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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

GROUP RESULTS

The board of directors (the "Board") of South China Holdings Company Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 together with comparative figures for the last financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	**2017** **HK$'000**	2016 HK$'000
Revenue	*3*	**3,901,796**	3,731,153
Cost of sales		**(3,328,548)**	(3,021,044)
Gross profit		**573,248**	710,109
Other income and gains, net	*4*	**162,331**	100,297
Fair value gain on investment properties inclusive of investment properties presented as non-current assets classified as held for sale		**289,053**	146,683
Fair value loss on financial assets at fair value through profit or loss		**(2,462)**	(22,137)
Fair value loss on foreign exchange forward contracts		**-**	(55)
Selling and distribution expenses		**(72,399)**	(68,068)
Administrative expenses		**(513,634)**	(535,909)
Equity-settled share award expense		**(4,736)**	(7,927)
Profit from operations	*3*	**431,401**	322,993

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

	Note	**2017** **HK$'000**	2016 HK$'000
Finance costs		**(127,048)**	(120,622)
Share of losses of associates		**(604)**	(1,090)
Profit before tax		**303,749**	201,281
Income tax	*6*	**(55,617)**	(54,648)
Profit for the year		**248,132**	146,633
Attributable to:			
Equity shareholders of the Company		**229,872**	152,142
Non-controlling interests		**18,260**	(5,509)
		248,132	146,633
Earnings per share	*7*		
Basic		**HK 1.77 cents**	HK 1.71 cents
Diluted		**HK 1.64 cents**	HK 1.08 cents

Details of the dividends paid and proposed for the year are set out in note 8.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2017 HK$'000	2016 HK$'000
Profit for the year	**248,132**	146,633
Other comprehensive income (after tax and reclassification adjustments)		
Items that may be reclassified to profit or loss in subsequent periods (nil of tax effect):		
Available-for-sale financial assets:		
- Net changes in fair value	**33,442**	(633)
- Reclassification adjustment for impairment loss transferred to profit or loss	**-**	12
	33,442	(621)
Exchange differences on translation of financial statements of operations outside Hong Kong	**337,962**	(313,626)
Release of exchange reserve upon step acquisition	**(1,091)**	-
Share of other comprehensive income of associates	**5,236**	(664)
Other comprehensive income for the year	**375,549**	(314,911)
Total comprehensive income for the year	**623,681**	(168,278)
Attributable to:		
Equity shareholders of the Company	**570,877**	(130,282)
Non-controlling interests	**52,804**	(37,996)
	623,681	(168,278)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2017 HK$'000	As at 31 December 2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**180,565**	202,863
Investment properties	*9*	**6,062,534**	6,405,099
Prepaid land lease payments		**82,969**	81,358
Construction in progress		**158,003**	138,374
Investments in associates		**1,374**	10,347
Bearer plants		**63,536**	69,852
Available-for-sale financial assets		**106,902**	73,400
Prepayments and deposits		**20,958**	18,301
Goodwill		**3,106**	2,986
Other non-current assets		**15,638**	15,638
Total non-current assets		**6,695,585**	7,018,218
CURRENT ASSETS			
Inventories		**577,305**	451,876
Properties under development		**1,597,326**	1,153,055
Trade receivables	*10*	**538,310**	617,040
Prepayments, deposits and other receivables		**792,500**	859,526
Financial assets at fair value through profit or loss		**26,050**	28,040
Foreign exchange forward contracts		**25,660**	-
Amounts due from non-controlling shareholders of subsidiaries		**56,153**	52,203
Amounts due from affiliates		**-**	75,500
Tax recoverable		**57,300**	44,414
Cash and bank balances		**713,029**	498,099
		4,383,633	3,779,753
Non-current assets classified as held for sale	*9*	**1,883,000**	939,000
Total current assets		**6,266,633**	4,718,753
CURRENT LIABILITIES			
Trade payables	*11*	**668,987**	649,533
Other payables and accruals		**787,536**	575,228
Interest-bearing bank borrowings		**1,744,489**	1,802,320
Amounts due to non-controlling shareholders of subsidiaries		**5,221**	2,310
Tax payable		**54,998**	59,727
Total current liabilities		**3,261,231**	3,089,118
NET CURRENT ASSETS		**3,005,402**	1,629,635
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,700,987**	8,647,853

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Note	**As at 31 December 2017** **HK$'000**	As at 31 December 2016 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**2,577,109**	2,245,134
Advances from non-controlling shareholders of subsidiaries		**7,941**	7,941
Other non-current liabilities		**74,323**	69,147
Deferred tax liabilities		**904,094**	805,060
Total non-current liabilities		**3,563,467**	3,127,282
NET ASSETS		**6,137,520**	5,520,571
CAPITAL AND RESERVES			
Share capital	*12*	**140,423**	112,567
Reserves		**5,625,022**	5,088,733
Total equity attributable to equity shareholders of the Company		**5,765,445**	5,201,300
Non-controlling interests		**372,075**	319,271
TOTAL EQUITY		**6,137,520**	5,520,571

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. Principal accounting policies and basis of preparation

The annual results set out in the announcement are extracted from the Group's consolidated financial statements for the year ended 31 December 2017.

The accounting policies and basis of preparation adopted in the financial statements are consistent with those adopted in the Group's audited 2016 annual financial statements except for changes in accounting policies as a result of the adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") as set out in note 2.

2. Changes in accounting policies

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKAS 7, Statement of cash flows: Disclosure initiative
Amendments to HKAS 12, Income taxes: Recognition of deferred tax assets for unrealized losses

None of these impact on the accounting policies of the Group. However, additional disclosure has been included to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. Revenue and segmental information

Revenue represents the net invoiced value of goods sold after allowances for returns and trade discounts, the value of services rendered and gross rental income received and receivable from investment properties during the year.

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) the trading and manufacturing segment is engaged in trading and manufacturing of merchandises including toys, footwear products and leather products;

(b) the property investment and development segment is engaged in property investment and development;

(c) the agriculture and forestry segment is engaged in the cultivation of fruit trees and crops, rearing of livestock and aquatic products, forestation and sale of relevant agricultural products; and

(d) the investment holding segment comprises, principally, the Group's investment holding related management functions.

3. Revenue and segmental information (continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that share of profits and losses of associates and finance costs are excluded from such measurement.

Business segments

The following tables present revenue and profit for the Group's business segments for the years ended 31 December 2017 and 2016.

	Trading and manufacturing		*Property investment and development*		*Agriculture and forestry*		*Investment holding*		*Group*	
	2017	*2016*	***2017***	*2016*	***2017***	*2016*	***2017***	*2016*	***2017***	*2016*
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue										
External sales	**3,692,043**	3,528,762	**195,426**	182,457	**14,327**	19,934	**-**	-	**3,901,796**	3,731,153
Segment results	**91,416**	308,481	**515,546**	198,405	**(48,515)**	(78,694)	**(127,046)**	(105,199)	**431,401**	322,993
Reconciliation:										
– Share of (losses)/ profits of associates	**(605)**	(1,206)	**-**	-	**-**	-	**1**	116	**(604)**	(1,090)
– Finance costs									**(127,048)**	(120,622)
Profit before tax									**303,749**	201,281

Geographical segments

Revenue from external customers

	2017	2016
	HK$'000	HK$'000
The People's Republic of China ("PRC"), including Hong Kong and Macau	**369,333**	376,974
The United States of America	**2,045,478**	2,117,773
Europe	**812,355**	630,635
Japan	**73,330**	51,270
Others	**601,300**	554,501
	3,901,796	3,731,153

The revenue information above is based on the destination to which goods and services are delivered.

4. Gain on disposal of an investment property and interests in a subsidiary

For the year ended 31 December 2017, the Group recorded a gain on disposal of an investment property and interests in a subsidiary amounted to approximately HK$42,080,000 (2016: nil) and HK$88,984,000 (2016: nil) respectively.

5. 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 year ended 31 December 2017 amounted to approximately HK$49,963,000 (2016: HK$49,245,000) and HK$44,685,000 (2016: HK$45,679,000), respectively.

6. Income tax

Income tax comprises current and deferred taxes.

Hong Kong Profits Tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the respective countries/jurisdictions 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.

7. Earnings per share

The calculation of the basic earnings per share is based on the profit for the year attributable to equity shareholders of the Company of HK$229,872,000 (2016: HK$152,142,000), and the weighted average number of ordinary shares of 12,981,705,000 (2016: 8,906,562,000) in issue, after adjusting for the bonus issue during the year, less shares held for share award scheme and treasury shares.

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on vesting, and the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares, after adjusting for the bonus issue during the year.

The calculations of basic and diluted earnings per share are based on:

	2017	2016
	HK$'000	HK$'000
Earnings		
Profit attributable to equity shareholders of the Company used in the basic and diluted earnings per share calculation	**229,872**	152,142

	Number of shares	
	2017	2016
	'000	'000
Shares		
Weighted average number of ordinary shares used in the basic earnings per share calculation	**12,981,705**	8,906,562
Effect of redeemable convertible preference shares	**835,617**	5,081,478
Effect of shares held for share award scheme	**207,348**	91,500
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**14,024,670**	14,079,540

The Company's share options have no dilution effect for the years ended 31 December 2017 and 2016 because the exercise price of the Company's share options was higher than the average market price of the shares for both years and the share options are therefore anti-dilutive.

8. Dividends

The Company had not declared or paid any dividend during the year (2016: nil) and the board of directors of the Company did not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

9. Investment properties/ Non-current assets classified as held for sale

As at 31 December 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.

10. Trade receivables

The Group's trading terms with its customers are mainly on credit with credit periods normally ranging from 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 the senior management. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

An ageing analysis of trade receivables net of provision for impairment as at the end of the reporting period based on invoice date is as follows:

	2017 **HK$'000**	2016 HK$'000
Within 90 days	**506,467**	579,732
91 to 180 days	**18,354**	22,677
181 to 365 days	**5,559**	6,420
Over 365 days	**7,930**	8,211
	538,310	617,040

11. Trade payables

An ageing analysis of the trade payables as at the end of the reporting period based on invoice date is as follows:

	2017 **HK$'000**	2016 HK$'000
Within 90 days	**517,889**	471,259
91 to 180 days	**61,434**	88,273
181 to 365 days	**12,807**	20,964
Over 365 days	**76,857**	69,037
	668,987	649,533

The trade payables are non-interest-bearing and normally settled on 90-day terms.

12. Share capital

	2017	2016
	HK$'000	HK$'000
Authorised:		
20,000,000,000 (2016: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
3,000,000,000 (2016: 3,000,000,000) redeemable convertible preference shares of HK$0.02 each	**60,000**	60,000
Total authorised capital	**260,000**	260,000
Issued and fully paid:		
13,221,302,172 (2016: 10,407,117,286) ordinary shares of HK$0.01 each (Note 1)	**132,213**	104,071
410,475,131 (2016: 424,811,131) redeemable convertible preference shares of HK$0.02 each (Note 2)	**8,210**	8,496
Total issued and fully paid capital	**140,423**	112,567

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.

12. Share capital (continued)

Movements of issued capital were as follows:

	Issued ordinary shares HK$'000	Issued redeemable convertible preference shares HK$'000	Share premium HK$'000	Total HK$'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 and at 1 January 2017	**104,071**	**8,496**	**1,755,891**	**1,868,458**
14,336,000 redeemable convertible preference shares redeemed during the year	**-**	**(286)**	**(11,182)**	**(11,468)**
Issue of bonus shares during the year (Note 1)	**28,142**	**-**	**(28,142)**	**-**
At 31 December 2017	**132,213**	**8,210**	**1,716,567**	**1,856,990**

Movements of number of issued shares are as follows:

	No. of issued ordinary shares '000	***No. of redeemable convertible preference shares*** '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 and at 1 January 2017	**10,407,117**	**424,811**
Redeemed during the year	**-**	**(14,336)**
Issue of bonus shares during the year	**2,814,185**	**-**
At 31 December 2017	**13,221,302**	**410,475**

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, and consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded revenue of HK$3.9 billion (2016: HK$3.7 billion) and profit for the year of HK$248.1 million (2016: HK$146.6 million) for the year ended 31 December 2017, representing an increase of 5% and 69%, respectively, as compared to corresponding amounts reported in 2016. Earnings per share attributable to equity holders of the Company for the year was HK1.77 cents (2016: HK1.71 cents). Both revenue and profit for the year are the financial key performance indicators of the Group.

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 5% increase in revenue to HK$3.7 billion (2016: HK$3.5 billion) and a 70% decrease in operating profit to HK$91.4 million (2016: HK$308.5 million) for the year ended 31 December 2017.

(i) OEM toys manufacturing

The OEM toys operation achieved a record-breaking revenue of HK$3.4 billion, representing a 5% increase compared to last year. The growth was mainly attributable to the ongoing improvement in our provision of one-stop integrated solutions to customers and therefore we have been continuously winning trusts and business from them. Our customers also win as this can be seen with many of our manufactured products being awarded world-acclaimed recognitions and awards such as "Innovation Toy of the Year 2017" at the North American International Toy Fair.

While increasing production, the Group managed to provide high quality on timely 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 and was mainly attributable to the increasing labor and raw material costs and lower-than-expected efficiency due to significant growth in sales volume in 2017. 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 year ended 31 December 2017, revenue from the footwear trading operations increased by 6% to HK$245.2 million, mainly attributable to increase in sales volume from customers. However, overall results from operations has turned into a loss of HK$7.3 million as compared to a profit of HK$10.8 million in 2016 due to increasing purchase cost, change in product mix and bad debt of HK$11 million provided in current year.

Property Investment and Development

During the year ended 31 December 2017, revenue of the property investment and development segment increased by 7% to HK$195.4 million. The operating profit, which includes fair value gain on investment properties and disposal gain of properties, increased by 160% to HK$515.5 million in the current year. The fair value gain on investment properties has increased by HK$142.4 million compared to year 2016, and the Group has offloaded two properties in Hong Kong which were considered non-core assets with low contribution and have contributed an one-off gain of HK$131.1 million in current year.

Rental income remained stable in the current year 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 significant share of the fur retail market. Furthermore, our rental portfolio in Tianjin also reported an increase in rental income during the year. The growth came primarily from the commercialization of our Tianjin industrial properties. Income derived from our Nanjing portfolio remained stable during the year.

In addition to our existing rental portfolios, 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 line 1 of the mass transit railway and will also be potentially intersected with 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 saleable 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 construction work of residential and serviced apartment towers are well underway and in the process of completion as scheduled. Meanwhile, over 70% of pre-sale of one residential tower and the serviced apartment tower have been sold; it is expected that we will launch our selling of approximately 1,500 units in coming years. With its prime location situated right above a mass transit railway line and potential intersection with another one, together with a robust pedestrian street, it is envisioned that the Central Square will become a must-go place for retailers, consumers and local residents.

In the second half of 2017, the Group has also acquired another piece of land and industrial buildings at Nanjing with a GFA of over 18,000 square metres. We are in the process of implementing commercialization strategy with this land for providing contributions to the Group in near future.

Agriculture and Forestry

Revenue and operating loss from the agriculture and forestry segment was HK$14.3 million and HK$48.5 million in 2017, representing decrease by 28% and 38% as compared to 2016, respectively. The bearer plants balance decreased from HK$69.9 million in 2016 to HK$63.5 million in 2017; in terms of Renminbi, the functional currency of the relevant subsidiaries, the bearer plants balance decreased by about 15%. The decrease was mainly due to the combined effect of write-off and depreciation of bearer plants, offset by exchange realignment derived from RMB appreciation.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had a current ratio of 1.9 and a gearing ratio of 42.0% (31 December 2016: 1.5 and 40.7%, respectively). The gearing ratio is computed by dividing the Group's total long-term bank borrowings of HK$2.6 billion by the Group's equity of HK$6.1 billion. The Group's operation and investments continued to be financed by internal resources and bank borrowings.

CAPITAL STRUCTURE

Except for the issue of bonus shares and the redemption of the redeemable convertible preference shares as detailed in note 12 to this announcement, there was no material change in the Group's capital structure.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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 南京南英置業有限公司 (formerly known as Nanjing Ingersoll-Rand Compressor Co., Ltd. (南京英格索蘭壓縮機有限公司)), an associate of the Company held by the Transferor at a total consideration of RMB 44.4 million. The acquisition has been completed on 11 August 2017.

An indirectly 70%-owned subsidiary of the Company had entered into a sale and purchase agreement with an independent third party for the disposal of the entire issued capital of its directly wholly-owned subsidiary together with the sale loan at the total consideration of HK$102 million. The disposed subsidiary held an investment property in Hong Kong and the disposal had been completed on 24 November 2017.

Another indirectly wholly owned subsidiary of the Company entered into a sale and purchase agreement for the disposal of its investment property in Hong Kong with an independent third party at the consideration of HK$112 million which had completed on 20 December 2017.

Saved as disclosed in the above, there was no material acquisition or disposal of any subsidiary or associated company during the year.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

Except for the above section headed "Material Acquisitions and Disposals of Subsidiaries and Associated Companies", the related mortgages of the disposed properties as mentioned were released upon completion, there was no material change in the Group's pledge of assets and contingent liabilities.

PROSPECTS

Going forward, the coming year will be another challenging year given the dynamic changes in the macroeconomic environment worldwide. Despite the challenges, management believes that there will still be growth opportunities for our businesses and projects in China in the long run. Management will continue to drive revenues while at the same time be cost conscious to generate returns and create value for our shareholders.

Trading and Manufacturing

OEM toys manufacturing

The Group will continue its effort to fine tune its pricing strategy in response to increasing labor and raw materials costs, expand product range and enlarge customer base with a continuous focus on better efficiency, cost control, time to market production and providing our one-stop integrated solutions and services to customers.

We will focus in consolidating our existing orders, rather than pursuing tremendous growth in revenue which we have achieved in last few years. We will keep up the successful accomplishment on production of toy robots, drone and sensing device through wifi, blue tooth and other mediums. Meanwhile, we will continue to explore the 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 2017, and has identified a few suitable existing plants to support our business growth in future.

Management holds positive view on the revenue growth in 2018 while at the same time continue to be cost conscious in improving operation efficiency and hence our service to clients.

Property Investment and Development

Property Investments

The Group has a property investment portfolio with total floor area of approximately 580,000 square metres in Mainland China and 280,000 square feet (approximately 26,000 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 ("AOS") 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 AOS as the leading fur mall in Northern China and will build upon the significant market share that we have managed to capture over the last few years.

Nanjing and Tianjin rental portfolio is expected to have an upside in 2018 onwards as we are in progress of implementing our commercialization strategy across the portfolio.

Meanwhile, the Group will actively consider offloading non-core low-contribution 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 well underway and in the process of completion as scheduled. With its prime location situated right above the intersection of two mass transit railways lines and a robust Zhongjie pedestrian street, the Central Square will become a prime shopping and residential area in Shenyang with a mix of trendy restaurants, boutiques, department stores, shopping malls and hotels. Management is cautiously optimistic on the contributions from the project in 2018 onwards.

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 process of re-settlement of non-residential units. 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 which was acquired previously 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 progressing under the planning stage. In light of the Tianjin government's 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. Our 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 resource utilisation with a view to containing costs.

PRINCIPAL RISKS AND UNCERTAINITIES

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.

<u>Risks relating to Property Investment and Development</u>

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.

<u>Risks relating to Agriculture and Forestry</u>

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.

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 on 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 RMB 210.4 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 was 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. Subsequent to the registration of the case by the Supreme People's Court of China, the first hearing was held on 19 October 2017, and the case is in the proceedings of second instance trial.

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 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 perform 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 overruled 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, but confirmed 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. Under such circumstances, the Supreme People's Court of China held that there were insufficient evidence to reject World Right's claim for specific performance and 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 which is in the proceedings of the first instance trial.

In addition, World Right and South China Property had instituted a series of administrative litigations against relevant government authorities. In November 2016, the Tianjin High Court ordered retrial of an administrative litigation case concerning registration of the 5 Hundred Thousand Square Metres Land. On 8 November 2017, Binhai New District People's Court overruled South China Property's claim at the first instance trial. South China Property did not agree to the ruling and proceeded its appeal which is in the proceedings of the second instance trial at The Secondary Intermediate People's Court of Tianjin. In April 2017, the Tianjin High Court ordered retrial of another 5 administrative litigations concerning mistaken issue/revocation of the land use right certificates, amongst which, the first retrial of three of the five litigations started on 7 December 2017 and 15 December 2017 at the Binhai New District People's Court.

Subject to inherent uncertainties of litigations, in the event of favourable outcome of the litigation cases, it is expected that World Right and/or South China Property may restore the joint development right of certain area of land in Tianjin Binhai.

In or about July 2017, the relevant Tianjin government department ordered to stop 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 for the said Real Estate Development has not been issued, and to pay administrative fine. 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 the 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.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

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 Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange throughout the year ended 31 December 2017 except that:

(i) Mr. Ng Hung Sang, 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; and

(ii) 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 had subsequently complied with Rule 3.28 of the Listing Rules and the relevant code provisions as the Company had appointed a company secretary with effect from 21 December 2017.

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

During the year, 1,256,000 shares of the Company had been purchased at a consideration of approximately HK$0.4 million and awarded to the Company's employees. Other than that, the Company or any of its subsidiaries did not purchase, sell or redeem any of the listed shares of the Company during the year ended 31 December 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 Mr. Kam Yiu Shing Tony (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 annual results for the year ended 31 December 2017 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such annual results 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, 23 March 2018

As at the date of this announcement, the directors 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, Mr. David Michael Norman and Ms. Li Yuen Yu Alice as non-executive directors; (3) Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin Elizabeth, Mr. Yip Dicky Peter, J.P., and Mr. Kam Yiu Shing Tony as independent non-executive directors.