



# SOUTH CHINA FINANCIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 619)

## INTERIM REPORT 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

	Notes	Six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
<b>Revenue</b>	2	<b>67,845</b>	60,446
Other income		<b>168</b>	5
Reversal of impairment/(impairment) of loans and trade receivable, net		<b>(218)</b>	43
Fair value loss on financial assets at fair value through profit or loss		<b>(37,640)</b>	(18,071)
Loss on disposal of available-for-sale financial assets		<b>-</b>	(8,895)
Impairment loss on available-for-sale financial assets		<b>(3,710)</b>	-
Other operating expenses		<b>(69,671)</b>	(59,646)
<b>Loss from operating activities</b>		<b>(43,226)</b>	(26,118)
Finance costs	5	<b>(3,847)</b>	(2,218)
<b>Loss before tax</b>	3	<b>(47,073)</b>	(28,336)
Income tax credit	6	<b>904</b>	759
<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		<b>(46,169)</b>	(27,585)
Non-controlling interests		<b>-</b>	8
		<b><u>(46,169)</u></b>	<b><u>(27,577)</u></b>
<b>Loss per share attributable to equity holders of the Company</b>	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 <b>30 June 2012</b> <b>(Unaudited)</b> <b>HK\$'000</b>	As at 31 December 2011 (Audited) HK\$'000
	<i>Notes</i>		
<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
		365,790	222,662
Total non-current assets			
<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
		970,148	1,034,940
Total current assets			
<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
		758,831	773,719
Total current liabilities			
<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
		184,929	166,619
Total non-current liabilities			
Net assets		<b>392,178</b>	<b>317,264</b>
<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>
Total equity		<b>392,178</b>	<b>317,264</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital (Unaudited) <i>HK\$'000</i>	Other Reserves (Unaudited) <i>HK\$'000</i>	Retained Profits/ (Accumulated losses) (Unaudited) <i>HK\$'000</i>	Proposed dividend (Unaudited) <i>HK\$'000</i>	Attributable to equity holders of the Company (Unaudited) <i>HK\$'000</i>	Non- controlling Interests (Unaudited) <i>HK\$'000</i>	Total equity (Unaudited) <i>HK\$'000</i>
<b>THE GROUP</b>							
At 1 January 2012	<u>125,708</u>	<u>227,436</u>	<u>(36,452)</u>	-	<u>316,692</u>	<u>572</u>	<u>317,264</u>
Loss for the period	-	-	(46,169)	-	(46,169)	-	(46,169)
Other comprehensive income for the period	-	121,075	-	-	121,075	-	121,075
Total comprehensive income/ (loss) for the period	-	121,075	(46,169)	-	74,906	-	74,906
Equity-settled share option arrangement	-	8	-	-	8	-	8
Transfer to retained profits upon the forfeiture or expiry of share options	-	(2,189)	2,189	-	-	-	-
At 30 June 2012	<u><u>125,708</u></u>	<u><u>346,330</u></u>	<u><u>(80,432)</u></u>	<u><u>-</u></u>	<u><u>391,606</u></u>	<u><u>572</u></u>	<u><u>392,178</u></u>
At 1 January 2011	<u>125,721</u>	<u>237,857</u>	<u>117,920</u>	<u>16,092</u>	<u>497,590</u>	<u>571</u>	<u>498,161</u>
Profit/(loss) for the period	-	-	(27,585)	-	(27,585)	8	(27,577)
Other comprehensive income for the period	-	564	-	-	564	-	564
Total comprehensive income/(loss) for the period	-	564	(27,585)	-	(27,021)	8	(27,013)
Equity-settled share option arrangement	-	(411)	-	-	(411)	-	(411)
Repurchase and cancellation of ordinary shares	(13)	13	(54)	-	(54)	-	(54)
Dividend paid	-	-	-	(16,092)	(16,092)	-	(16,092)
Transfer to retained profits upon the forfeiture or expiry of share options	-	(6,300)	6,300	-	-	-	-
At 30 June 2011	<u><u>125,708</u></u>	<u><u>231,723</u></u>	<u><u>96,581</u></u>	<u><u>-</u></u>	<u><u>454,012</u></u>	<u><u>579</u></u>	<u><u>454,591</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		<b>Six months ended 30 June</b>	
		<b>2012</b>	2011
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Loss for the period</b>		<b>(46,169)</b>	(27,577)
<b>Other comprehensive income for the period</b>	<i>14</i>	<b>121,075</b>	564
<b>Total comprehensive income/(loss) for the period</b>		<b><u>74,906</u></b>	<b><u>(27,013)</u></b>
Attributable to:			
Equity holders of the Company		<b>74,906</b>	(27,021)
Non-controlling interests		<b>-</b>	8
		<b><u>74,906</u></b>	<b><u>(27,013)</u></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
	<u>67,845</u>	<u>60,446</u>

### 3. Loss before tax

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
The Group's loss is arrived at after charging:		
Cost of services provided	<b>13,109</b>	14,398
Depreciation	<b>3,498</b>	3,310
Items of property, plant and equipment		
– Impairment Loss	<b>1,511</b>	–
– Loss on disposal	<b>126</b>	–
Interest expenses for margin financing and money lending operations	<b>1,418</b>	1,180
	<b><u>13,662</u></b>	<u>18,888</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 2012 and 2011 are as follows:

	<b>2012</b>	2011	<b>2012</b>	2011
	<b>Revenue</b>	Revenue	<b>Profit/(loss)</b>	Profit/(loss)
	<b>HK\$'000</b>	HK\$'000	<b>from operating</b>	from operating
	<b>HK\$'000</b>	HK\$'000	<b>activities</b>	activities
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Broking	<b>24,824</b>	29,538	<b>(14,169)</b>	(3,450)
Trading and investment	<b>34,129</b>	21,701	<b>(20,758)</b>	(18,595)
Margin financing and money lending	<b>8,471</b>	9,069	<b>4,149</b>	5,096
Corporate advisory and underwriting	<b>421</b>	138	<b>(4,097)</b>	(3,466)
Corporate and others	<b>–</b>	–	<b>(8,351)</b>	(5,703)
	<b><u>67,845</u></b>	<u>60,446</u>	<b><u>(43,226)</u></b>	<u>(26,118)</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 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 (Unaudited) 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>
26th 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 (Unaudited) HK\$'000</b>	31 December 2011 (Audited) HK\$'000
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>
	<b>151,995</b>	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 (Unaudited) HK\$'000</b>	31 December 2011 (Audited) HK\$'000
<b>Shares</b>		
Authorised:		
8,000,000,000 (2011: 8,000,000,000) ordinary shares of HK\$0.025 each	<b>200,000</b>	200,000
Issued and fully paid:		
5,028,334,500 (2011: 5,028,334,500) ordinary shares of HK\$0.025 each	<b>125,708</b>	125,708

### 14. Other comprehensive income/(loss) for the period

	<b>Six months ended 30 June 2012 (Unaudited) HK\$'000</b>	2011 (Unaudited) HK\$'000
Changes in fair value of available-for-sale financial assets	<b>(2,100)</b>	(9,112)
Reclassification adjustment for loss on disposal	-	8,895
Reclassification adjustment for impairment loss	<b>3,710</b>	-
Exchange differences on translation of foreign operations	<b>(680)</b>	781
Surplus on revaluation of property (Note 9)	<b>143,945</b>	-
Less: deferred tax	<b>(23,800)</b>	-
	<b>120,145</b>	-
	<b>121,075</b>	564

### 15. Major non-cash transaction

During the six months ended 30 June 2012, the Group transferred the owner-occupied property of carrying amount of HK\$178,855,000 to investment property after its revaluation to the fair value of HK\$322,800,000 at the date of transfer (Note 9).

## **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.

## **Exposure to Fluctuations in Exchange Rates and Related Hedges**

As at 30 June 2012, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

## **Capital Structure**

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

## **Investments**

Financial assets at fair value through profit or loss decreased by HK\$73.2 million. Fair value loss on the financial assets at fair value through profit or loss for the six months ended 30 June 2012 was HK\$37.6 million.

## **Material Acquisitions and Disposals**

The Group had no material acquisitions and disposals of subsidiaries and associates for the six months ended 30 June 2012.

## **Pledges of Assets, Contingent Liabilities and Commitments**

There was no material change in the Group's pledges of assets, contingent liabilities and commitments as compared to the most recent published annual report.

## **Employees**

As at 30 June 2012, the total number of employees of the Group was approximately 183 (30 June 2011: approximately 160). Employees' costs (including directors' emoluments) amounted to approximately HK\$26.3 million for the six months ended 30 June 2012 (six months ended 30 June 2011: approximately HK\$23.0 million).

Apart from salary payment, other staff benefits include medical subsidies, life insurance, provident fund and subsidized external training. Continuous professional training will continue to be arranged for those staff registered with the Securities and Futures Commission. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employee may also receive a discretionary bonus at the end of each year based on performance. The Company adopted an employee share option scheme on 31 May 2002 which was terminated on 5 June 2012 and was replaced by a new share option scheme which became effective on 11 June 2012.

## **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 of 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.

## **MANAGEMENT OF RISKS**

The Group set out in its 2011 annual report and financial statements the principal risks and uncertainties that could impact its performance, these remain unchanged since the annual report was published. The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and equity price risk. The Group reviews and monitors each of these risks closely at all time.

## **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).

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**

As at 30 June 2012, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules, were as follows:

**(i) The Company**

***Long positions in shares***

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of ordinary shares</b>	<b>Total number of ordinary shares</b>	<b>Approximate percentage of shareholding</b>
Mr. Ng Hung Sang (“Mr. Ng”)	Beneficial owner	185,554,400	2,969,463,624	59.05%
	Interest of spouse	233,000,000		
	Interest of controlled corporations	2,550,909,224 <i>(Note a)</i>		
Mr. Richard Howard Gorges (“Mr. Gorges”)	Beneficial owner	12,174,000	12,174,000	0.24%
Ms. Cheung Choi Ngor (“Ms. Cheung”)	Beneficial owner	10,000,000	10,000,000	0.20%
Hon. Raymond Arthur William Sears, Q.C.	Interest of spouse	200,000	200,000	0.00%

**(ii) Associated corporations**

***Long positions in shares***

**South China Financial Credits Limited (“SCFC”) *(Note b)***

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of ordinary shares</b>	<b>Approximate percentage of shareholding</b>
Mr. Ng Yuk Yeung, Paul	Beneficial owner	250,000	0.59%

*Notes:*

- (a) The 2,550,909,224 shares of the Company held by Mr. Ng through controlled corporations referred to above include 474,606,720 shares held by Bannock Investment Limited (“Bannock”), 501,292,800 shares held by Earntrade Investments Limited (“Earntrade”), 792,100,504 shares held by Fung Shing Group Limited (“Fung Shing”), 743,728,000 shares held by Parkfield Holdings Limited (“Parkfield”), 33,331,200 shares held by Ronastar Investments Limited (“Ronastar”) and 5,850,000 shares held by Tek Lee Finance and Investment Corporation Limited (“Tek Lee”). Fung Shing, Parkfield and Ronastar are wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Mr. Gorges and 20% by Ms. Cheung. Tek Lee is an indirect subsidiary of South China Holdings Limited, which is controlled by Mr. Ng as to 73.72%.
- (b) SCFC is a 98.81% owned subsidiary of the Company.

Save as disclosed above, as at 30 June 2012, none of the directors or chief executives of the Company had registered any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register which was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

**SUBSTANTIAL SHAREHOLDERS’ AND OTHER PERSONS’ INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

As at 30 June 2012, the following persons, other than the directors and chief executives of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO.

*Long positions in shares*

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of ordinary shares</b>	<b>Approximate percentage of shareholding</b>
Earntrade	Beneficial owner and interest of controlled corporation	975,899,520 <i>(Note a)</i>	19.41%
Bannock	Beneficial owner	474,606,720 <i>(Note a)</i>	9.44%
Parkfield	Beneficial owner	743,728,000	14.79%
Fung Shing	Beneficial owner	792,100,504	15.75%
Ms. Ng Lai King, Pamela (“Ms. Ng”)	Beneficial owner and interest of spouse	2,969,463,624 <i>(Note b)</i>	59.05%

Notes:

- (a) Bannock is a wholly-owned subsidiary of Earntrade. The 975,899,520 shares in the Company held by Earntrade include 474,606,720 shares held by Bannock directly.
- (b) Ms. Ng is the beneficial owner of 233,000,000 shares and is the spouse of Mr. Ng, the chairman and an executive director of the Company. By virtue of the SFO, Ms. Ng is deemed to be interested in the 185,554,400 shares and 2,550,909,224 shares held by Mr. Ng beneficially and through controlled corporations respectively as disclosed under the section headed “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation” above.

Save as disclosed above, as at 30 June 2012, no person, other than the directors or chief executives of the Company whose interests are set out in the section “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation”, had registered an interest or short position in the shares or underlying shares of the Company in the register that was required to be kept under Section 336 of the SFO.

## SHARE OPTION SCHEMES

### (i) 2002 Share Option Scheme

The share option scheme adopted by the Company on 31 May 2002 (the “2002 Share Option Scheme”) was terminated on 5 June 2012. Share options granted under the 2002 Share Option Scheme prior to its termination shall continue to be valid and exercisable pursuant to the terms of the 2002 Share Option Scheme. Particulars and movements of the outstanding share options granted under the 2002 Share Option Scheme during the six months ended 30 June 2012 were as follows:

Name or category of participants	Number of share options					Outstanding as at 30 June 2012	Date of grant of share options (DD/MM/YYYY) <i>(Note a)</i>	Exercise period of share options (DD/MM/YYYY)	Exercise price per share HK\$ <i>(Note b)</i>
	Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Lapsed during the Period	Cancelled during the period				
<b>Employees</b>									
In aggregate	17,166,674	-	-	(17,166,674)	-	-	12/04/2007	12/04/2010 – 11/04/2012	0.161
	1,000,000	-	-	(1,000,000)	-	-	17/04/2007	17/04/2010 – 16/04/2012	0.161
	833,332	-	-	(833,332)	-	-	23/04/2007	23/04/2010 – 22/04/2012	0.161
Sub-total	19,000,006	-	-	(19,000,006)	-	-			
<b>Others</b>									
In aggregate	2,000,000	-	-	(2,000,000)	-	-	12/04/2007	12/04/2010 – 11/04/2012	0.161
	1,500,000	-	-	-	-	1,500,000	10/07/2007	10/07/2010 – 09/07/2012	0.172
	500,000	-	-	(500,000)	-	-	23/04/2007	23/04/2010 – 22/04/2012	0.161
	2,000,000	-	-	-	-	2,000,000	05/08/2009	05/08/2010 – 04/08/2012	0.128
	2,000,000	-	-	-	-	2,000,000	05/08/2009	05/08/2011 – 04/08/2013	0.128
	2,000,000	-	-	-	-	2,000,000	05/08/2009	05/08/2012 – 04/08/2014	0.128
Sub-total	10,000,000	-	-	(2,500,000)	-	7,500,000			
Total	29,000,006	-	-	(21,500,006)	-	7,500,000			

Notes:

- (a) All share options granted are subject to a vesting period and exercisable in the following manner:

From the date of grant of share options	Exercisable percentage %
Within 12 months	Nil
13th – 36th month	33 <sup>1</sup> / <sub>3</sub>
25th – 48th month	33 <sup>1</sup> / <sub>3</sub>
37th – 60th month	33 <sup>1</sup> / <sub>3</sub>

- (b) The subscription price of the share options is subject to adjustment in the case of rights or bonus issues, or other alteration in the capital structure of the Company.

The unexercised share options of each exercise period shall lapse at the end of the respective exercise period.

No share option had been granted, exercised or cancelled during the six months ended 30 June 2012. The Company recognized a share option expense of HK\$8,000 during the six months ended 30 June 2012 (2011: reversal of expense of HK\$411,000).

## **(ii) 2012 Share Option Scheme**

The Company adopted a new share option scheme on 5 June 2012 (the “2012 Share Option Scheme”) and it became effective on 11 June 2012. Subject to the early termination of the 2012 Share Option Scheme pursuant to the terms thereof, the 2012 Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which it became effective. No share option has been granted under the 2012 Share Option Scheme since its adoption.

## **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.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as the code of conduct regarding directors’ securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, their compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors adopted by the Company 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 report, 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.*