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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 2022

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 2022 together with the relevant comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2022	2021
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*2*	**2,199,680**	1,738,006
Cost of sales		**(1,896,036)**	(1,548,531)
Gross profit		**303,644**	189,475
Other income and gains, net		**54,364**	40,664
Net fair value loss on investment properties inclusive of investment properties presented as non-current assets classified as held for sale		**(1,863)**	(453)
Selling and distribution expenses		**(40,764)**	(31,289)
Administrative expenses		**(189,785)**	(222,181)
Profit/(loss) from operations	*2 & 3*	**125,596**	(23,784)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

		Six months ended 30 June	
		2022	2021
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Finance costs	*4*	**(88,644)**	(82,678)
Share of (losses)/profits of associates		**(192)**	1
Share of losses of joint ventures		**(11)**	(4)
Profit/(loss) before tax		**36,749**	(106,465)
Income tax credit/(expenses)	*5*	**982**	(2,751)
Profit/(loss) for the period		**37,731**	(109,216)
Attributable to:			
Equity shareholders of the Company		**46,693**	(108,279)
Non-controlling interests		**(8,962)**	(937)
		37,731	(109,216)
Earnings/(loss) per share	*7*		
Basic		**HK0.4 cents**	HK(0.8) cents
Diluted		**HK0.4 cents**	HK(0.8) cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit/(loss) for the period	**37,731**	(109,216)
Other comprehensive income (after tax and reclassification adjustments)		
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	**–**	4,640
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside Hong Kong	**(306,328)**	53,414
Total comprehensive income for the period	**(268,597)**	(51,162)
Attributable to:		
Equity shareholders of the Company	**(237,648)**	(54,046)
Non-controlling interests	**(30,949)**	2,884
	(268,597)	(51,162)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2022 (Unaudited) *HK$'000*	As at 31 December 2021 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**582,303**	648,292
Investment properties	*8*	**9,933,919**	10,231,393
Construction in progress	*8*	**170**	178
Investments in associates		**484**	676
Investments in joint ventures		**7**	18
Bearer plants		**23,943**	25,891
Other non-current assets		**137,685**	148,638
Total non-current assets		**10,678,511**	11,055,086
CURRENT ASSETS			
Inventories		**1,289,624**	1,324,303
Properties under development		**260,817**	261,186
Trade receivables	*9*	**983,004**	841,769
Prepayments, deposits and other receivables		**1,202,894**	1,215,077
Financial assets measured at fair value through profit or loss		**6,911**	6,541
Amounts due from associates		**5,137**	4,977
Amounts due from related parties		**6,677**	8,343
Tax recoverables		**12**	13
Cash and bank balances		**653,918**	622,497
		4,408,994	4,284,706
Non-current assets classified as held for sale		**263,228**	275,198
Total current assets		**4,672,222**	4,559,904
CURRENT LIABILITIES			
Trade payables	*10*	**1,012,151**	1,031,431
Other payables and accruals		**773,874**	688,407
Interest-bearing bank borrowings		**2,195,614**	2,040,470
Lease liabilities		**70,966**	77,303
Amounts due to non-controlling shareholders of subsidiaries		**10,656**	10,973
Tax payables		**100,389**	109,291
Total current liabilities		**4,163,650**	3,957,875
NET CURRENT ASSETS		**508,572**	602,029
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,187,083**	11,657,115

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Notes	**As at 30 June 2022 (Unaudited)** ***HK$'000***	As at 31 December 2021 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**2,380,309**	2,482,400
Lease liabilities		**338,985**	393,325
Amounts due to non-controlling shareholders of subsidiaries		**7,941**	7,941
Amounts due to related parties		**621,535**	604,405
Other non-current liabilities		**57,160**	59,801
Deferred tax liabilities		**1,152,155**	1,211,648
Total non-current liabilities		**4,558,085**	4,759,520
NET ASSETS		**6,628,998**	6,897,595
CAPITAL AND RESERVES			
Share capital	*11*	**134,413**	134,413
Reserves		**6,181,570**	6,419,218
Total equity attributable to equity shareholders of the Company		**6,315,983**	6,553,631
Non-controlling interests		**313,015**	343,964
TOTAL EQUITY		**6,628,998**	6,897,595

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 23 August 2022.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021 annual financial statements of the Group.

New/revised Hong Kong Financial Reporting Standards ("HKFRSs") and amendments to HKFRSs

The HKICPA has issued a number of amendments to 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:

Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*
Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

None of these developments have had a 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.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*

The amendments prohibit an entity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss. The amendments do not have a material impact on these financial statements as the Group does not sell items produced before an item of property, plant and equipment is available for use.

Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

Previously, the group included only incremental costs when determining whether a contract was onerous. In accordance with the transitional provisions, the Group has applied the new accounting policy to contracts for which it has not yet fulfilled all its obligations at 1 January 2022, and has concluded that none of them is onerous.

2. REVENUE AND SEGMENTAL INFORMATION

An analysis of the Group's consolidated revenue and contribution to profit/(loss) from operations by principal activity and geographical location for the six months ended 30 June 2022 and 2021 is as follows:

	Trading and manufacturing		Property investment and development		Agriculture and forestry		Others		Group	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
External sales	**2,014,946**	1,551,503	**184,657**	186,089	**77**	414	**–**	–	**2,199,680**	1,738,006
Segment results	**107,679**	(34,426)	**33,463**	65,975	**(13,792)**	(17,285)	**(1,754)**	(38,048)	**125,596**	(23,784)
Reconciliation:										
— Share of (losses)/ profits of associates	**(192)**	1	**–**	–	**–**	–	**–**	–	**(192)**	1
— Share of losses of joint ventures	**–**	–	**–**	–	**–**	–	**(11)**	(4)	**(11)**	(4)
— Finance costs									**(88,644)**	(82,678)
Profit/(loss) before tax									**36,749**	(106,465)

By geographical location#:

	Revenue Six months ended 30 June		Contribution to profit/(loss) from operations Six months ended 30 June	
	2022	2021	**2022**	2021
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The People's Republic of China ("PRC") including Hong Kong and Macau	**230,897**	291,842	**23,310**	8,773
United States of America	**1,353,565**	966,913	**69,681**	(21,065)
Europe	**411,963**	341,589	**21,890**	(8,320)
Japan	**8,916**	2,537	**476**	(63)
Others	**194,339**	135,125	**10,239**	(3,109)
	2,199,680	1,738,006	**125,596**	(23,784)

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

3. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations is arrived at after charging:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**1,725,076**	1,456,512
Cost of completed properties sold	**65,996**	55,517
	1,791,072	1,512,029
Depreciation:		
— owned property, plant and equipment	**25,245**	25,119
— bearer plant	**844**	1,031
— right-of-use assets	**42,993**	41,174
	69,082	67,324

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other borrowings	**74,935**	70,121
Interest on lease liabilities	**14,986**	14,520
Less: Amount capitalised	**(1,277)**	(1,963)
	88,644	82,678

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 2021: 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 2021: 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 2022 (six months ended 30 June 2021: Nil).

7. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit/(loss) attributable to equity shareholders of the Company and the weighted average number of ordinary shares in issue after deducting shares held for the Company's employees' share award scheme and treasury shares.

The calculation of diluted earnings/(loss) per share is based on the profit/(loss) attributable to equity shareholders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares as used in the basic earnings/(loss) per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on vesting, and the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The profit/(loss) and number of shares used in the calculations of basic and diluted earnings/(loss) per share are as follow:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) attributable to equity shareholders of the Company used in basic and diluted earnings per share calculation	**46,693**	(108,279)

	Number of shares	
	2022	2021
	(Unaudited)	(Unaudited)
	'000	*'000*
Shares		
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	**12,982,892**	12,982,892
Effect of redeemable convertible preference shares	**219,951**	234,287
Effect of shares held for the share award scheme	**206,161**	206,161
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**13,409,004**	13,423,340

The Company's share options have no dilution effect for the six months ended 30 June 2022 and 2021 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. There was no transfer incurred during the six months ended 30 June 2022.

9. TRADE RECEIVABLES

Trade receivables of approximately HK$983,004,000 as at 30 June 2022 (as at 31 December 2021: HK$841,769,000), 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$1,012,151,000 as at 30 June 2022 (as at 31 December 2021: HK$1,031,431,000) are substantially aged within six months.

11. SHARE CAPITAL

	As at 30 June 2022 (Unaudited) ***HK$'000***	As at 31 December 2021 (Audited) *HK$'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 *(Note)*	**60,000**	60,000
Total authorised capital	**260,000**	260,000
Issued and fully paid:		
13,221,302,172 (2021: 13,221,302,172) ordinary shares of HK$0.01 each	**132,213**	132,213
109,975,631 (2021: 109,975,631) redeemable convertible preference shares of HK$0.02 each	**2,200**	2,200
Total issued and fully paid capital	**134,413**	134,413

11. SHARE CAPITAL (Continued)

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 2022	**132,213**	**2,200**	**1,482,177**	**1,616,590**
Nil redeemable convertible preference shares redeemed during the period	**–**	**–**	**–**	**–**
At 30 June 2022	**132,213**	**2,200**	**1,482,177**	**1,616,590**

	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	–	(25)	(975)	(1,000)
At 30 June 2021	132,213	2,322	1,486,955	1,621,490

11. SHARE CAPITAL (Continued)

Movement of number of issued shares are as follows:

	Number of issued ordinary shares (Unaudited) ***'000***	**Number of issued redeemable convertible preference shares (Unaudited)** ***'000***
At 1 January 2022	**13,221,302**	**109,976**
Redeemed during the period	**–**	**–**
At 30 June 2022	**13,221,302**	**109,976**

	Number of issued ordinary shares (Unaudited) *'000*	Number of issued redeemable convertible preference shares (Unaudited) *'000*
At 1 January 2021	13,221,302	117,351
Redeemed during the period	–	(1,250)
At 30 June 2021	13,221,302	116,101

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded a revenue of approximately HK$2,200 million (2021: approximately HK$1,738 million) for the six months ended 30 June 2022 (the "Period"), representing a 27% increase as compared to the corresponding period in 2021. Profit after tax was approximately HK$37.7 million for the Period as compared with loss after tax of approximately HK$109.2 million for the corresponding period in 2021. The improvement in revenue and operating results was mainly a result of the improvement in the performance of the Group's toy manufacturing business with increased demands from key customers and improved profit margin benefited from lower production cost under effective control measures during the Period. The overall financial, business and trading positions of the Group remain healthy.

Earnings per share attributable to equity holders of the Company for the Period was HK0.4 cents (2021: loss per share of HK0.8 cents).

BUSINESS REVIEW

The principal business segments of the Group are trading and manufacturing, property investment and development, and agriculture and forestry.

Trading and Manufacturing

The trading and manufacturing segment mainly comprises (i) OEM production of toys products, (ii) trading of footwear products and (iii) sales of branded ball products. The segment recorded a 30% increase in revenue to approximately HK$2,015 million (2021: approximately HK$1,552 million) and an operating profit of approximately HK$107.7 million for the Period as compared with an operating loss of approximately HK$34.4 million for the corresponding period in 2021.

(i) OEM toys production

The OEM toys operation generated revenue of approximately HK$1,852 million (2021: approximately HK$1,470 million) for the Period, representing a 26% increase as compared to the corresponding period in 2021.

During the Period, the Group achieved effective labour cost control by diversifying its production capacities and building up its supply chain from Shenzhen and Dongguan to Guangxi of Mainland China as well as improvement of its productivity through automation in addition to such other favorable market factors as depreciation of Renminbi ("RMB"), decrease of material prices due to drop of global demand for commodities goods, decrease of labour cost resulting from higher unemployment rates caused by COVID-19 lockdowns in Mainland China. Apart from the foregoing measures and market factors, demands from some key customers of the Group increased during the Period as they pulled in their shipping schedules for avoidance of logistical problem during the peak season. As a result, production efficiency was improved which led to saving in production overheads and shipment costs.

(ii) Trading of footwear products

During the Period, revenue from the footwear trading operation increased significantly by 124% to approximately HK$152.7 million (2021: approximately HK$68.2 million). The overall operating profit of this segment substantially increased to approximately HK$5.5 million (2021: approximately HK$1.4 million). The big improvement was mainly due to effective management in gaining a competitive edge by achieving effective cost controls and diversification of production in such countries as Vietnam and Bangladesh apart from Mainland China, which in turn led this segment to achieve new orders despite the challenges of the COVID-19 pandemic and the strained relationship between the United States and Mainland China.

(iii) Sales of branded ball products

During the Period, revenue from sales of the branded ball products decreased by 29% to approximately HK$7.3 million (2021: approximately HK$10.3 million), mainly due to the impact of the COVID-19 pandemic. The Group owns a local 100-year-old brand of "LeeSheng" (利生) in Mainland China, covering a wide range of ball products, e.g. football, basketball, volleyball and etc., and will keep developing various ball products for improving its revenue for capturing the potential massive market resulting from the positive support from the authorities of Mainland China subsequent to Mainland China's success in summer Olympic Games in Tokyo.

Property Investment and Development

During the Period, revenue from the property investment and development segment slightly decreased by 1% to approximately HK$184.7 million (2021: approximately HK$186.1 million). The operating profit of this segment, including fair value changes on investment properties, was approximately HK$33.5 million for the Period (2021: approximately HK$66.0 million). This segment generated an operating profit, excluding the fair value changes on investment properties, of approximately HK$35.3 million (2021: approximately HK$66.4 million).

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.

The central government continues its strict zero-COVID policy after the outbreak of the Omicron variant through mass testing, tracking and strict isolation, notably the mass lockdown in Shanghai. The strict policy inevitably and adversely affected the economies of Mainland China and Hong Kong in the first half of the year. During the Period, rental income derived from the Group's leasing portfolio in Hong Kong, Nanjing, Shenyang and Tianjin amounted to HK$99.9 million, a decrease of approximately 15% as compared with an increase recorded in the corresponding period in 2021.

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 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 a GFA of approximately 170,000 sq.m., consisting of two residential towers and one serviced apartment tower for sale, as well as a retail podium for leasing. Around 60% of the saleable areas of the residential towers and serviced apartments were sold to date notwithstanding that demands for residential properties by the public were affected by the COVID-19 pandemic. Given Central Square is located in a prime residential area, the management is cautiously optimistic on its sales and rental contributions in 2022 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, despite a decrease in revenue by approximately 81% to approximately HK$77,000 (2021: approximately HK$414,000), operating loss decreased by approximately 20% to approximately HK$13.8 million (2021: approximately HK$17.3 million). The total value of the bearer plants balance slightly decreased from approximately HK$25.9 million as at 31 December 2021 to approximately HK$23.9 million as at 30 June 2022, representing a decrease of 8% which was mainly due to the depreciation of the bearer plants during the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2022, the Group had a current ratio of 1.1 and a gearing ratio of 36% (31 December 2021: 1.2 and 36%, respectively). The gearing ratio is computed by comparing the Group's long-term bank borrowings of HK$2,380 million to the Group's equity of HK$6,629 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

Save as set out 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

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

With the prolonged outbreak of the pandemic and spread of African monkeypox, it is expected that the second half of 2022 will be full of challenges and uncertainties. Given the inflation in the United States hits new 40-year high, it is expected that there will be of no respite from rising costs, which will adversely affect consumer confidence, and in turn will cast a negative impact on the orders of the toys products. Moreover, the stalemated relationship between the United States and Mainland China as well as the Russia-Ukraine war have also cast uncertainties on the business environment.

The management will closely monitor the market situation and stay alert to government's COVID-19 measures. The Group will keep a prudent approach in cost control and resources deployment to maintain competitiveness and sustainability in the uncertain and challenging environment in the 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 about exploring and securing business opportunities in Hong Kong and Mainland China, which will generate returns and create value to the Group and its shareholders as a whole.

Trading and Manufacturing

OEM toys production

Given the market uncertainties, the Group will keep controlling its manufacturing costs and expenses by re-engineering actions, including expansion of production in Guangxi and scaling down of production in such higher cost areas such as Shenzhen and Dongguan, reviewing the simplification and consolidation of operational procedures and the use of automation for maintaining its competitiveness and sustainability, and continuing to identify the needs of key customers for providing unique one-stop integral solutions and product development services for gaining a competitive edge and reinforcing its industry-acclaimed recognition.

The long-standing customer loyalty and world-class engineering capability of the Group's OEM toys operation has contributed to the Group's solid performance, and continuous orders from customers are expected in 2022 and onwards. In addition to securing orders from the Group's long-term loyal customers, new customers are expected to be captured by the Group from its competitors who are knocked out in this critical period.

Given the uncertainties posed by the pandemic, inflation in the United States, strained relationship between the United States and Mainland China and the Russia-Ukraine war, the Group will keep using prudent and cost-effective strategies to reduce the risk exposure. The Group expects that the production costs will be further diminished while RMB remains weak. Foreseeing that the Russia-Ukraine war may have a continued impact on the oil and plastic price, the Group will attempt to fix prices in materials with suppliers for minimising the cost impact, if necessary.

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"). For the purposes of improving the occupancy rate and rental contribution, the Group has transformed AOS from the original fur-themed shopping mall into a mall anchored by different types of retailers and features for widening choices offered to different customers in different age groups and preferences. The Group is under negotiations with different target prospective tenants carrying diversified businesses for enriching the variety of the mall for attracting more consumers. On the other hand, a new tenant carrying out supermarket business early this year provides mid-low priced household products which attracted a number of households and in turn led a positive impact to the occupancy of the mall. In addition to AOS, the Group is striving to increase the occupancy rate of the retail podium in Central Square by identifying and soliciting prospective tenants for generating continuous stream of rental income. The new night market situated outside the Central Square commenced its operation in mid-July, and the business thereof was encouraging.

During the Period, the Group, being a caring landlord, granted temporary rental reliefs to certain tenants in both Hong Kong and Mainland China. These reliefs would not have significant financial impacts on the Group.

Property Development

Given the effective control of the pandemic by the local government in Shenyang, the Group is cautiously optimistic on the sales of residential units of its Central Square in the year 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 busy pedestrian street anchored by restaurants and retail stores.

Preliminary works of the second phase of Central Square which is directly facing to the first phase will start upon settlement with several recalcitrant inhabitants. The 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 purposes 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 516,000 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. 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 2022 (six months ended 30 June 2021: 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 2022.

CORPORATE GOVERNANCE CODE

The Company complied with the applicable code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2022 except for the following deviations:

Non-Compliance with Code Provisions F.2.2 and C.1.6 of the CG Code

Mr. Ng Hung Sang, the Chairman and an Executive Director, Mr. Ng Yuk Fung Peter and Ms. Li Yuen Yu Alice, both of whom are Non-executive Directors, Mr. Chiu Sin Chun and Mr. Kam Yiu Shing Tony, both of whom are Independent Non-executive Directors, were unable to attend the annual general meeting of the Company held on 21 June 2022 (the "AGM") (which deviated from code provisions F.2.2 and C.1.6 of the CG Code) as they had other important business engagements.

Mr. David Michael Norman, a Non-executive Director, was unable to attend the AGM (which deviated from code provision C.1.6 of the CG Code) as he was in overseas and could not return to Hong Kong due to the Hong Kong quarantine rules and policies.

UPDATE ON LITIGATION PROCEEDINGS

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

1. ***Case on infringement of copyrights***

   An online trial of the case was conducted by the court on 24 June 2022, and the judge ordered that examination be conducted physically again when the epidemic became relatively stable.

2. ***Case on liability dispute related to damaging the interests of the Company***

   As disclosed in the last annual report of the Company, there was no material change for the six months ended 30 June 2022.

(ii) Case on arbitration related to Nansha land

The case was originally scheduled for trial by the court on 26 July 2022. However, the applicant Brightson Investments Limited, an indirect wholly-owned subsidiary of the Company, discovered new evidence and filed a trial postponement application with the arbitral tribunal established by China International Economic and Trade Arbitration Commission ("CIETAC") in July 2021, added Datang Economic Cooperation Union, Huangge Town, Nansha District, Guangzhou as a respondent, and made corresponding changes to the request for arbitration. CIETAC agreed to postpone the deadline for arbitration to 30 November 2022.

(iii) Case on tort related to Tianjin Binhai land

In April 1993, World Right Investments Limited (環威投資有限公司) ("World Right"), an indirect wholly-owned subsidiary of the Company, and Tianjin Tanggu Property Development Company Limited (天津塘沽房地產開發股份有限公司) (currently known as Binhai Investment Group Holding Company Limited (濱海投資集團股份有限公司) ("Binhai Investment Group")) formed a joint venture company in China known as Tianjin South China Property Development Company Limited (天津南華房地產開發有限公司) ("South China Property"). World Right holds 51% equity interest in South China Property.

In June 1993, World Right and Binhai Investment Group entered into a joint development agreement (the "Development Agreement"). It was agreed under the Development Agreement that, inter alia, World Right and Binhai Investment Group can jointly develop a piece of land situated at Tianjin Binhai New District with an area about 500,000 sq.m. (the "Involved Land") and World Right must pay RMB10.4 million in cash to increase the capital investment in South China Property. World Right duly paid the capital investment of RMB10.4 million which had been used for formation of the Involved Land. Subsequently, Binhai Investment Group failed to perform the Development Agreement, did not recognise that World Right and Binhai Investment Group had joint right to develop the Involved Land, and maliciously transferred the Involved Land to Tianjin Cheng Tou Binhai Property Company Limited (天津城投濱海房地產經營有限公司) ("Cheng Tou Binhai"), a company invested in and established by it and the government.

On 31 March 2022, World Right commenced legal proceedings in Tianjin No. 3 Intermediate People's Court against Cheng Tou Binhai, the People's Government of Tianjin Binhai New District, Binhai New District Branch Bureau of Tianjin Planning and Natural Resources Bureau and Binhai Investment Group, and demanded that compensation be made by the four defendants jointly for the actual loss incurred by World Right, subject to the final amount appraised by the judiciary. Exchange of evidence of the case was conducted on 11 July 2022, and the court will arrange another time slot for cross-examination of the evidence.

UPDATE ON DIRECTOR'S INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Director since the publication of the Company's 2021 annual report is set out below:

Mr. Chiu Sin Chun retired as an Independent Non-executive Director with effect from the conclusion of the annual general meeting of the Company held on 21 June 2022 and accordingly, ceased to act as a member of Audit Committee and Remuneration and Nomination Committee of the Company.

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), Mrs. Tse Wong Siu Yin Elizabeth, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Wong Chun Tat, 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 2022 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 and the website of the Company at www.scholding.com. The interim report of the Company for the six months ended 30 June 2022 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, 23 August 2022

As at the date of this announcement, the Directors are: (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor 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) Mrs. Tse Wong Siu Yin Elizabeth, Mr. Kam Yiu Shing Tony, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Wong Chun Tat, J.P. as Independent Non-executive Directors.