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SOUTH CHINA ASSETS HOLDINGS LIMITED

南華資產控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 08155)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

ANNUAL RESULTS

The board of directors (the “Board”) of South China Assets Holdings Limited (the “Company”) is pleased to announce that the consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2019 (the “Year”) together with the relevant comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

| | <i>Notes</i> | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---|--------------|--------------------------------|--------------------------------|
| Revenue | 2 | 19,022 | 1,121 |
| Cost of sales | | (16,316) | – |
| Gross profit | | 2,706 | 1,121 |
| Other operating income and gains, net | 3 | 5,730 | 18,446 |
| Fair value loss on financial assets at fair value through profit or loss | | (775) | (11,413) |
| Gain on disposal of financial assets at fair value through other comprehensive income | | 3,999 | 5,835 |
| Administrative and other operating expenses | | (15,428) | (23,578) |
| Operating loss | 5 | (3,768) | (9,589) |
| Finance costs | | (14,957) | (21,046) |
| Loss before income tax | | (18,725) | (30,635) |
| Income tax (expense)/credit | 6 | (163) | 22,784 |
| Loss for the year attributable to the equity holders of the Company | | (18,888) | (7,851) |
| Loss per share attributable to equity holders of the Company for the year | | | |
| Basic and diluted | 8 | HK (0.17) cent | HK (0.07) cent |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Loss for the year | (18,888) | (7,851) |
| Other comprehensive income | | |
| <i>Items that will not be reclassified to profit or loss</i> | | |
| Fair value gain/(loss) on financial assets at fair value through other comprehensive income | 20,143 | (114,350) |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | |
| Realisation of exchange reserve upon deregistration of a subsidiary | – | (3,516) |
| Exchange differences on translation of financial statements of overseas subsidiaries | <u>(2,152)</u> | <u>(13,922)</u> |
| Total comprehensive loss for the year attributable to the equity holders of the Company | <u>(897)</u> | <u>(139,639)</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at 31 December | |
|---|--|--------------------------|-----------------|
| | | 2019 | 2018 |
| <i>Notes</i> | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| | Property, plant and equipment | 123 | 156 |
| | Goodwill | 15,883 | 16,184 |
| 9 | Loans receivable | 2,036 | 1,048 |
| | Financial assets at fair value through other comprehensive income | 217,157 | 202,519 |
| | Deposits paid | 5 | 89 |
| | | <u>235,204</u> | <u>219,996</u> |
| Current assets | | | |
| 9 | Loans receivable | 3,125 | 1,496 |
| 10 | Trade receivables | 2,293 | – |
| | Properties under development | 112,503 | 132,362 |
| | Financial assets at fair value through profit or loss | 17,797 | 18,572 |
| | Deposits paid, prepayments and other receivables | 21,982 | 26,923 |
| | Tax recoverable | 716 | 722 |
| | Cash and bank balances | 21,917 | 177,393 |
| | | <u>180,333</u> | <u>357,468</u> |
| Current liabilities | | | |
| 11 | Trade payables | 1,566 | 1,595 |
| 12 | Other payables and accrued expenses | 125,460 | 151,363 |
| | Contract liabilities | – | 15,607 |
| | Lease liability | 42 | – |
| 13 | Interest-bearing bank borrowing | 3,000 | 4,000 |
| | Loan from a related company | 3,553 | 3,620 |
| | Income tax payable | 57 | – |
| | | <u>133,678</u> | <u>176,185</u> |
| | Net current assets | <u>46,655</u> | <u>181,283</u> |
| | Total assets less current liabilities | <u>281,859</u> | <u>401,279</u> |
| Non-current liabilities | | | |
| | Loans from shareholders | 245,500 | 364,020 |
| | Net assets | <u>36,359</u> | <u>37,259</u> |
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| | Share capital | 111,785 | 111,785 |
| | Reserves | (75,426) | (74,526) |
| | Total equity | <u>36,359</u> | <u>37,259</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Share capital <i>HK\$'000</i> | Treasury shares <i>HK\$'000</i> | Capital reserve <i>HK\$'000</i> | Financial assets revaluation reserve <i>HK\$'000</i> | Employee compensation reserve <i>HK\$'000</i> | Exchange reserve <i>HK\$'000</i> | Retained earnings <i>HK\$'000</i> | Total equity <i>HK\$'000</i> |
|---|-------------------------------------|---------------------------------------|---------------------------------------|--|--|--|---|------------------------------------|
| At 1 January 2018 | 111,785 | (20,191) | 6,044 | (63,047) | 22,417 | 15,935 | 102,524 | 175,467 |
| Transactions with owners | | | | | | | | |
| Recognition of equity settled share-based compensation | - | - | - | - | 1,431 | - | - | 1,431 |
| Transactions with owners | - | - | - | - | 1,431 | - | - | 1,431 |
| Transfer between reserves | | | | | | | | |
| Release of reserve upon disposal of financial assets at fair value through other comprehensive income | - | - | - | 8,542 | - | - | (8,542) | - |
| Transfer between reserves | - | - | - | 8,542 | - | - | (8,542) | - |
| Comprehensive income | | | | | | | | |
| Loss for the year | - | - | - | - | - | - | (7,851) | (7,851) |
| Other comprehensive income | | | | | | | | |
| Change in fair value of financial assets at fair value through other comprehensive income | - | - | - | (114,350) | - | - | - | (114,350) |
| Realisation of exchange reserve upon deregistration of a subsidiary | - | - | - | - | - | (3,516) | - | (3,516) |
| Exchange realignment | - | - | - | - | - | (13,922) | - | (13,922) |
| Total comprehensive loss for the year | - | - | - | (114,350) | - | (17,438) | (7,851) | (139,639) |
| At 31 December 2018 | <u>111,785</u> | <u>(20,191)</u> | <u>6,044</u> | <u>(168,855)</u> | <u>23,848</u> | <u>(1,503)</u> | <u>86,131</u> | <u>37,259</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Share capital HK\$'000 | Treasury shares HK\$'000 | Capital reserve HK\$'000 | Financial assets revaluation reserve HK\$'000 | Employee compensation reserve HK\$'000 | Exchange reserve HK\$'000 | Retained earnings HK\$'000 | Total equity HK\$'000 |
|---|------------------------------|--------------------------------|--------------------------------|---|---|---------------------------------|----------------------------------|-----------------------------|
| Balance at 1 January 2019 as originally presented | 111,785 | (20,191) | 6,044 | (168,855) | 23,848 | (1,503) | 86,131 | 37,259 |
| Change in accounting policy | | | | | | | | |
| Adoption of HKFRS 16 | - | - | - | - | - | - | (3) | (3) |
| Restated balance at 1 January 2019 | 111,785 | (20,191) | 6,044 | (168,855) | 23,848 | (1,503) | 86,128 | 37,256 |
| Transfer between reserves | | | | | | | | |
| Release of reserve upon disposal of financial assets at fair value through other comprehensive income | - | - | - | 5,779 | - | - | (5,779) | - |
| Transfer between reserves | - | - | - | 5,779 | - | - | (5,779) | - |
| Comprehensive income | | | | | | | | |
| Loss for the year | - | - | - | - | - | - | (18,888) | (18,888) |
| Other comprehensive income | | | | | | | | |
| Change in fair value of financial assets at fair value through other comprehensive income | - | - | - | 20,143 | - | - | - | 20,143 |
| Exchange realignment | - | - | - | - | - | (2,152) | - | (2,152) |
| Total comprehensive loss for the year | - | - | - | 20,143 | - | (2,152) | (18,888) | (897) |
| At 31 December 2019 | 111,785 | (20,191) | 6,044 | (142,933) | 23,848 | (3,655) | 61,461 | 36,359 |

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the disclosure requirements of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”), the accounting principles generally accepted in Hong Kong and the relevant Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in the preparation of the consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2018 except that the Group has adopted the newly issued and revised Hong Kong Financial Reporting Standards (“HKFRSs”) as disclosed in note 1.1.

1.1 ADOPTION OF NEW OR REVISED HKFRSs

In the current year, the Group has applied for the first time the following new or revised HKFRSs which are relevant to and effective for the Group’s consolidated financial statements for the annual period beginning on 1 January 2019:

| | |
|---|--|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKFRS 3, Business Combinations |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKAS 12, Income Taxes |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKAS 23, Borrowing Costs |

Other than the adoption of HKFRS 16, the adoption of the above amendments has no material impact on the Group’s consolidated financial statements.

Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases (“HKAS 17”), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

From a lessee’s perspective, almost all leases are recognised in the statement of financial position as a right-of-use asset and a lease liability, with the narrow exception to this principle being for leases which the underlying assets are of low-value or are determined as short-term leases.

From a lessor’s perspective, the accounting treatment is substantially unchanged from HKAS 17.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

2. REVENUE

Revenue derived from the Group's principal activities recognised during the year are as follows:

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---------------------------------------|--------------------------------|-------------------------|
| Sale of properties | 17,284 | – |
| Service fee | 622 | – |
| Interest income from loans receivable | 1,116 | 1,121 |
| | 19,022 | 1,121 |

3. OTHER OPERATING INCOME AND GAINS, NET

During the year ended 31 December 2019, other operating income and gains, net mainly represents bad debts recovered and bank interest income.

During the year ended 31 December 2018, other operating income and gains, mainly represented gain on deregistration of a subsidiary and interest income.

4. SEGMENT INFORMATION

The Group has identified its operating segments based on the regular internal financial information reported to the Group's management for their decisions about resources allocation and review of performance. The Group has identified two reportable segments as follows:

- (a) the financial services segment which is engaged in provision of investment advisory and asset management services, dealings in securities and futures and money lending business; and
- (b) the property development segment which is engaged in property development business in the People's Republic of China ("PRC").

These segments are monitored and strategic decisions are made on the basis of adjusted segment operating result.

For the year ended 31 December 2019

| | Financial Services <i>HK\$'000</i> | Property Development <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|---|---|---|---|
| Segment revenue: | | | |
| Revenue from external customers | 1,738 | 17,284 | 19,022 |
| Other operating income and gains, net | <u>410</u> | <u>6</u> | <u>416</u> |
| | <u>2,148</u> | <u>17,290</u> | <u>19,438</u> |
| Segment results | <u>(210)</u> | <u>(3,954)</u> | <u>(4,164)</u> |
| Unallocated corporate income | | | 5,314 |
| Unallocated corporate expenses | | | (8,310) |
| Fair value loss on financial assets at fair value through profit or loss | | | (775) |
| Gain on disposal of financial assets at fair value through other comprehensive income | | | 3,999 |
| Unallocated finance costs | | | <u>(14,789)</u> |
| Loss before income tax | | | (18,725) |
| Income tax expense | | | <u>(163)</u> |
| Loss for the year | | | <u>(18,888)</u> |

For the year ended 31 December 2018

| | Financial Services <i>HK\$'000</i> | Property Development <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|---|---|---|---|
| Segment revenue: | | | |
| Revenue from external customers | 1,121 | – | 1,121 |
| Other operating income and gains, net | <u>2</u> | <u>16,800</u> | <u>16,802</u> |
| | <u>1,123</u> | <u>16,800</u> | <u>17,923</u> |
| Segment results | <u>(4,932)</u> | <u>16,144</u> | 11,212 |
| Unallocated corporate income | | | 1,644 |
| Unallocated corporate expenses | | | (17,009) |
| Fair value loss on financial assets at fair value through profit or loss | | | (11,413) |
| Gain on disposal of financial assets at fair value through other comprehensive income | | | 5,835 |
| Unallocated finance costs | | | <u>(20,904)</u> |
| Loss before income tax | | | (30,635) |
| Income tax credit | | | <u>22,784</u> |
| Loss for the year | | | <u>(7,851)</u> |

The Group's revenue and other operating income and gains, net by geographical areas are presented as followings:

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Revenue | | |
| Hong Kong | 1,738 | 1,121 |
| PRC | 17,284 | – |
| | <u>19,022</u> | <u>1,121</u> |
| Other operating income and gains | | |
| Hong Kong | 5,724 | 1,646 |
| PRC | 6 | 16,800 |
| | <u>5,730</u> | <u>18,446</u> |

None of the customers of the Group contributed more than 10% of the Group's revenue for the years ended 31 December 2019 and 2018.

5. OPERATING LOSS

The Group's operating loss is arrived at after charging or crediting:

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Cost of properties included in cost of sales | 15,103 | – |
| Depreciation | 154 | 251 |
| Less: Depreciation capitalised in properties under development | – | (22) |
| | <u>154</u> | <u>229</u> |
| Employee benefit expense (including directors' emoluments) | 5,162 | 8,220 |
| Equity settled share-based payment expenses | – | 1,431 |
| Defined contribution plans | 289 | 306 |
| Less: Employee benefit expense capitalised in properties under development | (388) | (422) |
| | <u>5,063</u> | <u>9,535</u> |
| (Recovery)/Impairment of loans receivable, net | (398) | 11 |
| Impairment of properties under development | 4,000 | – |
| Exchange (gain)/loss, net | (4,628) | 7,387 |
| | <u>(4,628)</u> | <u>7,387</u> |

6. INCOME TAX

No provision for Hong Kong profits tax was made as the Group had no estimated assessable profits arising in or derived from Hong Kong during the years ended 31 December 2019 and 2018.

The Group's subsidiaries in the PRC are subject to the PRC enterprise income tax ("EIT") at the standard rate of 25% on the estimated assessable profits. No provision for EIT has been made as the subsidiaries operated in the PRC had no assessable profits for the years ended 31 December 2019 and 2018. The income tax credit provided for the year ended 31 December 2018 represents reversal of over provision prior years.

Income tax expenses during the year ended 31 December 2019 represents the provision of Land Appreciation Tax (“LAT”) related to properties sold during the year in PRC. No provision of LAT for the year ended 31 December 2018 as there are no properties sold for the year ended 31 December 2018.

The provision of LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided, as appropriate, at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.

7. DIVIDEND

No interim dividend was declared or paid during the year ended 31 December 2019 and 2018. The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 and 2018.

8. LOSS PER SHARE

The calculation of the basic loss per share attributable to the equity holders of the Company is based on the following data:

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Loss attributable to equity holders of the Company, used in the basic loss per share calculation | <u>(18,888)</u> | <u>(7,851)</u> |
| | 2019 | 2018 |
| Weighted average number of ordinary shares in issue during the year | 11,178,498,344 | 11,178,498,344 |
| Less: Weighted average number of shares held for share award scheme | <u>(169,163,118)</u> | <u>(169,163,118)</u> |
| Weighted average number of ordinary shares used in the basic loss per share calculation | <u>11,009,335,226</u> | <u>11,009,335,226</u> |

Diluted loss per share for the years ended 31 December 2019 and 2018 are the same as the basic loss per share.

No share option was granted during the years ended 31 December 2019 and 2018. The Company’s share options have no dilution effect for the years ended 31 December 2019 and 2018 because the exercise prices of the Company’s share options were higher than the average market prices of the shares in both years.

9. LOANS RECEIVABLE

Loans receivable bear interest at rates determined on case by case basis and have credit periods mutually agreed between the contractual parties. Each customer has a credit limit. The Group maintains strict control over its outstanding loans receivable and a credit control department has been established to monitor potential credit risk. Overdue balances are reviewed regularly by the senior management and are handled closely by the credit control department. The Group's loans receivable relate to a diversified portfolio of customers. As such, there is no significant concentration of credit risk.

| | As at 31 December | |
|-------------------------------------|--------------------------|-----------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Loans receivable | 13,538 | 10,501 |
| Less: provision for impairment loss | (8,377) | (7,957) |
| | 5,161 | 2,544 |
| Less: Non-current portion | (2,036) | (1,048) |
| Current portion | 3,125 | 1,496 |

10. TRADE RECEIVABLES

Ageing analysis of trade receivables based on settlement due date as at the reporting dates is as follows:

| | As at 31 December | |
|--------------------|--------------------------|-----------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Current to 90 days | 2,288 | – |
| Over 90 days | 5 | – |
| | 2,293 | – |

The settlement terms of trade receivables arising from the ordinary course of business are repayable on demand.

11. TRADE PAYABLES

The following is an ageing analysis of trade payables based on invoice date as at the reporting date:

| | As at 31 December | |
|---------------|--------------------------|-----------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Over 180 days | 1,566 | 1,595 |

12. OTHER PAYABLES AND ACCRUED EXPENSES

As at 31 December 2019, other payables and accrued expenses included accrued interest expenses on the loans from shareholders of approximately HK\$118,925,000 (2018: HK\$147,210,000) in respect of the loans made available to the Group.

13. INTEREST-BEARING BANK BORROWING

| | As at 31 December | |
|--|-------------------|-----------------|
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current | | |
| Bank loan due for repayment which contains a repayment on demand clause — unsecured and guaranteed | <u>3,000</u> | <u>4,000</u> |

The bank loan bears interest at floating rate of 2.5% per annum above the HIBOR, and is guaranteed by the Company. As at 31 December 2019, a bank facility was guaranteed by the Company to the extent of HK\$4,000,000. The Group's banking facility was amounting to HK\$4,000,000 (2018: HK\$4,000,000), of which HK\$3,000,000 (2018: HK\$4,000,000) was utilised at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded revenue and loss attributable to the equity holders of the Company, both being the financial key performance indicators, for the year ended 31 December 2019 (the “Year”) of HK\$19.0 million (2018: HK\$1.1 million) and HK\$18.9 million (2018: HK\$7.9 million), respectively.

Underlying operating results of the Group, after excluding non-operating items (being gain/loss arising from fair value on and disposal of financial assets; other income, provisions and tax credit of non-recurring nature), has been reduced from a loss of HK\$20.4 million in 2018 to a loss of HK\$3.0 million in 2019 due to business gaining momentum, completion of a property development project and efforts in cost control.

FINANCIAL REVIEW

During the Year, the financial services segment has generated revenue of HK\$1.7 million (2018: HK\$1.1 million). The property development segment has recorded revenue of HK\$17.3 million from the project located in Cangzhou Bohai New District Zhongjie Industrial Park District (滄州渤海新區中捷產業園區) (“Zhongjie Project”).

During the Year, the fair value loss on financial assets at fair value through profit or loss was HK\$0.8 million (2018: HK\$11.4 million). The change in fair value mainly resulted from movement in the share price of South China Holdings Company Limited (“SCHC”). Other operating income amounted to HK\$5.7 million (2018: HK\$18.4 million) for the Year and such decrease was due to non-occurrence of an one-off income from deregistration of a subsidiary in last year. Administrative and other operating expenses amounted to HK\$15.4 million (2018: HK\$23.6 million) for the Year and such decrease was mainly due to efforts in containing cost.

As at 31 December 2019, the Group had a current ratio of 1.4 (2018: 2.0) and a gearing ratio of 18% (2018: 21%). The decrease in current ratio was due to certain shareholders’ loans being repaid in cash during the Year. The decrease in gearing ratio was due to certain part of bank loan being repaid during the Year. The financial position of the Group is considered at a healthy level.

BUSINESS REVIEW

The principal businesses of the Group include financial services and property development.

(a) Financial Services

The segment is made up of subsidiaries holding licences for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). The segment begins to render investment advisory services and has generated revenue during the Year.

The segment also consists of money lending business under South China Financial Credits Limited (“SCFC”), a wholly-owned subsidiary of the Company. SCFC is governed by the Hong Kong Money Lender Ordinance (Chapter 163 of the Laws of Hong Kong) with business scope encompassing mainly unsecured personal loans, tax loans, small business loans, specialised lending and debt consolidation to independent external customers.

During the Year, SCFC has appointed a new head to take charge of the money lending business with a new strategy. The move has successfully tapped into customer segments with better credibility background and built a healthy loan portfolio.

As at 31 December 2019, the gross loan portfolio has gradually increased and amounted to HK\$13.6 million. SCFC has tightened its credit approval for new loan and refinancing applications and also strengthened its debt collection function to provide safeguard for excessive credit risk.

The segment also consists of a subsidiary who has membership of Professional Insurance Brokers Association (“PIBA”) and is a Mandatory Provident Fund (“MPF”) principal intermediary under MPF Schemes Ordinance (“MPFSO”).

The directors considered that the key risk exposures of our investment advisory, asset management business and money lending business are credit risk, market risk and the need to maintain sufficient liquidity to satisfy regulatory capital requirements and working capital needs. The Group does not take trade positions which expose it to material price risk or foreign exchange risk.

(b) Property development

The Huanghua New City (黃驊新城) property development project located in Cangzhou, Hebei province, with a site area of 32,336 sq. m. (the “First Land Site”), is a commercial and retail development to provide shopping mall, entertainment, dining and recreational facilities, having a total gross floor area (“GFA”) of approximately 42,000 sq. m.. The Group has obtained the State-owned Land Use Right Certificate (國有土地使用證), the Land Use Permit (建設用地規劃許可證) and the Construction Planning Permit (建設工程規劃許可證) for the project. Main construction works of the First Land Site will commence upon the issuance of the Construction Permit (建設工程施工許可證), which has been planned as the first phase of the Huanghua New City property development project (the “Phase I Project”).

In 2014, the Group won a bid at the tender for the acquisition of another land site (the “Second Land Site”) adjacent to the First Land Site, with a site area of 32,921 sq. m. and having GFA of approximately 107,000 sq.m. The Second Land Site has been planned as the second phase of the Huanghua New City property development project (the “Phase II Project”), which will provide commercial, retail, office, and hotel facilities for further enhancement of variety of facilities of the whole Huanghua New City project. The Group obtained the State-owned Land Use Right Certificate and the Land Use Permit in prior years and further obtained the Construction Planning Permit in July 2018.

On 7 September 2018, the Group received a notice from Cangzhou City Land Resources Bureau (滄州市國土資源局) (“Cangzhou Land Bureau”) to request the repossession of the Second Land Site (the “Repossession”). The Group subsequently filed an appeal in form of an application for administrative review to Hebei Province Land Resources Bureau (河北省國土資源局) (“Hebei Land Bureau”), the provincial authority to which Cangzhou Land Bureau is reporting.

On 24 December 2018, Hebei Land Bureau notified the Group and Cangzhou Land Bureau that the administrative review process shall be temporarily suspended to allow both parties to discuss for settlement of the dispute. The Group would resume the administrative review process on the Repossession if no acceptable solution is reached with Cangzhou Land Bureau. The Group would take all necessary measures, including but not limited to initiate legal proceedings against Cangzhou Land Bureau, to safeguard the Group’s legal rights and interest in the Phase II Project if the result of the administrative review is not favourable to the Group. Due to the unexpected outbreak of coronavirus, the operations of the local government departments were substantially affected. Negotiations with Cangzhou Land Bureau by exploring any solution in the dispute would keep on upon full resumption of operations of Cangzhou Land Bureau. In view of the progress of previous negotiations before the outbreak of novel coronavirus, the Group is optimistic in achieving an acceptable solution for safeguarding the Group’s rights and interest in the Phase II Project.

The Group’s other property development, Zhongjie Project, has been partially completed by phase and the Group has recorded revenue of HK\$17.3 million in the Year accordingly.

The existing property portfolio of the Group is located in the PRC and is therefore subject to the risks associated with the PRC property market. Our property development operations in the PRC may also be exposed to the risks of policy 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. To mitigate the abovementioned risks, the Group will monitor such exposures closely with a view to reacting timely to any change.

SIGNIFICANT INVESTMENTS

The Group’s investment portfolio consists of Ordinary Shares and Redeemable Convertible Preference Shares (“**RCPSs**”) of SCHC, which are presented under financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income in the consolidated statement of financial position respectively.

Listed below are the particulars of the Group's major significant investments:

As at 31 December 2018

| Name of stock listed on Stock Exchange/overseas stock exchange | Stock code | Brief description of the business | Type of shares | Number of shares held as at 31 December 2018 | Investment cost as at 31 December 2018 <i>HK\$'000</i> | Fair value as at 31 December 2018 <i>HK\$'000</i> | Total assets value of the Group as at 31 December 2018 <i>HK\$'000</i> | Percentage to total assets value of the Group as at 31 December 2018 |
|--|------------|---|-----------------|---|---|--|---|--|
| SCHC | 413 | Trading and manufacturing, property investment and development and agriculture and forestry | Ordinary shares | 309,129,996* (represented 2.3% of SCHC issued ordinary shares) | 3,516 | 59,354 | 577,464 | 10.3% |
| | | | RCPSs | 390,691,131 (represented 100% of SCHC issued RCPSs) | 312,553 | 161,737** | 577,464 | 28.0% |

During the Year, the audited comprehensive loss attributable to owners of the Company from the net fair value change recognized for the Group's significant investments as listed above amounted to approximately HK\$125.8 million.

As at 31 December 2019

| Name of stock listed on Stock Exchange/overseas stock exchange | Stock code | Brief description of the business | Type of shares | Number of shares held as at 31 December 2019 | Investment cost as at 31 December 2019 <i>HK\$'000</i> | Fair value as at 31 December 2019 <i>HK\$'000</i> | Total assets value of the Group as at 31 December 2019 <i>HK\$'000</i> | Percentage to total assets value of the Group as at 31 December 2019 |
|--|------------|---|-----------------|---|---|--|---|--|
| SCHC | 413 | Trading and manufacturing, property investment and development and agriculture and forestry | Ordinary shares | 309,129,996* (represented 2.3% of SCHC issued ordinary shares) | 3,516 | 56,880 | 415,537 | 13.7% |
| | | | RCPSs | 378,813,131 (represented 100% of SCHC issued RCPSs) | 303,051 | 178,074** | 415,537 | 42.9% |

During the Year, the audited comprehensive loss attributable to owners of the Company from the net fair value change recognized for the Group's significant investments as listed above amounted to approximately HK\$19.4 million.

* The shares mainly include bonus shares proposed by SCHC on 23 December 2016 and received by the Company on 10 January 2017.

** The fair values of the RCPSs as at 31 December 2018 and 31 December 2019 are determined by the directors of the Company with reference to the valuation at year ended dates by BMI Appraisals Limited, an independent qualified professional valuer not connected to the Group.

PROSPECTS

The year of 2020 is very challenging given the dynamic changes in macroeconomic environment under the outbreak of the novel coronavirus disease. Management believes it is the best interest of the Group to continue carrying on but being highly cautious in the financial services business which is able to produce steady income stream. Meanwhile, the Phase I Project in Huanghua New City under the property development segment has resumed its planning in late 2019 and is under ongoing and close monitoring by management on its progress under current market situation.

(a) Financial services business

As a result of improved credit approval and debt collection processes, significant bad debts have been recovered during the Year.

The Group is structuring private funds with various investment strategies and asset classes to meet our clients' investment needs and risk appetites. Being engaged by these funds as the investment manager to provide tailor-made discretionary portfolio and management solutions, the Group will then generate revenue after launching of the funds.

The Group is also seeking to grow its wealth management services through the recruitment of relevant personnel and development of channels and business.

Due to the latest outbreak of novel coronavirus disease, the Group's risk management has been tightened aim at minimizing key risks through clearly defined terms of business with customers, stringent investment and credit control over transactions with them, and regular monitoring of cash flow and management accounts to ensure that relevant regulated entities comply with regulatory capital requirements and the financial services operation is able to maintain adequate working capital.

(b) Property development business

Resulting from the continuous improvements in demographic and infrastructural facilities therein as well as optimistic expectation of the outcome of negotiation with Cangzhou Land Bureau, the Group decided to restart part of Phase I Project with an expected saleable area of approximately 15,000 sq.m. in late 2019. Due to the unexpected outbreak of novel coronavirus during the period of Lunar New Year, certain number of employees of the Group were not allow to freely get off from one place to another and each corporation thereof (including our office in Tianjin, which is responsible for Huanghua New City property development project) was not allowed to resume its operations and businesses until satisfaction of mandatory inspections by local authorities. Our office in Tianjin resumed its operations recently, but relevant employees had yet been on board, hence the development plan of the Phase I Project was inevitably delayed.

In order to lower down business risk under the current market situation and relieve burden on capital resources, each of the Phase I Project and the Phase II Project would be developed in phases.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

CORPORATE GOVERNANCE CODE

The Company had complied with all the applicable code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 15 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout the year ended 31 December 2019 except that Mr. Ng Hung Sang, the Chairman of the Board and an Executive Director of the Company, Ms. Cheung Choi Ngor, an Executive Director of the Company, Mr. Ng Yuk Yeung, a Non-executive Director of the Company and Ms. Pong Scarlett Oi Lan, BBS, J.P., an Independent Non-Executive Director of the Company were unable to attend the annual general meeting of the Company held on 18 June 2019 as they had other business engagements, which deviated from code provisions E.1.2. and A.6.7 of the CG Code.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2019.

AUDIT COMMITTEE

The Board has established an Audit Committee with written terms of reference that complies with the CG Code, which has been published on the respective websites of the Stock Exchange and the Company. The Audit Committee currently consists of (i) three Independent Non-executive Directors, namely Mr. Cheng Hong Kei (Chairman of the Audit Committee), Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Yeung Chi Hang; and (ii) a Non-executive Director, namely Mr. Ng Yuk Yeung Paul.

The Group’s annual results for the year ended 31 December 2019 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

By Order of the Board
South China Assets Holdings Limited
南華資產控股有限公司
Ng Hung Sang
Chairman and Executive Director

Hong Kong, 18 March 2020

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 Ms. Ng Yuk Mui Jessica as executive directors; (2) Mr. Ng Yuk Yeung Paul as non-executive director; and (3) Mr. Cheng Hong Kei, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Yeung Chi Hang as independent non-executive directors.

This announcement, for which the directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its publication and on the website of the Company at www.scassets.com.