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SOUTH CHINA HOLDINGS COMPANY LIMITED

南華集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00413)

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

UNAUDITED INTERIM RESULTS

The board of directors (the “Board” or the “Directors”) of South China Holdings Company Limited (the “Company”) hereby announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2020 together with the relevant comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	2	1,556,119	1,669,274
Cost of sales		(1,393,905)	(1,423,311)
Gross profit		162,214	245,963
Other income and gains, net		16,674	23,542
Fair value gain on investment properties inclusive of investment properties presented as non-current assets classified as held for sale		1,873	146,332
Fair value gain/(loss) on financial assets at fair value through profit or loss		198	(2,618)
Selling and distribution expenses		(37,241)	(26,069)
Administrative expenses		(182,871)	(252,809)
(Loss)/Profit from operations	2&3	(39,153)	134,341

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

	<i>Notes</i>	Six months ended 30 June	
		2020 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i>
Finance costs	4	(102,350)	(97,036)
Share of profits and losses of associates		(134)	–
Share of profits and losses of joint ventures		(22)	160
(Loss)/Profit before tax		(141,659)	37,465
Income tax	5	(4,890)	(10,655)
(Loss)/Profit for the period		(146,549)	26,810
Attributable to:			
Equity shareholders of the Company		(145,156)	36,660
Non-controlling interests		(1,393)	(9,850)
		(146,549)	26,810
(Loss)/Earnings per share	7		
Basic		HK(1.1) cents	HK0.3 cents
Diluted		HK(1.1) cents	HK0.3 cents

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/Profit for the period	(146,549)	26,810
Other comprehensive income:		
Exchange differences on translation of operations outside Hong Kong	<u>(87,086)</u>	<u>(2,657)</u>
Total comprehensive income for the period	<u>(233,635)</u>	<u>24,153</u>
Attributable to:		
Equity shareholders of the Company	(225,151)	34,831
Non-controlling interests	<u>(8,484)</u>	<u>(10,678)</u>
	<u>(233,635)</u>	<u>24,153</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
<i>Notes</i>		
NON-CURRENT ASSETS		
Property, plant and equipment	603,257	666,126
Investment properties	6,802,852	6,884,374
Construction in progress	137,717	136,737
Investment in associates	1,466	–
Investments in joint ventures	222	244
Bearer plants	34,656	36,253
Other non-current assets	137,048	151,550
	7,717,218	7,875,284
Total non-current assets		
CURRENT ASSETS		
Inventories	1,334,249	1,378,600
Properties under development	207,121	621,004
Trade receivables	376,169	454,486
Prepayments, deposits and other receivables	920,414	924,670
Financial assets at fair value through profit or loss	8,904	7,958
Tax recoverable	16,143	692
Cash and bank balances	695,290	886,478
	3,558,290	4,273,888
Non-current assets classified as held for sale	2,492,540	2,494,940
	6,050,830	6,768,828
Total current assets		
CURRENT LIABILITIES		
Trade payables	584,175	778,146
Other payables and accruals	692,816	1,222,088
Interest-bearing bank borrowings	2,468,587	2,576,589
Lease liabilities	52,276	66,035
Amounts due to non-controlling shareholders of subsidiaries	9,448	9,438
Tax payable	86,080	80,952
	3,893,382	4,733,248
Total current liabilities		
NET CURRENT ASSETS	2,157,448	2,035,580
TOTAL ASSETS LESS CURRENT LIABILITIES	9,874,666	9,910,864

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	1,986,282	1,744,584
Lease liabilities	313,962	344,473
Advances from non-controlling shareholders of subsidiaries	7,941	7,941
Amount due to related parties	317,769	311,191
Other non-current liabilities	68,669	69,060
Deferred tax liabilities	1,027,827	1,040,594
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Total non-current liabilities	3,722,450	3,517,843
	<hr/>	<hr/>
NET ASSETS	6,152,216	6,393,021
	<hr/> <hr/>	<hr/> <hr/>
CAPITAL AND RESERVES		
Share capital	139,610	139,789
Reserves	5,719,520	5,951,662
	<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company	5,859,130	6,091,451
Non-controlling interests	293,086	301,570
	<hr/>	<hr/>
TOTAL EQUITY	6,152,216	6,393,021
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Notes

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (“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, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They were authorised for issue on 25 August 2020.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out below.

These interim financial statements should be read, where relevant, in conjunction with the 2019 annual financial statements of the Group.

New/revised HKFRSs and amendments to HKFRSs

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRS”) and amendments to HKFRSs that are first effective for the current accounting period of the Group. The Group has adopted the following new and revised HKFRSs, which include all HKFRSs, HKASs and Interpretations issued by the HKICPA, for the first time for the interim financial statements for the six months ended 30 June 2020. Such HKFRSs have become effective for the annual periods beginning on or after 1 January 2020. Of these, the following developments are relevant to the Group’s financial statements:

Amendments to HKFRS 3, *Definition of a Business*

Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*

Amendments to HKAS 1 and HKAS 8, *Definition of Material*

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in these interim financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to HKFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

2. REVENUE AND SEGMENTAL INFORMATION

An analysis of the Group's consolidated revenue and contribution to profit/(loss) from operations by principal activity and geographical location for the six months ended 30 June 2020 and 2019 is as follows:

	Trading and manufacturing		Property investment and development		Agriculture and forestry		Others		Group	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Segment revenue										
External sales	<u>930,897</u>	<u>1,556,910</u>	<u>618,059</u>	<u>107,303</u>	<u>7,163</u>	<u>5,061</u>	<u>-</u>	<u>-</u>	<u>1,556,119</u>	<u>1,669,274</u>
Segment results	(43,640)	50,320	58,438	151,894	(11,994)	(21,079)	(41,957)	(46,794)	(39,153)	134,341
Reconciliation:										
— Share of profits and losses of associates	(134)	-	-	-	-	-	-	-	(134)	-
— Share of profits and losses of joint ventures	-	-	-	-	-	-	(22)	160	(22)	160
— Finance costs									<u>(102,350)</u>	<u>(97,036)</u>
(Loss)/Profit before tax									<u>(141,659)</u>	<u>37,465</u>

By geographical location#:

	Revenue		Contribution to profit/(loss) from operations	
	Six months ended 30 June 2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	Six months ended 30 June 2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
The People's Republic of China ("PRC") including Hong Kong and Macau	691,368	185,700	10,230	83,597
United States of America ("USA")	498,414	843,237	(28,999)	26,303
Europe	237,800	409,453	(13,098)	15,846
Japan	8,318	19,577	(454)	763
Others	120,219	211,307	(6,832)	7,832
	<u>1,556,119</u>	<u>1,669,274</u>	<u>(39,153)</u>	<u>134,341</u>

Revenue by geographical location is determined on the basis of the location where merchandise is delivered and/or service is rendered.

3. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/Profit from operations is arrived at after charging/(crediting):

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Cost of inventories sold	<u>1,390,015</u>	<u>1,423,356</u>
Depreciation:		
— owned property, plant and equipment	23,792	22,268
— bearer plant	1,090	1,601
— right-of-use assets	<u>45,747</u>	<u>51,981</u>
	<u>70,629</u>	<u>75,850</u>

4. FINANCE COSTS

An analysis of finance cost is as follows:

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Interest on bank loans, overdrafts and other borrowings	96,353	103,677
Interest on lease liabilities	12,554	13,345
Less: Amount capitalised	<u>(6,557)</u>	<u>(19,986)</u>
	<u>102,350</u>	<u>97,036</u>

5. INCOME TAX

Income tax comprises current tax and deferred tax.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2019: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong. PRC Corporate Income Tax has been provided at the rate of 25% (six months ended 30 June 2019: 25%) on estimated assessable profits arising in the PRC. Taxes on profits assessable elsewhere have been calculated on the estimated assessable profit at rates of taxation prevailing in the countries in which the Group operates.

Deferred tax is provided on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

6. INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

7. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of approximately HK\$145,156,000 (six months ended 30 June 2019: profit of approximately HK\$36,660,000) and the weighted average numbers of ordinary shares used in the calculation are as follows:

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
<u>(Loss)/Earnings</u>		
(Loss)/Profit attributable to equity shareholders of the Company used in basic and diluted earnings per share calculation	<u>(145,156)</u>	<u>36,660</u>
	Number of shares	
	2020 (Unaudited) '000	2019 (Unaudited) '000
<u>Shares</u>		
Weighted average number of ordinary shares in issue less shares held for share award scheme during the period used in the basic earnings per share calculation	<u>12,982,892</u>	12,982,892
Effect of redeemable convertible preference shares	<u>754,904</u>	781,288
Effect of shares held for the share award scheme	<u>206,161</u>	<u>206,161</u>
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<u><u>13,943,957</u></u>	<u><u>13,970,341</u></u>

The Company's share options have no dilution effect for the six months ended 30 June 2020 and 2019 as the exercise prices of the Company's share options were higher than the average market price of the shares in both periods.

Diluted loss per share equals to basic loss per share for the six months ended 30 June 2020 because the potential ordinary shares outstanding were anti-dilutive.

8. TRADE RECEIVABLES

Trade receivables of approximately HK\$376,169,000 as at 30 June 2020 (as at 31 December 2019: HK\$454,486,000), substantially aged within six months, are stated net of loss allowance.

Specific loss allowance is recognised when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

The Group's trading terms with its customers are mainly on credit with credit periods normally ranging from period of one to three months depending on a number of factors including trade practice, collection history and location of customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor credit risk. Overdue balances are reviewed regularly by senior management.

9. TRADE PAYABLES

Trade payables of approximately HK\$584,175,000 as at 30 June 2020 (as at 31 December 2019: HK\$778,146,000) are substantially aged within six months.

10. SHARE CAPITAL

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.01 each	200,000	200,000
3,000,000,000 redeemable convertible preference shares of HK\$0.02 each (<i>Note</i>)	<u>60,000</u>	<u>60,000</u>
Total authorised capital	<u><u>260,000</u></u>	<u><u>260,000</u></u>
Issued and fully paid:		
13,221,302,172 (2019: 13,221,302,172) ordinary shares of HK\$0.01 each	132,213	132,213
369,850,631 (2019: 378,813,131) redeemable convertible preference shares of HK\$0.02 each	<u>7,397</u>	<u>7,576</u>
Total issued and fully paid capital	<u><u>139,610</u></u>	<u><u>139,789</u></u>

Note: The redeemable convertible preference shares are redeemable at the sole discretion of the Company at any time after the issuance thereof. Holders of the redeemable convertible preference shares are entitled to a pro-rata share of any dividend or distribution declared by the board of directors of the Company, at its discretion, to the ordinary shareholders of the Company. Dividends or distributions payable to the holders of the redeemable convertible preference shares are not cumulative. The redeemable convertible preference shares do not confer on the holders thereof the right to receive notice of, or to attend and vote at, general meeting of the Company unless a resolution is proposed to vary or abrogate the rights or privileges of the holders of the redeemable convertible preference shares or for winding-up the Company. The redeemable convertible preference shares rank prior to the ordinary shares on distribution of assets on liquidation, winding-up or dissolution of the Company to the extent of the amount equal to the aggregate issue price of the relevant redeemable convertible preference shares. The remaining assets belong to and shall be distributed on a pari passu basis among the holders of the ordinary shares.

Movements of issued share capital and share premium were as follows:

	Issued ordinary shares (Unaudited) HK\$'000	Issued redeemable convertible preference shares (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2020	132,213	7,576	1,691,871	1,831,660
8,962,500 redeemable convertible preference shares redeemed during the period	<u>–</u>	<u>(179)</u>	<u>(6,991)</u>	<u>(7,170)</u>
At 30 June 2020	<u><u>132,213</u></u>	<u><u>7,397</u></u>	<u><u>1,684,880</u></u>	<u><u>1,824,490</u></u>

10. SHARE CAPITAL (Continued)

	Issued ordinary shares (Unaudited) <i>HK\$'000</i>	Issued redeemable convertible preference shares (Unaudited) <i>HK\$'000</i>	Share premium (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 January 2019	132,213	7,814	1,701,135	1,841,162
2,128,000 redeemable convertible preference shares redeemed during the period	—	(43)	(1,659)	(1,702)
At 30 June 2019	<u>132,213</u>	<u>7,771</u>	<u>1,699,476</u>	<u>1,839,460</u>

Movement of number of issued shares are as follows:

	Number of issued ordinary shares (Unaudited) '000	Number of issued redeemable convertible preference shares (Unaudited) '000
At 1 January 2020	13,221,302	378,813
Redeemed during the period	—	(8,962)
At 30 June 2020	<u>13,221,302</u>	<u>369,851</u>
	Number of issued ordinary shares (Unaudited) '000	Number of issued redeemable convertible preference shares (Unaudited) '000
At 1 January 2019	13,221,302	390,691
Redeemed during the period	—	(2,128)
At 30 June 2019	<u>13,221,302</u>	<u>388,563</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded a revenue of HK\$1,556 million (2019: HK\$1,669 million) for the six months ended 30 June 2020 (“the Period”), representing 7% decrease as compared to the corresponding period in 2019. Loss after tax was HK\$146.5 million for the Period, as compared to profit after tax of HK\$26.8 million for the corresponding period in 2019. The drop in revenue and operating results were mainly a result from the impact of the COVID-19 pandemic which posed material adverse effect on both business performance and fair value gain of the Group’s investment properties. Notwithstanding the global effect of the pandemic, the overall financial, business and trading positions of the Group remain healthy.

Loss per share attributable to equity holders of the Company for the Period was HK1.1 cents (2019: earnings per share HK0.3 cents).

BUSINESS REVIEW

The principal businesses of the Group include trading and manufacturing, property investment and development, and agriculture and forestry.

Trading and Manufacturing

The trading and manufacturing segment mainly comprises (i) OEM manufacturing of toys products, and (ii) trading of footwear products. The segment recorded a 40% decrease in revenue to HK\$931 million (2019: HK\$1,557 million) and an operating loss of HK\$43.6 million for the Period, as compared to an operating profit of HK\$50.3 million for the corresponding period in 2019.

(i) OEM toys manufacturing

The OEM toys operation generated revenue of HK\$874 million (2019: HK\$1,378 million) for the Period, representing a 37% decrease as compared to the corresponding period in 2019.

The COVID-19 pandemic is a global health crisis which gravely affected the world economy. The unemployment rate in the USA jumped from 3.6% in January 2020 to 14.7% in April 2020. This resulted in a slowdown of our customer orders from USA during the Period.

In July 2020, the US unemployment rate dropped to 10.2%, which was below the market’s expectation of 10.5%, as businesses continued to resume their operations and rehire employees following COVID-19 lockdowns. On the other hand, scientists worldwide are racing to produce a safe and effective vaccine. It is expected that economies will bounce back quickly which in turn will reinforce our toys orders from key customers in the USA.

Upon outbreak of the pandemic, various proactive actions were taken to (i) give the Group a competitive edge over its competitors by prompt resumption of production capability in China upon fulfillment of governmental measures in relation to public health protection right after the Lunar New Year holiday; and (ii) further cost reduction by means of enhancement of the management information systems, simplification of operation workflows and increase in productivity through big data analytic systems.

The Group will continue to provide one-stop integral solutions to customers, and thereby gaining continued loyalty and reinforcing long-term business relationships with customers. In fact, many products manufactured by us for our customers were awarded industry-acclaimed recognitions and awards.

The Group views this period as a “consolidation out” period for the industry during which competitors will be effectively pushed out if they fail to react to the severe market sentiment effectively and efficiently, which in turn will lead to an increase in our market share and enhance our relationships with customers by providing high quality services and timely delivery of products to our customers.

Our production facility in Vietnam has been in operation since December 2019. It has expanded the production capacity and product and customer mix.

(ii) Trading of footwear products

During the Period, revenue from the footwear trading operation decreased by 70% to HK\$48.9 million (2019: HK\$164.1 million), mainly due to the adverse impact of the COVID-19 pandemic. Despite the significant drop in revenue during the Period, the Group managed to maintain a breakeven position. In order to lessen the impact on business of the US-China trade war, the Group sources suitable production facilities for footwear outside China, including but not limited to Vietnam, Cambodia and Myanmar.

Property Investment and Development

During the Period, revenue from the property investment and development segment significantly increased, by 476% to HK\$618.1 million (2019: HK\$107.3 million) mainly due to the recognition of property sales of HK\$512.3 million. The operating profit, including a fair value gain on investment properties of HK\$1.9 million, amounted to HK\$58.4 million in the Period (2019: HK\$151.9 million). Excluding the fair value gain on investment properties, this segment generated an operating profit of HK\$56.5 million (2019: HK\$5.6 million), an increase of 909% as compared to the corresponding period in 2019.

The Group has a property investment portfolio with total floor area of approximately 630,000 sq.m. in China and approximately 280,000 sq.ft. (approximately 26,000 sq.m.) in Hong Kong. The investment properties in China are mostly in prime locations in Nanjing, Shenyang and Tianjin.

Given the Central Government's effective control of COVID-19, the economy has resumed at a faster rate than that of other nations. In the first half of 2020, rental reliefs were granted to certain tenants in both Hong Kong and China as a gesture of goodwill for enabling them to sustain their businesses. Overall, rental income derived from our leasing portfolio in Hong Kong, Nanjing, Shenyang and Tianjin was stable during the Period. Rental income of the Group amounted to HK\$105.8 million for the Period, as compared to HK\$107.3 million for the corresponding period in 2019.

Apart from leasing, the Group continues to focus on development of our property project in Shenyang, namely Central Square, which is located in one of the prime residential areas right above a mass transit railway station. The project has a total gross floor area ("GFA") of over 500,000 sq.m. and is a mixed-use project with a heavy emphasis on city living and convenience to the residents.

The first phase of Central Square, having GFA of approximately 170,000 sq.m. has been completed with two residential towers and one serviced apartment tower up for sale as well as a retail podium for leasing. Approximately 40% of the saleable areas of residential towers and serviced apartment have been sold up to date. Given Central Square is located in a prime residential area, the management is cautiously optimistic on its sales and rental contributions in 2020 and onwards. In addition, the development of the second phase are expected to enhance the value and returns of the first phase.

Agriculture and Forestry

During the Period, revenue increased by 42% to HK\$7.2 million (2019: HK\$5.1 million) and operating loss decreased by 43% to HK\$12.0 million (2019: HK\$21.1 million). The bearer plants balance decreased from HK\$36.3 million as at 31 December 2019 to HK\$34.7 million as at 30 June 2020. Based on the functional currency (Renminbi) of the relevant subsidiaries, the bearer plants balance decreased by approximately 3%, mainly due to the depreciation of the bearer plants during the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group had a current ratio of 1.6 and a gearing ratio of 32% (31 December 2019: 1.4 and 27%, respectively). The gearing ratio is computed by comparing the Group's long-term bank borrowings of HK\$1,986 million to the Group's equity of HK\$6,152 million. The Group's operations and investments continued to be financed by internal resources and bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Renminbi and United States dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The Group manages foreign exchange risk by closely monitoring the movements of the foreign currency rates and enters into forward contracts whenever appropriate.

CAPITAL STRUCTURE

Except for the redemption of the redeemable convertible preference shares as detailed in note 10 in this interim results announcement, there was no material change in the Group's capital structure as compared to the most recently published annual report.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 9 April 2020, a wholly-owned subsidiary of the Company and South China Assets Holdings Limited ("SCAH"), an associate of the Company's connected person, Mr. Ng Hung Sang, entered into a joint venture agreement for the purpose of formation of a joint venture company in which the Company and SCAH hold 40% and 60% respectively. The joint venture company is an investment holding company which carries out production and sale of face masks and related products for capturing the tremendous demand for face masks against COVID-19.

There was no other material acquisition or disposal of a subsidiary or associated company during the Period.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

The Group had given guarantees to financial institutions in the aggregate amount of approximately HK\$67 million on behalf of purchasers of property units developed by the Group in mainland China in relation to which the related building ownership certificate had not yet been issued as at 30 June 2020. During the six months ended 30 June 2020, portions of the property units have been handed over to the purchasers and amount previously received in advance has been recognized in the statement of profit or loss. The guarantees will be released upon the issuance of the building ownership certificate.

Other than mentioned above, there was no material change in the Group's pledge of assets and contingent liabilities as compared to the most recently published annual report.

PROSPECTS

The World Economic Forum released a report in July 2020, indicating that some of its chief economists were of the view that economies would need a little more time to recover in the second half of 2020 after six tumultuous months in the grip of the pandemic. The world economy in the second half of 2020 is expected to be full of challenges and uncertainties, in particular the recent flare up in coronavirus cases threatened to further derail the economy of a number of nations. Apart from the pandemic, the US-China trade war has also posed uncertainties to the business environment.

Management has been highly cautious under the current market situation, taking extra precautions to safeguard our assets and the safety of all of our employees. Meanwhile, the Group has been implementing cost reduction measures, consolidating and optimizing resources to achieve higher efficiency and reduce overheads in order to maintain competitiveness and ensure business continuity during the difficult market environment for the foreseeable short to medium term. Meanwhile, the Group will strive to maintain steady rental income from leasing both in Hong Kong and China. In the long run, nonetheless, the Group will continue to explore business opportunities in Hong Kong and China and continue to drive revenues, in order to generate returns and create value to our shareholders.

Trading and Manufacturing

Given the market uncertainty, the Group has, on the one hand, kept reinforcing the business relationships with its current key customers and soliciting new customers and, on the other hand, the Group has implemented re-engineering exercises, including simplification and consolidation of operation procedures and human resources, for achieving higher efficiency and cost effectiveness which in turn are expected to enhance the Group's competitiveness and sustainability in the difficult market environment.

Bulk orders are usually placed from customers in the third quarter of each year, catering for the traditional shopping season of Christmas. The Group will strive to secure orders from its long-term loyal customers as well as new customers captured by the Group from other competitors who have been unable to adapt to this critical period.

To reduce the production costs to increase the Group's competitive edge over its rivals and to lessen the impact from the US-China trade war, the Group will continue to shift its production capacity from Shenzhen and Dongguan to Guangxi and Vietnam.

Given the uncertainties posed by the pandemic and the US-China trade war, the Group will keep using prudent and cost-effective strategies to minimise the risks within the market.

Property Investment and Development

Property Investments

The implementation of commercialization and transformation of various properties in China will be carried on, including but not limited to the mall in Shenyang, namely Avenue of Stars ("AOS"), which is currently one of the most popular fur-themed shopping malls in Shenyang, for the purposes of improving occupancy rate and rental contribution. The plan is to transform AOS into a mall anchored by different types of retailers and department stores, having entertainment and "experience" features for widening choices offered to different customers in different age groups and preferences, and for families. In addition to AOS, the Group is striving to increase the occupancy rate of the retail podium in the Central Square by identifying and soliciting prospective tenants, and it is expected that rental income will be generated therefrom in late 2020.

In the first half of 2020, the Group granted rental relief to certain tenants both in Hong Kong and China for a gesture of goodwill, and these reliefs will not have a significant financial impact on the Group. However, it is expected that further concessions may be granted if the market conditions remain severe. The Group has adopted an approach by offering rental restructuring or relief on a temporary basis to tenants upon request, maintaining a stable rental income in the second half of 2020 if the economic conditions have not improved.

Property Development

Given the faster resumption of economy in China from the devastation of the pandemic, the Group is cautiously optimistic on the sales of its Central Square in Shenyang in 2020 and onwards as Central Square is located in one of the prime residential areas and has the advantages of direct accessibility to the subway and a robust pedestrian street anchored by restaurants and retail stores.

The second phase of Central Square, which is separated by a pedestrian street and directly facing to the first phase, is in the process of re-settling occupiers of a few of the non-residential units. It is also a mixed development project, and the positioning will be thematically in line with the first phase.

The Group will continue to study conversion of usage of some other land bank assets from industrial to commercial in Nanjing and Tianjin for the purpose of increasing both the land value and return from development of such land after conversion. The Group's strategy in the development of large scale property projects remains unchanged.

Agriculture and Forestry

The Group currently has long-term leases of over 520,000 mu (approximately 347 million sq.m.) of woodland, farmland, fishpond and lake space in various major provinces in China, and is focusing on the plantation of fruits and crops such as apples, winter dates, peaches, pears and corns; and breeding of livestock such as pigs for sale. The Group will continue to explore plantation opportunities of high profit margin species and focus on improving sales distribution channels, utilization of resources and cost control for improving the operating results of this segment.

EVENTS AFTER THE REPORTING PERIOD

On 21 May 2020, South China Industries (China) Limited ("SCI China"), an indirect wholly-owned subsidiary of the Company and Proper Mark International Limited ("Proper Mark"), an indirect wholly-owned subsidiary of SCAH entered into a sale and purchase agreement pursuant to which SCI China conditionally agreed to dispose of and Proper Mark conditionally agreed to purchase 100% of the entire issued share capital of Silver Giant Limited ("Silver Giant"), an indirect wholly-owned subsidiary of the Company, at a total consideration of HK\$17.5 million. Silver Giant indirectly wholly holds a development site at Tianjin Xiazhuozhuang Street (天津市下朱莊街) in which industrial complexes and ancillary offices can be developed for lease and sale. On 15 July 2020, all conditions precedent in respect of the disposal were fulfilled and completion subsequently took place.

PRINCIPAL RISKS AND UNCERTAINTIES

The following section lists out the key risks and uncertainties facing the Group. It is a non-exhaustive list and there may be other risks and uncertainties additional to the key risk areas outlined below.

Risks relating to Trading and Manufacturing

Macroeconomic environment

The Group designs and manufactures a wide variety of toys, shoes and other leather products. Our customers sell such products worldwide. The Group's financial performance, therefore, hinges on the level of discretionary consumer spending in the markets in which our products are eventually sold. Recessions, credit crises and other economic downturns can result in less consumer disposable income and lower consumer confidence. These factors can reduce orders from our customers.

Cost increase

Cost increases, whether resulting from rising costs of materials, transportation, minimum wage legislations in Mainland or compliance with existing or future regulatory requirements could impact the profit margins realised by the Group on the sale of its products. In addition, the Group could be the subject of future product liability suits or product recalls, which could harm our business.

Risks relating to Property Investment and Development

Risks associated with the property market in Mainland China

A significant part of the Group's property portfolio is located in Mainland China and is therefore subject to the risks associated with China's property market. The Group's operations in Mainland China may also be exposed to the risks of policy change, Renminbi exchange rate change, interest rate change, demand-supply imbalance, and the overall economic conditions, which may pose an adverse impact on the Group's business, financial condition or results of operations.

Risks associated with the property market in Hong Kong

The state of Hong Kong's economy and property market, legislative and regulatory changes, government policies and political conditions also have an effect on the Group's revenue derived from the Group's property portfolio in Hong Kong. The government may introduce property cooling measures from time to time. Rental levels in Hong Kong are subject to competition arising from supply in the primary sector.

Risks relating to Agriculture and Forestry

Risk associated with natural disasters or adverse weather conditions

The Group's agriculture and forestry operations are susceptible to natural disasters and adverse weather conditions such as droughts, floods and earthquakes, and environmental hazards. The occurrence of any of the above events in or in close proximity to our cultivation area may cause a reduction or delay in our production output, which may adversely affect the Group's business and operating performance.

The Group conducts regular reviews and focuses on mitigating the risk exposure of each business unit.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company during the six months ended 30 June 2020.

CORPORATE GOVERNANCE CODE

The Company complied with the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2020 except the following deviations:

Non-Compliance with Code provisions E.1.2 and A.6.7 of the Corporate Governance Code

Ms. Ng Yuk Mui Jessica, Mr. Ng Yuk Fung Peter, Ms. Li Yuen Yu Alice, all are non-executive director of the Company, Mr. Chiu Sin Chun and Mr. Kam Yiu Shing Tony, both of whom are independent non-executive directors 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) as they had other important business engagements.

Non-Compliance with Rule 3.10A of the Listing Rules

Pursuant to Rule 3.10A of the Listing Rules, every board of directors of a listed issuer must include independent non-executive directors who represent at least one-third of the board of directors.

As at the date of this announcement, the Board comprises eleven members, including four executive directors, four non-executive directors and three independent non-executive directors. Following the retirement of Mr. Yip Dicky Peter, J.P. as an independent non-executive director of the Company on 16 June 2020, the number of independent non-executive directors represents less than one-third of the Board as required under Rule 3.10A of the Listing Rules. The Company will take all necessary measures to comply with Rule 3.10A of the Listing Rules.

UPDATE ON LITIGATION PROCEEDINGS

(i) Against Nanjing Skytech Co., Limited and Others

1. Infringement of copyrights case

During the six months ended 30 June 2020, there was no material change as disclosed in the Company's most recently published annual report.

2. Liability dispute of damaging the interests of the Company case

On 21 May 2020, Jiangsu High Court began hearing for the case, and currently we are waiting for the verdict.

(ii) Development Right of a Piece of Land Situate at Tianjin Binhai New District

1. Continuous performance of the contract case

On 29 June 2020, World Right Investments Limited (環威投資有限公司) applied to the Supreme People's Court of China for retrial, and the Supreme People's Court of China issued a notice of acceptance on 27 July 2020.

2. Infringement of rights and malicious collaboration case

During the six months ended 30 June 2020, there was no material change as disclosed in the Company's most recently published annual report.

CHANGE OF DIRECTOR

During the six months ended 30 June 2020, Mr. Yip Dicky Peter, J.P. retired as an independent non-executive director of the Company on 16 June 2020.

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 of the Company, namely Mr. Kam Yiu Shing Tony (Chairman of the Audit Committee), Mr. Chiu Sin Chun and Mrs. Tse Wong Siu Yin Elizabeth and a non-executive director of the Company, namely Mr. David Michael Norman.

The Group's unaudited interim results for the six months ended 30 June 2020 have been reviewed by the Audit Committee, which was of the opinion that the preparation complied with the applicable accounting standards and requirements and that adequate disclosures were made.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the Company at www.sctrade.com. The interim report of the Company for the six months ended 30 June 2020 will be published on the aforesaid websites and will be dispatched to the shareholders of the Company in due course.

By Order of the Board
South China Holdings Company Limited
南華集團控股有限公司
Ng Hung Sang
Chairman and Executive Director

Hong Kong, 25 August 2020

As at the date of this announcement, the directors of the Company are: (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges and Mr. Ng Yuk Yeung Paul as executive directors; (2) Ms. Ng Yuk Mui Jessica, Mr. Ng Yuk Fung Peter, Mr. David Michael Norman and Ms. Li Yuen Yu Alice as non-executive directors; and (3) Mr. Chiu Sin Chun, Mr. Kam Yiu Shing Tony and Mrs. Tse Wong Siu Yin Elizabeth as independent non-executive directors.