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 2024

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 2024 together with comparative figures for the last financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	**2024** **HK$'000**	2023 *HK$'000*
Revenue	*3*	**3,231,529**	2,887,385
Cost of sales		**(2,755,686)**	(2,408,028)
Gross profit		**475,843**	479,357
Other income and gains, net		**258,869**	179,679
Net fair value loss on investment properties		**(81,920)**	(35,434)
Selling and distribution expenses		**(44,218)**	(57,056)
Administrative expenses		**(310,260)**	(334,733)
Profit from operations	*3&4*	**298,314**	231,813

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

	Note	**2024**	2023
		HK$'000	*HK$'000*
Finance costs		**(248,252)**	(266,745)
Share of losses of associates		**–**	(257)
Profit/(loss) before tax		**50,062**	(35,189)
Income tax	*5*	**(37,885)**	(7,250)
Profit/(loss) for the year		**12,177**	(42,439)
Attributable to:			
Equity shareholders of the Company		**696**	(31,846)
Non-controlling interests		**11,481**	(10,593)
		12,177	(42,439)
Earnings/(loss) per share	*6*		
Basic		**HK0.01 cents**	HK(0.25) cents
Diluted		**HK0.01 cents**	HK(0.25) cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2024	2023
	HK$'000	*HK$'000*
Profit/(loss) for the year	**12,177**	(42,439)
Other comprehensive income		
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	**(211,854)**	(160,987)
Exchange reserve realised upon disposals of subsidiaries	**–**	(1,424)
Surplus on revaluation of property, plant and equipment upon transfer to investment properties, net of tax	**27,324**	–
Other comprehensive income for the year	**(184,530)**	(162,411)
Total comprehensive income for the year	**(172,353)**	(204,850)
Attributable to:		
Equity shareholders of the Company	**(169,743)**	(181,535)
Non-controlling interests	**(2,610)**	(23,315)
	(172,353)	(204,850)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 31 December 2024** *HK$'000*	As at 31 December 2023 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**430,689**	464,063
Investment properties	*8*	**9,192,767**	9,427,871
Construction in progress		**145**	150
Investment in a joint venture		**285**	285
Bearer plants		**14,457**	16,626
Other non-current assets		**151,853**	219,069
Total non-current assets		**9,790,196**	10,128,064
CURRENT ASSETS			
Inventories		**720,711**	786,864
Properties under development		**237,229**	242,854
Trade receivables	*9*	**399,041**	372,774
Prepayments, deposits and other receivables		**1,138,155**	1,146,005
Financial assets measured at fair value through profit or loss		**6,643**	5,680
Amount due from a non-controlling shareholder of a subsidiary		**29,611**	–
Amounts due from associates		**5,145**	5,145
Amounts due from related parties		**16,964**	28,424
Tax recoverables		**759**	831
Cash and bank balances		**621,514**	538,644
Total current assets		**3,175,772**	3,127,221

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Note	As at 31 December 2024 HK$'000	As at 31 December 2023 HK$'000
CURRENT LIABILITIES			
Trade payables	*10*	**699,173**	498,135
Other payables and accruals		**499,745**	539,911
Interest-bearing bank borrowings		**2,073,370**	2,085,209
Lease liabilities		**60,638**	55,641
Amounts due to non-controlling shareholders of subsidiaries		**10,199**	10,408
Tax payables		**71,091**	72,578
Total current liabilities		**3,414,216**	3,261,882
NET CURRENT LIABILITIES		**(238,444)**	(134,661)
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,551,752**	9,993,403
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**1,597,999**	1,688,023
Lease liabilities		**265,344**	291,076
Amounts due to non-controlling shareholders of subsidiaries		**107**	141
Amounts due to related parties		**504,904**	625,874
Other non-current liabilities		**22,475**	53,627
Deferred tax liabilities		**1,043,461**	1,044,847
Total non-current liabilities		**3,434,290**	3,703,588
NET ASSETS		**6,117,462**	6,289,815
CAPITAL AND RESERVES			
Share capital	*11*	**134,413**	134,413
Reserves		**5,693,128**	5,862,871
Total equity attributable to equity shareholders of the Company		**5,827,541**	5,997,284
Non-controlling interests		**289,921**	292,531
TOTAL EQUITY		**6,117,462**	6,289,815

NOTES:

1. MATERIAL 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 2024.

The accounting policies and basis of preparation adopted in the financial statements are consistent with those adopted in the Group's audited 2023 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 new and 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 1, *Presentation of financial statements — Classification of liabilities as current or non-current ("2020 amendments")* and amendments to HKAS 1, *Presentation of financial statements — Non-current liabilities with covenants ("2022 amendments")*
- Amendments to HKFRS 16, *Leases — Lease liability in a sale and leaseback*
- Amendments to HKAS 7, *Statement of cash flows and* HKFRS 7, *Financial instruments: Disclosures — Supplier finance arrangements*

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 1, *Presentation of financial statements (the 2020 and 2022 amendments, collectively the "HKAS 1 amendments")*

The HKAS 1 amendments impact the classification of a liability as current or non-current, and have been applied retrospectively as a package.

The 2020 amendments primarily clarify the classification of a liability that can be settled in its own equity instruments. If the terms of a liability could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments and that conversion option is accounted for as an equity instrument, these terms do not affect the classification of the liability as current or non-current. Otherwise, the transfer of equity instruments would constitute settlement of the liability and impact classification.

The 2022 amendments specify that conditions with which an entity must comply after the reporting date do not affect the classification of a liability as current or non-current. However, the entity is required to disclose information about non-current liabilities subject to such conditions.

The HKAS 1 amendments do not have a material impact on the Group's financial statements.

2. CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to HKFRS 16, *Leases — Lease liability in a sale and leaseback*

The amendments clarify how an entity accounts for a sale and leaseback after the date of the transaction. The amendments require the seller-lessee to apply the general requirements for subsequent accounting of the lease liability in such a way that it does not recognise any gain or loss relating to the right of use it retains. A seller-lessee is required to apply the amendments retrospectively to sale and leaseback transactions entered into after the date of initial application. The amendments do not have a material impact on the financial statements as the Group has not entered into any sale and leaseback transactions.

Amendments to HKAS 7, *Statement of cash flows* and HKFRS 7, *Financial instruments: disclosures – Supplier finance arrangements*

The amendments introduce new disclosure requirements to enhance transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The amendments do not have a material impact on the Group's financial statements.

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/(loss) before tax except that share of profits and losses of associates 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 2024 and 2023.

	Trading and manufacturing		Property investment and development		Agriculture and forestry		Others		Total	
	2024	2023	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
External sales	**3,007,310**	2,644,312	**223,328**	240,851	**891**	2,222	**–**	–	**3,231,529**	2,887,385
Segment results	**202,646**	185,434	**16,520**	52,137	**(10,728)**	62,029	**89,876**	(67,787)	**298,314**	231,813
Reconciliation:										
— Share of losses of associates									**–**	(257)
— Finance costs									**(248,252)**	(266,745)
Profit/(loss) before tax									**50,062**	(35,189)

Geographical segments

Revenue from external customers

	2024	2023
	HK$'000	*HK$'000*
The People's Republic of China ("PRC"), including Hong Kong and Macau	**333,570**	312,391
The United States of America ("USA")	**1,866,954**	1,692,028
Europe	**731,234**	623,293
Japan	**21,721**	21,354
Others	**278,050**	238,319
	3,231,529	2,887,385

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 2024 amounting to approximately HK$99,760,000 (2023: HK$110,593,000).

For the year ended 31 December 2024, the Group recorded gains on disposals of subsidiaries amounted to approximately HK$121,793,000 (2023: HK$105,413,000).

5. INCOME TAX

Income tax comprises current and deferred taxes.

Hong Kong Profits Tax has been provided at the rate of 16.5% (2023: 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% (2023: 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/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit for the year attributable to equity shareholders of the Company of HK$696,000 (2023: loss HK$31,846,000), and the weighted average number of ordinary shares of 12,982,892,000 (2023: 12,982,892,000) in issue after deducting shares held for the share award scheme and treasury shares.

The calculation of diluted earnings/(loss) per share is based on the profit/(loss) 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/(loss) 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/(loss) per share are based on:

	2024	2023
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) attributable to equity shareholders of the Company used in the basic and diluted earnings/(loss) per share calculation	**696**	(31,846)

	Number of shares	
	2024	2023
	'000	*'000*
Shares		
Weighted average number of ordinary shares used in the basic earnings/(loss) per share calculation	**12,982,892**	12,982,892
Effect of redeemable convertible preference shares	**219,951**	–
Weighted average number of ordinary shares used in the diluted earnings/(loss) per share calculation	**13,202,843**	12,982,892

The Company's share options have no dilution effect for the years ended 31 December 2024 and 2023 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.

Diluted loss per share equals to basic loss per share for the year ended 31 December 2023 because the potential ordinary shares outstanding were anti-dilutive.

7. DIVIDENDS

The Company had not declared or paid any dividend during the year ended 31 December 2024 (2023: nil) and the Board did not recommend the payment of a final dividend for the year ended 31 December 2024 (2023: nil).

8. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the year ended 31 December 2023, interests in subsidiaries of the Group which hold an aggregate of property, plant and equipment of approximately HK$10,599,000 and an investment property of approximately HK$46,242,000 were disposed of.

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:

	2024	2023
	HK$'000	*HK$'000*
Within 90 days	**367,221**	357,477
91 to 180 days	**13,530**	4,417
181 to 365 days	**6,387**	3,973
Over 365 days	**11,903**	6,907
	399,041	372,774

10. TRADE PAYABLES

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

	2024	2023
	HK$'000	*HK$'000*
Within 90 days	**466,387**	305,749
91 to 180 days	**159,782**	67,832
181 to 365 days	**5,760**	20,777
Over 365 days	**67,244**	103,777
	699,173	498,135

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

11. SHARE CAPITAL

	2024	2023
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 (2023: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
3,000,000,000 (2023: 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 (2023: 13,221,302,172) ordinary shares of HK$0.01 each	**132,213**	132,213
109,975,631 (2023: 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

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.

There was no movement in the number of issued ordinary shares and redeemable convertible preference shares of the Company during the years ended 31 December 2024 and 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded its total revenue of HK$3,232 million for the year ended 31 December 2024 (the "Year"), representing an approximately 12% increase compared to 2023 (2023: HK$2,887 million), and the profit after tax of HK$12 million for the Year as compared to the loss after tax of HK$42 million in 2023. Such a turnaround in financial results was attributed to (i) improvement in operating result of trading and manufacturing business driven by the rebound of consumer demand for toy products; (ii) lower finance cost due to the drop in the average interest rates; and (iii) higher gain recognised from disposal of subsidiaries incurred in the Year as compared to those incurred in 2023. The overall financial, business and trading positions of the Group remain healthy.

Basic earnings per share attributable to equity shareholders of the Company for the Year was approximately HK0.01 cents (2023: loss per share: HK0.25 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 toy products; (ii) trading of footwear products; and (iii) sales of branded ball products. This segment recorded an approximately 14% increase in revenue to HK$3,007 million (2023: HK$2,644 million) and an approximately 9% increase in the operating profit to HK$202.6 million for the Year (2023: HK$185.4 million).

(i) OEM toys production

The OEM toys operation generated revenue of HK$2,725 million for the Year (2023: HK$2,450 million), representing an approximately 11% increase compared to 2023.

Throughout the Year, revenue in this segment grew as key U.S. customers increased their orders which were driven by the rebound in consumer demand for toy products. Despite intense market competition, the Group secured stable revenue resulting from its product quality assurance and sound and long-standing business relationships maintained with key U.S. customers.

(ii) Trading of footwear products

Revenue from this segment substantially increased by approximately 53% to HK$269 million during the Year (2023: HK$176 million). The operating profit of this segment was HK$10.3 million (2023: HK$7.6 million), representing an increase of approximately 36%. The significant growth in revenue and operating profit was primarily driven by the successful expansion of the customer network and the effective diversification of production in such countries having lower manufacturing costs as Cambodia and Bangladesh.

(iii) Sales of branded ball products

During the Year, revenue from sales of the branded ball products in the local market of Mainland China decreased by approximately 25% to HK$10.9 million (2023: HK$14.6 million) due to the slowdown of economic growth rate of domestic market. Despite the revenue dropped, the overall performance of this segment remained stable.

Property Investment and Development

Revenue from the property investment and development segment decreased by approximately 7% to HK$223 million during the Year (2023: HK$241 million). The operating profit, including a fair value change on investment properties, was HK$16.5 million for the Year (2023: HK$52.1 million). This segment generated an operating profit of HK$98.4 million (2023: HK$87.6 million) (excluding the fair value changes in investment properties), representing an approximately 12% increase compared to 2023.

The Group has a property investment portfolio with total gross floor area ("GFA") of approximately 626,000 sq.m. (approximately 6,740,000 sq.ft.) in Mainland China and approximately 26,000 sq.m. (approximately 280,000 sq.ft.) in Hong Kong. The investment properties for lease in Mainland China are mostly in prime locations in Nanjing, Shenyang and Tianjin.

Since the beginning of the Year, numerous cities in Mainland China have eased property sector restriction policies by taking measures such as reducing down payment rates, lowering down the purchase threshold for non-local buyers and adjusting existing home mortgage rates etc., aiming at boosting market confidence and promoting stable and healthy development of property markets. Despite the overall recovery of the real estate market is expected to take some time to materialize, the Group was able to achieve a stable rental income from this segment. The rental income generated from this segment during the Year was HK$171.9 million (2023: HK$173.0 million), representing an insignificant decrease of less than 1% compared to 2023.

Approximately 68% of the total saleable areas of residential towers and serviced apartment of the Group's flagship property project namely "Central Square" were sold as at the Year. Given Central Square is located in a prime residential area in Shenyang, the management remains cautiously optimistic about the sales and rental contributions in 2025 and onwards, particularly in anticipation of further supportive policies to be introduced by the central government for stabilizing the property market and reserving its downturn which in turn further strengthens up the confidence in the property market in Mainland China.

Agriculture and Forestry

During the Year, revenue of this segment decreased to HK$0.9 million (2023: HK$2.2 million). There was an operating loss of HK$10.7 million during the Year. An operating profit of HK$62.0 million was resulted in 2023 which was attributable to a recognised gain on disposal of subsidiaries amounting to HK$78.2 million. By excluding the extraordinary disposal gain, the operating loss of this segment was HK$16.2 million in 2023. Therefore, the business performance of this segment improved during the Year as the operating loss has reduced by 34% compared to 2023.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2024, the Group had a current ratio of 0.93 and a gearing ratio of 26% (31 December 2023: 0.96 and 27%, respectively). The gearing ratio is computed by dividing the Group's total long-term bank borrowings of HK$1,598 million by the Group's equity of HK$6,117 million. The Group's operation and investments continued to be financed by internal resources and bank borrowings. The Group will closely monitor the liquidity risk and maintain a balance between continuity of funding and flexibility through the use of banking facilities.

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

On 24 October 2024, Welbeck Holdings Limited ("Welbeck"), an indirect wholly-owned subsidiary of the Company, as vendor entered into the sale and purchase agreement with Splendid Enterprises Limited ("Splendid Enterprise"), a company wholly-owned by Mr. Ng Hung Sang, the controlling shareholder of the Company, the chairman of the board of directors and an executive director of the Company, as purchaser, pursuant to which Welbeck conditionally agreed to sell and Splendid Enterprise conditionally agreed to purchase the entire issued share capital in the Poben Consultants Limited, Pok Lake Profits Limited and Tripstowe Management Limited, at the consideration of HK$185,000,000. The consideration was settled by set-off against an amount due to a related party which is indirectly wholly-owned by Mr. Ng Hung Sang upon completion. This transaction was approved by independent shareholders at the extraordinary general meeting held on 2 December 2024 and completed on the same day. The gain resulted from the disposal of subsidiaries was approximately HK$121,793,000, which have been recognised to the consolidated statement of profit or loss during the Year. Details of the disposal were set out in the Company's announcement dated 24 October 2024 and circular dated 14 November 2024.

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

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

During the Year, the Group had entered into new bank loan facilities under which certain investment properties of the Group were pledged with the banks.

During the Year, the pledge over an investment property under a bank loan facility granted to an indirectly wholly-owned subsidiary of the Company has been released and discharged.

An indirect wholly-owned subsidiary of the Company in China provided guarantees to certain financial institutions in an aggregate amount of approximately RMB153.9 million (equivalent to approximately HK$163.4 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 2024. 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 during the Year.

PROSPECTS

The global economy is projected to face sustained uncertainty in 2025, exacerbated by geopolitical tensions such as the strained USA-China relationship, ongoing Russia-Ukraine conflict, and Israel-Hamas war. These dynamics are likely to perpetuate volatility in trade, supply chains, and energy markets. Further complicating the outlook is the additional tariff on all Chinese exports to the USA, which could amplify cost pressure and disrupt bilateral trade flows.

According to the World Economic Outlook (WEO) of International Monetary Fund (IMF), global growth is projected at 3.3% both in 2025 and 2026, below the historical average (2000–2019) average of 3.7% which has been taken into account of an upward revision in the USA offsetting downward revisions in other major economies. In the USA, inflationary pressure has proven stubborn: after a sharp decline in mid-2022, annual inflation has stabilized near 3%, prompting the Federal Reserve to signal gradual interest rate reductions in 2025. Lower borrowing costs and reduced mortgage rates may stimulate consumer spending and investment, though these benefits could be partially offset by the additional tariff on all Chinese goods, which in turn risks raising costs for American households and import-dependent businesses.

Improved USA market sentiment is anticipated to create more business opportunities for the Group's OEM toy manufacturing segment, particularly in light of the USA government's Fiscal Year 2025 budget priorities aimed at reducing costs for working families and bolstering economic security. However, the tariff hike may strain the Group's cost efficiency and pricing flexibility, strategic adjustments to production sourcing and supply chain logistics are inevitably required for maintaining its competitiveness and sustainability in profit.

While 2025 presents significant challenges, proactive policy responses from governments of Mainland China, Hong Kong and the USA, the Group's core markets, are expected to mitigate external shocks, including tariff-related disruptions. A gradual rebound in consumer confidence is likely to emerge later in 2025, supported by easing inflation and accommodative monetary policies. The Group maintains cautious optimism about its long-term prospects and will remain agile in adapting to evolving geopolitical and economic conditions to capitalize on emerging opportunities.

Trading and Manufacturing

OEM toys production

The USA economy is projected to slow down in 2025 due to uncertainties arisen from new policies like tariff adjustments, the Federal Reserve's cautious approach to interest rate reductions, and inflation persisting near 2.8% on year-over-year basis in February 2025. Growth is expected to be buoyed by resilient consumer spending and productivity gains. The additional tariff on all Chinese exports to the USA would have an impact on the increase in production costs and part of such increase would be reflected in consumer prices which in turn might have an impact on demands.

To address these challenges, the Group will bolster its competitiveness by controlling production costs through operational re-engineering, expanding its manufacturing footprint in Vietnam, and simplifying workflows through automation and process consolidation. By advancing vertical integration and innovation, the Group aims to deepen its role as a one-stop solutions provider, delivering tailored product development services that align with the evolving needs of key customers. This strategy not only reinforces its industry recognition but also positions the Group to capitalize on competitors' vulnerabilities.

The Group's enduring customer relationships and world-class engineering capabilities remain central to its competitive advantage, ensuring continued demand from its long-term customers for toy manufacturing. Simultaneously, efforts to attract new customers will focus on diversifying the client base and adapting to cost-sensitive market conditions. To enhance cost efficiency, the Group will explore further diversification of production into lower-cost regions, invest in IT infrastructure to accelerate product innovation, and strategically outsource non-core components to optimize resource allocation.

As a leading OEM toys manufacturer, we recognise the transformative potential of Artificial Intelligence ("AI") in revolutionizing the toy manufacturing industry. The integration of AI into our manufacturing facilities represents a strategic investment in our future. By embracing AI, we aim to enhance operational efficiency, improve product quality, and deliver greater value to our clients. While challenges exist, we are committed to overcoming them through careful planning, continuous innovation, and collaboration with industry experts.

Proactive monitoring of the new tariff's impact will enable timely adjustments to pricing and supply chain strategies, mitigating potential disruptions. By balancing cost discipline with customer-centric innovation, the Group is poised to navigate 2025's uncertainties while strengthening its market position and seizing opportunities arising from shifting industry dynamics.

Trading of footwear products

The Group will continue to expand its client base by collaborating with referrers in various countries, such as the USA and Italy, while maintaining strong, long-term relationships with loyal customers to secure more orders for footwear products. Additionally, the Group will further diversify its production bases in such countries having lower manufacturing costs for effective control in production costs.

Property Investment and Development

Property Investment

The Group will continue to implement its leasing strategy by diversifying its tenant portfolio to adapt to the evolving market environment and anticipated recovery. Avenue of Stars, a premier mall in Shenyang, is anchored by a mix of fashion retailers and family-oriented entertainment, catering primarily to young couples and families consumers. Meanwhile, the retail podium at Central Square is strategically positioned to become a hub for dining and bars, leisure experiences and performances, offering a diverse range of art and entertainment options tailored to teenagers and young adults. By broadening its target customer base, the Group aims to enhance the overall business atmosphere, thereby attracting more potential tenants and boosting rental income. This strategy is expected to yield significant benefits from household consumption and retail spending rebound which are supported by the government's various economic policies.

Property Development

The property market continued to face challenges and grapple with weak investment market sentiment. Investors and homebuyers remained cautious by taking a very prudent approach by delaying their decisions of investments due to market uncertainty. In addition, the adverse impact of collapse of some giant property developers in Mainland China had yet been digested and the confidence in the property had yet been restored. Given the foregoing, the central government has introduced a series of measures to revitalize the property market, including reductions in mortgage interest rates, down payment requirements, and adjustments to tax policies. Additional stimulus measures are anticipated, with expectations that the market will stabilize by 2025. The Group is closely monitoring shifts in the economic and monetary landscape and will proactively adapt to seize emerging business opportunities. Regarding the sales of residential units at Central Square, the Group maintains cautious optimism, given its prime location in one of Shenyang's most desirable residential areas. The development benefits from direct access to (i) its retail podium, (ii) the subway, and (iii) a bustling pedestrian street lined with restaurants and retail stores, enhancing its appeal.

Preliminary works of the second phase of Central Square which is directly facing to the first phase will start upon settlement of terms and conditions with the remaining settlers. 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 use in Nanjing and Tianjin for the purposes of increasing both the land value and return from development of such land after conversion. On the other hand, the central government announced a batch of development projects which is expected to bring along business opportunities to the land bank assets in Nanjing and Shenzhen. The Group will revisit the business plans on those land bank assets in those areas where the development projects are located and take proactive approach in response to the progress of the development plan. In addition, the Group will keep exploring any sale and purchase opportunities in other land bank assets.

Agriculture and Forestry

The Group currently has long-term leases of over 290,000 mu (approximately 193 million sq.m.) of woodland, farmland, fishpond and lake space in various major provinces in Mainland 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 dated 5 December 2016 of the Company regarding the litigation in the PRC concerning infringement of copyrights of certain pieces of computer software 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 deteriorated and suffered serious loss. Upon investigations, it was found that Nanjing Skytech illegally transferred the entirety of the computer software belonging to South China Skytech ("Computer Softwares") for its own use and registered the ownership of the copyrights of the Computer Softwares under the name of Nanjing Skytech 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 contrary, 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 in 2013 (Stock Code: 1297), with its shares delisted from the Stock Exchange in March 2024.

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

On 28 November 2016, the Jiangsu High Court delivered its first instance judgment on the copyrights ownership of such software, determining that during the period from March 2000 to March 2003, Nanjing Skytech basically had no employees and, before 2002, it had no fixed assets and therefore was not equipped with the corresponding conditions to develop any software at all. The case involved the dispute on whether the development of the Computer Softwares mainly relied on South China Skytech's manpower and physical technology capability. The Jiangsu High Court also determined that the acts of Nanjing Skytech and Skytech Software of registering the Computer Softwares developed mainly deploying physical technology capability under their own names obviously does not comply with the basic principles of copyright ownership. The ownership of the copyrights of all the 13 Computer Softwares should belong to South China Skytech

All parties in the said infringement of copyrights case have appealed to the Supreme People's Court of China (the "Supreme Court"). The Supreme Court 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 applied to request the recusal of the presiding judge at the beginning of the trial. The Jiangsu High Court rejected the request as reasons from Nanjing Skytech for applying for recusal were believed to be improbable, 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 filed any recusal application against the presiding judge, but did so at the time of the trial, clearly resembling the violation of good faith lawsuit.

The Company considers that Nanjing Skytech has seriously violated the principle of good faith in view of its series of actions, and was actually a shell company, basically with no employees, no office base and no capital. It had no means or capability whatsoever to develop any computer software. Therefore, the Company considers that the remaining 18 pieces of 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 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 31 pieces of 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 software. The Company considers that most of the computer software was also 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 and to seek an injunction prohibiting Nanjing Skytech and/or Sinosoft to continue to sell and/or use such computer software.

On 27 March 2023, the Jiangsu High Court ruled that the ownership of the copyrights of 3 pieces of Computer Softwares belonged to South China Skytech. Dissatisfied with the judgement, South China Skytech appealed against the ruling on 15 April 2023. Hearings in the Supreme Court have been held sequentially on 19 November 2024 and 9 December 2024, pending the judgement.

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 (collectively, the "Defendants") who had breached the non-competition obligation under China's Company Law and were liable to make payment to South China Skytech as follows:

1. the Defendants 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 settlement of 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 settlement of 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 settlement of 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 Court for retrial, the Supreme Court remitted the case back to the Jiangsu High Court for retrial on 8 April 2019 after examination.

On 18 October 2024, the Jiangsu High Court made a final judgment on the case and upheld the original judgment, which means that the Defendants were required to pay a total of approximately RMB28 million for damages to South China Skytech.

(ii) Case on infringement of land situated at Tianjin Binhai

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 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 Group entered into a joint development agreement (the "Development Agreement"). It was agreed under the Development Agreement, inter alia, that they 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. Subsequently, Binhai Group failed to perform the Development Agreement, did not recognise that World Right and Binhai 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.

In June 2023, World Right commenced legal proceedings in Tianjin No. 3 Intermediate People's Court against Binhai Group and Cheng Tou Binhai, demanding the discharge of the Development Agreement, and urged to order the defendants to compensate for losses of approximately RMB366 million (subject to judicial evaluation).

Disallowing the request of World Right, the court delivered its first-instance judgment on 17 May 2024, as a results of which, World Right immediately took an appeal. The appeal court delivered its judgment on 31 December 2024, dismissing the appeal and upholding the original judgment.

During the Year, World Right continued to communicate with our lawyers and explore various legal action(s) to safeguard in the interests of the Group as a whole.

(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 to transfer the land under agreement to it, demanding that Datang Villagers' Committee compensate for the losses in accordance with the law.

The arbitral tribunal conducted hearings on 28 February 2023 and 18 December 2023 respectively. Based on strategic consideration, Brightson filed an application with the arbitral tribunal to withdraw the arbitration case on 18 April 2024.

During the Year, Brightson continued to communicate with our lawyers and explore various legal action(s) to safeguard in the interests of the Group as a whole.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2024 (2023: nil).

CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2024, the Company has complied with all the applicable code provisions of the Corporate Governance Code (the "CG Code") set out in Appendix C1 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), with the exception of code provisions C.1.6 and F.2.2 of the CG Code.

Under the code provision C.1.6 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Ng Yuk Fung Peter, Ms. Li Yuen Yu Alice, Mrs. Tse Wong Siu Yin Elizabeth, Mr. Kam Yiu Shing Tony and Mr. Wong Chun Tat, J.P. were unable to attend the annual general meeting of the Company held on 27 June 2024 (the "2024 AGM") due to their business engagements. Ms. Ng Yuk Mui Jessica, Mr. Yu Pui Hang, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Wong Chun Tat, J.P. were unable to attend the extraordinary general meeting of the Company held on 2 December 2024 due to their business engagements.

Under the code provision F.2.2 of the CG Code, the chairman of the board should invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting. Mr. Ng Hung Sang (Chairman of the Board), Mr. Kam Yiu Shing Tony (Chairman of the Audit Committee) and Mrs. Tse Wong Siu Yin Elizabeth (Chairman of Remuneration and Nomination Committee), were unable to attend the 2024 AGM due to their business engagements.

CHANGE OF DIRECTORS AND COMPOSITION OF BOARD COMMITTEES

1. Mr. Ng Yuk Fung, Peter resigned as a non-executive Director with effect from 27 June 2024.

2. Ms. Li Yuen Yu Alice retired as a non-executive Director with effect from the conclusion of the 2024 AGM and ceased to be a member of each of the Audit Committee and Remuneration and Nomination Committee of the Company on the same day.

3. Mrs. Tse Wong Siu Yin Elizabeth retired as an independent non-executive Director with effect from the conclusion of the 2024 AGM and ceased to be the chairman of the Remuneration and Nomination Committee and a member of the Audit Committee of the Company on the same day.

4. Following the retirement of Mrs. Tse Wong Siu Yin Elizabeth, Ms. Pong Scarlett Oi Lan, BBS, J.P. was appointed as the chairman of the Remuneration and Nomination Committee of the Company with effect from the conclusion of the 2024 AGM.

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 2024.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee currently comprises three Independent Non-executive Directors, namely Mr. Kam Yiu Shing Tony (Chairman of the Audit Committee), 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 2024 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 2024 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 C3 of the Listing Rules as its code of conduct for dealings in securities of the Company by Directors. Following specific enquiries by the Company, all Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2024.

ANNUAL GENERAL MEETING

The Company's 2025 annual general meeting (the "2025 AGM") will be held on Tuesday, 17 June 2025, at 10:00 a.m.. The notice of the 2025 AGM will be published on the websites of the Stock Exchange and the Company and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the eligibility of shareholders of the Company to attend and vote at the 2025 AGM, the register of members of the Company will be closed from Wednesday, 11 June 2025 to Tuesday, 17 June 2025, 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 2025 AGM, all duly completed and signed 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, 10 June 2025.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This 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 2024 will be dispatched to the shareholders of the Company and available on the above 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, 18 March 2025

As at the date of this announcement, the Directors are:

Executive Directors:
Mr. Ng Hung Sang
Ms. Cheung Choi Ngor
Mr. Ng Yuk Yeung Paul

Non-executive Directors:
Ms. Ng Yuk Mui Jessica
Mr. Yu Pui Hang

Independent Non-executive Directors:
Mr. Kam Yiu Shing Tony
Ms. Pong Scarlett Oi Lan, BBS, J.P.
Mr. Wong Chun Tat, J.P.

Where the English and the Chinese texts conflicted, the English text prevails.