



SOUTH CHINA FINANCIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 619)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2009

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 2009 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2009	2008
		Unaudited	Unaudited
		HK\$'000	HK\$'000
	<i>Notes</i>		
Revenue	2	60,922	48,209
Other income		156	5,674
Reversal of impairment/(impairment) of loans receivable		1,611	(4,505)
Fair value gains/(losses) on financial assets at fair value through profit or loss		30,950	(61,980)
Fair value gain on an investment property		18,800	27,000
Other operating expenses		(53,765)	(55,623)
Profit/(loss) from operating activities		58,674	(41,225)
Finance costs	5	(1,587)	(1,620)
Profit/(loss) before tax	3	57,087	(42,845)
Tax	6	(3,134)	(7,293)
Profit/(loss) for the period		53,953	(50,138)
Other comprehensive income for the period		—	—
Total comprehensive income for the period		53,953	(50,138)
Attributable to:			
Equity holders of the Company		53,977	(50,139)
Minority interests		(24)	1
		53,953	(50,138)
Earnings/(loss) per share	8		
Basic		HK1.07 cents	HK(1.00) cent
Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2009	As at 31 December 2008
	<i>Notes</i>	Unaudited HK\$'000	Audited HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,473	4,063
Investment property		180,500	161,700
Intangible assets		836	836
Other assets		5,433	5,681
Loans receivable	9	177	2,130
Available-for-sale investments		1,570	1,570
Deferred tax assets		5	10
Total non-current assets		<u>191,994</u>	<u>175,990</u>
CURRENT ASSETS			
Financial assets at fair value through profit or loss	10	155,272	115,764
Loans receivable	9	256,394	111,421
Trade receivables	11	122,754	28,187
Other receivables, prepayments and deposits		12,828	9,544
Tax recoverable		75	74
Pledged time deposits		5,750	5,750
Cash held on behalf of clients		359,320	341,716
Cash and cash equivalents		142,558	101,642
Total current assets		<u>1,054,951</u>	<u>714,098</u>
CURRENT LIABILITIES			
Amount due to related company		–	437
Client deposits		356,266	320,929
Trade payables	11	138,194	38,111
Tax payable		71	38
Other payables and accruals		11,856	6,261
Interest-bearing bank and other borrowings		269,771	103,523
Total current liabilities		<u>776,158</u>	<u>469,299</u>
NET CURRENT ASSETS		<u>278,793</u>	<u>244,799</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		470,787	420,789
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		81,215	87,310
Deferred tax liabilities		8,453	5,410
Total non-current liabilities		<u>89,668</u>	<u>92,720</u>
Net assets		<u>381,119</u>	<u>328,069</u>
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		125,721	125,721
Reserves		254,526	199,440
Proposed dividend		–	2,012
		<u>380,247</u>	<u>327,173</u>
Minority interests		<u>872</u>	<u>896</u>
Total equity		<u>381,119</u>	<u>328,069</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 <i>HK\$'000</i>	Attributable to equity holders of the Company Unaudited <i>HK\$'000</i>	Minority Interest Unaudited <i>HK\$'000</i>	Total equity Unaudited <i>HK\$'000</i>
THE GROUP							
At 1 January 2009	<u>125,721</u>	<u>240,529</u>	<u>(41,089)</u>	<u>2,012</u>	<u>327,173</u>	<u>896</u>	<u>328,069</u>
Profit for the period	<u>-</u>	<u>-</u>	<u>53,977</u>	<u>-</u>	<u>53,977</u>	<u>(24)</u>	<u>53,953</u>
Total income and expenses recognized during the period	<u>-</u>	<u>-</u>	<u>53,977</u>	<u>-</u>	<u>53,977</u>	<u>(24)</u>	<u>53,953</u>
Equity-settled share option arrangement	<u>-</u>	<u>1,109</u>	<u>-</u>	<u>-</u>	<u>1,109</u>	<u>-</u>	<u>1,109</u>
Dividend paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,012)</u>	<u>(2,012)</u>	<u>-</u>	<u>(2,012)</u>
At 30 June 2009	<u>125,721</u>	<u>241,638</u>	<u>12,888</u>	<u>-</u>	<u>380,247</u>	<u>872</u>	<u>381,119</u>
At 1 January 2008	<u>125,715</u>	<u>234,903</u>	<u>147,374</u>	<u>30,172</u>	<u>538,164</u>	<u>994</u>	<u>539,158</u>
Loss for the period	<u>-</u>	<u>-</u>	<u>(50,139)</u>	<u>-</u>	<u>(50,139)</u>	<u>1</u>	<u>(50,138)</u>
Total income and expenses recognized during the period	<u>-</u>	<u>-</u>	<u>(50,139)</u>	<u>-</u>	<u>(50,139)</u>	<u>1</u>	<u>(50,138)</u>
Acquisition of minority interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25)</u>	<u>(25)</u>
Issue of shares on exercise of warrants	<u>5</u>	<u>28</u>	<u>-</u>	<u>-</u>	<u>33</u>	<u>-</u>	<u>33</u>
Equity-settled share option arrangement	<u>-</u>	<u>2,687</u>	<u>-</u>	<u>-</u>	<u>2,687</u>	<u>-</u>	<u>2,687</u>
Dividend paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,172)</u>	<u>(30,172)</u>	<u>-</u>	<u>(30,172)</u>
At 30 June 2008	<u>125,720</u>	<u>237,618</u>	<u>97,235</u>	<u>-</u>	<u>460,573</u>	<u>970</u>	<u>461,543</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
	HK\$'000	HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(118,579)	54,349
NET CASH INFLOW FROM INVESTING ACTIVITIES	1,362	408
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>158,130</u>	<u>10,098</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	40,913	64,855
Cash and cash equivalents at beginning of the period	<u>107,383</u>	<u>79,544</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>148,296</u>	<u>144,399</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	148,308	144,399
Bank overdraft	<u>(12)</u>	<u>–</u>
	<u>148,296</u>	<u>144,399</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

1. Basis of preparation

The unaudited consolidated financial statement for the six months ended 30 June 2009 has not been audited by the Company's auditors but has been reviewed by the Company's audit committee.

These interim financial statements should be read in conjunction with the 2008 annual report.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

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 2008. The Group has adopted various new and amended HKFRSs, which are effective on or after 1 January 2009, as disclosed in the 2008 annual report. The adoption of such HKFRSs has no significant impact to the Group's result and financial position and there have been no significant changes to the accounting policies applied in these financial statements.

2. Revenue

	Six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Commission and brokerage income	36,141	44,820
Profit/(loss) on trading of securities, bullion and futures contracts, net	11,366	(20,439)
Dividend income from listed investments	1,530	2,580
Interest income from loans receivable	7,790	15,023
Interest income from bank and financial institutions	153	2,919
Rendering of services	2,682	2,521
Gross rental income	1,260	785
	<u>60,922</u>	<u>48,209</u>

3. Profit/(loss) before tax

	Six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
	HK\$'000	HK\$'000
The Group's profit/(loss) is arrived at after charging:		
Cost of services provided	13,654	17,101
Depreciation	1,015	1,642
Interest expenses for margin financing and money lending operations	685	2,365
	<u>15,354</u>	<u>21,108</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 2009 and 2008 are as follows:

	2009	2008	2009	2008
	Revenue	Revenue	Profit/ (loss) from operating activities	Profit/ (loss) from operating activities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Securities broking	37,631	45,814	2,443	7,823
Securities trading and investment	12,896	(17,859)	39,700	(81,813)
Margin financing and money lending	9,909	18,481	4,683	6,797
Corporate advisory and underwriting	1,097	1,150	(3,417)	(2,849)
Property investment	1,260	794	19,065	28,117
Corporate and others	–	–	(3,800)	700
Intersegment elimination	(1,871)	(171)	–	–
Consolidated	<u>60,922</u>	<u>48,209</u>	<u>58,674</u>	<u>(41,225)</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 and finance lease secured by the Group's investment property and property, plant and equipment.

6. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 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 2009 (six months ended 30 June 2008: Nil).

8. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit for the period attributable to ordinary equity holders of the Company of approximately HK\$53,977,000 (2008: loss of HK\$50,139,000) and the weighted average number of 5,028,834,500 (2008: 5,028,696,238) ordinary shares in issue during the period.

Diluted earnings/(loss) per share has not been presented as the exercise of outstanding share options had no dilutive effect on the basic earnings/(loss) per share for the period.

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 2009 Unaudited HK\$'000	31 December 2008 Audited HK\$'000
Repayable:		
On demand	251,290	101,265
Within 3 months	2,520	4,965
3 months to 1 year	2,584	5,191
1 year to 5 years	<u>177</u>	<u>2,130</u>
	256,571	113,551
Portion classified as current assets	<u>(256,394)</u>	<u>(111,421)</u>
	177	2,130
Portion classified as non-current assets	<u><u>177</u></u>	<u><u>2,130</u></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, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group recorded a profit attributable to shareholders of HK\$54 million compared with loss of HK\$50.1 million for the same period in 2008. Revenue increased by 26.3% to HK\$60.9 million from HK\$48.2 million as compared to the same period last year.

Securities broking, trading and investment

In the first half of 2009, the Hang Seng Index rebounded significantly from 14,448 at the beginning of January to 18,379 on 30 June. Despite the considerable increase in the index level, the daily stock turnover declined substantially from HK\$87.3 billion for the first half of 2008 to HK\$58.3 billion for the first half of 2009. This caused our securities broking revenue to drop by 17.9% to HK\$37.6 million and operating profit decrease to HK\$2.4 million when compared to the same period last year.

The result of securities trading and investment was a profit of HK\$39.7 million for the six months ended 30 June 2009 which included HK\$31 million of unrealized holding gain as compared with an unrealized loss of HK\$62 million over the same period last year. The Group has financial assets at fair value through profit and loss of HK\$155.3 million at the end of the period.

Margin financing and money lending

Our loan and advances portfolio for margin financing and personal loan increased by 126% during the first six months of 2009 to HK\$256.6 million. However, with a significant downward trend in interest rate, our margin financing and money lending business recorded a 46.4% decline in revenue to HK\$9.9 million, while contribution from this segment was reduced from HK\$6.8 million to HK\$4.7 million when compared to the same period last year.

Corporate advisory and underwriting

Against a backdrop of sluggish capital market and low volume of corporate finance deals, our corporate advisory and underwriting business remained relatively stable in the first half of 2009. Revenue from corporate advisory and underwriting business decreased by 4.6% to HK\$1.1 million and operating loss increased by 19.9% to HK\$3.4 million.

Property investment and others

For the period under review, rental income from our investment property at Lippo Centre increased by 58.7% to HK\$1.3 million. A gain of HK\$15.7 million after deferred tax provision was reported on the revaluation of the property at the end of the period.

Liquidity and Financial Resources

The Group has obtained bank credit facilities that are all renewable on a yearly basis. 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 2009, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$81.2 million (31 December 2008: HK\$87.3 million), which, when related to the Group's equity of HK\$381.1 million (31 December 2008: HK\$328 million), represent a gearing ratio of approximately 21.3% (31 December 2008: 26.7%).

The Group has cash balance of HK\$142.6 million at the end of the current period, an increase of over 40% 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 2009, 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 increased by HK\$39.5 million after accounting for the increase in fair value of the financial assets at fair value through profit or loss by HK\$31 million and net deduction of financial assets at fair value through profit or loss by HK\$2.9 million and gain on disposal of financial assets at fair value through profit or loss by HK\$11.4 million.

Material Acquisitions and Disposals

The Group had no material acquisitions and disposals of subsidiaries and associates for the six months ended 30 June 2009.

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 2009, the total number of employees of the Group was approximately 145 (30 June 2008: approximately 169). Employees' cost (including directors' emoluments) amounted to approximately HK\$18.6 million for the six months ended 30 June 2009 (six months ended 30 June 2008: approximately HK\$24.1 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

The first half of 2009 saw the rebound of most of the stock markets around the world, with the Shanghai Composite Index gaining 62% and the Hong Kong Hang Seng Index 28%. Property markets also rebounded with some Hong Kong properties reaching new highs since the financial tsunami in late 2008.

The China economic engine continues to grow at around 8% and will continue to help Hong Kong to pull itself out of its recession in the second half of 2009.

Our company continues to believe the Hong Kong stock market will maintain its upward trend after some consolidation. We are still in the process of expanding our investment product base with the addition of bullion sales and trading, asset management, and global commodities. Foreign exchange will be added by early next year.

With the stimulus package in China continuing to work its way through the economy, we are also looking to expand our business involvement in China. We will be opening a Shanghai office during the fourth quarter of this year, and may also look at other cities for further expansion.

The outlook remains bright for our current and future businesses for the next few years and we believe we are in a very good position to take advantage of the upcoming worldwide economic recovery.

MANAGEMENT OF RISKS

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk, foreign currency risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks as detailed below.

(a) Credit risk

The Group's credit risk is primarily attributable to advances to customers, trade and other receivable, available-for-sales financial assets and equity investments at fair value through profit and loss.

In respect of advances to customers, the receivable balances are monitored on an ongoing basis and the Group's exposure to bad debt is not significant.

Trade and other receivables mainly arise from the Group's brokerage business and investment activities. The Group trades only with recognized and creditworthy third parties, it is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

As at the date of the statement of financial position, the Group's credit risk exposure is spread over a number of counterparties and customers. Hence, it does not have a significant concentration of credit risk.

(b) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance lease and other interest-bearing loan.

The Group regularly monitors its liquidity requirements to ensure that it maintains sufficient reserves of cash, readily realizable marketable securities and adequate committed lines of funding from major financial institutions by using a recurring liquidity planning tool. The tool considers the maturity of both financial instruments and financial assets and projected cash flows from operations.

For subsidiaries with statutory liquidity requirements, the Group has established a compliance department which is operated by experienced compliance officers and is monitored by management. The compliance department regularly monitors the daily financial status and internal controls of the Group to ensure the regulated subsidiaries are in compliance with related regulations.

(c) Interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's net debt obligations with a floating interest rate. The majority of the bank borrowings bear interest at interest rates with reference to the HIBOR whereas loans to customers bear interest rate with reference to the prime rate. As the prime rate in Hong Kong basically changes in line with the HIBOR, the Group's exposure to the risk of changes in market interest rate is minimal.

(d) Foreign currency risk

Foreign currency risk is the risk of losses arising from adverse movement in foreign exchange rates relating to investments denominated in foreign currencies. When seeking to optimize the returns on its funds available for investment, the Group may invest in foreign securities from time to time. As the Group's assets and liabilities are primarily denominated in Hong Kong dollars, the management consider that the impact of foreign exchange exposure is minimal and no hedging of currency exposure had been carried out.

(e) **Equity price risk**

The Group is exposed to equity price risk for its investments in equity securities. The board of directors manages the exposure by closely monitoring the portfolio of equity investments. The Group's listed investments are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and are valued at quoted market prices at the balance sheet date.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

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

As at 30 June 2009, 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, were as follows:

(a) **The Company**

(i) *Long positions in shares*

Name of Director	Capacity	Number of ordinary shares	Total number of ordinary shares	Approximate percentage of shareholding
Ng Hung Sang ("Mr. Ng")	Beneficial owner Interest of controlled corporations	176,204,400 2,558,758,972 (Note a)	2,734,963,372	54.39%
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	Interest of spouse	200,000	200,000	0.00%

(ii) *Long positions in underlying shares*

Share options

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Gorges	Beneficial owner	20,000,000 <i>(note b)</i>	0.40%
Ms. Cheung	Beneficial owner	20,000,000 <i>(note b)</i>	0.40%
Cheung Wai Kwok, Gary ("Mr. Cheung")	Beneficial owner	50,000,000 <i>(note b)</i>	0.99%
Ng Yuk Yeung, Paul ("Mr. Paul Ng")	Beneficial owner	33,333,333 <i>(note b)</i>	0.66%

(b) **Associated corporations**

Long positions in shares

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

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Paul Ng	Beneficial owner	250,000	0.59%

Notes:

- (a) The 2,558,758,972 shares of the Company held by Mr. Ng through controlled corporations referred to above include 474,606,720 shares held by Bannock Investment Limited ("Bannock"), 501,292,800 shares held by Earntrade Investments Limited ("Earntrade"), 792,100,504 shares held by Fung Shing Group Limited ("Fung Shing"), 743,728,000 shares held by Parkfield Holdings Limited ("Parkfield"), 33,331,200 shares held by Ronastar Investments Limited ("Ronastar") and 13,699,748 shares held by Tek Lee Finance and Investment Corporation Limited ("Tek Lee"). Fung Shing, Parkfield and Ronastar are wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Mr. Gorges and 20% by Ms. Cheung, Tek Lee is an indirectly subsidiary of South China Holdings Limited, which is controlled by Mr. Ng as to 73.72%.
- (b) Each of Mr. Gorges and Ms. Cheung was granted with share options to subscribe for 30,000,000 shares of the Company on 16 March 2006 at an exercise price of HK\$0.128 per share. Ms. Cheung had exercised the share options to subscribe for 10,000,000 shares of the Company. Mr. Cheung was granted with share options to subscribe for 50,000,000 shares of the Company on 26 June 2009, at an exercise price of HK\$0.128 per share. Mr. Paul Ng was granted with share options to subscribe for 30,000,000 shares of the Company and 20,000,000 shares of the Company on 16 March 2006 and 26 April 2006 respectively, at an exercise price of HK\$0.128 per share. The exercisable periods of all the aforesaid share options are as follows: (i) 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of third year from the date of grant; (ii) 1/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the fourth year from date of grant; and (iii) 1/3 of the total share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the fifth year from the date of grant. Accordingly, share options to subscribe for 10,000,000 shares of the Company for each of Mr. Gorges and Mr. Paul Ng have been lapsed on 16 March 2009 and share options to subscribe for 6,666,667 shares of the Company for Mr. Paul Ng have been lapsed on 26 April 2009.
- (c) SCFC is a 98.62% owned subsidiary of the Company.

Save as disclosed above, as at 30 June 2009, 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 that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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

As at 30 June 2009, 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)</i>	19.41%
Bannock	Beneficial owner	474,606,720 <i>(Note)</i>	9.44%
Parkfield	Beneficial owner	743,728,000	14.79%
Fung Shing	Beneficial owner	792,100,504	15.75%

Note: 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.

Save as disclosed above, as at 30 June 2009, no person, other than the Directors or chief executives whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation", had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company's existing share option scheme ("Scheme") was adopted on 31 May 2002 and became effective 28 June 2002. Particulars and movements of the outstanding share options granted under the Scheme during the six months ended 30 June 2009 were as follows:

Name or category of participant	Date of grant	Number of outstanding share options				Exercise period of share options	Exercise price per share HK\$
		As at 1 January 2009	Granted during the period	Lapsed during the period	As at 30 June 2009		
Directors							
Ms. Cheung	16/03/2006	20,000,000	–	–	20,000,000	16/03/2008 – 15/03/2011	0.128
Mr. Gorges	16/03/2006	30,000,000	–	10,000,000	20,000,000	16/03/2008 – 15/03/2011	0.128
Mr. Cheung	26/06/2009	–	50,000,000	–	50,000,000	26/06/2010 – 26/06/2014	0.128
Mr. Paul Ng	16/03/2006	30,000,000	–	10,000,000	20,000,000	16/03/2008 – 15/03/2011	0.128
	26/04/2006	20,000,000	–	6,666,667	13,333,333	26/04/2008 – 25/04/2011	0.128
Sub-total		100,000,000	50,000,000	26,666,667	123,333,333		
Consultant							
In aggregate	10/07/2007	3,000,000	–	–	3,000,000	10/07/2008 – 09/07/2012	0.172
Sub-total		3,000,000	–	–	3,000,000		
Employees							
In aggregate	16/03/2006	59,500,000	–	13,500,000	46,000,000	16/03/2008 – 15/03/2011	0.128
	26/04/2006	20,000,000	–	6,666,667	13,333,333	26/04/2008 – 25/04/2011	0.128
	12/04/2007	66,500,000	–	–	66,500,000	12/04/2008 – 11/04/2012	0.161
	17/04/2007	3,000,000	–	–	3,000,000	17/04/2008 – 16/04/2012	0.161
	23/04/2007	4,000,000	–	–	4,000,000	23/04/2008 – 22/04/2012	0.161
	10/07/2007	14,500,000	–	–	14,500,000	10/07/2008 – 09/07/2012	0.172
	10/09/2007	6,000,000	–	–	6,000,000	10/09/2008 – 09/09/2012	0.227
	26/06/2009	–	50,000,000	–	50,000,000	26/06/2010 – 25/06/2014	0.128
Sub-total		173,500,000	50,000,000	20,166,667	203,333,333		
Total		276,500,000	100,000,000	46,833,334	329,666,666		

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 %

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

A total of 100,000,000 share options have been granted, no share options have been exercised nor cancelled, but a total of 46,833,334 share options have been lapsed during the six months ended 30 June 2009.

The fair value of the share options granted during the period was HK\$4,124,333. The Group recognized a share option expense of HK\$1,109,181 (2008: HK\$2,687,259) during the period ended 30 June 2009.

The fair value of equity-settled share options granted during the period was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options was granted. The following table lists the inputs to the model used for the six months ended 30 June 2009:

Date of grant	26 June 2009
Average expected volatility (%)	96.63
Average historical volatility (%)	96.63
Average risk-free interest rate (%)	1.777
Expected life of option (<i>year</i>)	3-5
Closing share price (<i>HK\$</i>)	0.068

The expected life of the options is based on the contractual life and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2009.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. 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 had 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 2009 have been reviewed by the audit committee.

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

Hong Kong, 22 September 2009

As at the date of this report, the Board of the Company comprises (1) Mr. Ng Hung Sang, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor, Mr. Cheung Wai Kwok, Gary 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.