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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 2013

UNAUDITED INTERIM RESULTS

The board of directors ("Board") of South China Financial Holdings Limited ("Company") announces that the unaudited consolidated results of the Company and its subsidiaries (collectively, "Group") for the six months ended 30 June 2013 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2013	2012
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	2	43,282	67,845
Fair value gain on investment property		17,100	-
Impairment of loans and trade receivables, net		(2,776)	(218)
Fair value loss on financial assets at fair value through profit or loss		(59,511)	(37,640)
Impairment loss on available-for-sale financial assets		-	(3,710)
Other income		570	168
Other operating expenses		(64,949)	(69,671)
Loss from operating activities		(66,284)	(43,226)
Finance costs	5	(3,459)	(3,847)
Share of losses of associates		(1,678)	-
Loss before tax	3	(71,421)	(47,073)
Income tax (expenses) / credit	6	(8)	904
Loss for the period		(71,429)	(46,169)
Attributable to:			
Equity holders of the Company		(71,425)	(46,169)
Non-controlling interests		(4)	-
		(71,429)	(46,169)
Loss per share attributable to equity holders of the Company	8		
Basic and diluted		(HK1.42 cents)	(HK0.92 cent)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2013 (Unaudited) HK\$'000	As at 31 December 2012 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		6,355	7,206
Investment property	9	375,000	357,900
Intangible assets		836	836
Investments in associates		13,484	14,923
Available-for-sale investments		19,127	23,957
Other assets		9,245	8,405
Long term loans receivable	10	3,668	4,605
Long term deposits		5,211	5,286
Total non-current assets		432,926	423,118
CURRENT ASSETS			
Financial assets at fair value through profit or loss	11	160,838	236,767
Loans receivable	10	199,912	204,204
Trade receivables	12	232,632	126,551
Other receivables, prepayments and deposits		16,629	11,614
Pledged time deposits		5,500	5,500
Cash held on behalf of clients		363,054	450,800
Cash and bank balances		105,588	107,018
Total current assets		1,084,153	1,142,454
CURRENT LIABILITIES			
Client deposits		349,056	437,358
Trade payables	12	231,083	142,614
Other payables and accruals		15,614	8,937
Tax payables		27	40
Interest-bearing bank borrowings		331,984	301,571
Total current liabilities		927,764	890,520
NET CURRENT ASSETS		156,389	251,934
TOTAL ASSETS LESS CURRENT LIABILITIES		589,315	675,052
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		134,892	145,249
Deferred tax liabilities		29,227	29,227
Total non-current liabilities		164,119	174,476
Net assets		425,196	500,576
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	13	125,708	125,708
Reserves		298,923	374,299
		424,631	500,007
Non-controlling interests		565	569
Total equity		425,196	500,576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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 (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“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 2012 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 2013, as disclosed in the annual financial statements for the year ended 31 December 2012. The adoption of these new Hong Kong Financial Reporting Standards as disclosed in the annual financial statements for the year ended 31 December 2012 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 2012 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	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Commission and brokerage income	26,173	24,683
Profit on trading of securities, forex, bullion and futures contracts, net	3,363	31,919
Dividend income from listed investments	574	1,980
Interest income from bullion and forex	445	399
Interest income from loans receivable	8,997	7,003
Interest income from bank and financial institutions	371	599
Rendering of services	1,539	1,262
Gross rental income	1,820	-
	<u>43,282</u>	<u>67,845</u>

3. Loss before tax

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The Group’s loss is arrived at after charging:		
Cost of services provided	14,546	13,109
Depreciation	1,941	3,498
Items of property, plant and equipment		
- Impairment loss	-	1,511
- Loss on disposal	-	126
Interest expenses for margin financing and money lending operations	2,395	1,418
	<u>2,395</u>	<u>1,418</u>

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 2013 and 2012 are as follows:

	2013	2012	2013	2012
			Profit/ (loss) from operating activities	Profit/ (loss) from operating activities
	Revenue HK\$'000	Revenue HK\$'000	HK\$'000	HK\$'000
Broking	25,677	24,824	(11,283)	(14,169)
Trading and investment	4,704	34,129	(66,458)	(20,758)
Margin financing and money lending	9,937	8,471	1,410	4,149
Corporate advisory and underwriting	235	421	(4,166)	(4,097)
Wealth management	909	-	(1,306)	-
Property investment	1,820	-	17,639	-
Corporate and others	-	-	(2,120)	(8,351)
Consolidated	<u>43,282</u>	<u>67,845</u>	<u>(66,284)</u>	<u>(43,226)</u>

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 investment property.

6. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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 2013 (six months ended 30 June 2012: 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\$71,429,000 (2012: HK\$46,169,000) and the weighted average number of 5,028,334,500 (2012: 5,028,334,500) ordinary shares in issue during the period.

The Company's share options have no dilution effect for the six months ended 30 June 2013 and 2012 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

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Carrying amount at 1 January	357,900	-
Transfer from owner-occupied property	-	322,800
Additions	-	900
Net gain from a fair value adjustment	17,100	34,200
Carrying amount	375,000	357,900

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, an independent professional qualified valuer, on the open market and existing use basis. The increase of HK\$143,945,000 in the carrying amount was recognized in the property revaluation reserve for the six-month period ended 30 June 2012 and HK\$34,200,000 was recognized as fair value gain in the profit and loss account in the second half year of 2012.

On 30 June 2013, the Group's investment property was revalued by BMI Appraisals Limited at HK\$375,000,000 on the open market and existing use basis. The increase of fair value of HK\$17,100,000 was recognized in the profit and loss account. The investment property is partially leased to third parties under operating leases.

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 are as follows:

Location	Existing use
26 th 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:

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Repayable:		
On demand	194,334	199,160
Within 3 months	2,196	1,788
3 months to 1 year	3,382	3,256
1 year to 5 years	3,668	4,605
	203,580	208,809
Portion classified as current assets	(199,912)	(204,204)
Portion classified as non-current assets	3,668	4,605

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

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Shares		
Authorised:		
8,000,000,000 (2012: 8,000,000,000) ordinary shares of HK\$0.025 each	200,000	200,000
Issued and fully paid:		
5,028,334,500 (2012: 5,028,334,500) ordinary shares of HK\$0.025 each	125,708	125,708

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The tight liquidity and shadow banks issues in the People's Republic of China ("PRC") caused high volatility in stock market in June 2013 and dragged down the overall market sentiment towards the end of the month. The Group recorded a loss of HK\$71.4 million for the first half of 2013 as compared with a loss of HK\$46.2 million for the same period of last year mainly due to the unrealized revaluation loss of our investments at market price as at 30 June 2013 and the decrease in net profit on trading of securities and other financial instruments recognized in the first half of 2013.

Broking, trading and investment

Due to the continued keen competition and poor market sentiment, revenue recorded for broking was maintained at the similar level with a slight increase from HK\$24.8 million to HK\$25.7 million. Operating loss decreased to HK\$11.3 million for the six-month period ended 30 June 2013 from HK\$14.2 million for the same corresponding period in 2012.

Trading and investment incurred a loss of HK\$66.5 million for the period as compared with a loss of HK\$20.8 million for the same period in 2012. Unrealized loss on financial assets at fair value through profit or loss of HK\$59.5 million was included.

Margin financing and money lending

The loan portfolio size was maintained at the similar level with the balance of HK\$203.6 million as at 30 June 2013 as compared with that of HK\$208.8 million as at 31 December 2012. Revenue recorded for the period was HK\$9.9 million as compared with HK\$8.5 million for the same period of last year. Contribution from this segment decreased from HK\$4.1 million to HK\$1.4 million for the six months ended 30 June 2013. The decrease was mainly due to additional provision made against the drop in the market price of stocks collaterals of margin loans as at 30 June 2013.

Corporate advisory and underwriting

Revenue from our corporate advisory and underwriting business decreased from HK\$0.4 million to HK\$0.2 million while the operating loss was around HK\$4 million for both six-month periods in 2012 and 2013.

Wealth management

Revenue and operating loss for this new segment was HK\$0.9 million and HK\$1.3 million respectively for the six months ended 30 June 2013.

Property investment

The Group transferred the owner-occupied property to investment property on 30 June 2012. Fair value revaluation gain and gross rental income of HK\$17.1 million and HK\$1.8 million respectively were recorded for the investment property and contribution from this segment was HK\$17.6 million for the six months ended 30 June 2013.

Liquidity and Financial Resources

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

As at 30 June 2013, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$134.9 million (31 December 2012: HK\$145.2 million), which, when related to the Group's equity of HK\$425.2 million (31 December 2012: HK\$500.6 million), represented a gearing ratio of approximately 31.7% (31 December 2012: 29.0%).

The Group had a cash balance of HK\$105.6 million at the end of the current period, a slight decrease of 1.3% from the end of 2012. The Group had sufficient working capital base to meet its operational needs.

Prospects

US Federal Reserve's announcement of tapering its quantitative easing policies and the weak economic statistics of PRC continue to pester the market. The investors are in general taking a wait-and-see attitude which has dragged down the market turnover. The current business environment is particularly tough to some traditional retail brokerage firms. Up to July 2013, 12 brokerage firms have decided to close their businesses.

Compared with these traditional brokerage firms, our Group has the competitive advantage that we have already built the platforms and systems to extend our products and market coverage beyond Hong Kong stock market. We are now in a phase to transform from a traditional retail brokerage firm to a versatile financial institution. We shall keep on broadening the clientele, products, services and markets coverage. We believe this strategy can build a sustainable business model for our Group under the current volatile and fast-changing business environment.

We shall partner with some organizations specializing in the provision of trading models and methodologies of high frequency and algorithm trading to retail investors in order to broaden our client base. High frequency and algorithm trades were previously limited to institutional investors. With the development of technology, retail investors can also tap into these types of trading models. We believe this will be one of the key trends in retail brokerage business in the future.

We shall also re-activate our corporate finance and equity capital market business. There are several deals in the pipeline and we expect that we shall complete one IPO application by the end of 2013 and we are planning to be more active in acting as co-manager in the equities capital market.

In order to execute our business strategies, we have kept on recruiting front office staff while maintaining similar level of back office staff until we see improvement in our revenue. Although our headcount has been increased from 183 as at 30 June 2012 to 192 as at 30 June 2013, our staff costs were cut by HK\$3 million. In addition, we have relocated the back office from our own property at Admiralty to Wan Chai. At the same time, we have rented out most of this property at Admiralty to external third parties at a higher rental. We shall continue to control the costs cautiously during the process of building the new business model.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

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

During the six months ended 30 June 2013, the Company did not redeem any of its shares listed on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any such shares.

CORPORATE GOVERNANCE

The Company had complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2013 except that Mr. Ng Hung Sang, the Chairman and an Executive Director of the Company, Mr. Ng Tze Wai, Hon. Raymond Arthur William Sears, Q.C. ("Mr. Sears") and Mr. Tung Woon Cheung Eric ("Mr. Tung") were unable to attend the annual general meeting of the Company held on 4 June 2013, which deviated from code provisions A.6.7 and E.1.2 since they had other business engagements. Mr. Tung, being an Independent Non-executive Director ("INED"), was the chairman of the Audit Committee of the Company, while Mr. Ng Tze Wai, being a Non-executive Director until his resignation with effect from 1 August 2013, and Mr. Sears, being an INED, were not the chairman of the Remuneration and Nomination Committee of the Company.

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 INEDs, namely Mr. Tung (Chairman of the Committee), Mrs. Tse Wong Siu Yin Elizabeth and Mr. Sears.

The Group's unaudited consolidated results for the six months ended 30 June 2013 have been reviewed by the Audit Committee.

By Order of the Board
South China Financial Holdings Limited
Ng Hung Sang
Chairman and Executive Director

Hong Kong, 20 August 2013

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; 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.