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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 2011

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 2011 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2011	2010
		Unaudited	Unaudited
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	2	60,446	60,150
Other income		5	284
Reversal of impairment / (impairment) of loans and trade receivable, net		43	(1,594)
Fair value gain / (loss) on financial assets at fair value through profit or loss		(18,071)	14,371
Gain / (loss) on disposal of available-for-sale financial assets		(8,895)	3,862
Fair value gain on an investment property		-	5,300
Other operating expenses		(59,646)	(62,058)
Profit / (Loss) from operating activities		(26,118)	20,315
Finance costs	5	(2,218)	(1,629)
Profit / (Loss) before tax	3	(28,336)	18,686
Income tax credit / (expense)	6	759	(895)
Profit / (Loss) for the period		(27,577)	17,791
Attributable to:			
Owners of the Company		(27,585)	17,788
Non-controlling interests		8	3
		(27,577)	17,791
Earnings / (Loss) per share attributable to owners of the Company	8		
Basic and diluted		(HK0.55 cent)	HK0.35 cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2011 Unaudited HK\$'000	As at 31 December 2010 Audited HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		187,816	190,888
Intangible assets		836	836
Other assets		16,600	6,962
Long term loans receivable	9	8	145
Available-for-sale investments		26,165	38,167
Deferred tax assets		5	5
Total non-current assets		<u>231,430</u>	<u>237,003</u>
CURRENT ASSETS			
Financial assets at fair value through profit or loss	10	260,099	279,825
Loans receivable	9	177,496	216,492
Trade receivables	11	185,221	105,769
Other receivables, prepayments and deposits		22,100	10,169
Pledged time deposits		5,500	5,750
Cash held on behalf of clients		446,406	369,243
Cash and bank balances		<u>152,164</u>	<u>114,140</u>
Total current assets		<u>1,248,986</u>	<u>1,101,388</u>
CURRENT LIABILITIES			
Client deposits		443,296	363,920
Trade payables	11	165,373	94,779
Tax payable		37	28
Other payables and accruals		10,163	9,058
Interest-bearing bank and other borrowings		<u>269,149</u>	<u>249,869</u>
Total current liabilities		<u>888,018</u>	<u>717,654</u>
NET CURRENT ASSETS		<u>360,968</u>	<u>383,734</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>592,398</u>	<u>620,737</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		129,757	113,726
Deferred tax liabilities		<u>8,050</u>	<u>8,850</u>
Total non-current liabilities		<u>137,807</u>	<u>122,576</u>
Net assets		<u><u>454,591</u></u>	<u><u>498,161</u></u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	125,708	125,721
Reserves		328,304	355,777
Proposed dividend		<u>-</u>	<u>16,092</u>
		454,012	497,590
Non-controlling interests		<u>579</u>	<u>571</u>
Total equity		<u><u>454,591</u></u>	<u><u>498,161</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. Basis of preparation

The unaudited condensed consolidated interim financial statements (“interim financial statements”) have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (“the Stock Exchange”) and the 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 2010 except that the Group has adopted the newly issued and revised Hong Kong Financial Reporting Standards, which are effective for the annual period beginning on 1 January 2011, as disclosed in the annual financial statements for the year ended 31 December 2010. The adoption of these new Hong Kong Financial Reporting Standards does not have significant impact on the Group’s results of operations and financial position.

These interim financial statements should be read, where relevant, in conjunction with the 2010 annual financial statements of the Group.

The unaudited interim financial statements have been reviewed by the Company’s audit committee.

2. Revenue

	Six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
	HK\$’000	HK\$’000
Commission and brokerage income	30,555	31,592
Profit on trading of securities, forex, bullion and futures contracts, net	18,015	12,196
Dividend income from listed investments	1,084	560
Interest income from loans receivable	9,449	10,849
Interest income from bank and financial institutions	182	345
Rendering of services	1,161	3,348
Gross rental income	-	1,260
	<u>60,446</u>	<u>60,150</u>

3. Profit / (loss) before tax

	Six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
	HK\$’000	HK\$’000
The Group’s profit/(loss) is arrived at after charging:		
Cost of services provided	14,398	13,472
Depreciation	3,310	2,689
Interest expenses for margin financing and money lending operations	1,180	1,472

4. Revenue and segmental information

An analysis of the Group's revenue and contribution to profit/(loss) from operating activities by business segments for the six months ended 30 June 2011 and 2010 are as follows:

	2011	2010	2011	2010
	Revenue	Revenue	Profit/ (loss) from operating activities	Profit/ (loss) from operating activities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Broking	29,538	32,190	(3,450)	(4,240)
Trading and investment	21,701	13,430	(18,595)	19,491
Margin financing and money lending	9,069	11,102	5,096	7,682
Corporate advisory and underwriting	138	2,168	(3,466)	(2,904)
Corporate and others	-	1,260	(5,703)	286
Consolidated	60,446	60,150	(26,118)	20,315

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 secured by the Group's property, plant and equipment.

6. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. 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 2011 (six months ended 30 June 2010: HK0.15 cents per ordinary share totaling HK\$7,543,252).

8. Earnings / (loss) per share

The calculation of basic earnings / (loss) per share is based on the loss for the period attributable to owners of the Company of approximately HK\$27,585,000 (2010: profit of HK\$17,788,000) and the weighted average number of 5,028,671,517 (2010: 5,028,834,500) ordinary shares in issue during the period.

The Company's share options have no dilution effect for the six months ended 30 June 2011 and 2010 because the exercise price of the Company's share options was higher than the average market price of shares for the periods.

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:

	30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
Repayable:		
On demand	176,998	216,382
Within 3 months	151	-
3 months to 1 year	347	110
1 year to 5 years	8	145
	<hr/>	<hr/>
	177,504	216,637
Portion classified as current assets	<hr/> (177,496)	<hr/> (216,492)
Portion classified as non-current assets	<hr/> <hr/> 8	<hr/> <hr/> 145

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

The Group allows 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.

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

12. Issued Capital

	30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
Shares		
Authorised:		
8,000,000,000 (2010: 8,000,000,000) ordinary shares of HK\$0.025 each	<hr/> 200,000	<hr/> 200,000
Issued and fully paid:		
5,028,334,500 (2010: 5,028,834,500) ordinary shares of HK\$0.025 each	<hr/> 125,708	<hr/> 125,721

During the six months ended 30 June 2011, the Company repurchased the ordinary shares on the Stock Exchange as follows:

Month	Number of ordinary shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Consideration HK\$'000
May 2011	500,000	0.107	0.107	54

The repurchased shares were cancelled during the six months ended 30 June 2011 and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of shares of HK\$41,000 was charged to retained profits. In accordance with section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Hang Seng Index fell by 3% from 23,035 at the end of 2010 to 22,398 as at 30 June 2011. Reflecting the poor performance in the equity market, the Group recorded a loss of HK\$27.6 million for the first half of 2011 as compared with a profit of HK\$17.8 million for the same period of last year.

Broking, trading and investment

Notwithstanding the 15% increase in average daily market turnover to HK\$73.6 billion for the first half of 2011 from HK\$63.8 billion for the same period in 2010, revenue recorded for broking decreased to HK\$29.5 million from HK\$32.2 million. Competition remained fierce for the period.

Hit by the downturn in the securities market, trading and investment incurred a loss of HK\$18.6 million for the period as compared with a profit of HK\$19.5 million for the same period in 2010. Unrealized loss of HK\$18.1 million and loss on disposal of available-for-sale financial assets of HK\$8.9 million were included.

Margin financing and money lending

Our loans and advances portfolio for margin financing and personal loans decreased by 18% in the first half of 2011 to HK\$177.5 million as at 30 June 2011. Revenue recorded for the period was HK\$9.1 million as compared with HK\$11.1 million for the same period last year. Contribution from this segment decreased from HK\$7.7 million to HK\$5.1 million for the six months ended 30 June 2011.

Corporate advisory and underwriting

Revenue from our corporate advisory and underwriting business decreased from HK\$2.2 million to HK\$0.1 million and operating loss increased to HK\$3.5 million for the first half of 2011.

Liquidity and Financial Resources

The Group has obtained short term bank credit facilities which are reviewed on a yearly basis and a long term mortgage loan. The facilities for the share margin finance operations are secured by the securities of our margin clients and the Group. The facilities for the money lending operations are clean loans. All the outstanding credit facilities are guaranteed by the Company.

As at 30 June 2011, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$129.8 million (31 December 2010: HK\$113.7 million), which, when related to the Group's equity of HK\$454.6 million (31 December 2010: HK\$498.2 million), represented a gearing ratio of approximately 28.6% (31 December 2010: 22.8%).

The Group had cash balance of HK\$152.2 million at the end of the current period, an increase of 33% from the end of last year. The Group has a very strong working capital base to meet its operational needs.

Prospects

Following the recent global market plunge, investors are worried about the rising risk of global recession. However, we still consider that the economic prospects in Asia will outperform Europe and Americas. In particular, the economy in Greater China Region is likely to continue to enjoy a high growth rate.

In order to capture this potential opportunity in Greater China Region, we shall put extra effort in developing our foothold in the region. We are setting up an addition branch in Shenzhen. Other than building our brand name in the Mainland China market, Shenzhen Office can also facilitate the Group to provide consultancy services to Mainland Chinese companies and play a liaison role for identifying potential IPO prospects. Shenzhen Office will commence operations in the third quarter of 2011.

The recent economic downturn in Europe and Americas has induced investors to put more focus on trading gold and other precious metal products. This will be a good opportunity for the Group to develop its clientele of the bullion business. We are going to actively recruit sales personnel from the market. However, before each of these sales personnel can go out on their own to develop clientele, professional training will be provided to them to ensure that they will comply with our in-house standard. In Hong Kong, most of the bullion trading companies have projected quite a negative image to the investment communities. For the Group, we possess the edge of having a well-established brand name to develop this business and have the commitment to build a reputable bullion trading team and provide a fair and efficient platform.

As the market becomes more volatile, derivatives products for hedging purpose will receive more attention from investors. We are in the process of building a strong team which has the client base in trading index futures, index options and stock options. It is expected that the revenue generated from these products will increase at a faster rate.

We shall continue our effort in building our deal flow for corporate finance, pooling funds for asset management and developing financial leasing business in Nanjing. Furthermore, we are also exploring the feasibility of setting up wealth management business so as to provide all-rounded services to our customers.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: HK0.15 cents per ordinary share totaling HK\$7,543,252).

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

During the six months ended 30 June 2011, the Company repurchased ordinary shares of the Company in the market through the Stock Exchange and details of which are as follows:

Month	Number of ordinary shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Consideration HK\$'000
May 2011	500,000	0.107	0.107	54

The share repurchase was effected by the Board for the enhancement of shareholders' value.

The repurchased shares were cancelled during the six months ended 30 June 2011 and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of shares of HK\$41,000 was charged to retained profits. In accordance with section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

Saved as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company complied with all the code provisions as set out in the Code on Corporate Governance Practices (“the CG Code”) contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2011 with exception to code provision E.1.2 that the Chairman of the Board did not attend the annual general meeting of the Company.

According to code provision E.1.2 of the CG Code, the Chairman of the Board shall attend the annual general meeting to answer questions. The Chairman of the Board was unable to attend the annual general meeting of the Company held on 31 May 2011. There were Executive Directors of the Company attending the annual general meeting in the absence of the Chairman to answer questions on the Group’s businesses at the meeting. The Company will endeavour to ensure future compliance with code provision E.1.2.

AUDIT COMMITTEE

The Company 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 2011 have been reviewed by the audit committee.

By order of the Board
South China Financial Holdings Limited
Ng Hung Sang
Chairman

Hong Kong, 30 August 2011

As at the date of this Announcement, the Directors of the Company are (1) Mr. Ng Hung Sang, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor, Mr. Ng Yuk Yeung, Paul, Mr. Ng Tze Wai and Mr. Chan Hing Wah 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.