



# SOUTH CHINA FINANCIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 619)

## INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2014

### 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 2014 together with the relevant comparative figures as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 30 June</b>	
		<b>2014</b>	2013
	<i>Notes</i>	<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$'000</b>	HK\$'000
<b>Revenue</b>	2	<b>42,171</b>	43,282
Fair value (loss)/gain on investment property		<b>(37,000)</b>	17,100
Impairment of loans and trade receivables, net		<b>(1,129)</b>	(2,776)
Fair value loss on financial assets at fair value through profit or loss		<b>(24,810)</b>	(59,511)
Other income		<b>1,901</b>	570
Other operating expenses		<b>(68,578)</b>	(64,949)
<b>Loss from operating activities</b>		<b>(87,445)</b>	(66,284)
Finance costs	5	<b>(3,795)</b>	(3,459)
Share of losses of associates		<b>(2,299)</b>	(1,678)
<b>Loss before tax</b>	3	<b>(93,539)</b>	(71,421)
Income tax expenses	6	<b>(112)</b>	(8)
<b>Loss for the period</b>		<b>(93,651)</b>	(71,429)
Attributable to:			
Equity holders of the Company		<b>(93,641)</b>	(71,425)
Non-controlling interests		<b>(10)</b>	(4)
		<b>(93,651)</b>	(71,429)
<b>Loss per share attributable to equity holders of the Company</b>	8		
Basic and diluted		<b>(HK1.86 cents)</b>	(HK1.42 cents)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		4,730	5,884
Investment property	9	393,000	430,000
Intangible assets		836	836
Investments in associates		4,835	7,134
Available-for-sale investments		19,157	22,867
Other assets		6,725	9,871
Long term loans receivable	10	10,877	13,074
Long term deposits		1,547	1,452
Total non-current assets		<u>441,707</u>	<u>491,118</u>
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss	11	125,920	160,430
Loans receivable	10	179,949	210,946
Trade receivables	12	240,296	148,257
Other receivables, prepayments and deposits		31,586	21,529
Pledged time deposits		5,500	5,500
Cash held on behalf of clients		457,857	520,384
Cash and bank balances		127,762	102,121
Tax recoverable		207	–
Total current assets		<u>1,169,077</u>	<u>1,169,167</u>
<b>CURRENT LIABILITIES</b>			
Client deposits		536,332	452,652
Trade payables	12	165,777	169,546
Other payables and accruals		12,355	11,618
Tax payables		37	61
Interest-bearing bank borrowings		273,707	308,042
Total current liabilities		<u>988,208</u>	<u>941,919</u>
<b>NET CURRENT ASSETS</b>		<u>180,869</u>	<u>227,248</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>622,576</u>	<u>718,366</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		187,563	184,976
Deposits received		1,959	1,959
Deferred tax liabilities		28,868	28,868
Total non-current liabilities		<u>218,390</u>	<u>215,803</u>
Net assets		<u>404,186</u>	<u>502,563</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital	13	347,605	125,652
Reserves		56,037	376,357
		<u>403,642</u>	<u>502,009</u>
Non-controlling interests		544	554
<b>Total equity</b>		<u>404,186</u>	<u>502,563</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 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 <i>(Note)</i>	221,697	(221,697)	-	-	-	-	-
Issue of shares on exercises of share options <i>(Note)</i>	256	-	-	-	256	-	256
<b>At 30 June 2014</b>	<b>347,605</b>	<b>126,026</b>	<b>(69,989)</b>	<b>-</b>	<b>403,642</b>	<b>544</b>	<b>404,186</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)
Total comprehensive loss for the period	-	(3,951)	(71,425)	-	(75,376)	(4)	(75,380)
At 30 June 2013	125,708	347,793	(48,870)	-	424,631	565	425,196

*Note:* Pursuant to the transitional provision set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622) (the "New Companies Ordinance"), at the beginning of the commencement date of Section 135 of the New Companies Ordinance (i.e. 3 March 2014), any amount standing to the credit of the company's share premium account and capital redemption reserve becomes part of the company's share capital.

As disclosed in the clarification announcement dated 29 August 2014 to the announcement of interim results of the Company for the six months ended 30 June 2014, the share premium account and capital redemption reserve of the Company as at 30 June 2014, totaling approximately HK\$221,903,000, were reclassified as share capital according to the abovementioned New Companies Ordinance requirement. The amount so reclassified and amended in the condensed consolidated financial statements included in this interim report comprise the balances of the share premium account and capital redemption reserve of the Company as at 3 March 2014 brought forward from 31 December 2013 of approximately HK\$221,697,000 and the share premium of HK\$206,000 on issue of shares on exercises of share options in the current reporting period.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		<b>Six months ended 30 June</b>	
		<b>2014</b>	2013
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Loss for the period</b>		<b>(93,651)</b>	(71,429)
<b>Other comprehensive loss for the period</b>	<i>14</i>	<u><b>(4,982)</b></u>	<u>(3,951)</u>
<b>Total comprehensive loss for the period</b>		<u><b>(98,633)</b></u>	<u>(75,380)</u>
Attributable to:			
Equity holders of the Company		<b>(98,623)</b>	(75,376)
Non-controlling interests		<u><b>(10)</b></u>	<u>(4)</u>
		<u><b>(98,633)</b></u>	<u>(75,380)</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>54,909</b>	(20,776)
<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>	<b>3,510</b>	(1,351)
<b>NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES</b>	<b>(34,959)</b>	32,940
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>23,460</b>	10,813
Cash and cash equivalents at beginning of the period	<b>77,085</b>	45,797
Effect of foreign exchange rate changes, net	<b>(12)</b>	642
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b><u>100,533</u></b>	<u>57,252</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>127,762</b>	105,588
Pledged time deposits with original maturity of less than three months when acquired	<b>5,500</b>	5,500
Bank overdraft	<b>(32,729)</b>	(53,836)
	<b><u>100,533</u></b>	<u>57,252</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

### 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 2013 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 2014, as disclosed in the annual financial statements for the year ended 31 December 2013. The adoption of these new Hong Kong Financial Reporting Standards as disclosed in the annual financial statements for the year ended 31 December 2013 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 2013 annual financial statements of the Group.

This interim report has been reviewed by the Company’s audit committee.

### 2. REVENUE

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Commission and brokerage income	26,567	26,173
(Loss)/profit on trading of securities, forex, bullion and futures contracts, net	(4,777)	3,363
Dividend income from listed investments	1,070	574
Interest income from bullion and forex	604	445
Interest income from loans receivable	8,693	8,997
Interest income from bank and financial institutions	360	371
Rendering of services	5,623	1,539
Gross rental income	4,031	1,820
	<u>42,171</u>	<u>43,282</u>

### 3. LOSS BEFORE TAX

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The Group’s loss is arrived at after charging:		
Cost of services provided	14,307	14,546
Depreciation	1,873	1,941
Interest expenses for margin financing and money lending operations	2,181	2,395
	<u>14,307</u>	<u>14,546</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 2014 and 2013 are as follows:

	2014	2013	2014	2013
	Revenue	Revenue	Profit/ (loss) from operating activities	Profit/ (loss) from operating activities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Broking	23,658	25,677	(12,659)	(11,283)
Trading and investment	(3,422)	4,704	(38,620)	(66,458)
Margin financing and money lending	9,876	9,937	2,696	1,410
Corporate advisory and underwriting	1,899	235	(1,537)	(4,166)
Wealth management	1,834	909	(1,413)	(1,306)
Property investment	4,031	1,820	(34,383)	17,639
Corporate and others	4,295	–	(1,529)	(2,120)
	<u>42,171</u>	<u>43,282</u>	<u>(87,445)</u>	<u>(66,284)</u>
Consolidated	<u>42,171</u>	<u>43,282</u>	<u>(87,445)</u>	<u>(66,284)</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 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% (2013: 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 2014 (six months ended 30 June 2013: 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\$93,651,000 (2013: HK\$71,429,000) and the weighted average number of 5,027,078,975 (2013: 5,028,334,500) ordinary shares in issue during the period.

No share option was outstanding as at 30 June 2014. The Company's share options had no dilution effect for the six months ended 30 June 2013 because the exercise price of the Company's share option was higher than the average market price of shares for the period.

## 9. INVESTMENT PROPERTY

	<b>30 June 2014 (Unaudited) HK\$'000</b>	31 December 2013 (Audited) HK\$'000
Carrying amount at 1 January	430,000	357,900
Additions	-	70
Net (loss)/gain from a fair value adjustment	<u>(37,000)</u>	<u>72,030</u>
Carrying amount	<u><b>393,000</b></u>	<u>430,000</u>

On 30 June 2014, the Group's investment property was revalued by Roma Appraisals Limited at HK\$393,000,000 (31 December 2013: HK\$430,000,000) on the open market and existing use basis. The decrease of fair value of HK\$37,000,000 was recognized in the profit and loss account. 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 2014 (Unaudited) HK\$'000</b>	31 December 2013 (Audited) HK\$'000
Repayable:		
On demand	176,141	196,712
Within 3 months	1,477	2,961
3 months to 1 year	2,331	11,273
1 year to 5 years	10,869	13,074
Over 5 years	<u>8</u>	<u>-</u>
Portion classified as current assets	<u>190,826</u> <u>(179,949)</u>	224,020 (210,946)
Portion classified as non-current assets	<u><b>10,877</b></u>	<u>13,074</u>

## 11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss represented listed equity securities in Hong Kong at market value.



## 12. TRADE RECEIVABLES AND PAYABLES

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

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

## 13. ISSUED CAPITAL

	<b>30 June 2014 (Unaudited) HK\$'000</b>	31 December 2013 (Audited) HK\$'000
Shares		
Authorised:		
8,000,000,000 (2013: 8,000,000,000) ordinary shares	<u>          -</u>	<u>200,000</u>
Issued and fully paid:		
5,028,084,500 (2013: 5,026,084,500) ordinary shares	<u><b>347,605</b></u>	<u>125,652</u>

## 14. OTHER COMPREHENSIVE LOSS FOR THE PERIOD

	<b>Six months ended 30 June 2014 (Unaudited) HK\$'000</b>	2013 (Unaudited) HK\$'000
Changes in fair value of available-for-sale financial assets	<b>(3,710)</b>	(4,830)
Exchange differences on translation of foreign operations	<u><b>(1,272)</b></u>	<u>879</u>
	<u><b>(4,982)</b></u>	<u>(3,951)</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The uncertainties brought about by the Federal Reserve's announcements on quantitative easing tapering and further fueled by the PRC's vacillating money market and weak economic statistics have continued to pester the Hong Kong market. Most investors adopted a wait-and-see approach, resulting in a sluggish market turnover for the first half of 2014 and entrapping our Group in the low business cycle. However, since the beginning of the second half of 2014, macro data and market sentiment appears to be back on the rising curve. The anticipated launch of the Shanghai Hong Kong Stock Connect later in the year is expected to provide abounding investment opportunities and further underpin Hong Kong's leadership position in the region's capital market.

The Group recorded a loss of HK\$93.7 million for the six months ended 30 June 2014 as compared with a loss of HK\$71.4 million for the same period of last year mainly due to loss on fair value revaluation of our investment property as at 30 June 2014.

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

The underperformance of local market together with fierce market competition continued to pull down revenue for broking business for the six months ended 30 June 2014. Revenue for broking recorded for the first half of 2014 was HK\$23.7 million, representing 7.9% decrease from HK\$25.7 million for the same period in 2013. Operating loss increased to HK\$12.7 million for the six-month period ended 30 June 2014 from HK\$11.3 million for the same corresponding period in 2013.

Trading and investment incurred a loss of HK\$38.6 million for the six months ended 30 June 2014 as compared with a loss of HK\$66.5 million for the same period in 2013. Unrealized loss on financial assets at fair value through profit or loss of HK\$24.8 million was included.

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

Revenue recorded for the six months ended 30 June 2014 was HK\$9.9 million which was about the same for the same corresponding period in 2013. Contribution from this segment sharply increased from HK\$1.4 million for the six months ended 30 June 2013 to HK\$2.7 million for the six months ended 30 June 2014. The loan portfolio size was decreased by 14.8% with the balance of HK\$190.8 million as at 30 June 2014 as compared with that of HK\$224.0 million as at 31 December 2013.

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

Revenue from our corporate advisory and underwriting business increased from HK\$0.2 million for the six months ended 30 June 2013 to HK\$1.9 million for the six months ended 30 June 2014. We had been successful in trimming the operating loss to HK\$1.5 million for the six months ended 30 June 2014 as compared to HK\$4.2 million for the same corresponding period in 2013.

#### **Wealth management**

Revenue recorded for the six months ended 30 June 2014 was HK\$1.8 million as compared with HK\$0.9 million for the same corresponding period in 2013. Operating loss was slightly increased to HK\$1.4 million for the six months ended 30 June 2014 from HK\$1.3 million for the same period in 2013.

**Property investment**

Fair value revaluation loss recorded for the six months ended 30 June 2014 was HK\$37 million as compared with fair value revaluation gain of HK\$17.1 million for the same corresponding period in 2013. Gross rental income was substantially increased from HK\$1.8 million for the first six months of 2013 to HK\$4.0 million for the six months ended 30 June 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 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 2014, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$187.6 million (31 December 2013: HK\$185.0 million), which, when related to the Group's equity of HK\$404.2 million (31 December 2013: HK\$502.6 million), represented a gearing ratio of approximately 46.4% (31 December 2013: 36.8%).

The Group had a cash balance of HK\$127.8 million at the end of the current period, an increase of 25.1% from the end of 2013. 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 2014, 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\$34.5 million to HK\$125.9 million as at 30 June 2014. Fair value loss on the financial assets at fair value through profit or loss for the six months ended 30 June 2014 was HK\$24.8 million.

**MATERIAL ACQUISITIONS AND DISPOSALS**

The Group had no material acquisitions and disposals of subsidiaries and associates for the six months ended 30 June 2014.

**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 2014, the total number of employees of the Group was approximately 164 (30 June 2013: approximately 192). Employees' costs (including directors' emoluments) amounted to approximately HK\$28.7 million for the six months ended 30 June 2014 (six months ended 30 June 2013: approximately HK\$27.0 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**

Our Group stands out amongst our peers in being well equipped with integrated platforms, systems and sales channels to support expansion of products and market coverage beyond the local market. We are assiduously pursuing transformation from a traditional local retail brokerage company to a versatile regional financial institution, and already we have had many successes in broadening client base, products, services and markets coverage. We will deepen client penetration through partnerships with institutions specialized in wealth management products and trading models. We are confident that this strategy will build a sustainable business model and steer the Group ahead of the increasingly volatile and ever evolving business environment.

As a result of the overhauling our corporate finance and equity capital market business, we have added exciting new deals to the pipeline and optimistically expect to launch an IPO application by the end of 2014. Along with renewed focus on the corporate market, the Group has also increased emphasis and strengthened its M&A and financial advisory services.

Our new strategies demand stellar human capital. We are actively recruiting new talents and increasingly cross-training in-house — our comprehensive Management Trainee program is one of such endeavours to breed financial talents that uphold the Group's culture and standards.

## **MANAGEMENT OF RISKS**

The Group set out in its 2013 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 2014, 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 Interest of spouse Interest of controlled corporations	185,554,400 233,000,000 2,545,059,224 <i>(Note a)</i>	2,963,613,624	58.94%
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	1,600,000	1,600,000	0.03%

**(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 Earntrade Investments Limited (“Earntrade”), 792,100,504 shares held by Fung Shing Group Limited (“Fung Shing”), 743,728,000 shares held by Parkfield Holdings Limited (“Parkfield”) 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 Earntrade which was owned as to 60% by Mr. Ng, 20% by Mr. Gorges and 20% by Ms. Cheung.
- (b) SCFC is a 98.81%-owned subsidiary of the Company.

Save as disclosed above, as at 30 June 2014, 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 2014, 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>
Earntrade	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 Earntrade. The 975,899,520 shares in the Company held by Earntrade 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 2014, 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 2014 were as follows:

Name or category of participants	Number of share options				Outstanding as at 30 June 2014	Date of grant of share options (DD/MM/YYYY)	Exercise period of share options (DD/MM/YYYY)	Subscription price per share HK\$	Weighted average closing price per share immediately preceding the exercise date of share option HK\$
	Outstanding as at 1 January 2014	Exercised	Lapsed during the period	Cancelled					
<b>Others</b>									
In aggregate	2,000,000	2,000,000	-	-	-	05/08/2009	05/08/2012-04/08/2014	0.128	0.154
Total	<u>2,000,000</u>	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>				

Note:

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

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

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

No equity-settled share option expense was recognised by the Company during the six months ended 30 June 2014 (2013: nil).

## **(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. 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 2014, 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 2014 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 10 June 2014 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 2014.

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

Hong Kong, 26 August 2014

*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.*