



SOUTH CHINA ASSETS HOLDINGS LIMITED

南華資產控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 08155)

**FIRST QUARTERLY REPORT
FOR THE THREE MONTHS ENDED 31 MARCH 2016**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

QUARTERLY RESULTS

The board of directors (the “Board”) of South China Assets Holdings Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2016 together with the relevant comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Three months ended 31 March | |
|--|--------------|------------------------------------|-----------------|
| | | 2016 | 2015 |
| | <i>Notes</i> | HK\$'000 | <i>HK\$'000</i> |
| | | (Unaudited) | (Unaudited) |
| Revenue | 2 | 1,622 | – |
| Other operating income | | 13 | 27 |
| Loss on disposal of available-for-sale financial assets | | (10,354) | (14,614) |
| Fair value loss on financial assets at fair value through profit or loss | | (713) | (516) |
| Fair value gain on redemption option embedded in redeemable convertible preference shares of a related company | | 16,813 | 34,914 |
| Administrative and other operating expenses | | (8,033) | (3,779) |
| | | <hr/> | <hr/> |
| Operating (loss)/profit | | (652) | 16,032 |
| Finance costs | | (6,560) | (70) |
| | | <hr/> | <hr/> |
| (Loss)/profit before income tax | | (7,212) | 15,962 |
| Income tax expense | 4 | – | – |
| | | <hr/> | <hr/> |
| (Loss)/profit for the period attributable to the equity holders of the Company | | (7,212) | 15,962 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| (Loss)/earnings per share attributable to equity holders of the Company for the period | 6 | | |
| Basic and diluted | | HK(0.07) cent | HK0.15 cent |
| | | <hr/> <hr/> | <hr/> <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three months ended 31 March

| | 2016 <i>HK\$'000</i> (Unaudited) | 2015 <i>HK\$'000</i> (Unaudited) |
|---|--|--|
| (Loss)/profit for the period | (7,212) | 15,962 |
| Other comprehensive (loss)/income, that may be reclassified subsequently to profit or loss | | |
| Release of available-for-sale financial assets revaluation reserve upon disposal of available-for-sale financial assets | (3,137) | 2,088 |
| Fair value loss on available-for-sale financial assets | (321,553) | (170,663) |
| Exchange differences on translation of financial statements of overseas subsidiaries | 1,726 | (2,523) |
| Total comprehensive loss for the period attributable to the equity holders of the Company | <u>(330,176)</u> | <u>(155,136)</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2016

| | Share capital HK\$'000 | Share premium HK\$'000 | Treasury shares HK\$'000 | Capital reserve HK\$'000 | Capital contribution reserve HK\$'000 | Available- for-sale financial assets revaluation reserve HK\$'000 | Employee compensation reserve HK\$'000 | Exchange reserve HK\$'000 | Retained earnings HK\$'000 | Total equity HK\$'000 |
|--|------------------------------|------------------------------|--------------------------------|--------------------------------|--|---|---|---------------------------------|----------------------------------|-----------------------------|
| At 1 January 2015 (audited) | 111,785 | 771,842 | (20,830) | 6,044 | 291,562 | 135,606 | 10,576 | 69,773 | 836,878 | 2,213,236 |
| Transactions with owners | | | | | | | | | | |
| Recognition of equity settled share-based compensation | - | - | - | - | - | - | 2,067 | - | - | 2,067 |
| Forfeit of share options under share option scheme | - | - | - | - | - | - | (211) | - | 211 | - |
| Transactions with owners | - | - | - | - | - | - | 1,856 | - | 211 | 2,067 |
| Comprehensive income | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | - | 15,962 | 15,962 |
| Other comprehensive income/(loss) | | | | | | | | | | |
| Release of reserve upon disposal of available-for-sale financial assets | - | - | - | - | - | 2,088 | - | - | - | 2,088 |
| Changes in fair value of available-for-sale financial assets | - | - | - | - | - | (170,663) | - | - | - | (170,663) |
| Exchange realignment | - | - | - | - | - | - | - | (2,523) | - | (2,523) |
| Total comprehensive (loss)/income for the period | - | - | - | - | - | (168,575) | - | (2,523) | 15,962 | (155,136) |
| At 31 March 2015 (unaudited) | <u>111,785</u> | <u>771,842</u> | <u>(20,830)</u> | <u>6,044</u> | <u>291,562</u> | <u>(32,969)</u> | <u>12,432</u> | <u>67,250</u> | <u>853,051</u> | <u>2,060,167</u> |
| At 31 December 2015 and 1 January 2016 (audited) | 111,785 | 771,842 | (20,274) | 6,044 | 291,562 | 403,591 | 17,592 | 16,805 | 885,353 | 2,484,300 |
| Transaction with owners | | | | | | | | | | |
| Recognition of equity settled share-based compensation | - | - | - | - | - | - | 1,955 | - | - | 1,955 |
| Comprehensive loss | | | | | | | | | | |
| Loss for the period | - | - | - | - | - | - | - | - | (7,212) | (7,212) |
| Other comprehensive (loss)/income | | | | | | | | | | |
| Release of reserve upon disposal of available-for-sale financial assets | - | - | - | - | - | (3,137) | - | - | - | (3,137) |
| Changes in fair value of available-for-sale financial assets | - | - | - | - | - | (321,553) | - | - | - | (321,553) |
| Exchange realignment | - | - | - | - | - | - | - | 1,726 | - | 1,726 |
| Total comprehensive (loss)/income for the period | - | - | - | - | - | (324,690) | - | 1,726 | (7,212) | (330,176) |
| At 31 March 2016 (unaudited) | <u>111,785</u> | <u>771,842</u> | <u>(20,274)</u> | <u>6,044</u> | <u>291,562</u> | <u>78,901</u> | <u>19,547</u> | <u>18,531</u> | <u>878,141</u> | <u>2,156,079</u> |

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the three months ended 31 March 2016 have been reviewed by the audit committee of the Company.

The unaudited condensed consolidated financial statements have been prepared in accordance with the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”), the accounting principles generally accepted in Hong Kong and the relevant Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2015 except that the Group has adopted the newly issued and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which are effective for the annual period beginning on 1 January 2016, as disclosed in the annual financial statements for the year ended 31 December 2015.

The adoption of these new and revised HKFRS does not have material impact on the Group’s financial performance and financial position.

These unaudited condensed consolidated financial statements should be read in conjunction with the annual report for the year ended 31 December 2015.

2. REVENUE

In November 2015, the Group acquired companies engaged in provision of investment advisory and asset management services and money lending business. For the three months ended 31 March 2016, the revenue represents interest income from the money lending operation.

Since the Group’s property development projects are still in development stage, the Group will resume and recognise relevant revenue upon the projects’ completion and sale. There was no such revenue recorded for the three months ended 31 March 2016 and 31 March 2015.

3. SEGMENT INFORMATION

The Group has identified its operating segments based on the regular internal financial information reported to the Group’s management for their decisions about resources allocation and review of performance. The Group has identified two reportable segments as follows:

- (a) the financial services segment which is engaged in provision of investment advisory and asset management services and money lending business; and
- (b) the property development segment which is engaged in property development business in the People’s Republic of China (“PRC”).

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

For the three months ended 31 March 2016

| | Financial Services HK\$'000 (Unaudited) | Property Development HK\$'000 (Unaudited) | Consolidated HK\$'000 (Unaudited) |
|--|--|--|--|
| Segment revenue: | | | |
| Revenue from external customers | 1,622 | – | 1,622 |
| Segment Loss | | | |
| | <u>(1,291)</u> | <u>(3,152)</u> | (4,443) |
| Unallocated corporate expenses | | | (1,955) |
| Loss on disposal of available-for-sale financial assets | | | (10,354) |
| Fair value loss on financial assets at fair value through profit or loss | | | (713) |
| Fair value gain on redemption option embedded in redeemable convertible preference shares of a related company | | | 16,813 |
| Finance costs | | | <u>(6,560)</u> |
| Loss before income tax | | | (7,212) |
| Income tax expense | | | <u>–</u> |
| Loss for the period | | | <u><u>(7,212)</u></u> |

The Group's geographical information of the revenue from external customers are not presented as the revenue for the three months ended 31 March 2016 are attributable to a single geographical region, Hong Kong, and the Group did not depend on any single customer under the segments for the three months ended 31 March 2016.

For the three months ended 31 March 2015, there was only one component in the internal reporting to the Group's management as the Group was principally engaged in property development business. In addition, there was no revenue for the three months ended 31 March 2015. As such, no segment disclosures were presented for the three months ended 31 March 2015.

4. INCOME TAX EXPENSE

No provision for Hong Kong profits tax was provided for as the Group had no estimated assessable profits arising in or derived from Hong Kong during the three months ended 31 March 2016 and 31 March 2015.

No provision for the PRC enterprise income taxes has been made during the three months ended 31 March 2016 and 31 March 2015 as the subsidiaries operated in the PRC had no assessable profits for both periods.

5. DIVIDEND

The Board resolved not to declare the payment of dividend for the three months ended 31 March 2016 (three months ended 31 March 2015: Nil).

6. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to the equity holders of the Company is based on the following data:

| | Three months ended 31 March | |
|---|------------------------------------|-----------------------|
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| (Loss)/profit attributable to equity holders of the Company used in the basic (loss)/earnings per share calculation | <u>(7,212)</u> | <u>15,962</u> |
| | Three months ended 31 March | |
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Weighted average number of ordinary shares in issue during the period | 11,178,498,344 | 11,178,498,344 |
| Less: Weighted average number of shares held for share award scheme | <u>(169,819,118)</u> | <u>(174,203,118)</u> |
| Weighted average number of ordinary shares used in the basic (loss)/earnings per share calculation | <u>11,008,679,226</u> | <u>11,004,295,226</u> |

There was no material dilutive potential ordinary share for the three months ended 31 March 2016 and 31 March 2015.

No share option was granted during the three months ended 31 March 2016 and 31 March 2015. The Company's share options have no dilution effect for the three months ended 31 March 2016 and 31 March 2015 because the exercise prices of the Company's share options were higher than the average market prices of the shares for the both periods.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY

The Group recorded revenue and loss attributable to the equity holders of the Company for the three months ended 31 March 2016 of HK\$1.6 million (three months ended 31 March 2015: Nil) and HK\$7.2 million (three months ended 31 March 2015: profit of HK\$16.0 million), respectively. The loss attributable to the equity holders of the Company for the three months ended 31 March 2016 primarily resulted from the loss on disposal of available-for-sale financial assets and administrative and other operating expenses, which were partially offset by the fair value gain on redemption option embedded in redeemable convertible preference shares of a related company.

FINANCIAL REVIEW

In 2015, the Group acquired companies engaged in provision of investment advisory and asset management services and money lending business. Management expected that the new business will generate steady income stream for the Group. The current period revenue is wholly attributable to the subsidiary, which is engaged in the money lending business, acquired in November 2015. The property development segment did not record any revenue for the three months ended 31 March 2016 and 31 March 2015 as the property development projects on hand were still at the development stage.

For the three months ended 31 March 2016, the fair value gain on redemption option embedded in redeemable convertible preference shares of a related company was HK\$16.8 million (three months ended 31 March 2015: HK\$34.9 million). The change in fair value gain mainly resulted from the movements in various parameters including share price of South China Holdings Company Limited. Administrative and other operating expenses amounted to HK\$8.0 million (three months ended 31 March 2015: HK\$3.8 million) for the period under review.

BUSINESS REVIEW

The principal businesses of the Group include financial services and property development.

(a) Financial services

The acquisition of entire share capital of South China Asset Management Limited (“SCA”), a licensed corporation holding the licenses for type 4 (advising on securities) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), from South China Financial Holdings Limited (“SCF”) was completed in September 2015. SCA is currently working on products development, and has not recorded any revenue during the three months ended 31 March 2016.

In November 2015, the Group acquired a company engaged in money lending business, South China Financial Credits Limited (“SCFC”), from SCF. SCFC is governed by the Hong Kong Money Lender Ordinance (Chapter 163 of the Laws of Hong Kong) with business scope encompassing unsecured personal loans, tax loans, small business loans, specialized lending and debt consolidation. The loan portfolio of the money lending business amounted to HK\$16.9 million as at 31 March 2016.

The directors considered that the key risk exposures of our investment advisory and asset management business and money lending business are market risk, credit risk and the need to maintain sufficient liquidity to satisfy regulatory capital requirements and working capital needs. The Group does not take trade positions which expose it to material price risk or foreign exchange risk.

The Group's risk management objectives are therefore to minimize the key financial risks through clearly defined terms of business with customers, stringent investment and credit control over transactions with them, and regular monitoring of cash flow and management accounts to ensure that the relevant regulated entities comply with the regulatory capital requirements and the financial services operations maintain adequate working capital.

(b) Property development

Shenyang, Liaoning Province

Under the development plan of the Huanggu District (皇姑區) property development project, the Huanggu District (皇姑區) property development project has a site area of approximately 67,000 square metres. A mixed development which comprises commercial/retail, residential and office/hotel will be built. According to the Auction Confirmation Letter (掛牌交易成交確認書) (the "Auction Confirmation Letter"), the consideration for the land use rights is RMB1,176.8 million. As of today, RMB235.4 million has been paid.

Since the site demolition work and occupants relocation have not been carried out by the government, the government is not in a position to deliver vacant possession of the site to a subsidiary of the Company. Management has been negotiating with the government to resolve the issue. Regarding payment of compensation, the Company and the subsidiary of the Company has commenced legal proceedings against Shenyang City Huanggu Region Construction Administration Bureau (沈陽市皇姑區城市建設局) and Shenyang Land Reserve & Exchange Centre (沈陽市土地交易中心) in the Liaoning High People's Court (遼寧省高級人民法院) for damages and other reliefs.

Cangzhou, Hebei Province

The Huanghua New City (黃驊新城) property development project, with a site area of 32,336 square metres, is a commercial/retail development to provide shopping mall, entertainment, dining and recreational facilities with a total GFA of approximately 45,000 square metres. The consideration for the land use rights is RMB15.3 million. The Group has obtained the State-owned Land Use Right Certificate (國有土地使用證), the Land Use Permit (建設用地規劃許可證) and the Construction Planning Permit (建設工程規劃許可證) for the project. Main contract work is expected to commence upon the issuance of the Construction Permit (建設工程施工許可證).

In February 2014, the Group won a bid at the tender for the acquisition of the land adjacent to the then existing Huanghua New City property development project with a site area of 32,921 square metres and allowable GFA of approximately 99,000 square metres. The consideration for the land acquisition, which amounted to RMB15.5 million, has been paid fully. This newly acquired land, being the second phase of the Huanghua New City property development project, will provide further commercial/retail/office/hotel facilities.

The existing property portfolio of the Group is located in Mainland and is therefore subject to the risks associated with China's property market. Our property development operations in the mainland may also be exposed to the risks of policy change, interest rate change, demand-supply imbalance, and the overall economic conditions, which may pose an adverse impact on the Group's business, financial condition or results of operations. To mitigate the abovementioned risks, the Group will monitor such exposures closely with a view to reacting timely to any change.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Group did not have any material acquisition or disposal during the three months ended 31 March 2016.

PROSPECTS

Management reviewed the business of the Group in 2015, and was of the view that it is in the best interest of the Group to consolidate its existing property development business and diversify into new business in the financial services sector which is able to produce steady income stream given the existing market conditions and the resources available.

The year of 2016 will be another challenging year given the dynamic changes in both macroeconomic environment and policy changes in China. Despite the challenges, management believes opportunities still exist for our business growth. The Group will pay close attention to the internal and external economic situations and continue to closely monitor and make great efforts on adjusting internal structure and optimizing businesses.

(a) Financial services business

In view of increasing demand of financial plans and needs of customers in the Greater China region, the Group will continue to build up a one-stop centre to offer a diverse range of financial services.

SCA, our asset management arm, has been pitching to set up funds and will act as Investment Advisor or Investment Manager for the successfully launched funds. It will also provide investment advisory and asset management services for tailor-made discretionary portfolios of equities, bonds, mutual funds, investment linked products and other financial assets.

SCFC, our money lending business unit, will keep on reviewing its products with a view to serving the customers' needs better and enhancing product competitiveness. SCFC will diversify into other target customers to increase the market share of our lending business.

(b) Property development business

After the completion of the disposal of entire issued share capital of Elite Empire Investments Limited and Bigwin Investments Limited in 2015, the projects on hand has aggregate site area of approximately 142,000 square meters including approximately 67,000 square meters attributable to the Huanggu District project. As mentioned in the section “BUSINESS REVIEW”, the Group has been in discussions with the local government to resolve the issue.

To diversify its business, the Group has shifted its focus to the small to medium size projects to relieve the burden on resources for the capital intensive projects.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2016, the interests and short positions of the directors of the Company (the “Directors”) and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (“SFO”)) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules, were as follows:

(i) Long positions in ordinary shares of the Company (the “Shares”)

| Directors | Capacity | Number of Shares | Total number of Shares | Approximate percentage of shareholding to total issued Shares |
|--------------------------------------|---|--|-------------------------------|--|
| Ng Hung Sang (“Mr. Ng”) | Beneficial owner Interest of spouse Interest of controlled corporations | 363,393,739 967,923,774 5,925,872,490 <i>(Note (a))</i> | 7,257,190,003 | 64.92% |
| Law Albert Yu Kwan (“Mr. Law”) | Beneficial owner | | 13,104,000 | 0.12% |
| Ng Yuk Yeung Paul (“Mr. Paul Ng”) | Beneficial owner | | 2,602,667 | 0.02% |

(ii) Long positions in underlying Shares

| Directors | Capacity | Number of underlying Shares | Approximate percentage of shareholding to total issued Shares |
|------------------------------------|------------------|------------------------------------|--|
| Cheung Choi Ngor ("Ms. Cheung") | Beneficial owner | 55,896,000 <i>(Note (b))</i> | 0.50% |
| Mr. Law | Beneficial owner | 55,896,000 <i>(Note (b))</i> | 0.50% |
| Mr. Paul Ng | Beneficial owner | 83,840,000 <i>(Note (b))</i> | 0.75% |

Notes:

- (a) 5,925,872,490 Shares held by Mr. Ng through controlled corporations include 1,088,784,847 Shares held by Bannock Investment Limited ("Bannock"), 1,150,004,797 Shares held by Eartrade Investments Limited ("Eartrade"), 1,817,140,364 Shares held by Fung Shing Group Limited ("Fung Shing"), 1,728,362,917 Shares held by Parkfield Holdings Limited ("Parkfield"), 76,464,373 Shares held by Ronastar Investments Limited ("Ronastar"), 65,104,000 Shares held by South China Strategic Limited ("SC Strategic") and 11,192 Shares held by South China Finance And Management Limited ("SCFM"). Fung Shing, Parkfield and Ronastar were all directly wholly-owned by Mr. Ng. Mr. Ng holds SC Strategic and SCFM indirectly via South China Holdings Company Limited ("SCHC") and South China Financial Holdings Limited ("SCF") respectively. Bannock was a wholly-owned subsidiary of Eartrade which was directly owned as to 60% by Mr. Ng, 20% by Mr. Richard Howard Gorges ("Mr. Gorges") and 20% by Ms. Cheung. SCHC and SCF were owned as to approximately to 60.87% and 26.94%, respectively by Mr. Ng. As such, Mr. Ng was deemed to have interest in the 65,104,000 Shares held by SC Strategic, 11,192 Shares held by SCFM and the aggregate 2,238,789,644 Shares held by Bannock and Eartrade.
- (b) The respective underlying Shares held by Ms. Cheung, Mr. Law and Mr. Paul Ng were the share options granted to them on 1 October 2013 under the share option scheme adopted by the Company on 8 May 2012 (the "Share Option Scheme"). For more details, please refer to the section headed "Share Option Scheme".

Apart from the foregoing, none of the Directors or any of their spouses or children under eighteen years of age had interests or short positions in the Shares, underlying Shares or debentures of the Company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company pursuant to the required standard of dealings by Directors as referred to Rules 5.48 to 5.67 of the GEM Listing Rules, at 31 March 2016.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Company has been notified of the following interest in its issued Shares at 31 March 2016 amounting to 5% or more of the Shares in issue:

Long positions in Shares

| Shareholders | Capacity | Number of Shares | Approximate percentage of shareholding to total issued Shares |
|----------------------------------|---|------------------------------------|--|
| Eartrade | Beneficial owner and interest of a controlled corporation | 2,238,789,644 <i>(Note (a))</i> | 20.03% |
| Fung Shing | Beneficial owner | 1,817,140,364 | 16.26% |
| Parkfield | Beneficial owner | 1,728,362,917 | 15.46% |
| Bannock | Beneficial owner | 1,088,784,847 <i>(Note (a))</i> | 9.74% |
| Ng Lai King Pamela ("Ms. Ng") | Beneficial owner and interest of spouse | 7,257,190,003 <i>(Note (b))</i> | 64.92% |

Notes:

- (a) Bannock is a wholly-owned subsidiary of Eartrade. Eartrade was deemed to have interest in the Shares held by Bannock.
- (b) Ms. Ng, who held 967,923,774 Shares directly, is the spouse of Mr. Ng, the Chairman and an Executive Director of the Company. By virtue of the SFO, Ms. Ng was deemed to have interest in the 363,393,739 Shares and 5,925,872,490 Shares held by Mr. Ng directly and indirectly through controlled corporations, respectively, as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in the above.

Apart from the forgoing, as at 31 March 2016, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in the above, had registered an interest or short position in the Shares or underlying Shares that was required to be recorded pursuant to section 336 of SFO.

EMPLOYEES' SHARE AWARD SCHEME

On 18 March 2011, the Company adopted the employee's share award scheme (the "Share Award Scheme") whereby the Company may grant share awards to selected employees in recognition of their contributions to the Group, and as incentive to retain them to support the operations and ongoing development of the Group and attract suitable personnel for the Group's further development. Pursuant to the terms and conditions of the Share Award Scheme, the Company shall settle a sum up to HK\$50 million for the purchase of shares in the Company and/or SCHC from the market. Such shares shall form part of the capital of the trust fund set up for the Share Award Scheme. The Board may, from time to time, select employees for participation in the Share Award Scheme and cause to be paid an amount to the trustee from the Company's resources for the purpose of purchase of shares as referred to in the above.

SHARE OPTION SCHEME

The Company adopted a Share Option Scheme in May 2012 for the purpose of providing incentives and rewards to eligible participants, who contribute to the success of the Group's operations, and retaining such participants for their continuing support to the Group. The shares options granted under the Scheme is unlisted. Particulars and movements of the outstanding share options granted under the Share Option Scheme during the three months ended 31 March 2016 were as follows:

| Name and category of participant | Number of share options | | | | | | Date of grant of share options (DD/MM/YYYY) | Exercisable period of share options (Note i) | Price of Shares | | | |
|----------------------------------|--------------------------|---------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|--|---|---|--|--|--|
| | Balance as at 01/01/2016 | Granted during the period | Exercised during the period | Lapsed during the period | Cancelled during the period | Balance as at 31/03/2016 | | | Exercise price per share option HK\$ | Immediately preceding the grant date of share options (Note ii) HK\$ | Immediately preceding the exercise date of share options (Note iii) HK\$ | |
| Directors | | | | | | | | | | | | |
| Ms. Cheung | 55,896,000 | - | - | - | - | 55,896,000 | 01/10/2013 | 01/10/2016 - 30/09/2023 | 0.188 | 0.188 | N/A | |
| Mr. Law | 55,896,000 | - | - | - | - | 55,896,000 | 01/10/2013 | 01/10/2016 - 30/09/2023 | 0.188 | 0.188 | N/A | |
| Mr. Paul Ng | 83,840,000 | - | - | - | - | 83,840,000 | 01/10/2013 | 01/10/2016 - 30/09/2023 | 0.188 | 0.188 | N/A | |
| Sub-total | <u>195,632,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>195,632,000</u> | | | | | | |
| Others | | | | | | | | | | | | |
| In aggregate | 55,896,000 | - | - | - | - | 55,896,000 | 01/10/2013 | 01/10/2016 - 30/09/2023 | 0.188 | 0.188 | N/A | |
| Sub-total | <u>55,896,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>55,896,000</u> | | | | | | |
| Total | <u>251,528,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>251,528,000</u> | | | | | | |

Notes:

- (i) All share options granted are subject to a vesting period and becoming exercisable in whole or in part in the following manner:

| From the date of grant of share options | Exercisable percentage |
|--|-------------------------------|
| Within 36 months | Nil |
| 37th–48th months | 30% |
| 49th–60th months | 60% |
| 61st–120th months | 100% |

- (ii) The price of the Shares disclosed as immediately preceding the date of grant of the share options is the Stock Exchange's closing price on the trading day immediately prior to the date of the grant of the share options.
- (iii) The weight average closing price of the Shares immediately before the date on which the options are exercised.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The Company, SCHC and SCF, both, being listed on the Stock Exchange, have certain common directors. The principal activities of SCHC and SCF include property investment or development business and provision of investment advisory or asset management services.

Mr. Ng, Ms. Cheung, Mr. Gorges and Mr. Law, all being Executive Directors of the Company, are also the executive directors of SCHC. Mr. Ng and Ms. Cheung are also the executive director of SCF. Ms. Ng Yuk Mui Jessica, an Executive Director of the Company, is also the non-executive director of SCHC and the executive director of SCF. Mr. Paul Ng, a Non-executive Director of the Company, is also an executive director of SCHC.

Mr. Ng is the chairman of the board and controlling shareholder of SCHC, is also chairman of board and substantial shareholder of SCF. Mr. Gorges and Ms. Cheung are the directors and substantial shareholders of a controlled corporation of Mr. Ng, together with his associates, holds 60.87% interest in SCHC and Mr. Ng holds 26.94% interest in SCF.

The Group seeks to undertake property development projects in smaller size and diversify into the financial services businesses while SCHC mainly focuses on the medium to large scale property investment and development projects.

The Group is in the course of diversifying into the financial services businesses while SCF undertakes a wide range of financial services businesses of sizable scale in operations and with solid client portfolio.

The abovementioned common directors declare their interests in competing business and abstain from voting in transactions in which the Company and SCHC or SCF compete or is likely to compete with each other and, therefore, do not control the Board as far as transaction in relation to competing business is concerned. As such, the Board is independent from the board of SCHC or SCF, and the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of SCHC or SCF. Given the difference in business focus as referred to in the preceding paragraph, the competition between the businesses of the Company and SCHC or SCF is considered to be relatively remote.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the three months ended 31 March 2016.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee presently comprises two Independent Non-executive Directors, namely Ms. Chan Mei Bo Mabel (Chairman of the Committee) and Ms. Pong Scarlett Oi Lan, J.P. and a Non-executive Director, namely Mr. Paul Ng.

The Group's quarterly report for the three months ended 31 March 2016 has been reviewed by the Audit Committee.

By Order of the Board
South China Assets Holdings Limited
南華資產控股有限公司
Ng Hung Sang
Chairman and Executive Director

Hong Kong, 5 May 2016

As at the date of this report, the Directors are (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges, Ms. Ng Yuk Mui Jessica and Mr. Law Albert Yu Kwan as executive directors; (2) Mr. Ng Yuk Yeung Paul as non-executive director; and (3) Ms. Chan Mei Bo Mabel, Sr Dr. Leung Tony Ka Tung and Ms. Pong Scarlett Oi Lan, J.P. as independent non-executive directors.