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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

UNAUDITED INTERIM RESULTS

The board of directors (the "Board" or the "Directors") of South China Holdings Company Limited (the "Company") hereby announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2019 together with the relevant comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2019	2018
		Unaudited	Unaudited
			(Note)
	Note	***HK$'000***	*HK$'000*
Revenue	*2*	**1,669,274**	1,470,947
Cost of sales		**(1,423,311)**	(1,324,644)
Gross profit		**245,963**	146,303
Other income and gains, net		**23,542**	31,915
Fair value gain on investment properties inclusive of investment properties presented as non-current assets classified as held for sale		**146,332**	202,638
Fair value loss on financial assets at fair value through profit or loss		**(2,618)**	(3,941)
Selling and distribution expenses		**(26,069)**	(29,813)
Administrative expenses		**(252,809)**	(256,242)
Equity-settled share award expense		**–**	(1,396)
Profit from operations	*2&3*	**134,341**	89,464

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

		Six months ended 30 June	
		2019	2018
		Unaudited	Unaudited
			(Note)
	Note	***HK$'000***	*HK$'000*
Finance costs	*1.1(c)*	**(97,036)**	(66,299)
Share of profits and losses of associates		**–**	(12)
Share of profits and losses of joint ventures		**160**	(6)
Profit before tax		**37,465**	23,147
Income tax	*4*	**(10,655)**	(12,675)
Profit for the period		**26,810**	10,472
Attributable to:			
Equity shareholders of the Company		**36,660**	10,246
Non-controlling interests		**(9,850)**	226
		26,810	10,472
Earnings per share	*6*		
Basic		**HK0.3 cents**	HK0.1 cents
Diluted		**HK0.3 cents**	HK0.1 cents

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 1.1.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
		(Note)
	HK$'000	*HK$'000*
Profit for the period	**26,810**	10,472
Other comprehensive income:		
Exchange differences on translation of operations outside Hong Kong	**(2,657)**	(65,397)
Share of other comprehensive income of associates	**–**	(284)
Other comprehensive income for the period	**(2,657)**	(65,681)
Total comprehensive income for the period	**24,153**	(55,209)
Attributable to:		
Equity shareholders of the Company	**34,831**	(49,132)
Non-controlling interests	**(10,678)**	(6,077)
	24,153	(55,209)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 1.1.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2019 Unaudited *HK$'000*	As at 31 December 2018 Audited *(Note)* *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*1.1(c)*	**704,718**	190,665
Investment properties		**7,843,027**	7,726,642
Prepaid land lease payments		**–**	77,825
Construction in progress		**150,236**	149,713
Investments in associates		**20**	20
Investments in joint ventures		**2,384**	2,224
Bearer plants		**48,555**	49,692
Financial assets measured at fair value through profit or loss		**114,486**	114,487
Prepayments and deposits		**22,874**	24,675
Goodwill		**3,015**	3,017
Other non-current assets		**15,278**	15,278
Total non-current assets		**8,904,593**	8,354,238
CURRENT ASSETS			
Inventories		**651,363**	625,756
Properties under development		**2,093,354**	1,898,847
Trade receivables	*7*	**658,918**	599,615
Prepayments, deposits and other receivables		**921,932**	864,904
Financial assets at fair value through profit or loss		**7,841**	16,495
Amounts due from non-controlling shareholders of subsidiaries		**–**	28,424
Amounts due from joint ventures		**435**	435
Tax recoverable		**58,605**	58,592
Cash and bank balances		**706,784**	847,112
		5,099,232	4,940,180
Non-current assets classified as held for sale		**296,000**	272,000
Total current assets		**5,395,232**	5,212,180

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Note	**As at 30 June 2019 Unaudited** *HK$'000*	As at 31 December 2018 Audited *(Note)* *HK$'000*
CURRENT LIABILITIES			
Trade payables	*8*	**685,085**	658,276
Other payables and accruals		**1,222,124**	1,099,638
Interest-bearing bank borrowings		**2,325,936**	2,146,655
Foreign exchange forward contracts		**–**	18,966
Lease liabilities	*1.1(c)*	**67,502**	–
Amounts due to non-controlling shareholders of subsidiaries		**9,179**	8,444
Amount due to related parties		**303,604**	137,166
Tax payable		**58,638**	62,531
Total current liabilities		**4,672,068**	4,131,676
NET CURRENT ASSETS		**723,164**	1,080,504
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,627,757**	9,434,742
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**2,306,278**	2,497,447
Lease liabilities	*1.1(c)*	**363,711**	–
Advances from non-controlling shareholders of subsidiaries		**7,941**	7,941
Other non-current liabilities		**70,378**	70,474
Deferred tax liabilities		**879,451**	881,333
Total non-current liabilities		**3,627,759**	3,457,195
NET ASSETS		**5,999,998**	5,977,547
CAPITAL AND RESERVES			
Share capital	*9*	**139,984**	140,027
Reserves		**5,522,847**	5,489,675
Total equity attributable to equity shareholders of the Company		**5,662,831**	5,629,702
Non-controlling interests		**337,167**	347,845
TOTAL EQUITY		**5,999,998**	5,977,547

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 1.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited consolidated interim financial statements ("interim financial statements") have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018 except that the Group has adopted the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the annual period beginning on 1 January 2019, as disclosed in note 1.1 below.

These interim financial statements should be read, where relevant, in conjunction with the 2018 annual financial statements of the Group.

1.1 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. The Group has adopted the following new and revised HKFRSs, which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, for the first time for the interim financial statements for the six months ended 30 June 2019. Such HKFRSs have become effective for the annual periods beginning on or after 1 January 2019. Of these, the following developments are relevant to the Group's financial statements:

— HKFRS 16, *Leases*
— Amendments to HKAS 19, *Plan amendment, curtailment or settlement*
— Amendments to HKAS 28, *Long-term interests in associates and joint ventures*
— Annual improvement to HKFRSs 2015–2017 Cycle
— HK(IFRIC) 23, *Uncertainty over income tax treatments*

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases — incentives,* and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

1. **BASIS OF PREPARATION (Continued)**

1.1 Changes in accounting policies (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

1. BASIS OF PREPARATION (Continued)

1.1 Changes in accounting policies (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Leasee accounting (Continued)

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

— right-of-use assets that meet the definition of investment property are carried at fair value;

— right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value; and

— right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

(iv) Lessor accounting

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

(b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 6.2%.

1. BASIS OF PREPARATION (Continued)

1.1 Changes in accounting policies (Continued)

(b) Transitional impact (Continued)

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 *HK$'000*
Operating lease commitments at 31 December 2018	**134,366**
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**(14,732)**
Add: lease payments for the subsequent periods where the Group considers it reasonably certain that it will not exercise the termination options	**511,584**
	631,218
Less: total future interest expenses	**(156,524)**
Total lease liabilities recognised at 1 January 2019	**474,694**

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The Group presents right-of-use assets in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

1. BASIS OF PREPARATION (Continued)

1.1 Changes in accounting policies (Continued)

(b) Transitional impact (Continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	Capitalisation of operating lease contracts and reclassification	Carrying amount at 1 January 2019
	HK$'000	*HK$'000*	***HK$'000***
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	190,655	560,921	751,576
Prepaid land lease payments	77,825	(77,825)	–
Total non-current assets	**8,354,238**	**483,096**	**8,837,334**
Prepayment, deposits and other receivables	864,904	(8,402)	856,502
Total current assets	**5,212,180**	**(8,402)**	**5,203,778**
Lease liabilities (current)	–	68,557	68,557
Total current liabilities	**4,131,676**	**68,557**	**4,200,233**
Net current assets	**1,080,504**	**(76,959)**	**1,003,545**
Total assets less current liabilities	**9,434,742**	**406,137**	**9,840,879**
Lease liabilities (non-current)	–	406,137	406,137
Total non-current liabilities	**3,457,195**	**406,137**	**3,863,332**
Net assets	**5,977,547**	**–**	**5,977,547**

(c) Impact of HKFRS 16 to the Group

The adoption of HKFRS 16 results in the following impacts to the Group's consolidated financial statements:

(i) Right-of-use assets with carrying amounts of HK$515,385,000 are included in property, plant and equipment as at 30 June 2019;

(ii) Lease liabilities has been recognised with carrying amounts of HK$431,213,000 as at 30 June 2019, out of which HK$67,502,000 and HK$363,711,000 are classified under current liabilities and non-current liabilities respectively; and

(iii) Interest expense arisen from discounted lease liabilities at an amount of HK$13,345,000 has been recognised and classified under finance costs in the consolidated statement of profit and loss for the six months ended 30 June 2019.

2. REVENUE AND SEGMENTAL INFORMATION

An analysis of the Group's consolidated revenue and contribution to profit/(loss) from operations by principal activity and geographical location for the six months ended 30 June 2019 and 2018 is as follows:

	Trading and manufacturing		Property investment and development		Agriculture and forestry		Investment holding		Group	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018 *(Note)*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
External sales	**1,556,910**	1,362,304	**107,303**	106,342	**5,061**	2,301	**–**	–	**1,669,274**	1,470,947
Segment results	**50,320**	(64,307)	**151,894**	239,086	**(21,079)**	(32,213)	**(46,794)**	(53,102)	**134,341**	89,464
Reconciliation:										
— Share of profits and losses of associates	**–**	–	**–**	–	**–**	–	**–**	(12)	**–**	(12)
— Share of profits and losses of joint ventures	**–**	–	**–**	–	**–**	–	**160**	(6)	**160**	(6)
— Finance costs									**(97,036)**	(66,299)
Profit before tax									**37,465**	23,147

By geographical location[#]:

	Revenue Six months ended 30 June		Contribution to profit/(loss) from operations Six months ended 30 June	
	2019 Unaudited	2018 Unaudited	**2019 Unaudited**	2018 Unaudited *(Note)*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC including Hong Kong and Macau	**185,700**	183,094	**83,597**	160,258
United States of America	**843,237**	716,129	**26,303**	(34,287)
Europe	**409,453**	290,683	**15,846**	(18,867)
Japan	**19,577**	23,937	**763**	(1,598)
Others	**211,307**	257,104	**7,832**	(16,042)
	1,669,274	1,470,947	**134,341**	89,464

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

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 1.1.

3. DEPRECIATION AND AMORTISATION

Depreciation in respect of the Group's property, plant and equipment (including right-of-use assets) and bearer plants and amortisation in respect of the Group's prepaid land lease payments for the six months ended 30 June 2019 amounted to approximately HK$75,850,000 (six months ended 30 June 2018: HK$25,266,000) and HK$Nil (six months ended 30 June 2018: HK$24,372,000), respectively. Upon the adoption of HKFRS 16, prepaid land lease payments were reclassified to right-of-use assets under property, plant and equipment as at 1 January 2019.

4. INCOME TAX

Income tax comprises current and deferred tax.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2018: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated on the estimated assessable profit at rates of taxation prevailing in the countries in which the Group operates.

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

5. INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately HK$36,660,000 (six months ended 30 June 2018: approximately HK$10,246,000) and the weighted average numbers of ordinary shares used in the calculation are as follows:

Earnings	**2019 Unaudited *HK$'000***	2018 Unaudited *HK$'000*
Profit attributable to equity shareholders of the Company used in basic and diluted earnings per share calculation	**36,660**	10,246

Shares	**2019 Unaudited *'000***	2018 Unaudited *'000*
Weighted average number of ordinary shares in issue less shares held for share award scheme during the period used in the basic earnings per share calculation	**12,982,892**	12,982,892
Effect of redeemable convertible preference shares	**781,288**	820,950
Effect of shares held for the share award scheme	**206,161**	206,161
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**13,970,341**	14,010,003

The Company's share options have no dilution effect for the six months ended 30 June 2019 and 2018 as the exercise price of the Company's share option was higher than the average market price of the shares in both periods.

7. TRADE RECEIVABLES

Trade receivables of approximately HK$658,918,000 as at 30 June 2019 (as at 31 December 2018: HK$599,615,000), substantially with an age within six months, are stated net of loss allowance.

Specific loss allowance is recognised when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

The Group's trading terms with its customers are mainly on credit with credit periods normally ranging from period of one to three months depending on a number of factors including trade practice, collection history and location of customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor credit risk. Overdue balances are reviewed regularly by senior management.

8. TRADE PAYABLES

Trade payables of approximately HK$685,085,000 as at 30 June 2019 (as at 31 December 2018: HK$658,276,000) are substantially with an age within six months.

9. SHARE CAPITAL

	30 June 2019 Unaudited ***HK$'000***	31 December 2018 Audited *HK$'000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
3,000,000,000 redeemable convertible preference shares of HK$0.02 each *(Note)*	**60,000**	60,000
Total authorised capital	**260,000**	260,000
Issued and fully paid:		
13,221,302,172 (2018: 13,221,302,172) ordinary shares of HK$0.01 each	**132,213**	132,213
388,563,131 (2018: 390,691,131) redeemable convertible preference shares ("CPSs") of HK$0.02 each	**7,771**	7,814
Total issued and fully paid capital	**139,984**	140,027

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 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.

9. **SHARE CAPITAL (Continued)**

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

	Issued ordinary shares Unaudited *HK$'000*	**Issued redeemable convertible preference shares Unaudited** *HK$'000*	**Share premium Unaudited** *HK$'000*	**Total Unaudited** *HK$'000*
At 1 January 2019	**132,213**	**7,814**	**1,701,135**	**1,841,162**
2,128,000 redeemable convertible preference shares redeemed during the period	**–**	**(43)**	**(1,659)**	**(1,702)**
At 30 June 2019	**132,213**	**7,771**	**1,699,476**	**1,839,460**

	Issued ordinary shares Unaudited *HK$'000*	Issued redeemable convertible preference shares Unaudited *HK$'000*	Share premium Unaudited *HK$'000*	Total Unaudited *HK$'000*
At 1 January 2018	132,213	8,210	1,716,567	1,856,990
6,160,000 redeemable convertible preference shares redeemed during the period	–	(124)	(4,804)	(4,928)
At 30 June 2018	132,213	8,086	1,711,763	1,852,062

Movement of number of issued shares are as follows:

	Number of issued ordinary shares Unaudited *'000*	**Number of issued redeemable convertible preference shares Unaudited** *'000*
At 1 January 2019	**13,221,302**	**390,691**
Redeemed during the period	**–**	**(2,128)**
At 30 June 2019	**13,221,302**	**388,563**

	Number of issued ordinary shares Unaudited *'000*	Number of issued redeemable convertible preference shares Unaudited *'000*
At 1 January 2018	13,221,302	410,475
Redeemed during the period	–	(6,160)
At 30 June 2018	13,221,302	404,315

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded a revenue of HK$1,669 million (2018: HK$1,471 million), representing a 13% increase as compared with the first half in 2018. Profit after tax was HK$26.8 million for the six months ended 30 June 2019, after adoption of HKFRS 16 with effect from 1 January 2019. Profit after tax excluding the impact of HKFRS 16 was HK$34.6 million, representing a 230% increase as compared with the first half of 2018. Both revenue and profit after tax are the financial key performance indicators.

Earnings per share attributable to equity holders of the Company for the period was HK0.3 cents (2018: HK0.1 cents).

BUSINESS REVIEW

The principal businesses of the Group include trading and manufacturing, property investment and development, 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 14% increase in revenue to HK$1,557 million (2018: HK$1,362 million) and operating profit of HK$50.3 million for the period ended 30 June 2019. Excluding the impact of HKFRS 16, the segment recorded an operating profit of HK$48.5 million for the period ended 30 June 2019, compared to operating loss of HK$64.3 million reported in the first half of 2018.

(i) OEM toys manufacturing

The OEM toys operation achieved record-breaking first half revenues of HK$1,378 million, representing a 16% increase compared to the first half of 2018 amidst the trade friction between the United States and China. The growth was largely attributable to our ability to provide one-stop integral solutions to customers, and thereby building continued loyalty and business from them. Many of the products manufactured by us for our customers were awarded world-acclaimed recognitions and awards.

While increasing production, the Group continued to improve its high quality services and timely delivery of products to our customers, through our strong R&D and engineering department's commitment to improvement in provision of technological solutions.

Operating profit improved by HK$112.5 million as compared to the same period in 2018, excluding the impact of HKFRS 16. Material costs decreased while labour costs increased due to change in product mix. The Group recorded improvement to its profit margin by optimisation of our production capability and capacity, with focus on the enhancement of information systems, simplification of the operation workflow and increase in efficiency through big data analytic systems.

A representative office has recently been set up in Vietnam to explore production potential and partnerships in geographical locations outside mainland China with the aim to the expand our production capacity and product and customer mix.

(ii) Trading of footwear products

During the six months ended 30 June 2019, revenue from the footwear trading operation increased by 7% to HK$164.1 million, mainly attributable to increase in sales volume from customers. The overall profit from operations remained stable at HK$5.1 million.

Property Investment and Development

During the six months ended 30 June 2019, revenue from the property investment and development segment slightly increased by 1% to HK$107.3 million. The operating profit, including a fair value gain on investment properties, amounted to HK$151.9 million in current period.

Rental income remained stable in the current period. Avenue of Stars ("AOS"), a fur-themed shopping mall with varieties of major fur brands in Shenyang, has continued to be one of the most reputable and successful fur mall in Liaoning and has a significant share of the fur retail market. Our rental portfolio in Tianjin and Nanjing also remained stable during the period.

In addition to our existing rental portfolios, we continue to focus on and develop our property project in Shenyang. The project, located on the eastern part of the most robust pedestrian street of the North-East known as Zhongjie (中街) of Dadong district, is named the Central Square. The project is also situated right above line 1 of the mass transit railway and will also be potentially intersected with line 6 under planning.

The project involves a total Gross Floor Area ("GFA") of over 500,000 square metres and is a mixed-use project with a heavy emphasis in city living and convenience to the residents. The first phase of the Central Square with an approximate GFA of 170,000 square metres, comprises two residential towers, one serviced apartment tower and a retail podium. The construction work of underground space, commercial podium and the sales office were completed in prior year; the construction of residential and serviced apartment towers are well underway and expected to complete in 2019. Meanwhile, over 80% of pre-sale residential and serviced apartments have been sold; it is planned that we will launch the selling of the remaining units of one residential tower and one serviced apartment tower in late 2019. With its prime location situated right above a mass transit railway line and potential intersection with another one, together with a robust pedestrian street, it is envisioned that the Central Square will become a must-go place for retailers, consumers and local residents.

Agriculture and Forestry

During the six months ended 30 June 2019, revenue increased by 120% to HK$5.1 million and operating loss decreased by 35% to HK$21.1 million. Excluding the impact of HKFRS 16, the operating loss for the six months ended 30 June 2019 was HK$24.1 million, which decreased by 25% compared to the first half of 2018.

The bearer plants balance decreased from HK$49.7 million as at 31 December 2018 to HK$48.6 million as at 30 June 2019; in terms of Renminbi, the functional currency of the relevant subsidiaries, the bearer plants balance decreased by about 2%, mainly due to the depreciation of bearer plants in current period.

Impact of adoption of HKFRS 16

As disclosed in note 1.1 to the financial statements, the Group has initially applied HKFRS 16 with effect from 1 January 2019 and capitalised all leases when it is the lessee, other than those short-term leases and leases of low-value assets. Right-of use assets (included in property, plant and equipment) stated at cost less accumulated depreciation and lease liabilities measured at amortised cost have been recognised. Interest expense on lease liabilities was presented as a component of finance costs during the six months ended 30 June 2019. This resulted in an increase in profit from operation by HK$5.6 million and decrease in profit after tax by HK$7.8 million for the six months ended 30 June 2019.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group had a current ratio of 1.2 (before adoption of HKFRS 16: 1.2) and a gearing ratio of 38% (31 December 2018: 1.3 and 41%, respectively). The gearing ratio is computed by comparing the Group's long-term bank borrowings of HK$2,306 million to the Group's equity of HK$6,000 million. The Group's operations 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 10 to the interim results announcement, there was no material change in the Group's capital structure as compared to the most recently published annual report.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

There was no material change in the Group's pledge of assets and contingent liabilities as compared to the most recently published annual report.

PROSPECTS

The ongoing trade friction between China and the United States and the increasing manufacturing cost are creating uncertainties to global market. Nonetheless, long-standing customer loyalty and strong R&D of our OEM toys operation has contributed to the Group's solid performance in the first half of 2019. Management will continue to take precautionary actions to minimise material negative impact to the Group. At the same time, the management will adhere to prudent long-term strategies to explore businesses opportunities in China, continue to drive revenues and be cost conscious in order to generate returns and create value to our shareholders.

Trading and Manufacturing

The Group aims to provide one-stop integral solutions to customers with better service quality, higher operating efficiency and more effective cost controls. To meet the target, we will continue fine tune pricing strategy in response to rising labor and raw materials cost, while expanding product range and customer base. We will focus on the consolidation of our existing orders to grow steadily, while we continue to explore possibilities in expanding product category. We will also maintain our strengths in the production of toy robots, drones and sensing devices connected through Wi-Fi, blue tooth or other mediums.

The Group has traditionally invested heavily in the R&D and engineering department and will increase its capital investment into process technology and upgrade of mechanical automation in manufacturing high-tech toys. The Wah Shing Academy was set up in 2017 to provide continuous education, pool resources on know-how and further emphasise lean manufacturing. Management will continue to expand research departments and collaborations with various academic institutions with China to further increase our competitiveness and expertise in this field. We aim to obtain accreditation with various reputable institutions for Wah Shing Academy.

Furthermore, the Group will further expand its production capacity together with two new factories in Guangxi and Dongguan opened in recent years, and has identified a few suitable existing plants to support our business growth in the future.

In view of the rapid change of global economy arose from the ongoing trade friction between China and the United States, the Group is constantly reviewing and navigating its business strategies based on the market changes. The recent opening of a representative office in Vietnam is a first step on the Group's plans to explore production capacity and partners outside mainland China.

Property Investment and Development

Property Investments

The Group has a property investment portfolio with total floor area of approximately 580,000 square metres in mainland China and 280,000 square feet (approximately 26,000 square metres) in Hong Kong. The investment properties in mainland China are mostly in prime locations in Nanjing, Shenyang and Tianjin.

With the management team effort, the Avenue of Stars has become a major fur-themed shopping mall in Shenyang and the management team will continue to increase the pedestrian flow so as to further increase its rental contribution in future. We will continue to market Avenue of Stars as the leading fur mall in Northern China and will build upon the significant market share that we have managed to capture over the last few years.

Nanjing and Tianjin rental portfolio is expected to have a continuing upside in second half of 2019 and onwards as we are in progress of implementing our commercialisation strategy across the portfolio.

Meanwhile, the Group is actively considering the disposal of non-core and low-contribution properties in Hong Kong and in the PRC in order to reallocate resources to more promising investment properties or land banks.

Property Development

The construction work of the first phase of the Central Square in the Southern part of our Dadong site in Shenyang is well underway and expected to complete in 2019. With its prime location situated right above one mass transit railway line and potential intersection with another line, together with a robust pedestrian street, the Central Square will become a prime shopping and residential area in Shenyang with a mix of trendy bars and restaurants, boutiques, department stores, shopping malls and hotels. Management is cautiously optimistic on the contributions from the project in late 2019 and onwards.

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 in the process of re-settling non-residential units. It is also a mixed development project, and the positioning will be thematically in line with the South, with a slightly higher class distinction.

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

The industrial land use conversion at Nanjing and Tianjin to commercial use will continue to be our area of focus. Our property development team will capitalise its experience of successful conversions to turn our land banks for high value and returns.

Agriculture and Forestry

The Group currently has long-term leases of over 530,000 mu (approximate to 327 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 pigs 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.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company during the six months ended 30 June 2019.

CORPORATE GOVERNANCE CODE

The Company had complied with the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2019 except that Mr. Ng Hung Sang, the Chairman and an Executive Director of the Company, Ms. Cheung Choi Ngor and Mr. Ng Yuk Yeung Paul, both are Executive Director of the Company, Mr. Ng Yuk Fung Peter, a Non-Executive Director of the Company and Mr. Kam Yiu Shing Tony, an Independent Non-Executive Director of the Company, were unable to attend the annual general meeting of the Company held on 18 June 2019, which deviated from code provision E.1.2 and A.6.7 as they had other important business engagements.

UPDATE ON LITIGATION PROCEEDINGS

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

1. ***Infringement of copyrights case***

   On 9 July 2019, the Company received a writ of summons from the Jiangsu High Court and the substantive hearing was conducted on 31 July 2019.

2. ***Liability dispute of damaging the interests of the Company case***

   On 8 April 2019, the Supreme People's Court of China remitted the case back to the Jiangsu High Court for a retrial.

(ii) Development Right of a Piece of Land situate at Tianjin Binhai New District

During the six months ended 30 June 2019, there was no material change as disclosed in the Company's most recently published annual report.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee presently comprises four Independent Non-executive Directors, namely Mr. Kam Yiu Shing Tony (Chairman of the Audit Committee), Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin Elizabeth and Mr. Yip Dicky Peter, J.P. and a Non-executive Director, namely Mr. David Michael Norman.

The Group's unaudited interim results for the six months ended 30 June 2019 has been reviewed by the Audit Committee, which was of the opinion that the preparation had been complied with the applicable accounting standards and requirements and that adequate disclosures were made.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.sctrade.com. The interim report of the Company for the six months ended 30 June 2019 will be published on the aforesaid websites and will be dispatched to the shareholders of the Company 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, 20 August 2019

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 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, Mr. Kam Yiu Shing Tony, Mrs. Tse Wong Siu Yin Elizabeth and Mr. Yip Dicky Peter, J.P. as independent non-executive directors.