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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 2022

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 2022 together with comparative figures for the last financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
REVENUE	2	68,364	106,861
Other income		8,010	1,647
Fair value (loss)/gain on investment properties		(16,800)	200
Fair value loss on financial assets at fair value through profit or loss, net		(36,391)	(23,270)
Fair value gain on convertible bonds		1,273	6,687
Impairment of goodwill		(8,875)	–
Impairment of loans and trade receivables, net		(5,098)	(5,762)
Other operating expenses	4	(154,046)	(155,958)
Loss from operating activities		(143,563)	(69,595)
Finance costs	6	(11,848)	(9,867)

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
LOSS BEFORE TAX	5	(155,411)	(79,462)
Income tax credit	7	<u>3,752</u>	<u>1,934</u>
LOSS FOR THE YEAR		<u><u>(151,659)</u></u>	<u><u>(77,528)</u></u>
Attributable to:			
Equity holders of the Company		(151,122)	(77,234)
Non-controlling interests		<u>(537)</u>	<u>(294)</u>
		<u><u>(151,659)</u></u>	<u><u>(77,528)</u></u>
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	8		
— For loss for the year		<u><u>(HK50.2 cents)</u></u>	<u><u>(HK25.6 cents)</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
LOSS FOR THE YEAR	<u>(151,659)</u>	<u>(77,528)</u>
OTHER COMPREHENSIVE LOSS		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	(2,006)	2,161
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	<u>(2,109)</u>	<u>(2,799)</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	<u>(4,115)</u>	<u>(638)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(155,774)</u>	<u>(78,166)</u>
Attributable to:		
Equity holders of the Company	(155,343)	(77,910)
Non-controlling interests	<u>(431)</u>	<u>(256)</u>
	<u>(155,774)</u>	<u>(78,166)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		4,554	5,733
Investment properties	9	509,400	526,200
Right-of-use assets		1,443	4,442
Goodwill		36,020	44,895
Intangible assets		4,277	5,869
Other assets		5,845	7,255
Equity investments designated at fair value through other comprehensive income	10	–	20,650
Debt investments at fair value through other comprehensive income	10	3,720	4,060
Long term loans receivable		–	201
Long term prepayment and deposits		22	116
		<hr/>	<hr/>
Total non-current assets		565,281	619,421
CURRENT ASSETS			
Inventories		9,170	12,261
Financial assets at fair value through profit or loss	11	122,287	208,173
Loans receivable		89,655	137,649
Trade receivables	12	39,901	62,317
Prepayments, other receivables and other assets		20,316	29,550
Cash held on behalf of clients		367,991	452,486
Cash and bank balances		52,931	90,274
		<hr/>	<hr/>
Total current assets		702,251	992,710

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
CURRENT LIABILITIES			
Client deposits		375,959	450,658
Trade payables	<i>13</i>	47,237	49,676
Other payables and accruals		31,663	62,800
Interest-bearing bank and other borrowings		322,417	382,100
Tax payable		10	203
		<hr/>	<hr/>
Total current liabilities		777,286	945,437
		<hr/>	<hr/>
NET CURRENT (LIABILITIES)/ASSETS		(75,035)	47,273
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		490,246	666,694
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		77,360	96,035
Convertible bonds	<i>14</i>	50,000	51,273
Deposits received		999	945
Deferred tax liabilities		27,435	31,203
		<hr/>	<hr/>
Total non-current liabilities		155,794	179,456
		<hr/>	<hr/>
Net assets		334,452	487,238
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		1,085,474	1,085,474
Reserves		(752,774)	(600,419)
		<hr/>	<hr/>
		332,700	485,055
Non-controlling interests		1,752	2,183
		<hr/>	<hr/>
Total equity		334,452	487,238
		<hr/> <hr/>	<hr/> <hr/>

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, financial assets at fair value through profit or loss and convertible bonds which have been measured at fair value. 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 2022 and 2021 included in this announcement of annual results for the year ended 31 December 2022 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 2022 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 2021 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 2021. 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.

Going concern basis

During the year ended 31 December 2022, the Group incurred a net loss of HK\$151,659,000 (2021: HK\$77,528,000) and as at 31 December 2022, the Group’s current liabilities exceeded its current assets by HK\$75,035,000 (2021: net current asset of HK\$47,273,000). As at 31 December 2022, included in its current liabilities was an interest-bearing borrowing of HK\$54,000,000 drawn from a banking facility with maturity date in April 2023.

In preparing the consolidated financial statements, the Directors have given careful consideration of the liquidity requirement for the Group's operations, the performance of the Group and available sources of financing in assessing whether the Group has sufficient financial resources to continue as a going concern. The Directors have reviewed the Group's cash flow projections prepared by management which covers a period of not less than twelve months from 31 December 2022. The Directors have taken into account the following plans and measures in assessing the sufficiency of working capital requirements in the foreseeable future:

- (a) The Group's outstanding interest-bearing borrowing of HK\$54,000,000 (as at date of this annual results announcement amounted to HK\$52,000,000) drawn from a banking facility with maturity date in April 2023, the Group is in the process of negotiating with the bank for refinance its borrowings and the Directors expect the respective bank loan facility will be successfully renewed and extended to a maturity of not less than one year from the date of renewal.
- (b) In September 2022, a director who is also a substantial shareholder of the Company has granted an unsecured 2-year interest-bearing loan facility of an aggregate amount of HK\$100,000,000 to the Group and the drawdown amount as at 31 December 2022 was HKD42,700,000.

Based on the cash flow projections and taking into account reasonably the financial resources available including the available banking facilities and credit facility provided by a director who is also a substantial shareholder of the Company and another director of the Company, the internally generated funds from operations, proceeds from disposal of assets, and cash and bank balances of the Group, the Directors consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2022. Accordingly, the Directors consider it is appropriate to prepare the consolidated financial statement on a going concern basis.

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	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<i>Revenue from contracts with customers:</i>		
Commission and brokerage income	18,554	20,286
Rendering of services	385	985
Handling fee income	2,412	1,950
Media publications and financial public relation services ("Media Services")*	28,994	23,003
Sales of jewellery products	20,485	29,469
	<u>70,830</u>	<u>75,693</u>
<i>Revenue from other sources:</i>		
(Loss)/profit on the trading of securities, forex, bullion and future contracts, net	(19,186)	2,255
Interest income from loans and trade receivables	9,183	15,289
Interest income from banks and financial institutions	1,691	2,006
Dividend income from listed investments	1,282	2,375
Gross rental income	4,564	9,243
	<u>(2,466)</u>	<u>31,168</u>
	<u><u>68,364</u></u>	<u><u>106,861</u></u>

* Including advertising income, service income and circulation income

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2022

	Broking	Asset and wealth management	Jewellery business	Other business	Media publications and financial public relation services	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Types of goods or services						
Commission and brokerage income	11,778	6,776	-	-	-	18,554
Media publications and financial public relation services	-	-	-	-	28,994	28,994
Sales of jewellery products	-	-	20,485	-	-	20,485
Handling fee income	2,341	71	-	-	-	2,412
Other business income	-	-	-	385	-	385
	<u>14,119</u>	<u>6,847</u>	<u>20,485</u>	<u>385</u>	<u>28,994</u>	<u>70,830</u>
Total revenue from contracts with customers	<u>14,119</u>	<u>6,847</u>	<u>20,485</u>	<u>385</u>	<u>28,994</u>	<u>70,830</u>
Geographical markets						
Hong Kong	14,119	6,847	-	385	28,994	50,345
Mainland China	-	-	20,485	-	-	20,485
	<u>14,119</u>	<u>6,847</u>	<u>20,485</u>	<u>385</u>	<u>28,994</u>	<u>70,830</u>
Total revenue from contracts with customers	<u>14,119</u>	<u>6,847</u>	<u>20,485</u>	<u>385</u>	<u>28,994</u>	<u>70,830</u>

For the year ended 31 December 2021

	Broking <i>HK\$'000</i>	Asset and wealth management <i>HK\$'000</i>	Jewellery business <i>HK\$'000</i>	Other business <i>HK\$'000</i>	Media publications and financial public relation services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Types of goods or services						
Commission and brokerage income	19,653	633	–	–	–	20,286
Media publications and financial public relation services	–	–	–	–	23,003	23,003
Sales of jewellery products	–	–	29,469	–	–	29,469
Handling fee income	1,950	–	–	–	–	1,950
Other business income	–	–	–	985	–	985
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue from contracts with customers	<u>21,603</u>	<u>633</u>	<u>29,469</u>	<u>985</u>	<u>23,003</u>	<u>75,693</u>
Geographical markets						
Hong Kong	21,603	633	–	985	23,003	46,224
Mainland China	–	–	29,469	–	–	29,469
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue from contracts with customers	<u>21,603</u>	<u>633</u>	<u>29,469</u>	<u>985</u>	<u>23,003</u>	<u>75,693</u>

3. OPERATING SEGMENT INFORMATION

Year ended 31 December 2022

	Broking HK\$'000	Trading and investment HK\$'000	Margin financing and money lending HK\$'000	Asset and wealth management HK\$'000	Corporate advisory and underwriting 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	<u>14,155</u>	<u>(19,191)</u>	<u>10,913</u>	<u>8,058</u>	<u>1</u>	<u>4,564</u>	<u>28,994</u>	<u>20,485</u>	<u>385</u>	<u>68,364</u>
Segment results:	(18,412)	(61,943)	(6,434)	(6,038)	(538)	(19,045)	(24,227)	(1,189)	(2,239)	(140,065)
<i>Reconciliation:</i>										
Corporate and other unallocated expenses, net										(3,671)
Finance costs (other than interest on lease liabilities)										<u>(11,675)</u>
Loss before tax										<u>(155,411)</u>

Year ended 31 December 2021

	Broking HK\$'000	Trading and investment HK\$'000	Margin financing and money lending HK\$'000	Asset and wealth management HK\$'000	Corporate advisory and underwriting 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	<u>21,614</u>	<u>2,306</u>	<u>17,282</u>	<u>2,957</u>	<u>2</u>	<u>9,243</u>	<u>23,003</u>	<u>29,469</u>	<u>985</u>	<u>106,861</u>
Segment results:	(17,451)	(23,705)	(4,439)	(8,185)	(1,205)	4,470	(18,119)	(171)	(4,190)	(72,995)
<i>Reconciliation:</i>										
Corporate and other unallocated income, net										3,031
Finance costs (other than interest on lease liabilities)										<u>(9,498)</u>
Loss before tax										<u>(79,462)</u>

4. OTHER OPERATING EXPENSES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cost of services provided	6,709	7,585
Cost of media publications and financial public relation services	26,783	20,616
Cost of inventories sold	15,546	21,054
Depreciation of property, plant and equipment	1,860	1,032
Depreciation of right-of-use assets	2,776	3,480
Amortisation of intangible assets	1,592	1,612
Auditor's remuneration	2,100	2,380
Lease payments not included in the measurement of lease liabilities	8,253	9,893
Employee benefit expense (including directors' remuneration):		
Wages, salaries and benefits in kind	47,812	45,680
Equity-settled share option expense	2,988	–
Pension scheme contributions, net	1,913	1,868
	<u>52,713</u>	<u>47,548</u>
Interest expense for margin financing and money lending operations:		
Bank loans and overdrafts	2,798	5,900
Direct operating expenses arising from rental-earning investment properties	1,707	1,790
Reversal of impairment of other receivables, net	–	(3,380)
Communication expenses	9,908	9,739
Management and professional fees	3,750	4,518
Marketing and promotional fee	789	2,533
Others	16,762	19,658
	<u>154,046</u>	<u>155,958</u>

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Impairment of goodwill	8,875	–
Foreign exchange differences, net	596	(1,490)
Impairment of loans receivable, net	4,802	6,120
Impairment/(Reversal of impairment) of trade receivables, net	296	(358)
Write-off of items of property, plant and equipment	–	14
Gain on disposal and dissolution of subsidiaries	(2,600)	–
Government subsidies*	<u>(3,019)</u>	<u>(250)</u>

* Government subsidies mainly represent subsidies received in connection with the support from the Anti-epidemic Fund of the Government of the Hong Kong Special Administrative Region, which were included in “other income” in the statement of profit or loss. There were no unfulfilled conditions or contingencies relating to these subsidies.

6. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on bank loans, overdrafts and other borrowings	11,675	9,498
Interest on lease liabilities	<u>173</u>	<u>369</u>
	<u>11,848</u>	<u>9,867</u>

7. INCOME TAX

No provision for the Hong Kong profits tax has been made as the Group either had no estimated assessable profit or had available tax losses carried forward to offset the assessable profits arising in Hong Kong during the year (2021: Nil). 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.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current — Hong Kong		
Overprovision in prior years	–	(2,551)
Current — Elsewhere		
Charge for the year	16	617
Deferred	<u>(3,768)</u>	<u>–</u>
Total tax credit for the year	<u>(3,752)</u>	<u>(1,934)</u>

During the preceding years, the Hong Kong Inland Revenue Department (“IRD”) initiated tax audit on certain group entities for the years of assessments from 2006/2007 to 2017/2018. Estimated assessments were issued to the entities and against which tax reserve certificates totalling HK\$18.7 million were purchased. During the year ended 31 December 2021, a compromised proposal was agreed with the IRD with tax liability of HK\$17.1 million and tax penalty of HK\$3.0 million was paid on the agreed additional assessable profits for the years of assessments from 2006/2007 to 2017/2018.

8. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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\$151,122,000 (2021: HK\$77,234,000) and the weighted average number of 301,277,070 (2021: 301,277,070) ordinary shares in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2022 and 2021 in respect of a dilution as the impact of the convertible bonds and share options outstanding during the year had an anti-dilutive effect on the basic loss per share amounts presented.

9. INVESTMENT PROPERTIES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Carrying amount as at 1 January	526,200	526,000
Net (loss)/gain from a fair value adjustment	<u>(16,800)</u>	<u>200</u>
Carrying amount at 31 December	<u><u>509,400</u></u>	<u><u>526,200</u></u>

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, that is, commercial, based on the nature, characteristics and risks of these properties. The Group's investment properties were revalued on 31 December 2022 based on valuations performed by Ravia Global Appraisal Advisory Limited, independent professionally qualified valuers, at HK\$509,400,000. Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

On 31 December 2022, the Group's investment properties with a carrying value of HK\$509,400,000 (2021: HK\$526,200,000) 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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Equity investments designated at fair value through other comprehensive income		
Listed equity investments in Hong Kong, at fair value	<u>–</u>	<u>20,650</u>
Debt investments at fair value through other comprehensive income		
Club debentures, at fair value	<u>3,720</u>	<u>4,060</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. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Listed equity investments, at market value	<u>122,287</u>	<u>208,173</u>

The financial assets at the end of the reporting period were classified as:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Held for trading	119,937	204,174
Designated upon initial recognition	<u>2,350</u>	<u>3,999</u>
	<u>122,287</u>	<u>208,173</u>

12. TRADE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables		
— Clearing houses, brokers and dealers	32,333	58,482
— Cash and custodian receivables	5,153	1,933
— Other trade receivables	<u>9,424</u>	<u>8,615</u>
	46,910	69,030
Impairment	<u>(7,009)</u>	<u>(6,713)</u>
	<u>39,901</u>	<u>62,317</u>

The Group's trade receivables arose from securities and commodities dealings, insurance broking, the provision of corporate advisory and underwriting services, Media Services and jewellery business during the year.

The Group allows a credit period up to the respective settlement dates of securities, 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 credit period for corporate advisory services is generally within two weeks. The Group's trading terms with its jewellery retail customers are mainly on cash, mobile payment and credit card settlement. The Group maintains strict control over its outstanding receivables and a credit control department has been established to monitor the potential credit risk. Overdue balances are reviewed regularly by senior management and are handled closely by the credit control department. The Group's trade receivables relate to a large number of diversified customers, and there is no significant concentration of credit risk. Overdue trade receivables bear interest by reference to the prime rate except that overdue receivables in respect of Media Services, corporate advisory services and jewellery business are non-interest-bearing.

An ageing analysis of the Group's trade receivables at the end of the reporting period, based on the settlement due date and net of loss allowance, is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current to 90 days	37,878	62,317
Over 90 days	2,023	–
	39,901	62,317

13. TRADE PAYABLES

The Group's trade payables arose from securities, forex, bullion, commodities dealings, Media Services and jewellery business during the year.

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 to 3 months	47,237	49,676

The trade payables are non-interest-bearing and repayable on the settlement day of the relevant trades or upon demand from customers.

In respect of Media Services and jewellery business, the credit period granted by the creditors ranges from 0 to 90 days and the trade payables are non-interest-bearing.

14. CONVERTIBLE BONDS

On 7 April 2020, the Company entered into the conditional subscription agreement with Total Grace Investments Limited ("Total Grace"), a company beneficially owned by an executive director, in relation to, among others, the issue of the convertible bonds in an aggregate principal amount of HK\$50,000,000 at the conversion price of HK\$0.22 per share. The convertible bonds in an aggregate principal amount of HK\$50,000,000 were issued by the Company to Total Grace on 30 June 2020. The convertible bonds were designated upon initial recognition as at fair value through profit or loss.

The convertible bonds have a maturity date (i.e. 29 June 2023) of 3 years from the date of issue and interest-free. The convertible bonds contain a right to convert at a maximum of 227,272,727 shares of the Company at the conversion price of HK\$0.22 per share. Unless previously converted or purchased or redeemed, the Company would redeem the convertible bonds on the maturity date at the redemption amount, which was 100% of the principal amount of the convertible bonds then outstanding. In addition, Total Grace has the right to request the Company to redeem the convertible bonds in cash or convert into the Company's shares at anytime before the maturity date.

On 16 May 2022, the Company and Total Grace entered into the supplemental agreement, pursuant to which the Company and Total Grace conditionally agreed to extend the maturity date by three (3) years from 30 June 2023 to 30 June 2026 by way of execution of the amendment deed.

As at the end of the reporting period, Total Grace confirmed to continue to hold the convertible bonds and not demand for conversion of the convertible bonds to ordinary shares of the Company nor demand for repayment of the amount due to it for not less than twelve months from the reporting date. Accordingly, the convertible bonds were classified under non-current liabilities as at 31 December 2022.

FINANCIAL SUMMARY

The consolidated revenue of the Group for the year ended 31 December 2022 (“Year 2022”) were HK\$68.4 million, representing a decrease of approximately 36.0% as compared to previous year 2021 of HK\$106.9 million. The drop in revenue was mainly attributable to net revenue loss on disposal of investments in trading and investment sector of HK\$19.2 million recorded for the Year 2022 versus net revenue gain of HK\$2.3 million for the prior year. On the cost front, total other expenses, including direct cost of services, staff salaries and benefits, rental and other administrative and office expenses amounted to HK\$154.0 million (2021: HK\$156.0 million).

The Group’s consolidated loss for the year amounted to HK\$151.7 million of Year 2022 (2021: HK\$77.5 million).

DIVIDEND

No interim dividend was paid (2021: Nil). The board of directors (the “Board”) of the Company does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

BUSINESS REVIEW

The global economic and political uncertainties including geopolitical tensions, supply chain disruptions, inflationary pressures and tightened monetary policies led to gloomy macroeconomic environment and weak market sentiment. The Hong Kong stock market was of no exception and turnover in Year 2022 continued to shrink, which directly impacted the performance of the Group. The Group was prudent in its pace of expansion of financial services segment in Year 2022 to minimize any potential risks. Revenue from the financial services segment decreased as compared with that in the previous financial year. The management of the Group would review and adjust business strategies on a regular basis with a prudent and balanced risk management approach so as to cope with the unpredictable economic situation.

Broking

Based on figures provided by Hong Kong Exchanges and Clearing Limited, the average daily turnover in Hong Kong stock market in the Year 2022 decreased by 25.1% year-on-year. The number of corporate exercises, including initial public offerings (“IPO”), also decreased significantly which in turn affected the income of the Group in this segment. Amid the volatile market conditions, the Hang Seng Index plunged from the closing price of 23,398 on 31 December 2021 to 14,687 on 31 October 2022, its lowest level in more than a decade, and then rebounded slightly to 19,781 on 30 December 2022, representing an overall drop of 15.5%. Resulting from this weak sentiment, the Group’s brokerage commission and fee income decreased significantly by approximately 34.5% to HK\$14.2 million for the Year 2022 (2021: HK\$21.6 million). Operating loss increased by approximately 5.5% to HK\$18.4 million for the Year 2022 (2021: HK\$17.5 million).

Margin Financing and Money Lending

The margin financing and money lending market was challenging as creditors had generally tightened loan approval requirements, and valuations of collaterals. With uncertainties as to the economic outlook, the Group continued to adopt stringent loan policies and remained prudent regarding the valuation of collaterals. The Group closely monitored the market situation and adjusted the interest rate and loan-to-value ratio on a timely basis, in order to strike the balance between risk and capital. Due to the squeezing of interest spread and the overall decline in fund raised in Hong Kong IPO market, interest income dropped to HK\$10.9 million for the Year 2022 (2021: HK\$17.3 million), representing a decline of approximately 36.9%. Operating loss of this segment amounted to HK\$6.4 million for the Year 2022 (2021: HK\$4.4 million).

Asset and Wealth Management

Despite the volatile investment market, this business segment recorded revenue of HK\$8.1 million for the Year 2022 (2021: HK\$3.0 million), an increase of 172.5%. Operating loss decreased by approximately 26.2% to HK\$6.0 million for the Year 2022 (2021: HK\$8.2 million). With the launch of two new unique brands namely “SC Wealth” and “SC Private” in the last quarter of Year 2022, the Group kept expanding its scope of bespoke financial planning services and range of quality financial products to its high-net-worth clients, supporting clients’ needs in financial planning, investment and wealth management. The Group focused resources to expand its talent team and build up the size of assets under management of the Group, aiming for building this segment into a major revenue driver in 2023.

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\$208.2 million as at 31 December 2021 to HK\$122.3 million as at 31 December 2022. The major investments holding and their fair value gains or losses are listed below:

Stock code	Name of security	Carrying amount as at 31 December 2022 HK\$'000	Percentage of shareholding interest	Fair value gain/(loss) during the year HK\$'000
00670	China Eastern Airlines Corporation Limited	40,192	0.24%	2,895
00413	South China Holdings Company Limited	22,134	3.56%	(15,541)
01097	i-CABLE Communications Limited	17,182	6.51%	(15,324)
Others		42,779		(8,421)
		<u>122,287</u>		<u>(36,391)</u>

The Group has positioned its investment portfolio for medium to long term growth in traditional industries, the fair value loss resulting from marking investments to market was HK\$36.4 million for the Year 2022 (2021: HK\$23.3 million). Meanwhile, the Group recognised a net realised loss of HK\$19.2 million for the Year 2022 as compared with a gain of HK\$2.3 million in 2021.

Media publications and financial public relation services

The business environment for the media segment similarly faced a challenging environment under the impacts of COVID-19. During the Year 2022, the Group enriched the quality of the contents of its publications and actively explored the development of advertising and digital related business, coupled with effective cost-control measures and further streamlining of operations and manpower, total revenue increased to HK\$29.0 million for the Year 2022 (2021: HK\$23.0 million), representing an increment of 26.0%. With an aim for further development and strengthening of the core prints, digital assets as well as the provision of integrated marketing services, the Group allocated more resources during Year 2022, which inevitably led to an operating loss at the stage of development (excluding goodwill impairment recognised during the Year 2022 of HK\$8.9 million) amounted to HK\$15.3 million (2021: HK\$18.1 million).

Property investment

In Hong Kong, the fifth wave of COVID-19 early in 2022 lingered adverse effects on businesses and consumer sentiment. Like most businesses in Hong Kong, tenants in Lippo Centre were affected by the disruptions of the COVID-19 fifth wave with the choice of hybrid work arrangements and flexible hours. A revaluation loss of HK\$16.8 million was recorded for the Year 2022 as opposed to revaluation gain of HK\$0.2 million for the same period in 2021, while the fair value of the investment properties was revalued at HK\$509.4 million as at 31 December 2022. The gross rental income for the Year 2022 decreased to HK\$4.6 million (2021: HK\$9.2 million). The situation has recently improved markedly at the end of Year 2022, following the gradual relaxation of pandemic control measures, and resumed interest by corporations in the office space in prime area in Hong Kong.

Jewellery

Facing multiple outbreaks of the Omicron variant in the first half and last quarter of 2022, major cities in the PRC sustained periods of partial or complete lockdown. Mobility restrictions and production interruptions resulted in sharp contraction in economic activity, travel and consumption. Sales of jewellery products decreased by approximately 30.5% to HK\$20.5 million for the Year 2022 (2021: HK\$29.5 million). Segmental loss increased to HK\$1.2 million for the Year 2022 (2021: HK\$0.2 million).

LIQUIDITY AND FINANCIAL RESOURCES

The Group had obtained short term credit facilities which were reviewed annually and a long term mortgage loan from banks. The banking facilities for the share margin finance operations were secured by the securities of our margin clients and the Group. The outstanding credit facilities were guaranteed by the Company. The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank and other borrowings and convertible bonds, less cash and bank balances. Capital represents total equity. The gearing ratio as at 31 December 2022 was approximately 54.3% (2021: 47.4%). The Group had a cash balance of HK\$52.9 million as at 31 December 2022 (2021: HK\$90.3 million), representing a decrease of 41.4%. Taking into account the financial resources available including the available banking facilities and credit facility provided by a substantial shareholder who is also a director of the Company and another director of the Company, the internally generated funds from operations, proceeds from disposal of assets, and cash and bank balances of the Group, the Board considers that the Group has sufficient working capital base to meet its operational needs.

CAPITAL STRUCTURE

There was no material change in Group's capital structure during the Year 2022 as compared to that set out in the 2021 annual report.

CHARGES ON ASSETS

As at 31 December 2022, the Group's investment properties, certain inventories and listed securities held in trading and investment portfolio were pledged to banks for banking facilities.

CONTINGENT LIABILITIES

As at 31 December 2022, the Group had no material contingent liabilities.

EVENT AFTER THE REPORTING PERIOD

On 13 September 2022, the Group entered into a conditional sale and purchase agreement (the "Agreement") with Thousand China Investments Limited, an indirect wholly-owned subsidiary of South China Holdings Company Limited to acquire the entire share capital of Genius Year Limited and its subsidiaries at a total consideration of HK\$89,840,000. The consideration would be settled by way of the convertible bonds to be issued by the Company upon completion (the "Transaction"). Genius Year Limited indirectly holds 100% interests in 65 parcels of forestry land situated in Chongyang County, Xianning City, Hubei Province, the PRC. with a total area of approximately 139,216 mu. Details of the Transaction were disclosed in the Company's published circular dated 16 December 2022. The Transaction was subsequently completed in January 2023.

EMPLOYEES

As at 31 December 2022, the total number of employees of the Group was 181 (2021: 146). Employees' cost (including directors' emoluments) amounted to approximately HK\$52.7 million for the Year 2022 (2021: HK\$47.5 million).

In addition to salary, other fringe benefits such as medical subsidies, life insurance, provident fund and subsidized external trainings are offered to employees. Continuous professional trainings will continue to be arranged for staff for maintaining their professional standards for providing various regulated activities under the Securities and Futures Commission (the "SFC"). Performance of the employees is normally reviewed on an annual basis with adjustments if necessary, for keeping the competitiveness in compensation. Individual employee may also receive a discretionary bonus at the end of each year based on performance. Selected employees may also be granted share option and share award under the share option scheme and share award scheme adopted by the Company.

PROSPECTS

Given the recent almost fully relaxed anti-pandemic measures announced by the Hong Kong Government in early 2023 and resumption of more business activities, the Hong Kong economy is anticipated to continue on a gradual recovery path in 2023, while the global economic and geopolitical prospects remain uncertain. The risk appetites for corporate investments, business expansion and individual private consumption are expected to remain conservative in the near term.

Financial Services

The Group's wealth management business has expanded substantially in Year 2022. The new brands, "SC Private" and "SC Wealth" were launched in the last quarter of Year 2022. The Group re-positions itself to activate and serve the needs of the high net worth and high potential clients in all-rounded wealth management and financial planning services. Coupled with the broking business, the Group's financial services business will be further strengthened and diversified, in providing a broader breadth of services to existing and new clientele, by offering more unique and quality investment products and services, and optimizing the trading and investment experience for individual and corporate clients. To broaden the service scope of the financial services platform, the Group will deploy resources to build up its corporate finance and advisory segment as well as asset management services.

In March 2023, South China Securities Limited ("SCSL"), a wholly-owned subsidiary of the Company, received a formal notification from the SFC being the approval on the application for engagement in virtual asset introducing brokerage ("VA-related") activities, subject to compliance by SCSL with licensing conditions imposed on the license of SCSL by the SFC. The Board believes that the VA-related services will enable the Group to provide more diversified services to its clients, in line with the strategy of the Group, by bringing in new sources of revenue as well as industry knowledge from expertise on virtual asset.

Media

For the media publications and financial public relation services segment, the Group will actively respond to the evolution of the current epoch by advancing its new media development. Media business continues to evolve from traditional print platform into a fully integrated print + digital + events platform, providing extensive marketing and branding offerings to its clients. The Group will continue to effectively invest in its core brands Capital, JESSICA and Marie Claire, aiming for extending beyond the local market and community, to the Greater Bay Area and Greater China markets. Under the strategy of combining traditional media and new digital media, the Group will strive to identify and seize market opportunities to promote and develop integrated marketing service industry. Adhering to an “offline to online” strategy combining the content and advertising of the print and digital platforms, the Group’s traditional and new media businesses complement each other to expand their presence and revenue potential.

New business

In January 2023, the Group completed the acquisition of the entire share capital of Genius Year Limited and its subsidiaries (“Genius Year Group”) at a total consideration of HK\$89.8 million. Genius Year Limited indirectly holds 100% interests in 65 parcels of forestry land situated in Chongyang County, Xianning City, Hubei Province, the PRC. with a total area of approximately 139,216 mu. A dedicated management team with over 10 years’ experience in the forestry and leasing business and carbon credit trading and related business in the PRC has been formed in July 2022. It is believed that the investment in the Genius Year Group will provide a good opportunity for the Group to widen its businesses to the forestry business which is in line with the trend of the global environment, social and governance theme and promulgation of reduction of carbon emission in the 14th Five-Year Plan (2020–2025) for economic and social development in the PRC.

With a number of challenges which are yet to be resolved, the gloomy economic outlook and market instability are expected to remain. The Group will stay vigilant of the uncertainties on the road to recovery ahead and strive to expand its financial, media and new businesses with disciplined cost control and prudent risk management in 2023.

FINAL DIVIDEND

The Board resolved not to declare the payment of a final dividend for the Year 2022 (2021: 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 2022, save for the following deviations:

1. (i) Mr. Ng Hung Sang (“Mr. Ng”), an Executive Director and the Chairman of the Board of the Company and Hon. Raymond Arthur William Sears, K.C. (“Mr. Sears”), an Independent Non-executive Director of the Company were unable to attend an annual general meeting of the Company and an extraordinary general meeting of the Company both held on 21 June 2022 and (ii) Mr. Ng, Mr. Sears and Mr. Tung Woon Cheung Eric, an Independent Non-executive Director of the Company were unable to attend an extraordinary general meeting of the Company held on 9 August 2022 of which deviated from code provisions F.2.2 and C.1.6 of the CG Code as they had other business engagements. Ms. Ng Yuk Mui Jessica, Executive Vice Chairman and Chief Executive Officer of the Company took the chair of the above general meetings of the Company.
2. The Company had not disclosed the length of tenure of each of the Independent Non-executive Directors on a named basis in the circular to Shareholders for all who have served more than nine (9) years on the Board of which deviated from code provision B.2.4(a) of the CG Code. The Company had issued a supplemental announcement to the circular of the Company dated 28 April 2022 to disclose the same on 6 May 2022.

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 2022.

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), Mrs. Tse Wong Siu Yin Elizabeth and Hon. Raymond Arthur William Sears, K.C..

The Group's annual results for the year ended 31 December 2022 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 2022 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 2022 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, 29 March 2023

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