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## **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 2021**

#### **UNAUDITED INTERIM RESULTS**

The board of directors (the “Board” or the “Directors”) of South China Holdings Company Limited (the “Company”) hereby announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2021 together with the relevant comparative figures as follows:

#### **CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>2021</b>	<b>2020</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Revenue</b>	2	<b>1,738,006</b>	1,556,119
Cost of sales		<b>(1,548,531)</b>	(1,393,905)
Gross profit		<b>189,475</b>	162,214
Other income and gains, net		<b>40,664</b>	16,872
Fair value (loss)/gain on investment properties inclusive of investment properties presented as non-current assets classified as held for sale		<b>(453)</b>	1,873
Selling and distribution expenses		<b>(31,289)</b>	(37,241)
Administrative expenses		<b>(222,181)</b>	(182,871)
<b>Loss from operations</b>	2&3	<b>(23,784)</b>	(39,153)

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>2021</b> <b>(Unaudited)</b> <i>HK\$'000</i>	<b>2020</b> <b>(Unaudited)</b> <i>HK\$'000</i>
Finance costs	4	<b>(82,678)</b>	(102,350)
Share of profits/(losses) of associates		<b>1</b>	(134)
Share of losses of joint ventures		<b>(4)</b>	(22)
<b>Loss before tax</b>		<b>(106,465)</b>	(141,659)
Income tax	5	<b>(2,751)</b>	(4,890)
<b>Loss for the period</b>		<b>(109,216)</b>	(146,549)
Attributable to:			
Equity shareholders of the Company		<b>(108,279)</b>	(145,156)
Non-controlling interests		<b>(937)</b>	(1,393)
		<b>(109,216)</b>	(146,549)
<b>Loss per share</b>	7		
<b>Basic</b>		<b>HK(0.8) cents</b>	HK(1.1) cents
<b>Diluted</b>		<b>HK(0.8) cents</b>	HK(1.1) cents

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<b>(Unaudited)</b>	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Loss for the period</b>	<b>(109,216)</b>	(146,549)
<b>Other comprehensive income:</b>		
Item that will not be reclassified to profit or loss:		
Surplus on revaluation of property, plant and equipment and construction in progress upon transfer to investment properties	<b>4,640</b>	–
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside Hong Kong	<b>53,414</b>	(87,086)
<b>Total comprehensive income for the period</b>	<b>(51,162)</b>	(233,635)
Attributable to:		
Equity shareholders of the Company	<b>(54,046)</b>	(225,151)
Non-controlling interests	<b>2,884</b>	(8,484)
	<b>(51,162)</b>	(233,635)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2021 (Unaudited) <i>HK\$'000</i>	As at 31 December 2020 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	672,808	654,276
Investment properties	8	10,218,080	9,975,013
Construction in progress	8	175	159,463
Investments in associates		990	989
Investments in joint ventures		19	74
Bearer plants		30,138	30,821
Other non-current assets		135,700	143,053
<b>Total non-current assets</b>		<b>11,057,910</b>	10,963,689
<b>CURRENT ASSETS</b>			
Inventories		1,749,983	1,339,113
Properties under development		245,526	233,895
Trade receivables	9	521,637	629,276
Prepayments, deposits and other receivables		1,099,120	1,067,459
Financial assets measured at fair value through profit or loss		6,816	5,846
Amounts due from associates		7,063	6,773
Amounts due from related parties		16,664	22,970
Tax recoverables		1,449	871
Cash and bank balances		587,302	591,361
<b>Total current assets</b>		<b>4,235,560</b>	3,897,564
<b>CURRENT LIABILITIES</b>			
Trade payables	10	1,003,608	958,358
Other payables and accruals		649,814	634,432
Interest-bearing bank borrowings		2,022,521	1,969,832
Lease liabilities		73,889	69,722
Amounts due to non-controlling shareholders of subsidiaries		10,600	10,314
Tax payables		98,252	100,999
<b>Total current liabilities</b>		<b>3,858,684</b>	3,743,657
<b>NET CURRENT ASSETS</b>		<b>376,876</b>	153,907
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>11,434,786</b>	11,117,596

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	<i>Notes</i>	As at <b>30 June 2021</b> (Unaudited) <i>HK\$'000</i>	As at 31 December 2020 (Audited) <i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		2,558,854	2,262,811
Lease liabilities		410,597	379,411
Amounts due to non-controlling shareholders of subsidiaries		7,941	7,941
Amounts due to related parties		596,125	557,639
Other non-current liabilities		62,636	67,028
Deferred tax liabilities		1,167,295	1,159,266
<b>Total non-current liabilities</b>		<b>4,803,448</b>	4,434,096
<b>NET ASSETS</b>		<b>6,631,338</b>	6,683,500
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>11</i>	134,535	134,560
Reserves		6,166,168	6,221,189
Total equity attributable to equity shareholders of the Company		6,300,703	6,355,749
Non-controlling interests		330,635	327,751
<b>TOTAL EQUITY</b>		<b>6,631,338</b>	6,683,500

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (“interim financial statements”) have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They were authorised for issue on 24 August 2021.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out below.

These interim financial statements should be read, where relevant, in conjunction with the 2020 annual financial statements of the Group.

#### **New/revised HKFRSs and amendments to HKFRSs**

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective or available for early adoption for the current accounting period of the Group. The Group has applied the following amendments to HKFRSs issued by the HKICPA to these interim financial statements for the current accounting period:

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

#### **Amendment to HKFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021***

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The Group has early adopted the 2021 amendment in this financial year. With the extended time limit, certain rent concessions that were previously ineligible for the practical expedient because of the original time limit, become eligible. Accordingly, these rent concessions, which were previously accounted for as lease modifications, are now accounted for as negative variable lease payments, and are recognised in profit or loss in the period in which the event or condition that triggers those payments. There is no material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in these interim financial statements.

#### **Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2***

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“IBOR reform”). The amendments do not have an impact on these interim financial statements as the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.

## 2. REVENUE AND SEGMENTAL INFORMATION

An analysis of the Group's consolidated revenue and contribution to loss from operations by principal activity and geographical location for the six months ended 30 June 2021 and 2020 is as follows:

	Trading and manufacturing		Property investment and development		Agriculture and forestry		Others		Group	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
<b>Segment revenue</b>										
External sales	<u>1,551,503</u>	<u>930,897</u>	<u>186,089</u>	<u>618,059</u>	<u>414</u>	<u>7,163</u>	<u>-</u>	<u>-</u>	<u>1,738,006</u>	<u>1,556,119</u>
<b>Segment results</b>	(34,426)	(43,640)	65,975	58,438	(17,285)	(11,994)	(38,048)	(41,957)	(23,784)	(39,153)
Reconciliation:										
— Share of profits/(losses) of associates	1	(134)	-	-	-	-	-	-	1	(134)
— Share of losses of joint ventures	-	-	-	-	-	-	(4)	(22)	(4)	(22)
— Finance costs									(82,678)	(102,350)
<b>Loss before tax</b>									<u>(106,465)</u>	<u>(141,659)</u>

By geographical location<sup>#</sup>:

	Revenue		Contribution to loss from operations	
	Six months ended 30 June 2021 (Unaudited) HK\$'000	Six months ended 30 June 2020 (Unaudited) HK\$'000	Six months ended 30 June 2021 (Unaudited) HK\$'000	Six months ended 30 June 2020 (Unaudited) HK\$'000
The People's Republic of China ("PRC") including Hong Kong and Macau	291,842	691,368	8,773	10,230
United States of America ("USA")	966,913	498,414	(21,065)	(28,999)
Europe	341,589	237,800	(8,320)	(13,098)
Japan	2,537	8,318	(63)	(454)
Others	135,125	120,219	(3,109)	(6,832)
	<u>1,738,006</u>	<u>1,556,119</u>	<u>(23,784)</u>	<u>(39,153)</u>

<sup>#</sup> Revenue by geographical location is determined on the basis of the location where merchandise is delivered and/or service is rendered.

### 3. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	1,456,512	913,779
Cost of completed properties sold	55,517	476,236
	<u>1,512,029</u>	<u>1,390,015</u>
Depreciation:		
— owned property, plant and equipment	25,119	23,792
— bearer plant	1,031	1,090
— right-of-use assets	41,174	45,747
	<u>67,324</u>	<u>70,629</u>

### 4. FINANCE COSTS

An analysis of finance cost is as follows:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other borrowings	70,121	96,353
Interest on lease liabilities	14,520	12,554
Less: Amount capitalised	(1,963)	(6,557)
	<u>82,678</u>	<u>102,350</u>

### 5. INCOME TAX

Income tax comprises current tax and deferred tax.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2020: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong. PRC Corporate Income Tax has been provided at the rate of 25% (six months ended 30 June 2020: 25%) on estimated assessable profits arising in the PRC. 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 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.

### 6. INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

## 7. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of approximately HK\$108,279,000 (six months ended 30 June 2020: HK\$145,156,000) and the weighted average numbers of ordinary shares used in the calculation are as follows:

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<u>Loss</u>		
Loss attributable to equity shareholders of the Company used in basic and diluted earnings per share calculation	<u><b>(108,279)</b></u>	<u><b>(145,156)</b></u>
	<b>Number of shares</b>	
	<b>2021</b>	<b>2020</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>'000</b>	<b>'000</b>
<u>Shares</u>		
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	<b>12,982,892</b>	12,982,892
Effect of redeemable convertible preference shares	<b>234,287</b>	754,904
Effect of shares held for the share award scheme	<b>206,161</b>	206,161
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<u><b>13,423,340</b></u>	<u><b>13,943,957</b></u>

The Company's share options have no dilution effect for the six months ended 30 June 2021 and 2020 as the exercise prices of the Company's share options were higher than the average market price of the shares in both periods.

Diluted loss per share equals to basic loss per share for the six months ended 30 June 2021 because the potential ordinary shares outstanding were anti-dilutive.

## 8. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND CONSTRUCTION IN PROGRESS

During the six months ended 30 June 2021, certain properties of the Group with an aggregated value of approximately HK\$161,627,000 and HK\$14,804,000 have been transferred from construction in progress and property, plant and equipment respectively to investment properties.

## 9. TRADE RECEIVABLES

Trade receivables of approximately HK\$521,637,000 as at 30 June 2021 (as at 31 December 2020: HK\$629,276,000), substantially aged within six months, are stated net of loss allowance.

Specific loss allowance 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.

## 10. TRADE PAYABLES

Trade payables of approximately HK\$1,003,608,000 as at 30 June 2021 (as at 31 December 2020: HK\$958,358,000) are substantially aged within six months.

## 11. SHARE CAPITAL

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.01 each	200,000	200,000
3,000,000,000 redeemable convertible preference shares of HK\$0.02 each ( <i>Note</i> )	<u>60,000</u>	<u>60,000</u>
Total authorised capital	<u>260,000</u>	<u>260,000</u>
Issued and fully paid:		
13,221,302,172 (2020: 13,221,302,172) ordinary shares of HK\$0.01 each	132,213	132,213
116,100,631 (2020: 117,350,631) redeemable convertible preference shares of HK\$0.02 each	<u>2,322</u>	<u>2,347</u>
Total issued and fully paid capital	<u>134,535</u>	<u>134,560</u>

*Note:* 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 are entitled to a pro-rata share of any 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 do 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 belong to and shall be distributed on a pari passu basis among the holders of the ordinary shares.

Movements of issued share capital and share premium 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 2021	132,213	2,347	1,487,930	1,622,490
1,250,000 redeemable convertible preference shares redeemed during the period	<u>–</u>	<u>(25)</u>	<u>(975)</u>	<u>(1,000)</u>
At 30 June 2021	<u>132,213</u>	<u>2,322</u>	<u>1,486,955</u>	<u>1,621,490</u>

## 11. SHARE CAPITAL (Continued)

	Issued ordinary shares (Unaudited) <i>HK\$'000</i>	Issued redeemable convertible preference shares (Unaudited) <i>HK\$'000</i>	Share premium (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 January 2020	132,213	7,576	1,691,871	1,831,660
8,962,500 redeemable convertible preference shares redeemed during the period	—	(179)	(6,991)	(7,170)
At 30 June 2020	<u>132,213</u>	<u>7,397</u>	<u>1,684,880</u>	<u>1,824,490</u>

Movement of number of issued shares are as follows:

	Number of issued ordinary shares (Unaudited) <i>'000</i>	Number of issued redeemable convertible preference shares (Unaudited) <i>'000</i>
At 1 January 2021	13,221,302	117,351
Redeemed during the period	—	(1,250)
At 30 June 2021	<u>13,221,302</u>	<u>116,101</u>
	Number of issued ordinary shares (Unaudited) <i>'000</i>	Number of issued redeemable convertible preference shares (Unaudited) <i>'000</i>
At 1 January 2020	13,221,302	378,813
Redeemed during the period	—	(8,962)
At 30 June 2020	<u>13,221,302</u>	<u>369,851</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded a revenue of approximately HK\$1,738 million (2020: approximately HK\$1,556 million) for the six months ended 30 June 2021 (the “Period”), representing a 12% increase as compared to the corresponding period in 2020. Loss after tax was approximately HK\$109.2 million for the Period, as compared to HK\$146.5 million for the corresponding period in 2020. The improvement in revenue and operating results was mainly a result of the gradual recovery of business performance from the impact of COVID-19 pandemic. The overall financial, business and trading positions of the Group remain healthy.

Loss per share attributable to equity holders of the Company for the Period was HK0.8 cents (2020: loss per share of HK1.1 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, (ii) trading of footwear products and (iii) sales of branded ball products. The segment recorded a 67% increase in revenue to approximately HK\$1,552 million (2020: approximately HK\$931 million) and an operating loss of approximately HK\$34.4 million for the Period, as compared to approximately HK\$43.6 million for the corresponding period in 2020.

##### *(i) OEM toys manufacturing*

The OEM toys operation generated revenue of approximately HK\$1,470 million (2020: approximately HK\$874 million) for the Period, representing a 68% increase as compared to the corresponding period in 2020.

Since COVID-19 pandemic gravely affected the world economy in early 2020, the unemployment rate in the USA was recorded at a lower rate of approximately 5.4% in July 2021 subsequent to the massive vaccination. Economies and market consumption in the USA and other countries have gradually improved and toy orders from key customers of the Group in the USA and other countries have been reinforced.

During the Period, the impact of COVID-19 pandemic on both the production costs (including labour and material costs) and logistics costs was significant. Moreover, appreciation of Renminbi (“RMB”) (compared to the same period last year), labour shortage problem, high raw material costs and shortage of shipping containers further escalated the impact on the production costs. Therefore, the Group experienced a great challenge of cost control.

On the one hand, the Group was facing high production and logistics costs, but on the other hand, competitors would be locked out if they fail to monitor the struggling market conditions effectively and efficiently, which in turn would lead the Group to secure its market leading position and strengthen its bargaining power with customers for securing its operating profits.

***(ii) Trading of footwear products***

During the Period, revenue from the footwear trading operation increased by 39% to approximately HK\$68.2 million (2020: approximately HK\$48.9 million), mainly due to effective management in gaining competitive edge by achieving effective cost control and diversification of production in such countries as Vietnam, Cambodia and Bangladesh apart from Mainland China, which in turn led this segment to achieve new orders under the challenges attributed by COVID-19 pandemic and Sino-US trade war. The overall operating results of this segment were stable, but it could be further improved in the second half of 2021.

***(iii) Sales of branded ball products***

During the Period, revenue from sales of the branded ball products increased by 106% to approximately HK\$10.3 million (2020: approximately HK\$5.0 million), mainly due to gradual recovery of sports events from the impacts of COVID-19 pandemic. The Group owns a local brand of “LeeSheng” (利生) in Mainland China, covering a wide range of ball products, e.g. football, basketball, volleyball and etc., and this year is LeeSheng’s 100th anniversary. Given the Mainland China’s success in summer Olympic Games in Tokyo, the authorities of Mainland China have plans to boost spending of trillions in RMB on sports which becomes a driver of economic growth, and it is expected that the business of this sector would share the boosting to a certain extent.

**Property Investment and Development**

During the Period, revenue from the property investment and development segment significantly decreased by 70% to approximately HK\$186.1 million (2020: approximately HK\$618.1 million). It was mainly due to the recognition of sales proceeds from properties presold in previous years with ownership transferred to the buyers in early 2020. The operating profit of this segment, including fair value changes on investment properties, was approximately HK\$66.0 million in the Period (2020: approximately HK\$58.4 million). This segment generated an operating profit, excluding the fair value changes on investment properties, of approximately HK\$66.4 million (2020: approximately HK\$56.5 million), representing an increase of 18% as compared to the corresponding period in 2020.

The Group has a property investment portfolio with total gross floor area (“GFA”) of approximately 690,000 sq.m. in Mainland China and approximately 280,000 sq.ft. (approximately 26,000 sq.m.) in Hong Kong. The investment properties in Mainland China are mostly in prime locations in Nanjing, Shenyang and Tianjin.

Given the central government's effective control of COVID-19 pandemic on a nation-wide basis, the economy of Mainland China has improved at a faster rate than that of other nations. During the Period, rental income derived from the Group's leasing portfolio in Hong Kong, Nanjing, Shenyang and Tianjin was stable, amounted to HK\$118.2 million, an increase of approximately 12% as compared to the corresponding period in 2020.

Apart from leasing, the Group continues to focus on development of its flag-ship property project in Shenyang, namely Central Square, which is located in one of the prime residential areas right above a mass transit railway station. The project has a total GFA of over 500,000 sq.m. and is a mixed-use project with a heavy emphasis on city living and convenience to the residents.

The first phase of Central Square, having GFA of approximately 170,000 sq.m., consisting of two residential towers and one serviced apartment tower up for sale as well as a retail podium for leasing. Closing to 50% of the saleable areas of residential towers and serviced apartment was sold up to date notwithstanding demands for residential properties by the public were affected by COVID-19 pandemic and government policy on residential properties. Given Central Square is located in a prime residential area, the management is cautiously optimistic on its sales and rental contributions in 2021 and onwards. In addition, the development of the second phase is expected to enhance the value and returns of the first phase.

### **Agriculture and Forestry**

During the Period, revenue decreased by approximately 94% to approximately HK\$0.4 million (2020: approximately HK\$7.2 million) and operating loss increased by approximately 44% to approximately HK\$17.3 million (2020: approximately HK\$12.0 million). The bearer plants balance slightly decreased from approximately HK\$30.8 million as at 31 December 2020 to approximately HK\$30.1 million as at 30 June 2021. Based on the functional currency (RMB) of the relevant subsidiaries, the bearer plants balance decreased by approximately 3%, mainly due to the depreciation of the bearer plants during the Period.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2021, the Group had a current ratio of 1.1 and a gearing ratio of 39% (31 December 2020: 1.0 and 34%, respectively). The gearing ratio is computed by comparing the Group's long-term bank borrowings of HK\$2,559 million to the Group's equity of HK\$6,631 million. The Group's operations and investments continued to be financed by internal resources and bank borrowings.

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES**

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to RMB and United States dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The Group manages foreign exchange risk by closely monitoring the movements of the foreign currency rates and enters into forward contracts whenever appropriate.

## **CAPITAL STRUCTURE**

Except for the redemption of the redeemable convertible preference shares as detailed in note 11 in this interim results announcement, there was no material change in the Group's capital structure as compared to the most recently published annual report.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

There was no material acquisition or disposal of a subsidiary or associated company during the Period.

## **CONTINGENT LIABILITIES**

The Group had given guarantees to financial institutions in the aggregate amount of approximately HK\$64 million on behalf of purchasers of property units developed by the Group in Mainland China in relation to which the related building ownership certificate had not yet been issued as at 30 June 2021. During the six months ended 30 June 2021, portions of the property units have been handed over to the purchasers and amount previously received in advance has been recognised in the statement of profit or loss. The guarantees will be released upon the issuance of the building ownership certificate.

Other than mentioned above, there was no material change in the Group's contingent liabilities as compared to the most recently published annual report.

## **PROSPECTS**

With the emergence of Delta variant of coronavirus, it is expected that the second half of 2021 will be full of challenges and uncertainties. Apart from the pandemic, the Sino-US trade war and RMB appreciation have also casted uncertainties to the business environment.

The management will keep closely monitoring the market situation by using prudent approach in cost control and resources deployment for maintaining its competitiveness and sustainability in the uncertain and challenging environment in the foreseeable short to medium term. Meanwhile, the Group will strive to maintain steady rental income from leasing both in Hong Kong and Mainland China. In the long run, the management is optimistic in exploring and securing business opportunities in Hong Kong and Mainland China, which in turn will continue to generate returns and create value to the Group and its shareholders as a whole.

## **Trading and Manufacturing**

The Group will on the one hand keep controlling its manufacturing costs and expenses by re-engineering actions, including shifting production from Shenzhen and Dongguan (higher labour cost areas) to Guangxi and Vietnam (lower labour cost areas), simplification and consolidation of operational procedures and extending the use of automation, and on the other hand provide one-stop integral solutions and product development services by its product development centre to its key customers in the USA and other countries for enhancing the variety of services for gaining competitive edge over its competitors, and reinforcing its industry-acclaimed recognition.

Bulk orders are customarily placed from customers in the third quarter of each year for catering the traditional shopping season of Christmas and New Year. The Group will strive to secure orders from its long-term loyal customers.

Given the uncertainties posed by the pandemic and the Sino-US trade war, the Group will keep using prudent and cost-effective strategies to minimise the risks within the market. The Group expects that the prices of raw materials would be relatively stable given the appreciation of RMB has become steady.

## **Property Investment and Development**

### *Property Investment*

The progress of implementation of commercialization and transformation of various properties in Mainland China will keep on, including but not limited to the mall in Shenyang, namely Avenue of Stars (“AOS”), which is currently one of the most popular fur-themed shopping malls in Shenyang, for the purposes of improving occupancy rate and rental contribution. The plan is to transform AOS into a mall anchored by different types of retailers and department stores, having entertainment and “experience” features for widening choices offered to different customers in different age groups and preferences, and for families. In addition to AOS, the Group is striving to increase the occupancy rate of the retail podium in the Central Square by identifying and soliciting prospective tenants, and it is expected that the opening of the podium will be taken place by the end of this year, and that continuous stream of rental income will be generated therefrom.

During the Period, the Group, being a caring landlord, granted temporary rental reliefs to certain tenants in both Hong Kong and Mainland China, and these reliefs would not have significant financial impacts on the Group. Given the pandemic situation in both Hong Kong and Mainland China has been relatively stable, economies thereof would be gradually recovered, it is expected that no further rental concessions would be required in the second half of this year, which in turn would secure stable rental income.

### *Property Development*

Given the faster resumption of economy in Mainland China from the devastation of the pandemic, the Group is cautiously optimistic on the sales of residential units of its Central Square in Shenyang in 2021 and onwards as Central Square is located in one of the prime residential areas and has the advantages of direct accessibility to the subway and a robust pedestrian street anchored by restaurants and retail stores. Furthermore, the opening of the podium of Central Square is expected to be a catalyst for the sales of its units.

Upon preliminary works of the second phase of Central Square which is separated by a street and directly facing to the first phase will start upon settlement with several recalcitrant inhabitants. Second phase is also a mixed development project, and its positioning will be thematically in line with the first phase.

The Group will continue to study conversion of usage of some other land bank assets from industrial to commercial in Nanjing and Tianjin for the purpose of increasing both the land value and return from development of such land after conversion. The Group's strategy in the development of large scale property projects remains unchanged.

### **Agriculture and Forestry**

The Group currently has long-term leases of over 517,000 mu (approximately 344 million sq.m.) of woodland, farmland, fishpond and lake space in various major provinces in Mainland China, and is focusing on the plantation of fruits and crops such as apples, winter dates, peaches, pears and corns; and breeding of livestock such as pigs for sale. The Group will continue to explore plantation opportunities of high profit margin species and focus on improving harvest, sales distribution channels, utilisation of resources and cost control for improving the operating results of this segment.

## **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 decrease in 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 China 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 Mainland China's property market. The Group's operations in Mainland China may also be exposed to the risks of policy change, RMB exchange rate change, interest rate change, demand-supply imbalance, and the overall economic conditions, which may pose an adverse impact on the Group's business, financial condition or results of operations.

#### ***Risks associated with the property market in Hong Kong***

The state of Hong Kong's economy and property market, legislative and regulatory changes, government policies and political conditions also have an effect on the Group's revenue derived from the Group's property portfolio in Hong Kong. The government may introduce property cooling measures from time to time. Rental levels in Hong Kong are subject to competition arising from supply in the primary sector.

## **Risks relating to Agriculture and Forestry**

### ***Risk associated with natural disasters or adverse weather conditions***

The Group's agriculture and forestry operations are susceptible to natural disasters and adverse weather conditions such as droughts, floods and earthquakes, and environmental hazards. The occurrence of any of the above events in or in close proximity to our cultivation area may cause a reduction or delay in our production output, which may adversely affect the Group's business and operating performance.

The Group conducts regular reviews and focuses on mitigating the risk 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 2021 (six months ended 30 June 2020: 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 2021.

## **CORPORATE GOVERNANCE CODE**

The Company complied with the applicable 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 2021 except the following deviations:

### **Non-Compliance with Code provisions E.1.2 and A.6.7 of the Corporate Governance Code**

Mr. Ng Hung Sang, the Chairman and an Executive Director, Mr. Ng Yuk Yeung Paul, an Executive Director, Mr. Ng Yuk Fung Peter and Mr. David Michael Norman, both of them are Non-executive Directors, Mr. Chiu Sin Chun and Mr. Kam Yiu Shing Tony, both of them are Independent Non-executive Directors, were unable to attend the annual general meeting of the Company held on 22 June 2021 (which deviated from code provisions E.1.2 and A.6.7) as they had other important business engagements.

## UPDATE ON LITIGATION PROCEEDINGS

### (i) Against Nanjing Skytech Co., Limited and Others

#### 1. *Infringement of copyrights case*

During the six months ended 30 June 2021, there was no material change as disclosed in the Company's most recently published annual report.

#### 2. *Liability dispute of damaging the interests of the Company case*

During the six months ended 30 June 2021, there was no material change as disclosed in the Company's most recently published annual report.

#### 3. *Liability dispute of damaging the interests of shareholders case*

During the six months ended 30 June 2021, there was no material change as disclosed in the Company's most recently published annual report.

### (ii) Development Right of a Piece of Land Situate at Tianjin Binhai New District

#### *Default case*

The case has been closed after hearing on 28 June 2021, and is pending judgement.

### (iii) Nansha Land Arbitration Case

In March 2021, Brightson Investments Limited, an indirect wholly-owned subsidiary of the Company, filed an application for arbitration with China International Economics and Trade Arbitration Commission ("CIETAC") in relation to failure of the Villagers' Committee of Datang Village, Huangge Town, Nansha District, Guangzhou ("Datang Villagers' Committee") to transfer the land under agreement to it, demanding that Datang Villagers' Committee compensate for the losses in accordance with the law. CIETAC has established an arbitral tribunal in July 2021, with hearing notification pending.

## AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee currently has five members comprising four Independent Non-executive Directors, namely Mr. Kam Yiu Shing Tony (Chairman of the Audit Committee), Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin Elizabeth and Ms. Pong Scarlett Oi Lan, BBS, J.P. and one Non-executive Director, namely Mr. David Michael Norman.

The Group's unaudited interim results for the six months ended 30 June 2021 has been reviewed by the Audit Committee, which was of the opinion that the preparation complied with the applicable accounting standards and requirements and that adequate disclosures were made.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This announcement is published on the website of The Stock Exchange of Hong Kong Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.scholding.com](http://www.scholding.com). The interim report of the Company for the six months ended 30 June 2021 will be published on the aforesaid websites and will be dispatched to the shareholders of the Company in due course.

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, 24 August 2021

*As at the date of this announcement, the Directors are: (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges and Mr. Ng Yuk Yeung Paul as Executive Directors; (2) Ms. Ng Yuk Mui Jessica, Mr. Ng Yuk Fung Peter, Mr. David Michael Norman and Ms. Li Yuen Yu Alice as Non-executive Directors; and (3) Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin Elizabeth, Mr. Kam Yiu Shing Tony and Ms. Pong Scarlett Oi Lan, BBS, J.P. as Independent Non-executive Directors.*