



SOUTH CHINA FINANCIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 619)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2015

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 2015 (the “Period”) together with the relevant comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | | Six months ended 30 June | |
|---|--------------|---------------------------------|----------------------|
| | | 2015 | 2014 |
| | | (Unaudited) | (Unaudited) |
| | <i>Notes</i> | HK\$'000 | <i>HK\$'000</i> |
| Revenue | 3 | 107,216 | 42,171 |
| Fair value loss on investment property | | – | (37,000) |
| Impairment of loans and trade receivables, net | | (268) | (1,129) |
| Fair value gain/(loss) on financial assets at fair value through profit or loss | | 74,870 | (24,810) |
| Other income | | 1,536 | 1,901 |
| Other operating expenses | | (100,672) | (68,578) |
| Profit/(loss) from operating activities | | 82,682 | (87,445) |
| Finance costs | 6 | (3,546) | (3,795) |
| Share of loss of an associate | | (974) | (2,299) |
| Profit/(loss) before tax | 4 | 78,162 | (93,539) |
| Income tax expenses | 7 | (305) | (112) |
| Profit/(loss) for the period | | <u>77,857</u> | <u>(93,651)</u> |
| Attributable to: | | | |
| Equity holders of the Company | | 77,863 | (93,641) |
| Non-controlling interests | | (6) | (10) |
| | | <u>77,857</u> | <u>(93,651)</u> |
| Earnings/(loss) per share attributable to equity holders of the Company | 9,16 | | (Restated) |
| Basic and diluted | | <u>HK1.27cents</u> | <u>(HK1.55cents)</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at 30 June 2015 (Unaudited) HK\$'000 | As at 31 December 2014 (Audited) HK\$'000 |
|---|--------------|---|---|
| | <i>Notes</i> | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 2,591 | 3,619 |
| Investment property | 10 | 397,500 | 397,500 |
| Intangible assets | | 836 | 836 |
| Investments in associates | | 3,341 | 4,315 |
| Available-for-sale investments | | 47,857 | 28,467 |
| Other assets | | 19,198 | 13,031 |
| Long term loans receivable | 11 | 5,008 | 6,502 |
| Long term deposits | | 849 | 850 |
| | | 477,180 | 455,120 |
| CURRENT ASSETS | | | |
| Financial assets at fair value through profit or loss | 12 | 276,894 | 148,524 |
| Loans receivable | 11 | 536,038 | 194,436 |
| Trade receivables | 13 | 258,466 | 191,586 |
| Other receivables, prepayments and deposits | | 37,021 | 36,737 |
| Pledged time deposits | | 1,998 | 1,997 |
| Cash held on behalf of clients | | 709,063 | 628,708 |
| Cash and bank balances | | 171,296 | 127,175 |
| | | 1,990,776 | 1,329,163 |
| CURRENT LIABILITIES | | | |
| Client deposits | | 925,639 | 704,414 |
| Trade payables | 13 | 43,145 | 110,943 |
| Other payables and accruals | | 44,474 | 19,708 |
| Tax payables | | 157 | 21 |
| Interest-bearing bank borrowings | | 487,114 | 324,664 |
| | | 1,500,529 | 1,159,750 |
| NET CURRENT ASSETS | | 490,247 | 169,413 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 967,427 | 624,533 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

| | <i>Note</i> | As at 30 June 2015 (Unaudited) HK\$'000 | As at 31 December 2014 (Audited) HK\$'000 |
|---|-------------|--|---|
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | | 154,215 | 160,185 |
| Deposits received | | 1,303 | 1,467 |
| Deferred tax liabilities | | 29,145 | 29,004 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 184,663 | 190,656 |
| | | <hr/> | <hr/> |
| Net assets | | 782,764 | 433,877 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| Issued capital | <i>14</i> | 599,737 | 348,334 |
| Reserves | | 182,490 | 85,000 |
| | | <hr/> | <hr/> |
| | | 782,227 | 433,334 |
| Non-controlling interests | | 537 | 543 |
| | | <hr/> | <hr/> |
| Total equity | | 782,764 | 433,877 |
| | | <hr/> <hr/> | <hr/> <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Issued capital (Unaudited) <i>HK\$'000</i> | Other reserves (Unaudited) <i>HK\$'000</i> | Retained profits/ losses) (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> |
|--|---|---|---|---|--|---|
| THE GROUP | | | | | | |
| At 1 January 2015 | 348,334 | 134,241 | (49,241) | 433,334 | 543 | 433,877 |
| Profit for the period | - | - | 77,863 | 77,863 | (6) | 77,857 |
| Other comprehensive income for the period | - | 19,473 | - | 19,473 | - | 19,473 |
| Total comprehensive income for the period | - | 19,473 | 77,863 | 97,336 | (6) | 97,330 |
| Grant of share options | - | 154 | - | 154 | - | 154 |
| Shares issued under rights issue | 251,403 | - | - | 251,403 | - | 251,403 |
| At 30 June 2015 | 599,737 | 153,868 | 28,622 | 782,227 | 537 | 782,764 |
| At 1 January 2014 | 125,652 | 352,705 | 23,652 | 502,009 | 554 | 502,563 |
| Loss for the period | - | - | (93,641) | (93,641) | (10) | (93,651) |
| Other comprehensive loss for the period | - | (4,982) | - | (4,982) | - | (4,982) |
| Total comprehensive loss for the period | - | (4,982) | (93,641) | (98,623) | (10) | (98,633) |
| Transfer from share premium account and capital redemption reserve on 3 March 2014 | 221,697 | (221,697) | - | - | - | - |
| Issue of shares on exercises of share options (<i>Note</i>) | 985 | (729) | - | 256 | - | 256 |
| At 30 June 2014 | 348,334 | 125,297 | (69,989) | 403,642 | 544 | 404,186 |

Note: The subscription rights attaching to 2,000,000 share options were exercised at the subscription price of HK\$0.128 per share, resulting in the issue of 2,000,000 shares for a total cash consideration of HK\$256,000. An amount of HK\$729,000 was transferred and reclassified from the share option reserve to share capital upon the exercise of the share options.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | Six months ended 30 June | |
|---|-------------|---------------------------------|-------------|
| | | 2015 | 2014 |
| | | (Unaudited) | (Unaudited) |
| | <i>Note</i> | HK\$'000 | HK\$'000 |
| Profit/(loss) for the period | | 77,857 | (93,651) |
| Other comprehensive income/(loss) for the period | 15 | 19,473 | (4,982) |
| Total comprehensive income/(loss) for the period | | 97,330 | (98,633) |
| Attributable to: | | | |
| Equity holders of the Company | | 97,336 | (98,623) |
| Non-controlling interests | | (6) | (10) |
| | | 97,330 | (98,633) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

1. BASIS OF PREPARATION

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

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

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of any changes in accounting policies are set out in note 2.

These interim financial statements do not include all the information and disclosures required in annual financial statements, and should be read, where relevant, in conjunction with the 2014 annual financial statements of the Group.

2. CHANGES IN ACCOUNTING POLICIES

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

- Annual Improvements to HKFRSs 2010-2012 Cycle
- Annual Improvements to HKFRSs 2011-2013 Cycle

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

3. REVENUE

| | Six months ended 30 June | |
|---|---------------------------------|---------------|
| | 2015 | 2014 |
| | (Unaudited) | (Unaudited) |
| | HK\$’000 | HK\$’000 |
| Commission and brokerage income | 44,365 | 26,567 |
| Profit/(loss) on trading of securities, forex, bullion and futures contracts, net | 38,473 | (4,777) |
| Dividend income from listed investments | 584 | 1,070 |
| Interest income from bullion and forex | 208 | 604 |
| Interest income from loans receivable | 10,597 | 8,693 |
| Interest income from banks and financial institutions | 408 | 360 |
| Rendering of services | 7,600 | 5,623 |
| Gross rental income | 4,981 | 4,031 |
| | <u>107,216</u> | <u>42,171</u> |

4. PROFIT/(LOSS) BEFORE TAX

| | Six months ended 30 June | |
|---|---------------------------------|---------------|
| | 2015 | 2014 |
| | (Unaudited) | (Unaudited) |
| | HK\$’000 | HK\$’000 |
| The Group’s profit/(loss) is arrived at after charging: | | |
| Cost of services provided | 18,354 | 14,307 |
| Depreciation | 1,179 | 1,873 |
| Interest expenses for margin financing and money lending operations | 2,622 | 2,181 |
| | <u>21,155</u> | <u>18,361</u> |

5. REVENUE AND SEGMENTAL INFORMATION

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

| | Six months ended 30 June | | | |
|-------------------------------------|--------------------------|---------------|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | Revenue | Revenue | Profit/ (loss) from operating activities | Profit/ (loss) from operating activities |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Broking | 44,971 | 23,658 | (2,142) | (12,659) |
| Trading and investment | 39,485 | (3,422) | 84,710 | (38,620) |
| Margin financing and money lending | 11,216 | 9,876 | 3,686 | 2,696 |
| Corporate advisory and underwriting | 4,450 | 1,899 | 645 | (1,537) |
| Wealth management | 964 | 1,834 | (4,255) | (1,413) |
| Property investment | 4,980 | 4,031 | 4,393 | (34,383) |
| Other business and corporate | 1,150 | 4,295 | (4,355) | (1,529) |
| | <u>107,216</u> | <u>42,171</u> | <u>82,682</u> | <u>(87,445)</u> |
| Consolidated | <u>107,216</u> | <u>42,171</u> | <u>82,682</u> | <u>(87,445)</u> |

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

6. FINANCE COSTS

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

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, practices and interpretations in respect thereof.

8. INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

9. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings per share is based on the profit for the Period attributable to equity holders of the Company of approximately HK\$77,863,000 (2014: loss of HK\$93,641,000) and the weighted average number of 6,108,705,975 (2014 (restated): 6,032,494,770) ordinary shares in issue during the Period.

During the current Period, the Group raised approximately HK\$251.4 million by way of rights issue on the basis of one rights share for every two existing shares held by shareholders of the Company at the price of HK\$0.1, which represents a discount to the prevailing fair value at the date of rights issue of the existing shares.

The effect of the bonus element resulting from the rights issue has been included in the calculation of basic and diluted earnings per share and the prior period's basic and diluted loss per share are adjusted (in accordance with HKAS 33, Earnings Per Share) to provide a comparable basis for the rights issue in the current Period (note 16).

As at 9 June 2015, the Company granted a total of 60,000,000 share options to certain employees of subsidiaries of the Company under the Company's share option scheme adopted on 5 June 2012. The Company's share options had no dilution effect for the six months ended 30 June 2015 because the exercise price of the Company's share option was higher than the average market price of shares for the period.

10. INVESTMENT PROPERTY

| | 30 June 2015 (Unaudited) HK\$'000 | 31 December 2014 (Audited) HK\$'000 |
|---------------------------------------|--|--|
| Carrying amount at 1 January | 397,500 | 430,000 |
| Additions | - | 659 |
| Net loss from a fair value adjustment | - | (33,159) |
| Carrying amount | <u>397,500</u> | <u>397,500</u> |

On 30 June 2015, the Group's investment property was revalued by Roma Appraisal Limited at HK\$397,500,000 (31 December 2014: HK\$397,500,000) on the open market and existing use basis. The investment property is leased to third parties under operating leases.

The Group's investment property is situated in Hong Kong and is held under long term leases. The investment property was pledged to a bank to secure banking facilities granted to the Group.

Details of the Group's investment property are as follows:

| Location | Existing use |
|---|---------------------|
| 26th Floor, Tower One, Lippo Centre, 89 Queensway, Admiralty, Hong Kong | Office building |

11. LOANS RECEIVABLE

The maturity profile of loans receivable at the balance sheet date is analysed into the remaining periods to their contractual maturity dates as follows:

| | 30 June 2015 (Unaudited) HK\$'000 | 31 December 2014 (Audited) HK\$'000 |
|--|--|--|
| Repayable: | | |
| On demand | 513,540 | 173,657 |
| Within 3 months | 1,243 | 1,390 |
| 3 months to 1 year | 21,255 | 19,389 |
| 1 year to 5 years | 5,008 | 6,502 |
| Portion classified as current assets | <u>541,046</u> (536,038) | <u>200,938</u> (194,436) |
| Portion classified as non-current assets | <u>5,008</u> | <u>6,502</u> |

12. 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.

13. TRADE RECEIVABLES AND PAYABLES

The Group allows a credit period up to the respective settlement dates of securities, forex, bullion and commodities transactions or a credit period mutually agreed between the contracting parties.

All of the Group's trade receivables and payables are aged within 90 days.

14. ISSUED CAPITAL

| | 30 June 2015 (Unaudited) HK\$'000 | 31 December 2014 (Audited) HK\$'000 |
|---|--|--|
| Shares | | |
| Issued and fully paid: | | |
| 7,542,126,750 (<i>note</i>) (2014: 5,028,084,500) ordinary shares | <u>599,737</u> | <u>348,334</u> |

Note: On 22 June 2015, the Company completed a rights issue to raise approximately HK\$251.4 million by issuance of 2,514,042,250 rights shares at a price of HK\$0.1 per share. After deducting the expenses in connection with the rights issue amounting to approximately HK\$2.9 million, the net proceeds from issuance of ordinary shares were approximately HK\$248.5 million.

15. OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD

| | Six months ended 30 June 2015 (Unaudited) HK\$'000 | 2014 (Unaudited) HK\$'000 |
|--|---|---------------------------------|
| Changes in fair value of available-for-sale financial assets | 19,390 | (3,710) |
| Exchange differences on translation of foreign operations | <u>83</u> | <u>(1,272)</u> |
| | <u>19,473</u> | <u>(4,982)</u> |

16. RESTATEMENT OF PRIOR PERIOD

On 22 May 2015, the Board announced that the Company proposed the issue of 2,514,042,250 new ordinary shares by way of rights to qualifying shareholders at HK\$0.1 per share. The issue was made as 1 rights share for every 2 existing shares held. As required by HKAS 33, Earnings Per Share, the Company has adjusted the 2014 basic and diluted loss per share with the bonus element included within the rights issue.

| | As reported at 30-Jun 2014 HK cents | Impact of restatement HK cents | Restated at 30-Jun 2014 HK cents |
|---|--|---|---|
| Basic and diluted loss per ordinary share | <u>(1.86)</u> | <u>0.31</u> | <u>(1.55)</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Following the favourable market conditions in the first half of 2015 as well as our rights issue exercised in June 2015, the Group is in a much stronger position than six months ago to meet the opportunities and challenges arising domestically and overseas.

Riding on the strong momentum from the launching of the Shanghai-HK Stock Connect since the latter half of 2014, market turnover in the first six months of 2015 remained buoyant. The average daily turnover for the first six months of 2015 was approximately HK\$125 billion, an increase of 99% when compared with HK\$63 billion for the same period last year. Daily market turnover also reached another milestone, crossing the HK\$200 billion mark in several occasions. Fund raising exercises (including IPOs) were also active, with total funds raised for the first six months of 2015 reached HK\$709 billion, an increase of 225% when compared with HK\$218 billion for the same period last year.

The Group recorded a profit of HK\$77.9 million for the Period as compared with a loss of HK\$93.7 million for the same period of last year mainly due to increase in revenue from the brokerage business and the fair value gain and trading gain on financial assets. Besides, whereas a fair value loss on investment property was recorded for the corresponding period in 2014, there was no fair value change on investment property recorded in the Period. The aforesaid factors outweigh the increase in operating expenses in the Period.

Broking, trading and investment

The significant increase in Hong Kong stocks market turnover in the second quarter of 2015 improved the revenue for broking business for the Period. Revenue for broking recorded for the first half of 2015 was HK\$45 million, representing 90% increase from HK\$23.7 million for the same period in 2014. Operating loss decreased to HK\$2.1 million for the Period from HK\$12.7 million for the same corresponding period in 2014.

Trading and investment recognized a profit of HK\$84.7 million for the Period as compared with a loss of HK\$38.6 million for the same period in 2014. Fair value gain on financial assets of HK\$74.9 million was recorded during the Period.

Margin financing and money lending

Revenue recorded for the Period was HK\$11.2 million comparing to HK\$9.9 million for the same corresponding period in 2014. Contribution from this segment increased from HK\$2.7 million for the six months ended 30 June 2014 to HK\$3.7 million for the Period. The loan portfolio size was increased by 169.3% with the balance of HK\$541 million as at 30 June 2015 as compared with HK\$200.9 million as at 31 December 2014.

Corporate advisory and underwriting

Revenue from our corporate advisory and underwriting business increased from HK\$1.9 million for the six months ended 30 June 2014 to HK\$4.5 million for the Period. We had been successful in turning the operating loss of HK\$1.5 million for the six months ended 30 June 2014 into profit of HK\$0.6 million for the Period.

Wealth management

Revenue recorded for the Period was HK\$1 million as compared with HK\$1.8 million for the same corresponding period in 2014. Operating loss was increased to HK\$4.3 million for the Period from HK\$1.4 million for the same period in 2014.

Property investment

No fair value revaluation gain or loss was recorded for the Period as compared with fair value revaluation loss of HK\$37 million for the same corresponding period in 2014. Gross rental income was substantially increased from HK\$4 million for the first six months of 2014 to HK\$5 million for the Period.

Other business and corporate

Revenue recorded for the Period was HK\$1.2 million as compared with HK\$4.3 million for the same corresponding period in 2014. Operating loss was increased to HK\$4.4 million for the Period from HK\$1.5 million for the same period in 2014.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had obtained short term credit facilities which were reviewed annually and a long term mortgage loan from a bank. 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.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The Group's policy is to maintain the gearing ratio below 50%. Net debt includes interest-bearing bank borrowings, less cash and bank balances. Capital represents total equity. The gearing ratio at the end of the Period was approximately 37.5% (31 December 2014: 45.2%).

The Group had a cash balance of HK\$171.3 million at the end of the current Period, an increase of 34.7% from the end of 2014. 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 2015 the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

CAPITAL STRUCTURE

On 22 June 2015, the Company had completed the issue of 2,514,042,250 new ordinary shares by way of rights to qualifying shareholders at HK\$0.1 per share. The issue was made as 1 rights share for every 2 existing shares held.

INVESTMENTS

Financial assets at fair value through profit or loss increased by HK\$128.4 million to HK\$276.9 million as at 30 June 2015. Fair value gain on the financial assets at fair value through profit or loss for the six months ended 30 June 2015 was HK\$74.9 million.

MATERIAL ACQUISITIONS AND DISPOSALS

On 18 May 2015, the Company had entered into the agreement with Wealth Anchor Holdings Limited (“WAHL”) (a direct wholly-owned subsidiary of South China Land Limited (“SCL”)), whereby the Company had agreed to sell and WAHL had agreed to purchase the entire issued share capital of South China Asset Management Limited (“SCAM”) (a direct wholly-owned subsidiary of the Company).

The consideration, shall be the net asset value, was arrived at after arm’s length negotiation between the Company and WAHL with reference to the net asset value of SCAM which was approximately HK\$5.6 million as at 30 April 2015, the date to which the latest available financial statements of SCAM.

The completion of the disposal transaction is subject to the fulfillment of certain conditions, including the approval in relation to the change of substantial shareholder of SCAM by the Securities and Futures Commission. After the completion of the disposal transaction, SCAM shall cease to be a subsidiary of the Company, and WAHL shall own the entire equity interest of SCAM which will become an indirect wholly-owned subsidiary of SCL. The transaction is not yet completed as at 7 August 2015.

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 2015 the total number of employees of the Group was approximately 122 (30 June 2014: approximately 164). Employees’ costs (including directors’ emoluments) amounted to approximately HK\$50.3 million for the Period (six months ended 30 June 2014: approximately HK\$28.7 million).

In addition to salary, other fringe 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. Employees may also be granted share option under the share option scheme adopted by the Company.

PROSPECTS

In PRC, the People’s Bank of China also unveiled various easing measures to cope with the slowing economy and contain deflationary pressures. The China Securities Regulatory Commission also stepped in and introduced various measures during the Period for better regulating the industry practices. The Shenzhen-HK Stock Connect, which is expected to be launched in the second half of 2015, may also bring new dynamics to the market. Meanwhile, the timing of the interest rate hike by the Federal Reserve as well as the latest development in Eurozone on Greece’s debt crisis may also affect the market.

Looking ahead, Hong Kong’s unemployment rates that have been maintained at an average of approximately 3.3% since the second half of 2014 show that Hong Kong’s employment market and local economy are relatively strong and healthy compared to the majority of other developed countries. As such, the Board expects it will lead to more business opportunities in the financial markets and there will be a corresponding increase in client demand for financial services. It is expected that there will be a surge in the number of customers and trading volume.

MANAGEMENT OF RISKS

The Group set out in its 2014 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.

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 2015, 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 of Hong Kong Limited (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 Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, were as follows:

(i) The Company

Long positions in shares

| Name of Directors | Capacity | Number of ordinary shares | Total Number of ordinary shares | Approximate percentage of shareholding to total issued ordinary shares |
|---|---|--|---------------------------------|--|
| Ng Hung Sang ("Mr. Ng") | Beneficial owner Interest of controlled corporations | 278,331,600 2,353,739,556 (Note a) | 2,632,071,156 | 34.90% |
| Richard Howard Gorges ("Mr. Gorges") | Beneficial owner | 245,500,000 | 245,500,000 | 3.26% |
| Cheung Choi Ngor ("Ms. Cheung") | Beneficial owner | 307,507,789 | 307,507,789 | 4.08% |
| Raymond Arthur William Sears, Q.C. | Interest of spouse | 1,650,000 | 1,650,000 | 0.02% |
| Ng Yuk Yeung Paul | Beneficial owner | 292,500,000 | 292,500,000 | 3.88% |

(ii) **Associated corporation**

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

Long positions in shares

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

Notes:

- (a) The 2,353,739,556 shares of the Company held by Mr. Ng through controlled corporations included 1,188,150,756 shares held by Fung Shing Group Limited (“Fung Shing”), 1,115,592,000 shares held by Parkfield Holdings Limited (“Parkfield”) and 49,996,800 shares held by Ronastar Investments Limited (“Ronastar”). Fung Shing, Parkfield and Ronastar were wholly-owned by Mr. Ng.
- (b) SCFC is a 98.81%-owned subsidiary of the Company.

Save as disclosed above, as at 30 June 2015, none of the Directors or the chief executives 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 2015, the following person/corporations, other than the Directors or the 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 the SFO (the “Register of Substantial Shareholders’ Interests”):

Long position in shares

| Name of shareholders | Capacity | Number of ordinary shares | Approximate percentage of shareholding to total issued ordinary shares |
|----------------------------------|--------------------|----------------------------------|---|
| Fung Shing | Beneficial owner | 1,188,150,756 | 15.75% |
| Parkfield | Beneficial owner | 1,115,592,000 | 14.79% |
| Ng Lai King Pamela (“Ms. Ng”) | Interest of spouse | 2,632,071,156 (Note) | 34.90% |

Note: Ms. Ng is 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 278,331,600 shares and 2,353,739,556 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 2015, no person or corporation, other than the Directors or the chief executives 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.

EMPLOYEES’ SHARE AWARD SCHEME

On 10 June 2015, the Company adopted an Employees’ Share Award Scheme of the Company (the “Share Award Scheme”) for recognising the contributions by certain employees of the Group, giving incentive to them in order to retain them for the continual operation and development of the Group and attracting suitable personnel for the development of the Group. Pursuant to the applicable terms and the conditions of the Share Award Scheme, a sum up to and not exceeding HK\$20 million will be used for the purchase of shares of the Company and/or other shares listed on the Main Board or the GEM Board of the Stock Exchange from market, which will be held on the trust for the selected employees of the Group. The selected employees and the reference awarded sum for the purchase of shares to be awarded will be determined by the Board from time to time at its absolute discretion.

SHARE OPTION SCHEME

The adoption of the share option scheme (the “Scheme”) was approved by shareholders of the Company on 5 June 2012 and became effective on 11 June 2012. Particulars and movements of the outstanding share options granted under the Scheme during the six months ended 30 June 2015 were as follows:

| Name or category of participants | Number of share options | | | | | | Date of grant of share options (DD/MM/YYYY) | Exercise period of share options (DD/MM/YYYY) <i>(Note i)</i> | Subscription price per share HK\$ | The weighted average closing price of Shares immediately preceding the grant date of share option HK\$ <i>(Note ii)</i> | The weighted average closing price of Shares immediately preceding the exercise date of share option HK\$ <i>(Note iii)</i> |
|----------------------------------|------------------------------|---------------------------|-----------------------------|--------------------------|-----------------------------|------------------------------|--|---|--------------------------------------|---|---|
| | Outstanding as at 01/01/2015 | Granted during the period | Exercised during the period | Lapsed during the period | Cancelled during the period | Outstanding as at 30/06/2015 | | | | | |
| Employees | | | | | | | | | | | |
| In aggregate | - | 20,000,000 | - | - | - | 20,000,000 | 09/06/2015 | 09/06/2016 – 08/06/2018 | 0.202 | 0.200 | N/A |
| | - | 20,000,000 | - | - | - | 20,000,000 | 09/06/2015 | 09/06/2017 – 08/06/2019 | 0.202 | 0.200 | N/A |
| | - | 20,000,000 | - | - | - | 20,000,000 | 09/06/2015 | 09/06/2018 – 08/06/2020 | 0.202 | 0.200 | N/A |
| Total | - | 60,000,000 | - | - | - | 60,000,000 | | | | | |

Notes:

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

| From the date of grant of share options | Exercisable percentage |
|--|-------------------------------|
| Within 12 months | Nil |
| 13th–36th month | 33 $\frac{1}{3}$ % |
| 25th–48th month | 33 $\frac{1}{3}$ % |
| 37th–60th month | 33 $\frac{1}{3}$ % |

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

The Company recognized a share option expense of HK\$154,000 (six months ended 30 June 2014: Nil) during the six months ended 30 June 2015.

- (ii) The price of the shares disclosed as immediately preceding the date of grant of the share options is the Stock Exchange's closing price on the trading day immediately prior to the date of the grant of the share options.
- (iii) The weighted average closing price of the shares immediately before the date on which the options are exercised.
- (iv) The fair values of share options granted on 9 June 2015 and measured at the date of grant was approximately HK\$4,346,000. The following significant assumptions was used to derive the fair values, using the trinomial option pricing model:

| Date of grant | 9 June 2015 | | |
|--------------------------|--------------------|--------------|--------------|
| | Lot 1 | Lot 2 | Lot 3 |
| Expected volatility | 68.394% | 62.977% | 58.654% |
| Expected life (in years) | 2.998 | 3.998 | 4.998 |
| Risk free interest rate | 0.813% | 0.992% | 1.286% |
| Expected dividend yield | 0% | 0% | 0% |

The expected volatility is based on the historical volatility of the Company's share price. The expected life used in the model is based on the terms and conditions of the Scheme and other relevant information concerning the options.

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

During the six months ended 30 June 2015, the Company did not redeem any of its shares listed on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any such shares.

CORPORATE GOVERNANCE CODE

The Company had complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2015 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 9 June 2015 since he had other business engagements, which deviated from code provision E.1.2.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Following specific enquiry by the Company, all Directors have confirmed their compliance with the required standard set out in the Model Code regarding director's securities transactions throughout the six months ended 30 June 2015.

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 interim report for the six months ended 30 June 2015 has 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, 7 August 2015

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 and Mr. Ng Yuk Yeung Paul 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.