independent non-executive director of the Company and Mr. Tung were unable to attend the extraordinary general meeting of the Company held on 28 March 2018; and
3. Mr. Ng, Ms. Cheung and Hon. Raymond Arthur William Sears, Q.C. were unable to attend the extraordinary general meeting of the Company held on 7 November 2018.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2018.

## **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 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 2018 have been reviewed by the Audit Committee in conjunction with the Company’s external auditor. The Audit Committee 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.

## **REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITORS**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This announcement is published on the websites of the Company ([www.sctrade.com](http://www.sctrade.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The 2018 annual report of the Company will be dispatched to the shareholders of the Company and available on the same websites in due course.

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, 19 March 2019

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