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 2016

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 2016 together with the relevant comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2016	2015
		Unaudited	Unaudited and Restated
	Note	**HK$'000**	HK$'000
Revenue	*2*	**1,212,588**	1,243,852
Cost of sales		**(973,317)**	(1,038,693)
Gross profit		**239,271**	205,159
Other income and gains, net		**27,381**	22,748
Fair value gain on investment properties inclusive of investment properties presented as non-current assets classified as held for sale		**96,224**	227,013
Fair value gain on financial assets at fair value through profit or loss		**9,861**	34,455
Fair value loss on foreign exchange forward contracts		**(55)**	(500)
Selling and distribution expenses		**(25,754)**	(28,256)
Administrative expenses		**(239,246)**	(228,754)
Equity-settled share award expense		**(5,502)**	(2,444)
Profit from operations	*2&3*	**102,180**	229,421

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

		Six months ended 30 June	
		2016	2015
		Unaudited	Unaudited and Restated
	Note	**HK$'000**	HK$'000
Finance costs		**(58,992)**	(62,272)
Share of profits and losses of associates		**372**	18,292
Impairment of advances to an associate		**-**	(1)
Profit before tax		**43,560**	185,440
Income tax	*4*	**(17,991)**	(29,747)
Profit for the period		**25,569**	155,693
Attributable to:			
Equity shareholders of the Company		**25,448**	152,741
Non-controlling interests		**121**	2,952
		25,569	155,693
Earnings per share	*6*		
Basic		**HK0.4 cents**	HK2.6 cents
Diluted		**HK0.2 cents**	HK1.6 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2016	2015
	Unaudited	Unaudited and Restated
	HK$'000	HK$'000
Profit for the period	**25,569**	155,693
Other comprehensive income:		
Items that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale financial assets:		
Changes in fair value	**(919)**	-
	(919)	-
Exchange differences on translation of operations outside Hong Kong	**(104,006)**	(6,285)
Share of other comprehensive income of associates	**(241)**	(21)
Other comprehensive income for the period	**(105,166)**	(6,306)
Total comprehensive income for the period	**(79,597)**	149,387
Attributable to:		
Equity shareholders of the Company	**(69,023)**	147,309
Non-controlling interests	**(10,574)**	2,078
	(79,597)	149,387

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 30 June 2016 Unaudited HK$'000**	As at 31 December 2015 Audited HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**199,401**	198,941
Investment properties		**6,567,202**	6,598,018
Prepaid land lease payments		**86,429**	85,814
Construction in progress		**128,901**	127,907
Investments in associates		**16,116**	15,985
Bearer plants		**86,364**	89,981
Available-for-sale financial assets		**73,105**	74,018
Prepayments and deposits		**18,897**	18,623
Goodwill		**3,060**	3,041
Other non-current assets		**15,638**	15,638
Total non-current assets		**7,195,113**	7,227,966
CURRENT ASSETS			
Inventories		**552,647**	341,995
Properties under development		**1,043,164**	1,044,074
Trade receivables	*7*	**428,742**	380,506
Prepayments, deposits and other receivables		**835,322**	802,163
Financial assets at fair value through profit or loss		**60,350**	50,476
Amounts due from non-controlling shareholders of subsidiaries		**54,663**	56,650
Amounts due from affiliates		**75,500**	104,277
Tax recoverable		**48,613**	41,690
Cash and bank balances		**315,289**	486,422
		3,414,290	3,308,253
Non-current assets classified as held for sale		**930,000**	904,000
Total current assets		**4,344,290**	4,212,253
CURRENT LIABILITIES			
Trade payables	*8*	**528,373**	346,840
Other payables and accruals		**546,605**	594,004
Interest-bearing bank borrowings		**2,277,260**	1,959,204
Foreign exchange forward contracts		**-**	55,714
Amounts due to non-controlling shareholders of subsidiaries		**1,661**	932
Tax payable		**49,851**	51,744
Total current liabilities		**3,403,750**	3,008,438
NET CURRENT ASSETS		**940,540**	1,203,815
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,135,653**	8,431,781

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Note	As at 30 June 2016 Unaudited HK$'000	As at 31 December 2015 Audited HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**1,561,723**	1,740,880
Advances from non-controlling shareholders of subsidiaries		**7,941**	7,941
Other non-current liabilities		**72,523**	74,458
Deferred tax liabilities		**827,523**	832,001
Total non-current liabilities		**2,469,710**	2,655,280
NET ASSETS		**5,665,943**	5,776,501
CAPITAL AND RESERVES			
Share capital	*9*	**113,201**	114,488
Reserves		**5,206,049**	5,304,746
Total equity attributable to equity shareholders of the Company		**5,319,250**	5,419,234
Non-controlling interests		**346,693**	357,267
TOTAL EQUITY		**5,665,943**	5,776,501

Note:

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 2015 except that the Group has adopted the new and revised Hong Kong Financial Reporting Standards, which are effective for the annual period beginning on 1 January 2016, as disclosed in the annual financial statements for the year ended 31 December 2015. The adoption of these new and revised Hong Kong Financial Reporting Standards 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 2015 annual financial statements of the Group.

1.1 Changes in accounting policies

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, 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 2016. Such HKFRSs have become effective for the annual periods beginning on or after 1 January 2016, and include:

Annual Improvements to HKFRSs 2012 - 2014 *Cycle*
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*
Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*
Amendments to HKAS 1, *Disclosure initiative*
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*

The adoption of the above new and revised HKFRSs has had 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.

1.2 Amendments to HKAS 16 and HKAS 41, *Agriculture: Bearer Plants*

Under the Amendments to HKAS 16 and HKAS 41, bearer plants, being living plants which are used in the production or supply of agricultural produce, and which have a remote likelihood of being sold as agricultural produce (except for incremental scrap sales), are now in the scope of HKAS 16, *Property, plant and equipment* instead of HKAS 41, *Agriculture*. As a result of such Amendments, the Group changed its accounting policy in 2015 for bearer plants, which are now measured at cost less accumulated depreciation and impairment losses. The produce growing on bearer plants continue to be accounted for under HKAS 41 and are measured at fair value less costs to sell.

1.2 Amendments to HKAS 16 and HKAS 41, *Agriculture: Bearer Plants* (Continued)

Effect of the adoption of the Amendments to the condensed consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2015:

	As previously reported HK$'000	*Effect of the adoption of the Amendments to HKAS 16 and HKAS 41* HK$'000	*As restated* HK$'000
Fair value loss on biological assets	(20,287)	20,287	-
Administrative expenses	(212,669)	(16,085)	(228,754)
Profit for the period	151,491	4,202	155,693
Profit attributable to equity shareholders of the Company	148,539	4,202	152,741
Other comprehensive income:			
Exchange differences on translation of operations outside Hong Kong	(6,309)	24	(6,285)
Total comprehensive income attributable to equity shareholders of the Company	143,083	4,226	147,309
Earnings per share - Basic	HK 2.5 cents	HK 0.1 cents	HK 2.6 cents

2. Revenue and segmental information

An analysis of the Group's consolidated revenue and contribution to profit from operations by principal activity and geographical location for the six months ended 30 June 2016 and 2015 is as follows:

	Trading and manufacturing		*Property investment and development*		*Agriculture and forestry*		*Investment holding*		*Group*	
	2016	*2015*	***2016***	*2015*	***2016***	*2015*	***2016***	*2015*	***2016***	*2015*
Segment revenue	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
External sales	**1,112,072**	1,148,352	**92,364**	88,599	**8,152**	6,901	-	-	**1,212,588**	1,243,852
Segment results	**63,069**	20,104	**123,282**	278,267	**(29,977)**	(34,780)	**(54,194)**	(34,170)	**102,180**	229,421
Reconciliation:										
– Share of profits and losses of associates	**372**	292	-	18,000	-	-	-	-	**372**	18,292
– Impairment of advances to an associate	-	(1)	-	-	-	-	-	-	-	(1)
– Finance costs									**(58,992)**	(62,272)
Profit before tax									**43,560**	185,440

By geographical location#:

	Revenue Six months ended 30 June		**Contribution to profit from operations Six months ended 30 June**	
	2016 Unaudited	2015 Unaudited	**2016 Unaudited**	2015 Unaudited and Restated
	HK$'000	HK$'000	**HK$'000**	HK$'000
The People's Republic of China (the "PRC") including Hong Kong and Macau	**186,458**	180,428	**55,337**	215,488
United States of America	**585,646**	602,420	**24,188**	2,274
Europe	**193,764**	210,230	**10,155**	4,781
Japan	**15,506**	8,914	**841**	309
Others	**231,214**	241,860	**11,659**	6,569
	1,212,588	1,243,852	**102,180**	229,421

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 2016 amounted to approximately HK$24,207,000 (six months ended 30 June 2015 (restated): HK$24,338,000) and HK$23,019,000 (six months ended 30 June 2015 (restated): HK$24,169,000), 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 2015: 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 2016 (six months ended 30 June 2015: 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$25,448,000 (six months ended 30 June 2015 (restated): approximately HK$152,741,000) and the weighted average numbers of ordinary shares used in the calculation are as follows:

	2016	2015
	Unaudited	Unaudited and Restated
Earnings	**HK$'000**	HK$'000
Profit attributable to equity shareholders of the Company used in basic and diluted earnings per share calculation	**25,448**	152,741

	2016	2015
	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	**5,904,074**	5,897,754
Effect of redeemable convertible preference shares	**5,338,929**	3,420,702
Effect of shares held for the share award scheme	**73,200**	79,520
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**11,316,203**	9,397,976

The Company's share options have no dilution effect for the six months ended 30 June in both 2016 and 2015 as the exercise price of the Company's share option was higher than the average market price of the shares in both periods.

7. Trade receivables

Trade receivables of approximately HK$428,742,000 as at 30 June 2016 (as at 31 December 2015: HK$380,506,000), 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.

8. Trade payables

Trade payables of approximately HK$528,373,000 as at 30 June 2016 (as at 31 December 2015: HK$346,840,000) are substantially with an age within six months.

9. Share capital

	30 June 2016 Unaudited HK$'000	31 December 2015 Audited HK$'000
Authorised :		
12,000,000,000 ordinary shares of HK$0.01 each	**120,000**	120,000
3,000,000,000 redeemable convertible preference shares of HK$0.02 each	**60,000**	60,000
Total authorised capital	**180,000**	180,000
Issued and fully paid :		
5,977,273,726 ordinary shares of HK$0.01 each	**59,773**	59,773
2,671,442,127 redeemable convertible preference shares (as at 31 December 2015: 2,735,802,127 shares) of HK$0.02 each	**53,428**	54,715
Total issued and fully paid capital	**113,201**	114,488

9. Share capital (Continued)

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.

As published in the joint announcement of the Company and South China Assets Holdings Limited ("SCAH") dated 29 July 2016 (the "Joint Announcement"), the Board of SCAH resolved to declare a special dividend by distribution of the Distribution CPS currently held by Crystal Hub, a wholly-owned subsidiary of SCAH, to the Qualifying Shareholders in species. Such distribution is subject to certain conditions as disclosed in the Joint Announcement. Unless otherwise defined herein, the capitalized terms used shall have the same meanings as those defined in the Joint Announcement.

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 2016	**59,773**	**54,715**	**1,799,633**	**1,914,121**
64,360,000 redeemable convertible preference shares redeemed during the period	**-**	**(1,287)**	**(35,398)**	**(36,685)**
At 30 June 2016	**59,773**	**53,428**	**1,764,235**	**1,877,436**
At 1 January 2015	59,773	35,882	1,042,019	1,137,674
100,440,000 redeemable convertible preference shares redeemed during the period	-	(2,009)	(55,242)	(57,251)
At 30 June 2015	59,773	33,873	986,777	1,080,423

9. Share capital (Continued)

Movement of number of issued shares are as follows:

	No. of issued ordinary shares	***No. of issued redeemable convertible preference shares***
	'000	**'000**
At 1 January 2016	**5,977,274**	**2,735,802**
Redeemed during the period	**-**	**(64,360)**
At 30 June 2016	**5,977,274**	**2,671,442**
At 1 January 2015	2,988,637	1,794,119
Redeemed during the period	-	(100,440)
At 30 June 2015	2,988,637	1,693,679

10. Comparative Amounts

As explained in note 1.2, due to the adoption of the Amendments to HKAS 16 and HKAS 41, *Agriculture: Bearer Plants* in 2015, certain comparative amounts in 2015 condensed consolidated statement of profit or loss have been restated to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded revenue of HK$1.21 billion (2015: HK$1.24 billion) and profit after tax of HK$25.6 million (2015 (restated): HK$155.7 million), both being the financial key performance indicators, for the six months ended 30 June 2016, representing a 2.5% decrease and a 83.6% decrease from the corresponding amounts represented in 2015. Earnings per share attributable to equity holders of the Company for the period was HK0.4 cents (2015 (restated): HK2.6 cents).

BUSINESS REVIEW

The principal businesses of the Group include trading and manufacturing, property investment and development and 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 slight decrease in revenue to HK$1.11 billion (2015: HK$1.15 billion) but a 213.7% increase in operating profit to HK$63.1 million (2015: HK$20.1 million) for the period ended 30 June 2016.

(i) OEM toys manufacturing

Despite a tepid 2.7% increase in US retail sales in 2016, the US toy industry experienced a 7% growth in the first half of 2016 compared to last year's mid-year annual growth, with the category of "Action Figures and Dolls" showing the greatest percentage increase as compared to the corresponding period in last year. Although "Action Figures and Dolls" are not in our major sales categories, the OEM toys operations achieved a revenue of HK$1,003.3 million, a 6.7% increase in revenue. The growth in revenue was mainly attributable to the increase in sales from existing customers and continuous improvement of production flow management. Two of our customers' products received "Top Summer Toys of the Year 2016" recognition in different categories from the Toys Insider website.

Despite the massive production volume, the Group managed to provide 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 modifications and technological solutions.

Management foresees an increasing gap between the future demand and current capacity, therefore we are currently optimizing our current production capability and capacity with rapidly expanding new productions in more factory locations. Furthermore, the Company committed to focus on the upgrading of manufacturing machines and equipment for the purpose of automation and energy saving for capturing future growth in business.

(ii) Trading of footwear products

During the period ended 30 June 2016, revenue from the footwear trading operations decreased by 51.3% to HK$86.2 million. The decrease in revenue was mainly attributable to decrease in sales volume from customers. Overall profit from operations decreased to HK$3.23 million as compared to that of 2015.

Property Investment and Development

During the period ended 30 June 2016, the revenue of the property investment and development segment increased by 4.2% to HK$92.4 million. The operating profit however decreased by 55.7% to HK$123.2 million in the current period and was mainly attributable to the combined effect of (a) the increase in rental income by HK$3.8 million, (b) offset by an increase in operating expense by HK$7.3 million from the acquisition of the Dadong and Wuqing project in late 2015, and (c) a decrease in fair value gain on investment properties by HK$131.0 million.

The increase in rental income in the current period was mainly attributable to rental contribution from the Avenue of Stars, the shopping mall in Shenyang after the completion of major renovation work last year. The property has successfully become a fur themed shopping mall with most major fur brands having opened flagship duplex stores. It is envisioned that with further promotion and marketing that the Avenue of Stars may become the fur mall of Northern China. Our rental portfolios in Tianjin also reported an increase in rental income. The growth came primarily from the commercialisation of our Tianjin industrial property. Income derived from our Nanjing portfolio remained stable during the period.

In addition to our existing rental portfolios in Nanjing, Shenyang and Tianjin, we extended upstream into our first foray of property development on the mainland. By virtue of an acquisition procedure that started in 2014, and its subsequent completion in October 2015, we have had the privilege to take part in the management of a large scale project in Shenyang that has already been in development for the past few years. The project, located on the very eastern part of the most robust pedestrian street of the Northest known as Zhongjie (中街) of Dadong district, is named as the Central Square. The project involves a total GFA of over 500,000 square metres and is a mixed use development project. 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, is now in its development stage and pre-sale is planned to be launched by end of 2016.

Agriculture and Forestry

As stated in note 1.2 to the Group's financial information, during the year ended 31 December 2015, the Group early adopted the Amendments to HKAS 16 and HKAS 41 where bearer plants, being living plants which are used in the production or supply of agricultural produce, and which have a remote likelihood of being sold as agricultural produce (except for incremental scrap sales), are now in the scope of HKAS 16 *Property, plant and equipment* instead of HKAS 41 *Agriculture*. As a result, the Group has changed the accounting policy for bearer plants, which are now measured at cost less accumulated depreciation and impairment losses. The produce growing on bearer plants continue to be accounted for under HKAS 41 and are measured at fair value less costs to sell.

The financial effect on the early adoption of the above amendments to the accounting standards resulted in an increase in profit by HK$4.2 million for the period ended 30 June 2015.

Revenue from the agriculture and forestry segment increased by 18.1% to HK$8.2 million in 2016 as compared with the corresponding period in 2015. Operating loss decreased by HK$4.8 million from HK$34.8 million as restated in 2015 to HK$30.0 million in 2016, which was mainly due to improvement of our livestock business and cost saving measures.

The bearer plants balance decreased by 4.0% from HK$90.0 million in 2015 to HK$86.4 million in 2016. In terms of Renminbi, the functional currency of the relevant subsidiaries, the bearer plants balance decreased by about 1.9%. The decrease in bearer plants balance was primarily due to HK$2.3 million depreciation provided during the period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, the Group had a current ratio of 1.3 and a gearing ratio of 27.6% (31 December 2015: 1.4 and 30.1%, respectively). The gearing ratio is computed by comparing the Group's long-term bank borrowings of HK$1.6 billion to the Group's equity of HK$5.7 billion. The Group's operations and investments continued to be financed by internal resources and bank borrowings.

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

In view of the gradual economic recovery in the United States and the strengthening of the consumer market, management holds a positive view for the industry. The toy industry is expected to once again record a positive growth on the back of increasing sales from high-tech toys which we believe will be the key driver to the toy industry in the coming years.

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 meet the increasingly complicated requirements of the high-tech toys from our clients. Management will seek to setup research departments and collaborations with various academic institutions with China to further increase its competitiveness and expertise in this field.

The Group is looking to increase its production capacity in various locations in order to fulfill market demand over toys market growth. New plants are under establishment in the first half year of 2016 and is expected to kick start production in the second half of 2016.

Property Investment and Development

The completion of the acquisition of our property development arm last year was a healthy consolidation as well as a cost efficient streamlining of our PRC property portfolios. Not only does it bring relevant property development management expertise to our existing land banks in the prime locations of Nanjing and Tianjin, but it also gives us the opportunity to retain high value retail assets from our future property development endeavours.

The construction work of the first phase of the Central Square in the Southern part of our Dadong site in Shenyang is underway, and pre-sale is expected to be launched by end of 2016. With its prime location situated in the Zhongjie pedestrian commercial zone, a prime shopping area in Shenyang with a mix of trendy boutiques, department stores, shopping malls and hotels, management is cautiously optimistic on the short term contributions from the project in light of recent relaxation of residential policies in the second tier cities of China and the various supporting tax and deduction of government fee policies.

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 still in the planning stage. 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 which was acquired last year provides us with a potential site area of over 200,000 square metres, with approximately 88,000 square metres have paid the land premium and the project is currently under the planning stage. In light of the recent 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) recently 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. The addition of the new property development team and track record will be a major contribution for us to fully benefit from successful future conversions.

Property Investments

The Group has a property investment portfolio with total floor area of approximately 560,000 square metres in Mainland China and 298,000 square feet in Hong Kong. The investment properties in China are mostly in prime locations in Nanjing, Shenyang and Tianjin.

With the management team effort, the occupancy rates of the Avenue of Stars have improved and management team will continue to increase the pedestrian flow so as to further increase its rental contribution in the future.

Nanjing rental portfolio is expected to remain stable, and further upside in Tianjin portfolio is expected as we implement our commercialization strategy across our portfolio in the near future.

Meanwhile, the Group will actively consider offloading non-core investment properties in Hong Kong and the PRC in order to reallocate resources to more promising investment properties or land banks.

Agriculture and Forestry

The Group currently has long-term leases of over 540,000 mu 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, 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 UNCERTAINTIES

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 the Mainland China 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.

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 2016 (six months ended 30 June 2015: 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 2016.

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 2016 except that Mr. Ng Hung Sang, the Chairman and an Executive Director of the Company, was unable to attend the annual general meeting of the Company held on 7 June 2016 since he had other business engagements, which deviated from code provision E.1.2.

Ms. Chan Sau Mui Juanna resigned as the company secretary of the Company with effect from 8 January 2016. Since then, the Company no longer complied with the requirement under Rule 3.28 of the Listing Rules and, hence, the relevant code provisions in respect of company secretary. The Company is in the process of identifying a suitable candidate to fill the vacancy in the office of company secretary.

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 Ms. Li Yuen Yu Alice (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 2016 have been reviewed by the Audit Committee.

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, 30 August 2016

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, Mr. Ng Yuk Fung Peter, Mr. Ng Yuk Yeung Paul and Mr. Law Albert Yu Kwan as executive directors; (2) Ms. Ng Yuk Mui Jessica and Mr. David Michael Norman as non-executive directors; and (3) Mr. Chiu Sin Chun, Sr Dr. Leung Tony Ka Tung, Ms. Li Yuen Yu Alice, Mrs. Tse Wong Siu Yin Elizabeth and Mr. Yip Dicky Peter, J.P. as independent non-executive directors.