



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)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given the companies listed on GEM are generally small and mid-sized companies, 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.

INTERIM 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 and six months ended 30 June 2018 together with the relevant comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 June		Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	2	191	356	328	1,089
Other net income	3	-	97,207	995	97,212
Fair value loss on financial assets at fair value through profit or loss		(4,836)	(4,639)	(5,320)	(23,008)
Fair value gain/(loss) on redemption option embedded in redeemable convertible preference shares of a related company		-	567	-	(3,887)
Loss on disposal of available-for-sale financial assets		-	(763)	-	(763)
Administrative and other operating expenses		(9,432)	(5,515)	(11,834)	(9,514)
Operating (loss)/profit	5	(14,077)	87,213	(15,831)	61,129
Finance costs	6	(5,443)	(6,692)	(11,122)	(13,346)
(Loss)/profit before income tax		(19,520)	80,521	(26,953)	47,783
Income tax expense	7	-	(30,817)	-	(30,817)
(Loss)/profit for the period attributable to the equity holders of the Company		(19,520)	49,704	(26,953)	16,966
(Loss)/profit per share attributable to the equity holders of the Company for the period					
Basic and diluted	9	HK(0.18) cent	HK0.45 cent	HK(0.24) cent	HK0.15 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three months ended 30 June		Six months ended 30 June	
	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
(Loss)/profit for the period	(19,520)	49,704	(26,953)	16,966
Other comprehensive income				
<i>Items that will not be reclassified to profit or loss</i>				
Fair value loss on financial assets at fair value through other comprehensive income	(43,764)	–	(51,316)	–
Release of financial assets revaluation reserve upon disposal of financial assets	1,612	–	2,224	–
<i>Items that may be reclassified subsequently to profit or loss</i>				
Release of available-for-sale financial assets revaluation reserve upon disposal of available-for-sale financial assets	–	1,737	–	1,737
Release of available-for-sale financial assets revaluation reserve upon de-recognition of available-for-sale financial assets	–	–	–	(77,528)
Fair value loss on available-for-sale financial assets	–	(13,002)	–	(66,884)
Exchange differences on translation of financial statements of overseas subsidiaries	(11,070)	7,472	(3,617)	10,273
Total comprehensive income for the period attributable to the equity holders of the Company	<u>(72,742)</u>	<u>45,911</u>	<u>(79,662)</u>	<u>(115,436)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		224	485
Goodwill		16,849	17,068
Loans receivable	10	498	1,138
Financial assets at fair value through other comprehensive income		272,077	–
Available-for-sale financial assets		–	339,455
		<u>289,648</u>	<u>358,146</u>
Current assets			
Loans receivable	10	596	1,934
Properties under development		129,043	130,308
Financial assets at fair value through profit or loss		24,665	29,985
Deposits paid, prepayments and other receivables		27,623	158,930
Tax recoverable		735	669
Cash and bank balances		227,781	190,577
		<u>410,443</u>	<u>512,403</u>
Current liabilities			
Trade payables	11	1,661	1,682
Other payables, accrued expenses and receipts in advance	12	187,318	188,383
Financial liabilities in respect of redemption option embedded in redeemable convertible preference shares of a related company		–	12,595
Interest-bearing bank borrowing		4,000	4,000
Income tax payable		22,836	23,132
		<u>215,815</u>	<u>229,792</u>
Net current assets		<u>194,628</u>	<u>282,611</u>
Total assets less current liabilities		<u>484,276</u>	<u>640,757</u>
Non-current liabilities			
Loans from shareholders		388,280	465,290
Net assets		<u>95,996</u>	<u>175,467</u>
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital		111,785	111,785
Reserves		(15,789)	63,682
Total equity		<u>95,996</u>	<u>175,467</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Share capital HK\$'000	Treasury shares HK\$'000	Capital reserve HK\$'000	Financial assets revaluation 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 31 December 2016 and 1 January 2017 (audited)	111,785	(20,191)	6,044	-	12,276	24,644	(9,476)	108,236	233,318
Transaction with owners									
Bonus shares received on redeemable convertible preference shares	-	-	-	-	-	-	-	77,528	77,528
Recognition of equity settled share-based compensation	-	-	-	-	-	2,376	-	-	2,376
Transaction with owners	-	-	-	-	-	2,376	-	77,528	79,904
Comprehensive income									
Profit for the period	-	-	-	-	-	-	-	16,966	16,966
Other comprehensive income									
Release of reserve upon disposal of available-for-sale financial assets	-	-	-	-	1,737	-	-	-	1,737
Release of reserve upon de-recognition of available-for-sale financial assets	-	-	-	-	(77,528)	-	-	-	(77,528)
Changes in fair value of available-for-sale financial assets	-	-	-	-	(66,884)	-	-	-	(66,884)
Exchange realignment	-	-	-	-	-	-	10,273	-	10,273
Total comprehensive income for the period	-	-	-	-	(142,675)	-	10,273	16,966	(115,436)
At 30 June 2017 (unaudited)	<u>111,785</u>	<u>(20,191)</u>	<u>6,044</u>	<u>-</u>	<u>(130,399)</u>	<u>27,020</u>	<u>797</u>	<u>202,730</u>	<u>197,786</u>
At 31 December 2017 and 1 January 2018 (audited)	111,785	(20,191)	6,044	-	(59,942)	22,417	15,935	99,419	175,467
Change in accounting policy									
Adoption of HKFRS 9	-	-	-	(63,047)	59,942	-	-	3,105	-
Transaction with owners									
Loss on disposal of financial assets	-	-	-	-	-	-	-	(763)	(763)
Recognition of equity settled share-based compensation	-	-	-	-	-	954	-	-	954
Transaction with owners	-	-	-	-	-	954	-	(763)	191
Comprehensive income									
Loss for the period	-	-	-	-	-	-	-	(26,953)	(26,953)
Other comprehensive income									
Changes in fair value of financial assets	-	-	-	(51,316)	-	-	-	-	(51,316)
Release of reserve upon disposal of financial assets	-	-	-	2,224	-	-	-	-	2,224
Exchange realignment	-	-	-	-	-	-	(3,617)	-	(3,617)
Total comprehensive income for the period	-	-	-	(49,092)	-	-	(3,617)	(26,953)	(79,662)
At 30 June 2018 (unaudited)	<u>111,785</u>	<u>(20,191)</u>	<u>6,044</u>	<u>(112,139)</u>	<u>-</u>	<u>23,371</u>	<u>12,318</u>	<u>74,808</u>	<u>95,996</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June

	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	131,445	47,091
Net cash generated from investing activities	5,880	4,371
Net cash used in financing activities	(91,298)	(8,983)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	46,027	42,479
Cash and cash equivalents, beginning of the period	190,577	29,815
Effect of foreign exchange rate changes	(8,823)	919
	<hr/>	<hr/>
Cash and cash equivalents, end of the period	<u>227,781</u>	<u>73,213</u>
	<hr/>	<hr/>
Analysis of the cash and cash equivalents		
Cash and bank balances	<u>227,781</u>	<u>73,213</u>

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2018 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 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 2017 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 2018, as disclosed in the annual financial statements for the year ended 31 December 2017.

Upon adoption of Hong Kong Financial Reporting Standard 9: Financial Instruments (“HKFRS 9”), for the Group’s host equity instrument of the redeemable convertible preference shares (“RCPS”) and listed ordinary shares measured at fair value and classified as available-for-sale financial assets as at 31 December 2017, are reclassified to financial assets at fair value through other comprehensive income with effect from 1 January 2018. For the Group’s redemption option in respect of RCPS classified as financial liabilities at fair value through profit or loss as at 31 December 2017, is reclassified to financial assets at fair value through other comprehensive income with effect from 1 January 2018. Cumulative fair value changes on the available-for-sale financial assets revaluation reserve, together with the fair value changes on the redemption option previously recognised under retained earnings, are transferred to financial assets revaluation reserve with effect from 1 January 2018.

Other than the adoption of HKFRS 9, the adoption of other 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 2017.

2. REVENUE

For the three months and six months ended 30 June 2018, the revenue represents interest income from the money lending operation.

Since the Group’s property development projects are still at the planning 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 and six months ended 30 June 2018 and 30 June 2017.

3. OTHER NET INCOME

During the three months and six months ended 30 June 2018, the other net income mainly represents bank interest income.

During the three months and six months ended 30 June 2017, the other net income mainly represented an one-off compensation in respect of the Huanggu District property development project, receivable from Shenyang City Huanggu Region Construction Administration Bureau (瀋陽市皇姑區城市建設局) and Shenyang Land Reserve & Exchange Centre (瀋陽市土地交易中心) (collectively referred as the “Shenyang Bureau”), based on the court rulings dated 4 May 2016 and 2 March 2017, respectively. The courts ruled in our favor that the Shenyang Bureau was required to pay to the Company’s subsidiary the compensation and reliefs, together with the offsetting with corresponding receivables previously recognised, amounted to other net income of HK\$97.2 million.

4. 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.

The following tables present revenue and loss for the Group's operating segments for the six months ended 30 June 2018 and 30 June 2017:

For the six months ended 30 June 2018

	Financial Services HK\$'000 (unaudited)	Property Development HK\$'000 (unaudited)	Consolidated HK\$'000 (unaudited)
Segment revenue:			
Revenue from external customers	<u>328</u>	<u>-</u>	<u>328</u>
Segment results	<u>(2,410)</u>	<u>(201)</u>	(2,611)
Unallocated corporate income			797
Unallocated corporate expenses			(8,758)
Fair value loss on financial assets at fair value through profit or loss			(5,320)
Unallocated finance costs			<u>(11,061)</u>
Loss before income tax			(26,953)
Income tax expense			<u>-</u>
Loss for the period			<u>(26,953)</u>

4. SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2017

	Financial Services <i>HK\$'000</i> (unaudited)	Property Development <i>HK\$'000</i> (unaudited)	Consolidated <i>HK\$'000</i> (unaudited)
Segment revenue:			
Revenue from external customers	1,089	–	1,089
Segment results	<u>(3,543)</u>	<u>95,714</u>	92,171
Unallocated corporate expenses			(3,495)
Fair value loss on financial assets at fair value through profit or loss			(23,008)
Fair value loss on redemption option embedded in redeemable convertible preference shares of a related company			(3,887)
Loss on disposal of available-for-sale financial assets			(763)
Unallocated finance costs			<u>(13,235)</u>
Profit before income tax			47,783
Income tax expense			<u>(30,817)</u>
Profit for the period			<u><u>16,966</u></u>

The following tables present the assets and liabilities information for the Group's operating segments as at the reporting period end date:

As at 30 June 2018

	Financial Services <i>HK\$'000</i> (unaudited)	Property Development <i>HK\$'000</i> (unaudited)	Consolidated <i>HK\$'000</i> (unaudited)
Segment assets	25,214	299,610	324,824
Financial assets at fair value through other comprehensive income			272,077
Financial assets at fair value through profit or loss			24,665
Other corporate assets			<u>78,525</u>
Total assets			<u><u>700,091</u></u>
Segment liabilities	4,489	55,772	60,261
Loans from shareholders			388,280
Other corporate liabilities			<u>155,554</u>
Total liabilities			<u><u>604,095</u></u>

4. SEGMENT INFORMATION (Continued)

As at 31 December 2017

	Financial Services <i>HK\$'000</i> (audited)	Property Development <i>HK\$'000</i> (audited)	Consolidated <i>HK\$'000</i> (audited)
Segment assets	32,346	304,183	336,529
Available-for-sale financial assets			339,455
Financial assets at fair value through profit or loss			29,985
Other corporate assets			<u>164,580</u>
Total assets			<u><u>870,549</u></u>
Segment liabilities	4,786	42,970	47,756
Financial liabilities in respect of redemption option embedded in redeemable convertible preference shares of a related company			12,595
Loans from shareholders			465,290
Other corporate liabilities			<u>169,441</u>
Total liabilities			<u><u>695,082</u></u>

The Group's geographical information of the revenue from external customers are not presented as the revenue for the six months ended 30 June 2018 and 30 June 2017 are attributable to a single geographical region, Hong Kong, and the Group did not depend on any single customer under the segments for the six months ended 30 June 2018 and 30 June 2017.

5. OPERATING (LOSS)/PROFIT

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating (loss)/profit is arrived at after charging/(crediting):				
Depreciation	65	93	134	165
Less: Depreciation capitalised in properties under development	(7)	(6)	(13)	(13)
	<u>58</u>	<u>87</u>	<u>121</u>	<u>152</u>
Employee benefit expense (including directors' emoluments)	2,344	3,430	4,774	6,770
Less: Employee benefit expense capitalised in properties under development	(113)	(142)	(191)	(231)
	<u>2,231</u>	<u>3,288</u>	<u>4,583</u>	<u>6,539</u>
Exchange losses/(gains), net	<u>6,415</u>	<u>(265)</u>	<u>3,971</u>	<u>(2,184)</u>

6. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
Interest charged on bank borrowing	32	38	61	111
Interest charged on loan from a related company	-	941	-	1,872
Interest charged on loans from shareholders	5,411	5,713	11,061	11,363
	<u>5,443</u>	<u>6,692</u>	<u>11,112</u>	<u>13,346</u>

7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax was made as the Group had no estimated assessable profits arising in or derived from Hong Kong during the three months and six months ended 30 June 2018 and 30 June 2017.

No provision for the PRC enterprise income tax was made as the subsidiaries operated in the PRC had no assessable profits during the three months and six months ended 30 June 2018.

During the three months and six months ended 30 June 2017, tax on income arising from subsidiaries in PRC have been provided based on a statutory rate of 25% as determined in accordance with the relevant PRC income tax rules and regulations.

8. INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

9. (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 30 June		Six months ended 30 June	
	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
Unaudited (loss)/profit attributable to the equity holders of the Company used in the basic (loss)/earnings per share calculation	<u>(19,520)</u>	<u>49,704</u>	<u>(26,953)</u>	<u>16,966</u>

9. (LOSS)/EARNINGS PER SHARE (Continued)

	Three months ended 30 June		Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Weighted average number of ordinary shares in issue during the period	11,178,498,344	11,178,498,344	11,178,498,344	11,178,498,344
Less: Weighted average number of shares held for share award scheme	<u>(169,163,118)</u>	<u>(169,163,118)</u>	<u>(169,163,118)</u>	<u>(169,163,118)</u>
Weighted average number of ordinary shares used in the basic (loss)/earnings per share calculation	<u>11,009,335,226</u>	<u>11,009,335,226</u>	<u>11,009,335,226</u>	<u>11,009,335,226</u>

Diluted (loss)/earnings per share for the three months and six months ended 30 June 2018 and 30 June 2017 were the same as the basic (loss)/earnings per share. The Company's share options have no dilution effect for the three months and six months ended 30 June 2018 and 30 June 2017 because the exercise prices of the Company's share options were higher than the average market prices of the shares for both periods.

10. LOANS RECEIVABLE

Loans receivable bear interest at rates determined on case by case basis and have credit periods mutually agreed between the contractual parties. Each customer has a credit limit. The Group maintains strict control over its outstanding loans receivable and a credit control department has been established to monitor potential credit risk. Overdue balances are reviewed regularly by the senior management and are handled closely by the credit control department. The Group's loans receivable relate to a diversified portfolio of customers. As such, there is no significant concentration of credit risk.

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Loans receivable	9,071	10,337
Less: provision for impairment loss	<u>(7,977)</u>	<u>(7,265)</u>
	1,094	3,072
Less: Non-current portion	<u>(498)</u>	<u>(1,138)</u>
Current portion	<u>596</u>	<u>1,934</u>

11. TRADE PAYABLES

The following is an ageing analysis of trade payables:

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Over 180 days	<u>1,661</u>	<u>1,682</u>

12. OTHER PAYABLES, ACCRUED EXPENSES AND RECEIPTS IN ADVANCE

As at 30 June 2018, other payables, accrued expenses and receipts in advance included accrued interest expenses on the loans from shareholders of HK\$154,587,000 (As at 31 December 2017: HK\$157,753,000) in respect of the loans made available to the Group in prior years.

The loans from shareholders are unsecured and carried interest at the prime lending rate as quoted by The Hong Kong and Shanghai Bank Corporation Limited from time to time, except for the loans from shareholders amounted to HK\$3,500,000 (As at 31 December 2017: HK\$7,000,000) in aggregate which is interest free. Details about the terms of the loans from shareholders have been set out in the audited consolidated financial statements of the Company for the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY

The Group recorded revenue and loss attributable to the equity holders of the Company, both being the financial key performance indicators, for the six months ended 30 June 2018 of HK\$328,000 (six months ended 30 June 2017: HK\$1.1 million) and HK\$27 million (six months ended 30 June 2017: profit of HK\$17 million), respectively.

The loss attributable to the equity holders of the Company for the six months ended 30 June 2018 is mainly attributable to non-occurrence of an one-off compensation income from 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 respect of the Huanggu District property development project of the Group recognised in the corresponding period of last year (details of which are disclosed in the Annual Report 2017). This was partially offset by decrease in fair value loss on financial assets at fair value through profit or loss, and the fair value loss on redemption option embedded in redeemable convertible preference shares of a related company (“RCPS”) being recorded through other comprehensive income following the adoption of Hong Kong Financial Reporting Standard 9: Financial Instruments with effect from 1 January 2018.

Excluding non-operating items (being gain/loss arising from, among other things, other net income, fair value loss on financial assets at fair value through profit or loss and redemption options embedded in RCPS), adjusted operating loss of the Group for the period was HK\$7.5 million as compared to a loss of HK\$10.6 million in the corresponding period of last year due to efforts in controlling cost.

FINANCIAL REVIEW

During the period under review, money lending business has generated revenue of HK\$328,000 (six months ended 30 June 2017: HK\$1.1 million). The property development segment did not record any revenue from external customers as the property development projects were still at the planning stage.

For the six months ended 30 June 2018, the fair value loss on financial assets at fair value through profit or loss was HK\$5.3 million (six months ended 30 June 2017: HK\$23 million). The change in fair value loss mainly resulted from the movements in various parameters including share price of South China Holdings Company Limited (“SCHC”). No fair value loss on redemption option embedded in RCPS was recorded during the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$3.9 million) as such was recorded through other comprehensive income following the adoption of HKFRS 9 with effect from 1 January 2018.

Other net income amounted to HK\$1 million (six months ended 30 June 2017: HK\$97.2 million) for the period under review. The decrease mainly resulted from non-occurrence of an one-off compensation income from Shenyang City Huanggu Region Construction Administration Bureau and Shenyang Land Reserve & Exchange Centre in respect of the Huanggu District property development project of the Group recognised in the corresponding period of last year. Administrative and other operating expenses amounted to HK\$11.8 million (six months ended 30 June 2017: HK\$9.5 million) for the period under review and such increase was mainly due to exchange loss of HK\$4.0 million as compared to a gain of HK\$2.2 million in the corresponding period of last year.

BUSINESS REVIEW

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

(a) Financial services

The segment is made up of South China Asset Management Limited (“SCA”), a licensed corporation holding the licences 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). SCA has not recorded any revenue in the period under review.

The Group also carries out money lending business via South China Financial Credits Limited (“SCFC”), a wholly-owned subsidiary of the Company. 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, specialised lending and debt consolidation. The gross loan portfolio of the money lending business amounted to HK\$9.1 million as at 30 June 2018.

In furthering the Group’s strategy to build up an “one-stop financial services center” to offer customers with a diverse range of financial services, the Group has been granted by the Securities and Futures Commission (“SFC”) the corporate licence to carry out regulated activities in dealing in securities (“Type 1 Licence”) in October 2016 and the corporate licence to carry out regulated activities in dealing in futures contracts (“Type 2 Licence”) in July 2017. The Group is currently in the process of completing the application to be participants of Hong Kong Exchanges and Clearing Limited for Type 1 Licence and Type 2 Licence, and has not recorded any revenue in the period under review.

The segment is also made up of South China Wealth Advisory Limited (“SCWA”), who has membership of Professional Insurance Brokers Association (“PIBA”) and is a Mandatory Provident Fund (“MPF”) principal intermediary under MPF Schemes Ordinance (“MPFSO”). SCWA has not recorded any revenue in the period under review.

The directors considered that the key risk exposures of our investment advisory, 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 minimise 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 consideration for the land use rights is RMB1,176.8 million and RMB235.4 million land premium was paid.

Since the local government failed to perform its obligations in carrying out site demolition work and occupants relocation and the delivering vacant possession of the site to a subsidiary of the Company, the Company and the subsidiary of the Company commenced legal proceedings against Shenyang City Huanggu Region Construction Administration Bureau (瀋陽市皇姑區城市建設局) and Shenyang Land Reserve & Exchange Centre (瀋陽市土地交易中心) (collectively referred as the “Shenyang Bureau”) in the Liaoning High People’s Court (遼寧省高級人民法院) for damages and other reliefs.

On 4 May 2016, Liaoning High People’s Court (遼寧省高級人民法院) ruled in our favor that the Shenyang Bureau is required to pay to the Company’s subsidiary the interests on the land premium paid by the Company. On 23 May 2016, the Shenyang Bureau appealed to the Supreme People’s Court of The People’s Republic of China (中華人民共和國最高人民法院).

On 2 March 2017, the Supreme People’s Court of The People’s Republic of China ruled in our favor, and the ruling on 4 May 2016 was upheld, that the Shenyang Bureau is required to pay to the Company’s subsidiary the compensation and reliefs. The Group received full amount of the said land premium and the said compensation and reliefs in full from Shenyang Bureau.

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 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 87,000 square metres. The consideration for the land acquisition, which amounted to RMB15.5 million, has been paid in full. This newly acquired land, being the second phase of the Huanghua New City property development project, will further provide commercial/retail/office/hotel facilities. The Group obtained the State-owned Land Use Right Certificate and the Land Use Permit in prior years and has further obtained the Construction Planning Permit in July 2018.

The existing property portfolio of the Group is located in the PRC and is therefore subject to the risks associated with the PRC property market. Our property development operations in the PRC 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.

INVESTMENT PORTFOLIO

The Group's investment portfolio consists of ordinary shares and RCPSs of SCHC, which are presented under financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, respectively.

Stock code	Name of security	Carrying value as at 30 June 2018 <i>HK\$'000</i>	Fair value loss during the Period <i>HK\$'000</i>
413	South China Holdings Company Limited ("SCHC")		
	— Ordinary shares	78,828	17,002
	— RCPSs	<u>217,914</u>	<u>39,634</u>
		<u>296,742</u>	<u>56,636</u>

The principal business of SCHC includes trading and manufacturing, property investment and development, agriculture and forestry.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had a current ratio of 1.9 and a gearing ratio of 4.2%. The gearing ratio is computed by comparing the Group's bank borrowing to the Group's total equity. As at 31 December 2017, the Group had a current ratio of 2.2 and a gearing ratio of 2.3%. The Group financed its operations and investments by internal resources and bank borrowings.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

During the six months ended 30 June 2018, the Group did not make any material acquisition and disposal of subsidiaries and associates.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES OR ANY RELATED HEDGES

During the six months ended 30 June 2018, the Group had no significant exposure to fluctuations in foreign exchange rates or any related hedges.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no pledge of assets and contingent liabilities.

PROSPECTS

Management believes it is the best interest of the Group to continue 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 2018 will be another challenging year given the dynamic changes in both macroeconomic environment and policy changes in the PRC. 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 optimising businesses.

(a) Financial services business

To capitalise strong demand for financial services and surging needs of customers in the Greater China region, the Group's strategy is to build up a "one-stop financial services center" to offer customers with a diverse range of financial services. To pursue this goal, the Group acquired SCA, the asset management arm, and SCFC, the money lending business unit, in 2015.

SCA was in the incubation stage in the year under review and is continuing its effort in structuring private funds with various investment strategies and asset classes to meet our clients' investment needs and risk appetites. SCA has been in on-going discussion with potential investors for engagement as investment manager to provide tailor-made discretionary portfolio and management solutions which will then generate revenue upon successful rollout.

SCFC is in the progress to devise a new market positioning strategy during the year under review. The move is to tap into customer segments with better credibility background and new products to cater needs from the market as a step towards building a healthy loan portfolio, which is conducive to the sustained growth of business in the future. Amidst product repositioning strategy, SCFC has tightened its credit approval and strategy of new loan and loan refinancing applications, and dwindled the amount of new loan disbursements in the period under review. To grasp more business opportunities, SCFC has begun to enlarge its sales force and has recently appointed new heads to take charge of its money lending business in the second half of 2018; the Group will then strengthen its credit approval process and debt collection functions to provide safeguard to the Group for excessive credit risk.

SCWA is the member of PIBA and is a MPF principal intermediary under MPFSO. The Group has recently appointed licence holder in July 2018 to start exploring and developing sales channels to commence wealth management business.

In addition to the Group's successful application for Type 1 Licence in October 2016, the Group has further progressed towards the mission as a "one-stop financial services center" as the SFC has granted Type 2 Licence to the Group in July 2017. The Group is currently in the process of completing the application to be participants of Hong Kong Exchanges and Clearing Limited for Type 1 Licence and Type 2 Licence, and in the process of selecting and setting up front-line trading and back-end settlement systems for the business to commence.

(b) Property development business

The Group's projects on hand have an aggregate site area of approximately 72,000 square meters. 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. The Group has recently set up new teams with PRC property expertise to conduct feasibility study for potential commencement of development.

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

As at 30 June 2018, 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	363,393,739	7,257,178,811	64.92%
	Interest of spouse	967,923,774		
	Interest of controlled corporations	5,925,861,298 <i>(Note (a))</i>		
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. Paul Ng	Beneficial owner	83,840,000 <i>(Note (b))</i>	0.75%

Notes:

- (a) 5,925,861,298 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 Earntrade Investments Limited (“Earntrade”), 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 Green Orient Investments Limited (“Green Orient”). Fung Shing, Parkfield and Ronastar were all directly wholly-owned by Mr. Ng. Mr. Ng holds Green Orient indirectly via South China Holdings Company Limited (“SCHC”). Bannock was a wholly-owned subsidiary of Earntrade which was directly owned as to 60% by Mr. Ng, 20% by Mr. Richard Howard Gorges (“Mr. Gorges”) and 20% by Ms. Cheung. SCHC was owned as to approximately to 63.24% by Mr. Ng. As such, Mr. Ng was deemed to have interest in the 65,104,000 Shares held by Green Orient and the aggregate 2,238,789,644 Shares held by Bannock and Earntrade.
- (b) The respective underlying Shares held by Ms. Cheung 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 30 June 2018.

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 30 June 2018 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
Earntrade	Beneficial owner and interest of a controlled corporation	2,238,789,644 (Note (a))	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 (Note (a))	9.74%
Ng Lai King Pamela (“Ms. Ng”)	Beneficial owner and interest of spouse	7,257,190,003 (Note (b))	64.92%

Notes:

- (a) Bannock is a wholly-owned subsidiary of Earntrade. Earntrade 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 5,925,861,298 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 30 June 2018, 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’ resources for the purposed 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 six months ended 30 June 2018 were as follows:

Name or category of participant	Number of share options					Balance as at 30/06/2018	Date of grant of share options (DD/MM/YYYY)	Exercisable period of share options (Note i)	Price of shares		
	Balance as at 01/01/2018	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period				Exercise price per share option HK\$	Immediately preceding the grant date of share option (Note ii) HK\$	Immediately preceding the exercise date of share option (Note iii) HK\$
Directors											
Ms. Cheung	16,768,000	-	-	-	-	16,768,000	01/10/2013	01/10/2016-30/09/2023	0.188	0.188	N/A
	16,768,000	-	-	-	-	16,768,000	01/10/2013	01/10/2017-30/09/2023	0.188	0.188	N/A
	22,360,000	-	-	-	-	22,360,000	01/10/2013	01/10/2018-30/09/2023	0.188	0.188	N/A
Mr. Paul Ng	25,152,000	-	-	-	-	25,152,000	01/10/2013	01/10/2016-30/09/2023	0.188	0.188	N/A
	25,152,000	-	-	-	-	25,152,000	01/10/2013	01/10/2017-30/09/2023	0.188	0.188	N/A
	33,536,000	-	-	-	-	33,536,000	01/10/2013	01/10/2018-30/09/2023	0.188	0.188	N/A
Sub-total	<u>139,736,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>139,736,000</u>					
Other											
In aggregate	16,768,000	-	-	-	-	16,768,000	01/10/2013	01/10/2016-30/09/2023	0.188	0.188	N/A
	16,768,000	-	-	-	-	16,768,000	01/10/2013	01/10/2017-30/09/2023	0.188	0.188	N/A
	22,360,000	-	-	-	-	22,360,000	01/10/2013	01/10/2018-30/09/2023	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>195,632,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>195,632,000</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 South China Financial Holdings Limited (“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 and dealing in securities.

Mr. Ng, Ms. Cheung and Mr. Gorges, 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 (“Ms. Jessica Ng”), 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 63.24% interest in SCHC and Mr. Ng holds 29.36% interest in SCF.

Ms. Cheung and Mr. Gorges hold certain shareholding interests in SCF. Ms. Jessica Ng holds certain shareholding interests in SCHC. Mr. Paul Ng holds certain shareholding interests in SCHC and 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 six months ended 30 June 2018.

SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the required standard of dealing set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct regarding securities transactions by Directors. In addition, the Board has established similar guidelines for relevant employees who are likely to possess inside information in relation to the Group or its securities.

In response to the Company's specific enquiry, all Directors of the Company confirmed that they have complied with the required standard of dealing and its code of conduct regarding securities transactions by Directors throughout the six months ended 30 June 2018.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

In accordance with GEM Rule 17.50A(1), the changes to information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of GEM Rule 17.50(2) of the GEM Listing Rules during the course of the Directors' terms of office for the period from date of publication of the Company's latest annual report up to the date of this interim report are set out below:

1. Ms. Cheung has been re-designated from chief executive officer to co-chief executive officer of SCHC with effect from 16 May 2018; and
2. Mr. Paul Ng has been appointed as co-chief executive officer of SCHC with effect from 16 May 2018.

CORPORATE GOVERNANCE CODE

The Company had complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2018 except that Mr. Ng, an Executive Director and the Chairman of the Board of the Company, Ms. Cheung, an Executive Director of the Company and Mr. Paul Ng, a Non-executive Director of the Company were unable to attend the annual general meeting of the Company held on 25 May 2018, which deviated from code provisions E.1.2 and A.6.7 of CG Code as they had other business engagements.

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 Mr. Cheng Hong Kei (Chairman of the Audit Committee) and Ms. Pong Scarlett Oi Lan, BBS, J.P. and a Non-executive Director, namely Mr. Paul Ng.

The Group's interim results for the six months ended 30 June 2018 has not been audited, but has been reviewed by the Audit Committee, which was of the opinion that the preparation of such interim results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

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, 7 August 2018

As at the date of this report, the directors of the Company are (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges and Ms. Ng Yuk Mui Jessica as executive directors; (2) Mr. Ng Yuk Yeung Paul as non-executive director; and (3) Mr. Cheng Hong Kei, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Yeung Chi Hang as independent non-executive directors.