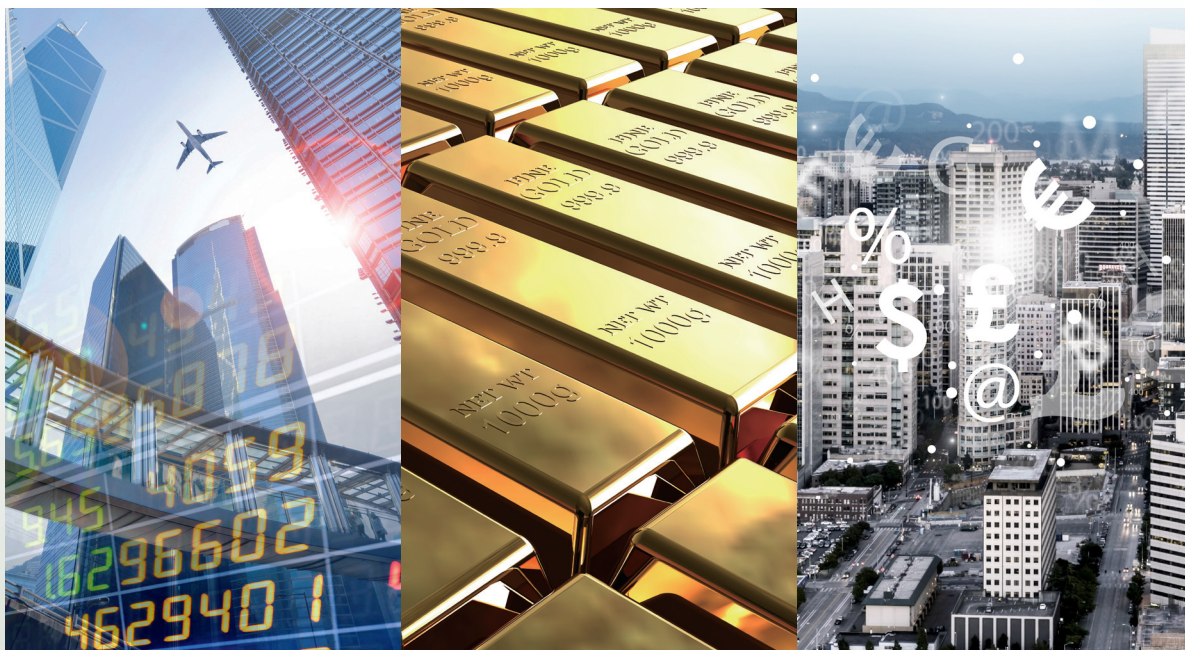




South China Financial Holdings Limited 南華金融控股有限公司

Incorporated in Hong Kong with limited liability

Stock Code : 00619



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT 2016



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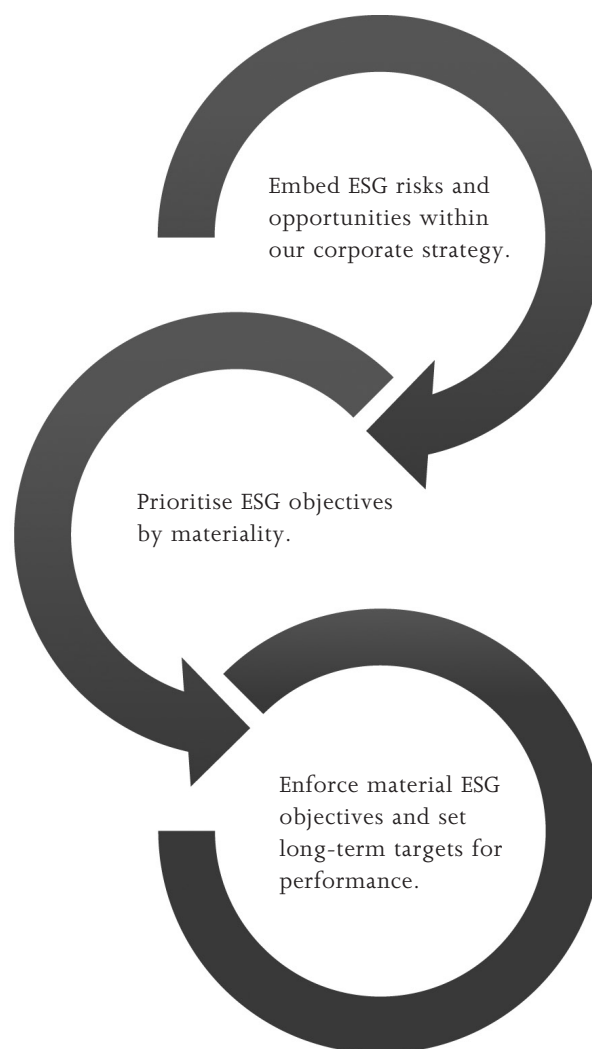
Environmental, Social and Governance Report

South China Financial Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) are committed to contributing to the sustainability of the environment and community. As such, we aim to give investors and other stakeholders an overview of the Group’s internal policies and initiatives on the environmental and social issues in the year 2016 with this environmental, social and governance (“ESG”) report, which is prepared in accordance with the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AT A GLANCE: OUR APPROACH, PRIORITIES AND OBJECTIVES

We encourage environmental, social and corporate governance best practice in our offices across Hong Kong, as we believe this will deliver the best long-term returns.

In gist, we are committed to:



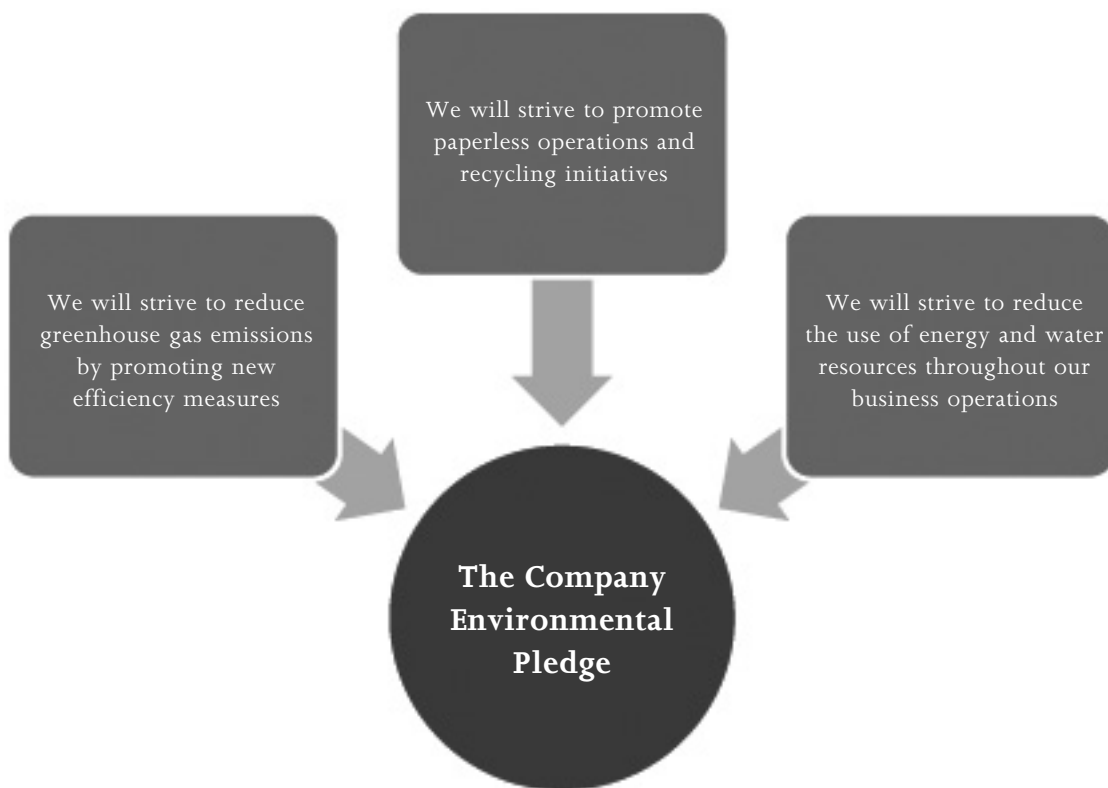
ENVIRONMENT

Basic Stance

We firmly believe that a healthy environment is crucial to the well-being of our society and businesses and is the foundation of a strong and sustainable economy. Because of this, we are committed to doing our part across our businesses in Hong Kong.

Three themes, amongst many, are particularly important when we consider future of a sustainable environment: tackling climate change, efficient use of resources and recycling initiatives. These are also areas where our society demands a high level response from businesses.

In order to address these important themes, the Company is leveraging new frameworks to reduce the impact of its operations on the environment and undertake environmental protection initiatives. Through our businesses, as well as social activities, we are aiming to create a sustainable environment.

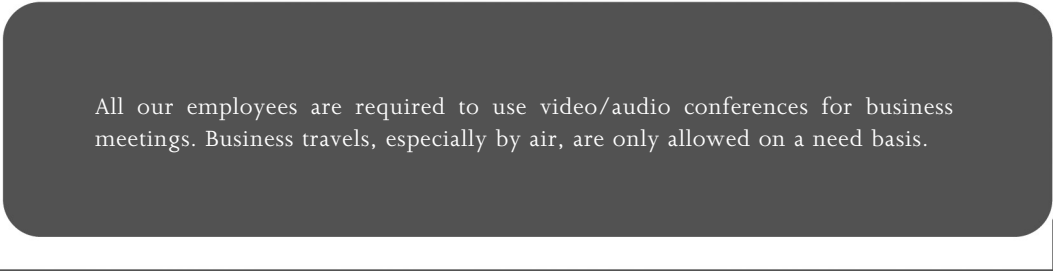


ENVIRONMENT *(continued)*

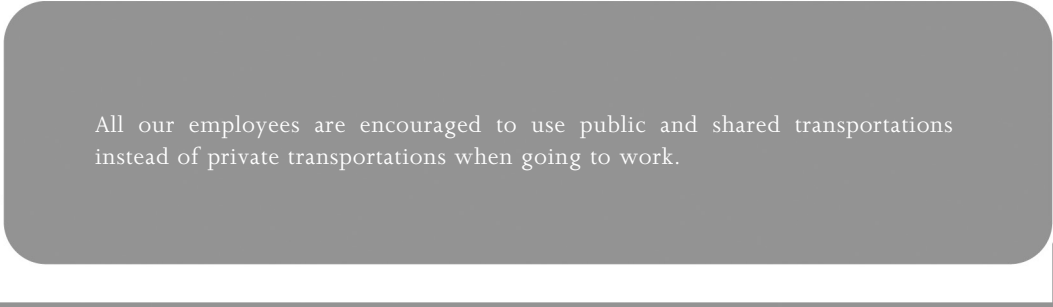
Our Initiatives to Reduce Greenhouse Gas Emissions

We recognize that climate change is one of the most pressing issues facing the global community. We believe that, whilst tackling this issue will depend a great deal on the development and implementation of global climate regulatory frameworks and business innovations, we as a business enterprise, also have a responsibility to reduce our carbon footprint in the move towards a lower carbon society.

Therefore, we are committed to implement new efficiency measures to do our part to reduce further damage to the environment. We have issued a Business Travel Policy whereby:



All our employees are required to use video/audio conferences for business meetings. Business travels, especially by air, are only allowed on a need basis.



All our employees are encouraged to use public and shared transportations instead of private transportations when going to work.

ENVIRONMENT *(continued)*

Our Initiatives on Efficient Use of Resources to Minimise Any Significant Impact on the Environment and Natural Resources

In order to minimise any significant environmental impacts arising from the operations of our different business units, we have implemented policies and guidelines such as the “Energy Efficiency of Lightings, Air Conditioning and Office Machines Services Guide” and the “Recycle Paper and Toner Cartridge Services Guide” to manage the efficient use of resources in our day to day operations. Not only that, we have also initiated green projects and energy/water saving measures to reduce the consumption of energy and water in our offices.

Energy Efficiency Management

We encourage good energy efficiency practice, including:

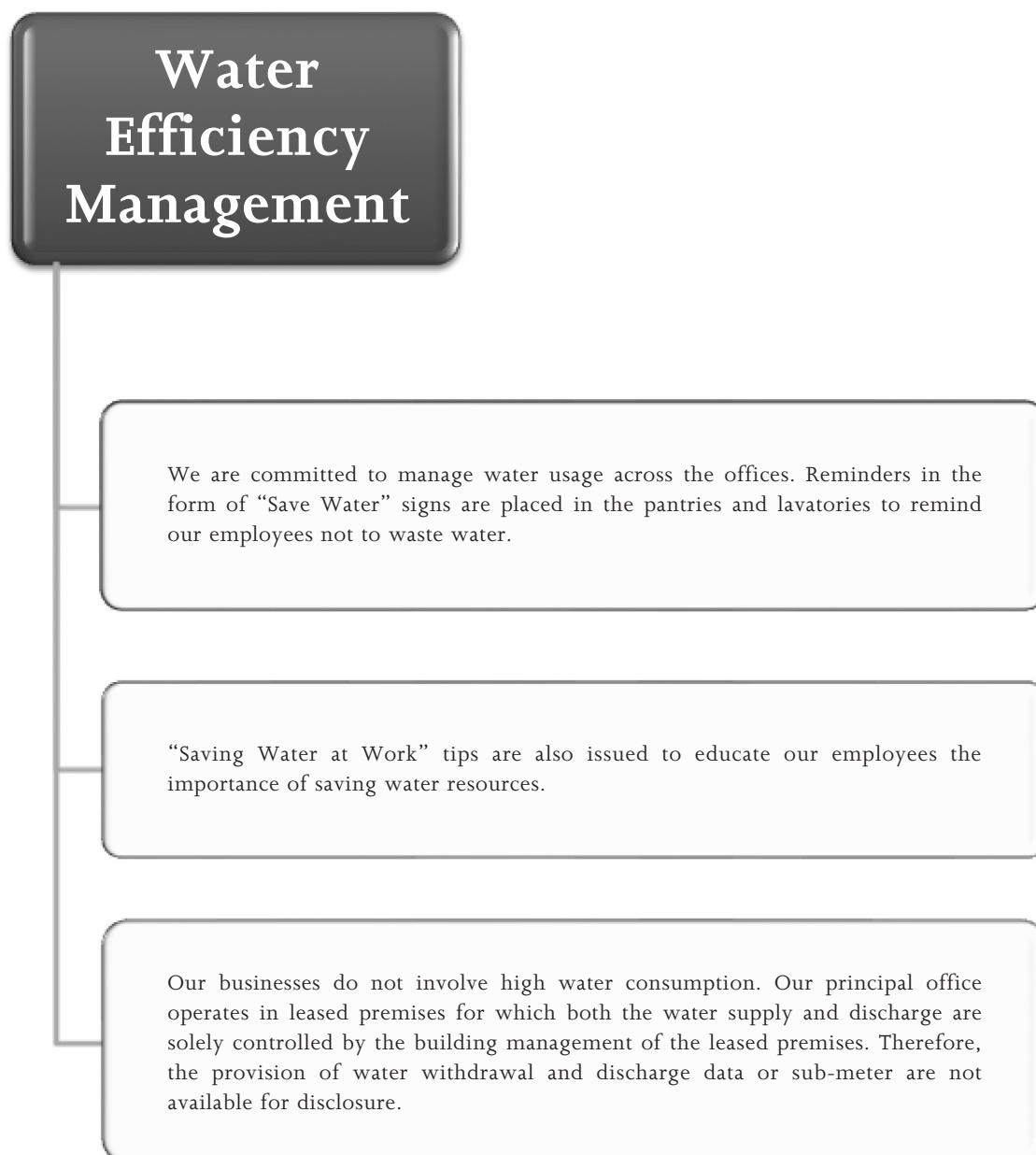
- default duplex and black & white printing are set in copiers and printers.
- employees are encouraged to shut down their computers, air conditioning and other electronic devices before they leave the office.
- the last person to leave the office for lunch or at the end of the day should turn off all lightings, air conditioning and other office machines.
- employees are required to turn on the energy saving mode for computers and other office devices when not using them.
- air-conditioning temperature is maintained at 25° Celsius, when possible.

We have replaced the existing traditional light tubes in our Tesbury office to LED energy saving light tubes, which would save up consumption of electricity by 70% or more.

Reminders in the form of notices are also placed in the common areas in the offices to remind our employees to save energy.

ENVIRONMENT *(continued)*

Our Initiatives on Efficient Use of Resources to Minimise Any Significant Impact on the Environment and Natural Resources *(continued)*



ENVIRONMENT *(continued)*

Our Initiatives on Efficient Use of Resources to Minimise Any Significant Impact on the Environment and Natural Resources *(continued)*

Paper Saving, Waste Reduction and Recycle Management

Paper consumption is a significant environmental issue that we need to address, as it reduces the amount of trees and ultimately would stimulate global warming. We have been implementing online platforms and information systems to process information and store data to reduce paper consumption.

We encourage our client to use e-statement instead of printed materials.

In order to enhance the efficiency and reduce paper consumption, we have replaced the paper payslips with the E-payslips.

Internally, we encourage employees to save papers and think carefully before printing documents. They are reminded to use paperless storage system through electronic scanning, choose 2-sided black and white or reuse the blank sides of used papers when printing or photocopying documents.

ENVIRONMENT *(continued)*

Our Initiatives on Efficient Use of Resources to Minimise Any Significant Impact on the Environment and Natural Resources *(continued)*

Paper Saving, Waste Reduction and Recycle Management (...continued)

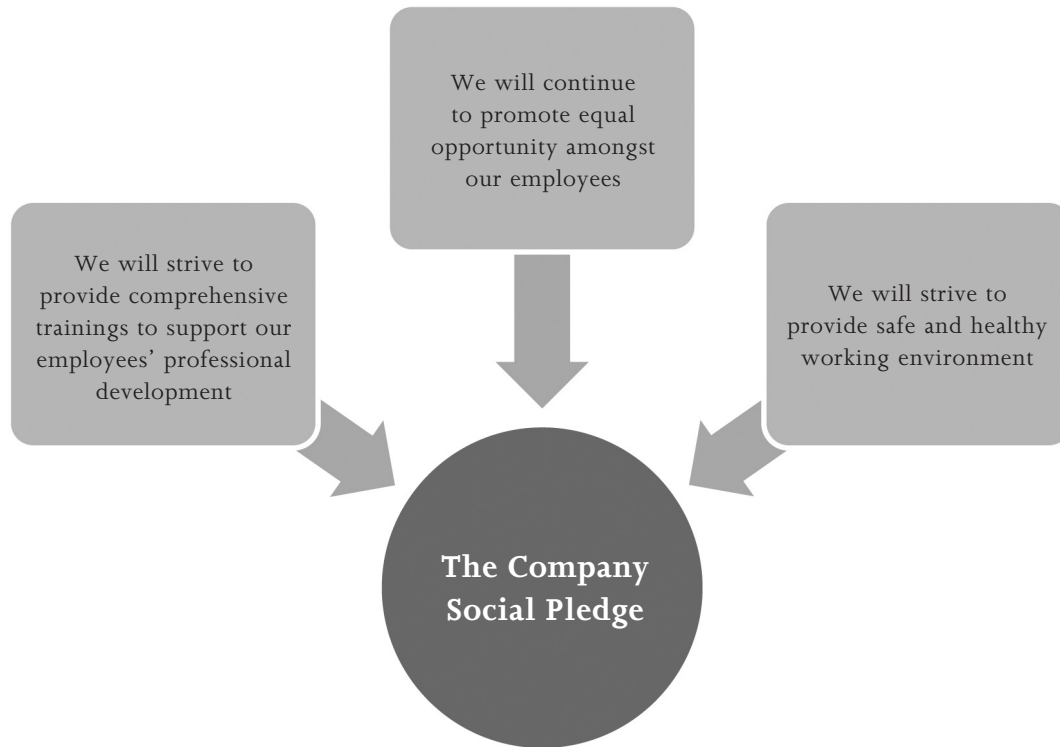
In order to reduce wastes, various recycling collection points are available in the offices to collect waste paper. The external vendors are appointed to collect the waste paper for recycling on a regular basis.

Besides waste paper, we also arranged for empty toner cartridges to be collected by these vendors for recycling purpose.

In October 2016, we set up a collection point at our principal office for collection of second-hand goods for donation to the needy. The second-hand goods were donated to a charitable organisation on 29 Oct 2016.

Going forward, we will strive to continue to enforce these efficiency measures to reduce the consumption of energy and water, and indirectly reduce the emissions of greenhouse gas.

SOCIAL



EMPLOYMENT AND LABOUR PRACTICES

Basic Stance

We are always committed to providing our employees with a fair, safe and healthy working environment, as well as to comply with the applicable laws.

To us, employees are the most valuable assets. We believe that their well-being is essential to sustainable corporate growth. To this end, we promote varied measures to encourage further growth in our human capital and to create structures and environments that allow our employees to maximize their potentials.

Awards

In recognition to our contributions to the society, we were awarded:

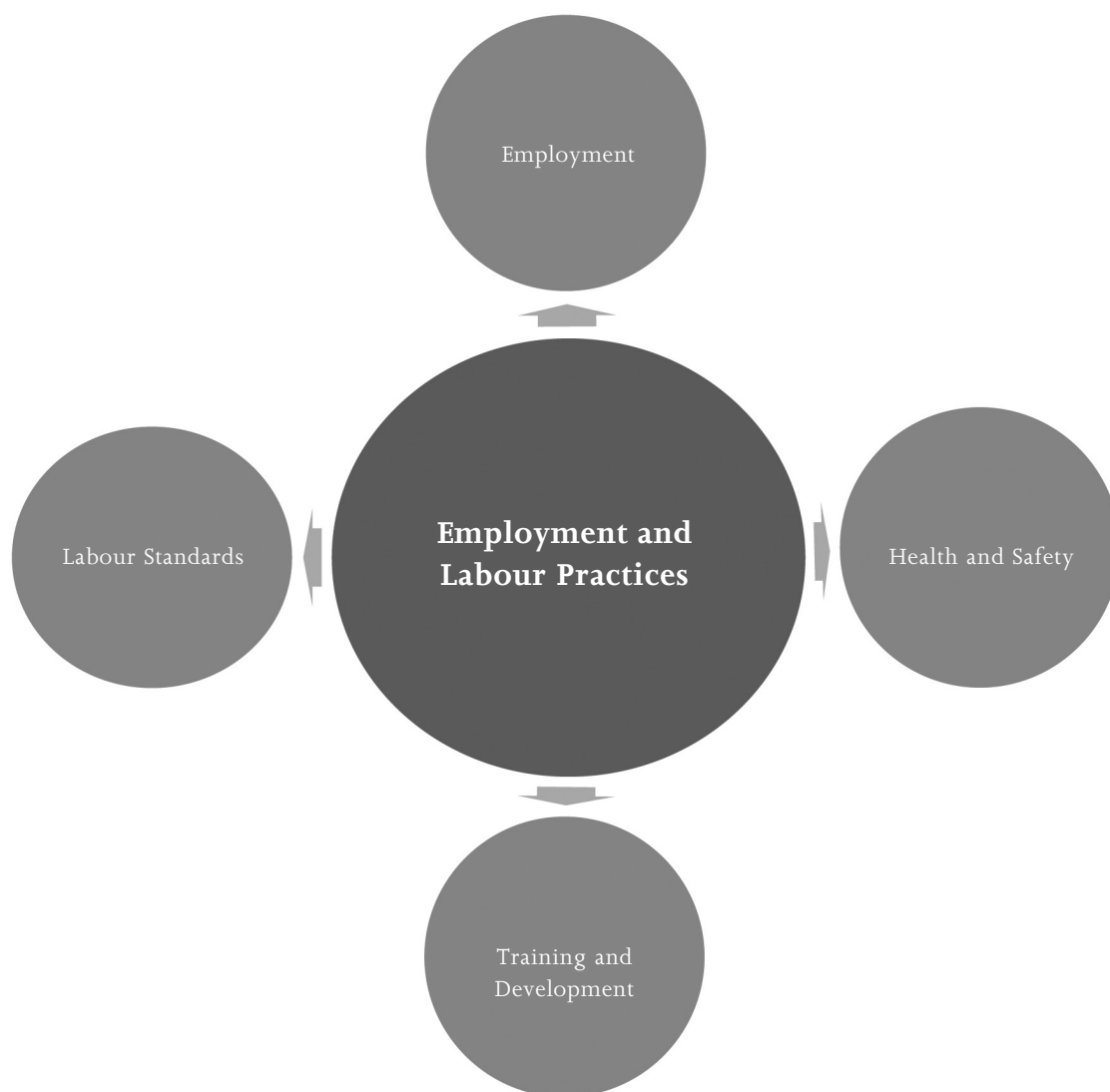
1. the "CIMA 2013 Quality Employer Partners Award" for our support in our employees' professional trainings; and
2. the "Caring Company" logo by The Hong Kong Council of Social Services for our commitment in caring for the community, the employees and the environment.

SOCIAL *(continued)*

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

We will continue to enhance employees' benefits and take up our corporate social responsibility in charitable causes and social service projects. We believe our contribution and engagement will move us forward to a more harmonic community.

There are 4 cores aspects of our employment and labour practices:



SOCIAL *(continued)*

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

Our initiatives: Employment

We promote equal opportunities amongst our employees. In line with our Code of Conduct, Equal Opportunities and Anti-Discrimination Policy and Recruitment Policy, we promote equal treatment of individuals and do not discriminate against any individuals because of age, race, religion, colour, gender, disability, national origin, ancestry, marital status, sexual orientation, gender identity or expression or veteran status. Our cultural diversity is regarded as an asset and discrimination against individual or groups of people will not be tolerated.

We have implemented rewards and bonus schemes based on the employees' contribution and performance. Annual appraisals would be carried out for managing, coaching, assessing and rewarding employees' performances with the following goals:

- Ensure clear objectives linked to business results.
- Build strong alignment between manager and employee.
- Conduct meaningful and constructive discussions.
- Provide feedback, recognition, support and coaching to employees.
- Link rewards (salary increase/bonus/promotion) to performance.

Comprehensive medical insurance is also provided to every employee. In year 2016, we decided to introduce a new medical scheme to enhance the existing in-patient and out-patient benefit levels, including extending the medical scheme to the employees' spouses and dependents by offering self-sponsored voluntary portal plan.

SOCIAL *(continued)*

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

Our initiatives: Employment *(continued)*

In order to raise awareness of healthy living habits, we send e-healthy tips to employees on a regular basis.

We also promote employees' work life balance. We organise and encourage our employees to participate in our yearly "Jessica Run" event. This great event is aimed to bring family members closer together through healthy outdoor activities, as well as promoting charity by fund raising.

Moreover, in order to encourage employees to exercise more, we have negotiated with one of the most well-equipped fitness centres near our principal office to provide corporate discount to our employees.

To foster good relationships, we will send birthday cards and cake coupons to employees to celebrate their birthdays.

SOCIAL (continued)

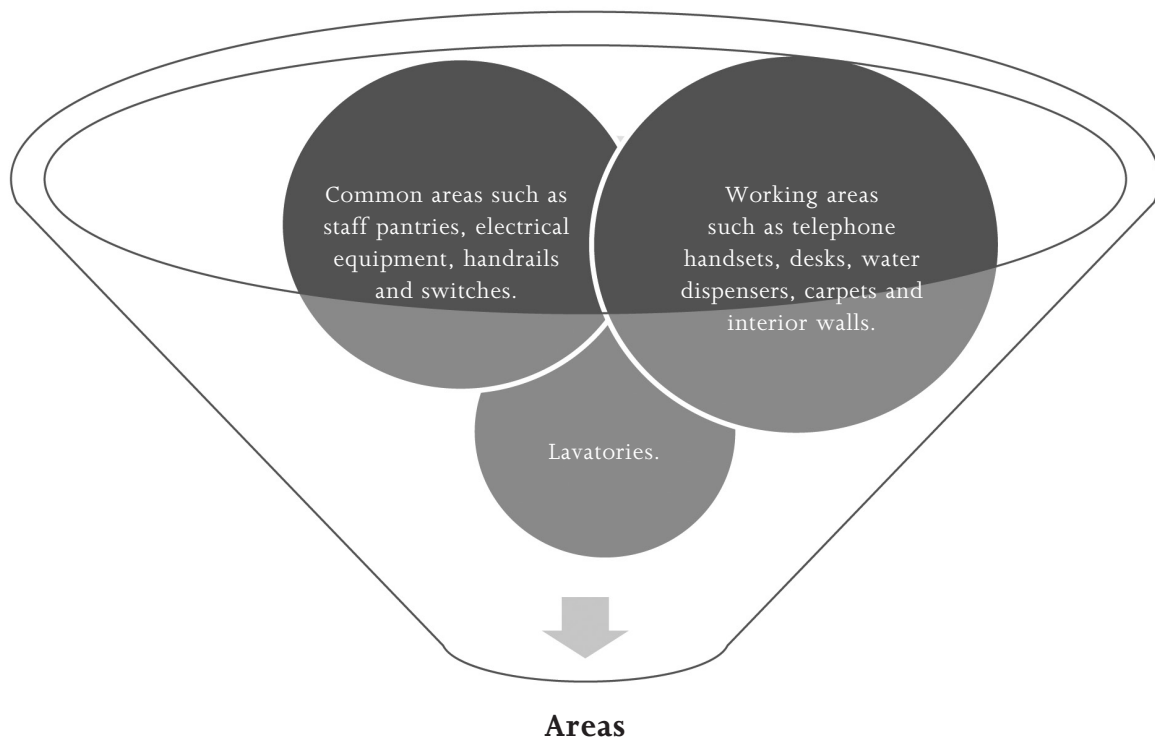
EMPLOYMENT AND LABOUR PRACTICES (continued)

Our initiatives: Health and Safety

We put great importance in our employees' health and safety at work. Due to the nature of our operations, our employees are not exposed to high risks occupational hazards.

In order to maintain safe working environment, we have implemented the "Occupational Safety and Health Services Guide" to promote safe working environment and protect employees from occupational hazards. All our offices are also well-equipped with typical safety facilities such as first aid medical boxes, fire exits and fire extinguishers, sprinklers, fire detectors, hose reels and emergency lights. We are aiming to assign certified first aiders across our offices. Further, we also required our employees to participate in annual fire drill for emergency evacuations organized by the building management offices.

A clean working environment is also important to our employees. We have implemented "Office General Cleaning and Air Cond Fan Coil Cleaning Services" guide to manage offices general cleaning practices in the following areas:



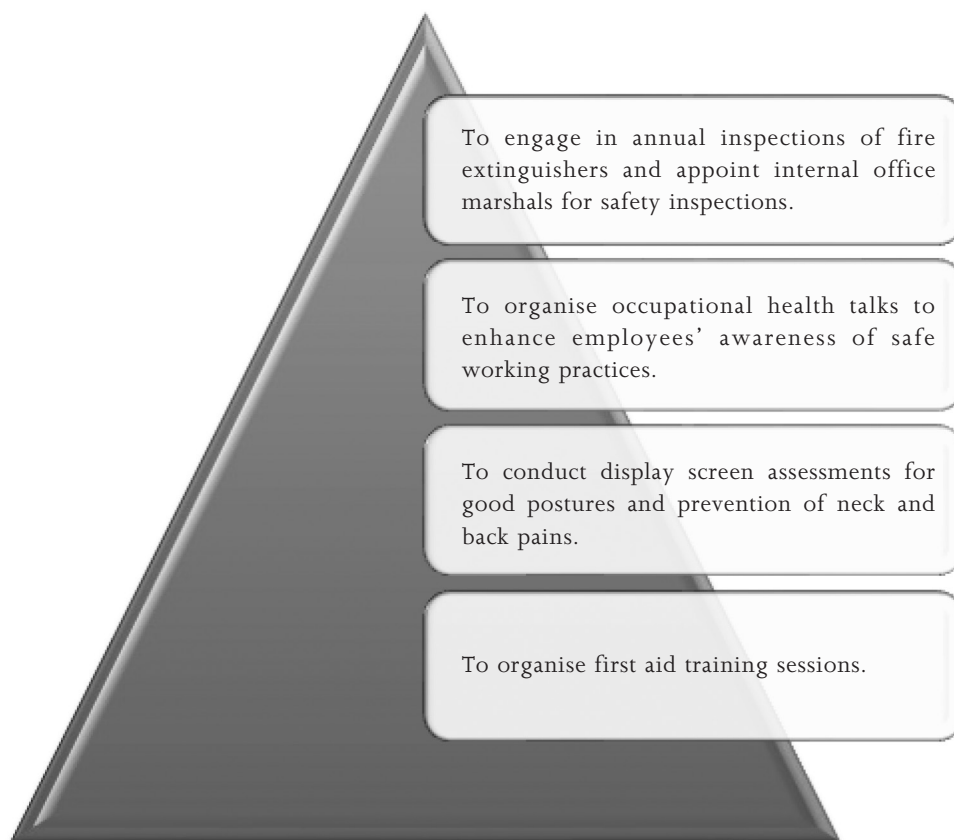
We also understand that it is inevitable that employees who are using computers for a prolonged period may suffer from health problems such as upper limb pains, eyestrain and fatigue. In order to minimise the risk, we circulated "A Guide to Work With Computers", published by the Occupational Safety and Health Branch, Labour Department, to educate our employees to maintain the correct postures and eye and lighting levels when using the computers.

SOCIAL *(continued)*

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

Our initiatives: Health and Safety *(continued)*

Currently, we are planning to implement the following new measures:



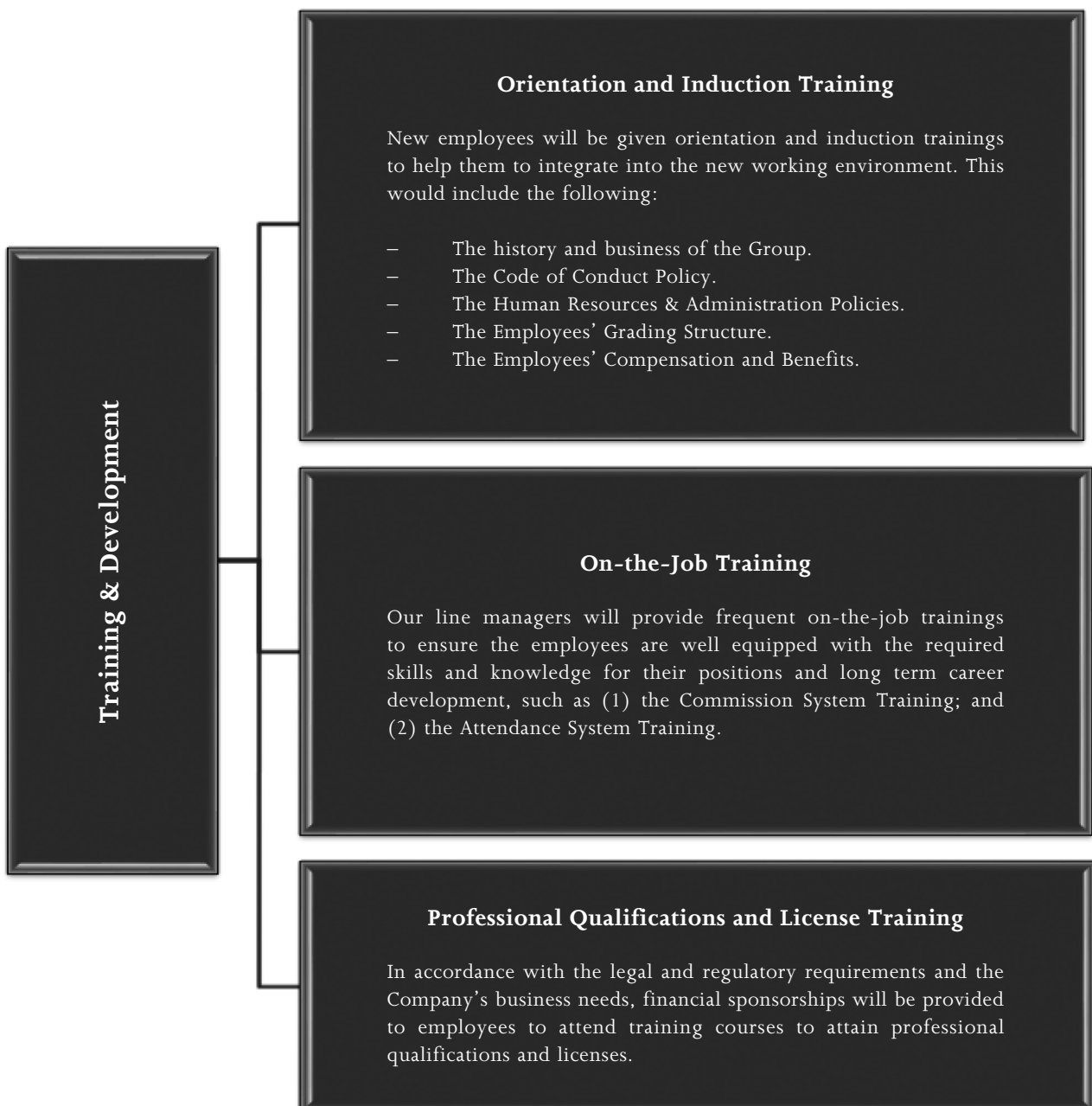
During the reporting year, there was no work-related injury or fatality.

SOCIAL (continued)

EMPLOYMENT AND LABOUR PRACTICES (continued)

Our initiatives: Training and Development

We recognize that having a team of professional and capable employees is pivotal to the long term growth of the Company. Strategic training plans are devised each year to identify the needs of different operations and training courses/activities are tailored to suit employees of different levels and job functions. Generally:



SOCIAL *(continued)*

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

Our initiatives: Training and Development *(continued)*

Training & Development (continued...)

Training Activities for Career Development

It is important for employees to gain skills and knowledge to supplement their on-the-job daily learning experience as their careers develop. Based upon the needs that are identified for the career development, which are consistent with the employees' aspirations and the needs of the business, our line managers will make nomination for the employees to attend appropriate courses, seminars, executive sharing or talks.

On 8 July 2016, "Executive Sharing – Leadership and Empowerment" seminar was held from 9:30 a.m. to 12:30 p.m. and attended by 6 Management Trainees ("MT") of our MT Program. We have invited one of the top executives in the luxury retail industry to share her experience on people management and how she tackled various problems at work.

"Interpersonal & Communication Skill" trainings were held from 9:30 a.m. to 5:30 p.m. on 24 September and 21 October 2016 respectively, and attended by MT and nominated young managers to learn how to communicate effectively with different people and managing emotions at the workplace.

"Public Speaking & Presentation Skill" trainings were held from 9:30 a.m. to 5:30 p.m. on 25 and 26 November 2016 respectively, and attended by MT and nominated employees to learn how to present ideas in clear, concise and credible way to audience in the workplace.

SOCIAL *(continued)*

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

Our initiatives: Training and Development *(continued)*

Details of specific trainings are as follows:

1. MT Program

- (a) The MT Program was first introduced and established in 2012 to guide and support the career path of talented fresh graduates. It is aimed to develop and grow young talents with strong potentials to fill the pipeline of future leaders in different business streams in the Group.
- (b) The MT Program is a three-year structured and comprehensive rotation program with coaching and guidance from the management executives. Throughout the three-year rotation program, training courses and public examination sponsorships to attain the Chartered Institute of Management Accountants (CIMA Qualifications) are also provided.
- (c) Upon successful completion of the three-year rotation program, MTs will be placed in selected business units/functions, taking into consideration of their professional knowledge, competencies, career objectives and interests, as well as the business needs and manpower planning.
- (d) Since 2012, we have mentored 28 fresh graduates. 9 of them have completed the MT Program and are placed in their selected business units.

2. Continuous Professional Trainings (“CPT”)

- (a) In accordance with the Securities and Futures Commissions (“SFC”) CPT training requirements, each SFC licence representatives must fulfill at least 5 CPT points annually. To ensure compliance, the licence representatives are required to attend trainings, either through internal or external providers, including:
 - (i) “Due Diligence in an Equity Offering Process” provided by the Hong Kong Securities and Investment Institute and held on 2 March 2016 at the Wing On Centre, Sheung Wan;
 - (ii) “The Hong Kong Exchanges and Clearing Limited Sector Index Futures, Closing Auction and New Requirements on Suitability From SFC” provided by the Hong Kong Institute of Professional Studies and held on 21 April 2016 at the Harcourt House, Wanchai;
 - (iii) “Listed Company Takeovers – From CB Miracle to the Latest Guidance on Cash Company Rules” provided by Baker & McKenzie and held on 28 April 2016 at the Hutchison House, Central;
 - (iv) “IPO – Listing on The Hong Kong Exchanges and Clearing Limited: The Preparation of Successful Listing in Hong Kong” provided by the Hong Kong Institute of Certified Public Accountants and held on 17 May 2016 at the Wu Chung House, Wanchai;
 - (v) “South China Investment Seminar – Analysis of Investment Opportunities and Risks in the Market (南華投資講座－剖析市場投資機遇及風險)” provided by The Hong Kong Exchanges and Clearing Limited (“HKEx”) together with our Research Department and Legal and Compliance Department and held on 10 September 2016 at the Duke of Windsor Social Service Building, Wanchai;

SOCIAL *(continued)*

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

Our initiatives: Training and Development *(continued)*

- (vi) “Accessing Crude Oil ETFs and Leveraged & Inverse Products Listed in Hong Kong” provided by the HKEx and held on 18 October 2016 at the Exchange Auditorium, One and Two Exchange Square, Central; and
- (vii) “Investment Strategy for Hong Kong Stocks (港股投資策略)” provided by our Research Department and held on 19 October 2016 at our North Point branch.
- (b) As part of the CPT, all our employees are also required to fulfill the SFC Anti-Money Laundering (“AML”) training requirement. Each employee must attend at least one AML training per year.
 - (i) Our employees have attended the AML trainings provided by external providers such as:
 - “Know Your Client and Prevention of Money Laundering” provided by the Hong Kong Securities and Investment Institute and held on 1 March 2016 at the Wing On Centre, Sheung Wan; and
 - “Insurance and Financial Regulatory Compliance – Anti-Money Laundering and Counter Terrorist Financing” provided by the Institute of Professional Education And Knowledge (PEAK) and held on 21 March 2016 and 15 June 2016 respectively at the VTC Tower, WanChai.
 - (ii) This year, we have organized two internal AML trainings to provide our employees with a general background on the money laundering and terrorist funding, the applicable AML and counter-financing of terrorism legislations in Hong Kong and a practical guide on operational areas:
 - “Investment Strategy for Hong Kong Stocks in the 4th Quarter (第4季港股投資策略)” held on 10 September 2016 at the Duke of Windsor Social Service Building, Wanchai. The training was attended by our clients together with our employees. Our Associate Director of the Legal and Compliance Department was one of the speakers invited to conduct the training; and
 - “An Introduction to Prevention of Money Laundering, Internal Control and Case Studies (防止洗錢、內部監控簡介及其案例)” given by our Associate Director of the Legal and Compliance Department. The training was held on 5 December 2016 at the Duke of Windsor Social Service Building, Wanchai and attended by our clients together with our employees.

Apart from trainings, we also encourage personal development and recognize the long term benefits it can offer. The Company gives very serious consideration to internal candidates when filling up a vacancy and would fill positions by selection of suitably qualified people who have the capability to further develop.

We also strive to provide development opportunities for our employees under fair consideration. During the year end performance review process, our line managers will discuss and review with the employees of their contributions and their career development plans. Based on the appraisals, we are able to determine suitable career developments for our employees.

SOCIAL *(continued)*

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

Our initiatives: Labour Standards

In line with our Recruitment Policy, we do not employ child or forced labour. Moreover, in order to prevent child and forced labour, we have in place all checking mechanisms to ensure that all applicants are of legal age to work, including the following:

1. all applicants are required to fill in application forms stating, inter alia, age and date of birth; and
2. all applicants are required to bring their original identity cards and recent passport photos for checking during interviews.

During the reporting year, there is no incidence of non-compliance with any regulation governing our labour practices.

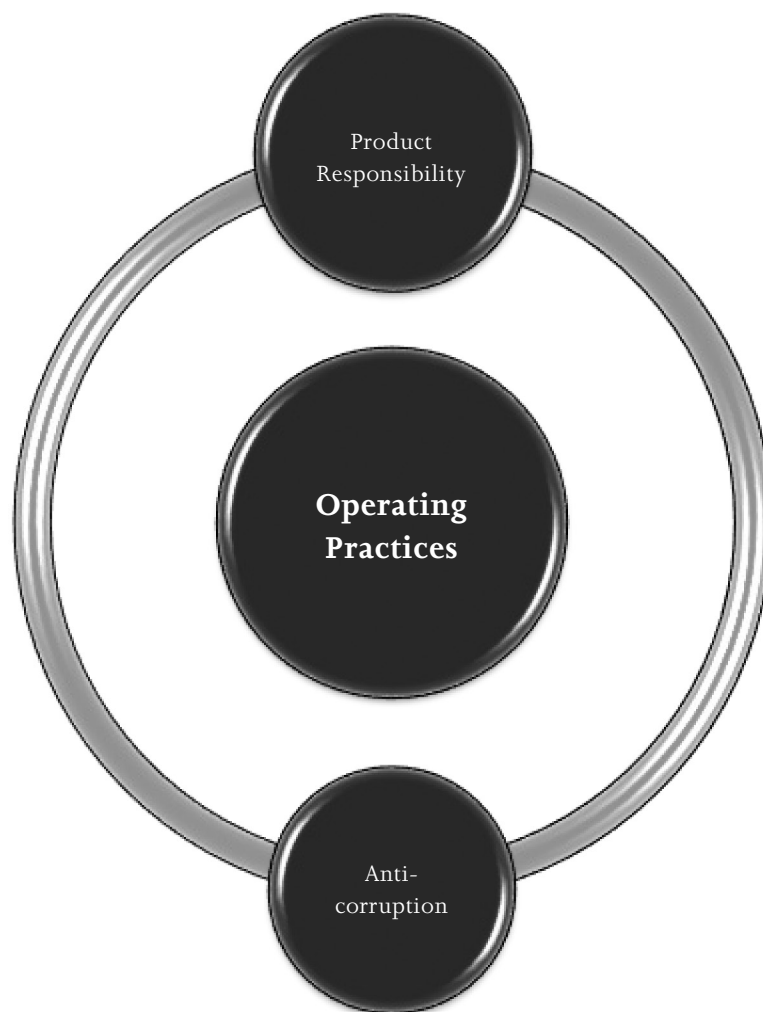
SOCIAL *(continued)*

OPERATING PRACTICES

Basic Stance

We are not in a sourcing and supply of goods/products business and therefore supply chain management is not relevant to us.

There are 2 cores aspects of our operating practices.



SOCIAL *(continued)*

OPERATING PRACTICES *(continued)*

Our initiatives: Product Responsibility

In general, the Company provides the following types of investment activities:

1. dealings in securities and futures;
2. advising securities;
3. leveraging foreign exchange trading;
4. advising on corporate financing; and
5. assets management.

In view of the nature of our operations, we need to maintain a close monitor on the aforesaid investment activities in accordance with the standard guidelines and codes issued by SFC such as the Code of Conduct for Persons Licensed by or Registered with the SFC, Corporate Finance Adviser Code of Conduct, Guideline on AML & Counter Terrorist Financing, Fit and Proper Guidelines, Guidelines on Competence, Licensing Information Booklet and Guidelines on Continuous Professional Training.

Moreover, as an investment company, protecting our clients' data and their privacy is also one of our top priorities. We have comprehensive policy and practices on data protection, privacy and advertising marketing. In fact, all our clients' personal data are collected in accordance with our clients' written consents during account openings. They are stored in our South China Back Office system controlled by our Credit Department. Such personal data would not be destroyed or used for any marketing purposes unless we have written consents from our clients to do so.

To safeguard and maintain our product responsibility, our Legal and Compliance Department also reviews and maintains a range of client communication channels in order to collect client feedback and handle complaints efficiently:

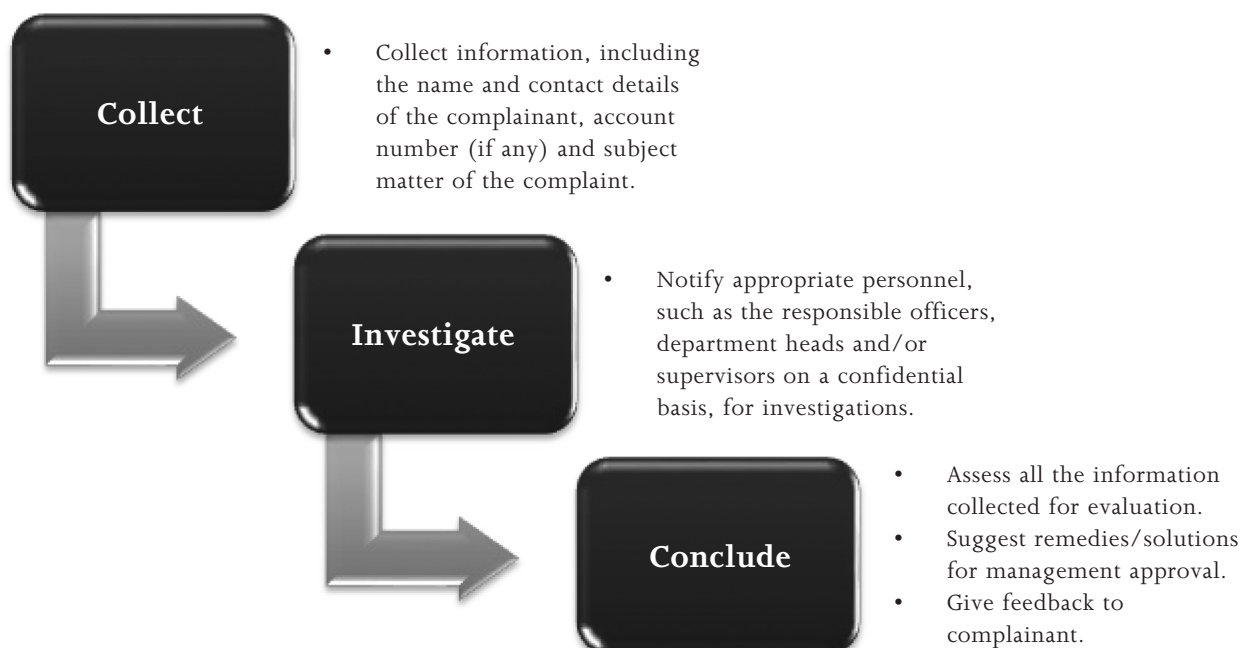
1. by e-mail via the electronic mailing facilities on the website of www.sctrade.com;
2. by facsimile to our Legal and Compliance Department;
3. by letter to our Legal and Compliance Department; and
4. by telephone to our Legal and Compliance Department.

SOCIAL *(continued)*

OPERATING PRACTICES *(continued)*

Our initiatives: Product Responsibility *(continued)*

All complaints were handled directly in strict confidence by our Complaint Officer and supervised by the Director of Legal and Compliance Department. A simple illustration of our complaint handling process is as follows:



SOCIAL (continued)

OPERATING PRACTICES (continued)

Our initiatives: Anti-corruption

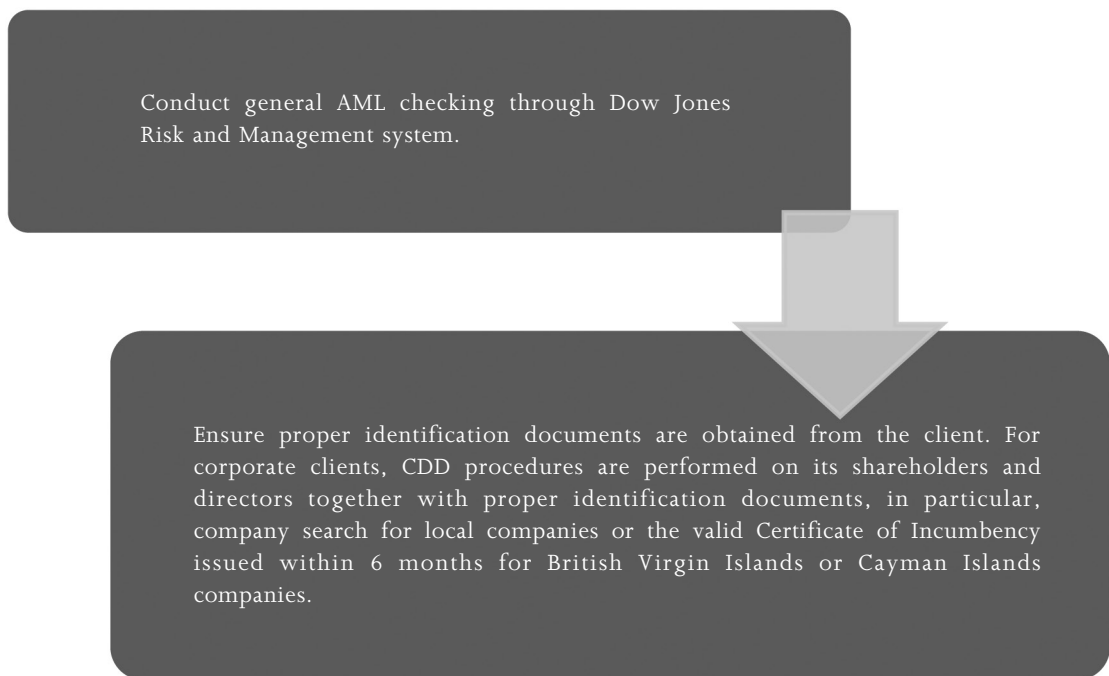
We strive to uphold the highest standard of business ethics and integrity. We set a tone of zero-tolerance on any form of corruption or malpractice such as bribery, money laundering, extortion and fraud. This is reflected in:

1. Policies, Guidelines and Manuals

- (a) We have enforced comprehensive list of policies, guidelines and manuals on prevention of bribery, fraud and AML such as our Anti-bribery Policy, Anti-Fraud Policy, Compliance Manual, AML Manual, Operational Procedures and Controls Manual and Code of Conduct.
- (b) In particular, our Code of Conduct strongly prohibits any advantages offered/received in connection with our business transactions.

2. Account Opening Procedures

- (a) Before a client's account is approved for trading, the relevant business units will pass the client's particulars to our Credit Department and Legal and Compliance Department for Customer Due Diligence ("CDD") to identify potential AML risks. A simple illustration of the CDD process is as follows:



- (b) In case of unusual findings from Dow Jones Risk and Management system, the Credit Department would seek advice from the Legal and Compliance Department. Exceptions can be granted for such client once the Legal and Compliance Department is satisfied that the AML risks can be mitigated after thorough internal investigations and upon approval from the senior management of the Company.

SOCIAL *(continued)*

OPERATING PRACTICES *(continued)*

Our initiatives: Anti-corruption *(continued)*

3. Whistle Blowing Procedures

- (a) In accordance with our Whistle Blowing Policy & Procedures, we welcome any suggestion or complaint from employees and other external stakeholders regarding any form of corruption or malpractice through our hotline, email or mail, which would be handled by our Legal and Compliance Department. The process is similar to our complaint handling process.
- (b) Incidents or suspected incidents of corruption and malpractice are immediately investigated by our Legal and Compliance Department and will be reported to the Director, Legal and Compliance or the appointed responsible person.

4. In-house Talks/Seminars

On a regular basis, we have conducted tailor-made talks/seminars to create awareness amongst our employees on the importance of maintaining high standard of business ethics and integrity. In particular, we have invited the Independent Commission Against Corruption (ICAC) to give a talk on “Integrity and Professionalism – Key to Business Success (誠信和專業－成功的關鍵)” which was successfully held on 5 December 2016 at the Duke of Windsor Social Service Building, Wanchai.

COMMUNITY

Basic Stance

As a responsible corporate citizen, we are committed to giving back to the community through donations and various corporate social initiatives. Likewise, we encourage our employees to care, help and contribute to individuals in need.

Our Initiatives

Our slogan “攜手, 同心” literally means to hold our hands and care for the community. It represents our core value to care and help those in need.

In order to support our community services, the Volunteer Team Committee was formed in January 2016 to plan and deliver community events. All employees from various departments and business units are encouraged to join the volunteer team.

The volunteer team and their families have participated in different community events organised by the Volunteer Team Committee, focusing on the elderly, underprivileged and family services, including but not limited to:

1. Charity chocolate sales

On 6 December 2015, the volunteer team helped S.K.H. St. Christopher's Home to set up a stall in the Causeway Bay MTR station and sell chocolates to the public.

2. Yearly visits to the St. Mary's Elderly Home

On 5 March 2016, the volunteer team visited the elderly at St. Mary's Elderly Home. This is the second visit made by the volunteer team. We highly encourage the volunteer team to understand and respect the elderly.

3. The signature “Jessica Run” fund raising event

“旭茉 JESSICA Run” is a charity run event organized by 《JESSICA》 and “JESSICA Foundation” since 2007. We aimed to bring family members together through this charity run, as well as to raise funds for those need help from the society. Over the past years, more than 6,500 enthusiastic runners and family members participated. All funds raised were donated to “JESSICA Foundation”, “Early Psychosis Foundation” and other beneficiaries to support their activities.

Marking the 10th anniversary this year, we partnered with Youth Square on 3 April 2016 to raise funds for the Early Psychosis Foundation, the Society for Abandoned Animals etc. We have attracted many enthusiastic runners and family members to participate in the event.

4. Donation of second hand goods to the underprivileged

From 5 September to 21 October 2016, collection points at various locations in our offices were set up to collect second-hand goods, such as clothes, toys and books. These items were donated to the Holy Carpenter Church on 29 October 2016 for the underprivileged living in the Kowloon City district area.

As mentioned earlier, in recognition of our continuous contribution to the community, we were awarded the “Caring Company” logo by The Hong Kong Council of Social Services.

In the future, we will continue to take part in community services, implement corporate social responsibility and play an important role in supporting and helping the Hong Kong community.