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 2020

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 2020 together with comparative figures for the last financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	**2020** ***HK$'000***	2019 *HK$'000*
Revenue	*3*	**4,086,245**	4,410,438
Cost of sales		**(3,555,332)**	(3,702,901)
Gross profit		**530,913**	707,537
Other income and gains, net	*4*	**78,251**	76,892
Net fair value gain on properties transfer and investment properties inclusive of investment properties presented as non-current assets classified as held for sale		**153,842**	864,831
Selling and distribution expenses		**(86,304)**	(66,562)
Administrative expenses		**(368,126)**	(539,989)
Profit from operations	*3&5*	**308,576**	1,042,709

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

	Note	**2020** **HK$'000**	2019 *HK$'000*
Finance costs		**(192,949)**	(204,067)
Share of losses of associates		**(611)**	–
Share of (losses)/profits of joint ventures		**(25)**	151
Profit before tax		**114,991**	838,793
Income tax	*6*	**(49,609)**	(282,330)
Profit for the year		**65,382**	556,463
Attributable to:			
Equity shareholders of the Company		**69,775**	594,040
Non-controlling interests		**(4,393)**	(37,577)
		65,382	556,463
Earnings per share	*7*		
Basic		**HK0.5 cents**	HK4.6 cents
Diluted		**HK0.5 cents**	HK4.3 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2020	2019
	HK$'000	*HK$'000*
Profit for the year	**65,382**	556,463
Other comprehensive income (after tax and reclassification adjustments)		
Item that may be reclassified to profit or loss in subsequent periods (nil of tax effect):		
Exchange differences on translation of financial statements of operations outside Hong Kong	**434,267**	(131,487)
Other comprehensive income for the year	**434,267**	(131,487)
Total comprehensive income for the year	**499,649**	424,976
Attributable to:		
Equity shareholders of the Company	**473,468**	471,251
Non-controlling interests	**26,181**	(46,275)
	499,649	424,976

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 31 December 2020** *HK$'000*	As at 31 December 2019 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**654,276**	666,126
Investment properties	*9*	**9,975,013**	6,884,374
Construction in progress		**159,463**	136,737
Investments in associates		**989**	–
Investments in joint ventures		**74**	244
Bearer plants		**30,821**	36,253
Other non-current assets		**143,053**	151,550
Total non-current assets		**10,963,689**	7,875,284
CURRENT ASSETS			
Inventories	*9*	**1,339,113**	1,378,600
Properties under development	*9*	**233,895**	621,004
Trade receivables	*10*	**629,276**	454,486
Prepayments, deposits and other receivables		**1,067,459**	924,670
Financial assets measured at fair value through profit or loss		**5,846**	7,958
Amounts due from associates		**6,773**	–
Amounts due from related parties		**22,970**	–
Tax recoverables		**871**	692
Cash and bank balances		**591,361**	886,478
		3,897,564	4,273,888
Non-current assets classified as held for sale	*9*	**–**	2,494,940
Total current assets		**3,897,564**	6,768,828

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Note	**As at 31 December 2020** *HK$'000*	As at 31 December 2019 *HK$'000*
CURRENT LIABILITIES			
Trade payables	*11*	**958,358**	778,146
Other payables and accruals		**634,432**	1,222,088
Interest-bearing bank borrowings		**1,969,832**	2,576,589
Lease liabilities		**69,722**	66,035
Amounts due to non-controlling shareholders of subsidiaries		**10,314**	9,438
Tax payables		**100,999**	80,952
Total current liabilities		**3,743,657**	4,733,248
NET CURRENT ASSETS		**153,907**	2,035,580
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,117,596**	9,910,864
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**2,262,811**	1,744,584
Lease liabilities		**379,411**	344,473
Amounts due to non-controlling shareholders of subsidiaries		**7,941**	7,941
Amounts due to related parties		**557,639**	311,191
Other non-current liabilities		**67,028**	69,060
Deferred tax liabilities		**1,159,266**	1,040,594
Total non-current liabilities		**4,434,096**	3,517,843
NET ASSETS		**6,683,500**	6,393,021
CAPITAL AND RESERVES			
Share capital	*12*	**134,560**	139,789
Reserves		**6,221,189**	5,951,662
Total equity attributable to equity shareholders of the Company		**6,355,749**	6,091,451
Non-controlling interests		**327,751**	301,570
TOTAL EQUITY		**6,683,500**	6,393,021

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 2020.

The accounting policies and basis of preparation adopted in the financial statements are consistent with those adopted in the Group's audited 2019 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 HKICPA to these financial statements for the current accounting period:

Amendments to HKFRS 3, *Definition of a Business*
Amendments to HKFRS 16, *Covid-19-Related Rent Concessions*
Amendments to HKAS 1 and HKAS 8, *Definition of Material*

Other than the amendment to HKFRS 16, 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 HKFRS 3, *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. There is no impact on the Group's financial position and financial results upon initial application at 1 January 2020.

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

2. CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to HKAS 1 and HKAS 8, *Definition of Material*

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. There is no impact on the Group's financial position and financial results upon initial application at 1 January 2020.

3. REVENUE AND SEGMENTAL INFORMATION

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

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

(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 2020 and 2019.

	Trading and manufacturing		Property investment and development		Agriculture and forestry		Others		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	HK$'000	***HK$'000***	HK$'000	***HK$'000***	HK$'000	***HK$'000***	HK$'000	***HK$'000***	HK$'000
Segment revenue										
External sales	**3,223,868**	4,176,217	**848,954**	220,104	**13,423**	14,117	**–**	–	**4,086,245**	4,410,438
Segment results	**88,389**	256,922	**318,575**	939,988	**(27,131)**	(54,793)	**(71,257)**	(99,408)	**308,576**	1,042,709
Reconciliation:										
— Share of losses of associates	**(611)**	–	**–**	–	**–**	–	**–**	–	**(611)**	–
— Share of (losses)/profits of joint ventures	**–**	–	**–**	–	**–**	–	**(25)**	151	**(25)**	151
— Finance costs									**(192,949)**	(204,067)
Profit before tax									**114,991**	838,793

Geographical segments

Revenue from external customers

	2020	2019
	HK$'000	*HK$'000*
The People's Republic of China ("PRC"), including Hong Kong and Macau	**1,064,007**	398,331
The United States of America	**1,912,969**	2,327,848
Europe	**777,708**	1,123,546
Japan	**12,494**	72,665
Others	**319,067**	488,048
	4,086,245	4,410,438

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

4. OTHER INCOME AND GAINS, NET

For the year ended 31 December 2019, the Group recorded gains on disposal of construction in progress amounted to approximately HK$55,764,000. There were no such gains recognised during the year ended 31 December 2020.

5. DEPRECIATION AND AMORTISATION

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 2020 amounted to approximately HK$137,947,000 (2019: HK$142,936,000).

6. INCOME TAX

Income tax comprises current and deferred taxes.

Hong Kong Profits Tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Current tax for the year ended 31 December 2019 has also included a provision of tax expenses in regards to the development of a tax case in Hong Kong. The tax case has been cleared during the year ended 31 December 2020.

PRC Corporate Income Tax has been calculated at the rate of 25% (2019: 25%) on estimated assessable profits arising in the PRC. In addition, a provision of Corporate Income Tax on gain on disposal of certain assets in the PRC has been made during the year ended 31 December 2019.

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.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to equity shareholders of the Company of HK$69,775,000 (2019: HK$594,040,000), and the weighted average number of ordinary shares of 12,982,892,000 (2019: 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:

	2020	2019
	HK$'000	*HK$'000*
Earnings		
Profit attributable to equity shareholders of the Company used in the basic and diluted earnings per share calculation	**69,775**	594,040

	Number of shares	
	2020	2019
	'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	**598,898**	776,733
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	**13,787,951**	13,965,786

The Company's share options have no dilution effect for the years ended 31 December 2020 and 2019 because the exercise price of the Company's share options was higher than the average market price of the shares for both years and the share options are therefore anti-dilutive.

8. DIVIDENDS

The Company had not declared or paid any dividend during the year (2019: nil) and the Board did not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: nil).

9. INVESTMENT PROPERTIES, NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE, INVENTORIES AND PROPERTIES UNDER DEVELOPMENT

During the year ended 31 December 2020, certain properties of the Group with an aggregated value of HK$2,492,540,000 have been transferred from non-current assets classified as held for sale to investment properties.

During the year ended 31 December 2020, certain properties under development of the Group in the amounts of HK$449,416,000 have been transferred from properties under development to inventories (2019: HK$642,455,000 and HK$936,739,000 to investment properties and inventories respectively).

10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit with credit periods normally ranging from one to three months depending on a number of factors including trade practice, collection history and location of customers. Each customer has a maximum credit limit.

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor credit risk. Overdue balances are reviewed regularly by the senior management.

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:

	2020	2019
	HK$'000	*HK$'000*
Within 90 days	**605,285**	431,204
91 to 180 days	**19,325**	20,813
181 to 365 days	**2,587**	426
Over 365 days	**2,079**	2,043
	629,276	454,486

11. TRADE PAYABLES

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

	2020	2019
	HK$'000	*HK$'000*
Within 90 days	**718,385**	634,223
91 to 180 days	**145,579**	73,130
181 to 365 days	**24,011**	12,655
Over 365 days	**70,383**	58,138
	958,358	778,146

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

12. SHARE CAPITAL

	2020	2019
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 (2019: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
3,000,000,000 (2019: 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 (2019: 13,221,302,172) ordinary shares of HK$0.01 each	**132,213**	132,213
117,350,631 (2019: 378,813,131) redeemable convertible preference shares of HK$0.02 each (Note)	**2,347**	7,576
Total issued and fully paid capital	**134,560**	139,789

Movements of issued share capital and share premium were as follows:

	Issued ordinary shares	**Issued redeemable convertible preference shares**	**Share premium**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2019	132,213	7,814	1,701,135	1,841,162
11,878,000 redeemable convertible preference shares redeemed during the year	–	(238)	(9,264)	(9,502)
At 31 December 2019 and at 1 January 2020	**132,213**	**7,576**	**1,691,871**	**1,831,660**
261,462,500 redeemable convertible preference shares redeemed during the year	**–**	**(5,229)**	**(203,941)**	**(209,170)**
At 31 December 2020	**132,213**	**2,347**	**1,487,930**	**1,622,490**

12. SHARE CAPITAL (continued)

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 2019	13,221,302	390,691
Redeemed during the year	–	(11,878)
At 31 December 2019 and at 1 January 2020	**13,221,302**	**378,813**
Redeemed during the year	**–**	**(261,462)**
At 31 December 2020	**13,221,302**	**117,351**

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 revenue of HK$4,086 million (2019: HK$4,410 million) for the year ended 31 December 2020 (the "Year"), representing a 7% decrease as compared with 2019. Profit for the year was HK$65 million (2019: HK$556 million). The profit for the year ended 31 December 2019 was mainly attributable to the significant fair value gain on the investment portion of a property project in Shenyang, China. However, no such fair value gain was recognised for the Year and therefore, the profit for the Year would inevitably experience a significant decrease. Both revenue and profit for the year are the financial key performance indicators of the Group.

Basic earnings per share attributable to equity shareholders of the Company for the year was HK0.5 cents (2019: HK4.6 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, and (ii) trading of footwear products. The segment recorded a 23% decrease in revenue to HK$3,224 million (2019: HK$4,176 million) and a 66% decrease in operating profit to HK$88.4 million for the Year (2019: HK$256.9 million).

(i) OEM toys production

The OEM toys operation generated revenue of HK$3,111 million for the Year, representing a 19% decrease as compared to 2019.

The COVID-19 pandemic has been regarded as a global health crisis which gravely affected the world economy since World War II. Sharp increase in the unemployment rate in the United States of America ("USA") resulted in the sudden slowdown of our customer orders from USA in the first half of the Year.

Since July 2020, many companies had continued to resume their operations and rehired employees following COVID-19 lockdowns in USA. On the other hand, scientists in different countries have succeeded in developing safe and effective vaccines. It is anticipated that the economies and the market consumptions will bounce back after the vaccination, which in turn our toys orders from key customers will be reinforced in the USA.

Upon confirmation of the outbreak of the pandemic, various proactive actions were taken to (i) give the Group a competitive edge over its competitors by prompt resumption of production capability in Mainland China upon fulfillment of governmental measures in relation to public health protection right after Lunar New Year holiday for grasping new orders; and (ii) further lower down costs and expenses by means of enhancement through big data analytic systems and simplification of operation workflows.

The Group will continue to provide one-stop integral solutions to customers, and thereby gain continued loyalty and reinforcing long-term business relationship with customers. In fact, many products manufactured by us for our customers were awarded industry-acclaimed recognitions and awards.

During the Year, Renminbi has appreciated for around 8% which has exerted certain pressure on increasing production cost. Such pressure has been escalated on the manufacturing sector by the rising labour and material costs. By comparing with other developing countries such as India and other ASEAN countries, the production facilities in Mainland China are relatively competitive and mature. Thus, many overseas companies are willing to shift their production to Mainland China. Such increase in labour demand plus the serious problem of labour shortage led to increase in labour cost. Further, the petroleum production was disturbed owing to the outbreak of pandemic during the Year. The decrease in raw materials' supply also caused the raising price of its by-products such as plastics. Therefore, the Group has been facing a great challenge of cost control during the Year.

The Group regards that there is a "consolidation out" period under the COVID-19 pandemic during which competitors would be knocked out if they failed to react to the severe market sentiment effectively and efficiently, which in turn will lead to our increase in market share and enhance the relationships with customers. We seek to continue to provide high quality services and timely delivery of products to our customers.

Our production facility in Vietnam has been in operation since December 2019 which has expanded the production capacity of different products and customer mix.

(ii) Trading of footwear products

Revenue from the footwear trading operation decreased to HK$91 million (2019: HK$306 million) during the Year, mainly attributable to decrease in sales orders from customers focusing in workboots products and the United States market. Despite the significant drop in revenue during the Year, the Group managed to maintain a breakeven position. In order to lessen the impact on business arising from the Sino-US trade war, the Group sources suitable production facilities for footwear outside Mainland China, for example Vietnam.

Property Investment and Development

Revenue from the property investment and development segment significantly increased by 286% to HK$849 million during the Year. The operating profit, including a fair value gain on investment properties, amounted to HK$318.6 million during the Year. By excluding the fair value gain on investment properties, this segment generated an operating profit of HK$164.7 million (2019: HK$75.2 million), an increase of 119% as compared to 2019.

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

The Chinese government has effectively controlled the spread of COVID-19 and her economy has been resuming at a faster rate than that of other nations. During the Year, rental reliefs were granted to certain affected tenants in both Hong Kong and Mainland China as a gesture of goodwill for enabling them to sustain their businesses. Overall, rental income derived from our leasing portfolio in Hong Kong, Nanjing, Shenyang and Tianjin was stable during the Year. Rental income of the Group amounted to HK$216.0 million for the Year, slightly decreased as compared to HK$220.1 million in 2019.

Apart from leasing, the Group continues to focus on development of our property project in Shenyang, namely Central Square, which is located in one of the prime residential areas where it is right above the mass transit railway. The project has a total GFA of over 500,000 sq.m. and is a mixed-use project with a heavy emphasis in city living and convenience to the residents.

The first phase of Central Square, having GFA of approximately 170,000 sq.m., has been completed with two residential towers and one serviced apartment tower for sales as well as a retail podium for leasing. Approximately 44% of saleable areas of residential towers and serviced apartment have been sold up to date. Given Central Square is located in a prime residential area, management is cautiously optimistic on its sales and rental contributions in 2021 and onwards. In addition, the development of second phase in future will enhance the value and returns of the first phase.

Agriculture and Forestry

Revenue from the agriculture and forestry segment decreased by 5% to HK$13.4 million and operating loss has reduced to HK$27.1 million during the Year. The bearer plants balance decreased from HK$36.3 million as at 31 December 2019 to HK$30.8 million as at 31 December 2020; in terms of Renminbi, the functional currency of the relevant subsidiaries, the bearer plants balance decreased by 20% mainly due to the combined effect of write-off and depreciation of the bearer plants.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group had a current ratio of 1.0 and a gearing ratio of 34% (31 December 2019: 1.4 and 27%, respectively). The gearing ratio is computed by dividing the Group's total long-term bank borrowings of HK$2,263 million by the Group's equity of HK$6,684 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 Renminbi and United States dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The Group manages foreign exchange risk by closely monitoring the movements of the foreign currency rates and enters into forward contracts whenever appropriate.

CAPITAL STRUCTURE

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 9 April 2020, South China Industries (BVI) Limited, a wholly-owned subsidiary of the Company and South China Assets Holdings Limited ("SCAH"), an associate of the Company's connected person, Mr. Ng Hung Sang, entered into a joint venture agreement for the purpose of formation of a joint venture company in which the Company and SCAH hold 40% and 60% respectively. The joint venture company is an investment holding company which carries out production and sale of face masks and related products for capturing tremendous demand for face masks against COVID-19 worldwide.

On 21 May 2020, South China Industries (China) Limited ("SCI China"), an indirect wholly-owned subsidiary of the Company and Proper Mark International Limited ("Proper Mark"), an indirect wholly-owned subsidiary of SCAH entered into a sale and purchase agreement pursuant to which SCI China conditionally agreed to dispose of and Proper Mark conditionally agreed to purchase 100% of the entire issued share capital of Silver Giant Limited ("Silver Giant"), an indirect wholly-owned subsidiary of the Company, at a total consideration of HK$17,500,000. Silver Giant indirectly wholly holds a development site at Tianjin Xiazhuzhuang Street (天津市下朱莊街) in which industrial complexes and ancillary offices can be developed for lease and sale. On 15 July 2020, all conditions precedent in respect of the disposal were fulfilled and completion subsequently took place. A gain on disposal of subsidiaries amounted to HK$18,416,000 has been recognised in the consolidated statement of profit or loss during the Year.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

During the year ended 31 December 2020, the pledge over certain properties under development and completed properties for sale under a bank loan facility granted to an indirectly wholly-owned subsidiary of the Company has been released and discharged.

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

PROSPECTS

The world economy of 2021 is expected to be full of challenges and uncertainties, in particular the recent flare up in coronavirus cases threatened to further derail the economy of a number of nations, but the situation is expected to be improved upon the launch of coronavirus vaccines. Apart from the pandemic, the Sino-US trade war and Renminbi appreciation have also posed uncertainties to the business environment.

Management has been highly cautious under the current market situation, taking extra precautions to safeguard our assets and the safety of all of our employees. Meanwhile, the Group has been implementing cost reduction measures, consolidating and optimizing resources to achieve higher efficiency and reduce overheads in order to maintain competitiveness and ensure business continuity during the difficult market environment for the foreseeable short to medium term. The Group will strive to maintain steady rental income from leasing both in Hong Kong and Mainland China. In the long run, nonetheless, the Group will continue to explore business opportunities in Hong Kong and Mainland China and continue to drive revenues, in order to generate returns and create value to our shareholders.

Trading and Manufacturing

OEM toys production

Given the market uncertainties, the Group has reinforced the business relationships with its current key customers and solicited new orders from customers. On the other hand, the Group has implemented re-engineering exercises, including simplification and consolidation of operation procedures and human resources, for achieving higher efficiency and cost effectiveness which in turn are expected to enhance the Group's competitiveness and sustainability in the difficult market environment.

The long-standing customer loyalty and world-class engineering capability of our OEM toys operation has contributed to the Group's solid performance in 2020 and is expected to build trust and solicit orders from customers in 2021. The Group will strive to secure orders from its long-term loyal customers as well as new customers captured by the Group from other competitors who are knocked out in this critical period.

To lower down the production costs for increasing the Group's competitive edge over its rivals and to lessen the impact from the Sino-US trade war, the Group will continue to shift its production capacity from Shenzhen and Dongguan to Guangxi and Vietnam. During 2021, two more factories will be set up in Guangxi and more production orders will be handled by the factory in Vietnam.

Given the uncertainties posed by the pandemic and Sino-US trade war, anticipation and responsiveness will be our edge to manage the risks under the market volatility.

Property Investment and Development

Property Investment

The implementation of commercialization and transformation of various properties in Mainland China will be carried on, including but not limited to the mall in Shenyang, namely Avenue of Stars ("AOS"), which is currently one of the most popular fur-themed shopping malls in Shenyang, for the purposes of improving occupancy rate and rental contribution. The plan is to transform AOS into a mall anchored by different types of retailers and department stores. In addition to AOS, the Group is strived to increase the occupancy rate of the retail podium in the Central Square by identifying and soliciting prospective tenants, and it is expected that more rental income will be generated therefrom 2021.

During the Year, the Group granted rental relief to certain tenants both in Hong Kong and Mainland China as a gesture of goodwill, and these reliefs will not have a significant financial impact on the Group. However, it is expected that tenants will continue to demand rental reliefs if the market conditions remain severe. The Group has adopted an approach by offering rental restructuring or relief on a temporary basis to tenants upon requests.

Property Development

Given the faster resumption of economy in Mainland China from the devastation of the pandemic, the Group is cautiously optimistic on the sales of its Central Square in Shenyang in 2021 and onwards as Central Square is located in one of the prime residential areas and has the advantages of direct accessibility to the subway and a robust pedestrian street anchored by restaurants and retail stores.

The second phase of Central Square which is separated by a pedestrian street and opposite to the first phase, is in the process of re-settling a few non-residential units. It is also a mixed development project, and the positioning will be thematically in line with the first phase.

The Group will continue to study conversion of some other land banks from industrial to commercial in Nanjing and Tianjin for the purpose of increasing both the land value and return from development of such land after conversion. The Group's strategy in development of large scale property project remains unchanged.

Agriculture and Forestry

The Group currently has long-term leases of over 517,000 mu (approximately 345 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, lychee, peaches, pears and corns; and breeding of livestock such as pigs for sale. The Group will continue to explore plantation opportunities of high profit margin species and focus on improving sales distribution channels, utilization 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 the end customers. The Group's financial performance, therefore, hinges on the level of discretionary consumer spending in the markets in which our products are eventually sold. Recessions, credit crises and other economic downturns can result in decrease in consumers' disposable income and lower consumption confidence. These factors can reduce orders from our customers.

Cost increase

Cost increases, whether resulting from rising costs of materials, transportation, minimum wage legislations in Mainland 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 our business.

Risks relating to Property Investment and Development

Risks associated with the property market in Mainland China

A significant part of the Group's property portfolio is located in Mainland China and is therefore subject to the risks associated with Mainland China's property market. The Group's operations in Mainland China may also be exposed to the risks of policy change, Renminbi exchange rate change, interest rate change, demand-supply imbalance, and the overall economic conditions, which may pose an adverse impact on the Group's business, financial condition or results of operations.

Risks associated with the property market in Hong Kong

The state of Hong Kong's economy and property market, legislative and regulatory changes, government policies and political conditions also have an effect on the Group's revenue derived from the Group's property portfolio in Hong Kong. The government may introduce property cooling measures from time to time. Rental levels in Hong Kong are subject to competition arising from supply in the primary sector.

Risks relating to Agriculture and Forestry

Risk associated with natural disasters or adverse weather conditions

The Group's agriculture and forestry operations are susceptible to natural disasters and adverse weather conditions such as droughts, floods and earthquakes, and environmental hazards. The occurrence of any of the above events in or in close proximity to our cultivation area may cause a reduction or delay in our production output, which may adversely affect the Group's business and operating performance.

The Group will conduct regular reviews and focus on mitigating the risks exposure of each business unit.

UPDATE ON LITIGATION PROCEEDINGS

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

Infringement of copyrights case

Reference is made to the announcement made by the Company dated 5 December 2016 in relation to the litigation in the PRC concerning infringement of copyrights of certain 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 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 in 2013 (stock code: 1297).

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

On 28 November 2016, the Jiangsu High Court delivered its first instance judgment on the Computer 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 the 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 Computer Software was held belong to South China Skytech.

The Company wishes to give an update that all parties in the said infringement of copyrights case have appealed to the Supreme People's Court of China. 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 have 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. Currently, the Company is awaiting the retrial date to be notified by the Jiangsu High Court.

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 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 18 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 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 these computer software were 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 by these computer software and to seek an injunction prohibiting Nanjing Skytech and/or Sinosoft to continue to sell and/or use these computer software.

Liability dispute of damaging the interests of the Company case

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

1. Ms. Xin Yingmei, Mr. Wang Xiaogang, Mr. Zhang Hong and Nanjing Skytech shall pay RMB22,533,377.09 to South China Skytech;

2. Ms. Xin Yingmei shall pay RMB4,392,329.95 to South China Skytech. Mr. Wang Xiaogang, Mr. Zhang Hong and Nanjing Skytech shall be jointly liable to the payment;

3. Mr. Wang Xiaogang shall pay RMB691,859.56 to South China Skytech. Ms. Xin Yingmei, Mr. Zhang Hong and Nanjing Skytech shall be jointly liable to the payment; and

4. Mr. Zhang Hong shall pay RMB288,274.85 to South China Skytech. Ms. Xin Yingmei, Mr. Wang Xiaogang and Nanjing Skytech shall be jointly liable to the payment.

The Jiangsu Immediate People's Court had frozen a bank account held by Nanjing Skytech with a total sum of approximately RMB28 million in February 2017. 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. The case was heard by the Jiangsu High Court on 21 May 2020 and is awaiting judgement.

Liability dispute of damaging the interests of shareholders case

To protect its interest, Janful Limited, as the controlling shareholder of South China Skytech, filed a lawsuit against Ms. Xin Yingmei, Mr. Wang Xiaogang and Mr. Zhang Hong on the ground of damaging the interests of shareholders, demanding compensation of approximately RMB53.4 million (to be assessed). The court accepted the case on 15 January 2021.

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

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

In June 1993, World Right and Binhai Investment Group entered into a joint development agreement (the "Development Agreement"). It was agreed under the Development Agreement, inter alia, that World Right and Binhai Investment Group shall jointly develop a piece of land situate at Tianjin Binhai New District with an area about 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.

In 2013, World Right commenced legal proceedings in Tianjin High People's Court ("Tianjin High Court") against Binhai Investment Group claiming for specific performance of the Development Agreement. Following the first trial, second trial and retrial of the case, the Supreme People's Court made the final judgment in August 2020, rejecting the claims of World Right, and noting that World Right may claim its rights against Binhai Investment Group for breach of contract in another case. Accordingly, after consulting the counsel team, World Right filed the litigation for breach of contract in January 2021, demanding that Binhai Investment Group shall assume the liability for damages in the amount of approximately RMB166 million (to be assessed), and that Cheng Tou Binhai shall assume joint and several liability thereof. The case was scheduled to be heard on 26 March 2021.

In light of the above development of the case, South China Property, following the advice of the counsel team, withdrew the malicious collaboration lawsuit filed in October 2018 and decided not to appeal the tort dispute lawsuit filed in January 2019.

According to the analysis of the counsel team, the crux of the case lies in the approval procedures and implementation of the expropriation and transfer of the Involved Land at the time. World Right and South China Property are applying to the government authorities for information disclosure to find the facts of the case and protect the legal rights and interests of World Right and South China Property.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: nil).

CORPORATE GOVERNANCE CODE

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 of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2020 except that Ms. Ng Yuk Mui Jessica, Mr. Ng Yuk Fung Peter, Ms. Li Yuen Yu Alice, three of the Non-executive Directors and Mr. Chiu Sin Chun and Mr. Kam Yiu Shing Tony, two of the Independent Non-executive Directors, were unable to attend the annual general meeting of the Company held on 16 June 2020, which deviated from the code provisions A.6.7 and E.1.2 of the CG Code as they had other important business engagements.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

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 three Independent Non-executive Directors, namely Mr. Kam Yiu Shing Tony (Chairman of the Audit Committee), Mr. Chiu Sin Chun and Mrs. Tse Wong Siu Yin Elizabeth and a Non-executive Director, Mr. David Michael Norman.

The Group's annual results for the year ended 31 December 2020 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 financial 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 2020 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

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 2020.

ANNUAL GENERAL MEETING

The Company's 2021 annual general meeting will be held on Tuesday, 22 June 2021 and the notice will be published and issued to shareholders of the Company in due course.

PUBLICATION OF ANNUAL RESULTS AND 2020 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 2020 will be dispatched to the shareholders of the Company and made available on the same 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, 23 March 2021

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