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SOUTH CHINA FINANCIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 2016 (the “Period”) are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	3,5	64,745	107,216
Fair value gain on investment property		11,200	-
Impairment of loans and trade receivables, net		(359)	(268)
Fair value gain/(loss) on financial assets at fair value through profit or loss		(21,750)	74,870
Other income		770	1,536
Other operating expenses		(64,456)	(100,672)
Profit/(loss) from operating activities		(9,850)	82,682
Finance costs	6	(4,063)	(3,546)
Share of loss of an associate		-	(974)
Profit/(loss) before tax	4	(13,913)	78,162
Income tax expenses	7	(312)	(305)
Profit/(loss) for the period		(14,225)	77,857
Attributable to:			
Equity holders of the Company		(14,225)	77,863
Non-controlling interests		-	(6)
		(14,225)	77,857
Earnings/(loss) per share attributable to equity holders of the Company	9		
Basic and diluted		(HK0.19 cents)	HK1.27 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		2,644	3,442
Investment property	10	408,700	397,500
Intangible assets		836	836
Available-for-sale investments		29,407	33,258
Other assets		6,690	6,369
Long term deposits		728	727
Total non-current assets		449,005	442,132
CURRENT ASSETS			
Financial assets at fair value through profit or loss	11	258,688	204,960
Loans receivable	12	306,870	285,258
Trade receivables	13	127,972	120,947
Other receivables, prepayments and deposits		28,772	31,763
Pledged time deposits		1,316	39,156
Derivative financial instruments	15	1,438	-
Cash held on behalf of clients		435,490	561,659
Cash and bank balances		130,059	110,721
Total current assets		1,290,605	1,354,464
CURRENT LIABILITIES			
Client deposits		475,822	613,391
Trade payables	13	26,203	27,093
Other payables and accruals		16,390	18,485
Derivative financial instruments	15	3,163	-
Tax payables		4,339	4,326
Interest-bearing bank borrowings		367,771	256,769
Total current liabilities		893,688	920,064
NET CURRENT ASSETS		396,917	434,400
TOTAL ASSETS LESS CURRENT LIABILITIES		845,922	876,532
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		162,435	175,209
Deposits received		1,135	582
Deferred tax liabilities		29,755	29,741
Total non-current liabilities		193,325	205,532
Net assets		652,597	671,000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	14	597,685	597,685
Other reserves		54,912	73,315
Total equity		652,597	671,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. Basis of preparation

The unaudited condensed consolidated interim results of the Group and the unaudited condensed consolidated interim financial statements (the “interim financial statements”) have been reviewed by the audit committee of the Company.

The interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (the “HKAS”) No. 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 2.

These interim financial statements do not include all the information and disclosures required in annual financial statements, and should be read, where relevant, in conjunction with the 2015 annual financial statements of the Group.

2. Changes in accounting policies

The HKICPA has issued the following amendments to Hong Kong Financial Reporting Standards (the “HKFRSs”) that are first effective for the current accounting period of the Group and the Company.

Amendments to HKFRS 10, HKFRS 12

and HKAS 28 (2011)

Investment Entities: Applying the Consolidation Exception

Amendments to HKAS 1

Disclosure Initiative

Amendments to HKAS 16 and HKAS 38

Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to HKAS 16 and HKAS 41

Agriculture: Bearer Plants

Amendments to HKAS 27 (2011)

Equity Method in Separate Financial Statements

Annual Improvements to HKFRSs 2012-2014 Cycle

None of these developments have had a material effect on how the Group's results and financial position for the current and prior periods have been prepared or presented.

3. Revenue

	Six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Commission and brokerage income	13,140	44,365
Profit on trading of securities, forex, bullion and futures contracts, net	23,132	38,473
Dividend income from listed investments	1,805	584
Interest income from bullion and forex	367	208
Interest income from loans receivable	9,566	10,597
Interest income from banks and financial institutions	674	408
Rendering of services	11,281	7,600
Gross rental income	4,780	4,981
	64,745	107,216

4. Profit/(loss) before tax

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The Group's profit/(loss) is arrived at after charging:		
Cost of services provided	7,417	18,354
Depreciation	1,013	1,179
Interest expenses for margin financing and money lending operations	1,232	2,622

5. Revenue and segmental information

The Group manages its business by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified 7 reportable segments as summarized below.

	Six months ended 30 June			
	2016	2015	2016	2015
			Profit/	Profit/
			(loss) from	(loss) from
			operating	operating
	Revenue	Revenue	activities	activities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Broking	13,675	44,971	(31,594)	(2,142)
Trading and investment	25,067	39,485	(2,589)	84,710
Margin financing and money lending	10,817	11,216	7,916	3,686
Corporate advisory and underwriting	9,631	4,450	6,274	645
Wealth management	256	964	(1,841)	(4,255)
Property Investment	4,780	4,980	15,482	4,393
Other business and corporate	519	1,150	(3,498)	(4,355)
Consolidated	64,745	107,216	(9,850)	82,682

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

6. Finance costs

Finance costs mainly represent interest on a mortgage loan secured by the Group's investment property.

7. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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.

8. Interim dividend

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

9. Earnings/(loss) per share

The calculation of basic and diluted earnings per share is based on the loss for the Period attributable to equity holders of the Company of approximately HK\$14,225,000 (Six months ended 30 June 2015: profit of HK\$77,863,000) and the weighted average number of 7,542,126,750 (Six months ended 30 June 2015: 6,108,705,975) ordinary shares in issue during the Period.

10. Investment property

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Carrying amount at 1 January	397,500	397,500
Net gain from a fair value adjustment	11,200	-
Carrying amount	<u>408,700</u>	<u>397,500</u>

On 30 June 2016, the Group's investment property was revalued by Roma Appraisal Limited at HK\$408,700,000 (31 December 2015: HK\$397,500,000) on the open market and existing use basis. The investment property is 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

11. Financial assets at fair value through profit or loss

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

12. 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 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Repayable:		
On demand	292,917	266,401
Within 3 months	1,034	1,481
3 months to 1 year	12,919	17,376
1 year to 5 years	-	-
Portion classified as current assets	<u>306,870</u> <u>(306,870)</u>	<u>285,258</u> <u>(285,258)</u>
Portion classified as non-current assets	<u>-</u>	<u>-</u>

13. 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.

14. Issued capital

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Shares		
Issued and fully paid:		
7,542,126,750 (2015: 7,542,126,750) ordinary shares	<u>597,685</u>	<u>597,685</u>

15. Fair value and fair value hierarchy of financial instruments

The fair values of listed equity investments are based on quoted market prices. The fair value of unlisted available-for-sale investments which represented club debentures have been estimated based on market transaction prices. The Group records its derivative activities on the mark-to-market basis. Fair values are determined based on the quotes from market makers or alternative market participants supported by observable inputs including spot and forward exchange rates.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 30 June 2016

As at 30 June 2016	Fair value measurement using			
	Quoted prices	Significant	Significant	Total
	in active	observable	unobservable	
	markets	inputs	inputs	
(Level 1)	(Level 2)	(Level 3)		
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
<i>Assets measured at fair value:</i>				
Available-for-sales investments:				
Equity investments	27,019	-	-	27,019
Debt investments	-	2,388	-	2,388
Financial assets at fair value through profit or loss (note 11)	258,688	-	-	258,688
Derivative financial instruments:				
Leveraged foreign exchange contracts	-	1,424	-	1,424
Leveraged bullion contracts	-	14	-	14
	285,707	3,826	-	289,533
<i>Liabilities measured at fair value:</i>				
Derivative financial instruments:				
Leveraged foreign exchange contracts	-	3,163	-	3,163
Leveraged bullion contracts	-	-	-	-
	-	3,163	-	3,163

15. Fair value and fair value hierarchy of financial instruments (Continued)

Fair value hierarchy (Continued)

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
<i>Assets measured at fair value:</i>				
Available-for-sales investments:				
Equity investments	30,870	-	-	30,870
Debt investments	-	2,388	-	2,388
Financial assets at fair value through profit or loss (note 11)	204,960	-	-	204,960
Derivative financial instruments:				
Leveraged foreign exchange contracts	-	-	-	-
Leveraged bullion contracts	-	-	-	-
	235,830	2,388	-	238,218
<i>Liabilities measured at fair value:</i>				
Derivative financial instruments				
Leveraged foreign exchange contracts	-	-	-	-
Leveraged bullion contracts	-	-	-	-
	-	-	-	-

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2016, the Group continued to face challenges from shrinking market turnover and higher levels of market volatility on local and global market uncertainty.

The Group recorded a loss of HK\$14.2 million for the six months ended 30 June 2016 as opposed to a profit of HK\$77.9 million for the corresponding period last year. The loss was largely attributable to a fair value loss and a decline in trading gains on financial assets during the Period whereas the Group reported a significant fair value gain on financial assets for the same period last year. Income from broking business also saw a decline in the first half on weak local stock market turnover. The decline in income from broking and trading and investment segments outweighed the fair value gain on property investment during the Period.

Broking, trading and investment

The average daily Hong Kong market turnover for the six months of 2016 was HK\$67.5 billion, a decrease of 46% when compared with HK\$125.3 billion for the same period last year. Amidst anemic market turnover during the Period, revenue from the broking business during the Period recorded a 69.6% year-on-year decrease to HK\$13.7million. Operating loss for the broking business for the Period widened to HK\$31.6 million from the loss of HK\$2.1 million in the first half of 2015.

The Group's securities trading portfolio presented under financial assets at fair value through profit or loss as at 30 June 2016 increased to HK\$258.7 million from HK\$205.0 million as at 31 December 2015. Its breakdown is set out in the following table:

Stock code	Name of security	Carrying value as at 30 June 2016 HK\$'000	Percentage of shareholding Interest	Fair value gain/(loss) during the Period HK\$'000
670	China Eastern Airlines Corporation Limited	74,965	0.148	(10,309)
1618	Metallurgical Corporation of China Limited	31,739	0.070	817
413	South China Holdings Company Limited	23,209	0.669	(1,200)
992	Lenovo Group Limited	21,678	0.042	(9,734)
1105	Sing Tao News Corporation Limited	14,410	1.681	(1,214)
Others		92,687		(110)
Total		258,688		(21,750)

In light of volatile market conditions in the first six months of 2016, the Group recognized a loss of HK\$2.6 million from its trading and investment segment as opposed to the profit of HK\$84.7 million for the same period last year. Fair value loss on financial assets for the Period amounted to HK\$21.8 million as compared with the fair value gain of HK\$74.9 million recorded in the same period last year.

Margin financing and money lending

The loan portfolio grew 7.6% during the Period to HK\$306.9 million as at 30 June 2016 from HK\$285.3 million as at 31 December 2015. Revenue recorded for the Period was HK\$10.8 million comparing to HK\$11.2 million for the same corresponding period in 2015. Contribution from this segment increased from HK\$3.7 million for the six months ended 30 June 2015 to HK\$7.9 million for the Period.

Corporate advisory and underwriting

In the first half of 2016, the fundraising size of the Hong Kong IPO market decreased 56.6% year-on-year. There were 40 newly listed companies for the Period as compared to 51 in the same period last year. Despite the slowdown in the market, we completed a number of structured financing transactions and participated in several primary and secondary market placings, and continued to extend our footprint in the corporate advisory sector.

As a result, revenue and operating profit from the Group's corporate advisory and underwriting business increased to HK\$9.6 million and HK\$6.3 million, respectively, for the six months ended 30 June 2016. The corresponding revenue and operating profit in the first half of 2015 were HK\$4.5 million and HK\$0.6 million, respectively.

Wealth management

Revenue recorded for the Period was HK\$0.3 million as compared with HK\$1 million for the same corresponding period in 2015. Operating loss was reduced to HK\$1.8 million for the Period from HK\$4.3 million for the same period in 2015.

Property investment

Fair value revaluation gain of HK\$11.2 million was recorded for the Period as compared with no fair value gain or loss for the same corresponding period in 2015. Gross rental income was slightly edged down from HK\$5 million for the first six months of 2015 to HK\$4.8 million for the Period.

Other business and corporate

HK\$0.5 million was recorded for the Period as compared with HK\$1.2 million for the same corresponding period in 2015. Operating loss was slightly decreased to HK\$3.5 million for the Period from HK\$4.4 million for the same period in 2015.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had obtained short term credit facilities which were reviewed annually and a long term mortgage loan from a bank. The banking facilities for the share margin finance operations were secured by the securities of our margin clients and the Group. The outstanding credit facilities were guaranteed by the Company.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The Group's policy is to maintain the gearing ratio below 50%. Net debt includes interest-bearing bank borrowings, less cash and bank balances. Capital represents total equity. The gearing ratio as at 30 June 2016 was approximately 38.0% (31 December 2015: 32.4%).

The Group had a cash balance of HK\$130 million at the end of the current Period, an increase of 17.5% from the end of 2015. The Group had sufficient working capital base to meet its operational needs.

CAPITAL STRUCTURE

There was no material change in Group's capital structure during the Period as compared to the most recent published annual report.

EVENT AFTER THE REPORTING PERIOD

On 20 April 2016, the Company announced for a proposed rights issue of 7,542,126,750 rights shares to the qualifying shareholders on the basis of one rights share for every one share of the Company held on the record date at a subscription price of HK\$0.066 per rights share (the “Rights Issue”). The Rights Issue was completed on 11 August 2016 and raised gross proceeds of approximately HK\$497.8 million before expenses. For details of the Rights Issue, please refer to the Company’s announcements dated 20 April 2016, 10 May 2016, 30 June 2016 and 10 August 2016 and the circular dated 14 June 2016 and the prospectus dated 20 July 2016.

As a result of the completion of Rights Issue, the exercise price of the outstanding share options and the number of shares for which the holders of such outstanding share options may subscribe upon the exercise thereof have been adjusted in the following manner:

	Immediately before completion of the Rights Issue		Immediately after completion of the Rights Issue	
	Exercise price per Share	Number of shares that can be subscribed for upon exercise of the outstanding share options	Adjusted exercise price per Share	Adjusted number of shares that can be subscribed for upon exercise of the outstanding share options
Date of grant				
9 June 2015	HK\$0.202	45,000,000	HK\$0.195	46,615,386

PROSPECTS

In the near term, global market sentiment is likely to remain conservative and cautious. However, with the green light of the Shenzhen-Hong Kong Stock Connect, there is much anticipated improvement of market sentiment and market momentum in the latter half of 2016. The Management expects that the Group’s all lines of business will be benefited. Looking forward, the Group will remain cautiously optimistic as Hong Kong will continue its prominent role as a key fundraising center for mainland enterprises and as a gateway for accessibility to international markets. The completion of the Company’s Rights Issue in early August 2016 has increased the its capital base for expanding its business operation and scale to maintain its market competitiveness in the highly competitive Hong Kong financial market and sharpen its competitiveness to meet the challenges ahead.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Period, the trustee of the Company’s employees’ share award scheme had not purchased any share of the Company pursuant to the terms of the rules and trust deed of the share award scheme. In addition, there was no purchase, sale or redemption of the Company’s listed securities by the Company or any of its subsidiaries during the Period.

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 Rules Governing the Listing of Securities on the Stock Exchange throughout the Period and had no material change as compared to the most recent published annual report 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 7 June 2016 since he had other business engagements, which deviated from code provision E.1.2.

REVIEW OF FINANCIAL STATEMENTS

The Group's unaudited consolidated results for the six months ended 30 June 2016 have been reviewed by the audit committee, which was of the opinion that the preparation of such interim results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

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

Hong Kong, 31 August 2016

As at the date of this announcement, the Directors of the Company are (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor and Ms. Ng Yuk Mui Jessica 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.