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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

UNAUDITED 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 (collectively, the “Group”) for the six months ended 30 June 2020 (the “Period”) are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six Months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
CONTINUING OPERATIONS			
Revenue	3, 4	34,291	132,674
Fair value gain on investment properties		–	21,000
Impairment of loans and trade receivables, net		(3,309)	(3,584)
Fair value gain/(loss) on financial assets at fair value through profit or loss, net		(76,850)	21,823
Fair value gain on derivative financial instruments		112	3,275
Loss on disposal of subsidiary		(54)	–
Other income		2,335	1,449
Other operating expenses		(118,021)	(133,999)
Profit/(loss) from operating activities		(161,496)	42,638
Finance costs	6	(8,188)	(9,575)
Profit/(loss) before tax from continuing operations	5	(169,684)	33,063
Income tax expenses	7	(90)	(2,820)
Profit/(loss) for the period from continuing operations		(169,774)	30,243

		Six Months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
<i>Notes</i>		HK\$'000	HK\$'000
DISCONTINUED OPERATION			
Loss for the period from a discontinued operation	9	—	(5,078)
Profit/(loss) for the period		(169,774)	25,165
Attributable to:			
Equity holders of the Company			
— For profit/(loss) from continuing operations		(169,577)	30,268
— For loss from a discontinued operation	9	—	(5,078)
For profit/(loss) for the period		(169,577)	25,190
Non-controlling interests		(197)	(25)
		(169,774)	25,165
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	10		
— For profit/(loss) for the period		HK(56.3) cents	HK8.3 cents
— For profit/(loss) from continuing operations		HK(56.3) cents	HK10.0 cents
Diluted			
— For profit/(loss) for the period		HK(56.3) cents	HK8.3 cents
— For profit/(loss) from continuing operations		HK(56.3) cents	HK10.0 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		2,598	2,707
Investment properties	11	550,000	550,000
Right-of-use assets		6,963	9,085
Intangible assets		8,376	9,210
Investments in associates		–	–
Equity investments designated at fair value through other comprehensive income	17	19,320	30,240
Debt investments at fair value through other comprehensive income	17	2,847	2,847
Other assets		7,367	9,627
Goodwill		83,494	83,494
Long term loans receivable	13	1,668	16,552
Long term prepayments and deposits		131	773
		<hr/>	<hr/>
Total non-current assets		682,764	714,535
CURRENT ASSETS			
Inventories		12,142	12,936
Financial assets at fair value through profit or loss	12, 17	223,151	414,265
Loans receivable	13	204,899	171,701
Trade receivables	14	127,329	107,127
Contract assets		250	250
Prepayments, other receivables and other assets		63,231	56,819
Derivative financial instruments	17	592	478
Tax recoverable		165	378
Cash held on behalf of clients		495,423	512,272
Cash and bank balances		106,965	89,493
		<hr/>	<hr/>
Total current assets		1,234,147	1,365,719

		As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Client deposits		553,937	531,801
Trade payables	14	84,546	77,575
Other payables and accruals		33,744	31,218
Derivative financial instruments	17	204	154
Interest-bearing bank and other borrowings		369,098	410,249
Tax payables		3,714	5,415
		<hr/>	<hr/>
Total current liabilities		1,045,243	1,056,412
		<hr/>	<hr/>
NET CURRENT ASSETS		188,904	309,307
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		871,668	1,023,842
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Convertible bonds	15	50,000	–
Interest-bearing bank and other borrowings		135,519	156,268
Deposits received		1,308	692
Deferred tax liabilities		31,141	31,063
		<hr/>	<hr/>
		217,968	188,023
		<hr/>	<hr/>
Net assets		653,700	835,819
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	16	1,085,474	1,085,474
Reserves		(434,232)	(252,347)
		<hr/>	<hr/>
		651,242	833,127
Non-controlling interests		2,458	2,692
		<hr/>	<hr/>
Total equity		653,700	835,819
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim results of the Group and 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, including compliance with Hong Kong Accounting Standard (the “HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

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 2019 annual financial statements of the Group.

The financial information relating to the year ended 31 December 2019 that is included in the unaudited interim condensed consolidated statement of financial position as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follow:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The Company’s auditors have reported on the financial statements for the year ended 31 December 2019. The auditor’s report was unqualified, and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance.

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim financial statements are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019.

In the current interim period, the Group has applied the following new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The directors do not expect that the amendments listed above will have a material impact on the Group’s condensed consolidated financial statements upon application.

3. REVENUE

An analysis of revenue is as follows:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<i>Revenue from contracts with customers:</i>		
Commission and brokerage income	13,863	17,171
Rendering of services	6,412	15,622
Handling fee income	933	1,199
Media publications and financial public relation services* ("Media Services")	14,549	20,931
Sales of jewellery products	11,991	18,152
	47,748	73,075
<i>Revenue from other sources:</i>		
Profit/(loss) on the trading of securities, forex, bullion and future contracts, net	(29,362)	34,317
Interest income from loans and trade receivables	7,797	10,631
Interest income from forex and bullion contracts trading	272	230
Interest income from banks and financial institutions	1,399	1,997
Dividend income from listed investments	15	6,064
Gross rental income	6,422	6,360
	(13,457)	59,599
	34,291	132,674

* Including advertising income, service income and circulation income

4. 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 2019: 8) reportable segments as summarised below.

	Six months ended 30 June			
	2020	2019	2020	2019
			Profit/(loss)	Profit/(loss)
			from	from
			operating	operating
	Revenue	Revenue	activities	activities
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Broking	14,110	16,755	(4,903)	(19,462)
Trading and investment	(29,347)	40,617	(107,175)	58,991
Margin financing and money lending	9,196	12,406	(7,934)	(1,850)
Corporate advisory and underwriting	5,850	14,916	(6,900)	1,135
Assets and wealth management	1,053	2,071	(2,161)	(3,423)
Property investment	6,422	6,360	4,756	26,947
Media publication and financial public relation services ("Media Services")	14,549	20,931	(34,988)	(19,171)
Jewellery and other business	12,458	18,618	(2,191)	(529)
Consolidated	<u>34,291</u>	<u>132,674</u>	<u>(161,496)</u>	<u>42,638</u>

Other than the revenue from Trading and investment, over 74% of the Group's revenue and contribution to profit/(loss) from operating activities were derived from operations in Hong Kong.

The revenue from Trading and investment was 100% derived from operations in Hong Kong.

5. PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The Group's profit/(loss) before tax from continuing operations is arrived at after charging:		
Cost of services provided	9,351	13,648
Depreciation and amortisation	2,172	1,016
Depreciation of right-of-use assets	1,078	987
Cost of inventories sold	9,071	13,653
Cost of media publications and financial public relation services	17,305	15,684
Lease payment not included in the measurement of lease liabilities	12,272	7,884
Employee benefit expense (including directors' remuneration)	47,155	63,900
Direct operating expenses arising from rental-earning investment properties	878	801
Interest expenses for short-term interest-bearing bank and other borrowings	<u>2,317</u>	<u>2,636</u>

6. FINANCE COSTS

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

7. INCOME TAX EXPENSES

Hong Kong profits tax has been provided in this current Period at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the underprovision of income tax in the prior years. During the corresponding period in 2019, no provision for the Hong Kong profits tax has been made 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. 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 2019: Nil).

9. DISCONTINUED OPERATION

Year Blossom Limited, a wholly-owned subsidiary of the Company, together with its subsidiaries (the “Disposal Group”) were principally engaged in food and beverage operations in Nanjing, the PRC.

On 1 February 2019, the Company entered into a conditional sale and purchase agreement with South China Industries (BVI) Limited, a wholly-owned subsidiary of South China Holdings Company Limited, pursuant to which the Company agreed to dispose of the entire issued share capital of Year Blossom Limited. The transaction was completed at 31 December 2019 and the Group recognised a gain on disposal of a discontinued operation amounting to HK\$8,557,000.

The result of the Disposal Group for the Period in 2019 are presented below:

	Six months ended 30 June 2019 (Unaudited) HK\$'000
Revenue	4,554
Cost of inventories consumed	(2,314)
Gross profit	2,240
Other operation expenses	(7,318)
Loss before tax from the discontinued operation	(5,078)
Income tax	—
Loss for the period from the discontinued operation	(5,078)

The calculation of basic and diluted loss per share from the discontinued operation are based on:

	Six months ended 30 June 2019 (Unaudited)
Loss attributable to ordinary equity holders of the Company from the discontinued operation	(HK\$5,078,000)
Weighted average number of ordinary shares in issue during the Period used in the basic and diluted loss per share calculation	301,277,070
Loss per share Basic and diluted, from the discontinued operation	(HK1.7 cents)

10. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic and diluted earnings/(loss) per share amounts is based on the loss for the Period attributable to equity holders of the Company of HK\$169,577,000 (six months ended 30 June 2019: profit of HK\$25,190,000) and the weighted average number of 301,277,070 (six months ended 30 June 2019: 301,277,070) ordinary shares in issue during the Period.

The calculation of the basic and diluted earnings/(loss) per share amounts from continuing operations is based on the loss for the Period from continuing operations attributable to equity holders of the Company of HK\$169,577,000 (six months ended 30 June 2019: profit of HK\$30,268,000) and the weighted average number of 301,277,070 (six months ended 30 June 2019: 301,277,070) ordinary shares in issue during the Period.

No adjustment had been made to the basic loss per share amount presented for the Period in respect of a dilution as the impact of the convertible bonds had an anti-dilutive effect on the basic loss per share amount presented.

No adjustment has been made to the basic earnings/(loss) per share amount presented for the six months ended 30 June 2020 and 2019 in respect of a dilution as the impact of the share options outstanding during the periods had no dilutive effect on the basic earnings/(loss) per share amount presented.

11. INVESTMENT PROPERTIES

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Carrying amount at 1 January	550,000	529,000
Net gain from a fair value adjustment	—	21,000
	<u>550,000</u>	<u>550,000</u>
Carrying amount	<u>550,000</u>	<u>550,000</u>

On 30 June 2020, the Group's investment properties were revalued by Ravia Global Appraisal Advisory Limited at HK\$550,000,000 (31 December 2019: HK\$550,000,000). 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\$550,000,000 (31 December 2019: HK\$550,000,000) 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

12. 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.

13. LOANS RECEIVABLE

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

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Repayable:		
On demand	180,597	141,392
Within 3 months	888	5,577
3 months to 1 year	23,414	15,109
1 year to 5 years	1,668	26,175
	<u>206,567</u>	<u>188,253</u>
Portion classified as current assets	<u>(204,899)</u>	<u>(171,701)</u>
	<u>1,668</u>	<u>16,552</u>
Portion classified as non-current assets		

14. TRADE RECEIVABLES AND PAYABLES

The Group allows a credit period up to the respective settlement dates of securities, forex, bullion and commodities transactions (normally two business days after the respective trade dates for Hong Kong stocks) or a credit period mutually agreed between the contracting parties. The credit period for Media Services is generally one month, extending up to four months for major customers. The credit period for corporate advisory services is generally within two weeks. The Group's trading terms with its jewellery retail customers are mainly on cash and credit card settlement.

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

15. CONVERTIBLE BONDS

On 30 June 2020, the Company issued the convertible bonds amounted to HK\$50,000,000 due on the 3rd anniversary of the issue date, and the conversion price is HK\$0.22 (subject to adjustment) as disclosed in the circular issued by the Company on 15 May 2020.

16. SHARE CAPITAL

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Issued and fully paid:		
301,277,070 (2019: 301,277,070) ordinary shares	<u>1,085,474</u>	<u>1,085,474</u>

17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of equity investments and derivative financial instruments are based on quoted market prices. The fair value of debt investments at fair value through other comprehensive income in which represented club debentures have been estimated 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 2020

	Quoted prices in active markets (Level 1) (Unaudited) HK\$'000	Fair value measurement using Significant observable inputs (Level 2) (Unaudited) HK\$'000	Significant unobservable inputs (Level 3) (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
<i>Assets measured at fair value:</i>				
Equity investments designated at fair value through other comprehensive income	19,320	–	–	19,320
Debt investments at fair value through other comprehensive income	–	2,847	–	2,847
Financial assets at fair value through profit or loss	223,151	–	–	223,151
Derivative financial instruments	–	592	–	592
	<u>242,471</u>	<u>3,439</u>	<u>–</u>	<u>245,910</u>
<i>Liabilities measured at fair value:</i>				
Derivative financial instruments	–	204	–	204

As at 31 December 2019

	Quoted prices in active markets (Level 1) (Audited) HK\$'000	Fair value measurement using Significant observable inputs (Level 2) (Audited) HK\$'000	Significant unobservable inputs (Level 3) (Audited) HK\$'000	Total (Audited) HK\$'000
<i>Assets measured at fair value:</i>				
Equity investments designated at fair value through other comprehensive income	30,240	–	–	30,240
Debt investments at fair value through other comprehensive income	–	2,847	–	2,847
Financial assets at fair value through profit or loss	414,265	–	–	414,265
Derivative financial instruments	–	478	–	478
	<u>444,505</u>	<u>3,325</u>	<u>–</u>	<u>447,830</u>
<i>Liabilities measured at fair value:</i>				
Derivative financial instruments	–	154	–	154

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY

The aggregate revenue of the Group decreased from HK\$132.7 million for the six-month period ended 30 June (the “Period”) in 2019 by 74.2% to HK\$34.3 million for the same period in 2020 and the Group has incurred a loss of HK\$169.8 million for the Period in 2020 as opposite to the profit of HK\$25.2 million for the corresponding period in 2019.

BUSINESS REVIEW

The impact of COVID-19 during the first half of 2020 has severely disrupted global economic activity and the lives of people in every country globally. In Hong Kong, this has been compounded by the existing challenges created by geopolitical tension and social unrest. The resulting uncertainty has caused businesses and individuals to refrain from committing to new investments and significant volatility in domestic and international markets. This has in general caused a negative impact on the financial performance of the Group over the Period in 2020.

Brokerage

Market liquidity was fairly robust in the first 6 months of 2020 as a result of the global easing of monetary policy in response to the outbreak of COVID-19. On the other hand, market volatility was high in the first half of this year with significant downturn witnessed across global financial markets from mid of March of 2020. These two factors gave strong support to the market turnover which remained resilient during the first half year of 2020.

In addition, due to widely anticipated regulatory action in United States (“US”), targeting US-listed Chinese Companies, the market saw an increase in dual listing activities in Hong Kong and the repatriation of many Chinese companies listed in the US. Alibaba, NetEase and JD.com raised a cumulative US\$20 billion through secondary listings in Hong Kong since November of 2019. These IPOs had further injected momentum into the Hong Kong stock market and drove the daily market turnover up by 20% from HK\$98 billion during the first half of last year to HK\$118 billion for the same Period of this year. The securities brokerage commission income increased in line with the market turnover from HK\$8.2 million for the Period ended at 30 June 2019 to HK\$10.9 million for the Period ended at 30 June 2020 and the operating loss of this business segment was decreased from HK\$19.5 million for the first half of 2019 to HK\$4.9 million for the same Period of 2020.

Margin financing and money lending

With the market turnover recovering during the current period, our margin loan book was improved from HK\$136.8 million as at 31 December 2019 to HK\$190.6 million as at 30 June 2020. However, since there is a rapid and sudden correction in the financial market from mid of March 2020, our margin clients have liquidated their margin loan book during this unfavorable period. Our interest income was therefore decreased from HK\$12.4 million for the Period last year to HK\$9.2 million for the same Period this year. The operating loss was also increased from HK\$1.9 million for the Period of 2019 to HK\$7.9 million for the current Period of 2020.

Corporate advisory and underwriting

The fund raising from Initial Public Offerings (“IPO”) for the first half year of 2020 amounted to HK\$81.5 billion, representing an increase of 14% as compared with the amount of HK\$71.8 billion for the same Period of 2019. Conversely, the number of newly listed companies was reduced from 84 for the first half year of 2019 to 64 for the same Period of 2020. The IPO market was dominated by the dual listing of US listed Chinese companies and some other larger size PRC companies whereas our competitive advantage is in the small-to-medium size market. We completed one IPO deal during the Period which was the same as the comparable Period of 2019.

Due to impact of COVID-19 in the first half year, all travelling across the border was stopped. Required due diligence became impossible to undertake which imposed significant pressure on our deal-based business. It was difficult to solicit new IPO mandates during the current Period and our deal pipeline became much weaker for the current Period when comparing with the same Period of 2019.

Under such a challenging conditions, our revenue in this segment dropped by 60% from HK\$14.9 million for last Period to HK\$5.9 million for the same Period this year. The operating profit of HK\$1.1 million for the Period in 2019 turned to loss of HK\$6.9 million for the corresponding Period of 2020.

Assets and wealth management

Our Assets Management business faced the same challenges as our Corporate Advisory and Underwriting business as mentioned above. As a result of the suspension of all cross-border due diligence work, the Assets Management deals were all postponed until further notice. For the six-month ended 30 June 2020, this business segment recorded revenue of HK\$1.1 million as opposed to HK\$2.1 million for the same Period last year. However, with our swift response in costs controls, the operating loss was reduced from HK\$3.4 million to HK\$2.2 million. In order to increase the source of revenue, our Wealth Management team has expanded the business scope to cover immigration business by co-operating with partnered immigration consultancy companies during the Period. We anticipate more revenue will be realized once travelling is allowed across different countries and when the immigration procedures can be realised.

Media and financial public relations

The business environment for the media sector has similarly faced an extremely challenging environment under the ongoing impacts of COVID-19. Inevitably this has caused a noted reduction in advertising income not only concerned with traditional print media, but also with digital media as well as the events and marketing services sectors. The operating loss of the media business segment widened from HK\$19.2 million for the first half year of 2019 to HK\$35.0 million for the same Period of 2020. In order to mitigate the loss as much as possible in the second half of this year, we have relocated all available resources to ensure a cost-efficient model in continuing our business. Our primary goal is still focused on targeting multi-media business opportunities and providing services to clients through our existing and developing channels.

Trading and investment

The Group's investment portfolio, which was mainly booked under financial assets at fair value through profit or loss, decreased from HK\$414.3 million as at 31 December 2019 to HK\$223.2 million as at 30 June 2020. The major investments holding and their fair value gains or losses are listed below:

Stock code	Name of security	Carrying amount as at 30 June 2020 HK\$'000	Percentage of shareholding interest	Fair value gain/(loss) during the Period of 2020 HK\$'000
00413	South China Holdings Company Limited	51,895	3.043%	(22,107)
00670	China Eastern Airlines Corporation Limited	41,386	0.290%	(16,261)
01097	i-CABLE Communications Limited	31,544	6.501%	1,856
01033	Sinopec Oilfield Service Corporation	22,272	0.823%	(15,587)
00317	CSSC Offshore & Marine Engineering (Group) Company Limited	19,297	0.627%	(2,301)
Others		<u>56,757</u>		<u>(22,450)</u>
		<u>223,151</u>		<u>(76,850)</u>

The Hang Seng Index moved in the opposite direction of the market turnover which dropped by 13% from 28,190 as at 31 December 2019 to 24,427 as at 30 June 2020, reflecting the investors' pessimistic view of the general economy in Hong Kong. The market focus was only on selective sectors, such as leading technology and medical industries while traditional business sectors, such as banking and real estate industries were not high on investors preferred sector list. Since the Group has positioned the investment portfolio for medium to long term growth in traditional industries, the fair value gain resulting from marking investments to market dropped from a gain of HK\$21.8 million for the Period of 2019 to a loss of HK\$76.9 million for the same Period in current year. Meanwhile, the Group incurred a net realized loss of 29.3 million for the current Period as compared with a gain of HK\$40.6 million for the last Period of 2019.

Property investment

Due to the widespread disruption caused by the outbreak of COVID-19, the valuation of commercial properties showed signs of weakening in the first half year of 2020. No revaluation gain was recorded for the current Period as opposed to a revaluation gain of HK\$21 million for the same Period of 2019. The fair value of the investment properties therefore remained at HK\$550 million at the end of the Period while gross rental income for the current Period increased slightly to HK\$6.42 million from HK\$6.36 million for last Period.

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 2020 was approximately 37.8% (31 December 2019: 36.3%).

The Group had a cash balance of HK\$107.0 million at the end of the Period, an increase of 20% from the end of 2019. The Group had sufficient working capital base to meet its operational needs.

CAPITAL STRUCTURE

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

EVENT AFTER THE REPORTING PERIOD

There is no material event noted after the reporting period.

PROSPECTS

The integration of the economy of Greater Bay Area ("GBA") and Hong Kong is anticipated to be the direction of future development for the local financial market. We therefore launched the non-face-to-face account opening mobile application around the end of 2019 and promoted our brokerage services and wealth management products more actively through some digital marketing campaigns during the first half of the current year. The response from investors so far is encouraging with the number of new accounts opened significantly improved. We will continue to solicit new PRC clients through the digital marketing for our brokerage and wealth management business for the rest of year 2020.

In response to the recent announcement of Wealth Management Connect across the GBA and Hong Kong in June 2020, we will strengthen our sales forces in wealth management products, including but not limited to mutual funds, bonds and insurance products. Although the initial stage of Wealth Management Connect is expected to be a close-loop arrangement between the banks in GBA and Hong Kong, the experience in Stock Connect and Bonds Connect indicated that various investor education initiatives and marketing activities will not only attract new investments through the close-loops across the border, but also attract funding to invest directly into these products out of the loops and can also stimulate the local investors' appetite in these products. We will therefore be well positioned to capture a greater market share of the GBA/Hong Kong wealth management business.

On the other hand, the onset of a series of protests in Hong Kong since June 2019 plus the COVID-19 pandemic sweeping across the globe imposed significant pressure to our investment banking and assets management businesses. Due to the shrinking number of deals and their size, we have carried out stringent costs control measures in these two business segments and expect to continue in the second half of the current year for making efficiencies where applicable.

At the same time, our investments in creating a more flexible and innovative business are demonstrating their long-term value in enhancing our ability to serve customers more effectively, broaden our appeal with a wide audience, and deliver strong business momentum in the future. Our competitive edge is also influenced by our high-performing culture that encourages collaboration and creativity. Our staff are constantly innovating and adding real value whilst always looking to deliver positive outcomes for our customers. To support the performance of our dynamic business, we will continue to invest in talent development and in our staff's overall well-being.

We are always looking to market ourselves as a reliable strategic media partner to our clients with a comprehensive total media solution offering. COVID-19 has changed the customers' behavior in which various activities are now carried out on-line through digital channels. The Media Group will speed up its transformation into a reliable digital media platform for our customers by utilizing our technology in events management, digital and multimedia offerings.

Given the uncertainties ahead, we will review our strategies critically from time-to-time. We now maintain a much reduced cost structure to allow the Group to move forward with more flexibility and react to the abrupt market changes in a more timely manner. Whilst technology is a vital part of our customer-focused approach, our employees remain our best asset. Under difficult circumstances, our staff have demonstrated flexibility and professionalism to minimise any disruption in service for our valued customers. The Group remains alert to the unprecedented COVID-19 pandemic and increasing tensions between China and the US. We will continue to closely monitor the market situation and react to any market changes without hesitation.

Our experience, accumulated in Hong Kong and China over more than 30 years, will enable us to encounter challenges ahead and deliver value to our shareholders, customers and staff alike.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the Period (six months ended 30 June 2019: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 (the “Listing Rules”) except that (i) Mr. Ng Hung Sang, an Executive Director and the Chairman of the Board of the Company and Ms. Ng Yuk Mui Jessica, an Executive Director, the Executive Vice Chairman and Chief Executive Officer of the Company and (ii) Hon. Raymond Arthur William Sears, Q.C., an Independent Non-executive Director of the Company were unable to attend the annual general meeting of the Company held on 16 June 2020 which deviated from code provisions E.1.2 and A.6.7 of the CG Code as they had other business engagements.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee presently comprises three Independent Non-executive Directors, namely Mr. Tung Woon Cheung Eric (Chairman of the Audit Committee), Hon. Raymond Arthur William Sears, Q.C. and Mrs. Tse Wong Siu Yin Elizabeth.

The Group’s unaudited consolidated results for the Period have been reviewed by the Audit Committee. The audit committee 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.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.sctrade.com. The interim report of the Company for the Period will be published on the aforesaid websites and will be despatched to the shareholders of the Company in due course.

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, 18 August 2020

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