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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 2014

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 (collectively, the “Group”) for the six months ended 30 June 2014 are as follows:

CONDENSED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	2	42,171	43,282
Fair value (loss)/gain on investment property		(37,000)	17,100
Impairment of loans and trade receivables, net		(1,129)	(2,776)
Fair value loss on financial assets at fair value through profit or loss		(24,810)	(59,511)
Other income		1,901	570
Other operating expenses		(68,578)	(64,949)
Loss from operating activities		(87,445)	(66,284)
Finance costs	5	(3,795)	(3,459)
Share of losses of associates		(2,299)	(1,678)
Loss before tax	3	(93,539)	(71,421)
Income tax expenses	6	(112)	(8)
Loss for the period		(93,651)	(71,429)
Attributable to:			
Equity holders of the Company		(93,641)	(71,425)
Non-controlling interests		(10)	(4)
		(93,651)	(71,429)
Loss per share attributable to equity holders of the Company	8		
Basic and diluted		(HK1.86 cents)	(HK1.42 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		4,730	5,884
Investment property	9	393,000	430,000
Intangible assets		836	836
Investments in associates		4,835	7,134
Available-for-sale investments		19,157	22,867
Other assets		6,725	9,871
Long term loans receivable	10	10,877	13,074
Long term deposits		1,547	1,452
Total non-current assets		441,707	491,118
CURRENT ASSETS			
Financial assets at fair value through profit or loss	11	125,920	160,430
Loans receivable	10	179,949	210,946
Trade receivables	12	240,296	148,257
Other receivables, prepayments and deposits		31,586	21,529
Pledged time deposits		5,500	5,500
Cash held on behalf of clients		457,857	520,384
Cash and bank balances		127,762	102,121
Tax recoverable		207	-
Total current assets		1,169,077	1,169,167
CURRENT LIABILITIES			
Client deposits		536,332	452,652
Trade payables	12	165,777	169,546
Other payables and accruals		12,355	11,618
Tax payables		37	61
Interest-bearing bank borrowings		273,707	308,042
Total current liabilities		988,208	941,919
NET CURRENT ASSETS		180,869	227,248
TOTAL ASSETS LESS CURRENT LIABILITIES		622,576	718,366
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		187,563	184,976
Deposits received		1,959	1,959
Deferred tax liabilities		28,868	28,868
Total non-current liabilities		218,390	215,803
Net assets		404,186	502,563
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	13	125,702	125,652
Reserves		277,940	376,357
		403,642	502,009
Non-controlling interests		544	554
Total equity		404,186	502,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. Basis of preparation

The unaudited condensed consolidated interim financial statements (the “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 2013 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 2014, as disclosed in the annual financial statements for the year ended 31 December 2013. The adoption of these new Hong Kong Financial Reporting Standards as disclosed in the annual financial statements for the year ended 31 December 2013 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 2013 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	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000
Commission and brokerage income	26,567	26,173
(Loss)/profit on trading of securities, forex, bullion and futures contracts, net	(4,777)	3,363
Dividend income from listed investments	1,070	574
Interest income from bullion and forex	604	445
Interest income from loans receivable	8,693	8,997
Interest income from bank and financial institutions	360	371
Rendering of services	5,623	1,539
Gross rental income	4,031	1,820
	42,171	43,282

3. Loss before tax

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000
The Group’s loss is arrived at after charging:		
Cost of services provided	14,307	14,546
Depreciation	1,873	1,941
Interest expenses for margin financing and money lending operations	2,181	2,395

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 2014 and 2013 are as follows:

	2014	2013	2014 Profit/ (loss) from operating activities HK\$'000	2013 Profit/ (loss) from operating activities HK\$'000
	Revenue HK\$'000	Revenue HK\$'000		
Broking	23,658	25,677	(12,659)	(11,283)
Trading and investment	(3,422)	4,704	(38,620)	(66,458)
Margin financing and money lending	9,876	9,937	2,696	1,410
Corporate advisory and underwriting	1,899	235	(1,537)	(4,166)
Wealth management	1,834	909	(1,413)	(1,306)
Property investment	4,031	1,820	(34,383)	17,639
Corporate and others	4,295	-	(1,529)	(2,120)
Consolidated	<u>42,171</u>	<u>43,282</u>	<u>(87,445)</u>	<u>(66,284)</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 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% (2013: 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 2014 (six months ended 30 June 2013: 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\$93,651,000 (2013: HK\$71,429,000) and the weighted average number of 5,027,078,975 (2013: 5,028,334,500) ordinary shares in issue during the period.

No share option was outstanding as at 30 June 2014. The Company's share options had no dilution effect for the six months ended 30 June 2013 because the exercise price of the Company's share option was higher than the average market price of shares for the period.

9. Investment property

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Carrying amount at 1 January	430,000	357,900
Additions	-	70
Net (loss)/gain from a fair value adjustment	(37,000)	72,030
Carrying amount	393,000	430,000

On 30 June 2014, the Group's investment property was revalued by Roma Appraisals Limited at HK\$393,000,000 (31 December 2013: HK\$430,000,000) on the open market and existing use basis. The decrease of fair value of HK\$37,000,000 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 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Repayable:		
On demand	176,141	196,712
Within 3 months	1,477	2,961
3 months to 1 year	2,331	11,273
1 year to 5 years	10,869	13,074
Over 5 years	8	-
	190,826	224,020
Portion classified as current assets	(179,949)	(210,946)
Portion classified as non-current assets	10,877	13,074

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 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Shares		
Authorised:		
8,000,000,000 (2013: 8,000,000,000) ordinary shares of HK\$0.025 each	200,000	200,000
Issued and fully paid:		
5,028,084,500 (2013: 5,026,084,500) ordinary shares of HK\$0.025 each	125,702	125,652

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The uncertainties brought about by the Federal Reserve's announcements on quantitative easing tapering and further fueled by the PRC's vacillating money market and weak economic statistics have continued to pester the Hong Kong market. Most investors adopted a wait-and-see approach, resulting in a sluggish market turnover for the first half of 2014 and entrapping our Group in the low business cycle. However, since the beginning of the second half of 2014, macro data and market sentiment appears to be back on the rising curve. The anticipated launch of the Shanghai Hong Kong Stock Connect later in the year is expected to provide abounding investment opportunities and further underpin Hong Kong's leadership position in the region's capital market.

The Group recorded a loss of HK\$93.7 million for the six months ended 30 June 2014 as compared with a loss of HK\$71.4 million for the same period of last year mainly due to loss on fair value revaluation of our investment property as at 30 June 2014.

Broking, trading and investment

The underperformance of local market together with fierce market competition continued to pull down revenue for broking business for the six months ended 30 June 2014. Revenue for broking recorded for the first half of 2014 was HK\$23.7 million, representing 7.9% decrease from HK\$25.7 million for the same period in 2013. Operating loss increased to HK\$12.7 million for the six-month period ended 30 June 2014 from HK\$11.3 million for the same corresponding period in 2013.

Trading and investment incurred a loss of HK\$38.6 million for the six months ended 30 June 2014 as compared with a loss of HK\$66.5 million for the same period in 2013. Unrealized loss on financial assets at fair value through profit or loss of HK\$24.8 million was included.

Margin financing and money lending

Revenue recorded for the six months ended 30 June 2014 was HK\$9.9 million which was about the same for the same corresponding period in 2013. Contribution from this segment sharply increased from HK\$1.4 million for the six months ended 30 June 2013 to HK\$2.7 million for the six months ended 30 June 2014. The loan portfolio size was decreased by 14.8% with the balance of HK\$190.8 million as at 30 June 2014 as compared with that of HK\$224.0 million as at 31 December 2013.

Corporate advisory and underwriting

Revenue from our corporate advisory and underwriting business increased from HK\$0.2 million for the six months ended 30 June 2013 to HK\$1.9 million for the six months ended 30 June 2014. We had been successful in trimming the operating loss to HK\$1.5 million for the six months ended 30 June 2014 as compared to HK\$4.2 million for the same corresponding period in 2013.

Wealth management

Revenue recorded for the six months ended 30 June 2014 was HK\$1.8 million as compared with HK\$0.9 million for the same corresponding period in 2013. Operating loss was slightly increased to HK\$1.4 million for the six months ended 30 June 2014 from HK\$1.3 million for the same period in 2013.

Property investment

Fair value revaluation loss recorded for the six months ended 30 June 2014 was HK\$37 million as compared with fair value revaluation gain of HK\$17.1 million for the same corresponding period in 2013. Gross rental income was substantially increased from HK\$1.8 million for the first six months of 2013 to HK\$4.0 million for the six months ended 30 June 2014.

Liquidity and Financial Resources

The Group had obtained short term credit facilities which were reviewed annually 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 2014, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$187.6 million (31 December 2013: HK\$185.0 million), which, when related to the Group's equity of HK\$404.2 million (31 December 2013: HK\$502.6 million), represented a gearing ratio of approximately 46.4% (31 December 2013: 36.8%).

The Group had a cash balance of HK\$127.8 million at the end of the current period, an increase of 25.1% from the end of 2013. The Group had sufficient working capital base to meet its operational needs.

Prospects

Our Group stands out amongst our peers in being well equipped with integrated platforms, systems and sales channels to support expansion of products and market coverage beyond the local market. We are assiduously pursuing transformation from a traditional local retail brokerage company to a versatile regional financial institution, and already we have had many successes in broadening client base, products, services and markets coverage. We will deepen client penetration through partnerships with institutions specialized in wealth management products and trading models. We are confident that this strategy will build a sustainable business model and steer the Group ahead of the increasingly volatile and ever evolving business environment.

As a result of the overhauling our corporate finance and equity capital market business, we have added exciting new deals to the pipeline and optimistically expect to launch an IPO application by the end of 2014. Along with renewed focus on the corporate market, the Group has also increased emphasis and strengthened its M&A and financial advisory services.

Our new strategies demand stellar human capital. We are actively recruiting new talents and increasingly cross-training in-house - our comprehensive Management Trainee program is one of such endeavours to breed financial talents that uphold the Group's culture and standards.

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

During the six months ended 30 June 2014, 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 CODE

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 2014 except that Mr. Ng Hung Sang, the Chairman and an Executive Director of the Company, was unable to attend the annual general meeting of the Company held on 10 June 2014 since he had other business engagements, which deviated from code provision E.1.2.

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

Hong Kong, 26 August 2014

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.