



# SOUTH CHINA FINANCIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 619)

## INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2013

### UNAUDITED INTERIM RESULTS

The board of directors (the “Board”) of South China Financial Holdings Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2013 together with the relevant comparative figures as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

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

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

## 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 2013	125,708	351,744	22,555	–	500,007	569	500,576
Loss for the period	–	–	(71,425)	–	(71,425)	(4)	(71,429)
Other comprehensive loss for the period	–	(3,951)	–	–	(3,951)	–	(3,951)
<b>Total comprehensive loss for the period</b>	<b>–</b>	<b>(3,951)</b>	<b>(71,425)</b>	<b>–</b>	<b>(75,376)</b>	<b>(4)</b>	<b>(75,380)</b>
At 30 June 2013	<u>125,708</u>	<u>347,793</u>	<u>(48,870)</u>	<u>–</u>	<u>424,631</u>	<u>565</u>	<u>425,196</u>
At 1 January 2012	125,708	227,436	(36,452)	–	316,692	572	317,264
Loss for the period	–	–	(46,169)	–	(46,169)	–	(46,169)
Other comprehensive income for the period	–	121,075	–	–	121,075	–	121,075
<b>Total comprehensive income/(loss) for the period</b>	<b>–</b>	<b>121,075</b>	<b>(46,169)</b>	<b>–</b>	<b>74,906</b>	<b>–</b>	<b>74,906</b>
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>125,708</u>	<u>346,330</u>	<u>(80,432)</u>	<u>–</u>	<u>391,606</u>	<u>572</u>	<u>392,178</u>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		<b>Six months ended 30 June</b>	
		<b>2013</b>	2012
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Loss for the period</b>		<b>(71,429)</b>	(46,169)
<b>Other comprehensive (loss)/income for the period</b>	<i>14</i>	<b>(3,951)</b>	121,075
<b>Total comprehensive (loss)/income for the period</b>		<b><u>(75,380)</u></b>	<b><u>74,906</u></b>
Attributable to:			
Equity holders of the Company		<b>(75,376)</b>	74,906
Non-controlling interests		<b>(4)</b>	-
		<b><u>(75,380)</u></b>	<b><u>74,906</u></b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

**Six months ended 30 June**

<b>2013</b>	2012
<b>(Unaudited)</b>	(Unaudited)
<b>HK\$'000</b>	HK\$'000

<b>NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES</b>	<b>(20,776)</b>	24,249
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	<b>(1,351)</b>	(1,519)
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES</b>	<b>32,940</b>	(12,383)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>10,813</b>	10,347
Cash and cash equivalents at beginning of the period	<b>45,797</b>	66,641
Effect of foreign exchange rate changes, net	<b>642</b>	(678)
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>57,252</b>	76,310
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>105,588</b>	122,250
Pledged time deposits with original maturity of less than three months when acquired	<b>5,500</b>	5,500
Bank overdraft	<b>(53,836)</b>	(51,440)
	<b>57,252</b>	76,310

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

### 1. Basis of preparation

The unaudited condensed consolidated interim financial statements (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 2012 except that the Group has adopted the newly issued and revised Hong Kong Financial Reporting Standards, which are effective for the annual period beginning on 1 January 2013, as disclosed in the annual financial statements for the year ended 31 December 2012. The adoption of these new Hong Kong Financial Reporting Standards as disclosed in the annual financial statements for the year ended 31 December 2012 does not have significant impact on the Group’s results of operations and financial position.

These interim financial statements should be read, where relevant, in conjunction with the 2012 annual financial statements of the Group.

The unaudited interim financial statements have been reviewed by the Company’s audit committee.

### 2. Revenue

	Six months ended 30 June	
	2013	2012
	(Unaudited) HK\$’000	(Unaudited) HK\$’000
Commission and brokerage income	26,173	24,683
Profit on trading of securities, forex, bullion and futures contracts, net	3,363	31,919
Dividend income from listed investments	574	1,980
Interest income from bullion and forex	445	399
Interest income from loans receivable	8,997	7,003
Interest income from bank and financial institutions	371	599
Rendering of services	1,539	1,262
Gross rental income	1,820	–
	<u>43,282</u>	<u>67,845</u>

### 3. Loss before tax

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

#### 4. Revenue and segmental information

An analysis of the Group's revenue and contribution to profit/(loss) from operating activities by business segments for the six months ended 30 June 2013 and 2012 are as follows:

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

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

On 30 June 2012, owner-occupied property of carrying amount of HK\$178,855,000 under the segment of corporate and others was transferred to the segment of property investment after its revaluation to the fair value of HK\$322,800,000 at that date (Note 9).

#### 5. Finance costs

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

#### 6. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, practices and interpretations in respect thereof.

#### 7. Interim dividend

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

#### 8. Loss per share

The calculation of basic loss per share is based on the loss for the period attributable to equity holders of the Company of approximately HK\$71,429,000 (2012: HK\$46,169,000) and the weighted average number of 5,028,334,500 (2012: 5,028,334,500) ordinary shares in issue during the period.

The Company's share options have no dilution effect for the six months ended 30 June 2013 and 2012 because the exercise price of the Company's share options was higher than the average market price of shares for the periods.

## 9. Investment property

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

On 30 June 2012, the Group transferred the owner-occupied property of carrying amount of HK\$178,855,000 to investment property. The property was revalued at the fair value of HK\$322,800,000 on that date by BMI Appraisals Limited, an independent professional qualified valuer, on the open market and existing use basis. The increase of HK\$143,945,000 in the carrying amount was recognized in the property revaluation reserve for the six-month period ended 30 June 2012 and HK\$34,200,000 was recognized as fair value gain in profit or loss in the second half year of 2012.

On 30 June 2013, the Group's investment property was revalued by BMI Appraisals Limited at HK\$375,000,000 on the open market and existing use basis. The increase of fair value of HK\$17,100,000 was recognized in profit or loss. 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:

<b>Location</b>	<b>Existing use</b>
26 <sup>th</sup> 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 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Repayable:		
On demand	194,334	199,160
Within 3 months	2,196	1,788
3 months to 1 year	3,382	3,256
1 year to 5 years	<b>3,668</b>	4,605
	<hr/>	<hr/>
Portion classified as current assets	<b>203,580</b> <b>(199,912)</b>	208,809 (204,204)
	<hr/>	<hr/>
Portion classified as non-current assets	<b><u>3,668</u></b>	<b><u>4,605</u></b>

## 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 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
<b>Shares</b>		
Authorised:		
8,000,000,000 (2012: 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 (2012: 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 2013 (Unaudited) HK\$'000</b>	2012 (Unaudited) HK\$'000
Changes in fair value of available-for-sale financial assets	<b>(4,830)</b>	(2,100)
Reclassification adjustment for impairment loss	–	3,710
Exchange differences on translation of foreign operations	<b>879</b>	(680)
Surplus on revaluation of property ( <i>Note 9</i> )	–	143,945
Less: deferred tax	–	(23,800)
	<b>–</b>	120,145
	<b>(3,951)</b>	121,075

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

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

### ***Broking, trading and investment***

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

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

### ***Margin financing and money lending***

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

### ***Corporate advisory and underwriting***

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

### ***Wealth management***

Revenue and operating loss for this new segment was HK0.9 million and HK\$1.3 million respectively for the six months ended 30 June 2013.

### ***Property investment***

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

## **Liquidity and Financial Resources**

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

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

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

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

As at 30 June 2013, 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\$75.9 million to HK\$160.8 million as at 30 June 2013. Fair value loss on the financial assets at fair value through profit or loss for the six months ended 30 June 2013 was HK\$59.5 million.

## **Material Acquisitions and Disposals**

The Group had no material acquisitions and disposals of subsidiaries and associates for the six months ended 30 June 2013.

## **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 2013, the total number of employees of the Group was approximately 192 (30 June 2012: approximately 183). Employees' costs (including directors' emoluments) amounted to approximately HK\$ 27.0 million for the six months ended 30 June 2013 (six months ended 30 June 2012: approximately HK\$29.9 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 of Hong Kong. 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. Employees may also be granted share option under the share option scheme adopted by the Company.

## **Prospects**

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

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

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

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

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

## **MANAGEMENT OF RISKS**

The Group set out in its 2012 annual report and financial statements the principal risks and uncertainties that could impact its performance; these have remained 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 times.

## **INTERIM DIVIDEND**

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

**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 2013, the interests and short positions of the Directors and the chief executive 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, Chapter 571 of the laws of Hong Kong (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO (the "Register of Directors' and Chief Executives' Interests"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "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 Directors</b>	<b>Capacity</b>	<b>Number of ordinary shares</b>	<b>Total number of ordinary shares</b>	<b>Approximate percentage of shareholding to total issued ordinary shares</b>
Ng Hung Sang ("Mr. Ng")	Beneficial owner	185,554,400	2,963,613,624	58.94%
	Interest of spouse	233,000,000		
	Interest of controlled corporations	2,545,059,224 <i>(Note a)</i>		
Richard Howard Gorges ("Mr. Gorges")	Beneficial owner	12,174,000	12,174,000	0.24%
Cheung Choi Ngor ("Ms. Cheung")	Beneficial owner	10,000,000	10,000,000	0.20%
Raymond Arthur William Sears, Q.C.	Interest of spouse	200,000	200,000	0.00%

**(ii) Associated corporation**

**South China Financial Credits Limited ("SCFC")** *(Note b)*

***Long positions in shares***

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

*Notes:*

(a) The 2,545,059,224 shares of the Company held by Mr. Ng through controlled corporations included 474,606,720 shares held by Bannock Investment Limited ("Bannock"), 501,292,800 shares held by Eartrade Investments Limited ("Eartrade"), 792,100,504 shares held by Fung Shing Group Limited ("Fung Shing"), 743,728,000 shares held by Parkfield Holdings Limited ("Parkfield") and 33,331,200 shares held by Ronastar Investments Limited ("Ronastar"). Fung Shing, Parkfield and Ronastar were wholly-owned by Mr. Ng. Bannock was a wholly-owned subsidiary of Eartrade which was owned as to 60% by Mr. Ng, 20% by Mr. Gorges and 20% by Ms. Cheung.

(b) SCFC was a 98.81%-owned subsidiary of the Company.

Save as disclosed above, as at 30 June 2013, none of the Directors or the chief executive of the Company had 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 of Directors' and Chief Executives' Interests, 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 2013, the following person/corporations, other than the Directors or the chief executive 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 the SFO (the "Register of Substantial Shareholders' Interests"):

### ***Long position in shares***

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Number of ordinary shares</b>	<b>Approximate percentage of shareholding to total issued ordinary shares</b>
Eartrade	Beneficial owner and interest of a controlled corporation	975,899,520 (Note a)	19.41%
Bannock	Beneficial owner	474,606,720 (Note a)	9.44%
Parkfield	Beneficial owner	743,728,000	14.79%
Fung Shing	Beneficial owner	792,100,504	15.75%
Ng Lai King Pamela ("Ms. Ng")	Beneficial owner and interest of spouse	2,963,613,624 (Note b)	58.94%

#### *Notes:*

- (a) Bannock was a wholly-owned subsidiary of Eartrade. The 975,899,520 shares in the Company held by Eartrade included 474,606,720 shares held by Bannock directly.
- (b) Ms. Ng, who held 233,000,000 shares in the Company beneficially, was the spouse of Mr. Ng, the Chairman and an Executive Director of the Company. By virtue of the SFO, Ms. Ng was deemed to be interested in the 185,554,400 shares and 2,545,059,224 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 2013, no person or corporation, other than the Directors or the chief executive of the Company, whose interests are set out in 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, had any interests or short positions in the shares or underlying shares of the Company as recorded in the Register of Substantial Shareholders' Interests.

## SHARE OPTION SCHEMES

### (i) 2002 Share Option Scheme

The share option scheme adopted by the Company on 31 May 2002 (the “2002 Option Scheme”) was terminated on 5 June 2012. Share options granted under the 2002 Option Scheme prior to its termination will continue to be valid and exercisable pursuant to the terms of the 2002 Option Scheme. Particulars and movements of the outstanding share options granted under the 2002 Option Scheme during the six months ended 30 June 2013 were as follows:

Name or category of participants	Number of shares comprised in the share options				Outstanding as at 30 June 2013	Date of grant of share options (DD/MM/YYYY) <i>(Note a)</i>	Exercise period of share options (DD/MM/YYYY)	Subscription price per share HK\$ <i>(Note b)</i>
	Outstanding as at 1 January 2013	Exercised	Lapsed during the period	Cancelled				
	Directors	-	-	-				
<b>Others</b>								
In aggregate	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
Total	<u>4,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,000,000</u>			

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 months	33 <sup>1</sup> / <sub>3</sub>
25th – 48th months	33 <sup>1</sup> / <sub>3</sub>
37th – 60th months	33 <sup>1</sup> / <sub>3</sub>

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

(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.

No share option had been exercised, lapsed or cancelled during the six months ended 30 June 2013. No equity-settled share option expense was recognised by the Company during the six months ended 30 June 2013 (2012: recognition of expense of HK\$8,000).

### (ii) 2012 Share Option Scheme

At the annual general meeting of the Company held on 5 June 2012, the shareholders approved the adoption of a new share option scheme (the “2012 Option Scheme”) and it became effective on 11 June 2012. Subject to the early termination of the 2012 Option Scheme pursuant to the terms thereof, the 2012 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 Option Scheme since its adoption.

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

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

## **CORPORATE GOVERNANCE**

The Company had complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2013 except that Mr. Ng, the Chairman and an Executive Director of the Company, was unable to attend the annual general meeting of the Company held on 4 June 2013, which deviated from code provision E.1.2 since he had other business engagements.

Reference is made to the announcement of the Company dated 28 May 2013 in relation to the resignation of Mr. Tong Kai Wing ("Mr. Tong") as the Company Secretary. Following Mr. Tong's resignation, the Company did not meet the requirement of Rule 3.28 of the Listing Rules of having a company secretary. The Company is in the process of identifying a suitable candidate to fill the vacancy for company secretary caused by Mr. Tong's resignation, and will publish further announcement once such appointment is confirmed.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as its code of conduct regarding the Directors' securities transactions.

Following a specific enquiry by the Company, all Directors have confirmed in writing their compliance with the required standard set out in the Model Code regarding directors' securities transactions throughout the six months ended 30 June 2013.

## **AUDIT COMMITTEE**

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee presently comprises three Independent Non-executive Directors, namely Mr. Tung Woon Cheung Eric (Chairman of the Committee), Mrs. Tse Wong Siu Yin Elizabeth and Hon. Raymond Arthur William Sears, Q.C.

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

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

Hong Kong, 20 August 2013

*As at the date of this 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; 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.*