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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 2022

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 2022 (the “Period”) are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six Months ended 30 June	
		2022	2021
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	3, 4	27,147	63,724
Other income		3,936	4,189
Fair value gain on investment properties		2,300	200
Fair value (loss)/gain on financial assets at fair value through profit or loss		(23,739)	15,749
Fair value (loss)/gain on convertible bonds		(91)	2,505
(Impairment)/reversal of impairment of loans and trade receivables, net		(1,343)	885
Other operating expenses		(75,865)	(76,923)
		<hr/>	<hr/>
(Loss)/profit from operating activities		(67,655)	10,329
Finance costs	6	(4,704)	(4,559)
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

	<i>Notes</i>	Six Months ended 30 June	
		2022 (Unaudited) <i>HK\$'000</i>	2021 (Unaudited) <i>HK\$'000</i>
(Loss)/profit before tax	5	(72,359)	5,770
Income tax expenses	7	(16)	(108)
(Loss)/profit for the period		<u>(72,375)</u>	<u>5,662</u>
Attributable to:			
Equity holders of the Company		(72,182)	5,674
Non-controlling interests		(193)	(12)
		<u>(72,375)</u>	<u>5,662</u>
 (Loss)/earnings per share attributable to equity holders of the Company			
Basic	9	<u>HK(24.0) cents</u>	<u>HK1.9 cents</u>
Diluted		<u>HK(24.0) cents</u>	<u>HK1.1 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2022 (Unaudited) <i>HK\$'000</i>	As at 31 December 2021 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		5,207	5,733
Investment properties	<i>10</i>	528,500	526,200
Right-of-use assets		2,873	4,442
Goodwill		44,895	44,895
Intangible assets		5,069	5,869
Other assets		5,812	7,255
Equity investments designated at fair value through other comprehensive income		632	20,650
Debt investments at fair value through other comprehensive income		4,060	4,060
Long term loans receivable	<i>12</i>	201	201
Long term prepayments and deposits		61	116
		<hr/>	<hr/>
Total non-current assets		597,310	619,421
CURRENT ASSETS			
Inventories		10,855	12,261
Financial assets at fair value through profit or loss	<i>11</i>	171,991	208,173
Loans receivable	<i>12</i>	129,133	137,649
Trade receivables	<i>13</i>	63,700	62,317
Prepayments, other receivables and other assets		15,839	29,550
Tax recoverable		11	–
Cash held on behalf of clients		379,335	452,486
Cash and bank balances		32,530	90,274
		<hr/>	<hr/>
Total current assets		803,394	992,710

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at 30 June 2022 (Unaudited) <i>HK\$'000</i>	As at 31 December 2021 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
CURRENT LIABILITIES			
Client deposits		374,120	450,658
Trade payables	<i>14</i>	76,600	49,676
Other payables and accruals		35,662	62,800
Interest-bearing bank and other borrowings	<i>16</i>	379,324	382,100
Tax payables		–	203
		<hr/>	<hr/>
Total current liabilities		865,706	945,437
		<hr/>	<hr/>
NET CURRENT (LIABILITIES)/ASSETS		(62,312)	47,273
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		534,998	666,694
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	<i>16</i>	43,734	96,035
Convertible bonds	<i>15</i>	51,364	51,273
Deposits received		74	945
Deferred tax liabilities		31,203	31,203
		<hr/>	<hr/>
Total non-current liabilities		126,375	179,456
		<hr/>	<hr/>
Net assets		408,623	487,238
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	<i>17</i>	1,085,474	1,085,474
Reserves		(678,791)	(600,419)
		<hr/>	<hr/>
		406,683	485,055
Non-controlling interests		1,940	2,183
		<hr/>	<hr/>
Total equity		408,623	487,238
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (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 2021 annual financial statements of the Group.

The financial information relating to the year ended 31 December 2021 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 2021 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 2021. 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.

Going concern basis

The Group incurred a net loss of approximately HK\$72,375,000 (2021: net profit of HK\$5,662,000) for the period ended 30 June 2022. As at 30 June 2022, the Group’s current liabilities exceeded its current assets by approximately HK\$62,312,000. In order to improve the liquidity situation and the Group’s ability to operate as a going concern, the directors of the Company have formulated plans and measures to deal with the conditions referred to above, as follows:

- (i) The Group is taking measures to tighten cost controls with an aim to attain positive cash flows from operations;
- (ii) The Group is in the process of negotiating with its banks to restructure and/or refinance its borrowings, and secure necessary facilities to meet the Group’s working capital and financial requirements in the near future;
- (iii) The Directors are considering various alternatives to strengthen the capital base of the Company including but not limited to, seeking new investment and business opportunities.

The interim financial statements have been prepared on a going concern basis as the Directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration of the above and the ability to generate funds internally.

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 2021 except that the Group has adopted the newly issued and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the annual period beginning on 1 January 2022, as disclosed in the annual financial statements for the year ended 31 December 2021.

Application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants, for the first time, which are mandatorily effective for the annual period beginning on 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. 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 the following reportable segments as summarised below.

	Six months ended 30 June			
	2022	2021	2022	2021
			(Loss)/profit from operating activities	Profit/(loss) from operating activities
	Revenue (Unaudited) HK\$'000	Revenue (Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Broking	6,539	13,340	(10,739)	(3,541)
Margin financing and money lending	4,884	8,334	(224)	1,021
Assets and wealth management	2,355	2,157	(3,115)	(3,577)
Trading and investment	(15,003)	9,197	(42,483)	23,838
Media publication and financial public relation services ("Media Services")	12,862	9,288	(9,034)	(9,083)
Property investment	3,074	4,858	1,920	2,570
Jewellery business	12,215	16,550	(833)	(371)
Others	221	—	(1,470)	(528)
Corporate and other unallocated income/expenses, net	—	—	(1,677)	—
Consolidated	<u>27,147</u>	<u>63,724</u>	<u>(67,655)</u>	<u>10,329</u>

Other than the revenue from trading and investment, over 70% (2021: 72%) of the Group's revenue were derived from operations in Hong Kong.

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

4. REVENUE

An analysis of revenue is as follows:

	Six months ended 30 June	
	2022	2021
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
<i>Revenue from contracts with customers:</i>		
Commission and brokerage income	7,608	12,258
Rendering of services	221	758
Handling fee income	978	1,074
Media Services*	12,862	9,288
Sales of jewellery products	12,215	16,116
	<u>33,884</u>	<u>39,494</u>
<i>Revenue from other sources:</i>		
(Loss)/profit on the trading of securities, forex, bullion and future contracts, net	(14,772)	10,951
Interest income from loans and trade receivables	4,641	7,208
Interest income from forex and bullion contracts trading	–	8
Interest income from banks and financial institutions	229	1,127
Dividend income from listed investments	91	78
Gross rental income	3,074	4,858
	<u>(6,737)</u>	<u>24,230</u>
	<u>27,147</u>	<u>63,724</u>

* Including advertising income, service income and circulation income

Revenue from contracts with customers

Disaggregated revenue information

For the period ended 30 June 2022

Type of goods or services	Broking (Unaudited) HK\$'000	Asset and wealth management (Unaudited) HK\$'000	Media services (Unaudited) HK\$'000	Jewellery business (Unaudited) HK\$'000	Other business (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Commission and brokerage income	5,629	1,979	-	-	-	7,608
Rendering of services	-	-	-	-	221	221
Handling fee income	907	71	-	-	-	978
Media publications and financial public relation services	-	-	12,862	-	-	12,862
Sales of jewellery products	-	-	-	12,215	-	12,215
Total revenue from contracts with customers	<u>6,536</u>	<u>2,050</u>	<u>12,862</u>	<u>12,215</u>	<u>221</u>	<u>33,884</u>
Geographical markets						
Hong Kong	6,536	2,050	12,862	-	221	21,669
Mainland China	-	-	-	12,215	-	12,215
Total revenue from contracts with customers	<u>6,536</u>	<u>2,050</u>	<u>12,862</u>	<u>12,215</u>	<u>221</u>	<u>33,884</u>

For the period ended 30 June 2021

Type of goods or services	Broking (Unaudited) HK\$'000	Asset and wealth management (Unaudited) HK\$'000	Media services (Unaudited) HK\$'000	Jewellery business (Unaudited) HK\$'000	Other business (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Commission and brokerage income	12,258	-	-	-	-	12,258
Rendering of services	-	324	-	-	434	758
Handling fee income	1,074	-	-	-	-	1,074
Media publications and financial public relation services	-	-	9,288	-	-	9,288
Sales of jewellery products	-	-	-	16,116	-	16,116
Total revenue from contracts with customers	<u>13,332</u>	<u>324</u>	<u>9,288</u>	<u>16,116</u>	<u>434</u>	<u>39,494</u>
Geographical markets						
Hong Kong	13,332	324	9,288	-	434	23,378
Mainland China	-	-	-	16,116	-	16,116
Total revenue from contracts with customers	<u>13,332</u>	<u>324</u>	<u>9,288</u>	<u>16,116</u>	<u>434</u>	<u>39,494</u>

5. (LOSS)/PROFIT BEFORE TAX

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The Group's (loss)/profit before tax is arrived at after charging:		
Cost of services provided	2,548	6,729
Cost of inventories sold	9,150	11,673
Cost of media publications and financial public relation services	12,257	4,817
Depreciation and amortisation	1,693	931
Depreciation of right-of-use assets	1,443	1,596
Interest expenses for margin financing and money lending operations	1,100	1,993
Lease payment not included in the measurement of lease liabilities	4,189	6,218
Employee benefit expense (including directors' remuneration)	25,944	28,765
Direct operating expenses arising from rental-earning investment properties	966	931
	<u>966</u>	<u>931</u>

6. FINANCE COSTS

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

7. INCOME TAX EXPENSES

No provision for the Hong Kong profits tax has been made as the Group either had no estimated assessable profit or had available tax losses carried forward to offset the assessable profits arising in Hong Kong during the year (2021: Nil). 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, interpretations and practices in respect thereof.

8. INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the Period (2021: Nil).

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

The calculation of the basic and diluted (loss)/earnings per share amounts is based on the loss attributable to equity holders of the Company for the Period of HK\$72,182,000 (2021: profit of HK\$5,674,000) and the weighted average number of 301,277,070 (2021: 301,277,070) ordinary shares in issue during the Period.

The calculation of diluted (loss)/earnings per share is based on the (loss)/profit attributable to equity holders of the Company for the Period. The weighted average number of ordinary shares used in the calculation are the number of ordinary shares as used in the basic (loss)/earnings per share calculation and the full conversion of the convertible bonds into ordinary shares.

The calculations of basic and diluted (loss)/earnings per share are based on:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss)/ earnings		
(Loss)/profit attributable to equity holders of the Company used in the basic and diluted (loss)/ earnings per share calculation	<u>(72,182)</u>	<u>5,674</u>
	Number of shares	
	As at	As at
	30 June	30 June
	2022	2021
	(Unaudited)	(Unaudited)
	'000	'000
Shares		
Weighted average number of ordinary shares used in the basic (loss)/earnings per share calculation	301,277	301,277
Effect of convertible bonds	<u>–</u>	<u>227,273</u>
Weighted average number of ordinary shares used in the diluted (loss)/earnings per share calculation	<u>301,277</u>	<u>528,550</u>

No adjustment had been made to the basic loss per share amount presented for the six months ended 30 June 2022 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.

10. INVESTMENT PROPERTIES

	As at	As at
	30 June	31 December
	2022	2021
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Balance brought forward	526,200	526,000
Net gain from a fair value adjustment	<u>2,300</u>	<u>200</u>
Balance carried forward	<u>528,500</u>	<u>526,200</u>

On 30 June 2022, the Group's investment properties were revalued by Ravia Global Appraisal Advisory Limited at HK\$528,500,000 (31 December 2021: HK\$526,200,000). 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\$528,500,000 (31 December 2021: HK\$526,200,000) 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 the remaining period to the contractual maturity dates as follows:

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Repayable:		
On demand	128,564	134,767
Within 3 months to 1 year	569	2,882
1 year to 5 years	201	201
	129,334	137,850
Portion classified as current assets	(129,133)	(137,649)
	201	201

13. TRADE RECEIVABLES

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 Group's trading terms with its jewellery retail customers are mainly on cash and credit card settlement.

An ageing analysis of the Group's trade receivables at the end of the reporting period, based on the settlement due date and net of loss allowance, is as follows:

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Current to 90 days	63,700	62,317

14. TRADE PAYABLES

The Group's trade payables arose from securities, bullion, commodities dealings, Media Services and jewellery business during the period.

An ageing analysis of the Group's trade payables at the end of the reporting period, based on the settlement due date, is as follows:

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Within 1 to 3 months	76,600	49,676

The trade payables are non-interest-bearing and repayable on the settlement day of the relevant trades or upon demand from customers.

In respect of Media Services and jewellery business, the credit period granted by the creditors ranges from 0 to 90 days and the trade payables are non-interest-bearing.

15. CONVERTIBLE BONDS

On 7 April 2020, the Company entered into the conditional subscription agreement with Total Grace Investments Limited ("Total Grace"), a company beneficially owned by an executive director, in relation to, among others, the issue of the convertible bonds in an aggregate principal amount of HK\$50,000,000 at the conversion price of HK\$0.22 per share. The convertible bonds in an aggregate principal amount of HK\$50,000,000 were issued by the Company to Total Grace on 30 June 2020.

The convertible bonds have a maturity date (i.e. 29 June 2023) of 3 years from the date of issue and interest-free. The convertible bonds contain a right to convert at a maximum of 227,272,727 shares of the Company at the conversion price of HK\$0.22 per share. Unless previously converted or purchased or redeemed, the Company would redeem the convertible bonds on the maturity date at the redemption amount, which was 100% of the principal amount of the convertible bonds then outstanding.

On 16 May 2022, the Company and the Total Grace entered into the supplemental agreement, pursuant to which the Company and Total Grace conditionally agreed to extend the maturity date by three (3) years from 30 June 2023 to 30 June 2026 by way of execution of the amendment deed.

As at the end of the reporting dates, Total Grace confirmed its intention to continue to hold the convertible bonds and not demand for conversion of the convertible bonds to ordinary shares of the Company nor demand for repayment of the amount due to it for not less than twelve months from the reporting dates. Accordingly, the convertible bonds were classified under non-current liabilities as at the reporting dates.

16. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Analysed into:		
Bank loans and overdraft repayable:		
Within one year or on demand	371,500	376,621
In the second year	20,757	84,096
In the third to fifth year, inclusive	4,977	10,575
	<u>397,234</u>	<u>471,292</u>
Other borrowings repayable:		
Within one year or on demand	7,824	5,479
In the second year	18,000	1,364
	<u>25,824</u>	<u>6,843</u>
	<u>423,058</u>	<u>478,135</u>

Certain of the Group's bank loans are secured by the Group's investment properties situated in Hong Kong, inventories and certain listed equity investments belonging to the Group and clients. The Group's other borrowings are unsecured and interest bearing.

17. SHARE CAPITAL

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Issued and fully paid:		
301,277,070 (31 December 2021: 301,277,070) ordinary shares	<u>1,085,474</u>	<u>1,085,474</u>

18. 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 2022

	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	632	–	–	632
Debt investments at fair value through other comprehensive income	–	4,060	–	4,060
Financial assets at fair value through profit or loss	171,991	–	–	171,991
	<u>172,623</u>	<u>4,060</u>	<u>–</u>	<u>176,683</u>
<i>Liabilities measured at fair value:</i>				
Convertible bonds	–	–	51,364	51,364

As at 31 December 2021

	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	20,650	–	–	20,650
Debt investments at fair value through other comprehensive income	–	4,060	–	4,060
Financial assets at fair value through profit or loss	208,173	–	–	208,173
	<u>228,823</u>	<u>4,060</u>	<u>–</u>	<u>232,883</u>
<i>Liabilities measured at fair value:</i>				
Convertible bonds	–	–	51,273	51,273

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY

The consolidated revenue of the Group decreased to HK\$27.1 million for the six months period ended 30 June 2022 (“Period”) (2021: HK\$63.7 million). The drop in revenue of 57.4% was mainly attributable to net revenue loss on disposal of investments in trading and investment sector of HK\$14.8 million recorded for the Period versus net revenue gain of HK\$11.0 million for the prior period. On the cost front, total other expenses, including direct cost of services, staff salaries and benefits, rental and other administrative and office expenses amounted to HK\$75.9 million (2021: HK\$76.9 million). The Group’s consolidated loss for the Period amounted to HK\$72.4 million (2021: profit of HK\$5.7 million).

BUSINESS REVIEW

Following the US-China trade dispute, worldwide political uncertainties, continued and prolonged COVID-19, and fluctuation of capital and stock markets, the Group was prudent in its pace of expansion of financial services segment in first half 2022 to avoid any potential risks to the Group. Revenue and financial performance from the financial services sector decreased as compared with the corresponding period in the previous fiscal year. The management of the Group would review and adjust business strategies on a regular basis with a prudent and balanced risk management approach so as to cope with the current unpredictable economic situation.

Brokerage

Hong Kong experienced ups and downs since 2021, when the stock market first rose but fell afterwards, and transactions continuously shrank. The daily Hong Kong stock market turnover decreased drastically by 26%, from HK\$187.6 billion for first half of year 2021 to HK\$138.0 billion for the same period of 2022. The Hang Seng Index continued its downward trend to below 19,000, its lowest level in more than a decade. With this extremely pessimistic sentiment, the Group’s brokerage commission income decreased significantly by approximately 51.0% to HK\$6.5 million for the Period (2021: HK\$13.3 million). Operating loss increased substantially by approximately 203.3% to HK\$10.7 million for the Period (2021: HK\$3.5 million).

Margin Financing and Money Lending

With uncertainties over the economic outlook, the Group continued to adopt stringent loan approval procedures and remained prudent regarding the valuation of collaterals. Due to the squeezing of interest spread and the overall decline in fund raised in Hong Kong IPO market, interest income dropped to HK\$4.9 million for the Period (2021: HK\$8.3 million), representing a decline of approximately 41.4%. Operating loss for this segment amounted to HK\$0.3 million (2021: profit of HK\$1.0 million).

Asset and Wealth Management

This business segment recorded revenue of HK\$2.4 million for the Period (2021: HK\$2.2 million), an increase of 9.2%. Operating loss decreased slightly by approximately 12.9% to HK\$3.1 million for the Period (2021: HK\$3.6 million). Wealth management services include the provision of advisory services and products to high-net-worth client, such as bonds, unit trust funds, financial-structured products and insurance-related products. The Group will continue to allocate its resources to expand its talent team, in order to build the assets under management of the Group, and turn around the performance of this segment in the second half of the year 2022.

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\$208.2 million as at 31 December 2021 to HK\$172.0 million as at 30 June 2022. 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 2022 HK\$'000	Percentage of shareholding interest	Fair value gain/(loss) during the Period HK\$'000
00670	China Eastern Airlines Corporation Limited	41,348	0.27%	941
00413	South China Holdings Company Limited	31,081	3.56%	(6,593)
01033	Sinopec Oilfield Service Corporation	23,819	0.72%	(1,562)
01097	i-CABLE Communications Limited	20,433	6.51%	(12,074)
00679	Asia Tele-Net And Technology Corporation Ltd	13,804	2.79%	(1,309)
01053	Chongqing Iron & Steel Co. Ltd.	8,215	1.39%	(1,344)
Others		33,291		(1,798)
		<u>171,991</u>		<u>(23,739)</u>

The Group has positioned the investment portfolio for medium to long term growth in traditional industries, the fair value loss resulting from marking investments to market was HK\$23.7 million for the Period compared to a gain of HK\$15.7 million for the same period in last year. Meanwhile, the Group recognised a net realised loss of HK\$14.8 million for the Period as compared with a gain of HK\$11.0 million for the corresponding period of 2021.

Media publications and financial public relation services

The business environment for the media sector has similarly faced a challenging environment under the ongoing impacts of COVID-19. During the Period, the Group enriched the quality of its content and actively explored the development of advertising and related business, while implementing precise cost-control measures in order to facilitate the smooth running of its operations, total revenue jumped to HK\$12.9 million for the current Period (2021: HK\$9.3 million), representing an increment of 38.5%. With an aim of further development and strengthening of our core print, digital assets as well as the provision of integrated marketing services, the Group allocated more resources during the first half 2022, operating loss amounted to HK\$9.0 million (2021: HK\$9.1 million).

Property investment

A revaluation gain of HK\$2.3 million (2021: HK\$0.2 million) was recorded for the Period, while the fair value of the investment properties revalued at HK\$528.5 million as at 30 June 2022. The gross rental income for the Period decreased to HK\$3.1 million from HK\$4.9 million for last period due to incidental increase in vacant units in early 2022.

Jewellery

Facing multiple outbreaks of the Omicron variant in the first half of 2022, China implemented strict public health measures nationwide to stem the most serious outbreak since the early days of the pandemic in 2020. Major cities had been fully or partially locked down for weeks. The mobility restrictions and factory production interruptions resulted in a sharp contraction in economic activity, travel and consumption. Sales of jewellery products decreased by approximately 26.2% to HK\$12.2 million for the Period (2021: HK\$16.6 million). Segmental loss increased to HK\$0.8 million for the Period (2021: HK\$0.4 million).

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 2022 was approximately 52.0% (31 December 2021: approximately 47.4%).

The Group had a cash balance of HK\$32.5 million as at 30 June 2022(31 December 2021: HK\$90.3 million), representing a decrease of 64.0% from the year end date of 2021. 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.

CHARGES ON ASSETS

As at 30 June 2022, the Group's investment properties, inventories and listed securities held in trading and investment portfolio were pledged to banks for banking facilities.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group had no material contingent liabilities.

EVENT AFTER THE REPORTING PERIOD

Saved as the adoption of a new share option scheme on 9 August 2022, there is no material event noted after the reporting period.

EMPLOYEES

As at 30 June 2022, the total number of employees of the Group was 172 (30 June 2021: 185). Employee's cost (including directors' emoluments) amounted to HK\$25.9 million for the Period (six months ended 30 June 2021: HK\$28.8 million).

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 and salary adjustment will be made for ensuring the remuneration is 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 adopted by the Company.

PROSPECTS

With the continuing impact of international factors — including interest rate hikes by the Federal Reserve, the tightening of monetary policies by various central banks, ongoing dispute between China and United States, as well as the Russia-Ukraine conflict that has led to sanctions on Russia imposed by the United States and Europe, the volatility of financial markets is likely to remain, adding to uncertainties regarding global economic development.

On the other hand, a new listing regime for special purpose acquisition companies (SPAC) and overseas issuers, and other initiatives by Hong Kong Exchanges and Clearing Limited, Hong Kong's leadership role in the global capital market will be strengthened. With Hong Kong remaining a vital link for access to China's market, the financial services industry will continue developing with a promising outlook. The coordinated development with neighbouring cities in the Greater Bay Area will create enormous business opportunities, and ample room for Hong Kong's development.

In anticipation of continuing market remains volatile, the Group will adhere to its cautious approach in its brokerage and financing business, to minimise risks of default. The Group will also strengthen its wealth management business development, by offering more unique and quality investment products and services, aiming to expand its high net worth customer base.

For the media publications and financial public relation services sector, the Group actively sought change and continuous innovation by advancing its new media development during the period in keeping with the evolution of the current epoch. Under the strategy of combining traditional media and new digital media, the Group will strive to identify and seize market opportunities to promote and develop integrated marketing service industry. Adhering to an "offline to online" strategy combining the content and advertising of the print and digital platforms, the Group's traditional and new media businesses complement each other to expand their presence and revenue potential.

Amid a tough business environment, the Group will exercise stringent control over operating costs and adopt appropriate strategies to mitigate downside risk while seizing opportunities, and will endeavour to maintain steady businesses development.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the Period (six months ended 30 June 2021: 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 complied with the applicable code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2022 except for the following deviations:

- (i) Mr. Ng Hung Sang, an Executive Director and the Chairman of the Board of the Company and Hon. Raymond Arthur William Sears, Q.C., an Independent Non-executive Director of the Company were unable to attend an annual general meeting and an extraordinary general meeting of the Company both held on 21 June 2022 of which deviated from code provisions F.2.2 and C.1.6 of the CG Code as they had other business engagements; and

- (ii) the Company has not disclosed the length of tenure of each of the independent non-executive directors of the Company (“INEDs”) on a named basis in the circular to shareholders of the Company for all INEDs who have served more than nine years on the Board of which deviated from code provision B.2.4(a) of the CG Code. The Company had issued a supplemental announcement to the circular of the Company dated 28 April 2022 to disclose the same on 6 May 2022.

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

The interim results announcement has 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 despatched to the Shareholders and available on the above websites 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, 30 August 2022

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.