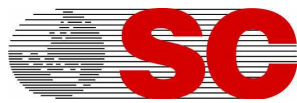


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## **SOUTH CHINA HOLDINGS COMPANY LIMITED**

### **南華集團控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00413)**

## **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016**

### **GROUP RESULTS**

The board of directors (the “Board”) of South China Holdings Company Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2016 together with comparative figures for the last financial year as follows:

### **CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

	<i>Note</i>	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
<b>Revenue</b>	3	<b>3,731,153</b>	3,406,501
Cost of sales		<b>(3,021,044)</b>	(2,902,444)
<b>Gross profit</b>		<b>710,109</b>	504,057
Other income and gains, net		<b>100,297</b>	27,323
Fair value gain on investment properties inclusive of investment properties presented as non-current assets classified as held for sale		<b>146,683</b>	390,089
Fair value (loss)/gain on financial assets at fair value through profit or loss		<b>(22,137)</b>	3,642
Fair value loss on foreign exchange forward contracts		<b>(55)</b>	(2,749)
Selling and distribution expenses		<b>(68,068)</b>	(73,395)
Administrative expenses		<b>(535,780)</b>	(505,901)
Equity-settled share award expense		<b>(7,927)</b>	(7,514)
<b>Profit from operations</b>	3	<b>323,122</b>	335,552

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

	<i>Note</i>	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Finance costs		<b>(120,622)</b>	(117,163)
Share of (losses)/ profits of associates		<b>(1,090)</b>	18,879
(Impairment)/ reversal of impairment of advances to associates, net		<b>(129)</b>	427
<b>Profit before tax</b>		<b>201,281</b>	237,695
Income tax	5	<b>(54,648)</b>	(86,040)
<b>Profit for the year</b>		<b><u>146,633</u></b>	<b><u>151,655</u></b>
Attributable to:			
Equity shareholders of the Company		<b>152,142</b>	156,749
Non-controlling interests		<b>(5,509)</b>	(5,094)
		<b><u>146,633</u></b>	<b><u>151,655</u></b>
<b>Earnings per share</b>	6		(Restated)
<b>Basic</b>		<b><u>HK 1.7 cents</u></b>	<b><u>HK 2.1 cents</u></b>
<b>Diluted</b>		<b><u>HK 1.1 cents</u></b>	<b><u>HK 1.3 cents</u></b>

Details of the dividends paid and proposed for the year are set out in note 7.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME**

	2016 HK\$'000	2015 HK\$'000
<b>Profit for the year</b>	<u>146,633</u>	<u>151,655</u>
<b>Other comprehensive income (after tax and reclassification adjustments)</b>		
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>		
Available-for-sale financial assets:		
- Net changes in fair value	(633)	2,602
- Reclassification adjustment for impairment loss transferred to profit or loss	<u>12</u>	<u>60</u>
	(621)	2,662
Exchange differences on translation of operations outside Hong Kong	(313,626)	(188,528)
Share of other comprehensive income of associates	<u>(664)</u>	<u>(519)</u>
<b>Other comprehensive income for the year</b>	<u>(314,911)</u>	<u>(186,385)</u>
<b>Total comprehensive income for the year</b>	<u><b>(168,278)</b></u>	<u><b>(34,730)</b></u>
<b>Attributable to:</b>		
Equity shareholders of the Company	(130,282)	(7,179)
Non-controlling interests	<u>(37,996)</u>	<u>(27,551)</u>
	<u><b>(168,278)</b></u>	<u><b>(34,730)</b></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December 2016	As at 31 December 2015
	<i>Note</i>	HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		202,863	198,941
Investment properties		6,405,099	6,598,018
Prepaid land lease payments		81,358	85,814
Construction in progress		138,374	127,907
Investments in associates		10,347	15,985
Bearer plants		69,852	89,981
Available-for-sale financial assets		73,400	74,018
Prepayments and deposits		18,301	18,623
Goodwill		2,986	3,041
Other non-current assets		15,638	15,638
Total non-current assets		<u>7,018,218</u>	<u>7,227,966</u>
<b>CURRENT ASSETS</b>			
Inventories		451,876	341,995
Properties under development		1,153,055	1,044,074
Trade receivables	8	617,040	380,506
Prepayments, deposits and other receivables		859,526	802,163
Financial assets at fair value through profit or loss		28,040	50,476
Amounts due from non-controlling shareholders of subsidiaries		52,203	56,650
Amounts due from affiliates		75,500	104,277
Tax recoverable		44,414	41,690
Cash and bank balances		498,099	486,422
		<u>3,779,753</u>	<u>3,308,253</u>
Non-current assets classified as held for sale		939,000	904,000
Total current assets		<u>4,718,753</u>	<u>4,212,253</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	9	649,533	346,840
Other payables and accruals		575,228	594,004
Interest-bearing bank borrowings		1,802,320	1,959,204
Foreign exchange forward contracts		-	55,714
Amounts due to non-controlling shareholders of subsidiaries		2,310	932
Tax payable		59,727	51,744
Total current liabilities		<u>3,089,118</u>	<u>3,008,438</u>
<b>NET CURRENT ASSETS</b>		<u>1,629,635</u>	<u>1,203,815</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>8,647,853</u>	<u>8,431,781</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**

		As at 31 December 2016	As at 31 December 2015
	<i>Note</i>	HK\$'000	HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		2,245,134	1,740,880
Advances from non-controlling shareholders of subsidiaries		7,941	7,941
Other non-current liabilities		69,147	74,458
Deferred tax liabilities		805,060	832,001
Total non-current liabilities		<u>3,127,282</u>	<u>2,655,280</u>
<b>Net assets</b>		<u><u>5,520,571</u></u>	<u><u>5,776,501</u></u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>10</i>	112,567	114,488
Reserves		<u>5,088,733</u>	<u>5,304,746</u>
Total equity attributable to equity shareholders of the Company		5,201,300	5,419,234
Non-controlling interests		<u>319,271</u>	<u>357,267</u>
<b>Total equity</b>		<u><u>5,520,571</u></u>	<u><u>5,776,501</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

### 1. Principal accounting policies and basis of preparation

The annual results set out in the announcement are extracted from the Group's consolidated financial statements for the year ended 31 December 2016.

The accounting policies and basis of preparation adopted in the financial statements are consistent with those adopted in the Group's audited 2015 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 HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

Annual Improvements to HKFRSs 2012-2014 Cycle

Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*

Amendments to HKAS 1, *Disclosure initiative*

Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

#### **Early adoption of the Amendments to HKAS 16 and HKAS 41, *Agriculture: Bearer Plants* in prior year**

In prior year, the Group early adopted the Amendments to HKAS 16 and HKAS 41, *Agriculture: Bearer plants*. As a result of the early adoption of such Amendments, the Group had changed its accounting policy for bearer plants. The impact of the early adoption of such Amendments had been presented in prior year's consolidated financial statements.

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

### 3. Revenue and segmental information

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

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

- (a) the trading and manufacturing segment is engaged in trading and manufacturing of merchandises including toys, footwear products and leather products;
- (b) the property investment and development segment is engaged in property investment and development;
- (c) the agriculture and forestry segment is engaged in the cultivation of fruit trees and crops, rearing of livestock and aquatic products, forestation and sale of relevant agricultural products; and
- (d) the investment holding segment comprises, principally, the Group's investment holding related management functions.

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 profit/(loss), 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, impairment of advances to associates (and reversals thereof) and finance costs are excluded from such measurement.

#### ***Business segment***

The following tables present revenue and profit for the Group's business segments for the years ended 31 December 2016 and 2015.

	<i>Trading and manufacturing</i>		<i>Property investment and development</i>		<i>Agriculture and forestry</i>		<i>Investment holding</i>		<i>Group</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue</b>										
External sales	3,528,762	3,208,626	182,457	180,247	19,934	17,628	-	-	3,731,153	3,406,501
<b>Segment results</b>	308,610	92,486	198,405	456,315	(78,694)	(72,711)	(105,199)	(140,538)	323,122	335,552
Reconciliation:										
- Share of (losses)/ profits of associates	(1,206)	79	-	18,000	-	-	116	800	(1,090)	18,879
- (Impairment)/ reversal of impairment of advances to associates, net	(129)	(8)	-	-	-	-	-	435	(129)	427
- Finance costs									(120,622)	(117,163)
<b>Profit before tax</b>									201,281	237,695

### 3. Revenue and segmental information (continued)

#### *Geographical segments*

Revenue from external customers

	2016 HK\$'000	2015 HK\$'000
The People's Republic of China ("PRC"), including Hong Kong and Macau	376,974	406,159
The United States of America	2,117,773	1,706,498
Europe	630,635	668,745
Japan	51,270	26,665
Others	554,501	598,434
	<u>3,731,153</u>	<u>3,406,501</u>

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

### 4. Depreciation, amortisation and gain on disposal of an investment property

Depreciation in respect of the Group's property, plant and equipment and bearer plants and amortisation in respect of the Group's prepaid land lease payments for the year ended 31 December 2016 amounted to approximately HK\$49,245,000 (2015: HK\$47,824,000) and HK\$45,679,000 (2015: HK\$47,509,000), respectively.

### 5. Income tax

Income tax comprises current and deferred taxes.

Hong Kong Profits Tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the respective countries/jurisdictions in which the Group operates.

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

### 6. Earnings per share

The calculation of the basic earnings per share is based on the profit for the year attributable to equity shareholders of the Company of HK\$152,142,000 (2015: HK\$156,749,000), and the weighted average number of ordinary shares of 8,906,562,000 (2015 (restated): 7,584,619,000) in issue, after adjusting for the bonus issue subsequent to the year end, less shares held for share award scheme and treasury shares. The weighted average number of shares for the purpose of calculating earnings per share for the year ended 31 December 2015 has been restated as if the Company's bonus share were issued as set out in "EVENT AFTER THE REPORTING PERIOD" had been effective as at 1 January 2015.



## 6. Earnings per share (continued)

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

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

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
<b>Earnings</b>		
Profit attributable to equity shareholders of the Company used in the basic and diluted earnings per share calculation	<u><b>152,142</b></u>	<u>156,749</u>
	<i>Number of shares</i>	
	<b>2016</b>	2015
	<b>'000</b>	'000
		(Restated)
<b>Shares</b>		
Weighted average number of ordinary shares used in the basic earnings per share calculation	<b>8,906,562</b>	7,584,619
Effect of redeemable convertible preference shares	<b>5,081,478</b>	4,600,593
Effect of shares held for share award scheme	<u><b>91,500</b></u>	<u>99,378</u>
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<u><b>14,079,540</b></u>	<u>12,284,590</u>

The Company's share options have no dilution effect for the years ended 31 December 2016 and 2015 because the exercise price of the Company's share options was higher than the average market price of the shares for both years and the share options are therefore anti-dilutive.

## 7. Dividends

The Company had not declared or paid any dividend during the year (2015: Nil) and the board of directors of the Company did not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

## 8. Trade receivables

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

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor credit risk. Overdue balances are reviewed regularly by the senior management. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

## 8. Trade receivables (continued)

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

	2016 HK\$'000	2015 HK\$'000
Within 90 days	579,732	306,895
91 to 180 days	22,677	52,639
181 to 365 days	6,420	11,365
Over 365 days	8,211	9,607
	<u>617,040</u>	<u>380,506</u>

## 9. Trade payables

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

	2016 HK\$'000	2015 HK\$'000
Within 90 days	471,259	224,973
91 to 180 days	88,273	53,636
181 to 365 days	20,964	13,923
Over 365 days	69,037	54,308
	<u>649,533</u>	<u>346,840</u>

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

## 10. Share capital

	2016 HK\$'000	2015 HK\$'000
Authorised:		
20,000,000,000 ordinary shares (2015: 12,000,000,000) of HK\$0.01 each ( <i>note</i> )	200,000	120,000
3,000,000,000 (2015: 3,000,000,000) redeemable convertible preference shares of HK\$0.02 each	60,000	60,000
Total authorised capital	<u>260,000</u>	<u>180,000</u>
Issued and fully paid:		
10,407,117,286 (2015: 5,977,273,726) ordinary shares of HK\$0.01 each	104,071	59,773
424,811,131 (2015: 2,735,802,127) redeemable convertible preference shares of HK\$0.02 each	8,496	54,715
Total issued and fully paid capital	<u>112,567</u>	<u>114,488</u>

## 10. Share capital (continued)

*Note:*

On 23 December 2016, an ordinary resolution approving the increase in authorised ordinary shares by 8,000,000,000 ordinary shares at par value of HK\$0.01 each ranking pari passu with existing shares was duly passed at the Extraordinary General Meeting. Details were set out in the Company's circular dated 7 December 2016 and the announcement dated 12 October 2016.

The redeemable convertible preference shares are redeemable at the sole discretion of the Company at any time after the issuance thereof. Holders of the redeemable convertible preference shares shall be entitled to pro-rata share of dividend or distribution declared by the board of directors of the Company, at its discretion, to the ordinary shareholders of the Company. Dividends or distributions payable to the holders of the redeemable convertible preference shares are not cumulative. The redeemable convertible preference shares shall not confer on the holders thereof the right to receive notice of, or to attend and vote at, general meeting of the Company unless a resolution is proposed to vary or abrogate the rights or privileges of the holders of the redeemable convertible preference shares or for winding-up the Company. The redeemable convertible preference shares rank prior to the ordinary shares on distribution of assets on liquidation, winding-up or dissolution of the Company to the extent of the amount equal to the aggregate issue price of the relevant redeemable convertible preference shares. The remaining assets shall belong to and be distributed on a pari passu basis among the holders of the ordinary shares.

Movements of issued capital were as follows:

	Issued ordinary shares HK\$'000	Issued redeemable convertible preference shares HK\$'000	Share premium HK\$'000	Total HK\$'000
At 1 January 2015	59,773	35,882	1,042,019	1,137,674
1,042,123,131 redeemable convertible preference shares issued during the year	-	20,842	812,856	833,698
100,440,000 redeemable convertible preference shares redeemed during the year	-	(2,009)	(55,242)	(57,251)
At 31 December 2015 and at 1 January 2016	<b>59,773</b>	<b>54,715</b>	<b>1,799,633</b>	<b>1,914,121</b>
75,584,000 redeemable convertible preference shares redeemed during the year	-	(1,512)	(44,151)	(45,663)
2,235,406,996 redeemable convertible preference shares converted into 4,429,843,560 ordinary shares during the year	<b>44,298</b>	<b>(44,707)</b>	<b>409</b>	<b>-</b>
At 31 December 2016	<b>104,071</b>	<b>8,496</b>	<b>1,755,891</b>	<b>1,868,458</b>

## 10. Share capital (continued)

Movements of number of issued shares are as follows:

	<i>No. of issued ordinary shares</i>	<i>No. of redeemable convertible preference shares</i>
	'000	'000
At 1 January 2015	2,988,637	1,794,119
Effect of Share Sub-division	2,988,637	-
Issued during the year	-	1,042,123
Redeemed during the year	-	(100,440)
	<hr/>	<hr/>
At 31 December 2015 and at 1 January 2016	<b>5,977,274</b>	<b>2,735,802</b>
Redeemed during the year	-	(75,584)
Converted during the year	-	(2,235,407)
Issued during the year	<b>4,429,843</b>	-
	<hr/>	<hr/>
At 31 December 2016	<b><u>10,407,117</u></b>	<b><u>424,811</u></b>

*The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, and consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.*

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded revenue of HK\$3.7 billion (2015: HK\$3.4 billion) and profit for the year of HK\$146.6 million (2015: HK\$151.7 million), both being the financial key performance indicators, for the year ended 31 December 2016, representing an increase of 9.5% and decrease of 3.3%, respectively, from the corresponding amounts reported in 2015. Earnings per share attributable to equity holders of the Company for the year was HK1.7 cents (2015 (restated): HK2.1 cents).

### BUSINESS REVIEW

The principal businesses of the Group include trading and manufacturing, property investment and development and agriculture and forestry.

#### Trading and Manufacturing

The trading and manufacturing segment mainly comprises (i) OEM manufacturing of toys products, and (ii) trading of footwear products. The segment recorded a 10.0% increase in revenue to HK\$3.5 billion (2015: HK\$3.2 billion) and a 233.7% increase in operating profit to HK\$308.6 million (2015: HK\$92.5 million) for the year ended 31 December 2016.

##### *(i) OEM toys manufacturing*

The OEM toys operations achieved a second successive record-breaking revenue of HK\$3.3 billion in revenue. The increase in revenue of the toys operations was mainly attributable to the success of an expanding customer base. The successful launching of our innovative products and revitalization of licensing dolls manufacturing also enabled us to fully utilize the resources throughout the year.

Despite the large increase in production, the Group managed to provide high quality on time delivery of products to our customers throughout the year and this is mainly attributable to the professionalism of our R&D and engineering department in providing continuous modifications and technological solutions. This can also be seen with three of our products being awarded the acclaimed “toy of the year” at the world annual toy awards. During the year, a new factory in Guangxi kicked off its operation in order to cope with the increase in production and to provide a base with lower labour costs.

Management also placed a renewed focus on driving down wastage in the manufacturing process and cost control with an increased investment into R&D to provide the most efficient and low cost one stop solution for our clients especially within the field of high-tech toys. The company put added emphasis on lean manufacturing throughout all seven factories.

As a result, the operating profit experienced a huge increase from the tight control over raw material cost and overheads control during the year.

*(ii) Trading of footwear products*

During the year ended 31 December 2016, revenue from the footwear trading operations decreased by 26.0% to HK\$231.6 million. The decrease in revenue was mainly attributable to a decrease in 14% sales volume from customers. Despite a drop in sales volume, the gross margin percentage increased as a result of changes in product mix. Overall profit from operations increased to HK\$10.8 million in 2016. The company also ventured into distribution and licensing of various European brands into Hong Kong and Greater China.

**Property Investment and Development**

During the year ended 31 December 2016, the revenue of the property investment and development segment increased by 1.2% to HK\$182.5 million. The operating profit however decreased by 56.5% to HK\$198.4 million in the current year and was mainly attributable to the combined effect of (a) a decrease in fair value gain on investment properties by HK\$243.4 million, (b) a decrease in interest income generated from a loan receivable which was derived from 40% acquisition of Elite Empire Investment Limited, the property development project, and settled in 2015 by HK\$4.8 million, (c) an increase in operating expense by HK\$ 4.6 million from the Wuqing project, which acquired in late 2015, and (d) offset by an increase in rental income by HK\$2.2 million.

The increase in rental income in the current year was mainly attributable to the rental contribution from the Avenue of Stars, a fur themed shopping mall with varieties of major fur brands in Shenyang. It has now become one of the most reputable and successful fur mall in Liaoning and has a majority share of the fur retail market. Our rental portfolios also reported an increase in rental income. The growth came primarily from the commercialisation of our Tianjin industrial properties and a revitalization of our Nanjing commercial properties which are all located in prime areas of both cities.

In addition to our existing rental portfolios in Nanjing, Shenyang and Tianjin, we continue to focus on and develop our property project in Shenyang. The project, located on the very Eastern part of the most robust pedestrian street of the North-East known as Zhongjie (中街) of Dadong district, is named Central Square. The project is also situated right above line 1 of the mass transit railway and will also be connected to line 6 which is to be constructed within the next three years.

The project involves a total GFA of over 500,000 square metres and is a mixed use project with a heavy emphasis on city living and convenience to the residents of the project. The first phase of the Central Square with approximate salable GFA of 140,000 square metres, comprises two residential towers, one serviced apartment tower and a retail podium. The construction work of underground space, commercial podium and the sales office were completed during the year. The residential and serviced apartment towers are now under construction. In the meantime, pre-sale of one residential tower and the serviced apartment tower was launched on December 2016 with over 10% of the total units on the South side being sold in the first month.

## **Agriculture and Forestry**

Revenue from the agriculture and forestry segment increased by 13.1% to HK\$19.9 million in 2016 as compared with the corresponding period in 2015. However, operating loss increased by HK\$6.0 million from HK\$72.7 million in 2015 to HK\$78.7 million in 2016.

The difference is mainly due to (a) write-off of bearer plants, netting off with (b) gain on disposal of bearer plants and (c) gain on subsidy and compensation from local Government. Such items are categorized as other income and gains, net under the consolidated statement of profit or loss. In 2016, there was losses identified in physical count mainly at Hebei and Shenyang area and the Group recorded HK\$10.9 million in write-off of bear plants. No write-off of bearer plants was recorded in 2015. Furthermore, there was HK\$2.8 million gain on disposal of bearer plants due to surrender of land upon land expropriation by the local governments in Xian and Guangzhou as no land surrender was noted in 2015. Government subsidy and compensation income also increased by HK\$1.5 million as more development and cooperation with local government occurred in current year.

The bearer plants balance decreased by 22.4% from HK\$90.0 million in 2015 to HK\$69.9 million in 2016. The decrease in bearer plants balance was primarily due to HK\$10.9 million write-off, HK\$ 4.3 million depreciation and HK\$ 5.3 million exchange realignment derived from a depreciation of RMB during the year.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2016, the Group had a current ratio of 1.5 and a gearing ratio of 40.7% (31 December 2015: 1.4 and 30.1%, respectively). The gearing ratio is computed by dividing the Group's total long-term bank borrowings of HK\$2.2 billion by the Group's equity of HK\$5.5 billion. The Group's operation and investments continued to be financed by internal resources and bank borrowings.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

There was no material acquisition or disposal of any subsidiary or associated company during the year.

## **PLEDGE OF ASSETS AND CONTINGENT LIABILITIES**

On 31 August 2016, an indirect wholly-owned subsidiary of the Company entered into a bank loan facility. Under the facility, the issued share capital of certain indirect wholly-owned subsidiaries of the Company and the property development project were pledged with that bank.

On 20 October 2016, a bank loan facility granted to the Company was fully refinanced by a newly entered bank loan facility. The share mortgage over an indirect wholly-owned subsidiary of the Company in respect of the former bank loan facility has been released and discharged. There is no such charge under the new bank loan facility.

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

## **EVENT AFTER THE REPORTING PERIOD**

Pursuant to the resolution passed at the extraordinary general meeting of the Company held on 23 December 2016, bonus shares were issued to shareholders whose names appeared on the register of members of the Company on 5 January 2017, the Record Date, on the below basis:

- (a) every four existing shares held by the ordinary shareholders whose names appear in the register of members of the Company on the Record Date; or
- (b) every four shares that could be converted on an "as converted" basis as if all the outstanding CPSs held by the CP Shareholder(s), whose name(s) appear(s) in the register of CP Shareholders of the Company on the Record Date, were converted in full at their effective conversion price immediately before the Record Date.

On 9 January 2017, an amount of HK\$28,141,849 standing to the credit of the share premium account was applied in paying up in full 2,814,184,886 ordinary shares of HK\$0.01 each which were allotted and issued as fully paid to the shareholders who were entitled to those bonus shares.

## **PROSPECTS**

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



## **Trading and Manufacturing**

### ***OEM toys manufacturing***

The Group will seek opportunities to expand the product range and enlarge customer base with a continuous focus on cost control and time to market production.

We will keep up the successful accomplishment on production of toy robots, drone and sensing device through wifi, blue tooth and other mediums. Meanwhile, we will continue to explore the possibility on producing new products from our existing toy categories.

The Group has traditionally invested heavily in the R&D and engineering department and will increase its capital investment into developing new technology and manufacturing advances to meet the increasingly complicated requirements of high-tech toys from our clients. We plan to set up a Wah Shing Academy to provide continuous education, collaboration of know-how and to further emphasise lean manufacturing. Management will seek to expand research departments and collaborations with various academic institutions with China to further increase its competitiveness and expertise in this field. We hope to get our Wah Shing Academy accreditation with various reputable institutions.

Furthermore, the Group will further expand its production capacity and has identified a few suitable existing plants to support our business growth in future.

Management holds positive view on the revenue growth in 2017 while at the same time continue to be cost conscious in improving operation efficiency and hence our service to clients.

## **Property Investment and Development**

### ***Property Investments***

The Group has a property investment portfolio with total floor area of approximately 560,000 square metres in Mainland China and 298,000 square feet (approximately 28,000 square metres) in Hong Kong. The investment properties in China are mostly in prime locations in Nanjing, Shenyang and Tianjin.

With the management team effort, the occupancy rates of the Avenue of Stars have improved and management team will continue to increase the pedestrian flow so as to further increase its rental contribution in the future. We will continue to market AOS as the leading fur mall in Northern China and will build upon the majority market share that we have managed to capture over the last few years.

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

Meanwhile, the Group will actively consider offloading non-core low-contribution investment properties in Hong Kong and the PRC in order to reallocate resources to more promising investment properties or land banks.

### ***Property Development***

The completion of the acquisition of our property development arm last year was a healthy consolidation as well as a cost efficient streamlining of our PRC property portfolios. Not only does it bring relevant property development management expertise to our existing land banks in the prime locations of Nanjing and Tianjin, but it also gives us the opportunity to retain high value retail assets from our future property development endeavours.

The construction work of the first phase of the Central Square in the Southern part of our Dadong site in Shenyang is underway, and pre-sale was launched in December 2016. With its prime location situated in the Zhongjie pedestrian commercial zone, a prime shopping area in Shenyang with a mix of trendy boutiques, department stores, shopping malls and hotels, management is cautiously optimistic on the short term contributions from the project in light of recent relaxation of residential policies in the second tier cities of China and the various supporting tax and deduction of government fee policies.

The second phase of the Central Square in the Northern part of Dadong site, which is directly opposite from the pedestrian street to the above, is still in the planning stage. It is also a mixed development project, and the positioning will be thematically in line with the South, with a slightly higher class distinction.

Our land bank in the Tianjin Wuqing district which was acquired last year provides us with a potential site area of over 200,000 square metres, with approximately 88,000 square metres have paid the land premium and the project is currently under the planning stage. In light of the recent development of the capital economic circle concept (京津冀首都經濟圈) and that the Tianjin government (天津市政府) recently announced the plan to develop the Wuqing district into a university zone (京津冀協同發展國家大學創新園區) which is nearby our development site, we are cautiously optimistic to its future contributions.

Nanjing and Tianjin industrial land use conversion to commercial will continue to be our area of focus. The addition of the new property development team and track record will be a major contribution for us to fully benefit from successful future conversions.

### **Agriculture and Forestry**

The Group currently has long-term leases of over 540,000 mu (approximate to 333 million square metres) of woodland, farmland, fishpond and lake space in various major provinces in China, and is focusing on the plantation of fruits and crops, such as apple, winter date, peach, pear and corn, and breeding of livestock, such as pig, for sale. The Group will continue to explore plantation opportunities for high profit margin species and focus on improving the sales distribution channels so as to improve the revenue and also the operating results of the segment.

Management will continue their effort in cost control and efficient resources utilisation with a view to containing costs.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

The following section lists out the key risks and uncertainties facing the Group. It is a non-exhaustive list and there may be other risks and uncertainties additional to the key risk areas outlined below.

### **Risks relating to Trading and Manufacturing**

#### ***Macroeconomic environment***

The Group designs and manufactures a wide variety of toys, shoes and other leather products. Our customers sell such products worldwide to the end customers. The Group's financial performance, therefore, hinges on the level of discretionary consumer spending in the markets in which our products are eventually sold. Recessions, credit crises and other economic downturns can result in less consumer disposable income and lower consumer confidence. These factors can reduce orders from our customers.

#### ***Cost increase***

Cost increases, whether resulting from rising costs of materials, transportation, minimum wage legislations in Mainland or compliance with existing or future regulatory requirements could impact the profit margins realised by the Group on the sale of its products. In addition, the Group could be the subject of future product liability suits or product recalls, which could harm our business.

### **Risks relating to Property Investment and Development**

#### ***Risks associated with the property market in Mainland China***

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

#### ***Risks associated with the property market in Hong Kong***

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

### **Risks relating to Agriculture and Forestry**

#### ***Risk associated with natural disasters or adverse weather conditions***

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

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

## **FINAL DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

## **CORPORATE GOVERNANCE CODE**

The Company had complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange throughout the year ended 31 December 2016 except that:

- (i) Mr. Ng Hung Sang, the Chairman and an Executive Director of the Company, was unable to attend the annual general meeting of the Company held on 7 June 2016 since he had other business engagements, which deviated from code provision E.1.2; and
- (ii) the company secretary of the Company had resigned since 8 January 2016, as such the Company no longer complied with the requirement under Rule 3.28 of the Listing Rules and, hence, the relevant code provisions in respect of company secretary. The Company is in the process of identifying a suitable candidate to fill the vacancy in the office of company secretary.

## **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 listed shares of the Company during the year ended 31 December 2016.

## **REVIEW OF FINANCIAL RESULTS**

The Group’s annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

By Order of the Board  
**South China Holdings Company Limited**  
**Ng Hung Sang**  
*Chairman and Executive Director*

Hong Kong, 23 March 2017

*As at the date of this announcement, the directors of the Company are (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges, Mr. Ng Yuk Fung Peter, Mr. Ng Yuk Yeung Paul and Mr. Law Albert Yu Kwan as executive directors; (2) Ms. Ng Yuk Mui Jessica and Mr. David Michael Norman as non-executive directors; and (3) Mr. Chiu Sin Chun, Sr Dr. Leung Tony Ka Tung, Ms. Li Yuen Yu Alice, Mrs. Tse Wong Siu Yin Elizabeth and Mr. Yip Dicky Peter, J.P. as independent non-executive directors.*