

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2023

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 2023 together with the relevant comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2023	2022
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	2	1,137,892	2,199,680
Cost of sales		(1,013,031)	(1,896,036)
Gross profit		124,861	303,644
Other income and gains, net	3	102,975	54,364
Net fair value gain/(loss) on investment properties inclusive of investment properties presented as non-current assets classified as held for sale		5,352	(1,863)
Selling and distribution expenses		(25,463)	(40,764)
Administrative expenses		(153,008)	(189,785)
Profit from operations	2 & 4	54,717	125,596

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

	<i>Notes</i>	Six months ended 30 June	
		2023	2022
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Finance costs	5	(138,269)	(88,644)
Share of losses of associates		(150)	(192)
Share of losses of joint ventures		—	(11)
		<u> </u>	<u> </u>
(Loss)/profit before tax		(83,702)	36,749
Income tax (expenses)/credit	6	(613)	982
		<u> </u>	<u> </u>
(Loss)/profit for the period		(84,315)	37,731
		<u> </u>	<u> </u>
Attributable to:			
Equity shareholders of the Company		(79,281)	46,693
Non-controlling interests		(5,034)	(8,962)
		<u> </u>	<u> </u>
		(84,315)	37,731
		<u> </u>	<u> </u>
(Loss)/earnings per share	8		
Basic		<u>HK(0.6) cents</u>	<u>HK0.4 cents</u>
Diluted		<u>HK(0.6) cents</u>	<u>HK0.4 cents</u>

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

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss)/profit for the period	(84,315)	37,731
Other comprehensive income (after tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside Hong Kong	(249,923)	(306,328)
Release of exchange reserve upon disposal of subsidiaries	41	–
	<u>(249,882)</u>	<u>(306,328)</u>
Total comprehensive income for the period	<u>(334,197)</u>	<u>(268,597)</u>
Attributable to:		
Equity shareholders of the Company	(309,826)	(237,648)
Non-controlling interests	(24,371)	(30,949)
	<u>(334,197)</u>	<u>(268,597)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2023 (Unaudited) <i>HK\$'000</i>	As at 31 December 2022 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		453,545	528,258
Investment properties	9	9,376,129	9,660,128
Construction in progress		157	164
Investments in associates		107	257
Investments in joint ventures		285	49
Bearer plants		19,791	21,385
Other non-current assets		217,340	133,294
		<hr/>	<hr/>
Total non-current assets		10,067,354	10,343,535
CURRENT ASSETS			
Inventories		951,230	965,784
Properties under development		238,483	246,817
Trade receivables	10	545,466	343,591
Prepayments, deposits and other receivables		1,151,021	1,161,552
Financial assets measured at fair value through profit or loss		12,737	12,371
Amounts due from associates		5,145	5,145
Amounts due from related parties		20,797	19,125
Tax recoverables		1,738	1,044
Cash and bank balances		434,682	438,262
		<hr/>	<hr/>
		3,361,299	3,193,691
Non-current assets classified as held for sale	9	46,242	–
		<hr/>	<hr/>
Total current assets		3,407,541	3,193,691

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at 30 June 2023 (Unaudited) <i>HK\$'000</i>	As at 31 December 2022 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade payables	<i>11</i>	553,968	576,316
Other payables and accruals		675,929	696,472
Interest-bearing bank borrowings		1,983,367	1,342,765
Lease liabilities		42,818	55,165
Amounts due to non-controlling shareholders of subsidiaries		10,159	10,423
Tax payables		83,271	90,347
Total current liabilities		3,349,512	2,771,488
NET CURRENT ASSETS		58,029	422,203
TOTAL ASSETS LESS CURRENT LIABILITIES		10,125,383	10,765,738
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		2,006,279	2,261,683
Lease liabilities		272,351	311,122
Amounts due to non-controlling shareholders of subsidiaries		7,941	7,941
Amounts due to related parties		600,155	566,374
Other non-current liabilities		52,824	55,037
Deferred tax liabilities		1,030,825	1,074,376
Total non-current liabilities		3,970,375	4,276,533
NET ASSETS		6,155,008	6,489,205
CAPITAL AND RESERVES			
Share capital	<i>12</i>	134,413	134,413
Reserves		5,719,150	6,028,976
Total equity attributable to equity shareholders of the Company		5,853,563	6,163,389
Non-controlling interests		301,445	325,816
TOTAL EQUITY		6,155,008	6,489,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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 22 August 2023.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 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 2022 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 1 and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*

Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*

Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

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.

Amendments to HKAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the Group’s approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

1. BASIS OF PREPARATION (Continued)

Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities in the annual financial statements, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

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

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 2023 and 2022 is as follows:

	Trading and manufacturing		Property investment and development		Agriculture and forestry		Others		Group	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Segment revenue										
External sales	<u>1,040,784</u>	<u>2,014,946</u>	<u>96,410</u>	<u>184,657</u>	<u>698</u>	<u>77</u>	<u>-</u>	<u>-</u>	<u>1,137,892</u>	<u>2,199,680</u>
Segment results	(9,390)	107,679	32,507	33,463	67,681	(13,792)	(36,081)	(1,754)	54,717	125,596
Reconciliation:										
— Share of losses of associates	(185)	(192)	-	-	-	-	35	-	(150)	(192)
— Share of losses of joint ventures	-	-	-	-	-	-	-	(11)	-	(11)
— Finance costs									<u>(138,269)</u>	<u>(88,644)</u>
(Loss)/profit before tax									<u>(83,702)</u>	<u>36,749</u>

2. REVENUE AND SEGMENTAL INFORMATION (Continued)

By geographical location#:

	Revenue		Contribution to profit from operations	
	Six months ended 30 June 2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	Six months ended 30 June 2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
The People's Republic of China ("PRC") including Hong Kong and Macau	131,160	230,897	65,145	23,310
United States of America ("USA")	594,463	1,353,565	(3,918)	69,681
Europe	286,021	411,963	(4,642)	21,890
Japan	7,332	8,916	(128)	476
Others	118,916	194,339	(1,740)	10,239
	<u>1,137,892</u>	<u>2,199,680</u>	<u>54,717</u>	<u>125,596</u>

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

3. OTHER INCOME AND GAINS, NET

During the six months ended 30 June 2023, a gain on disposal of subsidiaries of approximately HK\$78,197,000 (six months ended 30 June 2022: Nil) and a gain on disposal of other non-current assets of approximately HK\$980,000 (six months ended 30 June 2022: HK\$32,678,000) have been recognised.

4. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging:

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Cost of inventories sold	911,102	1,725,076
Cost of completed properties sold	7,970	65,996
	<u>919,072</u>	<u>1,791,072</u>
Depreciation:		
— owned property, plant and equipment	18,924	25,245
— bearer plant	763	844
— right-of-use assets	39,363	42,993
	<u>59,050</u>	<u>69,082</u>

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts and other borrowings	126,617	74,935
Interest on lease liabilities	11,652	14,986
Less: Amount capitalised	–	(1,277)
	<u>138,269</u>	<u>88,644</u>

6. 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 2022: 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 2022: 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.

7. INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

8. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss)/earnings		
(Loss)/profit attributable to equity shareholders of the Company used in basic and diluted earnings per share calculation	<u>(79,281)</u>	<u>46,693</u>
	Number of shares	
	2023	2022
	(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 (loss)/earnings per share calculation	12,982,892	12,982,892
Effect of redeemable convertible preference shares	–	219,951
Effect of shares held for the share award scheme	–	206,161
	<u>12,982,892</u>	<u>13,409,004</u>
Weighted average number of ordinary shares used in the diluted (loss)/earnings per share calculation	<u>12,982,892</u>	<u>13,409,004</u>

The Company's share options have no dilution effect for the six months ended 30 June 2023 and 2022 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 2023 because the potential ordinary shares outstanding were anti-dilutive.

9. INVESTMENT PROPERTIES AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

During the six months ended 30 June 2023, certain properties of the Group with an aggregated value of approximately HK\$46,242,000 have been transferred from investment properties to non-current assets classified as held for sale.

10. TRADE RECEIVABLES

Trade receivables of approximately HK\$545,466,000 as at 30 June 2023 (as at 31 December 2022: HK\$343,591,000), 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.

11. TRADE PAYABLES

Trade payables of approximately HK\$553,968,000 as at 30 June 2023 (as at 31 December 2022: HK\$576,316,000) are substantially aged within six months.

12. SHARE CAPITAL

	As at 30 June 2023 (Unaudited) HK\$'000	As at 31 December 2022 (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>)	60,000	60,000
Total authorised capital	260,000	260,000
Issued and fully paid:		
13,221,302,172 (2022: 13,221,302,172) ordinary shares of HK\$0.01 each	132,213	132,213
109,975,631 (2022: 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

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, 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.

There was no movement in the number of issued ordinary shares and redeemable convertible preference shares of the Company during the six months ended 30 June 2023 and 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded a revenue of approximately HK\$1,138 million (2022: approximately HK\$2,200 million) for the six months ended 30 June 2023 (the “Period”), representing a 48% decrease as compared to the corresponding period in 2022. Loss after tax was approximately HK\$84.3 million for the Period as compared with profit after tax of approximately HK\$37.7 million for the corresponding period in 2022. The significant drop in revenue having a direct impact on the operating results was attributable to (i) decrease in sales orders of toys products received from the major customers during the Period for the major customers adopted prudent ordering strategies after aggressive approach to pull in their respective shipment schedules in the first half year of 2022 for avoidance of deadlock in logistics that they suffered in 2021; (ii) increase in finance costs mainly due to increase in the Hong Kong Interbank Offered Rate during the Period; and (iii) decrease in gain on disposal of debentures of berths recognised during the Period. The impacts of above outweighed the gain on disposal of subsidiaries of approximately HK\$78.2 million recognised during the Period. Despite the loss was recorded during the Period, the overall financial, business and trading positions of the Group remain healthy.

Loss per share attributable to equity shareholders of the Company for the Period was HK0.6 cents (2022: earning per share of HK0.4 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 48% decrease in revenue to approximately HK\$1,041 million (2022: approximately HK\$2,015 million) and an operating loss of approximately HK\$9.4 million for the Period as compared with an operating profit of approximately HK\$107.7 million for the corresponding period in 2022.

(i) OEM toys production

The OEM toys operation generated revenue of approximately HK\$924 million (2022: approximately HK\$1,852 million) for the Period, representing a 50% decrease as compared to the corresponding period in 2022.

Revenue had been boosted up to a high level during the first half year of 2022 as customers had pulled in their shipment schedule earlier in April after experiencing the logistic deadlock in 2021. During the Period, customers' shipment schedule returned to normal and peak season started in June as 2021 and before. It inevitably resulted in a decrease in revenue compared to the corresponding period in 2022.

A series of severe shocks struck the world economy continuously weighed heavily on the world economy in the first half of 2023. Persistently high inflation prompted aggressive monetary policies in many countries, which unleashed an erosion of income. Rapid interest rate hikes have had global spillover effects and high interest rates have weakened consumer confidence globally. Resulting from the foregoing backdrop as well as geopolitical tensions, key customers of the Group adopted prudent ordering strategies which tapered overall demands for toys products during the Period. Therefore, the Group inevitably experienced a significant decline in revenue in this business sector.

Despite the inevitable downturn in demand for toys products during the Period, the Group continued to strive to control its costs by diversifying its production capacities and shifting its supply chain from Guangdong province to Guangxi province of Mainland China.

(ii) Trading of footwear products

During the Period, revenue from the footwear trading operation decreased by 29% to approximately HK\$108.0 million (2022: approximately HK\$152.7 million). The Group managed to achieve its profit by diversification of production in such low-cost countries as Cambodia and Bangladesh for setting off the impact of decrease in revenue resulting from the downturn in demand. The overall operating profit of this segment remained stable at approximately HK\$5.6 million (2022: approximately HK\$5.5 million).

(iii) Sales of branded ball products

During the Period, revenue from sales of the branded ball products decreased by 12% to approximately HK\$6.4 million (2022: approximately HK\$7.3 million), merely due to the effect of Renminbi ("RMB") depreciation. The overall performance of this segment remained stable.

Property Investment and Development

During the Period, revenue from the property investment and development segment significantly decreased by 48% to approximately HK\$96.4 million (2022: approximately HK\$184.7 million). The operating profit of this segment, including fair value changes on investment properties, was approximately HK\$32.5 million for the Period (2022: approximately HK\$33.5 million). This segment generated an operating profit, excluding the fair value changes on investment properties, of approximately HK\$27.2 million (2022: approximately HK\$35.3 million).

The Group has a property investment portfolio with total gross floor area (“GFA”) of approximately 630,000 sq.m. in China and approximately 26,000 sq.m. (approximately 280,000 sq.ft.) in Hong Kong. The investment properties for lease in China are mostly in prime locations in Nanjing, Shenyang and Tianjin.

Despite the lifting of zero-COVID policy by the central government in late 2022, the rental income under the Group’s leasing portfolio in Nanjing, Shenyang and Tianjin during the Period was continuously affected by the lower rental rates offered to tenants earlier in previous years. The Group’s rental income generated from its properties in Hong Kong was facing to the similar condition during the Period. Recovery of rental rates and occupancy in retail and commercial property market was not as prominent as expected during the Period. On the other hand, depreciation of RMB led to adverse impact on the rental income reported by the leasing portfolio in China resulting from currency exchange. The rental income generated from this segment during the Period was HK\$86.5 million, representing a decrease of approximately 13% as compared with the corresponding period in 2022.

Compared with the leasing market, property market suffered from a much deep hit from the COVID-19 restrictions in the past three years. After the end of zero-COVID policy, investors remain cautious and most of the potential buyers continue taking a very prudent approach by delaying their decision of investment due to market uncertainty.

Currently, approximately 60% of the total saleable areas of residential towers and serviced apartment of the Group’s flagship property project namely “Central Square” were sold. Given Central Square is located in a prime residential area in Shenyang, the management is cautiously optimistic on its sales and rental contributions in 2023 and onwards.

Agriculture and Forestry

During the Period, revenue increased to approximately HK\$698,000 (2022: approximately HK\$77,000). There was an operating profit of HK\$67.7 million during the Period, including a gain on disposal of subsidiaries amounting to HK\$78.2 million recognised during the Period. By excluding the disposal gain, the operating loss for the Period decreased by approximately 24% to approximately HK\$10.5 million (2022: approximately HK\$13.8 million). The total value of the bearer plants balance decreased from approximately HK\$21.4 million as at 31 December 2022 to approximately HK\$19.8 million as at 30 June 2023, representing a decrease of 7%, which was mainly due to the depreciation of the bearer plants and depreciation of RMB during the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2023, the Group had a current ratio of 1.0 and a gearing ratio of 33% (31 December 2022: 1.2 and 35%, respectively). The gearing ratio is computed by comparing the Group's long-term bank borrowings of HK\$2,006 million to the Group's equity of HK\$6,155 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

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

1. On 13 September 2022, Thousand China Investments Limited (“Thousand China”), an indirect wholly-owned subsidiary of the Company, as vendor and Power Path Global Limited (“Power Path”), a wholly-owned subsidiary of South China Financial Holdings Limited (“SCFH”), as purchaser, entered into a sale and purchase agreement, pursuant to which Thousand China conditionally agreed to dispose of 100% equity interest in Genius Year Limited (“Genius Year”), an indirect wholly-owned subsidiary of the Company, to Power Path and Power Path conditionally agreed to purchase 100% equity interest in Genius Year, at a total consideration of HK\$89,840,000 which was settled by way of convertible bonds issued by SCFH upon completion, in accordance with the terms and subject to the conditions set out in the sale and purchase agreement. This transaction was approved by independent shareholders at the extraordinary general meeting held on 11 January 2023 and completed on 13 January 2023. The gain resulted from the disposal of subsidiaries was approximately HK\$78,197,000, which have been recognised to the consolidated statement of profit or loss during the Period. Details of the disposal were set out in the Company’s announcement dated 13 September 2022, 28 September 2022, 31 October 2022 and 25 November 2022 and circular dated 16 December 2022.
2. On 30 June 2023, Wilken Footwear Limited (“Wilken Footwear”), an indirect wholly-owned subsidiary of the Company, as vendor and the Company as a vendor guarantor entered into a sale and purchase agreement with 昆山濱湖新城產業科創發展有限公司 (the “Purchaser”), an independent third party, pursuant to which the Purchaser has agreed to acquire, and the Wilken Footwear has agreed to sell 100% equity interest in 昆山滙強鞋業有限公司 (Kunshan Wilken Footwear Company Limited), an indirect wholly-owned subsidiary of the Company, at the consideration of RMB61,500,000 (equivalent to approximately HK\$68,333,000). Up to the date of this announcement, this transaction is not yet complete. Details of the disposal were set out in the Company’s announcement dated 30 June 2023.

Save as aforesaid, there was no other material acquisition or disposal of subsidiaries or associated companies during the Period.

CONTINGENT LIABILITIES

On 6 July 2023, an indirect wholly-owned subsidiary of the Company entered into a bank loan facility under which certain completed properties for sale were pledged with the bank.

A subsidiary of the Company in China provided guarantees to certain financial institutions in an aggregate amount of approximately RMB171 million (equivalent to approximately HK\$185 million) on behalf of independent purchasers of premises of the Central Square in relation to which the related premises ownership certificates had not been issued as at 30 June 2023. The said guarantees would be released upon the issuance of the premises ownership certificate to those buyers.

Save as aforesaid, there was no other material change in the Group's pledge of assets and contingent liabilities.

PROSPECTS

The second half of 2023 is on the one hand full of challenges and uncertainties, but on the other hand it is full of opportunities. The relationships between the USA and China as well as the Russia-Ukraine war continue casting uncertainties on the business environment. The market has been expected that the Federal Reserve of the USA would pause its rate hikes after having conducted the "final" hike in July 2023, and then the Federal Reserve would start to cut the Fed-funds rate. However, the recovery takes time given monetary tightening by the major central banks in the world has pulled too much liquidity out of markets and generated significant negative spillover effects on the global economy. This would directly affect the overall business performance of the Group. On the other hand, the China-Hong Kong borders reopening in early 2023 after relaxation of COVID-19 measures in China and the policies adopted by central government for achievement of the target growth of around 5% in the economy would be the focal points as they would have a direct and positive impact on the business performance of various segments of the Group. New customers to be captured by the Group from its vulnerable competitors who are knocked out in this critical period are expected to bring along new opportunities to our toys and shoes products business in the second half of 2023.

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 province and scaling down of production in such higher cost areas such as Shenzhen and Dongguan in Guangdong province, 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 secured the continuous orders from customers. It was a traditional business trend of the toys business segment of the Group before the pandemic that orders from loyal customers were focusing in the second half of each financial year for catering huge demands in Christmas and New Year. Given populations in a large number of nations have high level of immunity, the impact of Covid-19 variants on the economy has become mild and by comparing with outbreak of Covid-19 and its variants from 2019 to 2022. It is expected that the said traditional business cycle would be back to normal, i.e. orders to be received in the second half of 2023 would likely to be more by comparing with those received in the first half of 2023. Therefore, the performance of this business segment in the second half of 2023 is expected to be improved.

Trading of footwear products

Apart from maintaining good and long-term relationship with loyal clients, the Group will expand its client base by engaging some referrers for securing more orders of footwear products having higher profit margin. The Group will continue to source various production bases out of China for controlling the production costs

Property Investment and Development

Property Investment

Resulting from the uplifting of COVID-19 curbs by the central government and the return of tourists upon relaxation of travel barriers, it is expected that the economy of China will rebound, especially the retail business which is the core business of the Group's leasing segment. After the transformation of Avenue of Stars ("AOS"), a renowned mall in Shenyang, it is ready to grasp the uptrend of economic growth after COVID-19 by anchoring different types of retailers. In addition to AOS, the Group is striving to improve the occupancy rate of the retail podium in Central Square. The night market, which

comprised of different types of retailers offering a variety of products, has been re-opened outside the Central Square in March 2023 after its temporary closure during the winter, and it has archived to bring along pedestrian flow around the Central Square. With the successful experience of last year, it is expected that the night market will further enhance the business atmosphere of Central Square and its vicinity, which in turn will attract more prospective tenants and improve the rental income. In addition, the relaxed restriction on cross-region movements and travels will be a catalyst to speed up the recovery of household consumption and retail spending. The border reopening is expected to bring along a more prominent improvement to the leasing market in Hong Kong.

Property Development

The Group is cautiously optimistic on the sales of residential units of its Central Square as it is located in one of the prime residential areas in Shenyang and having 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 of the remaining settlers, which was affected by the COVID-19 controlling measures. 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. On the other hand, the central government had introduced a batch of development projects which is expected to bring along business opportunities to the land bank assets in Nanjing and Shenzhen. The Group will revisit the business plan on those land bank assets in affected areas and take proactive approach in response to the progress of the development plan.

Agriculture and Forestry

The Group currently has long-term leases of over 290,000 mu (approximately 193 million sq.m.) 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 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 2023 (six months ended 30 June 2022: 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 2023.

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 2023 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 (Chairman and Executive Director), Mr. Ng Yuk Yeung Paul (Executive Director), Mr. Ng Yuk Fung Peter (Non-executive Director) and Mr. Kam Yiu Shing Tony (Independent Non-executive Director), were unable to attend the extraordinary general meeting of the Company held on 11 January 2023 (which deviated from code provisions F.2.2 and C.1.6 of the CG Code) as they had other important business engagements.

Mr. Ng Yuk Fung Peter (Non-executive Director) and Mr. Kam Yiu Shing Tony (Independent Non-executive Director), were unable to attend the annual general meeting and the extraordinary general meeting of the Company both held on 20 June 2023 (which deviated from code provision F.2.2 and C.1.6 of the CG Code) as they had other important business engagements.

UPDATE ON LITIGATION PROCEEDINGS

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

1. *Case on infringement of copyrights*

On 27 March 2023, Jiangsu High People’s Court ruled that the ownership of the copyrights of two pieces of Computer Software belonged to Nanjing South China Skytech Technology Co., Limited (南京南華擎天資訊科技有限公司) (“South China Skytech”). South China Skytech appealed against the ruling on 15 April 2023.

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 2023.

(ii) Case on tort related to Tianjin Binhai land

On 6 June 2023, World Right Investments Limited (環威投資有限公司) (“World Right”) decided to withdraw the case after considering various factors. Its legal team is attempting to file a new case from other perspectives that are more conducive to protecting the rights and interests of World Right and Tianjin South China Property Development Company Limited (天津南華房地產開發有限公司).

(iii) Case on arbitration related to Nansha land

As disclosed in the last annual report of the Company, there was no material change for the six months ended 30 June 2023.

UPDATE ON DIRECTORS’ 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 Directors since the date of the Company’s 2022 annual report are set out below:

1. Mr. Ng Yuk Yeung Paul was appointed as an independent non-executive director, and a member of each of the audit committee, nomination committee and remuneration committee of China Rongzhong Financial Holdings Company Limited (stock code: 03963) with effect from 28 April 2023.
2. Ms. Li Yuen Yu Alice was appointed as a member of the audit committee of the Company (the “Audit Committee”) on 7 July 2023.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises 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 Ms. Li Yuen Yu Alice.

The Group's unaudited interim results for the six months ended 30 June 2023 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 websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.scholding.com). The interim report of the Company for the six months ended 30 June 2023 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, 22 August 2023

As at the date of this announcement, the Directors are:

<i>Executive Directors:</i>	<i>Non-executive Directors:</i>	<i>Independent Non-executive Directors:</i>
<i>Mr. Ng Hung Sang</i>	<i>Ms. Ng Yuk Mui Jessica</i>	<i>Mrs. Tse Wong Siu Yin Elizabeth</i>
<i>Ms. Cheung Choi Ngor</i>	<i>Mr. Ng Yuk Fung Peter</i>	<i>Mr. Kam Yiu Shing Tony</i>
<i>Mr. Ng Yuk Yeung Paul</i>	<i>Ms. Li Yuen Yu Alice</i>	<i>Ms. Pong Scarlett Oi Lan, BBS, J.P.</i>
	<i>Mr. Yu Pui Hang</i>	<i>Mr. Wong Chun Tat, J.P.</i>