SOUTH CHINA HOLDINGS COMPANY LIMITED

南華集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00413)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

UNAUDITED INTERIM RESULTS

The board of directors (the "Board") of South China Holdings Company Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2017 together with the relevant comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	**HK$'000**	HK$'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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

		Six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	**HK$'000**	HK$'000
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
Attributable to:			
Equity shareholders of the Company		**42,605**	25,448
Non-controlling interests		**(5,360)**	121
		37,245	25,569
Earnings per share	*6*		(Restated)
Basic		**HK0.3 cents**	HK0.3 cents
Diluted		**HK0.3 cents**	HK0.2 cents

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 30 June 2017 Unaudited HK$'000**	As at 31 December 2016 Audited HK$'000
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
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
		4,243,186	3,779,753
Non-current assets classified as held for sale	*7*	**1,850,000**	939,000
Total current assets		**6,093,186**	4,718,753
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 non-controlling shareholders of subsidiaries		**3,637**	2,310
Tax payable		**45,734**	59,727
Total current liabilities		**3,153,062**	3,089,118
NET CURRENT ASSETS		**2,940,124**	1,629,635
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,350,356**	8,647,853

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Note	**As at 30 June 2017 Unaudited HK$'000**	As at 31 December 2016 Audited HK$'000
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
Total non-current liabilities		**3,659,571**	3,127,282
NET ASSETS		**5,690,785**	5,520,571
CAPITAL AND RESERVES			
Share capital	*10*	**140,598**	112,567
Reserves		**5,223,099**	5,088,733
Total equity attributable to equity shareholders of the Company		**5,363,697**	5,201,300
Non-controlling interests		**327,088**	319,271
TOTAL EQUITY		**5,690,785**	5,520,571

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	*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	**1,254,733**	1,112,072	**92,774**	92,364	**8,563**	8,152	-	-	**1,356,070**	1,212,588
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									**49,515**	43,560

By geographical location[#]:

	Revenue Six months ended 30 June		**Contribution to profit/(loss) from operations Six months ended 30 June**	
	2017	2016	**2017**	2016
	Unaudited	Unaudited	**Unaudited**	Unaudited
	HK$'000	HK$'000	**HK$'000**	HK$'000
The People's Republic of China (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
	1,356,070	1,212,588	**111,646**	102,180

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

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	2016
	Unaudited	Unaudited
Earnings	**HK$'000**	HK$'000
Profit attributable to equity shareholders of the Company used in basic and diluted earnings per share calculation	**42,605**	25,448

	2017	2016
	Unaudited	Unaudited and restated
Shares	**'000**	'000
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	**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
419,227,131 (2016: 424,811,131) redeemable convertible preference shares ("CPSs") of HK$0.02 each (Note 2)	**8,385**	8,496
Total issued and fully paid capital	**140,598**	112,567

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 share (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	132,213	8,385	1,723,393	1,863,991

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	104,071	8,496	1,755,891	1,868,458

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	**13,221,302**	**419,227**

	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	10,407,117	424,811

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 railway 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.

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 announcement, there was no material change in the Group's capital structure as compared to the most recently published annual report.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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 RMB 45 million. The acquisition has been completed on 11 August 2017.

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 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.

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).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company during the six months ended 30 June 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 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 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 Count 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 RMB 4,392,329.95 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 RMB 691,859.56 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 RMB 288,274.85 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 RMB 28 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 RMB 10.4 million in cash to increase the capital investment in South China Property. World Right duly paid the capital investment of RMB 10.4 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.

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.

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 consolidated results 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 announcement, 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. as independent non-executive directors.