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 FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2020

QUARTERLY RESULTS

The board of directors (the "Board") of South China Assets Holdings Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2020 together with the relevant comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Three months ended 31 March	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
Revenue	*2*	**562**	266
Other operating income		**151**	4,574
Fair value loss on financial assets at fair value through profit or loss		**(3,288)**	(774)
Gain on disposal of financial assets at fair value through other comprehensive income		**385**	–
Administrative and other operating expenses		**(1,744)**	(4,973)
Operating loss		**(3,934)**	(907)
Finance costs		**(3,149)**	(4,619)
Loss before income tax		**(7,083)**	(5,526)
Income tax expense	*4*	**–**	–
Loss for the period attributable to the equity holders of the Company		**(7,083)**	(5,526)
Loss per share attributable to equity holders of the Company for the period			
Basic and diluted	*6*	**HK(0.06) cent**	HK(0.05) cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three months ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
Loss for the period	**(7,083)**	(5,526)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Fair value loss on financial assets at fair value through other comprehensive income	**(16,479)**	(196)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of financial statements of overseas subsidiaries	**(173)**	3,156
Total comprehensive loss for the period attributable to the equity holders of the Company	**(23,735)**	(2,566)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2020

	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*
At 31 December 2018 and 1 January 2019 (audited)	111,785	(20,191)	6,044	(168,855)	23,848	(1,503)	86,131	37,259
Comprehensive income								
Loss for the period	–	–	–	–	–	–	(5,526)	(5,526)
Other comprehensive income								
Changes in fair value of financial assets	–	–	–	(196)	–	–	–	(196)
Exchange realignment	–	–	–	–	–	3,156	–	3,156
Total comprehensive loss for the period	–	–	–	(196)	–	3,156	(5,526)	(2,566)
At 31 March 2019 (unaudited)	111,785	(20,191)	6,044	(169,051)	23,848	1,653	80,605	34,693
At 31 December 2019 and 1 January 2020 (audited)	**111,785**	**(20,191)**	**6,044**	**(142,933)**	**23,848**	**(3,655)**	**61,461**	**36,359**
Transfer between reserves								
Release of reserve upon disposal of financial assets at fair value through other comprehensive income	**–**	**–**	**–**	**548**	**–**	**–**	**(548)**	**–**
Comprehensive income								
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(7,083)**	**(7,083)**
Other comprehensive income								
Change in fair value of financial assets	**–**	**–**	**–**	**(16,479)**	**–**	**–**	**–**	**(16,479)**
Exchange realignment	**–**	**–**	**–**	**–**	**–**	**(173)**	**–**	**(173)**
Total comprehensive loss for the period	**–**	**–**	**–**	**(16,479)**	**–**	**(173)**	**(7,083)**	**(23,735)**
At 31 March 2020 (unaudited)	**111,785**	**(20,191)**	**6,044**	**(158,864)**	**23,848**	**(3,828)**	**53,830**	**12,624**

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the three months ended 31 March 2020 have been reviewed by the audit committee of the Company.

The unaudited condensed 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 unaudited condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2019 except that the Group has adopted the newly issued and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the annual period beginning on 1 January 2020, as disclosed in the annual financial statements for the year ended 31 December 2019. The adoption of new and revised HKFRS does not have material impact on the Group's financial performance and financial position.

These unaudited condensed consolidated financial statements should be read in conjunction with the annual report for the year ended 31 December 2019.

2. REVENUE

For the three months ended 31 March 2020, the revenue represents interest income from the money lending operation.

3. 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 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 three months ended 31 March 2020

	Financial Services *HK$'000*	Property Development *HK$'000*	Consolidated *HK$'000*
Segment revenue:			
Revenue from external customers	**562**	**–**	**562**
Segment loss	**199**	**(373)**	**(174)**
Unallocated corporate expenses			**(891)**
Fair value loss on financial assets at fair value through profit or loss			**(3,289)**
Gain on disposal of financial assets at fair value through other comprehensive income			**385**
Unallocated finance costs			**(3,114)**
Loss before income tax			**(7,083)**
Income tax expense			**–**
Loss for the period			**(7,083)**

For the three months ended 31 March 2019

	Financial Services *HK$'000*	Property Development *HK$'000*	Consolidated *HK$'000*
Segment revenue:			
Revenue from external customers	266	–	266
Segment loss	(1,108)	(3,195)	(4,303)
Unallocated corporate income			4,337
Unallocated corporate expenses			(205)
Fair value loss on financial assets at fair value through profit or loss			(774)
Unallocated finance costs			(4,581)
Loss before income tax			(5,526)
Income tax expense			–
Loss for the period			(5,526)

The Group's geographical information of the revenue from external customers are not presented as the revenue for the three months ended 31 March 2020 and 31 March 2019 are attributable to a single geographical region, Hong Kong, and the Group did not depend on any single customer under the segments for the three months ended 31 March 2020 and 31 March 2019.

4. INCOME TAX EXPENSE

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 period ended 31 March 2020 and 2019.

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 period ended 31 March 2020 and 2019.

5. DIVIDEND

The Board resolved not to declare the payment of dividend for the three months ended 31 March 2020 (three months ended 31 March 2019: Nil).

6. 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:

	Three months ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
Loss attributable to equity holders of the Company used in the basic loss per share calculation	**(7,083)**	(5,526)

	2020	2019
Weighted average number of ordinary shares in issue during the period	**11,178,498,344**	11,178,498,344
Less: Weighted average number of shares held for share award scheme	**(169,163,118)**	(169,163,118)
Weighted average number of ordinary shares used in the basic loss per share calculation	**11,009,335,226**	11,009,335,226

Diluted loss per share for the three months ended 31 March 2020 and 31 March 2019 are the same as the basic loss per share. The Company's share options have no dilution effect for the three months ended 31 March 2020 and 31 March 2019 because the exercise prices of the Company's share options were higher than the average market prices of the shares for the both periods.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY

The Group recorded revenue and loss attributable to the equity holders of the Company, both being the financial key performance indicators, for the three months ended 31 March 2020 of HK$562,000 (three months ended 31 March 2019: HK$266,000) and HK$7.1 million (three months ended 31 March 2019: HK$5.5 million) respectively. The loss attributable to the equity holders of the Company for the three months ended 31 March 2020 increased primarily resulted from decrease in other operating income and increase in fair value loss on financial assets at fair value through profit or loss.

FINANCIAL REVIEW

During the period under review, money lending business has generated revenue of HK$562,000 (three months ended 31 March 2019: HK$266,000). The property development segment did not record any revenue from external customers during the period.

For the three months ended 31 March 2020, the fair value loss on financial assets at fair value through profit or loss was HK$3.3 million (three months ended 31 March 2019: HK$0.8 million). The change in fair value loss resulted from the movements in share price of South China Holdings Company Limited ("SCHC").

Other operating income amounted to HK$0.2 million (three months ended 31 March 2019: HK$4.6 million) for the period under review. The decrease mainly resulted from less interest income from fixed deposits as they were withdrawn to repay certain shareholders' loans in last year. Administrative and other operating expenses decreased to HK$1.7 million (three months ended 31 March 2019: HK$5.0 million) for the period under review and such decrease was due to efforts in containing costs. Finance costs decreased to HK$3.1 million (three months ended 31 March 2019: HK$4.6 million) for the period under review and such decrease was due to certain shareholders' loans being repaid in last year.

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 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.

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 March 2020, the gross loan portfolio has gradually increased and amounted to HK$15.3 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

Huanghua Project

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 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.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Group did not have any material acquisition or disposal during the three months ended 31 March 2020.

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, money lending business became one of the major income stream and continued to contribute income to the Group.

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

Zhongjie Project

Subsequent to the completion of phase 1 of the project, development of phase 2 of the project has been commenced. Phase 2 development consists of 2 complexes. Design of the first complex has been confirmed and the construction permit is to be obtained in about June 2020 subsequent to the issuance of design permit in May 2020. The main construction works of complex are to be completed in about September 2020 and then available for pre-sale. The development work of the second complex is expected to be taken place upon obtaining the land use right certificate after pre-sale of the first complex. The development area of the first and the second complexes is approximately 3,900 sq.m. and 9,000 sq.m. respectively, and the respective saleable area is approximately 3,800 sq.m. and 8,400 sq.m.. In view of the market sentiment in the vicinity areas of the phase 2, phase 2 project is expected to strengthen up the performance of the Group.

Huanghua Project

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 2020. Due to the unexpected outbreak of novel coronavirus during the period of Lunar New Year, certain number of employees of the Group were not allowed 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 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.

The Group will formulate more stringent and conservative investment standards and pay close attention to quality investment opportunities that are undervalued in the primary and secondary markets. The Group will make investment decisions under strict investment discipline to ensure the transparency and quality of investments which to continuously increase net asset per share attributable to shareholders. By further recouping funds through asset restructuring, the Group will optimise capital allocation, consolidate its core business with advantages and strengthen the Group's overall ability to control risks and withstand various fluctuations, so as to generate attractive returns for the shareholders.

EVENTS AFTER THE REPORTING PERIOD

On 9 April 2020, South China Industries (BVI) Limited ("SCI"), a wholly-owned subsidiary of South China Holdings Company Limited, an associate of the Company's connected person and the Company entered into a joint venture agreement for the purpose of formation of a joint venture company in which the Company and SCI hold 60% and 40% respectively. The joint venture company will be an investment holding company which will carry out production and sales of medical face masks and related products for capturing tremendous demand for medical face masks against COVID-19 worldwide. Given, the Company holds 60% of the joint venture company, the joint venture company will be a non-wholly-owned subsidiary of the Company, and its financial results will be consolidated into the financial statements of the Group.

UPDATE ON THE LISTING STATUS

The Company received a letter dated 3 April 2020 from The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the effect that the Stock Exchange had decided that the Company has failed to maintain a sufficient level of operation and assets of sufficient value to support its operations under GEM Listing Rule 17.26 to warrant the continued listing of the Company's shares (the "Shares") and had decided to suspend trading of the Shares under GEM Listing Rules 9.04(3) (the "Decision"). Under GEM Listing Rules 4.06(1) and 4.08(1), the Company has the right to request the Decision be referred to the Listing Committee for a review. The Company has submitted a written request to the GEM Listing Committee on 15 April 2020 for a review of the Decision. The review hearing has been scheduled on 14 July 2020. The Shares have not yet been suspended from trading and the Directors understand that they will not be suspended unless the Decision is upheld.

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 three months ended 31 March 2020.

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, 5 May 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 of the Company 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 of the Company, 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.