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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 2012**

#### **UNAUDITED 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 2012 are as follows:

#### **CONDENSED CONSOLIDATED INCOME STATEMENT**

		<b>Six months ended 30 June</b>	
		<b>2012</b>	<b>2011</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Revenue</b>	2	<b>67,845</b>	60,446
Other income		168	5
Reversal of impairment / (impairment) of loans and trade receivable, net		(218)	43
Fair value loss on financial assets at fair value through profit or loss		(37,640)	(18,071)
Loss on disposal of available-for-sale financial assets		-	(8,895)
Impairment loss on available-for-sale financial assets		(3,710)	-
Other operating expenses		<u>(69,671)</u>	<u>(59,646)</u>
<b>Loss from operating activities</b>		<b>(43,226)</b>	(26,118)
Finance costs	5	<u>(3,847)</u>	<u>(2,218)</u>
<b>Loss before tax</b>	3	<b>(47,073)</b>	(28,336)
Income tax credit	6	<u>904</u>	<u>759</u>
<b>Loss for the period</b>		<b><u>(46,169)</u></b>	<b><u>(27,577)</u></b>
Attributable to:			
Equity holders of the Company		(46,169)	(27,585)
Non-controlling interests		<u>-</u>	<u>8</u>
		<b><u>(46,169)</u></b>	<b><u>(27,577)</u></b>
Loss per share attributable to equity holders of the Company	8		
Basic and diluted		<b><u>(HK0.92 cent)</u></b>	<b><u>(HK0.55 cent)</u></b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		6,373	186,875
Investment property	9	322,800	-
Intangible assets		836	836
Available-for-sale investments		19,695	21,795
Other assets		7,093	7,087
Long term loans receivable	10	4,044	495
Long term deposits		4,949	5,574
Total non-current assets		365,790	222,662
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss	11	173,577	246,787
Loans receivable	10	147,951	128,460
Trade receivables	12	145,541	100,420
Other receivables, prepayments and deposits		14,033	13,269
Tax recoverable		59	45
Pledged time deposits		5,500	5,500
Cash held on behalf of clients		361,237	414,648
Cash and bank balances		122,250	125,811
Total current assets		970,148	1,034,940
<b>CURRENT LIABILITIES</b>			
Client deposits		353,258	401,099
Trade payables	12	145,090	91,740
Other payables and accruals		8,735	8,132
Tax payables		53	11
Interest-bearing bank borrowings		251,695	272,737
Total current liabilities		758,831	773,719
<b>NET CURRENT ASSETS</b>		<b>211,317</b>	<b>261,221</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>577,107</b>	<b>483,883</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		155,378	159,950
Deferred tax liabilities		29,551	6,669
Total non-current liabilities		184,929	166,619
Net assets		392,178	317,264
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital	13	125,708	125,708
Reserves		265,898	190,984
		391,606	316,692
<b>Non-controlling interests</b>		<b>572</b>	<b>572</b>
<b>Total equity</b>		<b>392,178</b>	<b>317,264</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2012*

## **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 2011 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 2012, as disclosed in the annual financial statements for the year ended 31 December 2011 and the accounting policy for investment property as described below for the investment property transferred from the owner-occupied property on 30 June 2012. The adoption of these new Hong Kong Financial Reporting Standards as disclosed in the annual financial statements for the year ended 31 December 2011 does not have significant impact on the Group’s results of operations and financial position.

### **Investment properties**

Investment properties are land and/or buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the end of the reporting period.

Gain or losses arising from changes in the fair value or from the retirement or disposal of an investment property are recognized in profit or loss.

For a transfer from owner-occupied properties to investment properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. Any increase from the carrying amount of the owner-occupied property to the fair value at that date is recognized in profit or loss to the extent the increase reverses a previous impairment loss, if any, with the remaining part of the increase recognized in the property revaluation reserve. On subsequent disposal of such property, the property revaluation reserve is transferred to retained earnings.

These interim financial statements should be read, where relevant, in conjunction with the 2011 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	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Commission and brokerage income	24,683	30,555
Profit on trading of securities, forex, bullion and futures contracts, net	31,919	18,015
Dividend income from listed investments	1,980	1,084
Interest income from bullion and forex	399	545
Interest income from loans receivable	7,003	8,904
Interest income from bank and financial institutions	599	182
Rendering of services	1,262	1,161
	<b>67,845</b>	<b>60,446</b>

## 3. Loss before tax

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The Group's loss is arrived at after charging:		
Cost of services provided	13,109	14,398
Depreciation	3,498	3,310
Items of property, plant and equipment		
- Impairment Loss	1,511	-
- Loss on disposal	126	-
Interest expenses for margin financing and money lending operations	1,418	1,180

## 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 2012 and 2011 are as follows:

	2012	2011	2012	2011
	Revenue	Revenue	Profit/	Profit/
	HK\$'000	HK\$'000	(loss) from	(loss) from
			operating	operating
			activities	activities
			HK\$'000	HK\$'000
Broking	24,824	29,538	(14,169)	(3,450)
Trading and investment	34,129	21,701	(20,758)	(18,595)
Margin financing and money lending	8,471	9,069	4,149	5,096
Corporate advisory and underwriting	421	138	(4,097)	(3,466)
Corporate and others	-	-	(8,351)	(5,703)
Consolidated	<b>67,845</b>	<b>60,446</b>	<b>(43,226)</b>	<b>(26,118)</b>

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

On 30 June 2012, owner-occupied property of carrying amount of HK\$178,855,000 under the segment of corporate and others was transferred to the segment of property investment after its revaluation to the fair value of HK\$322,800,000 at that date (Note 9).

## 5. Finance Costs

Finance costs mainly represent interest on a mortgage loan secured by the Group's owner-occupied property which was transferred to investment property on 30 June 2012.

## 6. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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 2012 (six months ended 30 June 2011: Nil).

## 8. Loss per share

The calculation of basic loss per share is based on the loss for the period attributable to equity holders of the Company of approximately HK\$46,169,000 (2011: HK\$27,585,000) and the weighted average number of 5,028,334,500 (2011: 5,028,671,517) ordinary shares in issue during the period.

The Company's share options have no dilution effect for the six months ended 30 June 2012 and 2011 because the exercise price of the Company's share options was higher than the average market price of shares for the periods.

## 9. Investment property

	<b>30 June 2012</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31 December 2011 (Audited) HK\$'000
Carrying amount at 1 January	-	-
Transfer from owner-occupied property	<u>322,800</u>	<u>-</u>
Carrying amount	<u><u>322,800</u></u>	<u><u>-</u></u>

On 30 June 2012, the Group transferred the owner-occupied property of carrying amount of HK\$178,855,000 to investment property. The property was revalued at the fair value of HK\$322,800,000 on that date by BMI Appraisals Limited, independent professionally qualified valuers, on the open market and existing use basis. The increase of HK\$143,945,000 in the carrying amount is recognized in the property revaluation reserve.

The Group's investment property is situated in Hong Kong and is held under long term leases. The investment property was pledged to a bank to secure banking facilities granted to the Group.

Details of the Group's investment property is as follows:

<b>Location</b>	<b>Existing use</b>
26 <sup>th</sup> Floor, Tower One, Lippo Centre, 89 Queensway, Admiralty, Hong Kong	Office building

## 10. 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 2012</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31 December 2011 <b>(Audited)</b> <b>HK\$'000</b>
Repayable:		
On demand	144,029	126,752
Within 3 months	1,388	517
3 months to 1 year	2,534	1,191
1 year to 5 years	<u>4,044</u>	<u>495</u>
	151,995	128,955
Portion classified as current assets	<u>(147,951)</u>	<u>(128,460)</u>
Portion classified as non-current assets	<u><u>4,044</u></u>	<u><u>495</u></u>

## 11. 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.

## 12. 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.

## 13. Issued Capital

	<b>30 June 2012</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31 December 2011 <b>(Audited)</b> <b>HK\$'000</b>
Shares		
Authorised:		
8,000,000,000 (2011: 8,000,000,000) ordinary shares of HK\$0.025 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
5,028,334,500 (2011: 5,028,334,500) ordinary shares of HK\$0.025 each	<u>125,708</u>	<u>125,708</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

Dragged by the reduced brokerage business volume resulting from the shrinkage of the securities market turnover, poor investment market performance and higher operating costs in the expansion phase of the overall business development, the Group recorded a loss of HK\$46.2 million for the first half of 2012 as compared with a loss of HK\$27.6 million for the same period of last year.

#### *Broking, trading and investment*

Average daily market turnover decreased by 23% to HK\$56.7 billion for the first half of 2012 from HK\$73.6 billion for the same period in 2011. Adversely affected by this substantial decrease in market turnover, revenue recorded for broking decreased to HK\$24.8 million from HK\$29.5 million.

Trading and investment incurred a loss of HK\$20.8 million for the period as compared with a loss of HK\$18.6 million for the same period in 2011. Unrealized loss on financial assets at fair value through profit or loss of HK\$37.6 million and impairment loss on available-for-sale financial assets of HK\$3.7 million were included.

#### *Margin financing and money lending*

Average loan and advance balance in the six months ended 30 June 2012 decreased as compared with that for the same period of last year. Revenue recorded for the period was HK\$8.5 million as compared with HK\$9.1 million for the same period of last year. Contribution from this segment decreased from HK\$5.1 million to HK\$4.1 million for the six months ended 30 June 2012. Our loans and advances portfolio for margin financing and money lending was HK\$152.0 million as at 30 June 2012, recovered and increased by 18% as compared with the balance as at 31 December 2011.

#### *Corporate advisory and underwriting*

Revenue from our corporate advisory and underwriting business increased from HK\$0.1 million to HK\$0.4 million and operating loss was HK\$4.1 million for the first half of 2012.

### Liquidity and Financial Resources

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

As at 30 June 2012, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$155.4 million (31 December 2011: HK\$160.0 million), which, when related to the Group's equity of HK\$392.2 million (31 December 2011: HK\$317.3 million), represented a gearing ratio of approximately 39.6% (31 December 2011: 50.4%).

The Group had a cash balance of HK\$122.3 million at the end of the current period, a slight decrease of 3% from the end of last year. The Group had sufficient working capital base to meet its operational needs.

## **Prospects**

Diversifying of our revenue sources remains to be the key focus in 2012.

The market environment continues to be tough. Turnover of the Hong Kong stock market for the first half of 2012 has dropped by more than 22% in comparison with the same period last year. As commission income derived from stock brokerage still contributes to most of our total revenue and our business diversification is at its early stage, the deteriorating stock market poses a strong negative impact on our interim result.

We start to see results from our effort on diversification. Since the start of 2012, we have been building and strengthening our business in Corporate Finance, Equities Capital Markets, Derivatives Markets and Wealth Management.

Revamping of the Corporate Finance team has been completed successfully. There are several deals in the pipeline. We are confident that once the market sentiment improves, these deals can be completed within a short period of time.

The business unit in Equities Capital Market has been actively joining IPO syndicates during the first half of the year. We assume the role as Co-manager for several IPOs. For the second half of 2012, we will further increase the level of participation. We also anticipate that some of the share placement assignments on hand will be completed.

We have made impressive progress in the business from the Derivatives Market despite the downturn of the Hong Kong stock market. Commission income generated from the futures and options market is more than double within the first six months of this year. We have recently revamped and upgraded the whole derivatives trading system with the latest technology and design. With the new system, we are confident that more active traders will be attracted to use our services.

Wealth Management business has started in March 2012, right after we were granted the membership from the Professional Insurance Brokers Association. Although the business unit has just operated for a few months, it is encouraging to see that the revenue has been growing month on month. We will keep up our effort in building the sales force and broadening our product offerings, targeting at turning the unit into one of our key revenue contributors.

Last but not the least, we have also made good progress in asset management. An exempted segregated portfolio company has been incorporated in the Cayman Islands in March 2012. It facilitates the creation of segregated portfolios with different investment objectives under the new set up. South China Asset Management Limited will serve as the investment manager for the portfolios. We expect that at least two segregated portfolios focusing on the options market and gold market will be launched in the second half of 2012.

We are on the right track. We believe that the above-mentioned efforts in diversifying our revenue sources will uplift our financial performance.

## **INTERIM DIVIDEND**

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).



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

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

## **CORPORATE GOVERNANCE**

The Company had complied with all the code provisions as set out in the Code of Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2012.

## **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 (Committee Chairman), Hon. Raymond Arthur William Sears, Q.C. and Mrs. Tse Wong Siu Yin, Elizabeth.

The Group's unaudited consolidated results for the six months ended 30 June 2012 have been reviewed by the audit committee.

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

Hong Kong, 28 August 2012

*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 and Mr. Chan Hing Wah as executive directors; (2) Mr. Ng Tze Wai as non-executive director and (3) Mrs. Tse Wong Siu Yin, Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung, Eric as independent non-executive directors.*