



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)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board of directors (the “Board”) of South China Holdings Company Limited (the “Company”) is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2017. The unaudited condensed consolidated financial statements have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | | Six months ended 30 June | |
|---|------|--------------------------|-----------------------|
| | | 2017 | 2016 |
| | Note | Unaudited HK\$'000 | Unaudited HK\$'000 |
| Revenue | 2 | 1,356,070 | 1,212,588 |
| Cost of sales | | (1,147,731) | (973,317) |
| Gross profit | | 208,339 | 239,271 |
| Other income and gains, net | | 18,667 | 27,381 |
| Fair value gain on investment properties inclusive of investment properties presented as non-current assets classified as held for sale | | 161,795 | 96,224 |
| Fair value (loss)/gain on financial assets at fair value through profit or loss | | (3,390) | 9,861 |
| Fair value loss on foreign exchange forward contracts | | - | (55) |
| Selling and distribution expenses | | (23,661) | (25,754) |
| Administrative expenses | | (247,164) | (239,246) |
| Equity-settled share award expense | | (2,940) | (5,502) |
| Profit from operations | 2&3 | 111,646 | 102,180 |
| Finance costs | | (61,512) | (58,992) |
| Share of profits and losses of associates | | (620) | 372 |
| Reversal of impairment of advances to an associate | | 1 | - |
| Profit before tax | | 49,515 | 43,560 |
| Income tax | 4 | (12,270) | (17,991) |
| Profit for the period | | 37,245 | 25,569 |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)**Six months ended 30 June**

| | | 2017 | 2016 |
|------------------------------------|-------------|---------------------------|--------------------|
| | | Unaudited | Unaudited |
| | <i>Note</i> | HK\$'000 | HK\$'000 |
| Attributable to: | | | |
| Equity shareholders of the Company | | 42,605 | 25,448 |
| Non-controlling interests | | (5,360) | 121 |
| | | <u>37,245</u> | <u>25,569</u> |
| Earnings per share | 6 | | (Restated) |
| Basic | | <u>HK0.3 cents</u> | <u>HK0.3 cents</u> |
| Diluted | | <u>HK0.3 cents</u> | <u>HK0.2 cents</u> |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Six months ended 30 June

| | |
|------------------|-----------|
| 2017 | 2016 |
| Unaudited | Unaudited |
| HK\$'000 | HK\$'000 |

| | | |
|--|-----------------------|------------------|
| Profit for the period | 37,245 | 25,569 |
| Other comprehensive income: | | |
| <i>Items that may be reclassified to profit or loss in subsequent periods:</i> | | |
| Available-for-sale financial assets: | | |
| Changes in fair value | <u>532</u> | <u>(919)</u> |
| | 532 | (919) |
| Exchange differences on translation of operations outside Hong Kong | 133,712 | (104,006) |
| Share of other comprehensive income of associates | <u>252</u> | <u>(241)</u> |
| Other comprehensive income for the period | <u>134,496</u> | <u>(105,166)</u> |
| Total comprehensive income for the period | <u>171,741</u> | <u>(79,597)</u> |
| Attributable to: | | |
| Equity shareholders of the Company | 163,924 | (69,023) |
| Non-controlling interests | <u>7,817</u> | <u>(10,574)</u> |
| | <u>171,741</u> | <u>(79,597)</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at 30 June 2017 Unaudited HK\$'000 | As at 31 December 2016 Audited HK\$'000 |
|---|-------------|--|---|
| | <i>Note</i> | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 194,990 | 202,863 |
| Investment properties | 7 | 5,790,218 | 6,405,099 |
| Prepaid land lease payments | | 81,071 | 81,358 |
| Construction in progress | | 150,762 | 138,374 |
| Investments in associates | | 9,255 | 10,347 |
| Bearer plants | | 69,726 | 69,852 |
| Available-for-sale financial assets | | 73,979 | 73,400 |
| Prepayments and deposits | | 21,560 | 18,301 |
| Goodwill | | 3,033 | 2,986 |
| Other non-current assets | | 15,638 | 15,638 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 6,410,232 | 7,018,218 |
| CURRENT ASSETS | | | |
| Inventories | | 786,784 | 451,876 |
| Properties under development | | 1,244,398 | 1,153,055 |
| Trade receivables | 8 | 644,844 | 617,040 |
| Prepayments, deposits and other receivables | | 928,656 | 859,526 |
| Financial assets at fair value through profit or loss | | 24,803 | 28,040 |
| Amounts due from non-controlling shareholders of subsidiaries | | 53,776 | 52,203 |
| Amounts due from affiliates | | 75,500 | 75,500 |
| Tax recoverable | | 50,679 | 44,414 |
| Cash and bank balances | | 433,746 | 498,099 |
| | | <hr/> | <hr/> |
| Non-current assets classified as held for sale | 7 | 4,243,186 | 3,779,753 |
| | | <hr/> | <hr/> |
| Total current assets | | 6,093,186 | 4,718,753 |
| | | <hr/> | <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

| | | As at 30 June 2017 Unaudited HK\$'000 | As at 31 December 2016 Audited HK\$'000 |
|---|-------------|--|---|
| | <i>Note</i> | | |
| CURRENT LIABILITIES | | | |
| Trade payables | 9 | 639,936 | 649,533 |
| Other payables and accruals | | 707,599 | 575,228 |
| Interest-bearing bank borrowings | | 1,756,156 | 1,802,320 |
| Amounts due to a non-controlling shareholder of subsidiaries | | 3,637 | 2,310 |
| Tax payable | | 45,734 | 59,727 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 3,153,062 | 3,089,118 |
| | | <hr/> | <hr/> |
| NET CURRENT ASSETS | | 2,940,124 | 1,629,635 |
| | | <hr/> | <hr/> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 9,350,356 | 8,647,853 |
| | | <hr/> | <hr/> |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | | 2,743,354 | 2,245,134 |
| Advances from non-controlling shareholders of subsidiaries | | 7,941 | 7,941 |
| Other non-current liabilities | | 71,172 | 69,147 |
| Deferred tax liabilities | | 837,104 | 805,060 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 3,659,571 | 3,127,282 |
| | | <hr/> | <hr/> |
| NET ASSETS | | 5,690,785 | 5,520,571 |
| | | <hr/> | <hr/> |
| CAPITAL AND RESERVES | | | |
| Share capital | 10 | 140,598 | 112,567 |
| Reserves | | 5,223,099 | 5,088,733 |
| | | <hr/> | <hr/> |
| Total equity attributable to equity shareholders of the Company | | 5,363,697 | 5,201,300 |
| Non-controlling interests | | 327,088 | 319,271 |
| | | <hr/> | <hr/> |
| TOTAL EQUITY | | 5,690,785 | 5,520,571 |
| | | <hr/> | <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Issued capital and share premium Unaudited HK\$'000 | Shares held for share award scheme Unaudited HK\$'000 | Treasury Shares Unaudited HK\$'000 | Other reserves Unaudited HK\$'000 | Retained profits Unaudited HK\$'000 | Attributable to owners of the Company Unaudited HK\$'000 | Non- controlling interests Unaudited HK\$'000 | Total equity Unaudited HK\$'000 |
|--|--|--|---|--|--|---|---|--|
| At 1 January 2017 | 1,868,458 | (61,447) | (10,837) | (1,036,049) | 4,441,175 | 5,201,300 | 319,271 | 5,520,571 |
| Redemption of redeemable convertible preference shares | (4,467) | - | - | - | - | (4,467) | - | (4,467) |
| Transfer of employee share-based compensation reserve upon forfeiture of share award and share option | - | - | - | (1,291) | 1,291 | - | - | - |
| Recognition of equity-settled share-based compensation: share award and option | - | - | - | 2,940 | - | 2,940 | - | 2,940 |
| Total comprehensive income for the period | - | - | - | 121,319 | 42,605 | 163,924 | 7,817 | 171,741 |
| At 30 June 2017 | <u>1,863,991</u> | <u>(61,447)</u> | <u>(10,837)</u> | <u>(913,081)</u> | <u>4,485,071</u> | <u>5,363,697</u> | <u>327,088</u> | <u>5,690,785</u> |
| At 1 January 2016 | 1,914,121 | (22,500) | - | (759,951) | 4,287,564 | 5,419,234 | 357,267 | 5,776,501 |
| Redemption of redeemable convertible preference shares | (36,685) | - | - | - | - | (36,685) | - | (36,685) |
| Transfer of employee share-based compensation reserve upon forfeiture of share award and share option | - | - | - | (238) | 238 | - | - | - |
| Recognition of equity-settled share-based compensation: share award and option | - | - | - | 5,724 | - | 5,724 | - | 5,724 |
| Total comprehensive income for the period | - | - | - | (94,471) | 25,448 | (69,023) | (10,574) | (79,597) |
| At 30 June 2016 | <u>1,877,436</u> | <u>(22,500)</u> | <u>-</u> | <u>(848,936)</u> | <u>4,313,250</u> | <u>5,319,250</u> | <u>346,693</u> | <u>5,665,943</u> |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June

| | 2017 Unaudited HK\$'000 | 2016 Unaudited HK\$'000 |
|---|-------------------------------|-------------------------------|
| Cash flows from operating activities | | |
| Cash used in operations | (355,830) | (142,627) |
| Hong Kong Profit Tax paid | (15,163) | (6,561) |
| The People's Republic of China ("PRC") enterprise income tax paid | (8,525) | (7,225) |
| Net cash used in operating activities | (379,518) | (156,413) |
| Cash flows from investing activities | | |
| Purchase of items of property, plant and equipment | (14,175) | (22,318) |
| Additions of prepaid lease payments | (28,784) | (32,497) |
| Other cash flows arising from investing activities | (7,450) | 146 |
| Net cash used in investing activities | (50,409) | (54,669) |
| Cash flows from financing activities | | |
| New bank loans | 1,925,725 | 782,083 |
| Repayment of bank loans | (1,610,813) | (547,097) |
| Interests and other borrowing costs paid | (74,686) | (67,349) |
| Other cash flows arising from financing activities | 115,063 | (117,088) |
| Net cash generated from financing activities | 355,289 | 50,549 |
| Net decrease in cash and cash equivalents | (74,638) | (160,533) |
| Cash and cash equivalents at beginning of the period | 459,302 | 439,910 |
| Effect of foreign exchange rate changes, net | 4,416 | (1,591) |
| Cash and cash equivalents at end of the period | 389,080 | 277,786 |
| Analysis of balances of cash and cash equivalents | | |
| Cash and bank balances | 433,746 | 315,289 |
| Less: | | |
| Restricted bank deposits | (23,000) | (26,825) |
| Bank deposits with original maturity over three months | (10,144) | - |
| Bank overdrafts | (11,522) | (10,678) |
| Cash and cash equivalents as stated in the condensed consolidated cash flow statement | 389,080 | 277,786 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (“interim financial statements”) have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and Hong Kong Accounting Standard No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2016 except that the Group has adopted the new and revised Hong Kong Financial Reporting Standards, which are effective for the annual period beginning on 1 January 2017, as disclosed in the annual financial statements for the year ended 31 December 2016. The adoption of these new and revised Hong Kong Financial Reporting Standards does not have significant impact on the Group’s results of operations and financial position.

These interim financial statements should be read, where relevant, in conjunction with the 2016 annual financial statements of the Group.

1.1 Changes in accounting policies

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA, for the first time for the interim financial statements for the six months ended 30 June 2017. Such HKFRSs have become effective for the annual periods beginning on or after 1 January 2017, and include:

Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*

Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealized losses*

The adoption of the above new and revised HKFRSs has no significant impact on the accounting policies of the Group, the methods of computation used in the preparation of the Group’s interim financial statements and the Group’s results of operations and financial position.

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 2017 and 2016 is as follows:

| | Trading and manufacturing | | Property investment and development | | Agriculture and forestry | | Investment holding | | Group | |
|--|---------------------------|------------------|-------------------------------------|------------------|--------------------------|------------------|--------------------|------------------|----------------------|----------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
| Segment revenue | | | | | | | | | | |
| External sales | <u>1,254,733</u> | <u>1,112,072</u> | <u>92,774</u> | <u>92,364</u> | <u>8,563</u> | <u>8,152</u> | <u>-</u> | <u>-</u> | <u>1,356,070</u> | <u>1,212,588</u> |
| Segment results | 7,215 | 63,069 | 197,695 | 123,282 | (24,114) | (29,977) | (69,150) | (54,194) | 111,646 | 102,180 |
| Reconciliation: | | | | | | | | | | |
| - Share of profits and losses of associates | (622) | 372 | - | - | - | - | 2 | - | (620) | 372 |
| - Reversal of impairment of advances to an associate | 1 | - | - | - | - | - | - | - | 1 | - |
| - Finance costs | | | | | | | | | (61,512) | (58,992) |
| Profit before tax | | | | | | | | | <u>49,515</u> | <u>43,560</u> |

2. REVENUE AND SEGMENTAL INFORMATION (Continued)

By geographical location#:

| | Revenue | | Contribution to profit/(loss) from operations | |
|---------------------------------------|--------------------------|------------------|--|----------------|
| | Six months ended 30 June | | Six months ended 30 June | |
| | 2017 | 2016 | 2017 | 2016 |
| | Unaudited | Unaudited | Unaudited | Unaudited |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| The PRC including Hong Kong and Macau | 178,587 | 186,458 | 113,661 | 55,337 |
| United States of America | 653,643 | 585,646 | (6,187) | 24,188 |
| Europe | 256,965 | 193,764 | 2,171 | 10,155 |
| Japan | 28,993 | 15,506 | 292 | 841 |
| Others | 237,882 | 231,214 | 1,709 | 11,659 |
| | <u>1,356,070</u> | <u>1,212,588</u> | <u>111,646</u> | <u>102,180</u> |

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

The following table presents the assets and liabilities information for the Group's business segments as at the reporting period end date:

| | Trading and manufacturing | | Property investment and development | | Agriculture and forestry | | Investment holding | | Group | |
|----------------------------|---------------------------|-------------|-------------------------------------|-------------|--------------------------|-------------|--------------------|-------------|-------------------|-------------------|
| | 30 June | 31 December | 30 June | 31 December | 30 June | 31 December | 30 June | 31 December | 30 June | 31 December |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | Unaudited | Audited | Unaudited | Audited | Unaudited | Audited | Unaudited | Audited | Unaudited | Audited |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 2,154,342 | 1,897,122 | 9,891,813 | 9,438,770 | 165,632 | 157,598 | 231,697 | 188,720 | 12,443,484 | 11,682,210 |
| Investments in associates | 7,902 | 8,997 | - | - | - | - | 1,353 | 1,350 | 9,255 | 10,347 |
| Tax recoverable | | | | | | | | | 50,679 | 44,414 |
| Total assets | | | | | | | | | <u>12,503,418</u> | <u>11,736,971</u> |
| Segment liabilities | 2,692,755 | 2,528,204 | 3,188,013 | 2,790,944 | 35,679 | 22,933 | 13,348 | 9,532 | 5,929,795 | 5,351,613 |
| Tax payable | | | | | | | | | 45,734 | 59,727 |
| Deferred tax liabilities | | | | | | | | | 837,104 | 805,060 |
| Total liabilities | | | | | | | | | <u>6,812,633</u> | <u>6,216,400</u> |

3. DEPRECIATION AND AMORTISATION

Depreciation in respect of the Group's property, plant and equipment and bearer plants and amortisation in respect of the Group's prepaid land lease payments for the six months ended 30 June 2017 amounted to approximately HK\$25,262,000 (six months ended 30 June 2016: HK\$24,207,000) and HK\$22,556,000 (six months ended 30 June 2016: HK\$23,019,000), respectively.

4. INCOME TAX

Income tax comprises current and deferred tax.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2016: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong. 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, using the liability method, 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.

5. INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately HK\$42,605,000 (six months ended 30 June 2016: approximately HK\$25,448,000) and the weighted average numbers of ordinary shares used in the calculation are as follows:

| | 2017 Unaudited HK\$'000 | 2016 Unaudited HK\$'000 |
|--|--|---|
| <u>Earnings</u> | | |
| Profit attributable to equity shareholders of the Company used in basic and diluted earnings per share calculation | 42,605 | 25,448 |
| | 2017 Unaudited '000 | 2016 Unaudited and restated '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 | 12,981,636 | 7,592,498 |
| Effect of redeemable convertible preference shares | 849,560 | 6,461,256 |
| Effect of shares held for the share award scheme | 207,417 | 91,500 |
| Weighted average number of ordinary shares used in the diluted earnings per share calculation | 14,038,613 | 14,145,254 |

The Company's share options have no dilution effect for the six months ended 30 June in both 2017 and 2016 as the exercise price of the Company's share option was higher than the average market price of the shares in both periods.

The weighted average number of ordinary shares for the purpose of calculating the basic and diluted earnings per shares for the period ended 30 June 2016 has been adjusted to reflect the effect of the issue of bonus shares in January 2017.

7. INVESTMENT PROPERTIES/NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

As at 30 June 2017, certain properties of the Group with an aggregated value of HK\$855,000,000 have been transferred from investment properties to non-current assets classified as held for sale.

8. TRADE RECEIVABLES

Trade receivables of approximately HK\$644,844,000 as at 30 June 2017 (as at 31 December 2016: HK\$617,040,000), substantially with an age within six months, are stated net of provision for impairment.

Impairment 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\$639,936,000 as at 30 June 2017 (as at 31 December 2016: HK\$649,533,000) are substantially with an age within six months.

10. SHARE CAPITAL

| | 30 June 2017 Unaudited HK\$'000 | 31 December 2016 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 | 60,000 | 60,000 |
| Total authorised capital | <u>260,000</u> | <u>260,000</u> |
| Issued and fully paid: | | |
| 13,221,302,172 (2016: 10,407,117,286) ordinary shares of HK\$0.01 each (<i>Note 1</i>) | 132,213 | 104,071 |
| 419,227,131 (2016: 424,811,131) redeemable convertible preference shares ("CPSs") of HK\$0.02 each (<i>Note 2</i>) | 8,385 | 8,496 |
| Total issued and fully paid capital | <u>140,598</u> | <u>112,567</u> |

10. SHARE CAPITAL (Continued)

Notes:

- (1) Pursuant to the resolution passed at the extraordinary general meeting of the Company held on 23 December 2016, bonus shares were issued to shareholders whose names appeared on the register of members of the Company on 5 January 2017, the Record Date, on the below basis:
- (a) every four existing shares held by the ordinary shareholders whose names appear in the register of members of the Company on the Record Date; or
 - (b) every four shares that could be converted on an “as converted” basis as if all the outstanding CPSs held by the CP Shareholder(s), whose name(s) appear(s) in the register of CP Shareholders of the Company on the Record Date, were converted in full at their effective conversion price immediately before the Record Date.

Upon completion of bonus issue on 9 January 2017, an amount of HK\$28,141,849 standing to the credit of the share premium account was applied to pay up 2,814,184,886 ordinary shares of HK\$0.01 each which were allotted and issued as fully paid, ranking pari passu with existing shares to the shareholders.

- (2) 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 shall be entitled to pro-rata share of 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 shall 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 shall belong to and be distributed on a pari passu basis among the holders of the ordinary shares.

Movements of issued capital 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 2017 | 104,071 | 8,496 | 1,755,891 | 1,868,458 |
| Issue of bonus shares (Note 1) | 28,142 | - | (28,142) | - |
| 5,584,000 redeemable convertible preference shares redeemed during the period | - | (111) | (4,356) | (4,467) |
| At 30 June 2017 | <u>132,213</u> | <u>8,385</u> | <u>1,723,393</u> | <u>1,863,991</u> |

10. SHARE CAPITAL (Continued)

| | Issued ordinary shares Audited HK\$'000 | Issued redeemable convertible preference shares Audited HK\$'000 | Share premium Audited HK\$'000 | Total Audited HK\$'000 |
|---|---|--|---|------------------------------|
| At 1 January 2016 | 59,773 | 54,715 | 1,799,633 | 1,914,121 |
| 75,584,000 redeemable convertible preference shares redeemed during the year | - | (1,512) | (44,151) | (45,663) |
| 2,235,406,996 redeemable convertible preference shares converted into 4,429,843,560 ordinary shares during the year | 44,298 | (44,707) | 409 | - |
| At 31 December 2016 | <u>104,071</u> | <u>8,496</u> | <u>1,755,891</u> | <u>1,868,458</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 2017 | 10,407,117 | 424,811 |
| Issue of bonus share (Note 1) | 2,814,185 | - |
| Redeemed during the period | - | (5,584) |
| At 30 June 2017 | <u>13,221,302</u> | <u>419,227</u> |

| | Number of issued ordinary shares Audited '000 | Number of issued redeemable convertible preference shares Audited '000 |
|---------------------------|---|---|
| At 1 January 2016 | 5,977,274 | 2,735,802 |
| Redeemed during the year | - | (75,584) |
| Converted during the year | - | (2,235,407) |
| Issued during the year | 4,429,843 | - |
| At 31 December 2016 | <u>10,407,117</u> | <u>424,811</u> |

11. COMPARATIVE AMOUNTS

Basic and diluted earnings per share for the six months ended 30 June 2016 have been restated for the impact of the issue of bonus shares as explained in note 10.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded revenue of HK\$1.36 billion (2016: HK\$1.21 billion) and profit after tax of HK\$37.2 million (2016: HK\$25.6 million), both being the financial key performance indicators, for the six months ended 30 June 2017, representing a 12% increase and a 46% increase from the corresponding amounts reported in 2016. Earnings per share attributable to equity holders of the Company for the period was HK0.3 cents (2016 (restated): 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 13% increase in revenue to HK\$1.25 billion (2016: HK\$1.11 billion) but decrease in operating profit to HK\$7.2 million (2016: HK\$63.1 million) for the period ended 30 June 2017.

(i) OEM toys manufacturing

The OEM toys operation achieved a record-breaking first half revenue of HK\$1.13 billion, representing a 13% increase compared to corresponding period in last year. The growth was mainly attributable to the ongoing improvement in our provision of one-stop integrated solutions to customers and continuous improvement in our production flow management. While the Group has been continuously winning trusts and business from customers, they also win as many of our customers received world-acclaimed recognitions and awards such as “Innovation Toy of the Year 2017” at the North American International Toy Fair.

While increasing in production, the Group managed to provide high quality on time delivery of products to our customers throughout the period and this is mainly attributable to the professionalism of our R&D and engineering department in providing continuous modification and technological solutions.

Despite increase in revenue, the operating profit however has been decreased mainly attributable to the combined effect of increasing raw material cost and gap between increasing demand and capacity. Therefore, we are currently optimizing our production capability and capacity with new productions in more factory locations. One new factory in Dongguan has kicked off its operation in the first half of 2017, together with the new factory in Guangxi opened last year, to cope with the increase in production and to provide a base with lower labor costs.

(ii) Trading of footwear products

During the period ended 30 June 2017, revenue from the footwear trading operations increased by 20% to HK\$103.0 million mainly attributable to increase in sales volume from customers. However, overall results from operations has turned into a loss of HK\$4.9 million as compared to a profit of HK\$3.2 million in the corresponding period in 2016 due to increasing purchase cost, change in product mix and bad debt provided in current period.

Property Investment and Development

During the period ended 30 June 2017, revenue from the property investment and development segment increased slightly to HK\$92.8 million. The operating profit increased by 60% to HK\$197.7 million mainly attributable to an increase in fair value gain on investment properties by HK\$65.6 million.

Rental income remained stable in the current period and was mainly contributed by the Avenue of Stars, a fur-themed shopping mall with varieties of major fur brands in Shenyang. It has continued to be one of the most reputable and successful fur mall in Liaoning and has a majority share of the fur retail market. Furthermore, our rental portfolio in Tianjin also reported an increase in rental income during the period. The growth came primarily from the commercialization of our Tianjin industrial properties. Income derived from our Nanjing portfolio remained stable during the period.

In addition to our existing rental portfolios in Nanjing, Shenyang and Tianjin, we continue to focus on and develop our property project in Shenyang. The project, located on the very eastern part of the most robust pedestrian street of the North-East known as Zhongjie (中街) of Dadong district, is named the Central Square. The project is also situated right above the intersection of mass transit railway line 1 and line 6 which is to be constructed within the next few years.

The project involves a total Gross Floor Area (“GFA”) of over 500,000 square metres and is a mixed use project with a heavy emphasis on city living and convenience to the residents of the project. The first phase of the Central Square with an approximate salable GFA of 140,000 square metres, comprises two residential towers, one serviced apartment tower and a retail podium. The construction work of underground space, commercial podium and the sales office were completed in 2016. The residential and serviced apartment towers are now under construction. In the meantime, first batch pre-sale of one residential tower and the serviced apartment tower was launched in December 2016 and over 60% of the units were being sold up to the end of June 2017. With its prime location situated right above the cross of two mass transit railways lines and a robust pedestrian street, it is envisioned that the Central Square will become a must-go place for retailers, consumers and local residents.

Agriculture and Forestry

During the period ended 30 June 2017, the revenue from the agriculture and forestry segment increased by 5% to HK\$8.6 million as compared with the corresponding period in 2016. Operating loss decreased by HK\$5.9 million as compared with the corresponding period in 2016 mainly due to the lack of a HK\$6.2 million subsidy and compensation from local government in the first half of 2017.

The bearer plants balance decreased from HK\$69.9 million in December 2016 to HK\$69.7 million in June 2017. In terms of Renminbi, the functional currency of the relevant subsidiaries, the bearer plants balance decreased by about 3%. The decrease in bearer plants balance is due to upward exchange realignment derived from appreciation of RMB in current period offset by depreciation provided in current period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group had a current ratio of 1.9 and a gearing ratio of 48% (31 December 2016: 1.5 and 41%, respectively). The gearing ratio is computed by comparing the Group’s long-term bank borrowings of HK\$2.74 billion to the Group’s equity of HK\$5.69 billion. 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 does not have any non-delivery foreign exchange forward contract at the end of the reporting period. 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 issue of bonus share and the redemption of the redeemable convertible preference shares as detailed in note 10 to the interim report, 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

There was no material acquisition or disposal of subsidiary or associated company during the period.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

There was no material change in the Group's pledge of assets and contingent liabilities as compared to the most recently published annual report.

EVENT AFTER THE REPORTING PERIOD

On 3 July, 2017, Nanjing Second Compressor Company Limited (南京第二壓縮機有限公司) (the "Transferee"), an indirect wholly-owned subsidiary of the Company, entered into the equity transfer agreement with Ingersoll-Rand (China) Investment Company Limited (英格索蘭(中國)投資有限公司) (the "Transferor") for the acquisition of all the remaining interests in Nanjing Ingersoll-Rand Compressor Co., Ltd. (南京英格索蘭壓縮機有限公司), an associate of the Company ("Target Company") held by the Transferor at a total consideration of RMB45 million. The acquisition has been completed on 11 August 2017.

EMPLOYEES

As at 30 June 2017, the total number of employees of the Group was approximately 29,000 (30 June 2016: 25,000).

Employees' costs (including directors' emoluments) amounted to approximately HK\$551.8 million for the six months ended 30 June 2017 (six months ended 30 June 2016: HK\$518.8 million).

In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidized training programs are offered to employees of the Group. The Group also operates share option and share award schemes, and may, at its discretion, grant share option or award shares to its employees under respective schemes.

Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on his/her performance.

PROSPECTS

Trading and Manufacturing

The Group will continue its effort to expand the product range and enlarge customer base with a continuous focus on our one-stop integrated solutions and services to customers.

Management holds positive view on the revenue and operating profit in the second half of 2017 on the back of increasing sales from premium and high-tech toys. We will keep up the successful accomplishment on production of toy robots, drones and sensing device through wifi, bluetooth and other mediums. Meanwhile, we will continue to explore possibility on producing new products from our existing toy categories.

The Group has traditionally invested heavily in the R&D and engineering department and will increase its capital investment into developing new technology and manufacturing advances to meet the increasingly complicated requirements of high-tech toys from our clients. We have set up the Wah Shing Academy to provide continuous education, collaboration of know-how and to further emphasise lean manufacturing. Management will seek to expand research departments and collaborations with various academic institutions with China to further increase its competitiveness and expertise in this field. We will also get our Wah Shing Academy accreditation with various reputable institutions.

Furthermore, the Group will further expand its production capacity in addition to the new factories in Guangxi and Dongguan opened in 2016 and the first half of 2017, and has identified a few suitable existing plants to support our business growth in future.

Property Investment and Development

Property Investments

The Group has a property investment portfolio with total floor area of approximately 560,000 square metres in Mainland China and 298,000 square feet (approximately 28,000 square metres) in Hong Kong. The investment properties in China are mostly in prime locations in Nanjing, Shenyang and Tianjin.

With the management team effort, the occupancy rates of the Avenue of Stars have improved and management team will continue to increase the pedestrian flow so as to further increase its rental contribution in the future. We will continue to market Avenue of Stars as the leading fur mall in Northern China and will build upon the majority market share that we have managed to capture over the last few years.

Nanjing and Tianjin portfolio is expected have an upside as we are in progress in implementing our commercialization strategy across the portfolio.

Meanwhile, the Group is actively considering offload non-core asset and investment properties in Hong Kong and the PRC in order to reallocate resources to more promising investment properties or land banks.

Property Development

The construction work of the first phase of the Central Square in the Southern part of our Dadong site in Shenyang is underway, and first batch of pre-sale was launched in December 2016. With its prime location situated right above the cross of two mass transit railway lines and a robust pedestrian street, the Central Square will become a prime shopping and residential area in Shenyang with a mix of trendy boutiques, department stores, shopping malls, bars & restaurants and hotels. Management is cautiously optimistic on the contributions from the project in the second half of 2017 and in 2018.

The second phase of the Central Square in the Northern part of Dadong site, which is directly opposite from the pedestrian street to the above, is still in the planning stage. It is also a mixed development project, and the positioning will be thematically in line with the South, with a slightly higher class distinction.

Our land bank in the Tianjin Wuqing district provides us with a potential site area of over 200,000 square metres, with approximately 88,000 square metres have paid the land premium and the project is currently under the planning stage. In light of the development of the capital economic circle concept (京津冀首都經濟圈) and that the Tianjin government (天津市政府) had announced the plan to develop the Wuqing district into a university zone (京津冀協同發展國家大學創新園區) which is nearby our development site, we are cautiously optimistic to its future contributions.

Nanjing and Tianjin industrial land use conversion to commercial will continue to be our area of focus. The addition of the new property development team and track record will be a major contribution for us to fully benefit from successful future conversions.

Agriculture and Forestry

The Group currently has long-term leases of over 540,000 mu (approximate to 333 million square metres) 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 apple, winter date, peach, pear and corn, and breeding of livestock, such as pig, for sale. The Group will continue to explore plantation opportunities for high profit margin species and focus on improving the sales distribution channels so as to improve the revenue and also the operating results of the segment.

Management will continue their effort in cost control and efficient resources utilisation with a view to containing costs.

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 to the end customers. 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, RMB 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 will conduct regular reviews and focus on mitigating the risks 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 2017 (six months ended 30 June 2016: Nil).

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

As at 30 June 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Long positions in ordinary shares of the Company

| Beneficial interests | Ordinary shares | | | Total number of shares held | Approximate percentage of shareholding to total issued ordinary shares |
|---------------------------------------|--------------------------------|-------------------------|---------------------------|-----------------------------|--|
| | Personal interests (Note 1) | Family interests | Corporate interests | | |
| Ng Hung Sang ("Mr. Ng") | 644,275,514 | 613,214,065 (Note 2) | 7,097,670,709 (Note 3) | 8,355,160,288 | 63.19% |
| Cheung Choi Ngor ("Ms. Cheung") | 50,000,000 | – | – | 50,000,000 | 0.38% |
| Ng Yuk Fung Peter ("Mr. Peter Ng") | 652,740,810 | – | – | 652,740,810 | 4.94% |
| Ng Yuk Yeung Paul ("Mr. Paul Ng") | 171,989,238 | – | – | 171,989,238 | 1.30% |
| Law Albert Yu Kwan (Note 4) | 12,791,104 | – | – | 12,791,104 | 0.10% |
| Ng Yuk Mui Jessica ("Ms. Jessica Ng") | 170,700,000 | – | – | 170,700,000 | 1.29% |

Long positions in underlying shares of the Company

The Company has granted options to certain Directors under the Company's share option schemes, details of which are set out in the section "Share Option Schemes" below.

Long positions in ordinary shares of associated corporation

| Beneficial interests | Name of associated corporation | Number of ordinary shares held by controlled corporation | Approximate percentage of shareholding to total issued ordinary shares |
|-----------------------------|---|---|---|
| Mr. Ng | Prime Prospects Limited ("Prime Prospects") (Note 5) | 30 | 30% |

Notes:

- (1) The shares are registered under the names of the directors who are the beneficial shareholders.
- (2) The spouse of Mr. Ng is the beneficial shareholder.
- (3) The 7,097,670,709 shares of the Company held by Mr. Ng through controlled corporations included 2,124,792,202 shares held by Fung Shing Group Limited ("Fung Shing"), 2,020,984,246 shares held by Parkfield Holdings Limited ("Parkfield"), 89,410,210 shares held by Ronastar Investments Limited ("Ronastar"), 1,344,706,920 shares held by Eartrade Investments Limited ("Eartrade"), 1,273,122,098 shares held by Bannock Investment Limited ("Bannock"), 212,405,565 shares held by Crystal Hub Limited ("Crystal Hub") and 32,249,468 shares held by Green Orient Investments Limited ("Green Orient"). Fung Shing, Parkfield and Ronastar all are wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Eartrade which is owned as to 60% by Mr. Ng, 20% by Mr. Richard Howard Gorges ("Mr. Gorges") and 20% by Ms. Cheung. Crystal Hub is a direct wholly-owned subsidiary of South China Assets Holdings Limited ("SCAH"), which, in turn, is 64.92% beneficially owned by Mr. Ng. Green Orient is an indirect wholly-owned subsidiary of the Company. As such, Mr. Ng was deemed to have interest in the said 212,405,565 shares held by Crystal Hub, 32,249,468 shares held by Green Orient and the 2,617,829,018 shares held by Bannock and Eartrade.
- (4) Mr. Law Albert Yu Kwan resigned as an executive director, a member of executive committee and group chief financial officer of the Company with effect from 1 July 2017.
- (5) Prime Prospects is a 70% owned subsidiary of the Company.

Apart from the foregoing, none of the directors of the Company or any of their spouses or children under eighteen years of age had interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code, at 30 June 2017.

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

The Company has been notified of the following interests in its issued shares at 30 June 2017 amounting to 5% or more of the ordinary shares in issue:

| Beneficial interests | Ordinary shares | | | Total number of ordinary shares held | Approximate percentage of shareholding to total issued ordinary shares |
|-------------------------------|----------------------------------|----------------------------------|----------------------------------|---|---|
| | Registered shareholders | Family interests | Corporate interests | | |
| Eartrade | 1,344,706,920 | – | 1,273,122,098 <i>(Note 1)</i> | 2,617,829,018 | 19.80% |
| Bannock | 1,273,122,098 <i>(Note 1)</i> | – | – | 1,273,122,098 | 9.63% |
| Fung Shing | 2,124,792,202 | – | – | 2,124,792,202 | 16.07% |
| Parkfield | 2,020,984,246 | – | – | 2,020,984,246 | 15.29% |
| Ng Lai King Pamela (“Ms. Ng”) | 613,214,065 | 7,741,946,223 <i>(Note 2)</i> | – | 8,355,160,288 | 63.19% |

Notes:

- (1) Bannock is a wholly-owned subsidiary of Eartrade. The 2,617,829,018 shares of the Company held by Eartrade included 1,273,122,098 shares held by Bannock directly.
- (2) Ms. Ng, who held 613,214,065 shares of the Company directly, is the spouse of Mr. Ng, the Chairman and an Executive Director of the Company. By virtue of the SFO, Ms. Ng was deemed to be interested in the 644,275,514 shares and 7,097,670,709 shares held by Mr. Ng directly and indirectly through controlled corporations, respectively, as disclosed in the section headed “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” in the above.

Apart from the foregoing, as at 30 June 2017, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section headed “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” in the above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

SHARE OPTION SCHEMES

The Company adopted a share option scheme in May 2002 (“2002 Share Option Scheme”), which was terminated in June 2012, and a share option scheme in June 2012 (“2012 Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants, who contribute to the success of the Group’s operations, and retaining such participants for their continuing support to the Group. The share options granted under the above schemes are unlisted.

(i) 2002 Share Option Scheme

Particular and movements of the outstanding share options granted under the 2002 Share Option Scheme during the six months ended 30 June 2017 as follows:

| Name or category of participant | Number of share options | | | Date of grant of share options (DD/MM/YYYY) (Note 1) | Exercise period of share options (DD/MM/YYYY) | Number of ordinary shares issuable upon the exercise of share options (Note 2) | Subscription price per share HK\$ (Note 2) |
|---------------------------------|----------------------------------|-------------------------------------|--------------------------------|--|--|---|--|
| | Outstanding as at 1 January 2017 | Granted/ (Lapsed) during the period | Outstanding as at 30 June 2017 | | | | |
| Directors | | | | | | | |
| Ms. Cheung | 8,666,666 | - | 8,666,666 | 18/09/2007 | 18/09/2008-17/09/2017 | 22,020,264 | 0.59 |
| | 8,666,667 | - | 8,666,667 | 18/09/2007 | 18/09/2009-17/09/2017 | 22,020,267 | 0.59 |
| | 8,666,667 | - | 8,666,667 | 18/09/2007 | 18/09/2010-17/09/2017 | 22,020,267 | 0.59 |
| Mr. Peter Ng | 8,666,666 | - | 8,666,666 | 18/09/2007 | 18/09/2008-17/09/2017 | 22,020,264 | 0.59 |
| | 8,666,667 | - | 8,666,667 | 18/09/2007 | 18/09/2009-17/09/2017 | 22,020,267 | 0.59 |
| | 8,666,667 | - | 8,666,667 | 18/09/2007 | 18/09/2010-17/09/2017 | 22,020,267 | 0.59 |
| Mr. Paul Ng | 8,666,666 | - | 8,666,666 | 18/09/2007 | 18/09/2008-17/09/2017 | 22,020,264 | 0.59 |
| | 8,666,667 | - | 8,666,667 | 18/09/2007 | 18/09/2009-17/09/2017 | 22,020,267 | 0.59 |
| | 8,666,667 | - | 8,666,667 | 18/09/2007 | 18/09/2010-17/09/2017 | 22,020,267 | 0.59 |
| Sub-total | 78,000,000 | - | 78,000,000 | | | 198,182,394 | |
| Other employees | | | | | | | |
| In aggregate | 1,333,333 | (500,000) | 833,333 | 18/09/2007 | 18/09/2008-17/09/2017 | 2,117,332 | 0.59 |
| | 1,333,333 | (500,000) | 833,333 | 18/09/2007 | 18/09/2009-17/09/2017 | 2,117,332 | 0.59 |
| | 1,333,334 | (500,000) | 833,334 | 18/09/2007 | 18/09/2010-17/09/2017 | 2,117,336 | 0.59 |
| | 1,566,666 | - | 1,566,666 | 25/09/2007 | 25/09/2008-24/09/2017 | 3,980,584 | 0.59 |
| | 1,566,666 | - | 1,566,666 | 25/09/2007 | 25/09/2009-24/09/2017 | 3,980,584 | 0.59 |
| | 1,566,668 | - | 1,566,668 | 25/09/2007 | 25/09/2010-24/09/2017 | 3,980,592 | 0.59 |
| Sub-total | 8,700,000 | (1,500,000) | 7,200,000 | | | 18,293,760 | |
| Others | | | | | | | |
| In aggregate | 1,199,999 | - | 1,199,999 | 18/09/2007 | 18/09/2008-17/09/2017 | 3,048,959 | 0.59 |
| | 1,199,999 | - | 1,199,999 | 18/09/2007 | 18/09/2009-17/09/2017 | 3,048,959 | 0.59 |
| | 1,200,002 | - | 1,200,002 | 18/09/2007 | 18/09/2010-17/09/2017 | 3,048,968 | 0.59 |
| | 100,000 | - | 100,000 | 25/09/2007 | 25/09/2008-24/09/2017 | 254,080 | 0.59 |
| | 100,000 | - | 100,000 | 25/09/2007 | 25/09/2009-24/09/2017 | 254,080 | 0.59 |
| | 100,000 | - | 100,000 | 25/09/2007 | 25/09/2010-24/09/2017 | 254,080 | 0.59 |
| Sub-total | 3,900,000 | - | 3,900,000 | | | 9,909,126 | |
| Total | 90,600,000 | (1,500,000) | 89,100,000 | | | 226,385,280 | |

Notes:

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

| From the date of grant of share options | Exercisable percentage |
|--|--|
| Within 12 months | Nil |
| 13th month–24th month | not more than 33 ¹ / ₃ % |
| 25th month–36th month | not more than 66 ² / ₃ % |
| 37th month–120th month | 100% |

- (2) The number of shares issuable and the subscription price of the share option are subject to adjustment in the case of rights or bonus issues, or other alteration in the capital structure of the Company as such adjustments had been made upon completion of bonus issue completed on 9 January 2017. Details of the bonus issue were disclosed in the announcement and circular of the Company dated 12 October 2016 and 7 December 2016 respectively.

(ii) 2012 Share Option Scheme

Particular and movements of the outstanding share options granted under the 2012 Share Option Scheme during the six months ended 30 June 2017 as follows:

| Name or category of participant | Number of share options | | | Date of grant of share options (DD/MM/YYYY) (Note 1) | Exercise period of share options (DD/MM/YYYY) | Number of ordinary shares issuable upon the exercise of share options (Note 2) | Subscription price per share HK\$ (Note 2) |
|---------------------------------|----------------------------------|-------------------------------------|--------------------------------|--|--|---|--|
| | Outstanding as at 1 January 2017 | Granted/ (Lapsed) during the period | Outstanding as at 30 June 2017 | | | | |
| Employees | | | | | | | |
| In aggregate | 8,750,000 | – | 8,750,000 | 10/07/2015 | 10/07/2016–09/07/2025 | 22,232,000 | 0.51 |
| | 8,750,000 | – | 8,750,000 | 10/07/2015 | 10/07/2017–09/07/2025 | 22,232,000 | 0.51 |
| | 8,750,000 | – | 8,750,000 | 10/07/2015 | 10/07/2018–09/07/2025 | 22,232,000 | 0.51 |
| | 8,965,000 | – | 8,965,000 | 20/10/2015 | 20/10/2017–19/10/2025 | 11,389,136 | 0.51 |
| | 8,965,000 | – | 8,965,000 | 20/10/2015 | 20/10/2018–19/10/2025 | 11,389,136 | 0.51 |
| | 11,956,368 | – | 11,956,368 | 20/10/2015 | 20/10/2019–19/10/2025 | 15,189,369 | 0.51 |
| Sub-total | 56,136,368 | – | 56,136,368 | | | 104,663,641 | |
| Others | | | | | | | |
| In aggregate | 500,000 | (500,000) | – | 10/07/2015 | 10/07/2016–09/07/2025 | – | 0.51 |
| | 500,000 | (500,000) | – | 10/07/2015 | 10/07/2017–09/07/2025 | – | 0.51 |
| | 500,000 | (500,000) | – | 10/07/2015 | 10/07/2018–09/07/2025 | – | 0.51 |
| Sub-total | 1,500,000 | (1,500,000) | – | | | – | |
| Total | <u>57,636,368</u> | <u>(1,500,000)</u> | <u>56,136,368</u> | | | <u>104,663,641</u> | |

Notes:

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

| From the date of grant of share options | Exercisable percentage |
|--|--|
| Within 12 months | Nil |
| 13th month–24th month | not more than 33 ¹ / ₃ % |
| 25th month–36th month | not more than 66 ² / ₃ % |
| 37th month–120th month | 100% |

- (2) The number of shares issuable and the subscription price of the share option are subject to adjustment in the case of rights or bonus issues, or other alteration in the capital structure of the Company as such adjustments had been made upon completion of bonus issue completed on 9 January 2017. Details of the bonus issue were disclosed in the announcement and circular of the Company dated 12 October 2016 and 7 December 2016 respectively.

Equity-settled share award/option expense of HK\$2,940,000 was recognised by the Company during the six months ended 30 June 2017 (six months ended 30 June 2016: HK\$5,723,000).

EMPLOYEES' SHARE AWARD SCHEME

On 18 March 2011, the Company adopted the Share Award Scheme whereby the Company may grant share awards to selected employees in recognition of their contributions to the Group and as incentive to retain them to support the operations and ongoing development of the Group and attract suitable personnel for the Group's further development. Pursuant to the terms and conditions of the Share Award Scheme, the Company shall settle a sum up to and not exceeding HK\$60 million for the purchase of shares in the Company and/or SCAH from the market. Such shares shall form part of the capital of the trust set up for the Share Award Scheme. The Board may, from time to time, select employees for participation in the Share Award Scheme and cause to be paid an amount to the trustee from the Company's resources for the purpose of purchase of shares as referred to in the above. No shares had been awarded under the Share Award Scheme during the period. The number of shares of the Company held under the Share Award Scheme were increased from 165,933,275 shares by 41,483,318 shares to 207,416,593 shares in total as a result of the bonus issue. Details of the bonus issue were disclosed in the announcement and circular of the Company dated 12 October 2016 and 7 December 2016 respectively. Except for the number of shares of the Company held was increased by bonus issue as aforesaid, there was no other change as compared to the most recently published annual report.

CORPORATE GOVERNANCE CODE

The Company had complied with all the 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 2017 except that Mr. Ng, the Chairman and an Executive Director of the Company, was unable to attend the annual general meeting of the Company held on 14 June 2017 since he had other business engagements, which deviated from code provision E.1.2.

The company secretary of the Company had resigned since 8 January 2016, as such the Company no longer complied with the requirement under Rule 3.28 of the Listing Rules and, hence, the relevant code provisions in respect of company secretary. The Company is in the process of identifying a suitable candidate to fill the vacancy in the office of company secretary.

PURCHASE, SALE OR REDEMPTION 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 2017.

UPDATE ON LITIGATION PROCEEDINGS

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

Infringement of copyrights case

Reference is made to the announcement made by the Company dated 5 December 2016 in relation to the litigation in the People's Republic of China ("PRC") concerning infringement of copyrights of certain computer softwares that belong to Nanjing South China Skytech Technology Co., Limited (南京南華擎天資訊科技有限公司) ("South China Skytech").

On 31 January 2000, Janful Limited, an indirect wholly-owned subsidiary of the Company, and Nanjing Skytech Co., Limited (南京擎天科技有限公司) ("Nanjing Skytech") entered into a joint venture agreement to set up South China Skytech to engage, mainly, in software development, research, sales and after-sales service, system integration and other related electronic business.

In or about 2003, business of South China Skytech further deteriorated and suffered serious loss. Upon investigations, it was found that Nanjing Skytech illegally transferred all the computer softwares belonging to South China Skytech ("Computer Softwares") for its own use and registered the ownership of the copyrights of the Computer Softwares under its own name or under the name of Nanjing Skytech Software Technology Co., Limited 南京擎天軟件科技有限公司 ("Skytech Software"), rendering South China Skytech unable to continue its business. On the other hand, the assets and profits of Nanjing Skytech continued to increase and eventually Sinosoft Technology Group Limited 中國擎天軟件科技集團有限公司 ("Sinosoft"), the parent company of Nanjing Skytech, was listed in the Stock Exchange of Hong Kong in 2013 (Stock Code: 1297).

South China Skytech commenced legal proceedings in Jiangsu High People's Court ("Jiangsu High Court") against, inter alia, Nanjing Skytech seeking the Jiangsu High Court to determine that the ownership of the copyrights of a total of 31 Computer Softwares do belong to South China Skytech; and that Nanjing Skytech do pay South China Skytech damages in the sum of RMB210.4 million (to be assessed) for infringement of copyrights.

On 28 November 2016, the Jiangsu High Court delivered its first instance judgment on the Computer Softwares copyrights ownership. The Jiangsu High Court determined that during the period from March 2000 to March 2003, Nanjing Skytech basically had no employees. Not only that, before 2002, Nanjing Skytech had no fixed assets and therefore it did not have the necessary means to develop the Computer Softwares. The development of the Computer Softwares was mainly relied on South China Skytech's manpower and physical technology capability. The Jiangsu High Court also determined that Nanjing Skytech and Skytech Software had exploited South China Skytech's physical technology capability to develop the Computer Softwares and registered the ownership of the copyrights of the Computer Softwares under their respective names. Such actions did not comply with the basic principles of copyright laws. The ownership of the copyrights of a total of 13 Computer Softwares were held belong to South China Skytech.

The Company wishes to give an update that all parties in the said infringement of copyrights case have appealed to the Supreme People's Court of China. A collegial panel has been formed in March 2017 for trialing the appeal case.

The Company considers that Nanjing Skytech was in fact an empty shell company, basically with no employees, no office base and no capital. It had no means whatsoever to develop any computer software. Therefore, the Company considers that the remaining 18 Computer Softwares were also developed using the manpower and physical technology capabilities of South China Skytech and therefore the ownership of the copyrights of the remaining 18 Computer Softwares should also belong to South China Skytech. The Company will explore every possible course of action to claim for the ownership of the remaining 18 Computer Softwares.

In addition, it is noted that Sinosoft had disclosed in its prospectus dated 27 June 2013 of its alleged ownership of certain computer softwares. The Company considers that most of these computer softwares were also subsequently developed from the Computer Softwares belonging to South China Skytech. The Company will explore every possible course of action to claim against Nanjing Skytech and/or Sinosoft for infringement of copyrights by these computer softwares and to seek an injunction prohibiting Nanjing Skytech and/or Sinosoft to continue to sell and/or use these computer softwares.

Breach of non-competition obligation under PRC Company Law case

Reference is made to the announcement of the Company dated 20 July 2016 in relation to the final judgment made by the Jiangsu High Court against Nanjing Skytech, Ms. Xin Yingmei, Mr. Wang Xiaogang and Mr. Zhang Hong (the "Defendants") who had breached the non-competition obligation under PRC Company Law and were liable to pay all the gain therefrom to South China Skytech as follows:

1. Ms. Xin Yingmei, Mr. Wang Xiaogang, Mr. Zhang Hong and Nanjing Skytech shall pay RMB22,533,377.09 to South China Skytech;
2. Ms. Xin Yingmei shall pay RMB4,392,329.95 to South China Skytech. Mr. Wang Xiaogang, Mr. Zhang Hong and Nanjing Skytech shall be jointly liable to the payment;
3. Mr. Wang Xiaogang shall pay RMB691,859.56 to South China Skytech. Ms. Xin Yingmei, Mr. Zhang Hong and Nanjing Skytech shall be jointly liable to the payment; and
4. Mr. Zhang Hong shall pay RMB288,274.85 to South China Skytech. Ms. Xin Yingmei, Mr. Wang Xiaogang and Nanjing Skytech shall be jointly liable to the payment.

The Company wishes to give an update that the Jiangsu Immediate People's Court had frozen a bank account held by Nanjing Skytech with a total sum of approximately RMB28 million in February 2017.

(ii) Development right of a piece of land situate at Tianjin Binhai New District

In April 1993, World Right Investments Limited (環威投資有限公司) (“World Right”), an indirect wholly-owned subsidiary of the Company, and Tianjin Tanggu Property Development Company Limited (天津塘沽房地產開發股份有限公司)(currently known as Binhai Investment Group Holding Company Limited (濱海投資集團股份有限公司) (“Binhai Investment Group”)) formed a joint venture company in PRC known as Tianjin South China Property Development Company Limited (天津南華房地產開發有限公司) (“South China Property”). World Right holds 51% equity interest in South China Property.

In June 1993, World Right and Binhai Investment Group entered into a joint development agreement (the “Development Agreement”). It was agreed under the Development Agreement, inter alia, that World Right and Binhai Investment Group shall jointly develop a piece of land situate at Tianjin Binhai New District with an area about 5 hundred thousand square metres (the “5 Hundred Thousand Square Metres Land”) and World Right shall pay RMB10.4 million in cash to increase the capital investment in South China Property. World Right duly paid the capital investment of RMB10.4 million which had been used for paying land formation work of the 5 Hundred Thousand Square Metres Land. However, Binhai Investment Group refused to honour the Development Agreement and refused to recognize that the development right of the 5 Hundred Thousand Square Metres Land shall be jointly owned by World Right and Binhai Investment Group. In 2013, World Right commenced legal proceedings in Tianjin High People’s Court (“Tianjin High Court”) against Binhai Investment Group claiming for specific performance of the Development Agreement.

In December 2015, the Tianjin High Court rejected World Right’s claim. World Right appealed to the Supreme People’s Court of China. In September 2016, the Supreme People’s Court of China determined that the Tianjin High Court had failed to investigate the status of the registration of the land use right and the status of the development right of the 5 Hundred Thousand Square Metres Land before confirming that Tianjin Cheng Tou Binhai Property Company Limited (天津城投濱海房地產經營有限公司), who is not a party to the litigation case, shall have the land use right of the 5 Hundred Thousand Square Metres Land. The Supreme People’s Court of China also held that there were insufficient evidence to reject World Right’s claim for specific performance. The Supreme People’s Court of China ordered a retrial of the case at the Tianjin High Court.

In March 2017, a collegial panel has been formed by the Tianjin High Court for retrialing the case.

In addition, a series of administrative litigations were instituted against relevant government authorities. In November 2016, the Tianjin High Court had ordered retrial of an administrative litigation case concerning registration of the 5 Hundred Thousand Square Metres Land and in April 2017, the Tianjin High Court had ordered retrial of another 5 administrative litigations concerning cancelling the land use right certificates wrongly issued. Subject to inherent uncertainties of litigation, in the event of favourable outcome of the litigation cases, it is expected that World Right and/or South China Property may recover the joint development right of certain area of land in Tianjin Binhai.

In or about July this year, the relevant Tianjin Government department has stopped the construction works of a real estate development situated on portion of the 5 Hundred Thousand Square Metres Land (“the said Real Estate Development”) for the reason that the necessary construction permit has not been issued and fined the relevant responsible parties. According to information obtained from investigation, Tianjin Sino Ocean Hua Zi Zhi Ye Company Limited (“Sino Ocean Hua Zi”), an indirect subsidiary of Sino-Ocean Group Holding Limited (Stock Code 3377) acted as the developer of the said Real Estate Development. However, according to evidence produced at the litigation proceedings held at Tianjin High Court, , Sino Ocean Hua Zi does not have the land use right certificate regarding the said Real Estate Development. On the face of the evidence available, the obtaining of the development right by Sino Ocean Hua Zi was in breach of the applicable PRC laws. According to Article 39 of the Urban Real Estate Administration Law of the People’s Republic of China, 25 percent or more of the total investment shall have been spent on the housing development project before transferring the land use right. Since the necessary construction permit for the said Real Estate Development has not been issued, it is highly probable that the total investment in the said Real Estate Development has not met the said requirement. World Right will explore every possible course of action to protect its rights under the Development Agreement.

CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1), the changes in information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the course of the Directors’ terms of office for the period from the date of publication of the Company’s latest annual report up to the date of this interim report are set out below:

Sr Dr. Leung Tony Ka Tung, an independent non-executive director of the Company, did not offer himself for re-election and retired as a director by rotation in accordance with Article 116 of the Articles of Association of the Company with effect from 14 June 2017.

Mr. Law Albert Yu Kwan resigned as an executive director, a member of executive committee and group chief financial officer of the Company with effect from 1 July 2017.

Mr. Yip Dicky Peter resigned as an independent director of DSG International (Thailand) Public Company Limited, being listed on The Stock Exchange of Thailand, with effect from 9 August 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding the directors’ securities transactions. In addition, the Board has established similar guidelines for relevant employees who are likely to possess inside information in relation to the Group or its securities.

In response to the Company’s specific enquiry, all Directors of the Company confirmed that they have complied with the required standard set out in the Model Code regarding securities transactions by Directors throughout the six months ended 30 June 2017.

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 four Independent Non-executive Directors, namely Ms. Li Yuen Yu Alice (Chairman of the Committee), Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin Elizabeth and Mr. Yip Dicky Peter, J.P. and a Non-executive Director, Mr. David Michael Norman.

The Group's unaudited interim report for the six months ended 30 June 2017 have been reviewed by the Audit Committee, which was of the opinion that the preparation had been complied with the applicable accounting standards and requirements and that adequate disclosures were made.

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, 30 August 2017

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