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 2020

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 2020 together with comparative figures for the last financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2020** ***HK$'000***	2019 *HK$'000*
CONTINUING OPERATIONS			
Revenue	*2*	**89,489**	204,119
Other income		**11,812**	4,122
Fair value gain/(loss) on investment properties		**(24,000)**	21,000
Fair value loss on financial assets at fair value through profit or loss		**(42,326)**	(13,428)
Fair value loss on convertible bonds		**(7,960)**	–
Impairment of goodwill		**(38,599)**	(6,454)
Impairment of loans and trade receivables, net		**(4,360)**	(6,983)
Other operating expenses		**(226,224)**	(256,639)
Loss from operating activities		**(242,168)**	(54,263)
Finance costs	*5*	**(13,728)**	(19,968)
Loss before tax from continuing operations	*3*	**(255,896)**	(74,231)
Income tax expense	*6*	**(12,750)**	(3,275)
Loss for the year from continuing operations		**(268,646)**	(77,506)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

	Notes	2020 HK$'000	2019 HK$'000
DISCONTINUED OPERATION			
Net gain for the year from a discontinued operation		**–**	319
Loss for the year		**(268,646)**	(77,187)
Attributable to:			
Equity holders of the Company			
— For loss from continuing operations		**(268,229)**	(77,884)
— For gain from a discontinued operation		**–**	319
For loss for the year		**(268,229)**	(77,565)
Non-controlling interests		**(417)**	378
		(268,646)	(77,187)
Loss per share attributable to equity holders of the Company	*7*		
Basic and diluted			
— For loss for the year		**(HK89.0 cents)**	(HK25.7 cents)
— For loss from continuing operations		**(HK89.0 cents)**	(HK25.9 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2020	2019
	HK$'000	*HK$'000*
Loss for the year	**(268,646)**	(77,187)
Other comprehensive loss		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**5,021**	(261)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(6,790)**	(280)
Other comprehensive loss for the year, net of tax	**(1,769)**	(541)
Total comprehensive loss for the year	**(270,415)**	(77,728)
Attributable to:		
Equity holders of the Company	**(270,163)**	(79,821)
Non-controlling interests	**(252)**	2,093
	(270,415)	(77,728)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,700**	2,707
Investment properties	*8*	**526,000**	550,000
Right-of-use assets		**5,555**	9,085
Intangible assets		**7,481**	9,210
Equity investments designated at fair value through other comprehensive income	*9,12*	**23,450**	30,240
Debt investments at fair value through other comprehensive income	*9,12*	**2,563**	2,847
Other assets		**6,689**	9,627
Goodwill		**44,895**	83,494
Long term loans receivable		**2,196**	16,552
Long term prepayment and deposits		**437**	773
Total non-current assets		**621,966**	714,535
CURRENT ASSETS			
Inventories		**13,100**	12,936
Financial assets at fair value through profit or loss	*12*	**261,006**	414,265
Loans receivable		**238,032**	171,701
Trade receivables	*10*	**197,612**	107,127
Contract assets		**–**	250
Prepayments, other receivables and other assets		**52,345**	56,819
Derivative financial instruments	*12*	**505**	478
Tax recoverable		**238**	378
Cash held on behalf of clients		**524,708**	512,272
Cash and bank balances		**87,400**	89,493
Total current assets		**1,374,946**	1,365,719

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Notes	2020 HK$'000	2019 HK$'000
CURRENT LIABILITIES			
Client deposits		**605,918**	531,801
Trade payables	*11*	**174,871**	77,575
Other payables and accruals		**37,992**	31,218
Derivative financial instruments	*12*	**–**	154
Convertible bonds	*12*	**57,960**	–
Interest-bearing bank and other borrowings		**370,720**	410,249
Tax payable		**16,434**	5,415
Total current liabilities		**1,263,895**	1,056,412
NET CURRENT ASSETS		**111,051**	309,307
TOTAL ASSETS LESS CURRENT LIABILITIES		**733,017**	1,023,842
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**135,037**	156,268
Deposits received		**1,373**	692
Deferred tax liabilities		**31,203**	31,063
Total non-current liabilities		**167,613**	188,023
Net assets		**565,404**	835,819
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**1,085,474**	1,085,474
Reserves		**(522,509)**	(252,347)
		562,965	833,127
Non-controlling interests		**2,439**	2,692
Total equity		**565,404**	835,819

Notes:

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

The 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. The 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. The financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The financial information relating to the years ended 31 December 2020 and 2019 included in this announcement of annual results for the year ended 31 December 2020 do not constitute the Company's statutory annual consolidated financial statements for those years but 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 2020 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 2019 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 2019. 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.

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

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendments to HKAS 16	*Covid-19-Related Rent Concessions (early adopted)*
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The Group has assessed the impact of the adoption of the above amendments and considered that there was no significant impact on the Group's results and financial position or any substantial changes in the Group's accounting policies.

2. REVENUE

An analysis of revenue is as follows:

	2020	2019
	HK$'000	*HK$'000*
Revenue from contracts with customers:		
Commission and brokerage income	**28,309**	32,797
Rendering of services	**7,587**	25,424
Handling fee income	**1,703**	2,010
Media publications and financial public relation services ("Media Services")*	**24,001**	49,092
Sales of jewellery products	**22,756**	29,668
	84,356	138,991
Revenue from other sources:		
Profit/(loss) on the trading of securities, forex, bullion and future contracts, net	**(28,445)**	18,966
Interest income from loans and trade receivables	**16,822**	20,440
Interest income from forex and bullion contracts trading	**429**	441
Interest income from banks and financial institutions	**1,691**	4,389
Dividend income from listed investments	**2,566**	8,110
Gross rental income	**12,070**	12,782
	5,133	65,128
	89,489	204,119

* *Including advertising income, service income and circulation income*

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2020

Type of goods or services	Broking *HK$'000*	Corporate advisory and underwriting *HK$'000*	Asset and wealth management *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	26,866	–	1,443	–	–	–	28,309
Underwriting service income	–	5,550	–	–	–	–	5,550
Corporate advisory fee income	–	1,003	–	–	–	–	1,003
Media publications and financial public relation services	–	–	–	–	–	24,001	24,001
Sales of jewellery products	–	–	–	22,756	–	–	22,756
Handling fee income	1,703	–	–	–	–	–	1,703
Other business income	–	–	–	–	1,034	–	1,034
Total revenue from contracts with customers	28,569	6,553	1,443	22,756	1,034	24,001	84,356
Geographical markets							
Hong Kong	28,569	6,553	1,443	–	1,034	24,001	61,600
Mainland China	–	–	–	22,756	–	–	22,756
Total revenue from contracts with customers	28,569	6,553	1,443	22,756	1,034	24,001	84,356

Disaggregated revenue information

For the year ended 31 December 2019

Type of goods or services	Broking *HK$'000*	Corporate advisory and underwriting *HK$'000*	Asset and wealth management *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	30,160	–	2,637	–	–	–	32,797
Underwriting service income	–	15,994	–	–	–	–	15,994
Corporate advisory fee income	–	7,602	–	–	–	–	7,602
Asset management fee	–	–	878	–	–	–	878
Media publications and financial public relation services	–	–	–	–	–	49,092	49,092
Sales of jewellery products	–	–	–	29,668	–	–	29,668
Handling fee income	2,010	–	–	–	–	–	2,010
Other business income	–	–	–	–	950	–	950
Total revenue from contracts with customers	32,170	23,596	3,515	29,668	950	49,092	138,991
Geographical markets							
Hong Kong	32,170	8,096	3,515	–	950	49,092	93,823
Mainland China	–	7,787	–	29,668	–	–	37,455
Other countries	–	7,713	–	–	–	–	7,713
Total revenue from contracts with customers	32,170	23,596	3,515	29,668	950	49,092	138,991

3. LOSS BEFORE TAX

	2020 *HK$'000*	2019 *HK$'000*
The Group's loss before tax from continuing operations is arrived at after charging:		
Cost of services provided	**18,785**	25,480
Depreciation of right-of-use assets	**3,758**	2,862
Depreciation of property, plant and equipment	**1,021**	1,481
Amortisation of intangible assets	**1,729**	1,706
Cost of inventories sold	**16,216**	20,745
Cost of media publications and financial public relation services	**48,625**	34,550
Interest expenses for margin financing and money lending operations	**12,512**	5,271

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 2020 and 2019 is as follows:

Year ended 31 December 2020

	Broking	Trading and investment	Margin financing and money lending	Corporate advisory and underwriting	Asset and wealth management	Property investment	Media publications and financial public relation services	Jewellery business	Other business	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:										
Revenue from external customers	29,093	(25,878)	18,509	6,553	1,443	12,070	24,001	22,756	942	89,489
Segment results:	(12,517)	(73,919)	(5,418)	(11,718)	(4,133)	(15,651)	(109,197)	(359)	(4,995)	(237,907)
Reconciliation:										
Corporate and other unallocated expenses, net#										(4,771)
Finance costs (other than interest on lease liabilities)										(13,218)
Loss before tax from continuing operations										(255,896)
Segment assets:	781,401	285,395	270,875	5,878	6,129	528,579	71,598	20,502	689	1,971,046
Reconciliation:										
Corporate and other unallocated assets										25,866
Total assets										1,996,912
Segment liabilities:	(784,504)	(42,577)	(131,284)	(296)	(161)	(3,739)	(27,311)	(14,629)	(1,890)	(1,006,391)
Reconciliation:										
Corporate and other unallocated liabilities										(425,117)
Total liabilities										(1,431,508)
Other segment information:										
Fair value loss on financial assets at fair value through profit or loss##	–	42,326	–	–	–	–	–	–	–	42,326
Fair value loss on investment properties	–	–	–	–	–	24,000	–	–	–	24,000
Impairment of loans and trade receivables, net	1,107	–	2,613	–	–	–	461	–	179	4,360
Impairment of goodwill	–	–	–	–	–	–	38,599	–	–	38,599
Depreciation and amortisation	1,761	–	79	–	–	–	2,987	1,674	7	6,508
Capital expenditure*	221	–	4	–	–	–	767	19	–	1,011

Year ended 31 December 2019

	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*
Segment revenue:										
Revenue from external customers	33,001	27,076	24,439	23,596	3,515	12,782	49,092	29,668	950	204,119
Segment results:	(29,429)	11,354	1,656	(18,762)	(5,944)	32,453	(38,040)	1,581	440	(44,691)
Reconciliation:										
Corporate and other unallocated expenses, net#										(10,087)
Finance costs (other than interest on lease liabilities)										(19,453)
Loss before tax from continuing operations										(74,231)
Segment assets:	708,099	449,074	175,164	9,842	7,428	551,231	128,062	22,236	757	2,051,893
Reconciliation:										
Corporate and other unallocated assets										28,361
Total assets										2,080,254
Segment liabilities:	(634,280)	(98,766)	(88,397)	(2,521)	(334)	(4,049)	(22,563)	(16,283)	(1,420)	(868,613)
Reconciliation:										
Corporate and other unallocated liabilities										(375,822)
Total liabilities										(1,244,435)
Other segment information:										
Fair value loss on financial assets at fair value through profit or loss##	–	13,028	–	–	–	–	–	–	–	13,028
Fair value gain on investment properties	–	–	–	–	–	(21,000)	–	–	–	(21,000)
Impairment of loans and trade receivables, net	192	–	3,095	3,696	–	–	–	–	–	6,983
Impairment of goodwill	–	–	–	–	–	–	6,454	–	–	6,454
Depreciation and amortisation	1,201	37	305	432	78	18	2,431	1,547	–	6,049
Capital expenditure*	129	12	51	53	22	6	344	21	–	638

* Capital expenditure consists of additions to property, plant and equipment.

\# Corporate and other unallocated expenses include fair value loss on financial assets at fair value through profit or loss designated for the Group's Employees' Share Award Scheme amounting to HK$1,700,000 (2019: HK$400,000).

\## Fair value loss on financial assets at fair value through profit or loss includes fair value gain on derivative financial instruments of HK$228,000 (2019: HK$22,000).

Geographical information

Non-current assets

	2020	2019
	HK$'000	*HK$'000*
Hong Kong	**593,056**	666,113
Other jurisdictions	**2,897**	15,335
	595,953	681,448

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 and debt investments at fair value through other comprehensive income.

5. FINANCE COSTS

	2020	2019
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other borrowings	**13,218**	19,453
Interest on lease liabilities	**510**	515
	13,728	19,968

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.

	2020	2019
	HK$'000	*HK$'000*
Current — Hong Kong		
Underprovision in prior years	**12,047**	2,204
Current — Elsewhere		
Charge for the year	**563**	950
Underprovision in prior years	**–**	10
Deferred	**140**	111
Total tax charge for the year	**12,750**	3,275

As of the date of this announcement, the Group received protective assessments amounting to approximately HK$75,232,000 from the Inland Revenue Department of Hong Kong ("IRD") for the years of assessment from 2006/2007 to 2014/2015. Enquiry letters were issued regarding, inter alia, the nature of inter group services provided and the deductibility of certain inter group charges. The Group had objected to the protective assessments from 2006/2007 to 2014/2015 and written notices of objection had been filed to the IRD, at the same time, the Group had purchased tax reserve certificates at the request of the IRD.

In May 2019, with the assistance of an independent tax advisor and for the purpose of reaching a compromise settlement with the IRD, the Group proposed a settlement basis as part of negotiations with the IRD in relation to this case. In March 2021, a revised settlement proposal was submitted to IRD for further consideration and an additional tax provision in the amount of approximately HK$12,047,000 (2019: HK$2,204,000) was made in the financial statements for the year ended 31 December 2020. As at the date of this announcement, although the revised settlement proposal is still under review by the IRD, the Group is currently of the view that sufficient tax provisions have been made in the financial statements based on the information available.

7. LOSS PER SHARE

The calculation of the basic loss per share amounts is based on the loss for the year attributable to equity holders of the Company of HK$268,229,000 (2019: loss of HK$77,565,000) and the weighted average number of 301,277,070 (2019: 301,277,070) ordinary shares in issue during the year.

The calculation of the basic 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$268,229,000 (2019: loss of HK$77,884,000) and the weighted average number of 301,277,070 (2019: 301,277,070) ordinary shares in issue during the year.

No adjustment has been made to the basic loss per share amount presented for the years ended 31 December 2020 and 2019 in respect of a dilution as the impact of the convertible bonds and share options (2019: share options) outstanding had an anti-dilutive effect on the basic loss per share amount presented.

8. INVESTMENT PROPERTIES

	2020	2019
	HK$'000	*HK$'000*
Carrying amount as at 1 January	**550,000**	529,000
Net gain/(loss) from a fair value adjustment	**(24,000)**	21,000
Carrying amount at 31 December	**526,000**	550,000

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 2020 based on valuations performed by Ravia Global Appraisal Advisory Limited, independent professionally qualified valuer, at HK$526,000,000.

On 31 December 2020, the Group's investment properties with a carrying value of HK$526,000,000 (2019: HK$550,000,000) were pledged to secure general banking facilities granted to the Group.

9. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	2019
	HK$'000	*HK$'000*
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value	**23,450**	30,240
Debt investments at fair value through other comprehensive income		
Club debentures, at fair value	**2,563**	2,847

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.

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 for 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 date and net of loss allowance, is as follows:

	2020	2019
	HK$'000	*HK$'000*
Current to 90 days	**197,612**	101,369
Over 90 days	**–**	5,758
	197,612	107,127

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 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:

	2020	2019
	HK$'000	*HK$'000*
Current to 30 days	**174,871**	71,540
Over 30 days	**–**	6,035
	174,871	77,575

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 debt investments at fair value through other comprehensive income 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 2020

	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:				
Equity investment designated at fair value through other comprehensive income	**23,450**	**–**	**–**	**23,450**
Debt investments at fair value through other comprehensive income	**–**	**2,563**	**–**	**2,563**
Financial assets at fair value through profit or loss				
Held for trading	**253,507**	**–**	**–**	**253,507**
Designated upon initial recognition	**7,499**	**–**	**–**	**7,499**
Derivative financial instruments	**–**	**505**	**–**	**505**
	284,456	**3,068**	**–**	**287,524**
Liabilities measured at fair value:				
Convertible bonds	**–**	**–**	**57,960**	**57,960**

As at 31 December 2019

	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:				
Equity investment designated at fair value through other comprehensive income	30,240	–	–	30,240
Debt investments at fair value through other comprehensive income	–	2,847	–	2,847
Financial assets at fair value through profit or loss				
Held for trading	405,066	–	–	405,066
Designated upon initial recognition	9,199	–	–	9,199
Derivative financial instruments	–	478	–	478
	444,505	3,325	–	447,830
Liabilities measured at fair value:				
Derivative financial instruments	–	154	–	154

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY

2020 was an extremely difficult year with the worldwide economy grossly hampered by the COVID-19 pandemic. The aggregate revenue of the Group decreased from HK$204.1 million for the year ended 31 December (the "Year") 2019 by 56% to HK$89.5 million for the Year of 2020. The Group incurred a loss after tax of HK$268.6 million for the Year of 2020 as compared to a loss after tax of HK$77.2 million for the Year of 2019.

DIVIDEND

No interim dividend was paid (2019: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

BUSINESS REVIEW

Brokerage

Market liquidity was ample throughout the Year of 2020 as a result of global monetary-easing policies in response to the outbreak of COVID-19. Under the pandemic, "work-from-home" became a necessity in many places and industries, and further enhanced the digitalization of work and life. The shares prices of technology and health care sector companies therefore saw a significant rally during the current Year. Market sentiment was further boosted by the extraordinary active participation by retail investors in the Initial Public Offering ("IPO") market, with US-listed Chinese Companies' seeking dual-listing status in Hong Kong.

The daily stock market turnover increased year-on-year by 49%, from HK$87.2 billion in 2019 to HK$129.5 billion in 2020, while funds raised in the IPO market increased year-on-year by 27%, from HK$314.2 billion in 2019 to HK$397.5 billion in 2020. Competition in the brokerage business remained keen and aggressive in pricing, as we continued to streamline our business structure, shifting our focus and resources to our automated on-line trading service (SCtrade) and raising our efficiencies. As a result, our brokerage commission income decreased by 12% from HK$33.0 million in 2019 to HK$29.1 million in 2020, while our operating loss of this business segment was reduced significantly by 57% from HK$29.4 million in 2019, to HK$12.5 million in 2020. Although we were still at the loss-making stage, our performance was improved more than the market turnover.

Margin Financing and Money Lending

With the market turnover improved and our expansion of bond financing business during the current Year, our total loan book increased from HK$188.3 million as at 31 December 2019 to HK$240.2 million as at 31 December 2020. However, due to the low interest rate environment and squeezing of interest spread, our revenue in 2020 amounted to HK$18.5 million, representing a decrease of 24% as compared with HK$24.4 million in 2019. The operating profit of HK$1.7 million for the Year of 2019 turned into an operating loss of HK$5.4 million for the Year of 2020.

Corporate Advisory and Underwriting

Although investors were eager to subscribe IPOs this Year, the IPO market was dominated by the dual listing of US-listed Chinese companies and other sizeable PRC companies. Despite this, our competitive advantages were in small-to-medium size market and we were able to complete 2 IPO sponsor deals during 2020.

Due to the COVID-19 pandemic this Year, cross-border travel came to a halt, making due diligence extremely difficult in our deal-based business. Furthermore, the restrictions on travel made it much more difficult to solicit new IPO mandates and our deal pipeline became much weaker when compared to 2019.

Under such a challenging environment, revenue in this segment decreased by 72% from HK$23.6 million for last Year to HK$6.6 million for the current Year. Immediate action was taken to streamline the operations and operating loss decreased from HK$18.8 million for 2019 to HK$11.7 million in 2020.

Asset and Wealth Management

As a result of the suspension of all cross-border due diligence work, asset management deals were all held up. For the year ended 31 December 2020, this business segment recorded revenue of HK$1.4 million as opposed to HK$3.5 million for 2019. With our swift response in costs controls, the operating loss was reduced from HK$5.9 million for last Year to HK$4.1 million this Year.

Concurrently, in order to expand our sources of revenue, we continued to build our Wealth Management team, and expanded the scope of services and products, to include bonds, funds, general wealth management advisory, as well as overseas properties and co-operation with immigration consultancy companies. We anticipate more revenues will be realized once travelling is resumed across the region.

Media

South China Media ("media division") has streamlined the operations and explored viable business opportunities to bolster our competitiveness as one of the leading players of financial and lifestyle media brands in Hong Kong.

During the Year, the overall economic environment was overwhelmed by the adverse impact of COVID-19, compounded by series of stringent public hygiene restrictions, resulting in very conservative advertising spending from all sectors. This had a grossly negative impact on all pillars of our revenues, from traditional print advertising, to events and marketing services sectors, while digital advertising still saw growth reflecting the change in consumption of content and media during the pandemic. The revenue and operating loss (including impairment of goodwill) of the media division were HK$24.0 million and HK$109.2 million respectively for the current Year. In view of these painstaking challenges, the media division re-structured and streamlines its resources to focus on our core brands, with our goals to build on our attributes as up-market magazine brands with core multi-media and event platforms, to provide all-round services to clients.

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$414.3 million as at 31 December 2019 to HK$261.0 million as at 31 December 2020. The major investment holds and its fair value gains or losses are listed below:

Stock code	Name of security	Carrying amount as at 31 December 2020 *HK$'000*	Percentage of shareholding interest	Fair value gain/(loss) during the year *HK$'000*
413	South China Holdings Company Limited	60,343	3.04%	(13,659)
670	China Eastern Airlines Corporation Limited	50,876	0.29%	(7,357)
317	CSSC Offshore & Marine Engineering (Group) Company Limited	29,551	0.64%	6,653
1097	i-CABLE Communications Limited	29,256	6.51%	(480)
1033	Sinopec Oilfield Service Corporation	27,194	0.82%	(10,687)
Others		63,786		(16,796)
		261,006		(42,326)

Unlike the market turnover which increased significantly during the Year, the Hang Seng Index ("HSI") decreased by 3% from 28,190 as at 31 December 2019 to 27,231 as at 31 December 2020. Market focus was on select sectors, such as high technology and medical industries, while traditional business sectors were not favoured. Since the Group held the investment portfolio for medium to long term in some traditional industries, the fair value loss resulting from marking investments to market was further increased from HK$13.4 million for the Year of 2019 to HK$42.3 million for the current Year. In addition, the Group suffered a net realized loss of HK$28.4 million upon disposal of investments for the current Year as opposed to a profit of HK$19.0 million for the Year of 2019.

Property Investment

Due to the gloomy economy upon the outbreak of COVID-19, the price of commercial properties showed signs of weakening in 2020. Revaluation loss of HK$24 million was recorded for the current Year as opposed to a revaluation gain of HK$21 million for the Year of 2019. The fair value of the investment properties therefore was adjusted down to HK$526 million as at 31 December 2020 from HK$550 million as at 31 December 2019 while the gross rental income slightly decreased to HK$12.1 million in 2020 from HK$12.8 million in 2019.

USE OF PROCEEDS UPDATE

Use of Proceeds of the issuance of convertible bonds ("CB")

With reference to the announcement dated 30 June 2020 and the circular to shareholders dated 15 May 2020, the net proceeds arising from the issuance of CB of HK$49.6 million were used in the following ways in the second half of the current Year:

(1) HK$20.0 million was used for the increase in the Group's liquid capital under the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong);

(2) HK$23.1 million was used for general working capital, including HK$3.2 million in marketing and promotion; HK$4.0 million in repayment of mortgage loans and HK$15.9 million in administrative expenses, such as employees' salaries and rental expenses.

There was unutilized proceed of HK$6.5 million as at 31 December 2020.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had obtained short term bank credit facilities which were reviewed on a yearly basis and long term mortgage loans. 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 and convertible bonds, less cash and bank balances while capital represents total equity. As at 31 December 2020, net debt and capital amounted to HK$476.3 million (2019: HK$477.0 million) and HK$565.4 million (2019: HK$835.8 million) respectively, represented a gearing ratio of approximately 45.7% (2019: 36.3%).

The Group had a cash balance of HK$87.4 million at the end of the year (2019: HK$89.5 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

The integration of the economy of Greater Bay Area ("GBA") and Hong Kong is anticipated to be the direction of future development of the financial market. We therefore launched the non-face-to-face account opening mobile applications around the end of 2019 and promoted our brokerage services more aggressively through digital marketing campaigns during the Year. The response from investors so far was encouraging with the number of new accounts opened significantly improved. We will continue to solicit new PRC clients through the digital marketing for our brokerage business in the coming Year.

In response to the announcement of Wealth Management Connect across the GBA and Hong Kong in June 2020, we continued to strengthen our sales forces in wealth management products, including but not limited to mutual funds, bonds, insurance products, overseas properties and immigration consultancy services. Although the initial stage of Wealth Management Connect is expected to be a close-loop arrangement between banks in the GBA and Hong Kong, the experience in Stock Connect and Bonds Connect indicates that the various investors educations and marketing activities in the market will not only attract the investments through the close-loops across the border, but also attract Chinese's offshore funding directly investing into these products out of the loops and can also stimulate the local investors' appetite in these products. We are therefore preparing ourselves to grasp the upcoming business opportunities in wealth management business by expanding the team and products coverage. A V-shape rebound is anticipated once the travelling across the border is resumed.

On the other hand, the onset of series of protests in Hong Kong since June 2019 plus the COVID-19 pandemic sweeping across countries over the world imposed significant pressure on our investment banking and assets management businesses. Due to the shrinking number of deals and deal size, we have carried out stringent costs control measures in these two business segments for the Year and expect to be gradually easing in the second half of the Year when most of the population in the world has been vaccinated.

Our Media business is also in the midst of the greatest transition by the challenge brought by COVID-19. By leveraging on our positioning as a creative and reliable strategic media partner, the media division foresees the paradigm shift of customers' behavior under COVID-19 but it will also bring a door of new business opportunities through online events management, digital and multimedia offerings. We are confident that we would actively target at our established portfolio of clients in converting to new sources of revenue with our experts in marketing, content-creative and technology teams.

Given the uncertainties ahead, we will review our strategies critically from time-to-time. We now maintain a much lighter cost structure to allow the Group to move forward with more flexibility and react to the abrupt market changes in a more timely manner. Our experience accumulated in Hong Kong and China for more than 30 years shall enable us to encounter every challenge ahead and bring our shareholders with a more brilliant future over the time.

FINAL DIVIDEND

The Board has resolved not to recommend the declaration of any final dividend for the year ended 31 December 2020 (2019: Nil).

CORPORATE GOVERNANCE CODE

The Company had complied with all the applicable code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2020 except the following 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. Ng Yuk Mui Jessica, an Executive Director, the Executive Vice Chairman and Chief Executive Officer of the Company and Hon. Raymond Arthur William Sears, Q.C. ("Mr. Sears"), an Independent Non-executive Director of the Company were unable to attend the annual general meeting of the Company held on 16 June 2020; and

2. Mr. Ng and Mr. Sears were unable to attend an extraordinary general meeting of the Company held on 2 June 2020.

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 2020.

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 2020 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 2020 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) and the Stock Exchange (www.hkexnews.hk). The 2020 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, 30 March 2021

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.