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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 FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2021

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 2021 (the “Period”) together with the relevant comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Three months ended 31 March	
		2021	2020
		HK\$'000	HK\$'000
Revenue	2	7,104	562
Cost of sales		(3,794)	–
Other operating income		2	151
Fair value loss on financial assets at fair value through profit or loss		(2,999)	(3,288)
Selling and distribution expenses		(101)	–
Gain on disposal of financial assets at fair value through other comprehensive income		–	385
Administrative and other operating expenses		(1,986)	(1,744)
Operating loss		(1,774)	(3,934)
Finance costs		(1,513)	(3,149)
Loss before income tax		(3,287)	(7,083)
Income tax expense	4	–	–
Loss for the period		(3,287)	(7,083)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three months ended 31 March	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period	<u>(3,287)</u>	<u>(7,083)</u>
Other comprehensive income, that will not be reclassified subsequently to profit or loss		
Fair value loss on financial assets at fair value through other comprehensive income	(4,708)	(16,479)
Other comprehensive income, that may be reclassified subsequently to profit or loss		
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(891)</u>	<u>(173)</u>
Other comprehensive loss for the period, net of tax	<u>(5,599)</u>	<u>(16,652)</u>
Total comprehensive loss for the period attributable to equity holders of the Company	<u><u>(8,886)</u></u>	<u><u>(23,735)</u></u>
Loss for the period attributable to:		
Owners of the Company	(3,153)	(7,083)
Non-controlling interests	<u>(134)</u>	<u>–</u>
	<u><u>(3,287)</u></u>	<u><u>(7,083)</u></u>
Total comprehensive loss for the period attributable to:		
Owners of the Company	(8,752)	(23,735)
Non-controlling interests	<u>(134)</u>	<u>–</u>
	<u><u>(8,886)</u></u>	<u><u>(23,735)</u></u>
Loss per share attributable to equity holders of the Company for the period		
— Basic and diluted	<u><u>HK(0.03) cent</u></u>	<u><u>HK(0.06) cent</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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>	Non- controlling interest <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
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 period	-	-	-	-	-	-	(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)	<u>111,785</u>	<u>(20,191)</u>	<u>6,044</u>	<u>(158,864)</u>	<u>23,848</u>	<u>(3,828)</u>	<u>53,830</u>	<u>-</u>	<u>12,624</u>
At 31 December 2020 and 1 January 2021 (audited)	<u>111,785</u>	<u>(20,191)</u>	<u>6,044</u>	<u>(7,967)</u>	<u>23,848</u>	<u>4,762</u>	<u>(7,716)</u>	<u>995</u>	<u>111,560</u>
Comprehensive income									
Loss for the period	-	-	-	-	-	-	(3,153)	(134)	(3,287)
Other comprehensive income									
Change in fair value of financial assets	-	-	-	(4,708)	-	-	-	-	(4,708)
Exchange realignment	-	-	-	-	-	(891)	-	-	(891)
Total comprehensive loss for the period	-	-	-	(4,708)	-	(891)	(3,153)	(134)	(8,886)
At 31 March 2021 (unaudited)	<u>111,785</u>	<u>(20,191)</u>	<u>6,044</u>	<u>(12,675)</u>	<u>23,848</u>	<u>3,871</u>	<u>(10,869)</u>	<u>861</u>	<u>102,674</u>

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the three months ended 31 March 2021 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 2020 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 2021, as disclosed in the annual financial statements for the year ended 31 December 2020. 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 2020.

2. REVENUE

Revenue derived from the Group’s principal activities recognised during the periods are as follows:

	2021 <i>HK\$’000</i>	2020 <i>HK\$’000</i>
Revenue from contracts with customers		
— Rendering of services	6,412	–
— Sale of face masks	242	–
	6,654	–
Revenue from other sources		
— Interest income from loans receivable	450	562
	7,104	562

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 three 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;
- (b) the property development segment which is engaged in property development and project management business in the People’s Republic of China (“PRC”); and
- (c) the face mask segment which is engaged in sales of face masks and related products.

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

For the three months ended 31 March 2021

	Financial services HK\$'000	Property development HK\$'000	Face masks HK\$'000	Consolidated HK\$'000
Segment revenue:				
Revenue from external customers	450	6,412	242	7,104
Other operating income and gains, net	–	2	–	2
	<u>450</u>	<u>6,414</u>	<u>242</u>	<u>7,106</u>
Segment results	<u>43</u>	<u>2,182</u>	<u>(336)</u>	<u>1,889</u>
Unallocated corporate expenses				(774)
Fair value loss on financial assets at fair value through profit or loss				(2,999)
Unallocated finance costs				<u>(1,403)</u>
Loss before income tax				(3,287)
Income tax expense				–
Loss for the period				<u>(3,287)</u>

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 results	<u>199</u>	<u>(373)</u>	(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			<u>(3,114)</u>
Loss before income tax			(7,083)
Income tax expense			–
Loss for the period			<u>(7,083)</u>

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 for the periods ended 31 March 2021 and 2020.

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 periods ended 31 March 2021 and 2020.

5. INTERIM DIVIDEND

The Board resolved not to declare the payment of interim dividend for the three months ended 31 March 2021 (three months ended 31 March 2020: 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	
	2021	2020
	HK\$'000	HK\$'000
Loss attributable to equity holders of the Company used in the basic loss per share calculation	<u>(3,153)</u>	<u>(7,083)</u>
	2021	2020
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	<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 three months ended 31 March 2021 and 31 March 2020 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 2021 and 31 March 2020 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 REVIEW

For the Period, the Group recorded revenue of approximately HK\$7.1 million, representing an increase of approximately 12 times comparing with that of approximately HK\$562,000 in 2020. Such increase in revenue was mainly due to new business segments in property development and face mask.

There was a loss attributable to the equity holders of the Company for the Period of approximately HK\$3.3 million (period ended 31 March 2020: loss of HK\$7.1 million) which was mainly due to fair value loss on financial assets and finance costs.

As at 31 March 2021, the net asset position of the Group amounted to approximately HK\$102.7 million (31 December 2020: HK\$111.6 million).

BUSINESS REVIEW

The Group's main businesses are: (i) property development (including property project management services) in the PRC; (ii) provision of financial services in Hong Kong (subsidiaries of the Company are licensed to carry out types 1, 2, 4, 9 regulated activities under the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong, and to provide money lending services under Money Lenders Ordinance, Cap. 163 of the law of Hong Kong); and (iii) the sale of face masks and related products.

The review of the principal business segments of the Group during the Period is as follows:

(a) Property development

During the Period, revenue attributed to the property development business was approximately HK\$6.4 million which was derived from the provision of project management services for property projects in the PRC. No revenue from sale of property was recognized.

The following table shows the Group's property development projects as at 31 March 2021:

Project	Location	Type	Status as of 31 March 2021	Total gross floor area (<i>Note</i>)
Phase 2 of Zhongjie Project	Cangzhou Zhongjie Industrial Park District	Residential property	The pre-sale certificate has been obtained in December 2020 and the first complex is expected to be completed by the end of 2021	Approximately 10,000 square meters
Huanghua Project	Huanghua New City	Commercial property	Under-planning	Approximately 100,000 square meters
Xiazhuzhuang Project	Wuqing Xiazhuzhuang Street	Industrial property	Under-planning	Approximately 50,000 square meters

Note: Total gross floor area is calculated based on the Group's development plans, which may be subject to change.

As disclosed in the circular of the Company dated 3 February 2021, the Group had entered into two engagement agreements in respect of provision of project management services (including but not limited to design, planning and construction) for a property project in Nanjing, the PRC, which were subsequently approved by its independent shareholders on 23 February 2021, and such engagements would generate total revenue of RMB62.4 million (equivalent to approximately HK\$73.1 million) from 2021 to 2025.

As the life cycle of each property development project involves long period before any revenues are recognized, whilst the preparatory and construction works are carried out, the Group continues to be engaged in provision of project management services for property projects in the PRC by actively sourcing new contracts to drive up higher revenue and operating profit. The Group has been in the final negotiation stage with an independent third party for being engaged to provide project management services for various projects in the PRC, and it is expected that the engagement contract with such independent third party will be effective in May 2021.

(b) Financial services

This segment covers a wide range of financial services including but not limited to investment advisory services, money lending and wealth management. During the Period, the Group had revenue of approximately HK\$450,000 (period ended 31 March 2020: approximately HK\$562,000) in this segment due to poor market sentiment attributable to COVID-19.

The Group carries out money lending business covering personal loans, tax loans, small business loans, specialised lending loans and debt consolidation loans. During the Period, the Group had revenue of approximately HK\$450,000 (period ended 31 March 2020: approximately HK\$562,000) in this business and the gross loan portfolio of the money lending business amounted to HK\$12.8 million as at 31 March 2021. The Group on the one hand adopted a more prudent approach under the unstable market sentiment attributable to COVID-19 by tightening its credit approval of new loan and loan refinancing applications, but on the other hand it strengthened its debt collection functions for minimizing credit risk.

The Board considered that the key risk exposures of the Group's businesses under this segment are market risk and credit risk. In addition, the Group did not take trade positions to minimize its exposure to price risk and foreign exchange risk.

(c) Sales of face masks and related products

The Group commenced its business in manufacturing and sales of face masks in the second quarter of 2020. During the Period, revenue from this segment amounted to approximately HK\$242,000 with a segment loss of approximately HK\$336,000 which was mainly due to depreciation expenses on production machinery and testing and accreditation fees.

INVESTMENT PORTFOLIO

The Group's investment portfolio consists of ordinary shares and redeemable convertible preference shares ("RCPSs") of South China Holdings Company Limited ("SCHC"), which are presented under financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income respectively.

Stock code	Name of security	Carrying value as at 31 March 2021 <i>HK\$'000</i>	Fair value gain (loss) during the Period <i>HK\$'000</i>
00413	SCHC		
	— Ordinary shares	36,786	(9,584)
	— RCPSs	73,778	1,877
		<u>110,564</u>	<u>(7,707)</u>

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 2021.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

During the Period, the Group had no significant exposure to fluctuations in foreign exchange rate or any related hedges.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 March 2021, the Group had no pledge of assets and contingent liabilities.

PROSPECTS

The Board believes it is the best interest of the Group to continue consolidating its existing financial services, expanding the scope of property development businesses by providing property project management services and diversifying into new businesses such as face mask production which is expected to produce steady income stream.

(a) Property development business

Zhongjie Project

The construction works of the first complex started in November 2020 subsequent to issuance of construction works commencement permit by the local authority in October 2020, and the main construction works are expected to be completed at about the end of 2021. Pre-sale of the residential premises of the first complex has been taken place since December 2020 and approximately 9% has been sold.

Huanghua Project

The planning works of phases 1 have started since October 2020 and the construction works are expected to be commenced in about the second half of 2021 subject to the completion of all necessary approvals by the governing authorities.

Xiazhuzhuang Project

The project has two development phases which consists of industrial complexes and ancillary offices. The planning work of phase one is expected to be commenced in the second half of 2021.

Property Project Management

The Group has been engaged in providing management services to two property development projects in the PRC.

(b) Financial services business

The Group has identified wealth management services e.g. funds, bonds and insurance, as an additional main business apart from brokerage. The Group has focused its investment in engagement of several teams of relevant and experienced personnel for achieving business targets.

The Group is striving to enhance its business scope in regulated activities under Securities and Futures Ordinance by having discussions with a prospective client for engagement of a wholly-owned subsidiary of the Company, and another wholly-owned subsidiary of the Company is in the process of applying an insurance broker company licence for general insurance for expansion of its wealth management business in insurance brokerage, and is in negotiation the cooperation terms with one of the international insurance brokerage companies for co-brokerage.

(c) Face mask business

Given the recent outbreak of variant of COVID-19, it is expected that the demand for face mask would sustain for a period, the Group keeps its product development and diversification for market penetration and development respectively.

Looking forward to 2021, the global market will continue being shadowed by economic, political and public health risks, including the US-Sino trade war and the pandemic that will cast impact on every business sector of the world, which in turn will affect the global economic growth. Despite the foregoing challenges, the Board believes that business opportunities are always available. The Group will be cautious in capital allocation in its businesses and in any other business sector which is expected to bring positive impact on the Group's profitability and cash flow, and in turn would be beneficial to its shareholders.

UPDATE ON THE LISTING STATUS

Reference is made to the announcements of the Company dated 3 April 2020, 15 April 2020, 24 September 2020, 29 September 2020, 27 January 2021, 29 January 2021 and 27 April 2021.

On 27 January 2021, the Company received a letter from the GEM Listing Review Committee that they had decided to uphold the decision made by the GEM Listing Committee to suspend trading in the Company's shares (the "Shares") under GEM Listing Rule 9.04 on the ground that the Company had failed to comply with GEM Listing Rule 17.26. At the request of the Company, trading in the Shares has been suspended with effect on 28 January 2021 and will continue to be suspended until further notice.

On 28 January 2021, the Company received a letter from The Stock Exchange of Hong Kong Limited (the "Stock Exchange") setting out the resumption guidance for the resumption of trading in the Shares to demonstrate that the Company is in compliance with GEM Listing Rule 17.26.

On 27 April 2021, the Company provided an update on the development of the Group in respect of resumption of trading of the Shares.

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 2021.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the Shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 28 January 2021 and will continue to be suspended until further notice. Further announcement(s) in respect of the progress of resumption of trading of the Shares will be made by the Company as and when appropriate and in accordance with the requirements of the GEM Listing Rules.

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, 11 May 2021

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.