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SOUTH CHINA HOLDINGS COMPANY LIMITED

南華集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00413)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

GROUP RESULTS

The board of directors (the "Board" or the "Directors") 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 2022 together with comparative figures for the last financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	**2022** *HK$'000*	2021 *HK$'000*
Revenue	*3*	**3,813,722**	4,724,909
Cost of sales		**(3,242,457)**	(4,189,494)
Gross profit		**571,265**	535,415
Other income and gains, net		**152,571**	126,899
Net fair value (loss)/gain on investment properties inclusive of investment properties presented as non-current assets classified as held for sale		**(54,217)**	128,328
Selling and distribution expenses		**(66,902)**	(89,135)
Administrative expenses		**(310,370)**	(445,268)
Profit from operations	*3&4*	**292,347**	256,239

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

	Note	**2022** **_HK$'000_**	2021 *HK$'000*
Finance costs		**(205,252)**	(169,628)
Share of losses of associates		**(419)**	(313)
Share of profits/(losses) of joint ventures		**260**	(5)
Profit before tax		**86,936**	86,293
Income tax	*5*	**(21,292)**	(53,217)
Profit for the year		**65,644**	33,076
Attributable to:			
Equity shareholders of the Company		**74,734**	30,852
Non-controlling interests		**(9,090)**	2,224
		65,644	33,076
Earnings per share	*6*		
Basic		**HK0.6 cents**	HK0.2 cents
Diluted		**HK0.6 cents**	HK0.2 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2022	2021
	HK$'000	*HK$'000*
Profit for the year	**65,644**	33,076
Other comprehensive income		
Item that will not be reclassified to profit or loss:		
Surplus on revaluation of property, plant and equipment and construction in progress upon transfer to investment properties, net of nil tax	**–**	4,640
Item that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of operations outside Hong Kong, net of nil tax	**(547,240)**	182,279
Other comprehensive income for the year	**(547,240)**	186,919
Total comprehensive income for the year	**(481,596)**	219,995
Attributable to:		
Equity shareholders of the Company	**(431,424)**	203,782
Non-controlling interests	**(50,172)**	16,213
	(481,596)	219,995

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2022 HK$'000	As at 31 December 2021 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	**528,258**	648,292
Investment properties	8	**9,660,128**	10,231,393
Construction in progress	8	**164**	178
Investments in associates		**257**	676
Investments in joint ventures		**49**	18
Bearer plants		**21,385**	25,891
Other non-current assets		**133,294**	148,638
Total non-current assets		**10,343,535**	11,055,086
CURRENT ASSETS			
Inventories		**965,784**	1,324,303
Properties under development		**246,817**	261,186
Trade receivables	9	**343,591**	841,769
Prepayments, deposits and other receivables		**1,161,552**	1,215,077
Financial assets measured at fair value through profit or loss		**12,371**	6,541
Amounts due from associates		**5,145**	4,977
Amounts due from related companies		**19,125**	8,343
Tax recoverables		**1,044**	13
Cash and bank balances		**438,262**	622,497
		3,193,691	4,284,706
Non-current assets classified as held for sale	8	**–**	275,198
Total current assets		**3,193,691**	4,559,904

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Note	**As at 31 December 2022** *HK$'000*	As at 31 December 2021 *HK$'000*
CURRENT LIABILITIES			
Trade payables	*10*	**576,316**	1,031,431
Other payables and accruals		**696,472**	688,407
Interest-bearing bank borrowings		**1,342,765**	2,040,470
Lease liabilities		**55,165**	77,303
Amounts due to non-controlling shareholders of subsidiaries		**10,423**	10,973
Tax payables		**90,347**	109,291
Total current liabilities		**2,771,488**	3,957,875
NET CURRENT ASSETS		**422,203**	602,029
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,765,738**	11,657,115
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**2,261,683**	2,482,400
Lease liabilities		**311,122**	393,325
Amounts due to non-controlling shareholders of subsidiaries		**7,941**	7,941
Amounts due to related companies		**566,374**	604,405
Other non-current liabilities		**55,037**	59,801
Deferred tax liabilities		**1,074,376**	1,211,648
Total non-current liabilities		**4,276,533**	4,759,520
NET ASSETS		**6,489,205**	6,897,595
CAPITAL AND RESERVES			
Share capital	*11*	**134,413**	134,413
Reserves		**6,028,976**	6,419,218
Total equity attributable to equity shareholders of the Company		**6,163,389**	6,553,631
Non-controlling interests		**325,816**	343,964
TOTAL EQUITY		**6,489,205**	6,897,595

NOTES TO THE ANNOUNCEMENT

1. SIGNIFICANT 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 2022.

The accounting policies and basis of preparation adopted in the financial statements are consistent with those adopted in the Group's audited 2021 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 Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") to these consolidated financial statements for the current accounting period:

- Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*

- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*

The amendments prohibit an entity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss. The amendments do not have a material impact on these consolidated financial statements as the Group does not sell items produced before an item of property, plant and equipment is available for use.

Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

Previously, the Group included only incremental costs when determining whether a contract was onerous. In accordance with the transitional provisions, the Group has applied the new accounting policy to contracts for which it has not yet fulfilled all its obligations at 1 January 2022, and has concluded that none of them is onerous.

3. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the net invoiced value of goods sold after allowances for returns and trade discounts, sales of properties, 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:

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

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

(iii) 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

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

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 joint ventures and finance costs are excluded from such measurement.

3. REVENUE AND SEGMENTAL INFORMATION (continued)

Business segments

The following tables present revenue and profit for the Group's business segments for the years ended 31 December 2022 and 2021.

	Trading and manufacturing		Property investment and development		Agriculture and forestry		Others		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
External sales	**3,539,515**	4,314,040	**273,504**	408,213	**703**	2,656	**–**	–	**3,813,722**	4,724,909
Segment results	**236,041**	87,059	**102,600**	233,980	**(17,201)**	(11,777)	**(29,093)**	(53,023)	**292,347**	256,239
Reconciliation:										
— Share of losses of associates									**(419)**	(313)
— Share of profits/ (losses) of joint ventures									**260**	(5)
— Finance costs									**(205,252)**	(169,628)
Profit before tax									**86,936**	86,293

Geographical segments

Revenue from external customers

	2022	2021
	HK$'000	*HK$'000*
The People's Republic of China ("PRC"), including Hong Kong and Macau	**368,203**	605,451
The United States of America ("USA")	**2,327,367**	2,620,073
Europe	**749,690**	1,105,047
Japan	**21,048**	12,070
Others	**347,414**	382,268
	3,813,722	4,724,909

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

4. PROFIT FROM OPERATIONS

Profit from operations includes depreciation in respect of the Group's property, plant and equipment (including right-of-use assets) and bearer plants for the year ended 31 December 2022 amounting to approximately HK$134,755,000 (2021: HK$135,599,000).

For the year ended 31 December 2022, the Group recorded a gain on disposal of subsidiaries amounted to approximately HK$56,986,000 (2021: HK$1,650,000).

5. INCOME TAX

Income tax comprises current and deferred taxes.

Hong Kong Profits Tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

PRC Corporate Income Tax has been calculated at the rate of 25% (2021: 25%) on estimated assessable profits arising in the PRC during the year.

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

6. 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$74,734,000 (2021: HK$30,852,000), and the weighted average number of ordinary shares of 12,982,892,000 (2021: 12,982,892,000) in issue after deducting shares held for the 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.

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

	2022	2021
	HK$'000	*HK$'000*
Earnings		
Profit attributable to equity shareholders of the Company used in the basic and diluted earnings per share calculation	**74,734**	30,852

	Number of shares	
	2022	2021
	'000	*'000*
Shares		
Weighted average number of ordinary shares used in the basic earnings per share calculation	**12,982,892**	12,982,892
Effect of redeemable convertible preference shares	**219,951**	229,946
Effect of shares held for share award scheme	**206,161**	206,161
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**13,409,004**	13,418,999

The Company's share options have no dilution effect for the years ended 31 December 2022 and 2021 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.

7. DIVIDENDS

The Company had not declared or paid any dividend during the year ended 31 December 2022 (2021: nil) and the Board did not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: nil).

8. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, CONSTRUCTION IN PROGRESS AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

During the year ended 31 December 2022, an investment property of approximately HK$5,907,000 was disposed of.

During the year ended 31 December 2021, an investment property of the Group of approximately HK$275,198,000 has been transferred from investment properties to non-current assets classified as held for sale. The sale transaction has been completed during the year ended 31 December 2022.

During the year ended 31 December 2021, certain properties of the Group with an aggregated value of approximately HK$161,627,000 and HK$20,573,000 have been transferred from construction in progress and property, plant and equipment respectively to investment properties.

9. 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.

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

	2022	2021
	HK$'000	*HK$'000*
Within 90 days	**283,186**	766,076
91 to 180 days	**36,381**	67,173
181 to 365 days	**11,880**	5,560
Over 365 days	**12,144**	2,960
	343,591	841,769

10. TRADE PAYABLES

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

	2022	2021
	HK$'000	*HK$'000*
Within 90 days	**197,153**	439,149
91 to 180 days	**175,383**	422,708
181 to 365 days	**76,541**	23,329
Over 365 days	**127,239**	146,245
	576,316	1,031,431

The trade payables are non-interest-bearing and expected to be settled within one year.

11. SHARE CAPITAL

	2022	2021
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 (2021: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
3,000,000,000 (2021: 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 (2021: 13,221,302,172) ordinary shares of HK$0.01 each	**132,213**	132,213
109,975,631 (2021: 109,975,631) redeemable convertible preference shares of HK$0.02 each (Note)	**2,200**	2,200
Total issued and fully paid capital	**134,413**	134,413

11. SHARE CAPITAL (continued)

Movements of issued share capital and share premium 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 2021	**132,213**	**2,347**	**1,487,930**	**1,622,490**
7,375,000 redeemable convertible preference shares redeemed during the year	**–**	**(147)**	**(5,753)**	**(5,900)**
At 31 December 2021, 1 January 2022 and 31 December 2022	**132,213**	**2,200**	**1,482,177**	**1,616,590**

Movements of number of issued shares are as follows:

	Number of issued ordinary shares *'000*	Number of redeemable convertible preference shares *'000*
At 1 January 2021	**13,221,302**	**117,351**
Redeemed during the year	**–**	**(7,375)**
At 31 December 2021, 1 January 2022 and 31 December 2022	**13,221,302**	**109,976**

Note:

The redeemable convertible preference shares are redeemable at the sole discretion of the Company at any time after the issuance thereof. Holders of the redeemable convertible preference shares shall be entitled to pro-rata share of dividend or distribution declared by the Board, 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 meetings 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded its total revenue of HK$3,814 million (2021: HK$4,725 million) for the year ended 31 December 2022 (the "Year"), representing an approximately 19% decrease as compared with 2021, however, profit of the Group for the Year was HK$66 million (2021: HK$33 million), representing an almost 100% increase as compared with 2021, which reflects the successful cost control measures implemented by the Group.

Basic earnings per share attributable to equity shareholders of the Company for the Year was HK0.6 cents (2021: HK0.2 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 production of toys products; (ii) trading of footwear products; and (iii) sales of branded ball products. This segment recorded an approximately 18% decrease in revenue to HK$3,540 million (2021: HK$4,314 million) and an approximately 171% increase in operating profit to HK$236.0 million for the Year (2021: HK$87.1 million).

(i) OEM toys production

The OEM toys operation generated revenue of HK$3,246 million for the Year, representing an approximately 21% decrease as compared to 2021.

During the Year, the Group faced prudent ordering strategies adopted by the major clients in the USA given (i) the reduced consumption power of retail and end customers resulting from the prolonged COVID-19 pandemic, geopolitical tension and high interest rate environment; and (ii) relatively high inventory level from the slower consumption rate of consumers. Therefore, revenue of this segment was inevitably affected, especially in the second half of the Year.

The management had forecasted that orders from the major clients would be affected by the aforesaid global factors, proactive actions in trimming down overheads and labour cost control were taken by relocating production plants to lower cost areas such as Guangxi and Vietnam. Moreover, the Group managed the material costs effectively by sourcing new vendors in those lower cost areas. Given the relatively high efficiency in overall production cost control and depreciation of Renminbi ("RMB"), the significant increase in operating profit of this segment for the Year outweighed the decrease in its revenue.

(ii) Trading of footwear products

Revenue from the footwear trading operation substantially increased to HK$274 million (2021: HK$156 million) during the Year, representing an increase of approximately 76%. The operating profit was correspondingly increased to HK$6.6 million (2021: HK$2.6 million), representing an increase of approximately 154%.

The significant improvement was mainly due to effective management in gaining a competitive edge by achieving effective cost controls in diversification of production in such low-cost countries as Cambodia and Bangladesh, which in turn led this segment to achieve higher profit margin despite the slowing of the global economy from the impact of the COVID-19 pandemic.

(iii) Sales of branded ball products

During the Year, revenue from sales of the branded ball products in the local market of China decreased by approximately 33% to HK$15.5 million (2021: HK$23.3 million) because of the tightened COVID-19 curbs imposed in China in 2022.

Property Investment and Development

Revenue from the property investment and development segment decreased by approximately 33% to HK$274 million during the Year (2021: HK$408 million). The operating profit, including a fair value change on investment properties, was HK$102.6 million for the Year (2021: HK$234.0 million). This segment generated an operating profit, excluding the fair value changes on investment properties, of HK$156.8 million (2021: HK$105.7 million), representing an approximately 48% increase compared with 2021.

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

The central government had strictly enforced its zero-COVID policy after the outbreak of the Omicron variant by means of mass testing, tracking and strict isolation, and notably the mass lockdown in certain high-risk regions throughout the Year, which in turn adversely affected the rental income derived from the Group's leasing portfolio in Nanjing, Shenyang and Tianjin. Leasing condition in Hong Kong similar to that of China because of travel restrictions and the mandatory quarantine policy, especially in the first three quarters of the Year. Therefore the rental income generated from this segment during the Year was HK$187.2 million, representing a decrease of approximately 20% as compared with 2021.

The zero-COVID policy in China has not only affected the retail businesses, which in turn affected leasing condition, but also the investment atmosphere. A large number of property developers experienced a substantial downturn in demand for properties in China during the Year, which led to developers experiencing unprecedented difficulty. Most of the potential buyers took a very prudent approach by delaying their decision of investment due to market uncertainty.

Currently, approximately 60% of the total saleable areas of residential towers and serviced apartment were sold. Given Central Square, the flag-ship property project in Shenyang, is located in a prime residential area, the management is cautiously optimistic on its sales and rental contributions in 2023 and onwards. In addition, the development of the second phase is expected to enhance the value and return on investment of the first phase.

Agriculture and Forestry

Revenue from the agriculture and forestry segment decreased by approximately 74% to HK$0.7 million, and the operating loss increased by approximately 46% to HK$17.2 million during the Year. The value of bearer plants balance decreased from HK$25.9 million as at 31 December 2021 to HK$21.4 million as at 31 December 2022, representing a decrease of approximately 17% which is mainly due to the combined effect of RMB depreciation and assets write-off and depreciation.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group had a current ratio of 1.2 and a gearing ratio of 35% (31 December 2021: 1.2 and 36%, respectively). The gearing ratio is computed by dividing the Group's total long-term bank borrowings of HK$2,262 million by the Group's equity of HK$6,489 million. The Group's operation and investments continued to be financed by internal resources and bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

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

CAPITAL STRUCTURE

During the Year, there was no material change in the Group's capital structure.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

1. On 1 December 2021, Hong Kong Nority Development Limited (the "Vendor") and Taimei Huasheng (Huizhou) Electronics Company Limited (the "Vendor Guarantor"), each an indirect wholly-owned subsidiary of the Company, entered into an Equity Transfer Agreement (the "Agreement") with Dongguan City Guanxinzhongnan Shiye Company Limited (the "Purchaser") and Dongguan City Guangda Property Development Company Limited (the "Purchaser Guarantor"), each of the Purchaser and the Purchaser Guarantor is an independent third party, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell the 100% equity interest in Dongguan Nority Corporate Management Limited (the "Target Company"), an indirect wholly-owned subsidiary of the Company, at a total consideration of RMB225,000,000 (equivalent to approximately HK$274,390,000). On 4 August 2022, the Vendor, the Vendor Guarantor, the Purchaser, Dongguan City Jianxing Equity Investment Company Limited (the "Second Purchaser") and the Purchaser Guarantor entered into a Supplemental Agreement pursuant to which the Second Purchaser would be an additional purchaser of the Target Company and the consideration should be paid by the Purchaser and the Second Purchaser in accordance with the terms and conditions set out in the Supplemental Agreement. Upon completion, the Purchaser and the Second Purchaser would respectively hold 90% and 10% equity interest in the Target Company. The transaction was completed on 14 September 2022. A gain on disposal of approximately HK$56,986,000 was recognised during the Year, which was calculated based on the difference between the consideration received and the net assets of the Target Company which included the carrying value of a property held by the Target Company and deferred tax liabilities recognised as of the date of completion. Details of the above mentioned transaction have been set out in the announcements of the Company dated 1 December 2021, 4 August 2022, and 19 August 2022.

2. On 13 September 2022, Thousand China Investments Limited ("Thousand China"), an indirect wholly-owned subsidiary of the Company as vendor and Power Path Global Limited ("Power Path"), a wholly-owned subsidiary of South China Financial Holdings Limited ("SCFH"), as purchaser entered into a sale and purchase agreement, pursuant to which Thousand China conditionally agreed to dispose of the 100% equity interest in Genius Year Limited ("Genius Year"), an indirect wholly-owned subsidiary of the Company, to Power Path; and Power Path conditionally agreed to purchase the 100% equity interest in Genius Year, at a total consideration of HK$89,840,000 which should be settled by way of convertible bonds to be issued by SCFH upon completion, in accordance with the terms and subject to the conditions set out in the sale and purchase agreement. The expected gain resulted from the disposal was approximately HK$78,240,000, which is calculated based on the difference between the consideration of HK$89,840,000 and the consolidated net assets of Genius Year and its subsidiaries as at the completion date of approximately HK$11,600,000, before any related expenses. Details of the disposal were set out in the Company's announcement dated 13 September 2022, 28 September 2022, 31 October 2022 and 25 November 2022 and circular dated 15 December 2022. This transaction was approved by independent shareholders on 11 January 2023 and completed on 13 January 2023.

Save as aforesaid, there was no other material acquisition and disposal of subsidiaries and associated companies of the Company.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

During the Year, the pledge over certain investment properties and assets classified as held for sale under certain bank loan facilities granted to certain indirect wholly-owned subsidiaries of the Company were released and discharged.

A subsidiary of the Company in China provided guarantees to certain financial institutions in an aggregate amount of approximately RMB195 million (equivalent to approximately HK$219 million) on behalf of independent purchasers of premises of the Central Square in relation to which the related premises ownership certificates had not been issued as at 31 December 2022. The said guarantees would be released upon the issuance of the premises ownership certificate to those buyers.

Save as aforesaid, there was no other material change in the Group's pledge of assets and contingent liabilities.

PROSPECTS

In 2023, it is expected the Group will face challenges, but on the other hand there will be plenty of opportunities. Monetary policies in tackling inflation by interest rate increases by the USA and other western countries and the policies adopted by central government for achievement of the target growth of around 5% in the economy would be the focal points as they would directly affect the business performance of various segments of the Group. Moreover, the relationships between the USA and China as well as the Russia-Ukraine war will continue casting uncertainties on the business environment. On the other hand, the relaxation of COVID-19 measures in China and China-Hong Kong border reopening in early 2023 is expected to bring along new opportunities to our business.

Trading and Manufacturing

OEM toys production

To strengthen its competitiveness and sustainability in this segment, the Group continues to control its production costs and overheads by shifting production to Guangxi and Vietnam. We are also streamlining operation procedures and extending the use of automation. Meanwhile, the Group will widen its client base, but on the other hand will carry out feasibilities in setting up production bases in other countries that have lower production costs. The Group will also enhance its research and development on design and green manufacturing for coping with the increasing environment, social and governance requirement from clients and fulfilling its environmental responsibility. In view of the long-standing customer loyalty and world-class engineering capability of OEM toys operation, the Group has confidence in securing orders from those long-term loyal clients and navigating the challenges in the uncertain economic environment embedded with various business opportunities.

Given the uncertainties posed by the high interest rate policy adopted by the US government and the tension of China-US relations, the Group will keep using prudent and cost-effective strategies to minimise the risks. The Group expects that the production costs will gradually increase resulting from (i) the appreciation of RMB in the coming year; and (ii) increase in material price resulting from the geopolitical tension, such as the Russia-Ukraine war, the Group will attempt to fix prices in materials with suppliers for minimising the cost impact.

Trading of footwear products

Apart from maintaining good and long-term relationship with loyal clients, the Group will expand its client base by engaging some referrers for securing more orders of footwear products having higher profit margin. We will continue to source various production bases out of China for controlling the production costs.

Property Investment and Development

Property Investment

Resulting from the uplifting of COVID-19 curbs by the central government, it is expected that the economy of China will rebound, especially the retail business which is the core source of the Group's leasing segment. After the transformation of Avenue of Stars ("AOS"), a mall in Shenyang, is ready to grasp the uptrend of economic growth after COVID-19 by anchoring different types of retailers. In addition to AOS, the Group is striving to increase the occupancy rate of the retail podium in Central Square. A night market comprised of different types of retailers offering a variety of products, outside the Central Square in mid-2022 had great results. Given the success in the night market in 2022, it will be organised again from March to October 2023. By having the experience in operating a night market, it is expected that the night market will further enhance the business atmosphere of Central Square and its vicinity, which in turn will attract more prospective tenants and improve the rental income. In addition, the relaxed restriction on cross-region movements and travels will be a catalyst to speed up the recovery of household consumption and retail spending.

Property Development

Apart from the expected position impact on the leasing segment resulting from the uplifting of COVID-19 curbs in China, it is expected that uplifting measures will be helpful to rebuild consumers' confidence in the property market. Meanwhile, the Group is cautiously optimistic on the sales of residential units of its Central Square as it is located in one of the prime residential areas in Shenyang and having the advantages of direct accessibility to the subway and a busy pedestrian street anchored by restaurants and retail stores.

Preliminary works of the second phase of Central Square which is directly facing to the first phase will start upon settlement of the remaining settlers, which was affected by the COVID-19 controlling measures. The second phase is also a mixed development project, and its positioning will be thematically in line with the first phase.

The Group will continue to study conversion of usage of some other land bank assets from industrial to commercial in Nanjing and Tianjin for the purposes of increasing both the land value and return from development of such land after conversion.

Agriculture and Forestry

The Group currently has long-term leases of over 516,000 mu (approximately 344 million sq.m.) of woodland, farmland, fishpond and lake space in various major provinces in China, and is focusing on the plantation of fruits and crops such as apples, winter dates, peaches, pears and corns. The Group will continue to explore plantation opportunities of high profit margin species and focus on improving harvest, sales distribution channels, utilisation of resources and cost control for improving the operating results of this segment.

PRINCIPAL RISKS AND UNCERTAINTIES

The following section lists out the key risks and uncertainties facing by 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 their consumers. 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 decrease in consumers' disposable income and lower consumption confidence. These factors would adversely affect orders from our customers.

Cost increase

Cost increases, whether resulting from rising costs of materials, transportation, minimum wage legislations in Mainland China 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 lawsuits or product recalls, which could harm its 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 Mainland 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 pose 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 would affect 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.

UPDATE ON LITIGATION PROCEEDINGS

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

Case on infringement of copyrights

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 ("China") concerning infringement of copyrights of certain computer software belonging 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 software belonging to South China Skytech ("Computer Software") for its own use and registered the ownership of the copyrights of the Computer Software 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 Limited (the "Stock Exchange") 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 pieces of Computer Software registered under the names of Nanjing Skytech and Skytech Software belong to South China Skytech; and that Nanjing Skytech pay South China Skytech damages in the sum of RMB210.4 million (to be assessed) for infringement of copyrights of the Computer Software.

On 28 November 2016, the Jiangsu High Court delivered its first instance judgment on the Computer Software 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 any software. The development of the Computer Software 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 Software and registered the ownership of the copyrights of the Computer Software 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 pieces of Computer Software was held to 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. The Supreme People's Court of China issued a ruling on 26 October 2018 which revoked the first-instance judgment and sent the case back to the Jiangsu High Court for retrial.

After holding a pre-trial conference on 31 July 2019, the Jiangsu High Court conducted a hearing in relation to the retrial of the case on 22 October 2019. Nanjing Skytech challenged the presiding judge at the beginning of the trial. The Jiangsu High Court rejected the request of challenge for untenable reason, and held that during more than two-and-a-half months of the pre-trial proceedings prior to the establishment of the trial, the two parties had completed numerous written exchanges of cross-examination and arguments, and Nanjing Skytech had never challenged the presiding judge, but did so at the time of the trial, which was an open violation of good faith lawsuit. The court conducted online trials of the case on 1 March 2022 and 24 June 2022 respectively, and held an online conversation on 30 November 2022. The case is now pending for judgment.

The Company considers that Nanjing Skytech has seriously violated the principle of good faith, and was actually a 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 pieces of Computer Software were also developed using the manpower and physical technology capabilities of South China Skytech and therefore the ownership of the copyrights of the remaining Computer Software should also belong to South China Skytech. The Company will explore every possible course of action to claim for the ownership of the remaining 31 pieces of Computer Software.

In addition, it is noted that Sinosoft had disclosed in its prospectus dated 27 June 2013 of its alleged ownership of certain computer software. The Company considers that most of the computer software was also subsequently developed from the Computer Software 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 and to seek an injunction prohibiting Nanjing Skytech and/or Sinosoft to continue to sell and/or use such computer software.

Case on liability dispute related to damaging the interests of the Company

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 China's 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. As all parties have appealed to the Supreme People's Court of China for retrial, the Supreme Court remitted the case back to the Jiangsu High Court for retrial on 8 April 2019. Jiangsu High Court accepted the case on 13 June 2019. Subsequent to the hearing of the case on 21 May 2020, the Jiangsu High Court made mediation arrangements on 1 April 2021 for the two parties to resolve the matter but unsuccessful, and the case is pending for judgement.

(ii) Case on infringement of land situated 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 China 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 situated at Tianjin Binhai New District with an area about 500,000 sq.m. (the "Involved 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 formation of the Involved Land. However, Binhai Investment Group failed to perform the Development Agreement, did not recognise that World Right and Binhai Investment Group had joint right to develop the Involved Land, and maliciously transferred the Involved Land to Tianjin Cheng Tou Binhai Property Company Limited (天津城投濱海房地產經營有限公司) ("Cheng Tou Binhai"), a company invested in and established by it and the government.

On 31 March 2022, World Right filed a lawsuit with Tianjin Third Intermediate People's Court against Cheng Tou Binhai, the People's Government of Tianjin Binhai New District, Binhai New District Branch of Tianjin Municipal Bureau of Planning and Natural Resources, and Binhai Investment Group, demanding that the four defendants compensate World Right for the loss it suffered (the final amount is subject to judicial appraisal). The court arranged for an exchange of evidence on 11 July 2022 and conducted trials of the case on 29 September 2022 and 11 November 2022, the case is now pending for judgment.

(iii) Case on arbitration related to Nansha land

In March 2021, Brightson Investments Limited ("Brightson"), an indirect wholly-owned subsidiary of the Company, filed an application for arbitration with China International Economic and Trade Arbitration Commission ("CIETAC") in relation to failure of the Villagers' Committee of Datang Village, Huangge Town, Nansha District, Guangzhou ("Datang Villagers' Committee") to transfer the land under agreement to it, demanding that Datang Villagers' Committee compensate for the losses in accordance with the law.

The arbitration tribunal conducted a trial of the case on 28 February 2023 and required the parties to provide supplementary opinions on the case within a time limit. Any application for a second trial could be submitted in writing before 14 March 2023. The lawyers of Brightson will take legal actions in the best interest of Brightson with due regard to various factors.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: nil).

CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2022, the Company had complied with all the applicable code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange in force during the year, with the exception of code provisions F.2.2 and C.1.6 of the CG Code. According to the code provisions F.2.2 and C.1.6 of the CG Code, the chairman of the board and independent non-executive directors and non-executive directors should attend the annual general meeting. Mr. Ng Hung Sang, the Chairman of the Board and the Executive Director, Mr. Ng Yuk Fung Peter, Mr. David Michael Norman and Ms. Li Yuen Yu Alice, all of the Non-executive Directors, and Mr. Chiu Sin Chun and Mr. Kam Yiu Shing Tony, both of the Independent Non-executive Directors, were unable to attend the annual general meeting of the Company held on 21 June 2022 due to their business engagements.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee presently comprises four Independent Non-executive Directors, namely Mr. Kam Yiu Shing Tony (Chairman of the Audit Committee), Mrs. Tse Wong Siu Yin Elizabeth, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Wong Chun Tat, J.P..

The Group's annual results for the year ended 31 December 2022 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.

SCOPE OF WORK OF KPMG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed 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. The work performed by KPMG in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by KPMG on the preliminary announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by Directors. Specific enquiries have been made of all Directors who confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31 December 2022.

ANNUAL GENERAL MEETING

The Company's 2023 annual general meeting (the "2023 AGM") will be held on Tuesday, 20 June 2023 and the notice of the 2023 AGM will be published and issued to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 14 June 2023 to Tuesday, 20 June 2023, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2023 AGM, all transfer documents, accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar and transfer office, Union Registrars Limited at Suites 3301–04, 33rd Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Tuesday, 13 June 2023.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND 2022 ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.scholding.com). The annual report of the Company for the year ended 31 December 2022 will be dispatched to the shareholders of the Company and made available on the aforesaid websites in due course.

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

Hong Kong, 21 March 2023

As at the date of this announcement, the Directors are: (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor and Mr. Ng Yuk Yeung Paul as Executive Directors; (2) Ms. Ng Yuk Mui Jessica, Mr. Ng Yuk Fung Peter, Ms. Li Yuen Yu Alice and Mr. Yu Pui Hang as Non-executive Directors; and (3) Mrs. Tse Wong Siu Yin Elizabeth, Mr. Kam Yiu Shing Tony, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Wong Chun Tat, J.P. as Independent Non-executive Directors.