



# SOUTH CHINA FINANCIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 619)

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

### UNAUDITED CONSOLIDATED INTERIM RESULTS

The board of directors (the “Board”) of South China Financial Holdings Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>2008</b>	<b>2007</b>
		<b>Unaudited</b>	<b>Unaudited</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Turnover</b>	2	<b>46,838</b>	111,152
Other revenue	2	<b>7,045</b>	1,860
Fair value gain on an investment property		<b>27,000</b>	-
Gains on disposal of available-for-sale financial assets		-	72,413
Fair value (losses) / gains on financial assets at fair value through profit or loss		<b>(61,980)</b>	11,538
(Impairment) / reversal of impairment of loans receivable		<b>(4,505)</b>	7,380
Other operating expenses		<b>(55,623)</b>	(99,592)
<b>(Loss) / profit from operating activities</b>		<b>(41,225)</b>	104,751
Finance costs	5	<b>(1,620)</b>	(2,360)
<b>(Loss) / profit before tax</b>	3	<b>(42,845)</b>	102,391
Tax	6	<b>(7,293)</b>	(126)
<b>(Loss) / profit for the period</b>		<b>(50,138)</b>	102,265
Attributable to:			
Equity holders of the Company		<b>(50,139)</b>	102,254
Minority interests		<b>1</b>	11
		<b>(50,138)</b>	102,265
(Loss) / earnings per share	8		
Basic		<b>HK(1.00) cent</b>	HK 2.04 cent
Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	As at 30 June 2008 Unaudited HK\$'000	As at 31 December 2007 Audited HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		33,518	33,010
Investment property		207,000	180,000
Intangible assets		836	836
Other assets		6,082	6,085
Loans receivable	9	5,441	6,913
Deferred tax assets		15	2,782
Total non-current assets		<u>252,892</u>	<u>229,626</u>
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss	10	131,956	186,523
Loans receivable	9	165,001	245,566
Trade receivables	11	191,112	86,365
Other receivables, prepayments and deposits		11,910	7,958
Tax recoverable		181	7,117
Pledged time deposits		5,750	5,750
Cash held on behalf of clients		322,110	538,546
Cash and cash equivalents		144,399	79,544
Total current assets		<u>972,419</u>	<u>1,157,369</u>
<b>CURRENT LIABILITIES</b>			
Amount due to an intermediate holding company		-	4,652
Client deposits		318,560	518,718
Trade payables	11	175,210	86,141
Tax payable		3,013	3,028
Other payables and accruals		9,794	24,182
Interest-bearing bank and other borrowings		148,435	143,481
Total current liabilities		<u>655,012</u>	<u>780,202</u>
<b>NET CURRENT ASSETS</b>		<u>317,407</u>	<u>377,167</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>570,299</b>	<b>606,793</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		90,650	53,984
Deferred tax liabilities		18,106	13,651
Total non-current liabilities		<u>108,756</u>	<u>67,635</u>
Net assets		<u>461,543</u>	<u>539,158</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the company</b>			
Issued capital		125,720	125,715
Reserves		334,853	382,277
Proposed dividend		-	30,172
<b>Minority interests</b>		<u>460,573</u> 970	<u>538,164</u> 994
Total equity		<u>461,543</u>	<u>539,158</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 1. Accounting policies

The unaudited condensed interim financial statements (“interim financial statements”) have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the compliance with Hong Kong Accounting Standards No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2007.

These interim financial statements should be read in conjunction with the 2007 annual financial statements.

### 2. Turnover and other revenue

	<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Turnover</b>		
Commission and brokerage income	44,820	65,586
(Loss) / profit on the trading of securities, bullion and futures contracts, net	(20,439)	10,340
Dividend income from listed investments	2,580	131
Interest income from loans receivable	15,023	19,571
Interest income from bank and financial institutions	2,919	9,030
Rendering of services	1,150	3,484
Gross rental income	785	3,010
	<u>46,838</u>	<u>111,152</u>
<b>Other revenue</b>		
Handling fee income	1,213	1,071
Others	5,832	789
	<u>7,045</u>	<u>1,860</u>

### 3. (Loss) / profit before tax

	<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
The Group's (loss)/profit is arrived at after charging:		
Cost of services provided	17,101	29,863
Depreciation	1,642	1,085
Interest expenses for margin financing and money lending operations	2,365	9,705
	<u>20,108</u>	<u>40,653</u>

#### 4. Revenue and segmental information

An analysis of the Group's consolidated turnover and contribution to profit/(loss) from operating activities by business segment for the six months ended 30 June 2008 and 2007 is as follows:

	2008	2007	2008	2007
	Revenue	Revenue	Profit/ (loss) from operating activities	Profit/ (loss) from operating activities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Securities broking	45,823	66,161	7,823	18,415
Securities trading and investment	(17,859)	10,472	(81,813)	65,923
Margin financing and money lending	18,307	29,379	6,797	21,885
Corporate advisory and underwriting	1,358	4,265	(2,849)	(1,280)
Property investment	2,519	3,547	28,117	2,475
Corporate and others	3,906	1	700	(2,667)
Intersegment elimination	(171)	(813)	-	-
Consolidated	<u>53,883</u>	<u>113,012</u>	<u>(41,225)</u>	<u>104,751</u>

Over 90% of the Group's revenue and contribution to profit/(loss) from operating activities were derived from operations in Hong Kong.

#### 5. Finance costs

Finance costs represent interest on a mortgage loan and finance lease secured by the Group's investment property and property, plant and equipment.

#### 6. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, practices and interpretations in respect thereof.

#### 7. Interim dividend

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: HK 0.4 cent per ordinary share, totalling approximately HK\$20,043,564).

#### 8. (Loss) / earnings per share

The calculation of basic (loss)/earnings per share is based on the loss for the period attributable to ordinary equity holders of the Company of approximately HK\$50,139,000 (2007: profit of HK\$102,254,000) and the weighted average number of 5,028,696,238 (2007: 5,005,613,162) ordinary shares in issue during the period.

Diluted (loss)/earnings per share has not been presented as the exercise of outstanding share options and warrants had no dilutive effect on the basic (loss)/earnings per share for the period.

## 9. Loans receivable

The maturity profile of loans receivable at the balance sheet date is analysed into the remaining periods to their contractual maturity dates as follows:

	<b>30 June 2008</b> <b>Unaudited</b> <b>HK\$'000</b>	31 December 2007 Audited HK\$'000
Repayable:		
On demand	<b>139,200</b>	219,208
Within 3 months	<b>8,552</b>	9,081
3 months to 1 year	<b>17,249</b>	17,277
1 year to 5 years	<b>5,441</b>	6,913
	<b>170,442</b>	252,479
Portion classified as current assets	<b>(165,001)</b>	(245,566)
Portion classified as non-current assets	<b>5,441</b>	6,913

## 10. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represented listed equity securities in Hong Kong at market value.

## 11. Trade receivables and payables

All of the Group's trade receivables and payables are aged within 90 days.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

During the period under review, the Hong Kong equity market was characterized by a significant downturn in contrast with the rising trend experienced in the same corresponding period last year. The direction of the local stock market and the investor sentiment have been affected adversely by a mixture of external factors including the deteriorating sub-prime crisis leading to the slowing down of the US economy, the tightening austerity policies in China to control the inflationary pressures that accelerated the drastic downward correction in the Mainland stock markets as well as the surging oil price.

For the six months ended 30 June 2008, the Group recorded turnover of HK\$46.8 million and a net loss of HK\$50.1 million. When compared to the same period last year, the Group's turnover dropped by approximately 58% while the operating results in the current period were directly impacted by the market downturn. The greater than expected loss was mainly the result of an unrealized holding loss of HK\$62.0 million on writing down the trading and investment portfolio to their market values at 30 June 2008.

Other than the unrealized holding loss on investment in financial assets, the Group's principal businesses of securities broking, margin financing and property investment remained profitable and fundamentally sound.

#### ***Securities broking, trading and investment***

In the first half of 2008, the Hang Seng Index stumbled from 27,632 in the beginning of January to its lowest at 21,108 in March and bounced slightly and then set back to close at 22,102 on 30 June. The overall investment sentiment was fragile and the market lacked confidence despite successive interest rate reductions. Although market volatility was high, the daily stock turnover declined substantially that caused our securities broking income to drop by 31% to HK\$45.8 million and operating profit reduced to HK\$7.8 million as compared with the same period last year.

The result of securities trading and investment for the six months ended 30 June 2008 was a loss of HK\$81.8 million which included HK\$62.0 million of unrealized holding loss as compared with a realized gain of HK\$65.9 million in the same period last year. The Group had financial assets at fair value through profit and loss of HK\$132.0 million in value after provision for unrealized holding loss as at the end of the period.

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

The slowdown of IPO activities coupled with the current squeezing interest rate spread among financial institutions has been continuing to exert pressure on our margin financing and money lending business. Revenue from interest income reported a fall of 38% and contribution from this segment reduced from HK\$21.9 million to HK\$6.8 million when compared to the same period last year. Our loan and advances portfolio for margin financing and personal loan contracted by 33% during the first six months of 2008 to HK\$170.4 million.

### ***Corporate advisory and underwriting***

Revenue from corporate advisory and underwriting business decreased by 68% to HK\$1.4 million and operating loss widened to HK\$2.8 million as the segment was directly affected by the lack of merger and acquisitions and IPO activities in the market in the first half of the year.

### ***Property investment and others***

Rental income from the investment property at Lippo Centre was HK\$2.5 million for the period under review. It declined slightly because of a vacant period in getting new tenants. A gain of HK\$22.5 million after deferred tax provision was reported on revaluation at the period-end.

### **Liquidity and Financial Resources**

The Group has obtained bank credit facilities that are all renewable on a yearly basis. The facilities for the share margin finance operations are secured by the securities of margin clients and the Group. The facilities for the money lending operations are clean loans. All the credit facilities are guaranteed by the Company.

As at 30 June 2008, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$90.7 million (31 December 2007: HK\$54.0 million), which, when related to the Group's equity of HK\$461.5 million (31 December 2007: HK\$539.2 million), represent a gearing ratio of approximately 19.6% (31 December 2007: 10.0%).

The Group has cash balance of HK\$144.4 million at the current period end, an increase over 80% from the last year-end. The Group has very sufficient working capital to meet its operational needs.

### **Prospects**

Despite the adverse changes in sentiment of the stock markets in Hong Kong and China, the Company remains cautiously optimistic about the future development of the financial market in Hong Kong. With the existing infrastructure, Hong Kong will continue to be competitive among other major world capital markets as a centre of capital fund raising.

The current worldwide financial turmoil hits revenue but we see better opportunities available ahead. In China, the Ministry of Commerce of the PRC approved and issued us the license to operate a financial leasing company in Nanjing in March 2008. The leasing company is allowed to operate financial leasing business across China and has no territorial restrictions. The tightening of lending activities in the banking system in China exposes new business opportunities for second tier financial institutions such as financial leasing companies. The recruitment of key personnel has completed and this new business development is expected to bring new revenue streams to the Group in the near future.

## **INTERIM DIVIDEND**

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: HK 0.4 cent).

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2008.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2008.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The audit committee 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 unaudited results for the six months ended 30 June 2008 were reviewed by the audit committee.

On behalf of the Board

**Ng Hung Sang**

*Chairman*

Hong Kong, 23 September 2008

*As at the date of this announcement, the Board comprises (1) Mr. Ng Hung Sang, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor, Mr. Ng Chun Sang and Mr. Ng Yuk Yeung, Paul as executive directors; and (2) Hon. Raymond Arthur William Sears, Q.C., Mr. Tung Woon Cheung, Eric and Mrs. Tse Wong Siu Yin, Elizabeth as independent non-executive directors.*