



SOUTH CHINA FINANCIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 619)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2011

UNAUDITED CONSOLIDATED 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 2011 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2011	2010
		Unaudited	Unaudited
	Notes	HK\$'000	HK\$'000
Revenue	2	60,446	60,150
Other income		5	284
Reversal of impairment/(impairment) of loans and trade receivable, net		43	(1,594)
Fair value gain/(loss) on financial assets at fair value through profit or loss		(18,071)	14,371
Gain/(loss) on disposal of available-for-sale financial assets		(8,895)	3,862
Fair value gain on an investment property		–	5,300
Other operating expenses		<u>(59,646)</u>	<u>(62,058)</u>
Profit/(Loss) from operating activities		(26,118)	20,315
Finance costs	5	<u>(2,218)</u>	<u>(1,629)</u>
Profit/(Loss) before tax	3	(28,336)	18,686
Income tax credit/(expense)	6	<u>759</u>	<u>(895)</u>
Profit/(Loss) for the period		<u>(27,577)</u>	<u>17,791</u>
Attributable to:			
Owners of the Company		(27,585)	17,788
Non-controlling interests		<u>8</u>	<u>3</u>
		<u>(27,577)</u>	<u>17,791</u>
Earnings/(Loss) per share attributable to owners of the Company	8		
Basic and diluted		<u>(HK0.55 cent)</u>	<u>HK0.35 cent</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 30 June 2011 Unaudited HK\$'000	As at 31 December 2010 Audited HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		187,816	190,888
Intangible assets		836	836
Other assets		16,600	6,962
Long term loans receivable	9	8	145
Available-for-sale investments		26,165	38,167
Deferred tax assets		5	5
		231,430	237,003
CURRENT ASSETS			
Financial assets at fair value through profit or loss	10	260,099	279,825
Loans receivable	9	177,496	216,492
Trade receivables	11	185,221	105,769
Other receivables, prepayments and deposits		22,100	10,169
Pledged time deposits		5,500	5,750
Cash held on behalf of clients		446,406	369,243
Cash and bank balances		152,164	114,140
		1,248,986	1,101,388
CURRENT LIABILITIES			
Client deposits		443,296	363,920
Trade payables	11	165,373	94,779
Tax payable		37	28
Other payables and accruals		10,163	9,058
Interest-bearing bank and other borrowings		269,149	249,869
		888,018	717,654
NET CURRENT ASSETS		360,968	383,734
TOTAL ASSETS LESS CURRENT LIABILITIES		592,398	620,737
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		129,757	113,726
Deferred tax liabilities		8,050	8,850
		137,807	122,576
Net assets		454,591	498,161
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	125,708	125,721
Reserves		328,304	355,777
Proposed dividend		–	16,092
		454,012	497,590
Non-controlling interests		579	571
Total equity		454,591	498,161

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital Unaudited HK\$'000	Other Reserves Unaudited HK\$'000	Retained Profits/ (Accumulated losses) Unaudited HK\$'000	Proposed dividend Unaudited HK\$'000	Attributable to owners of the Company Unaudited HK\$'000	Non- controlling Interest Unaudited HK\$'000	Total equity Unaudited HK\$'000
THE GROUP							
At 1 January 2011	125,721	237,857	117,920	16,092	497,590	571	498,161
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 of shares	(13)	-	(41)	-	(54)	-	(54)
Transfer from retained profit on cancellation of repurchased shares	-	13	(13)	-	-	-	-
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>125,708</u>	<u>231,723</u>	<u>96,581</u>	<u>-</u>	<u>454,012</u>	<u>579</u>	<u>454,591</u>
At 1 January 2010	125,721	276,445	45,735	30,173	478,074	923	478,997
Profit for the period	-	-	17,788	-	17,788	3	17,791
Other comprehensive loss for the period	-	(39,890)	-	-	(39,890)	-	(39,890)
Total comprehensive income/(loss) for the period	-	(39,890)	17,788	-	(22,102)	3	(22,099)
Equity-settled share option arrangement	-	985	-	-	985	-	985
Dividend paid	-	-	-	(30,173)	(30,173)	-	(30,173)
Proposed 2010 interim dividend	-	-	(7,543)	7,543	-	-	-
Transfer to retained profits upon the forfeiture or expiry of share options	-	(6,412)	6,412	-	-	-	-
At 30 June 2010	<u>125,721</u>	<u>231,128</u>	<u>62,392</u>	<u>7,543</u>	<u>426,784</u>	<u>926</u>	<u>427,710</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2011	2010
		Unaudited	Unaudited
	<i>Notes</i>	HK\$'000	HK\$'000
Profit/(loss) for the period		(27,577)	17,791
Other comprehensive income/(loss) for the period	13	<u>564</u>	<u>(39,890)</u>
Total comprehensive loss for the period		<u>(27,013)</u>	<u>(22,099)</u>
Attributable to:			
Owners of the company		(27,021)	(22,102)
Non-controlling interests		<u>8</u>	<u>3</u>
		<u>(27,013)</u>	<u>(22,099)</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	23,729	(164,258)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(5,901)	5,115
NET CASH INFLOW FROM FINANCING ACTIVITIES	875	150,676
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	18,703	(8,467)
Cash and cash equivalents at beginning of the period	112,890	86,220
Effect of foreign exchange rate changes, net	781	296
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>132,374</u>	<u>78,049</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	157,664	84,986
Bank overdraft	(25,290)	(6,937)
	<u>132,374</u>	<u>78,049</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

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 2010 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 2011, as disclosed in the annual financial statements for the year ended 31 December 2010. The adoption of these new Hong Kong Financial Reporting Standards 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 2010 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	
	2011	2010
	Unaudited	Unaudited
	HK\$’000	HK\$’000
Commission and brokerage income	30,555	31,592
Profit on trading of securities, forex, bullion and futures contracts, net	18,015	12,196
Dividend income from listed investments	1,084	560
Interest income from loans receivable	9,449	10,849
Interest income from bank and financial institutions	182	345
Rendering of services	1,161	3,348
Gross rental income	–	1,260
	<u>60,446</u>	<u>60,150</u>

3. Profit/(loss) before tax

	Six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
	HK\$’000	HK\$’000
The Group’s profit/(loss) is arrived at after charging:		
Cost of services provided	14,398	13,472
Depreciation	3,310	2,689
Interest expenses for margin financing and money lending operations	1,180	1,472
	<u>19,888</u>	<u>17,633</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 2011 and 2010 are as follows:

	2011	2010	2011 Profit/ (loss) from operating activities HK\$'000	2010 Profit/ (loss) from operating activities HK\$'000
	Revenue HK\$'000	Revenue HK\$'000		
Broking	29,538	32,190	(3,450)	(4,240)
Trading and investment	21,701	13,430	(18,595)	19,491
Margin financing and money lending	9,069	11,102	5,096	7,682
Corporate advisory and underwriting	138	2,168	(3,466)	(2,904)
Corporate and others	–	1,260	(5,703)	286
	<u>60,446</u>	<u>60,150</u>	<u>(26,118)</u>	<u>20,315</u>
Consolidated	<u>60,446</u>	<u>60,150</u>	<u>(26,118)</u>	<u>20,315</u>

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

5. Finance Costs

Finance costs represent interest on a mortgage loan secured by the Group's property, plant and equipment.

6. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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 2011 (six months ended 30 June 2010: HK0.15 cents per ordinary share totaling HK\$7,543,252).

8. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the loss for the period attributable to owners of the Company of approximately HK\$27,585,000 (2010: profit of HK\$17,788,000) and the weighted average number of 5,028,671,517 (2010: 5,028,834,500) ordinary shares in issue during the period.

The Company's share options have no dilution effect for the six months ended 30 June 2011 and 2010 because the exercise price of the Company's share options was higher than the average market price of shares for the periods.

9. 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 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
Repayable:		
On demand	176,998	216,382
Within 3 months	151	–
3 months to 1 year	347	110
1 year to 5 years	8	145
	<u>177,504</u>	<u>216,637</u>
Portion classified as current assets	<u>(177,496)</u>	<u>(216,492)</u>
Portion classified as non-current assets	<u>8</u>	<u>145</u>

10. 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.

11. 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.

12. Issued Capital

	30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
Shares		
Authorised:		
8,000,000,000 (2010: 8,000,000,000) ordinary shares of HK\$0.025 each	200,000	200,000
Issued and fully paid:		
5,028,334,500 (2010: 5,028,834,500) ordinary shares of HK\$0.025 each	125,708	125,721

During the six months ended 30 June 2011, the Company repurchased the ordinary shares on the Stock Exchange as follows:

Month	Number of ordinary shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Consideration HK\$'000
May 2011	500,000	0.107	0.107	54

The repurchased shares were cancelled during the six months ended 30 June 2011 and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of shares of HK\$41,000 was charged to retained profits. In accordance with section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

13. Other comprehensive income/(loss) for the period

	Six months ended 30 June 2011 Unaudited HK\$'000	2010 Unaudited HK\$'000
Changes in fair value of available-for-sale financial assets	(9,112)	(36,324)
Reclassification adjustment for (gain)/loss on disposal	8,895	(3,862)
Exchange differences on translation of foreign operations	781	296
	564	(39,890)

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Hang Seng Index fell by 3% from 23,035 at the end of 2010 to 22,398 as at 30 June 2011. Reflecting the poor performance in the equity market, the Group recorded a loss of HK\$27.6 million for the first half of 2011 as compared with a profit of HK\$17.8 million for the same period of last year.

Broking, trading and investment

Notwithstanding the 15% increase in average daily market turnover to HK\$73.6 billion for the first half of 2011 from HK\$63.8 billion for the same period in 2010, revenue recorded for broking decreased to HK\$29.5 million from HK\$32.2 million. Competition remained fierce for the period.

Hit by the downturn in the securities market, trading and investment incurred a loss of HK\$18.6 million for the period as compared with a profit of HK\$19.5 million for the same period in 2010. Unrealized loss of HK\$18.1 million and loss on disposal of available-for-sale financial assets of HK\$8.9 million were included.

Margin financing and money lending

Our loans and advances portfolio for margin financing and personal loans decreased by 18% in the first half of 2011 to HK\$177.5 million as at 30 June 2011. Revenue recorded for the period was HK\$9.1 million as compared with HK\$11.1 million for the same period last year. Contribution from this segment decreased from HK\$7.7 million to HK\$5.1 million for the six months ended 30 June 2011.

Corporate advisory and underwriting

Revenue from our corporate advisory and underwriting business decreased from HK\$2.2 million to HK\$0.1 million and operating loss increased to HK\$3.5 million for the first half of 2011.

Liquidity and Financial Resources

The Group has obtained short term bank credit facilities which are reviewed on a yearly basis and a long term mortgage loan. The facilities for the share margin finance operations are secured by the securities of our margin clients and the Group. The facilities for the money lending operations are clean loans. All the outstanding credit facilities are guaranteed by the Company.

As at 30 June 2011, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$129.8 million (31 December 2010: HK\$113.7 million), which, when related to the Group's equity of HK\$454.6 million (31 December 2010: HK\$498.2 million), represented a gearing ratio of approximately 28.6% (31 December 2010: 22.8%).

The Group had cash balance of HK\$152.2 million at the end of the current period, an increase of 33% from the end of last year. The Group has a very strong working capital base to meet its operational needs.

Exposure to Fluctuations in Exchange Rates and Related Hedges

As at 30 June 2011, 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\$19.7 million. Fair value loss on the financial assets at fair value through profit or loss for the six months ended 30 June 2011 was HK\$18.1 million.

Material Acquisitions and Disposals

The Group had no material acquisitions and disposals of subsidiaries and associates for the six months ended 30 June 2011.

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 2011, the total number of employees of the Group was approximately 160 (30 June 2010: approximately 162). Employees' costs (including directors' emoluments) amounted to approximately HK\$23.0 million for the six months ended 30 June 2011 (six months ended 30 June 2010: approximately HK\$23.2 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 became effective on 28 June 2002.

Prospects

Following the recent global market plunge, investors are worried about the rising risk of global recession. However, we still consider that the economic prospects in Asia will outperform Europe and Americas. In particular, the economy in Greater China Region is likely to continue to enjoy a high growth rate.

In order to capture this potential opportunity in Greater China Region, we shall put extra effort in developing our foothold in the region. We are setting up an additional branch in Shenzhen. Other than building our brand name in the Mainland China market, Shenzhen Office can also facilitate the Group to provide consultancy services to Mainland Chinese companies and play a liaison role for identifying potential IPO prospects. Shenzhen Office will commence operation in the third quarter of 2011.

The recent economic downturn in Europe and Americas has induced investors to put more focus on trading gold and other precious metal products. This will be a good opportunity for the Group to develop its clientele of the bullion business. We are going to actively recruit sales personnel from the market. However, before each of these sales personnel can go out on their own to develop clientele, professional training will be provided to them to ensure that they will comply with our in-house standard. In Hong Kong, most of the bullion trading companies have projected quite a negative image to the investment communities. For the Group, we possess the edge of having a well-established brand name to develop this business and have the commitment to build a reputable bullion trading team and provide a fair and efficient platform.

As the market becomes more volatile, derivatives products for hedging purpose will receive more attention from investors. We are in the process of building a strong team which has the client base in trading index futures, index options and stock options. It is expected that the revenue generated from these products will increase at a faster rate.

We shall continue our effort in building our deal flow for corporate finance, pooling funds for asset management and developing financial leasing business in Nanjing. Furthermore, we are also exploring the feasibility of setting up wealth management business so as to provide all-rounded services to our customers.

MANAGEMENT OF RISKS

The Group set out in its 2010 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 2011 (six months ended 30 June 2010: HK0.15 cents per ordinary share totaling HK\$7,543,252).

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 2011, 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:

(a) The Company

Long positions in shares

Name of Director	Capacity	Number of ordinary shares	Total number of ordinary shares	Approximate percentage of shareholding
Mr. Ng Hung Sang ("Mr. Ng")	Beneficial owner	185,554,400	2,969,463,624	59.05%
	Interests of spouse	233,000,000		
	Interest of controlled corporations	2,550,909,224 (Note a)		
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%

(b) Associated corporation

Long positions in shares

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

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
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 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"), 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 Eartrade 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 2011, 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) in the register which was 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2011, 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 position

Name of shareholder	Capacity	Number of ordinary shares	Approximate Percentage of shareholding
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%
Ng Lai King, Pamela ("Mrs. 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) Mrs. 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, Mrs. 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 2011, no person, other than the Directors or chief executives 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", 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 by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company's existing share option scheme (the "Scheme") was adopted on 31 May 2002 and became effective on 28 June 2002. Particulars and movements of the outstanding share options granted under the Scheme during the six months ended 30 June 2011 were as follows:

Name or category of participant	Number of share options						Outstanding as at 30 June 2011	Date of grant of share options (DD/MM/YYYY) (Note 2)	Exercise period of share options (DD/MM/YYYY)	Exercise price per share HK\$ (Note 3)
	Outstanding as at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Reclassified (Note 1)				
Directors										
Ms. Cheung	10,000,000	-	-	(10,000,000)	-	-	-	16/03/2006	16/03/2009 – 15/03/2011	0.128
Mr. Gorges	10,000,000	-	-	(10,000,000)	-	-	-	16/03/2006	16/03/2009 – 15/03/2011	0.128
Mr. Ng Yuk Yeung, Paul	10,000,000	-	-	(10,000,000)	-	-	-	16/03/2006	16/03/2009 – 15/03/2011	0.128
	6,666,666	-	-	(6,666,666)	-	-	-	26/04/2006	26/04/2009 – 25/04/2011	0.128
Mr. Cheung Wai Kwok, Gary (RESIGNED ON 9 June 2011)	16,666,667	-	-	-	-	(16,666,667)	-	26/06/2009	26/06/2010 – 25/06/2012	0.128
	16,666,667	-	-	-	-	(16,666,667)	-	26/06/2009	26/06/2011 – 25/06/2013	0.128
	16,666,666	-	-	-	-	(16,666,666)	-	26/06/2009	26/06/2012 – 25/06/2014	0.128
Sub-total	86,666,666	-	-	(36,666,666)	-	(50,000,000)	-			
Employees										
In aggregate	17,833,329	-	-	(17,833,329)	-	-	-	12/04/2007	12/04/2009 – 11/04/2011	0.161
	17,833,342	-	-	-	-	-	17,833,342	12/04/2007	12/04/2010 – 11/04/2012	0.161
	1,000,000	-	-	(1,000,000)	-	-	-	17/04/2007	17/04/2009 – 16/04/2011	0.161
	1,000,000	-	-	-	-	-	1,000,000	17/04/2007	17/04/2010 – 16/04/2012	0.161
	833,334	-	-	(833,334)	-	-	-	23/04/2007	23/04/2009 – 22/04/2011	0.161
	833,332	-	-	-	-	-	833,332	23/04/2007	23/04/2010 – 22/04/2012	0.161
Sub-total	39,333,337	-	-	(19,666,663)	-	-	19,666,674			

Name or category of participant	Number of share options						Outstanding as at 30 June 2011	Date of grant of share options (DD/MM/YYYY) (Note 2)	Exercise period of share options (DD/MM/YYYY)	Exercise price per share HK\$ (Note 3)
	Outstanding as at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Reclassified (Note 1)				
Others										
In aggregate	14,000,000	-	-	(14,000,000)	-	-	-	16/03/2006	16/03/2009 – 15/03/2011	0.128
	6,666,666	-	-	(6,666,666)	-	-	-	26/04/2006	26/04/2009 – 25/04/2011	0.128
	2,000,000	-	-	(2,000,000)	-	-	-	12/04/2007	12/04/2009 – 11/04/2011	0.161
	2,000,000	-	-	-	-	-	2,000,000	12/04/2007	12/04/2010 – 11/04/2012	0.161
	4,000,000	-	-	-	-	-	4,000,000	10/07/2007	10/07/2009 – 09/07/2011	0.172
	4,000,000	-	-	-	-	-	4,000,000	10/07/2007	10/07/2010 – 09/07/2012	0.172
	500,000	-	-	(500,000)	-	-	-	23/04/2007	23/04/2009 – 22/04/2011	0.161
	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
	16,666,667	-	-	(16,666,667)	-	16,666,667	16,666,667	26/06/2009	26/06/2010 – 25/06/2012	0.128
	16,666,667	-	-	(16,666,667)	-	16,666,667	16,666,667	26/06/2009	26/06/2011 – 25/06/2013	0.128
	16,666,666	-	-	(16,666,666)	-	16,666,666	16,666,666	26/06/2009	26/06/2012 – 25/06/2014	0.128
Sub-total	89,666,666	-	-	(73,166,666)	-	50,000,000	66,500,000			
Total	215,666,669	-	-	(129,499,995)	-	0	86,166,674			

Notes:

1. Due to resignation, a director holding options under the Scheme had been reclassified. Consequently, 50,000,000 options were re-classified from “Directors” to “Others”.
2. All share options granted are subject to a vesting period and becoming exercisable in whole or in part in the following manner:

From the date of grant of share options

Exercisable percentage

Within 12 months	Nil
13th – 36th month	33 ¹ / ₃ %
25th – 48th month	33 ¹ / ₃ %
37th – 60th month	33 ¹ / ₃ %

3. 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.

The Company recognized a reversal of share option expense of HK\$411,000 (2010: expense of HK\$985,000) during the six months ended 30 June 2011.

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

During the six months ended 30 June 2011, the Company repurchased ordinary shares of the Company in the market through the Stock Exchange and details of which are as follows:

Month	Number of ordinary shares repurchased	Highest price paid per share <i>HK\$</i>	Lowest price paid per share <i>HK\$</i>	Consideration <i>HK\$'000</i>
May 2011	500,000	0.107	0.107	54

The share repurchase was effected by the Board for the enhancement of shareholders' value.

The repurchased shares were cancelled during the six months ended 30 June 2011 and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of shares of HK\$41,000 was charged to retained profits. In accordance with section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

Saved as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company complied with all the code provisions as set out in the Code on Corporate Governance Practices ("the CG Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2011 with exception to code provision E.1.2 that the Chairman of the Board did not attend the annual general meeting of the Company.

According to code provision E.1.2 of the CG Code, the Chairman of the Board shall attend the annual general meeting to answer questions. The Chairman of the Board was unable to attend the annual general meeting of the Company held on 31 May 2011. There were Executive Directors of the Company attending the annual general meeting in the absence of the Chairman to answer questions on the Group's businesses at the meeting. The Company will endeavour to ensure future compliance with code provision E.1.2.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct regarding directors' securities transactions. All Directors 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 throughout the period.

AUDIT COMMITTEE

The Company 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 (Chairman of the audit committee), Hon. Raymond Arthur William Sears, Q.C. and Mrs. Tse Wong Siu Yin, Elizabeth.

The Group's unaudited results for the six months ended 30 June 2011 have been reviewed by the audit committee.

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

Hong Kong, 30 August 2011

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, Mr. Ng Tze Wai 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.