SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2017

UNAUDITED INTERIM RESULTS

The board of directors (the "Board") of South China Financial Holdings Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2017 (the "Period") together with the relevant comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*3,5*	**88,706**	64,745
Fair value gain on investment properties		**–**	11,200
Impairment of loans and trade receivables, net		**(439)**	(359)
Fair value loss on financial assets at fair value through profit or loss		**(10,019)**	(21,750)
Fair value gain/(loss) on derivative financial instruments		**28,963**	(1,034)
Other income		**1,210**	770
Other operating expenses		**(106,003)**	(63,422)
Profit/(loss) from operating activities		**2,418**	(9,850)
Finance costs	*6*	**(4,993)**	(4,063)
Loss before tax	*4*	**(2,575)**	(13,913)
Income tax expenses	*7*	**(388)**	(312)
Loss for the period		**(2,963)**	(14,225)
Attributable to equity holders of the Company		**(2,963)**	(14,225)
Loss per share attributable to equity holders of the Company	*9*		(restated)
Basic and diluted		**(HK0.02 cents)**	(HK0.18 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2017 (Unaudited) HK$'000	As at 31 December 2016 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,599**	2,770
Investment properties	*10*	**440,000**	440,000
Intangible assets		**6,764**	1,111
Goodwill	*15*	**14,065**	–
Available-for-sale investments		**35,949**	27,058
Other assets		**9,175**	7,236
Investments in associates		**–**	–
Long term loans receivable	*12*	**11,405**	1,390
Long term prepayment and deposits		**1,223**	1,297
Total non-current assets		**521,180**	480,862
CURRENT ASSETS			
Financial assets at fair value through profit or loss	*11*	**489,961**	414,346
Loans receivable	*12*	**283,315**	321,718
Trade receivables	*13*	**229,819**	235,145
Other receivables, prepayments and deposits		**46,508**	35,074
Derivative financial instruments	*17*	**422**	1,019
Pledged time deposit		**500**	500
Cash held on behalf of clients		**577,470**	479,424
Cash and bank balances		**218,370**	355,406
Tax recoverable		**2,165**	–
Total current assets		**1,848,530**	1,842,632
CURRENT LIABILITIES			
Client deposits		**620,996**	530,863
Trade payables	*13*	**48,085**	29,616
Other payables and accruals		**18,763**	17,823
Derivative financial instruments	*17*	**20,456**	49,521
Interest-bearing bank borrowings		**390,547**	418,519
Tax payables		**4,115**	4,234
Total current liabilities		**1,102,962**	1,050,576
NET CURRENT ASSETS		**745,568**	792,056
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,266,748**	1,272,918
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**131,169**	146,137
Deposits received and other payables		**3,516**	2,175
Deferred tax liabilities		**30,339**	30,146
Total non-current liabilities		**165,024**	178,458
Net assets		**1,101,724**	1,094,460
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*14*	**1,085,474**	1,086,680
Reserves		**16,250**	7,780
Total equity		**1,101,724**	1,094,460

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June			
	Share capital (Unaudited)	**Other reserves (Unaudited)**	**Accumulated losses (Unaudited)**	**Total equity (Unaudited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	**1,086,680**	**127,839**	**(120,059)**	**1,094,460**
Loss for the period	**–**	**–**	**(2,963)**	**(2,963)**
Other comprehensive income for the period	**–**	**11,038**	**–**	**11,038**
Total comprehensive income for the period	**–**	**11,038**	**(2,963)**	**8,075**
Shares repurchased *(note 14)*	**(1,206)**	**–**	**–**	**(1,206)**
Equity-settled share option arrangements	**–**	**395**	**–**	**395**
Transfer of share options reserve upon the forfeiture of share options	**–**	**(430)**	**430**	**–**
At 30 June 2017	**1,085,474**	**138,842**	**(122,592)**	**1,101,724**
At 1 January 2016	597,685	137,398	(64,083)	671,000
Loss for the period	–	–	(14,225)	(14,225)
Other comprehensive loss for the period	–	(4,897)	–	(4,897)
Total comprehensive loss for the period	–	(4,897)	(14,225)	(19,122)
Equity-settled share option arrangements	–	719	–	719
At 30 June 2016	597,685	133,220	(78,308)	652,597

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Loss for the period		**(2,963)**	(14,225)
Other comprehensive income/(loss) for the period	*16*	**11,038**	(4,897)
Total comprehensive income/(loss) for the period		**8,075**	(19,122)
Attributable to equity holders of the Company		**8,075**	(19,122)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Six months ended 30 June** **2017** **(Unaudited)** ***HK$'000***	2016 (Unaudited) *HK$'000*
Net cash flows used in operating activities		**(71,131)**	(117,519)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income received from listed investments		**926**	1,805
Purchases of items of property, plant and equipment		**(611)**	(215)
Acquisition of subsidiaries	15	**(22,237)**	–
Increase in other assets		**(1,939)**	(322)
Net cash flows from/(used in) investing activities		**(23,861)**	1,268
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**262,000**	304,500
Repayment of bank loans		**(306,540)**	(225,452)
Payment of repurchases of shares		**(1,206)**	–
Net cash flows from/(used in) financing activities		**(45,746)**	79,048
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(140,738)**	(37,203)
Cash and cash equivalents at beginning of the period		**297,486**	149,877
Effect of foreign exchange rate changes, net		**2,102**	(480)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**158,850**	112,194
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**218,370**	130,059
Pledged time deposits with original maturity of less than three months when acquired		**500**	1,316
Bank overdrafts		**(60,020)**	(19,181)
		158,850	112,194

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

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

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

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

These interim financial statements do not include all the information and disclosures required in annual financial statements, and should be read, where relevant, in conjunction with the 2016 annual financial statements of the Group.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to Hong Kong Financial Reporting Standards (the "HKFRSs") and HKAS effective as of 1 January 2017.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvement 2014-2016 Cycle*	*Disclosure of Interests in Other Entities*

The adoption of the above amendments has had no significant financial effect on these interim financial statements.

3. REVENUE

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Commission and brokerage income	**17,173**	13,140
Profit on trading of securities, forex, bullion and futures contracts, net	**29,539**	23,132
Dividend income from listed investments	**926**	1,805
Interest income from bullion and forex contracts trading	**238**	367
Interest income from loans and trade receivables	**12,125**	9,566
Interest income from banks and financial institutions	**793**	674
Rendering of services	**15,717**	11,281
Media publication and financial public relation services	**7,402**	–
Gross rental income	**4,793**	4,780
	88,706	64,745

4. **LOSS BEFORE TAX**

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
The Group's loss is arrived at after charging:		
Cost of services provided	**22,823**	7,417
Cost of media publication and financial public relation services	**9,746**	–
Depreciation	**792**	1,013
Interest expenses for margin financing and money lending operations	**2,323**	1,232

5. **REVENUE AND SEGMENTAL INFORMATION**

The Group manages its business by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified 8 (six months ended 30 June 2016: 7) reportable segments as summarized below:

	Six months ended 30 June			
	2017	2016	**2017**	2016
	Revenue	Revenue	**Profit/ (loss) from operating activities**	Profit/ (loss) from operating activities
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Broking	**16,861**	13,675	**(16,441)**	(31,594)
Trading and investment	**30,377**	25,067	**46,590**	(2,589)
Margin financing and money lending	**13,384**	10,817	**5,781**	7,916
Corporate advisory and underwriting	**13,854**	9,631	**(5,640)**	6,274
Assets and wealth management	**1,431**	256	**(12,131)**	(1,841)
Property investment	**4,793**	4,780	**4,366**	15,482
Media publication and financial public relation services	**7,402**	–	**(13,965)**	–
Other business and corporate	**604**	519	**(6,142)**	(3,498)
Consolidated	**88,706**	64,745	**2,418**	(9,850)

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

6. **FINANCE COSTS**

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

7. **INCOME TAX**

No provision for the Hong Kong profits tax has been provided as the Group either had no estimated assessable profits or had available tax losses carried forward to offset the assessable profits arising in Hong Kong during the Period. In the prior period, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during that period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, practices and interpretations in respect thereof.

8. **INTERIM DIVIDEND**

The Board resolved not to declare the payment of an interim dividend for the Period (six months ended 30 June 2016: Nil).

9. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic and diluted loss per share is based on the loss for the Period attributable to equity holders of the Company of approximately HK$2,963,000 (six months ended 30 June 2016: HK$14,225,000) and the weighted average number of 15,081,955,157 (six months ended 30 June 2016: 7,817,386,850 (restated)) ordinary shares in issue during the Period. The basic loss per share amount for the six months ended 30 June 2016 has been adjusted to reflect the rights issue during the year ended 31 December 2016.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2017 and 30 June 2016 in respect of a dilution as the impact of the share options outstanding during the periods had an anti-dilutive effect on the basic loss per share amounts presented.

10. INVESTMENT PROPERTIES

	30 June 2017 (Unaudited) ***HK$'000***	31 December 2016 (Audited) *HK$'000*
Carrying amount at 1 January	**440,000**	397,500
Net gain from a fair value adjustment	**–**	42,500
Carrying amount	**440,000**	440,000

On 30 June 2017, the Group's investment properties were revalued by Ravia Global Appraisal Advisory Limited at HK$440,000,000 (31 December 2016: HK$440,000,000). The fair value of investment properties is determined using the market comparison approach by reference to recent sales prices of comparable properties on a price per square foot basis. The investment properties are leased to third parties under operating leases.

The Group's investment properties are situated in Hong Kong. The investment properties with a carrying value of HK$440,000,000 (31 December 2016: HK$440,000,000) were pledged to secure banking facilities granted to the Group.

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

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

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

12. LOANS RECEIVABLE

The loans receivable at the end of the reporting period are analysed by remaining periods to the contractual maturity dates as follows:

	30 June 2017 (Unaudited) ***HK$'000***	31 December 2016 (Audited) *HK$'000*
Repayable:		
On demand	**278,104**	309,513
Within 3 months	**1,324**	132
3 months to 1 year	**3,887**	12,073
1 year to 5 years	**11,405**	1,390
	294,720	323,108
Portion classified as current assets	**(283,315)**	(321,718)
Portion classified as non-current assets	**11,405**	1,390

13. TRADE RECEIVABLES AND PAYABLES

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

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

14. SHARE CAPITAL

Shares	**30 June 2017 (Unaudited) *HK$'000***	31 December 2016 (Audited) *HK$'000*
Issued and fully paid:		
15,063,853,500 (2016: 15,084,253,500) ordinary shares	**1,085,474**	1,086,680

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** *HK$'000*
At 1 January 2017	15,084,253,500	1,086,680
Shares repurchased	(20,400,000)	(1,206)
At 30 June 2017	15,063,853,500	1,085,474

During the Period, the Company repurchased a total of 20,400,000 ordinary shares (31 December 2016: Nil) on the Stock Exchange at an aggregate consideration of HK$1,206,000 (31 December 2016: Nil). Prior to 30 June 2017, these shares were surrendered for cancellation, and cancelled. Certain enquiries have been raised by the Companies Registry about the share repurchase when the relevant return was filed with the Companies Registry. The Company has sought, and is awaiting, legal advice on this matter.

15. BUSINESS COMBINATION

On 18 January 2017, the Group acquired 100% equity interests in Media Bonus Limited and Golden Ways Limited from Win Gain Investments Limited and Surge Fast Assets Limited, respectively, which were wholly-owned by Mr. Ng Hung Sang ("Mr. Ng"), a director, the Chairman of the Board and a substantial shareholder of the Company, for an aggregate cash consideration of HK$22,329,000, comprising the cash consideration of HK$20,000,000 and a cash adjustment to consideration of HK$2,329,000 that was paid pursuant to the adjustment to consideration clause contemplated in the relevant sales and purchase agreement, of which HK$18,702,000 were paid for the acquisition of Media Bonus Limited and HK$3,627,000 for the acquisition of Golden Ways Limited, respectively. Media Bonus Limited and its subsidiaries and Golden Ways Limited are engaged in the financial media business, event management, marketing services and other related business. The acquisition was in line with the Group's overall mission as a distinctive "one-stop services" financial institution and was expected to create synergy to the financial public relation ("FPR") business and current businesses of the Group by offering value-added marketing communication solutions to existing and potential customers with the renowned media platform.

The fair values of the identifiable assets and liabilities of Media Bonus Limited and Golden Ways Limited as at the date of acquisition were as follow:

	Fair value recognised on acquisition		
	Media Bonus Limited	**Golden Ways Limited**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	11	–	11
Intangible assets	3,481	2,454	5,935
Trade receivables	2,463	1,525	3,988
Other receivables	874	387	1,261
Cash and bank balances	87	5	92
Trade payables	(660)	(249)	(909)
Other payables and accruals	(1,242)	(872)	(2,114)
Total identifiable net assets at fair value	5,014	3,250	8,264
Goodwill on acquisition	13,688	377	14,065
Satisfied by cash	18,702	3,627	22,329

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$3,988,000 and HK$1,261,000, respectively. The gross contractual amounts of trade receivables and other receivables were HK$3,988,000 and HK$1,261,000, respectively.

The Group incurred transaction costs of HK$1,074,000 for this acquisition. These transaction costs have been expensed and are included in other operating expenses in the consolidated statement of profit or loss.

None of the goodwill recognised is expected to be deductible for tax purposes.

An analysis of cash flows in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	(22,329)
Cash and bank balances acquired	92
Net outflow of cash and cash equivalents included in cash flows from investing activities	(22,237)

Since the acquisition, Media Bonus Limited and its subsidiaries and Golden Ways Limited contributed HK$4,713,000 and HK$2,689,000 to the Group's revenue, respectively, and loss of HK$6,416,000 and HK$6,343,000, respectively, to the consolidated loss for the Period.

Had the combination taken place at the beginning of the Period, the revenue of the Group and the loss of the Group for the Period would have been HK$90,205,000 and HK$3,010,000, respectively.

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Changes in fair value of available-for-sale financial assets	**8,891**	(3,851)
Exchange differences on translation of foreign operations	**2,147**	(1,046)
	11,038	(4,897)

17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of financial instruments are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of listed equity investments are based on quoted market prices. The fair value of unlisted available-for-sale investments which represented club debentures have been estimated based on market transaction prices. The fair value of derivative financial instruments are measured based on quoted market prices.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 30 June 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *HK$'000*	**Significant observable inputs (Level 2)** *HK$'000*	**Significant unobservable inputs (Level 3)** *HK$'000*	**Total** *HK$'000*
Assets measured at fair value:				
Available-for-sales investments:				
Equity investments	**33,811**	**–**	**–**	**33,811**
Debt investments	**–**	**2,138**	**–**	**2,138**
Financial assets at fair value through profit or loss *(note 11)*	**489,961**	**–**	**–**	**489,961**
Derivative financial instruments:				
Leveraged foreign exchange contracts	**–**	**422**	**–**	**422**
	523,772	**2,560**	**–**	**526,332**
Liabilities measured at fair value:				
Derivative financial instruments:				
Leveraged foreign exchange contracts	**–**	**20,456**	**–**	**20,456**

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*	Total *HK$'000*
Assets measured at fair value:				
Available-for-sales investments:				
Equity investments	24,850	–	–	24,850
Debt investments	–	2,208	–	2,208
Financial assets at fair value through profit or loss *(note 11)*	414,346	–	–	414,346
Derivative financial instruments:				
Leveraged foreign exchange contracts	–	994	–	994
Leveraged bullion contracts	–	25	–	25
	439,196	3,227	–	442,423
Liabilities measured at fair value:				
Derivative financial instruments:				
Leveraged foreign exchange contracts	–	49,521	–	49,521

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2017, the Group continued to strengthen and build upon its various business units, as the business continues to go through changes in the expansion and modernization of its service offerings and business model, and commenced its integration with the financial media group acquired in January 2017.

The Group recorded an unaudited loss of HK$3.0 million for the Period as opposed to an unaudited loss of HK$14.2 million for the corresponding period last year. The substantial decrease in loss for the Period was largely attributable to net trading and fair value gain on financial assets held for trading as opposed to net trading and fair value loss for the corresponding period last year.

Broking, trading and investment

The average daily Hong Kong market turnover for the six months to 30 June 2017 was HK$76.0 billion, an increase of 13% when compared with HK$67.5 billion for the same period last year. Benefiting from the local market rally in the first half of the year, revenue from the broking business recorded a 23.4% year-on-year increase to HK$16.9 million. Operating loss for the broking business for the Period decreased significantly to HK$16.4 million from the loss of HK$31.6 million in the first half of 2016. The decline in loss from the segment was largely attributable to internal business structure reshuffling, whereby certain business units were shifted between segments to reflect their business focus and resource allocation during the Period under review, as well as the improved brokerage income. As a result of the internal business structure reshuffling, the operating costs of broking segment fell whereas the operating costs of asset and wealth management and corporate advisory segments rose.

The Group's securities trading portfolio presented under financial assets at fair value through profit or loss as at 30 June 2017 increased to HK$490.0 million from HK$414.3 million as at 31 December 2016. Its breakdown is set out in the following table:

Stock code	Name of security	Carrying value as at 30 June 2017	Percentage of shareholding Interest	Fair value gain/(loss) during the Period
		HK$'000		*HK$'000*
670	China Eastern Airlines Corporation Limited	142,118	0.204	33,515
992	Lenovo Group Limited	104,703	0.191	2,928
1033	Sinopec Oilfield Service Corporation	65,200	0.375	(15,213)
317	CSSC Offshore & Marine Engineering (Group) Company Limited	43,234	0.219	(4,038)
1618	Metallurgical Corporation of China Limited	39,394	0.072	(5,909)
Others		95,312		(21,302)
Total		**489,961**		**(10,019)**

Hong Kong saw a rally in local market with the Hang Seng Index and the Hang Seng China Enterprises Index rose 17.1% and 10.3% respectively in the first six months of 2017, outperforming after a year of relatively mild increase compared to the gains in other major markets in 2016. The Group recognized a gain of HK$46.6 million from its trading and investment segment as opposed to the loss of HK$2.6 million for the same period last year. Fair value loss on financial assets for the Period amounted to HK$10.0 million as compared with the fair value loss of HK$21.8 million recorded in the same period last year.

Margin financing and money lending

The overall loan portfolio fell 8.8% during the Period to HK$294.7 million as at 30 June 2017 from HK$323.1 million as at 31 December 2016. Revenue recorded for the Period was HK$13.4 million comparing to HK$10.8 million for the same corresponding period in 2016. Earnings from this segment decreased from HK$7.9 million for the six months ended 30 June 2016 to HK$5.8 million for the Period, mainly due to a decline in margin loan book from partial unwinding of securities portfolio on margin financing by investors on the recent market rally and higher caution in extending new structured loans after several Hong Kong listed stock were bombarded by stock sellers in late 2016 and during the Period. The Group resumed its money lending business offering unsecured personal loans in December 2016 that has since then been growing steadily in pursuit of a diversified loan portfolio with a reasonable balance of the returns and associated risk. During the Period, the personal lending portfolio increased more than 8 folds from the end of last year to HK$16.6 million. Despite the increasingly fierce competition in the money lending sector, we are prudently optimistic that money lending business will continue its pace of growth in the latter half with more new product offerings to spur the business.

Corporate advisory and underwriting

In the first half of 2017, the fundraising size of the Hong Kong initial public offering ("IPO") market increased 23.1% year-on-year. There were 72 newly listed companies for the Period as compared to 40 in the same period last year. Amidst strong momentum in IPO market, we completed 1 IPO deal as sole sponsor and lead manager and participated in another IPO deal as co-lead manager. We also participated in several primary and secondary market placings and continued to extend our footprint in the corporate advisory sector.

As a result, revenue from the Group's corporate advisory and underwriting business increased to HK$13.9 million in the Period from HK$9.6 million in the same period last year. In order to build sustained growth and foster further expansion in our investment banking business, the investment banking teams were expanded to cope with the strong deal flow and greater resources were devoted to business development and engaged to assist in the identification of deals with IPO potential and merger and acquisition opportunities in the People's Republic of China ("PRC") and overseas. Therefore, the operating costs of the segment hiked in the Period, turning its operating result to a loss of HK$5.6 million in the first half of 2017 from the profit of HK$6.3 million a year earlier.

Asset and wealth management

Revenue recorded for the Period was HK$1.4 million as compared with HK$0.3 million for the same corresponding period in 2016. Operating loss was widened to HK$12.1 million for the Period from HK$1.8 million for the same period in 2016. The increase in loss was largely attributable to a surge in operating costs of the segment resulting from, as mentioned above, a redeployment and shift of certain business units between segments to support the business focus under new business direction during the Period under review.

During the first half of 2017, the Group's asset management division commenced business and earned fee income from investment management and advisory services. On heightened concerns over the multiple interest rate hikes by the US Feds and the rising expectations that the European Central Bank may reduce its size of stimulus programme, the asset management division considered it not the right time to launch SC Priority Multi-tranche Fixed Income Fund (the "Fixed Income Fund") that was scheduled for offer to the market in June 2017 and decided to halt the launch of the Fixed Income Fund until the global bond market outlook became clearer. This decision came with a cost of lowering our management fee income expectation of this year.

We are in the process of setting up and launching a private fund investing in Asia Pacific REITs, which is expected to be launched in September 2017. Meanwhile, we are also working on securing multiple investment mandates from various institutional clients that, if concluded, will expand our fee income from investment management and advisory services.

Hong Kong is as a key conduit for foreign and Mainland investments. In consideration of the robust growth in insurance sector in Hong Kong and the growing affluent population in the PRC, who hungers for a broader choice of wealth management products and services, we deployed more resources to expand and enhance our wealth management platform in the region in an effort to tap more businesses from the thriving insurance sector and promote fund distributions. To this end, the Group expanded its business development through development of new channels and extended its network in the PRC.

Media publications and FPR

The acquisition of a financial media group engaged in the publication of "Capital" series magazines was completed in January 2017. The acquisition was in line with the Group's overall mission as a distinctive "one-stop services" financial institution and the Group has since then commenced the integration of the business, focusing on the capitalization of synergistic benefits.

The revenue and operating loss of the media publications and FPR business segment were HK$7.4 million and HK$14.0 million for the Period. The loss included one-off transaction costs amounting to HK$27,000 and HK$0.2 million incurred up to 30 June 2017 in relation to the acquisition of the financial media group and the New Acquisition, respectively. Suffering from the sluggish economy and bleak consumer sentiment over the past 2 years, the overall advertising market in Hong Kong was weak. The prevailing market environment was challenging and unfavorable to media industry, particularly for traditional print media. Recent economic statistics announced by Hong Kong Government indicate that the prevailing retail situation and market expectation in general have turned slightly positive, with a strong rebound of local economy in the first 2 quarters of 2017 from a year earlier. As such, we are of the view that the overall advertising market is not far from bottoming out. During the Period, the financial media group focused on investing on the research and development, and infrastructural development of its digital offerings and products, including very recently launching its new "Capital" website, and new video-driven products, in order to build an integrated media platform, to capture growing digital-related advertising budgets. A new corporate services team was established, to focus on the development and servicing of corporate clients. With the improving advertising market, re-accelerating economic growth in Hong Kong, and a developing new integrated-multi-channel media platform, we are cautiously confident that the operating performance of media sector will fare better in the near future.

Property investment

Neither fair value revaluation gain nor loss was recorded for the Period as compared with a HK$11.2 million fair value gain for the same corresponding period in 2016. Gross rental income for the first half of 2017 remained almost the same at HK$4.8 million as the corresponding period a year earlier.

Other business and corporate

HK$0.6 million was recorded for the Period as compared with HK$0.5 million for the same corresponding period in 2016. Operating loss was increased to HK$6.1 million for the Period from HK$3.5 million for the same period in 2016.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had obtained short term credit facilities which were reviewed annually and a long term mortgage loan from a bank. The banking facilities for the share margin finance operations were secured by the securities of our margin clients and the Group. The outstanding credit facilities were guaranteed by the Company.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank borrowings, less cash and bank balances. Capital represents total equity. The gearing ratio as at 30 June 2017 was approximately 21.6% (31 December 2016: 16.1%).

The Group had a cash balance of HK$218.4 million at the end of the Period, a decrease of 38.5% from the end of 2016. 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 2017, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

CAPITAL STRUCTURE

There was no material change in Group's capital structure during the Period as compared to the most recent published annual report.

Use of proceeds update

As disclosed on the 2016 Annual Report dated 28 March 2017, the unutilized net proceeds from rights issue completed on 11 August 2016 amounted to HK$391.2 million as at 28 February 2017, of which (i) approximately HK$280 million was intended to be used to set up a securities joint venture in mainland China, (ii) HK$87.2 million earmarked for use towards the lending business, and (iii) HK$24 million for use as seed capital in fund products by the Company and the costs incidental to setting up of fund products. Over the past 4 months to 30 June 2017, the Group has continued to use the unutilized funds according to the revised intended use. As at 30 June 2017, the unutilized net proceeds have been reduced to HK$385.1 million, of which (a) the amount of HK$280 million was designated for setting up of a securities joint venture in China, (b) HK$82.0 million intended for use towards lending business, and (c) HK$23.1 million towards asset management related business.

During the reporting period, the Company has actively identified parties for the purpose of establishing a securities joint venture in mainland China, but no such initial negotiations came to fruition. The Company shall continue to actively seek appropriate partners but believes that the process is unlikely to complete in the imminent future.

Consistent with the long term goal of supporting the sustainable and healthy development of the Company's principal operating activities, the Company follows the prevailing practice and continues to apply the following capital management and interim deployment strategies in respect of the abovementioned unutilized proceeds of approximately HK$385.1 million, pending the identification and conclusion of a securities joint venture and subject to the progress business and the launch of the fund products under asset management business:

1. used as standby capital to support the securities brokerage business, the securities financing business and lending business when needed; and

2. for better effectiveness and returns in respect of the Company's capital management, and to improve cash flow management, the Company shall adopt a treasury management model that may involve (but shall not be limited to) repayment of revolving bank loans, holding fixed income instruments, high grade equity instruments and other financial investments.

MATERIAL ACQUISITIONS AND DISPOSALS

On 18 January 2017, the Group acquired 100% equity interests in Media Bonus Limited and Golden Ways Limited from Win Gain Investments Limited and Surge Fast Assets Limited, respectively, which were wholly-owned by Mr. Ng, a director, the Chairman of the Board and a substantial shareholder of the Company, for an aggregate cash consideration of HK$22,329,000, comprising the cash consideration of HK$20,000,000 and a cash adjustment to consideration of HK$2,329,000 that was paid pursuant to the adjustment to consideration clause contemplated in the relevant sales and purchase agreement, of which HK$18,702,000 were paid for the acquisition of Media Bonus Limited and HK$3,627,000 for the acquisition of Golden Ways Limited, respectively. Media Bonus Limited and its subsidiaries and Golden Ways Limited became indirect wholly-owned subsidiaries of the Company thereafter.

PLEDGES OF ASSETS

As at 30 June 2017, the Group's investment properties and listed securities held in trading and investment portfolio were pledged to bands for banking facilities.

CONTINGENT LIABILITIES AND COMMITMENTS

As at 30 June 2017, the Group had no material contingent liabilities and commitments.

EMPLOYEES

As at 30 June 2017, the total number of employees of the Group was 263 (six months ended 30 June 2016: 144). Employees' costs (including directors' emoluments) amounted to approximately HK$60.0 million for the Period (six months ended 30 June 2016: approximately HK$31.7 million). The changes were mainly attributable to the acquisition of financial media group which was completed in January 2017.

In addition to salary, other fringe benefits such as medical subsidies, life insurance, provident fund and subsidized external training are offered to employees. Continuous professional training will continue to be arranged for those staff who are 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. Selected employees may also be granted share option and share award under the share option scheme and share award scheme respectively adopted by the Company.

PROSPECTS

In 2016, the Group expanded new business teams, including asset management and money-lending, and built up stronger and larger teams in the investment banking division, to further develop our market and business horizons, broadening the scope of our financial services offerings.

The Hong Kong stock market advanced and outperformed the major markets in the world in the first half of 2017 on the rally of global markets with US and other major markets rising to multi-year or historical highs during the Period.

Even as New York displaced Hong Kong as top IPO hub in the first half and Hong Kong fell to the fourth place after Shanghai and Shenzhen in term of the aggregate amount of fundraising, Hong Kong with its established legal and financial services framework is still a preferred fund raising venue to Mainland enterprises. In fact, the Group's investment banking teams have already secured several IPO deals in the pipeline and are thereby expected to see more IPO deals to be completed and approved for listing in the second half.

The Group's asset management division is prepared to launch its first private fund investing in Asia Pacific REITs in September 2017 and meanwhile is striving to secure multiple investment mandates from various institutional clients. Given Hong Kong's role as a key conduit for foreign and Mainland investments and the robust growth in insurance sector in Hong Kong, we have deployed more resources to expand and enhance our wealth management platform in the region in an effort to tap more businesses from the thriving insurance sector and promote fund distributions. As such, we look forward to a better performance from asset and wealth management business in the second half of this year and beyond.

The Group has commenced its integration plan with the newly acquired financial media group by drawing on the strengths of the Group and the financial media group together to, amongst others, make use of the platform of the financial media group via their publication of magazines, event management and marketing services to provide value-added marketing communications solutions to existing and potential clients and business partners, thereby building up the FPR business, fostering the Group's vision to be an one-stop shop financial services provider.

As a further step to optimize the value of building an integrated platform combining financial services and financial media business, the Directors have resolved to enter into an agreement for a conditional acquisition of the 100% interest in a media group engaged in the publication of lifestyle series magazines and related digital media assets, and creative services and event management services (the "Media Group") at the cash consideration of HK$15 million, subject to cash adjustment in a manner as contemplated in the relevant sales and purchase agreement (the "New Acquisition"). Information about the New Acquisition is made available on the Company's announcements dated 31 March and 14 July 2017. The New Acquisition is able to augment the existing businesses of the Group by leveraging the combined strengths of the Group and the Media Group acquired under the New Acquisition to create and maximize synergies in the sharing of resources, enhanced clientele, membership and audience base, digital abilities, bargaining power, cross referrals and aggregate contents, amongst others. The established media brand names, the ability to engage with a wide audience and readership of the financial media business and the business of the Media Group, the established membership base, clientele and editorial network, and the ability to produce and curate premium content, will, through data-driven technology and an integrated-digital platform, enable the Group to generate big data, to develop customized products which meet the needs of consumers more precisely, and target desired client groups more precisely. The combined services of the FPR, the financial media business and the business of the Media Group would further enhance and distinguish the positioning of the enlarged Group as a full-fledged corporate marketing and FPRs consultancy service supplier, and create a more comprehensive and competitive service set. More importantly, it is a long term goal of the Group to build an integrated platform which is able to provide opportunities for growth, not only in its existing business but also into new business lines, to provide a full range of value added services to its end clients in Hong Kong and the PRC; and the digital world offers such an environment in the enlarged business ecosystem as the customer or audience base grows. The New Acquisition is being processed as of the latest practicable date of this result announcement.

Looking ahead, the Company expects new and expanded businesses, coupled with the integration and collaboration with financial media platform, will broaden the revenue base and strengthen the competitive edge of the Group that will further enhance the investors' returns in the long term.

MANAGEMENT OF RISKS

The Group set out in its 2016 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, foreign exchange risk, liquidity risk and equity price risk. The Group reviews and monitors each of these risks closely at all times.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the Period (six months ended 30 June 2016: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2017, 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, 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, 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 to the Listing Rules were as follows:

Long positions in ordinary shares of the Company

Directors	Capacity	Number of ordinary shares	Total number of ordinary shares	Approximate percentage of shareholding in total issued ordinary shares
Mr. Ng	Beneficial owner	556,663,200	4,423,080,384	29.36%
	Interest of controlled corporations	3,866,417,184 *(Note)*		
Cheung Choi Ngor	Beneficial owner	615,015,578	615,015,578	4.08%
Raymond Arthur William Sears, Q.C.	Interest of spouse	2,650,000	2,650,000	0.02%

Note:

The 3,866,417,184 shares of the Company held by Mr. Ng through controlled corporations included 1,176,301,512 shares held by Fung Shing Group Limited ("Fung Shing"), 2,231,184,000 shares held by Parkfield Holdings Limited ("Parkfield"), 99,993,600 shares held by Ronastar Investments Limited ("Ronastar") and 358,938,072 shares held by Uni-spark Investments Limited ("Uni-spark"). Fung Shing, Parkfield and Ronastar were directly wholly-owned by Mr. Ng. Uni-spark was indirect wholly-owned by Mr. Ng.

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executive of the Company had any interest or short position in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which was required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO); (ii) recorded in the register required to be kept by the Company under Section 352 of the SFO; or (iii) 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 2017, substantial shareholders and other persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follow:

Long position in the ordinary shares

Shareholders	Capacity	Number of ordinary shares	Approximate percentage of shareholding in total issued ordinary shares
Ng Lai King Pamela	Interest of spouse *(Note)*	4,423,080,384	29.36%
Fung Shing	Beneficial owner	1,176,301,512	7.81%
Parkfield	Beneficial owner	2,231,184,000	14.81%

Note:

Ms. Ng Lai King Pamela is the spouse of Mr. Ng. By virtue of the SFO, Ms. Ng Lai King Pamela is deemed to be interested in the 4,423,080,384 shares which Mr. Ng is interested in.

Save as disclosed above, as at 30 June 2017, the Company was not notified by any persons (other than Directors or chief executive of the Company as discussed above) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

EMPLOYEES' SHARE AWARD SCHEME

On 10 June 2015, the Company adopted the Share Award Scheme whereby the Company may grant share awards to selected employees in recognition of their contributions to the Group and as incentive to retain them to support the operations and ongoing development of the Group and attract suitable personnel for the Group's further development. Pursuant to the terms and the conditions of the Share Award Scheme, the Company shall settle a sum up to and not exceeding HK$20 million for the purchase of shares of the Company and/or other shares listed on the Main Board or the GEM Board of the Stock Exchange from market. Such shares shall form part of the capital of the trust fund set up for the Share Award Scheme. The Board may, from time to time, select employees for participation in the Share Award Scheme and cause to be paid an amount to the trustee from the Company's resources for the purpose of purchase of shares as referred to in the above.

No share award has been granted to the employees of the Company since its adoption.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was approved by shareholders of the Company on 5 June 2012 and became effective on 11 June 2012. Particulars and movements of the outstanding share options granted under the Scheme during the Period were as follows:

	Number of share options					
Name or category of participants	**At 1 January 2017**	**Lapsed during the period**	**At 30 June 2017**	**Date of grant of share options (DD/MM/YYYY)**	**Exercise period of share options (DD/MM/YYYY)** *(Note i)*	**Exercise price per share** *(Note ii)* *HK$*
Employees						
	15,538,462	(5,179,488)	10,358,974	09/06/2015	09/06/2016 – 08/06/2018	0.195
	10,358,975	–	10,358,975	09/06/2015	09/06/2017 – 08/06/2019	0.195
	10,358,975	–	10,358,975	09/06/2015	09/06/2018 – 08/06/2020	0.195
Total	36,256,412	(5,179,488)	31,076,924			

Notes:

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

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

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

(ii) The exercise price of the share option is subject to adjustment in case of rights issues, or other alteration in the capital structure of the Company.

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

During the Period, the Company purchased 20,400,000 ordinary shares of the Company on the Stock Exchange at an aggregate price of HKD1,201,100. The repurchased shares had been cancelled subsequently. The details of the repurchased shares are as follows:

Month/Year	Number of Shares Repurchased	Highest Price HKD	Lowest Price HKD	Aggregate price paid HKD
May 2017	17,200,000	0.063	0.058	1,019,900
June 2017	3,200,000	0.057	0.056	181,200
	20,400,000			1,201,100

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

CORPORATE GOVERNANCE CODE

The Company had complied with all the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange throughout the Period and had no material change as compared to the most recent published annual report except that the chairman of the Board was unable to attend the extraordinary general meeting and the annual general meeting of the Company held on 17 January 2017 and 14 June 2017 respectively which deviated from code provision E.1.2 of the CG Code as he had other business engagements at the relevant time.

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 Period.

REVIEW OF FINANCIAL STATEMENTS

The Group's unaudited consolidated results for the Period have been reviewed by the audit committee, which was of the opinion that the preparation of such interim results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

By Order of the Board
South China Financial Holdings Limited
南華金融控股有限公司
Ng Hung Sang
Chairman and Executive Director

Hong Kong, 31 August 2017

As at the date of this report, the Directors of the Company are (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Ms. Ng Yuk Mui Jessica and Dr. Wang Wei Hsin 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.