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 2018

UNAUDITED INTERIM RESULTS

The board of directors (the "Board") of South China Holdings Company Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2018 together with the relevant comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2018	2017
		Unaudited	Unaudited
	Note	**HK$'000**	HK$'000
Revenue	*2*	**1,470,947**	1,356,070
Cost of sales		**(1,324,644)**	(1,147,731)
Gross profit		**146,303**	208,339
Other income and gains, net		**31,915**	18,667
Fair value gain on investment properties inclusive of investment properties presented as non-current assets classified as held for sale		**202,638**	161,795
Fair value loss on financial assets at fair value through profit or loss		**(3,941)**	(3,390)
Selling and distribution expenses		**(29,813)**	(23,661)
Administrative expenses		**(256,242)**	(247,164)
Equity-settled share award expense		**(1,396)**	(2,940)
Profit from operations	*2&3*	**89,464**	111,646

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

		Six months ended 30 June	
		2018	2017
		Unaudited	Unaudited
	Note	**HK$'000**	HK$'000
Finance costs		**(66,299)**	(61,512)
Share of profits and losses of associates		**(12)**	(620)
Share of profits and losses of joint ventures		**(6)**	-
Reversal of impairment of advances to an associate		**-**	1
Profit before tax		**23,147**	49,515
Income tax	*4*	**(12,675)**	(12,270)
Profit for the period		**10,472**	37,245
Attributable to:			
Equity shareholders of the Company		**10,246**	42,605
Non-controlling interests		**226**	(5,360)
		10,472	37,245
Earnings per share	*6*		
Basic		**HK0.1 cents**	HK0.3 cents
Diluted		**HK0.1 cents**	HK0.3 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
	HK$'000	HK$'000
Profit for the period	**10,472**	37,245
Other comprehensive income:		
Items that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale financial assets:		
Changes in fair value	**-**	532
	-	532
Exchange differences on translation of operations outside Hong Kong	**(65,397)**	133,712
Share of other comprehensive income of associates	**(284)**	252
Other comprehensive income for the period	**(65,681)**	134,496
Total comprehensive income for the period	**(55,209)**	171,741
Attributable to:		
Equity shareholders of the Company	**(49,132)**	163,924
Non-controlling interests	**(6,077)**	7,817
	(55,209)	171,741

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2018 Unaudited HK$'000	As at 31 December 2017 Audited HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**186,779**	180,565
Investment properties	*7*	**7,810,379**	6,062,534
Prepaid land lease payments		**81,284**	82,969
Construction in progress		**155,393**	158,003
Investments in associates		**22**	1,374
Investments in joint ventures		**2,250**	-
Bearer plants		**61,502**	63,536
Available-for-sale financial assets		**106,108**	106,902
Prepayments and deposits		**19,414**	20,958
Goodwill		**3,084**	3,106
Other non-current assets		**15,255**	15,638
Total non-current assets		**8,441,470**	6,695,585
CURRENT ASSETS			
Inventories		**826,189**	577,305
Properties under development		**1,720,579**	1,597,326
Trade receivables	*8*	**567,723**	538,310
Prepayments, deposits and other receivables		**831,573**	792,500
Financial assets at fair value through profit or loss		**22,153**	51,710
Amounts due from non-controlling shareholders of subsidiaries		**55,434**	56,153
Tax recoverable		**65,439**	57,300
Cash and bank balances		**545,450**	713,029
		4,634,540	4,383,633
Non-current assets classified as held for sale	*7*	**268,433**	1,883,000
Total current assets		**4,902,973**	6,266,633
CURRENT LIABILITIES			
Trade payables	*9*	**627,240**	668,987
Other payables and accruals		**999,426**	787,536
Interest-bearing bank borrowings		**1,886,532**	1,744,489
Financial liabilities at fair value through profit or loss		**116,062**	-
Amounts due to non-controlling shareholders of subsidiaries		**6,622**	5,221
Amount due to a related party		**83,355**	-
Tax payable		**47,535**	54,998
Total current liabilities		**3,766,772**	3,261,231
NET CURRENT ASSETS		**1,136,201**	3,005,402
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,577,671**	9,700,987

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Note	As at 30 June 2018 Unaudited HK$'000	As at 31 December 2017 Audited HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**2,513,018**	2,577,109
Advances from non-controlling shareholders of subsidiaries		**7,941**	7,941
Other non-current liabilities		**73,388**	74,323
Deferred tax liabilities		**904,545**	904,094
Total non-current liabilities		**3,498,892**	3,563,467
NET ASSETS		**6,078,779**	6,137,520
CAPITAL AND RESERVES			
Share capital	*10*	**140,299**	140,423
Reserves		**5,572,482**	5,625,022
Total equity attributable to equity shareholders of the Company		**5,712,781**	5,765,445
Non-controlling interests		**365,998**	372,075
TOTAL EQUITY		**6,078,779**	6,137,520

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed 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 No. 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 2017 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 2018, as disclosed in the annual financial statements for the year ended 31 December 2017. The adoption of these new and revised HKFRs does not have significant impact on the Group's results of operations and financial position.

These interim financial statements should be read, where relevant, in conjunction with the 2017 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 2018. Such HKFRSs have become effective for the annual periods beginning on or after 1 January 2018. Of these, the following developments are relevant to the Group's financial statements:

HKFRS 9, *Financial instruments*
HKFRS 15, *Revenue from contracts with customers*
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

HKFRS 9, *Financial instruments*

The adoption of HKFRS 9 has resulted in the following change in accounting policies for available-for-sale financial assets:

Previously, the changes in fair value of available-for-sale financial assets were recognised in other comprehensive income.

Upon the adoption of HKFRS 9, available-for-sale financial assets are measured at fair value through profit or loss ("FVTPL"). The changes in fair value are recognised in profit or loss.

The above change in accounting policy has been applied retrospectively and the comparative figures are not restated in accordance with the transitional provisions of the HKFRS 9.

1.1 Changes in accounting policies (Continued)

The following table summarises the impact of transition to HKFRS 9 on retained profits and available-for-sale financial assets revaluation reserve at 1 January 2018.

	2018 Unaudited HK$'000
Retained profits	
Transferred from available-for-sale financial assets revaluation reserve relating to financial assets now measured at FVTPL	89,307
Net increase in retained profits at 1 January 2018	89,307
Available-for-sale financial assets revaluation reserve	
Transferred to retained profits relating to financial assets now measured at FVTPL	(89,307)
Net decrease in available-for-sale financial assets revaluation reserve at 1 January 2018	(89,307)

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at FVTPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement category for available-for-sale financial assets under HKAS 39, *Financial instruments: recognition and measurement* and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 HK$'000	Reclassification HK$'000	HKFRS 9 carrying amount at 1 January 2018 HK$'000
Financial assets measured at FVOCI			
Available-for-sale financial assets	106,902	(106,902)	-
Financial assets measured at FVTPL			
Available-for-sale financial assets	-	106,902	106,902

1.1 Changes in accounting policies (Continued)

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for revenue from construction contracts.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(a) Timing of revenue recognition
Previously, revenue arising from construction contracts and provision of services recognised over time, whereas revenue from the sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

(b) Significant financing component
HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

The adoption of HKFRS 15 does not have a significant impact on the accounting policies of the Group when the Group recognises revenue for the sale of goods or services.

The adoption of the above new and revised HKFRSs has no significant impact on the accounting policies of the Group, the methods of computation used in the preparation of the Group's interim financial statements and the Group's results of operations and financial position.

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 2018 and 2017 is as follows:

	Trading and manufacturing		*Property investment and development*		*Agriculture and forestry*		*Investment holding*		*Group*	
	2018	*2017*	***2018***	*2017*	***2018***	*2017*	***2018***	*2017*	***2018***	*2017*
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue										
External sales	**1,362,304**	1,254,733	**106,342**	92,774	**2,301**	8,563	-	-	**1,470,947**	1,356,070
Segment results	**(64,307)**	7,215	**239,086**	197,695	**(32,213)**	(24,114)	**(53,102)**	(69,150)	**89,464**	111,646
Reconciliation:										
– Share of profits and losses of associates	-	(622)	-	-	-	-	**(12)**	2	**(12)**	(620)
– Share of profits and losses of joint ventures	-	-	-	-	-	-	**(6)**	-	**(6)**	-
– Reversal of impairment of advances to an associate	-	1	-	-	-	-	-	-	-	1
– Finance costs									**(66,299)**	(61,512)
Profit before tax									**23,147**	49,515

By geographical location[#]:

	Revenue Six months ended 30 June		**Contribution to profit/(loss) from operations Six months ended 30 June**	
	2018	2017	**2018**	2017
	Unaudited	Unaudited	**Unaudited**	Unaudited
	HK$'000	HK$'000	**HK$'000**	HK$'000
The People's Republic of China (the "PRC") including Hong Kong and Macau	**183,094**	178,587	**160,258**	113,661
United States of America	**716,129**	653,643	**(34,287)**	(6,187)
Europe	**290,683**	256,965	**(18,867)**	2,171
Japan	**23,937**	28,993	**(1,598)**	292
Others	**257,104**	237,882	**(16,042)**	1,709
	1,470,947	1,356,070	**89,464**	111,646

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

3. Depreciation and amortisation

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 six months ended 30 June 2018 amounted to approximately HK$25,266,000 (six months ended 30 June 2017: HK$25,262,000) and HK$24,372,000 (six months ended 30 June 2017: HK$22,556,000), respectively.

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 2017: 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 2018 (six months ended 30 June 2017: 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$10,246,000 (six months ended 30 June 2017: approximately HK$42,605,000) and the weighted average numbers of ordinary shares used in the calculation are as follows:

	2018	2017
	Unaudited	Unaudited
Earnings	**HK$'000**	HK$'000
Profit attributable to equity shareholders of the Company used in basic and diluted earnings per share calculation	**10,246**	42,605

	2018	2017
	Unaudited	Unaudited
Shares	**'000**	'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**	12,981,636
Effect of redeemable convertible preference shares	**820,950**	849,560
Effect of shares held for the share award scheme	**206,161**	207,417
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**14,010,003**	14,038,613

The Company's share options have no dilution effect for the six months ended 30 June in both 2018 and 2017 as the exercise price of the Company's share option was higher than the average market price of the shares in both periods.

7. Investment properties and non-current assets classified as held for sale

During the six months ended 30 June 2018, certain properties of the Group with an aggregated value of HK$1,627,000,000 have been transferred from non-current assets classified as held for sale to investment properties.

8. Trade receivables

Trade receivables of approximately HK$567,723,000 as at 30 June 2018 (as at 31 December 2017: HK$538,310,000), substantially with an age within six months, are stated net of provision for impairment.

Impairment 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.

9. Trade payables

Trade payables of approximately HK$627,240,000 as at 30 June 2018 (as at 31 December 2017: HK$668,987,000) are substantially with an age within six months.

10. Share capital

	30 June 2018 Unaudited HK$'000	31 December 2017 Audited HK$'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 1)*	**60,000**	60,000
Total authorised capital	**260,000**	260,000
Issued and fully paid:		
13,221,302,172 (2017: 13,221,302,172) ordinary shares of HK$0.01 each	**132,213**	132,213
404,315,131 (2017: 410,475,131) redeemable convertible preference shares ("CPSs") of HK$0.02 each	**8,086**	8,210
Total issued and fully paid capital	**140,299**	140,423

10. Share capital (Continued)

Notes:

(1) 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.

(2) 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.

Upon completion of bonus issue on 9 January 2017, an amount of HK$28,141,849 standing to the credit of the share premium account was applied to pay up 2,814,184,886 ordinary shares of HK$0.01 each which were allotted and issued as fully paid, ranking pari passu with existing shares to the shareholders.

Movements of issued capital 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 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**

10. Share capital (Continued)

	Issued ordinary shares Audited HK$'000	Issued redeemable convertible preference shares Audited HK$'000	Share premium Audited HK$'000	Total Audited HK$'000
At 1 January 2017	104,071	8,496	1,755,891	1,868,458
14,336,000 redeemable convertible preference shares redeemed during the year	-	(286)	(11,182)	(11,468)
2,814,184,886 bonus shares issued during the year *(Note 2)*	28,142	-	(28,142)	-
At 31 December 2017	132,213	8,210	1,716,567	1,856,990

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 2018	**13,221,302**	**410,475**
Redeemed during the period	**-**	**(6,160)**
At 30 June 2018	**13,221,302**	**404,315**

	Number of issued ordinary shares Audited '000	*Number of issued redeemable convertible preference shares* Audited '000
At 1 January 2017	10,407,117	424,811
Redeemed during the year	-	(14,336)
Issue of bonus shares during the year *(Note 2)*	2,814,185	-
At 31 December 2017	13,221,302	410,475

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded revenue of HK$1.47 billion (2017: HK$1.36 billion) and profit after tax of HK$10.5 million (2017: HK$37.2 million), both being the financial key performance indicators, for the six months ended 30 June 2018, representing a 8% increase and a 72% decrease as compared with corresponding amounts reported in 2017. Earnings per share attributable to equity holders of the Company for the period was HK0.1 cents (2017: HK0.3 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 9% increase in revenue to HK$1.36 billion (2017: HK$1.25 billion) and operating loss of HK$64.3 million (2017: operating gain of HK$7.2 million) for the period ended 30 June 2018.

(i) OEM toys manufacturing

The OEM toys operation achieved a record-breaking first half revenue of HK$1.2 billion, representing a 5% increase compared to corresponding period in last year. The growth was mainly attributable to the ongoing improvement in our provision of one-stop integrated solutions to customers and therefore we have been continuously winning trusts and business from them. Many of the products manufactured by us for our customers also have been awarded world-acclaimed recognitions and awards.

While increasing production, the Group provided a high quality on time delivery of products to our customers throughout the period and this is mainly attributable to the professionalism of our R&D and engineering department in providing continuous modification and technological solutions.

Despite increase in revenue, the operating profit however decreased mainly due to the combined effect of increasing raw material and labour costs and lower-than-expected efficiency due to continuous growth in sales and production volume in the first half of 2018. We are currently optimising our production capability and capacity with new productions in more factory locations. The new factories in Guangxi and Dongguan opened in last two years shall be able to cope with the increase in production and to provide a base with lower labour costs.

(ii) Trading of footwear products

During the period ended 30 June 2018, revenue from the footwear trading operations increased by 49% to HK$153.1 million, mainly attributable to increase in sales volume from customers. The overall results from operations has turned into a profit of HK$5.0 million as compared to a loss of HK$4.9 million in the corresponding period in 2017 due to a bad debt provided in corresponding period of last year.

Property Investment and Development

During the period ended 30 June 2018, revenue from the property investment and development segment increased by 15% to HK$106.3 million. The operating profit, which includes fair value gain on investment properties, increased by 21% to HK$239.1 million in current period.

Rental income remained stable in the current period and was mainly contributed by the Avenue of Stars ("AOS"), a fur-themed shopping mall with varieties of major fur brands in Shenyang. It 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. Furthermore, our rental portfolio in Tianjin and Nanjing also reported an increase in rental income during the period. The growth primarily came from increment in rental rates in Nanjing and Tianjin.

In addition to our existing rental portfolios, we continue to focus in 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 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 which is to be constructed in next few years.

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 on city living and convenience to the residents. The first phase of the Central Square with an 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 in 2016; the construction of residential and serviced apartment towers are well underway and in the process of completion as scheduled. As at the date of this announcement, over 70% of one residential and serviced apartment towers have been sold; it is expected we will launch the selling of the remaining units of the two towers in the second half of the year. 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 period ended 30 June 2018, revenue from the segment decreased by 73% to HK$2.3 million and operating loss increased to HK$32.2 million as compared with corresponding period in 2017. This is mainly attributable to decrease in sales from livestock and exchange loss from RMB depreciation. The balance of bearer plants decreased from HK$63.5 million in December 2017 to HK$61.5 million in June 2018 mainly due to depreciation in current period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had a current ratio of 1.3 and a gearing ratio of 41% (31 December 2017: 1.9 and 42%, respectively). The gearing ratio is computed by comparing the Group's long-term bank borrowings of HK$2.5 billion to the Group's equity of HK$6.1 billion. 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 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

Trading and Manufacturing

The Group will continue its effort to fine tune its pricing strategy in response to increasing raw material and labour costs, expand product range and enlarge customer base with a continuous focus on better automation, cost control, time to market production and providing our one-stop integrated solutions and services to customers.

We will focus in consolidating our existing orders, rather than pursuing tremendous growth in revenue which we have achieved in last few years. We will continue to explore possibility on producing new products according to the market trend. We will keep the successful accomplishment on production of award-winning toys; and high-tech toys such as robots, drone and sensing devices wifi, bluetooth and other mediums.

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 increase investment on process technology and upgrade mechanical automation of high-tech toys. We have set up the Wah Shing Academy in 2017 to provide continuous education, collaboration of know-how and to further emphasize 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 will also get our Wah Shing Academy accreditation with various reputable institutions.

Furthermore, the Group will further expand its production capacity in addition to the two new factories in Guangxi and Dongguan opened in 2016 and 2017, and has identified a few suitable existing plants to support our business growth in future.

Management holds positive view on the revenue growth in 2018 while at the same time revamp the Dongguan plant to replace high cost location area and continue to be cost conscious in improving operation efficiency and our service to clients.

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 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 the 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 have an upside in next two years as we are in progress in implementing our commercialisation strategy across the portfolio.

Meanwhile, the Group is actively considering offload 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 in the process of completion as scheduled. 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 the second half of 2018 and 2019.

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.

Nanjing and Tianjin industrial land use conversion to commercial will continue to be our area of focus. Our property development team will be contributing to 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 UNCERTAINITIES

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 2018 (six months ended 30 June 2017: 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 2018.

UPDATE ON LITIGATION PROCEEDINGS

Regarding the litigation proceedings of (i) Against Nanjing Skytech Co., Limited and Others and (ii) Development Right of a Piece of Land situate at Tianjin Binhai New District, both cases had no material change as disclosed in the most recently published annual report.

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 Listing Rules throughout the six months ended 30 June 2018 except that Mr. Ng Hung Sang, the Chairman and an Executive Director of the Company, Ms. Cheung Choi Ngor, an Executive Director of the Company, Mr. Ng Yuk Fung Peter and Mr. David Michael Norman, both are Non-Executive Directors of the Company, were unable to attend the annual general meeting of the Company held on 14 June 2018, which deviated from code provision E.1.2 and A.6.7 as they had other important business engagements.

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 Committee), Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin Elizabeth and Mr. Yip Dicky Peter, J.P. and a Non-executive Director, Mr. David Michael Norman.

The Group's unaudited consolidated results for the six months ended 30 June 2018 have 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.

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, 28 August 2018

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; (3) Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin Elizabeth, Mr. Yip Dicky Peter, J.P., and Mr. Kam Yiu Shing Tony as independent non-executive directors.