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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)

(1) CONTINUING CONNECTED TRANSACTION- TERMINATION OF THE 2019 TENANCY AGREEMENT AND (2) REVISION OF THE RELATED ANNUAL CAP

Reference is made to the announcement of the Company dated 3 December 2019 in relation to, among other things, the 2019 Tenancy Agreement entered into between Copthorne as landlord and SCM Management as tenant.

On 8 December 2020 (after trading hours), Copthorne and SCM Management have entered into the Surrender Agreement, pursuant to which the parties thereto agreed to terminate the 2019 Tenancy Agreement.

As the revised annual cap for the year ending 31 December 2021 is less than 0.1% regarding the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules, therefore the 2019 Four Seas Tenancy Agreements will not be subject to the annual review requirement pursuant to Rule 14A.76(1) of the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 3 December 2019 in relation to, among other things, the 2019 Tenancy Agreement entered into between Copthorne as landlord and SCM Management as tenant.

On 8 December 2020 (after trading hours), Copthorne and SCM Management have entered into the Surrender Agreement, pursuant to which the parties thereto agreed to terminate the 2019 Tenancy Agreement.

THE SURRENDER AGREEMENT

Date : 8 December 2020

Parties : Copthorne (as landlord)
SCM Management (as tenant)

Premises : Units A and B, 3rd Floor, Wah Shing Centre, 5 Fung Yip Street,
Chai Wan, Hong Kong

Termination Date : 24 December 2020

Pursuant to the Surrender Agreement:

- (1) The 2019 Tenancy Agreement shall be terminated on and with effect from the Termination Date and SCM Management shall deliver vacant possession of the Premises, on an “as is” basis in accordance with the terms of the 2019 Tenancy Agreement, to Copthorne on the Termination Date.
- (2) The rental deposit in the sum of HK\$368,637.60 previously paid by SCM Management to Copthorne under the 2019 Tenancy Agreement shall be set off against the outstanding amount payable by SCM Management. The remaining balance of the rental deposit shall be refunded to SCM Management in accordance with the terms of the 2019 Tenancy Agreement.

REASONS FOR AND BENEFITS OF THE TERMINATION OF THE 2019 TENANCY AGREEMENT

In order to capture the recent leasing market sentiment in which units in smaller areas ranging from about 1,000 sq. ft. to 2,000 sq. ft. are having higher demand and yield as tenants are targeting at scaling down their operations by moving from larger areas to smaller areas and the efficiency of gross floor area of smaller unit is lower than that of larger unit which in turn leads to higher yield from units having smaller gross floor area, the Directors consider that transformation of the Premises into several smaller units by early termination of the 2019 Tenancy Agreement may further improve the rental income of Group. Pursuant to amicable discussions between Copthorne as landlord and SCM Management as tenant, both parties agreed to enter into the Surrender Agreement for early termination of the 2019 Tenancy Agreement.

The Directors (including the independent non-executive Directors) are of the view that the termination of the 2019 Tenancy Agreement is in the interest of the Company and the Shareholders as a whole and the terms of the Surrender Agreement are in the ordinary and usual course of business of the Group and on normal commercial terms after arm’s length negotiations, which are fair and reasonable.

RELATIONSHIPS BETWEEN THE PARTIES

Copthorne is an indirect wholly-owned subsidiary of the Company.

Mr. Ng, the chairman of the Board, an executive Director and the controlling shareholder of the Company, and hence a connected person thereof, is the ultimate beneficial owner of SCM Management. By virtue of being an associate of Mr. Ng, SCM Management is a connected person of the Company according to the Listing Rules.

THE REVISED ANNUAL CAP

In view of the Surrender Agreement, the existing annual cap for HK\$5 million as disclosed in the announcement of the Company dated 3 December 2019 shall be revised as follows by deducting the rental of the 2019 Tenancy Agreement for the period from the Termination Date to 31 December 2021:

	For the year ending	
	31 December	
	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income under the 2019 Tenancy Agreement	1,043	—
Rental income under the 2019 Four Seas Tenancy Agreements	<u>3,313</u>	<u>828</u>
Revised Annual Cap	<u><u>4,356</u></u>	<u><u>828</u></u>

INFORMATION ON THE COMPANY AND SCM MANAGEMENT

The Company is an investment holding company. Its principal subsidiaries are engaged in the manufacturing and trading of toys, electronic toys, shoes and leather products, property investment and development, and agriculture and forestry businesses.

SCM Management is engaged in the provision of management services to its affiliates.

LISTING RULES IMPLICATIONS

Mr. Ng is the chairman of the Board, an executive Director and the controlling shareholder of the Company, and hence a connected person of the Company under Rule 14A.07(1) of the Listing Rules. On the other hand, Mr. Ng is an ultimate beneficial owner of SCM Management. By virtue of being an associate of Mr. Ng, SCM Management is a connected person of the Company under Rule 14A.07(4) of the Listing Rules.

Subsequent to the entering into the Surrender Agreement, as one or more of the applicable percentage ratios calculated with reference to the revised annual cap for the year ending 31 December 2020 are more than 0.1% but less than 5%, therefore the 2019 Tenancy Agreement and the 2019 Four Seas Tenancy Agreements are subject to announcement, reporting and annual review requirements but exempt from the Shareholders' approval pursuant to Rule 14A.76(2) of the Listing Rules.

As the revised annual cap for the year ending 31 December 2021 is less than 0.1% regarding the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules, therefore the 2019 Four Seas Tenancy Agreements will not be subject to the annual review requirement pursuant to Rule 14A.76(1) of the Listing Rules.

In view of Mr. Ng's beneficial interests in SCM Management and hence a material interest in the transaction as contemplated under the Surrender Agreement, Mr. Ng abstained from voting on the resolutions at the relevant Board meeting in relation to the Surrender Agreement.

Ms. Ng Yuk Mui Jessica, a non-executive Director, who is an associate of Mr. Ng and is also a director of SCM Management.

In view of the above common directorships, Ms. Ng Yuk Mui Jessica abstained from voting on the resolutions at the relevant Board meeting in relation to the Surrender Agreement.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set opposite them below:

“2019 Four Seas Tenancy Agreements”	has the meaning ascribed to it in the announcement of the Company dated 29 March 2019
“2019 Tenancy Agreement”	the tenancy agreement dated 3 December 2019 entered into between Copthorne as landlord and SCM Management as tenant for a term of three years commencing on 1 January 2020 and expiring on 31 December 2022
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	South China Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability, and its ordinary shares are being listed and traded on the main board of the Stock Exchange (stock code: 00413)
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Copthorne”	Copthorne Holdings Corp., a company incorporated in Panama with limited liability and an indirect wholly-owned subsidiary of the Company
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Ng”	Mr. Ng Hung Sang, the chairman of the Board, an executive Director and the controlling shareholder of the Company
“Premises”	Units A and B, 3rd Floor, Wah Shing Centre, 5 Fung Yip Street, Chai Wan, Hong Kong
“SCM Management”	South China Media Management Limited, a company incorporated in Hong Kong with limited liability and beneficially owned by Mr. Ng
“Shareholders”	the holders of the ordinary shares in the issued share capital of the Company
“sq. ft.”	square feet
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Surrender Agreement”	the surrender agreement dated 8 December 2020 entered into between Copthorne as landlord and SCM Management as tenant, pursuant to which the parties thereto agreed to terminate the 2019 Tenancy Agreement
“Termination Date”	24 December 2020, the effective date of termination of the 2019 Tenancy Agreement
“%”	per cent.

By Order of the Board
South China Holdings Company Limited
南華集團控股有限公司
Cheung Choi Ngor
Executive Director

Hong Kong, 8 December 2020

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, Mr. Kam Yiu Shing Tony, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mrs. Tse Wong Siu Yin Elizabeth as independent non-executive Directors.