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**SOUTH CHINA HOLDINGS LIMITED**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 265)**

**TOTAL GRACE  
INVESTMENTS LIMITED**  
*(Incorporated in the British Virgin Islands  
with limited liability)*

**(1) MAJOR TRANSACTION  
REGARDING THE ACQUISITION OF SATELLITE APPLICATIONS BUSINESS  
(2) GROUP REORGANIZATION  
(3) POSSIBLE UNCONDITIONAL VOLUNTARY CASH OFFER FOR SHARES IN  
SOUTH CHINA (BVI) LIMITED BY SOUTH CHINA CAPITAL LIMITED  
ON BEHALF OF TOTAL GRACE INVESTMENTS LIMITED  
(4) PROPOSED CHANGE OF COMPANY NAME  
AND  
(5) SUSPENSION AND RESUMPTION OF TRADING**

**Financial Adviser to South China  
Holdings Limited**

***Hercules***  
**Hercules Capital Limited**

**Financial Adviser to the Offeror**

  
**South China Capital Limited**

**THE ACQUISITION**

On 30 September 2011, the Purchaser, a wholly-owned subsidiary of the Company, entered into the S&P Agreement with the Vendor and the Guarantor, both being independent third parties, to acquire the Sale Shares for a total consideration of HK\$700 million. The consideration shall be satisfied by the Purchaser as to (i) HK\$30 million in cash; (ii) HK\$130 million by procuring the issue and allotment of 260,000,000 Consideration Shares, credited as fully paid at HK\$0.5 per Consideration Share, by the Company; and (iii) HK\$540 million by procuring the issue of the Convertible Notes with an initial conversion price of approximately HK\$0.49645 per Conversion Share by the Company.

The Acquisition constitutes a major transaction for the Company under the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. Since no Shareholders have any material interest in the Acquisition which is different from other Shareholders and none of the Vendor and its associates holds any Share as at the date of this announcement, no

Shareholders are required to abstain from voting at the EGM to approve the S&P Agreement and the transactions contemplated thereunder.

### **GROUP REORGANIZATION**

The Board proposes to place before the Shareholders a proposal for the Group Reorganization which, if approved and implemented, will result in,

- (a) the Company continuing as a public listed company with its subsidiaries engaged in the business of the Remaining Business;
- (b) all other subsidiaries carrying on the Distributed Business will be transferred to the Distributed Company; and
- (c) the Distributed Shares held by the Company will, following the injection of the Distributed Business into the Distributed Company, be distributed in specie to the Shareholders whose names appear on the register of members of the Company on the Record Date on the basis of one Distributed Share for each Share.

The distribution in specie of the Distributed Shares will be effected by way of distribution from the distributable profits of the Company of an amount equivalent to the carrying value of the Distributed Group, which will be ascertained immediately prior to the completion of the Group Reorganization. There is no intention to apply for the listing of the Distributed Shares on the Stock Exchange or any other stock exchange.

The Group Reorganization is conditional on, among other things, the approval of the Independent Shareholders being obtained and the fulfillment or waiver of all the conditions precedent to the completion of the S&P Agreement (other than those relating to the implementation and completion of the Group Reorganization).

### **POSSIBLE UNCONDITIONAL VOLUNTARY CASH OFFER FOR THE DISTRIBUTED SHARES**

Subject to completion of the Group Reorganization and the S&P Agreement, South China Capital will, on behalf of the Offeror, make the Offer to the Distributed Company Shareholders to acquire all the Distributed Shares (other than those Distributed Shares already owned by or agreed to be acquired by the Offeror Concert Group at the time when the Offer is made) on the following terms:

For every Distributed Share ..... HK\$0.06007 in cash

The principal terms of the Offer are set out under the section headed "Possible Unconditional Voluntary Cash Offer for the Distributed Shares" in this announcement. South China Capital, the financial advisor to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptance of the Offer.

### **PROPOSED CHANGE OF COMPANY NAME**

To better reflect the principal activities and development focus of the Group after completion of the Acquisition, the Board proposes to change the English name of the

Company from “South China Holdings Limited” to “China Beidou Holdings Limited” and adopt “中國北斗控股有限公司” as the Chinese name of the Company (for replacement of the existing Chinese name “南華集團有限公司” which has been used by the Company for identification purpose), subject to, inter alia, the completion of the Acquisition.

### **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 1:30 p.m. on 30 September 2011, pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 19 October 2011.

## **THE ACQUISITION**

Reference is made to the announcement of the Company dated 26 May 2011 in relation to the entering into of a memorandum of understanding regarding the Acquisition by the Purchaser.

The Board is pleased to announce that the Purchaser, a wholly-owned subsidiary of the Company, entered into the S&P Agreement with the Vendor and the Guarantor on 30 September 2011 to acquire the Sale Shares. Details of the S&P Agreement are set out as follows:

### **(a) The S&P Agreement**

#### **Date**

30 September 2011

#### **Parties involved**

Purchaser: Bounty Gain Group Limited, a wholly-owned subsidiary of the Company

Vendor: Zhao Ling Limited, an investment holding company

Guarantor: Mr. Lim Fai, the ultimate beneficial owner of the Sale Shares, who guarantees the fulfillment of the obligations and responsibilities of the Vendor under the S&P Agreement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and the Guarantor are third parties independent of the Company and connected persons of the Company.

#### **Assets to be acquired**

The Sale Shares, being 1,000 ordinary shares of US\$1.00 each in the issued share capital of the Target, represent the entire issued share capital of the Target.

## Consideration

The consideration for the Acquisition is HK\$700 million, which shall be satisfied by the Purchaser as to:

- (i) HK\$30 million by payment of cash on or before 31 March 2012;
- (ii) HK\$130 million by procuring the issue and allotment of 260,000,000 Consideration Shares, credited as fully paid at HK\$0.5 per Consideration Share by the Company on the date of Completion, provided that the Consideration Shares will only be issued to the extent that the shareholding in the Company held by the public will not be less than 25% or the minimum prescribed percentage as set out in the Listing Rules from time to time; and
- (iii) HK\$540 million by procuring the issue of the Convertible Notes by the Company on the date of Completion.

The consideration of the Acquisition was determined after arm's length negotiations between the Purchaser and the Vendor, having taken into account (a) the outlook of the satellite applications industry in the PRC; (b) the growth potential and future prospects of the Target Group; (c) the profit guarantee provided by the Vendor; and (d) the condition to completion of the Acquisition that the valuation of the Target Group, based on a valuation by an independent valuer, is not less than HK\$700 million.

The issue price of HK\$0.5 per Consideration Share represents:

- (i) a premium of approximately 3.1% over the closing price of HK\$0.4850 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 2.2% over the average closing price of approximately HK\$0.4890 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
- (iii) a premium of approximately 0.9% over the average closing price of approximately HK\$0.4955 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

The initial conversion price of HK\$0.49645 per Conversion Share represents:

- (i) a premium of approximately 2.4% over the closing price of HK\$0.4850 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 1.5% over the average closing price of approximately HK\$0.4890 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
- (iii) a premium of approximately 0.2% over the average closing price of approximately HK\$0.4955 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

The issue price of the Consideration Shares and the initial conversion price of the Conversion Shares were arrived at after arm's length negotiations between the Purchaser and the Vendor with reference to the prevailing market price of the Shares.

The Directors believe that the consideration of the Acquisition, the issue price of the Consideration Shares and the initial conversion price of the Conversion Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Profit Guarantee and Adjustments to the Consideration of the Acquisition**

The Vendor has guaranteed to the Purchaser that:

- (i) the First Year Profits shall not be less than HK\$30 million; and
- (ii) the Second Year Profits shall not be less than HK\$70 million.

The profit guarantee is subject to the conditions that, inter alia, the Target Group shall obtain sufficient funding, in the amount of approximately HK\$300 million, for its business development before 1 April 2012. If no sufficient funding is provided to the Target Group, the Total Guaranteed Profits shall be adjusted subject to mutual agreement by the parties to the S&P Agreement.

In the event that the Total Actual Profits are less than the Total Guaranteed Profits, (i) the consideration of the Acquisition shall be adjusted downward at an amount as calculated in accordance with the formula set out below, provided that the adjustment to the consideration will be capped at the total outstanding principal of the Convertible Notes and no upward adjustment will be made to the consideration of the Acquisition, and (ii) the Company will be entitled to redeem at HK\$10 such part of the Convertible Notes with a principal amount equivalent to the adjustment to the consideration of the Acquisition.

*The formula for calculating the adjustment to consideration of the Acquisition:*

$$\text{Consideration adjustment} = \frac{\text{Consideration of the Acquisition}}{\text{of the Acquisition}} \times \left(1 - \frac{\text{Total Actual Profits}}{\text{Total Guaranteed Profits}}\right)$$

The Total Guaranteed Profits and the corresponding mechanism for adjustment to the consideration of the Acquisition were determined after arm's length negotiations between the parties to the S&P Agreement by reference to the outlook of the satellite applications industry in the PRC and the estimated business growth of the Target Group. The Board considers that the profit guarantee and the corresponding mechanism for adjustment to the consideration of the Acquisition are on normal commercial terms and it is in the interest of the Company and its shareholders as a whole to include such terms in the S&P Agreement as they would provide a fair compensation to the Group in the event that the business results of the Target Group is unsatisfactory during the relevant period.

### **Consideration Shares**

The Consideration Shares represent approximately 14.26% of the existing issued share capital of the Company, approximately 12.48% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and approximately 8.20% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and Conversion Shares upon full conversion of the Convertible Notes.

It is agreed in principle that (i) the Consideration Shares are subject to a moratorium period of nine months from the date of Completion, during which the Vendor is restricted from selling any of the Consideration Shares to any third party; and (ii) the

Consideration Shares will not be entitled to the Distribution in Specie. The Consideration Shares will be issued under a specific mandate, which will be sought at the EGM. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares, which will rank pari passu in all respects with the then existing Shares save for the moratorium period, the entitlement to the Distribution in Specie and any dividend or other distribution declared, made or paid by the Company by reference to a record date falling before the date of issue of the Consideration Shares.

### **Principal terms of the Convertible Notes**

The terms of the Convertible Notes were negotiated on an arm's length basis and the principal terms of which are summarized below:

Issuer	:	the Company
Principal amount	:	US\$69,677,419 (equivalent to HK\$540,000,000), in the denomination of US\$10,000,000 each
Issue price	:	100% of principal amount of the Convertible Notes
Interest	:	Nil
Maturity date	:	the fifth anniversary of the date of issue of the Convertible Notes
Conversion price	:	The initial conversion price is approximately HK\$0.49645, subject to adjustments in accordance with the terms and conditions of the Convertible Notes. Events triggering adjustments include, inter alia, share consolidation, share subdivision, capitalization of profits or reserves, capital distribution, rights issue, equity or equity derivatives issues and other offers to Shareholders, except that no adjustment shall be made in respect of the Distribution in Specie and other distribution or dividend to Shareholders within eighteen months from the date of the S&P Agreement and an issue by the Company or any of its subsidiaries of securities convertible into or rights to acquire Shares in consideration in whole or in part of the acquisition of any other securities, assets or business which is approved by the Shareholders in a general meeting to be held before the second anniversary of the issue date of the Convertible Notes.
Conversion rights	:	<p>The Convertible Notes carry the rights to convert the whole or part of their principal amount into Conversion Shares at the initial conversion price of approximately HK\$0.49645 per Conversion Share. Notwithstanding anything to the contrary in the terms of the Convertible Notes, the exercise of the conversion rights of the Convertible Notes shall be subject to the following limitations:</p> <p>(i) the Company shall not issue any Conversion Share if, upon such issue, (a) any Noteholder and parties acting in concert with it will trigger a change in control (as defined under the Takeovers Code) and a mandatory general offer being required to be made following such a change; and/or (b) the shareholding in the Company held by the public will</p>

be less than 25% or the minimum prescribed percentage as set out in the Listing Rules from time to time;

- (ii) the conversion right shall not be exercisable until the First Year Profits have been determined and notified by the Company;
- (iii) upon the determination of the First Year Profits, the aggregate principal amount of the Convertible Notes which may be converted pursuant to the conversion rights during the First Conversion Period shall be subject to a maximum amount as determined below:

$$A = B \times (C/D)$$

where:-

A = the maximum principal amount of the outstanding Convertible Notes in respect of which conversion rights may be exercised;

B = US\$69,677,419, the initial principal amount of the Convertible Notes;

C = the First Year Profits (and if the First Year Profits exceed HK\$30 million, it shall in turn be capped at HK\$30 million); and

D = the Total Guaranteed Profits

- (iv) upon the determination of the Second Year Profits, the aggregate principal amount of the Convertible Notes which may be converted pursuant to the conversion rights during the Second Conversion Period shall be subject to a maximum amount as determined below:

$$E = F \times (G/H)$$

where:-

E = the maximum principal amount of the outstanding Convertible Notes in respect of which conversion rights may be exercised, capped at the principal amount of the Convertible Notes then outstanding;

F = US\$69,677,419, the initial principal amount of the Convertible Notes;

G = the sum of (i) the Second Year Profits and (ii) the excess of the First Year Profits over HK\$30 million (and if such a sum exceeds "H", it shall in turn be capped at "H"); and

H = the Total Guaranteed Profits.

Conversion period : The Convertible Notes can be converted into Conversion Shares during the period commencing on the date the First Year Profits have been determined and notified by the Company and expiring on the maturity date of the Convertible Notes.

Conversion Shares : The Conversion Shares shall rank pari passu in all respects with the fully paid Shares in issue on the relevant conversion date and shall entitle the holders to participate in full in all dividend or other distribution paid or made on the Shares after the relevant conversion date other than any dividend or other distribution previously declared, or recommended or resolved to be paid or made if the record date therefor falls on or before the relevant conversion date.

Assuming that the Convertible Notes are fully converted into Conversion Shares at the initial conversion price of HK\$0.49645, a total of 1,087,731,451 Conversion Shares will be issued, which represent approximately 59.65% of the existing share capital of the Company and approximately 34.30% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares.

The Conversion Shares will be issued under a specific mandate, which will be sought at the EGM. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.

Application of listing : No application will be made by the Company to the Stock Exchange or any other stock exchange for the listing of the Convertible Notes.

Redemption : On the maturity date, the Company shall be entitled to redeem by written notice to each Noteholder all the outstanding Convertible Notes held by such Noteholder at a lump sum nominal amount of HK\$10 in respect of all the Convertible Notes held by such Noteholder.

Furthermore, if the Total Actual Profits are less than the Total Guaranteed Profits, the Company shall be entitled to redeem by written notice to each Noteholder the outstanding Convertible Notes held by such Noteholder at a total lump sum nominal amount of HK\$10 in respect of all outstanding Convertible Notes held by such Noteholder. The principal amount of the Convertible Notes subject to redemption shall be determined by the formula set out below,

$$J = K \times (1 - L/M)$$

where:-

J = the principal amount of the outstanding Convertible Notes in respect of which the Company shall be entitled to redeem;

K = US\$69,677,419, the initial principal amount of the Convertible Notes;



L = the Total Actual Profits;

M = the Total Guaranteed Profits.

Transferability : The Convertible Notes may be assigned or transferred to any third party only with the prior written consent of the Company.

Voting : The Noteholder(s) shall not be entitled to attend or vote at any meeting of the Company by reason only of it/them being the Noteholder(s).

Ranking : The Convertible Notes shall rank pari passu with all outstanding unsecured debt of the Company.

### **Conditions precedent**

Completion is conditional upon, inter alia,:

- (a) satisfactory completion of due diligence review in respect of, including but not limited to, the assets, business, financial position, sale and future prospect of the Target Group by the Purchaser and the Company;
- (b) the passing of the relevant resolutions at the general meeting of the Company by the Shareholders for approving (i) the S&P Agreement and the transactions contemplated thereunder; and (ii) the increase in the authorized share capital of the Company by an amount necessary to allot and issue all of the Consideration Shares and Conversion Shares, if necessary; and the passing of the relevant resolution by the Independent Shareholders for approving the Distribution in Specie;
- (c) the transactions contemplated under the S&P Agreement not being regarded as a reverse takeover under the Listing Rules by the Stock Exchange;
- (d) all necessary licenses, consents, approvals, authorizations, permits, orders and waivers in connection with the entering into and performance of the S&P Agreement and transactions contemplated thereunder having been obtained from the relevant government authorities or any other statutory and regulatory authority (if applicable);
- (e) all necessary consents in connection with the entering into and performance of the S&P Agreement and transactions contemplated thereunder having been obtained from the relevant third parties (if applicable);
- (f) the Purchaser receiving the legal opinion issued by a qualified law firm in the PRC acceptable to the Purchaser and the Company in respect of the due diligence review of the WFOE and the PRC Operating Company regarding, among other things, (i) their due establishment and valid existence, (ii) the legal title of their assets (including but not limited to lands, buildings and intellectual property rights), (iii) the legality of conducting the Satellite Applications Business by WFOE and the PRC Operating Company under the PRC laws, (iv) the approvals for previous changes in their shareholdings; and (v) the legality, enforceability and subsistence of the Business Contracts in form and substance to the satisfaction of the Purchaser;

- (g) the Purchaser having received a valuation report relating to the valuation of the Target Group prepared by a professional valuer acceptable to the Purchaser indicating its valuation to be of an amount not less than HK\$700 million;
- (h) all necessary business qualification certificates relating to the business of the Target Group (including but not limited to 北斗導航民用服務資質證書 (Qualification Certificate for Civilian Satellite Business) to be obtained by the PRC Operating Company) having been obtained and registered in the name of the relevant members of the Target Group;
- (i) the representations and warranties provided under the S&P Agreement remaining true, accurate and not misleading in all respects;
- (j) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares on the Stock Exchange;
- (k) no notice, order, judgement, litigation or proceeding that in any case could restrict or prohibit or make illegal the consummation of any of the transactions contemplated under the S&P Agreement or affect the legal rights and interests of the Purchaser on the Sale Shares at the date of Completion and thereafter having been serviced, released or made by the court, arbitrator, government agencies or other statutory and regulatory bodies;
- (l) appropriate arrangement having been in place to ensure compliance of the Company with Rule 8.08 of the Listing Rules of having at least 25% of the shareholding of the Company to be held by the public at the time of Completion; and
- (m) the passing of the security clearance review and other relevant review process regarding the transactions contemplated under the S&P Agreement and the Target Group Reorganization under the laws of the PRC.

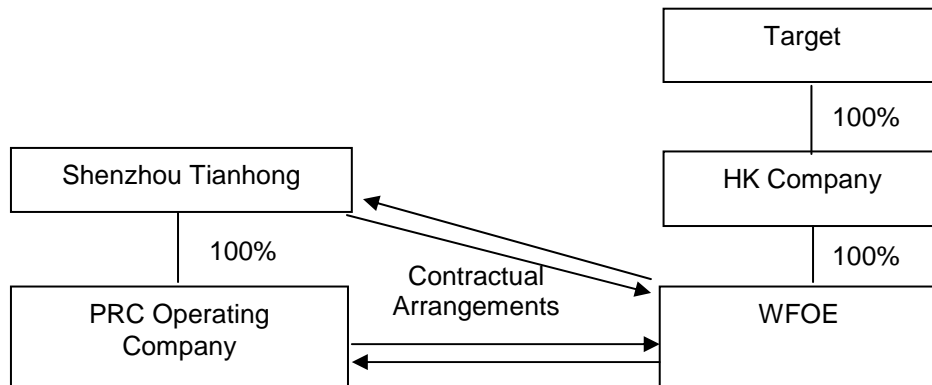
Completion shall take place on the third business day after the date on which all conditions precedent are satisfied or, as the case may be, waived. Save for the conditions (b), (c), (d), (e), (h), (j), (k), (l) and (m), the Purchaser has the right to waive all or part of the conditions precedents in writing. In the event that (x) the above conditions, except for condition (i), are not satisfied or, as the case may be, waived by the Purchaser on or before 25 May 2012, or such other date as agreed by the parties to the S&P Agreement in writing; or (y) condition (i) is not satisfied at the same time when the last condition is satisfied or, as the case may be, waived, the Purchaser shall have the right to postpone the long stop date to a later date or terminate the S&P Agreement and the parties to the S&P Agreement shall not be liable to the other party for any responsibilities under the S&P Agreement, save for prior default.

## **(b) Information on the Target Group**

### **Group structure**

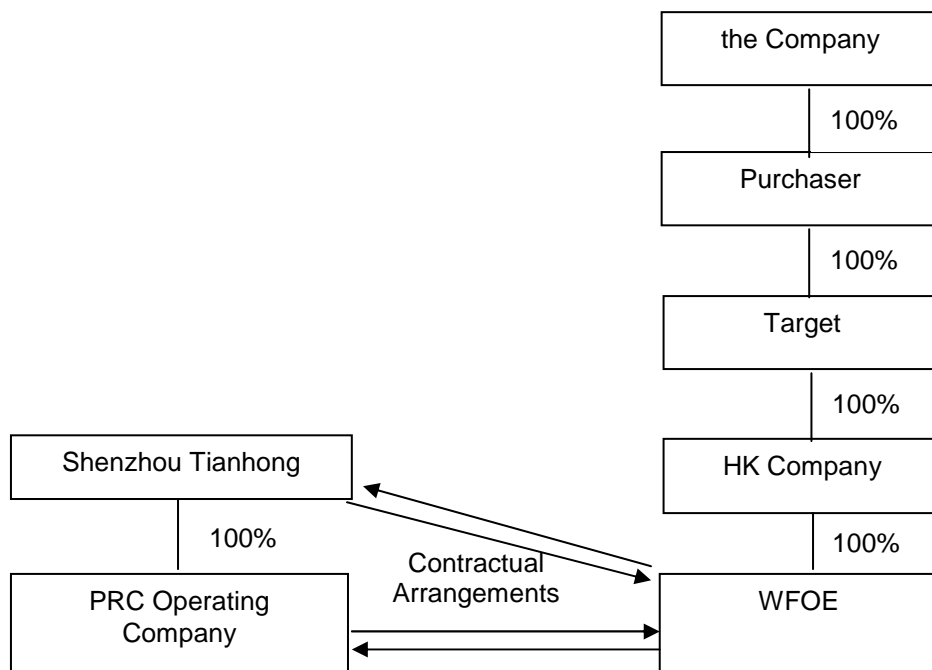
The Target is an investment holding company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by the Vendor as at the date of the S&P Agreement. The Target has two subsidiaries, namely the HK Company and the WFOE, and an effective control over the PRC Operating Company through the Contractual Arrangements.

The group structure of the Target Group as at the date of this announcement is as follows:



The PRC Operating Company is wholly-owned by Shenzhou Tianhong. However, the WFOE has obtained an effective control over the financial and operational policies of the PRC Operating Company and is entitled to the economic benefits derived from the operation of the PRC Operating Company through the Contractual Arrangements under the Business Contracts, including the exclusive business cooperation agreement, loan agreement, equity pledge agreement, exclusive option agreement and proxy agreement, which were entered into between the WFOE and the PRC Operating Company and Shenzhou Tianhong respectively.

Upon Completion, the Target will become an indirect wholly-owned subsidiary of the Company and the Group will have an effective control over the financial and operational policies of the PRC Operating Company. The group structure of the Target Group after Completion is shown as follows:



### The Contractual Arrangements and the Business Contracts

The PRC Operating Company is principally engaged in civilian satellite applications business in the PRC, including but not limited to, BeiDou satellite positioning, satellite

navigation, satellite communication, satellite timing and other related civilian satellite applications. As foreign ownership is not allowed in companies which are engaged in certain areas of satellite applications business in the PRC under the current PRC laws and regulations, the WFOE, the PRC Operating Company and Shenzhou Tianhong entered into the Business Contracts to enable the WFOE to obtain an effective control over the financial and operational policies of the PRC Operating Company and enjoy the economic benefits derived from the operation of the PRC Operating Company even though it has no equity interest in the PRC Operating Company.

The principal terms of the Business Contracts are summarized as follows:

a. Exclusive business cooperation agreement

On 30 September 2011, the WFOE, the PRC Operating Company and Shenzhou Tianhong entered into an exclusive business cooperation agreement, pursuant to which the PRC Operating Company has agreed to engage the WFOE, on an exclusive basis, to provide management and consultation services to the PRC Operating Company. The services to be provided by the WFOE to the PRC Operating Company include business and human resources management services, promotion and development services, technical support, training, software and hardware maintenance services, etc. In return, the PRC Operating Company shall pay a service fee, equivalent to 100% of the profit after taxation of the PRC Operating Company, to the WFOE.

The exclusive business cooperation agreement took effect on the date of execution and shall continue until all the equity interest of the PRC Operating Company or all or major assets of the PRC Operating Company are legitimately transferred from Shenzhou Tianhong to the WFOE. The WFOE has the right to terminate the exclusive business cooperation agreement with a 30-day prior written notice to the other parties to the agreement.

b. Loan agreement

On 30 September 2011, the WFOE and Shenzhou Tianhong entered into a loan agreement, pursuant to which the WFOE has agreed to provide a loan denominated in RMB of principal amount equivalent to US\$500,000 to Shenzhou Tianhong for a term of 10 years from the date of the loan agreement. The term of the agreement may be extended to a later date as agreed by the parties to the agreement in writing. The loan does not bear any interest and it must be applied for the business development of the PRC Operating Company unless written consent has been obtained from the WFOE.

c. Equity pledge agreement

On 30 September 2011, the WFOE, as the pledgee, and Shenzhou Tianhong, as the pledgor, entered into an equity pledge agreement, pursuant to which a security has been granted over the equity interests in the PRC Operating Company to the WFOE as a security for the fulfillment of the obligations of Shenzhou Tianhong under the loan agreement and of the PRC Operating Company under the exclusive business cooperation agreement. The equity pledge shall be effective on the date on which the equity pledge is registered at the relevant authority and continue until all the obligations of Shenzhou Tianhong and the PRC Operating Company under the loan agreement and the exclusive business cooperation agreement respectively have been discharged.

d. Exclusive option agreement

On 30 September 2011, the WFOE, the PRC Operating Company and Shenzhou Tianhong entered into an irrevocable exclusive option agreement pursuant to which the WFOE has been granted an option to acquire, directly or through nominee(s), all or any part of the equity interest in the PRC Operating Company at an amount equal to the loan amount under the loan agreement or any other amount agreed by the parties to the agreement unless a valuation is required under the PRC laws at the time when the WFOE exercises the option.

Subject to the compliance with the PRC laws and regulations, the WFOE may exercise the option at any time from the date of the option agreement to the 10<sup>th</sup> anniversary of the option agreement in any manner at its sole discretion.

e. Proxy agreement

On 30 September 2011, the WFOE, the PRC Operating Company and Shenzhou Tianhong entered into a proxy agreement pursuant to which the WFOE is authorized to exercise the shareholder's rights of Shenzhou Tianhong in the PRC Operating Company. The rights include, among other things, attending the shareholders' meeting of the PRC Operating Company, exercising the voting rights as a shareholder of the PRC Operating Company, exercising the management rights of the PRC Operating Company, nominating persons as the authorized representatives, directors, supervisors, general managers and other senior management of the PRC Operating Company, entitling to all other shareholders' rights as permitted under the laws and the memorandum and articles of association of the PRC Operating Company and signing and executing all relevant documents to effect the above-mentioned rights.

The proxy agreement took effect on the date of execution and shall continue as long as Shenzhou Tianhong remains as a shareholder of the PRC Operating Company unless the WFOE terminates the proxy agreement by a 30-day prior written notice.

**The Business of the Target Group**

Shenzhou Tianhong was granted the 《北斗導航民用服務資質證書》(分理級服務) (Qualification Certificate of Civilian Satellite Services – Allocation Services) and 《北斗導航民用服務資質證書》(終端級服務) (Qualification Certificate of Civilian Satellite Services - Terminal Services) by China National Administration of GNSS and Applications (中國衛星導航定位應用管理中心) in December 2010 and authorized to conduct the businesses of (a) general BeiDou satellite navigation services; (b) design and manufacturing of dedicated and compatible terminal equipment, chips and ancillary software; (c) testing, sale and maintenance of BeiDou satellite navigation related products; (d) technology transfer and research and development of new products in relation to BeiDou satellite technologies; (e) consultancy and training services related to BeiDou satellite technologies; and (f) development of application projects.

Shenzhou Tianhong's products and application systems, such as BeiDou satellite positioning and navigation systems, electronic maps and timing system, etc., are widely used in various industries, including shipping, fisheries, marine, water conservancy, hydropower, forestry, coal, meteorology, petroleum, railway, mobile communications, military and police.

On 30 September 2011, Shenzhou Tianhong and the PRC Operating Company entered into an exclusive business authorization agreement, whereby the PRC Operating Company was authorized to engage in the Civilian Satellite Applications Business in the PRC, including but not limited to, BeiDou satellite positioning, satellite navigation, satellite communication, satellite timing and other civilian satellite applications. Furthermore, Shenzhou Tianhong has agreed to transfer all of its existing Civilian Satellite Applications Business to the PRC Operating Company and cease carrying on any Civilian Satellite Applications Business in the PRC. On 9 September 2011, Shenzhou Tianhong received a letter from China National Administration of GNSS and Applications (中國衛星導航定位應用管理中心) confirming that they in principle consented to the development of Civilian Satellite Applications Business by the PRC Operating Company.

On 30 September 2011, Shenzhou Tianhong and the PRC Operating Company also entered into an asset acquisition agreement pursuant to which the PRC Operating Company has agreed to acquire, and Shenzhou Tianhong has agreed to sell, certain assets that are used for the daily operation of the Civilian Satellite Applications Business at the price based on the valuation of the assets or mutually agreed by the parties to the agreement.

As at the date hereof, the PRC Operating Company has signed letters of intent with five potential customers in the PRC for purchasing satellite applications equipment from the PRC Operating Company in total value of approximately RMB102,400,000 during the year ending 31 December 2012.

### **Financial information of the Target Group**

The Target was incorporated on 13 May 2011 and it has not prepared any consolidated accounts for the Target Group. The unaudited combined financial information of the Target Group, which has been prepared in accordance with accounting principles generally accepted in Hong Kong, is summarized as follows:

	<b>For the period from 13 May 2011</b> <b>(date of incorporation)</b> <b>to 30 June 2011</b> <b>HK\$'000</b>
Turnover	-
Profit before taxation	-
Profit after taxation and extraordinary items	-
Net profit attributable to the owners of the Target	-
	<hr/> <b>As at</b> <b>30 June 2011</b> <b>HK\$'000</b>
Net assets attributable to owners of the Target	<hr/> <b>8</b>

The unaudited financial information of the PRC Operating Company, which has been prepared in accordance with accounting principles generally accepted in the PRC, is summarized as follows:

	<b>For the year ended 31 December</b>	
	<b>2010</b>	<b>2009</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Turnover	97.7	-
Profit / (loss) before taxation	66.5	(9.7)
Profit / (loss) after taxation and extraordinary items	49.9	(9.7)
		<b>As at</b>
		<b>31 December</b>
		<b>2010</b>
		<b>RMB'000</b>
Net assets		<u>266.6</u>

#### **(c) Reasons for the Acquisition**

The Company is an investment holding company and its subsidiaries are principally engaged in the sale of airline tickets and travel package, provision of hotel accommodation booking and travel related services, property investment and development, supply chain system development and trading and manufacturing of jewellery products.

In order to further create value for the Shareholders, the Group has been seeking other business and investment opportunities that have high growth potentials. The Board considers that the Acquisition represents a good opportunity for the Group to tap into the satellite applications industry in the PRC, the access to which is very limited, and believes that the Target Group will, in due course, generate strong revenue and cashflows to the Group for the benefit of all Shareholders.

Having considered that (i) the Acquisition shall bring the abovementioned benefits to the Group; (ii) the Acquisition is subject to the valuation of the Target Group being not less than the total consideration of the Acquisition; and (iii) over 77% of the consideration of the Acquisition will be settled by the issue of the Convertible Notes and the conversion price of which represents a premium over the current market price of the Shares, the Directors believe that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

#### **(d) Shareholding Structure of the Company**

The following chart sets out the shareholding structure of the Company (i) as at the date of this announcement and, for illustrative purposes only, (ii) immediately after the issue of the Consideration Shares (to the extent that the public float of the Company shall not be less than 25%) but before the issue of any Conversion Share (iii) immediately after the issue of the Consideration Shares (to the extent that the public float of the Company shall not be less than 25%) and the issue of Conversion Shares upon conversion of the

Convertible Notes to the extent that the Noteholder(s) does not hold more than 29.99% of the entire issued share capital of the Company; and (iv) immediately after the issue of all Consideration Shares and the issue of Conversion Shares upon full conversion of the Convertible Notes, each prepared on the basis that there would be no change in the issued share capital of the Company after the date of this announcement other than as stated in each scenario:

	As at the date of this announcement		Immediately after the issue of the Consideration Shares (to the extent that the public float of the Company shall not be less than 25%) but before the issue of any Conversion Shares		Immediately after the issue of the Consideration Shares and the issue of Conversion Shares upon conversion of the Convertible Notes to the extent that the public float of the Company shall not be less than 25% and the Noteholder(s) does not hold more than 29.99% of the entire issued share capital of the Company		Immediately after the issue of all Consideration Shares and the issue of Conversion Shares upon full conversion of the Convertible Notes	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Fung Shing Group Limited (Note 1)	396,050,252	21.72	396,050,252	20.66	396,050,252	20.66	396,050,252	12.49
Parkfield Holdings Limited (Note 1)	371,864,000	20.39	371,864,000	19.40	371,864,000	19.40	371,864,000	11.73
Earntrade Investments Limited (Note 2)	250,646,400	13.75	250,646,400	13.08	250,646,400	13.08	250,646,400	7.90
Bannock Investment Limited (Note 2)	237,303,360	13.01	237,303,360	12.38	237,303,360	12.38	237,303,360	7.48
Mr. Ng Hung Sang	71,652,200	3.93	71,652,200	3.74	71,652,200	3.74	71,652,200	2.26
Ronastar Investments Limited (Note 1)	16,665,600	0.91	16,665,600	0.87	16,665,600	0.87	16,665,600	0.53
Mr. Ng Hung Sang and his associates	1,344,181,812	73.72	1,344,181,812	70.12	1,344,181,812	70.12	1,344,181,812	42.39
Vendor	-	-	93,476,880	4.88	93,476,880	4.88	1,347,731,451	42.50
Other public Shareholders	479,219,564	26.28	479,219,564	25.00	479,219,564	25.00	479,219,564	15.11
Total	1,823,401,376	100.00	1,916,878,256	100.00	1,916,878,256	100.00	3,171,132,827	100.00



Notes:

- (1) *Parkfield Holdings Limited, Fung Shing Group Limited and Ronastar Investments Limited are wholly-owned by Mr. Ng Hung Sang. As such, Mr. Ng Hung Sang is deemed to have an interest of 784,579,852 Shares held by Parkfield Holdings Limited, Fung Shing Group Limited and Ronastar Investments Limited.*
- (2) *Bannock Investment Limited is wholly-owned by Eartrade Investments Limited, a company owned as to 60% by Mr. Ng Hung Sang, 20% by Mr. Richard Howard Gorges and 20% by Ms. Cheung Choi Ngor, all of whom are considered as parties to an agreement to which Section 317 of the SFO applies. As such, Mr. Ng Hung Sang, Mr. Richard Howard Gorges and Ms. Cheung Choi Ngor are deemed to have an interest of 487,949,760 Shares held by Bannock Investment Limited and Eartrade Investments Limited.*
- (3) *Save for 92,200,000 outstanding share options with exercise price of HK\$2.00 each, the Company has no outstanding convertible securities, warrants, options or derivatives which are convertible into or which confer rights to require the issue of the Shares.*

#### **(e) Financial Effects of the Acquisition on the Group**

Immediately after the Completion, the Company shall hold the entire equity interest in the Target and the results and assets and liabilities of the Target Group shall be consolidated into the accounts of the Group.

If the Acquisition had been completed on 1 January 2010, the Group's net loss attributable to the owners of the Company for the year ended 31 December 2010 would have been decreased from approximately HK\$13.5 million to HK\$5.8 million. Had the Acquisition been completed on 31 December 2010, the Group's total assets would have been increased from approximately HK\$565.7 million to HK\$1,273.4 million while the total liabilities would have been increased from approximately HK\$374.9 million to HK\$404.9 million.

#### **(f) Listing Rules implications**

The Acquisition constitutes a major transaction for the Company under the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. Since no Shareholders have any material interest in the Acquisition which is different from other Shareholders and none of the Vendor and its associates holds any Share as at the date of this announcement, no Shareholders are required to abstain from voting at the EGM to approve the S&P Agreement and the transactions contemplated thereunder.

### **GROUP REORGANIZATION**

In order to reposition the Group's business development focus, the Board proposes to place before the Shareholders a proposal for the Group Reorganization. Pursuant to the Group Reorganization, the Company will continue to be a public listed company and its retained subsidiaries will concentrate on the Remaining Business. All other subsidiaries carrying on the Distributed Business will be transferred to the Distributed Company. The Distributed Shares held by the Company will, following the injection of the Distributed Business into the Distributed Company, be distributed in specie to the Shareholders whose names appear on the register of members of the Company on the Record Date on the basis of one Distributed Share for each Share.

## **Mechanics of the Group Reorganization**

The Group Reorganization will be effected by the Distributed Company acquiring from the Group all relevant share capitals of the subsidiaries carrying on the Distributed Business. As part of the Group Reorganization, certain intra-group balances between members of the Remaining Group and members of the Distributed Group will be settled before completion of the Group Reorganization. The various intra-group balances to be settled, assigned, waived or capitalized shall be determined with reference to the relevant amounts of such balances in the management accounts of the relevant companies as at the date of completion of the Group Reorganization.

In consideration of the injection of the Distributed Business into the Distributed Company, the Distributed Company will issue a certain number of Distributed Shares to the Company so that the total number of the Distributed Shares then in issue will be equal to the number of Shares in issue on the Record Date. The Company will then distribute all the issued Distributed Shares in specie to the Shareholders whose names appear on the register of members of the Company on the Record Date on the following basis:

**For each Share held .....one Distributed Share**

The distribution in specie of the Distributed Shares will be effected by distribution from the distributable profits of the Company of an amount equivalent to the carrying value of the Distributed Group, which will be ascertained immediately prior to completion of the Group Reorganization.

The Distributed Shares will rank *pari passu* in all respects with each other. There is no intention to apply for the listing of the Distributed Shares on the Stock Exchange or any other stock exchange.

Upon completion of the Group Reorganization, South China Capital will, on behalf of the Offeror, make the Offer to the Distributed Company Shareholders to acquire all the Distributed Shares (other than those Distributed Shares already owned by or agreed to be acquired by the Offeror Concert Group at the time when the Offer is made). Details of the Offer are set out in the section headed “Possible Unconditional Voluntary Cash Offer for the Distributed Shares” in this announcement. In order to avoid confusion and enhance efficiency, the certificates of the Distributed Shares distributed to the Shareholders under the Distribution in Specie will only be posted to the Shareholders who do not accept the Offer after the close of the Offer.

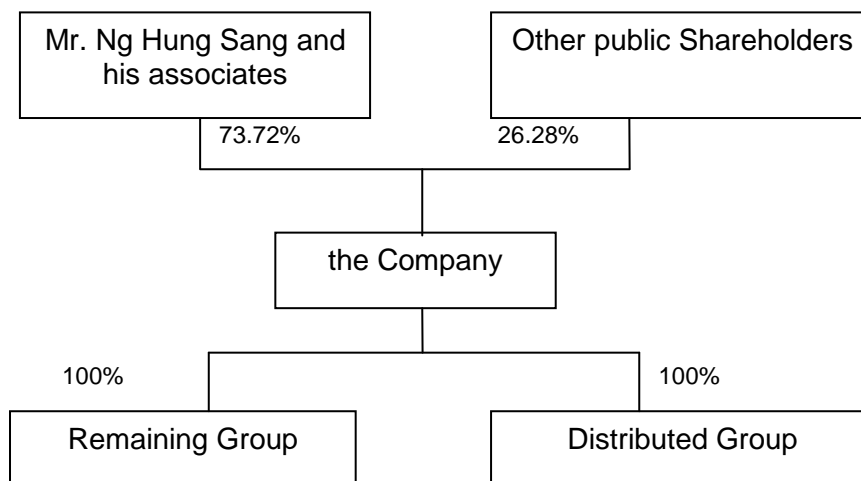
## **Conditions of the Group Reorganization**

The Group Reorganization will be conditional upon, among other things,

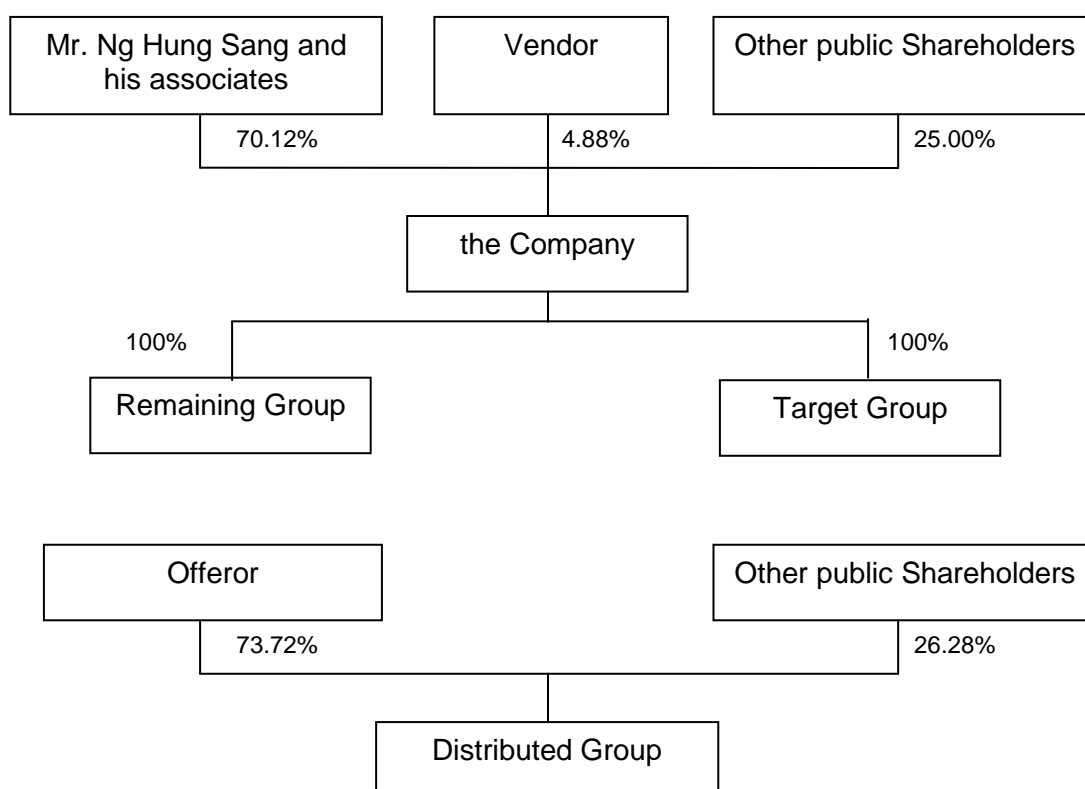
- (a) the passing of the necessary resolution(s) to approve the Group Reorganization by the Independent Shareholders;
- (b) the fulfillment or waiver of all the conditions precedent to the completion of the S&P Agreement (other than those relating to the implementation and completion of the Group Reorganization); and
- (c) all necessary consents or approvals from third parties or government or regulatory authorities required to give effect to the Group Reorganization having been obtained by the Group.

## Group Structure before and after the Group Reorganization

The chart below shows the group structure of the Company immediately before the implementation of the Group Reorganization (assuming no other changes in the group structure since the date of this announcement):



The chart below shows the group structure of the Group and the Distributed Group immediately after the implementation of the Group Reorganization and completion of the Acquisition:



## **Information on the Distributed Group**

The Distributed Group is principally engaged in the Distributed Business, which mainly comprises (a) wholesale and retail travel services in Hong Kong; (b) wholesale and corporate travel services in the PRC; (c) information technology; (d) property investment and development; and (e) investment holding.

## **Information on the Remaining Group**

Upon completion of the Group Reorganization but before completion of the Acquisition, the Remaining Group shall be engaged in the Remaining Business, which mainly comprises corporate travel services in Hong Kong, trading and manufacturing of jewellery and investment holding.

## **Reasons for the Group Reorganization**

In order to reposition the business development focus of the Group and allocate more resources on the Civilian Satellite Applications Business after completion of the Acquisition, the Board proposes to place before the Shareholders a proposal for the Group Reorganization.

As opposed to an outright disposal of the Distributed Business to Mr. Ng Hung Sang and his associates, the Distribution in Specie and the Offer together provides an option for the Independent Shareholders to keep or dispose of their investments in the Distributed Business through the Offer, which is an unconditional offer when made. The Offer also provides a cash exit to the Independent Shareholders to realize all or part of their shareholdings in the Distributed Company, which are unlisted and may be illiquid, given that it may not be practicable to re-list the Distributed Shares on the Stock Exchange in the near term. Given the above, the Directors (excluding all independent non-executive Directors who will form their view after considering the advice of the independent financial adviser) consider that the Group Reorganization is in the interests of the Company and the Shareholders.

Save for the proposed Distribution in Specie pursuant to the Group Reorganization, the Company has not formulated any future dividend policy.

## **Independent Shareholders' Approval**

Mr. Ng Hung Sang, his associates and their respective parties acting in concert with them will abstain from voting on the resolution(s) approving the Group Reorganization. As at the date of this announcement, Mr. Ng Hung Sang and his associates hold an aggregate of 1,344,181,812 Shares, of which 396,050,252 Shares are held by Fung Shing Group Limited, 371,864,000 Shares are held by Parkfield Holdings Limited, 250,646,400 Shares are held by Earntrade Investments Limited, 237,303,360 Shares are held by Bannock Investment Limited, 71,652,200 Shares are held by Mr. Ng Hung Sang and 16,665,600 Shares are held by Ronastar Investments Limited.

As at the date of this announcement, the Vendor and its associates do not own or control, directly or indirectly, any Share. In the event that the Vendor and its associates acquire any Share prior to the EGM, the Vendor and its associates will abstain from voting on the resolution(s) approving the Group Reorganization.

Save for the aforesaid, to the best of the knowledge, information and belief of Directors and having made all reasonable enquiries, no other Shareholder is required to abstain from voting on the resolution(s) approving the Group Reorganization.

## **POSSIBLE UNCONDITIONAL VOLUNTARY CASH OFFER FOR THE DISTRIBUTED SHARES**

Assuming no Shares are issued after the date of this announcement, 1,823,401,376 Distributed Shares will be distributed to the Shareholders under the Distribution in Specie. Based on the shareholding structure of the Company as at the date of this announcement and assuming there are no other changes in the shareholding structure of the Company after the date of this announcement, the Offeror Concert Group shall be interested in a total of 1,344,181,812 Distributed Shares, representing approximately 73.72% of the total share capital of the Distributed Company then in issue.

Given that the Distributed Shares will not be listed on the Stock Exchange or any other stock exchange upon completion of the Group Reorganization, the Offeror considers it appropriate to provide the Independent Shareholders an opportunity to realize their investments in the Distributed Company, if they wish so, by making the Offer. Accordingly, subject to completion of the Group Reorganization and the S&P Agreement, South China Capital will, on behalf of the Offeror, make an unconditional voluntary cash offer to the Distributed Company Shareholders to acquire all the Distributed Shares (other than those Distributed Shares already owned by or agreed to be acquired by the Offeror Concert Group at the time when the Offer is made) on the following terms:

**For every Distributed Share .....HK\$0.06007 in cash**

The Distributed Shares subject to the Offer will be acquired by the Offeror with the right to receive all dividends and distributions declared, paid or made on or after the date of the issue of the Distributed Shares and free from all third party rights, liens, claims and encumbrances.

### **Offer price for the Distributed Shares**

The offer price for the Distributed Shares of HK\$0.06007 per Distributed Share was determined after taking into account the estimated consolidated net asset value attributable to the Distributed Company Shareholders upon completion of the Group Reorganization of approximately HK\$109.5 million with reference to the unaudited combined net asset value of the Distributed Group based on the unaudited consolidated balance sheet of the Company as at 30 June 2011 and the intended settlement, assignment, waiver and/or capitalization of intergroup balances among the Remaining Group and the Distributed Group.

### **Total consideration and financing for the Offer**

On the basis that 1,823,401,376 Distributed Shares are expected to be in issue upon completion of the Group Reorganization and the offer price of HK\$0.06007 per Distributed Share under the Offer, the Offer values the entire issued share capital of the Distributed Company at approximately HK\$109.5 million. Based on 1,823,401,376 Shares in issue as at the date of this announcement and assuming there will be no changes in the shareholding of the Company from the date of this announcement and up to the Record Date, upon completion of the Group Reorganization, the Offeror Concert Group will be interested in 1,344,181,812 Distributed Shares, representing approximately 73.72% of the then issued share capital of the Distributed Company. Accordingly, 479,219,564 Distributed Shares, representing approximately 26.28% of the then issued share capital of the Distributed Company, will be subject to the Offer. The value of the Distributed Shares subject to the Offer is approximately HK\$28.8 million based on the offer price of HK\$0.06007 per Distributed Share under the Offer. South China Capital, the financial

adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptance of the Offer.

### **Information on the Distributed Company**

The Distributed Company was incorporated in the British Virgin Islands with limited liability on 8 May 1992 and has not carried on any business other than investment holding since its incorporation. Upon completion of the Group Reorganization, the principal activity of the Distributed Company will remain as investment holding and its subsidiaries will be principally engaged in the Distributed Business. As at the date of this announcement, the board of directors of the Distributed Company consists of Mr. Richard Howard Gorges and Ms. Cheung Choi Ngor.

Since 8 May 1992, being the date of incorporation of the Distributed Company, and up to the date of this announcement, save for the subscription of a total of 10,000 Distributed Shares by the Company on its incorporation, the Distributed Company has not issued any share, option, warrant, derivative or securities which is convertible or exchangeable into or which confers rights to require the issue of the Distributed Shares or any other securities carrying conversion or subscription rights into the Distributed Shares.

### **Information on the Offeror and its intention on the Distributed Company**

The Offeror, an investment holding company incorporated in the British Virgin Islands with limited liability, is beneficially wholly-owned by Mr. Ng Hung Sang.

As at the date of this announcement, the Offeror Concert Group, through its shareholding interest in the Company, is indirectly interested in 73.72% of the issued share capital of the Distributed Company. Save for the abovementioned and its entitlement to receive the Distributed Shares under the Group Reorganization, the Offeror Concert Group does not hold any securities of the Distributed Company and there are no other existing holding of voting rights and rights over the Distributed Shares (i) which the Offeror Concert Group owns or over which it has control or direction; or (ii) in respect of which the Offeror Concert Group holds any convertible securities, warrants or options. None of the members of the Offeror Concert Group had dealt in any securities of the Distributed Company during the six-month period immediately preceding 19 October 2011, being the date of commencement of the offer period as defined in the Takeovers Code, and up to the date of this announcement.

It is the intention of the Offeror that the Distributed Group will not conduct any business other than the Distributed Business or acquire any other material assets other than those assets related to the Distributed Business which would be inherited from the Group Reorganization, unless prior approval from its shareholders has been obtained. It is also the intention of the Offeror that it will not inject any material asset into the Distributed Group or propose the board of directors of the Distributed Company to authorize the disposal of any material assets or make material changes to the principal business of the Distributed Group. No listing application will be made for the Distributed Shares on the Stock Exchange or any other stock exchange.

Interests of the Distributed Company Shareholders will be safeguarded by the new constitutional documents of the Distributed Company, which will contain provisions comparable to the rules governing connected transactions and notifiable transactions contained in the Listing Rules, so that certain transactions will be subject to independent shareholders' approval and independent advice. In particular, (i) no material related party transactions may be entered into by the Distributed Group unless they are subject to the approval of the disinterested Distributed Company Shareholders by way of ordinary

resolution in general meeting, the notice convening which is accompanied by a circular containing the advice of an independent financial adviser, or are transactions on normal commercial terms in the ordinary and usual course of business of the Distributed Group; and (ii) any transaction involving disposal or acquisition of assets with an aggregate value of more than 25% of the value of the total assets of the Distributed Group as shown in the latest audited accounts may not be entered into unless approved by the Distributed Company Shareholders in general meeting. Furthermore, no Distributed Shares will be issued for cash unless they are first offered to all shareholders in proportion to their respective shareholdings in the Distributed Company. A summary of the key terms of the new constitutional documents of the Distributed Company will be included in the Circular.

The Offeror has confirmed that the Offeror Concert Group (i) has not entered into any agreement in relation to the issue of any shares, options, warrants, derivatives or convertible securities of the Distributed Company; (ii) has no arrangements (whether by way of option, indemnity or otherwise) in relation to the Distributed Shares or shares of the Offeror which might be material to the Offer; (iii) has not entered into any agreement or arrangement to which the Offeror Concert Group is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer; and (iv) has not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Distributed Company.

As at the date of this announcement, the Offeror Concert Group has not received any irrevocable commitment from the Independent Shareholders in respect of their intention to accept the Offer.

The Offeror intends to avail itself of any compulsory acquisition or redemption provisions under the applicable laws in the British Virgin Islands and the relevant provisions of the Takeovers Code. In the event that upon closing of the Offer, the Offeror receives acceptances of the Offer totaling 90% or more of the disinterested Distributed Shares (i.e. the Distributed Shares other than those owned by the Offeror Concert Group), the Offeror intends to direct the Distributed Company to redeem the Distributed Shares not already owned by the Offeror Concert Group pursuant to section 176 of the BVI Business Companies Act.

### **Stamp duty and others**

Since the Distributed Company is a company incorporated in the British Virgin Islands and its register of members is located and maintained there, no Hong Kong stamp duty is payable on any transfer of the Distributed Shares.

### **Independent financial adviser**

If the Offer is made, an independent financial adviser will be appointed to consider the terms of the Offer and to advise the Distributed Company Independent Shareholders in respect of the Offer. Distributed Company Independent Shareholders are advised to take no action as regards the Offer until they have received the Composite Offer Document which will contain, inter alia, the advice of the independent financial adviser. An announcement will be made as soon as the independent financial adviser is appointed.

### **Composite Offer Document**

It is the intention of the respective boards of directors of the Offeror and the Distributed Company to combine the offer document and the offeree board circular in the Composite Offer Document. Pursuant to Rule 8.2 of the Takeovers Code, within 21 days of the date of this announcement or such later date as the Executive may approve, the Offeror is required

to despatch the offer document containing the terms of the Offer, the form of acceptance and transfer of the offer shares of the Distributed Company to the Distributed Company Shareholders. However, as the Group Reorganization, which is one of the conditions precedent to the Offer, cannot be completed within 21 days of the date of this announcement, the Offeror will apply for the consent of the Executive under Note 2 to Rule 8.2 of the Takeovers Code for an extension of time for despatching the Composite Offer Document to any time within 7 days of completion of the Group Reorganization.

## **PROPOSED CHANGE OF COMPANY NAME**

To better reflect the principal activities and development focus of the Group after completion of the Acquisition, the Board proposes to change the English name of the Company from “South China Holdings Limited” to “China Beidou Holdings Limited” and adopt “中國北斗控股有限公司” as the Chinese name of the Company (for replacement of the existing Chinese name “南華集團有限公司” which has been used by the Company for identification purpose), subject to the fulfillment of the conditions set out below:

- (i) the completion of the Acquisition;
- (ii) the passing of a special resolution by the Shareholders at the EGM to approve the proposed change of company name; and
- (iii) the Registrar of Companies in the Cayman Islands granting approval for the use by the Company of the proposed new English and Chinese names.

The Board is of the opinion that the proposed change of company name will clearly benefit the Company's business development and is in the interests of the Company and the Shareholders as a whole.

## **SUSPENSION AND RESUMPTION OF TRADING OF THE SHARES**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 1:30 p.m. on 30 September 2011, pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 19 October 2011.

## **GENERAL**

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth and Mr. Cheng Hong Kei, will be formed to make recommendations to the Independent Shareholders on the Group Reorganization and the Offer. Ms. Ng Yuk Mui Jessica, a non-executive Director, is the daughter of Mr. Ng Hung Sang, the beneficial owner of the Offeror, and Mr. David Michael Norman, a non-executive Director, is a lawyer by profession providing legal advisory services to the Company on an ad-hoc basis from time to time, are both considered not independent as a result of possible conflict of interests and therefore they cannot act as members of the Independent Board Committee. An independent financial adviser will also be appointed to advise the Independent Board Committee and the Independent Shareholders in connection therewith. Further announcement will be made in relation to the appointment of the independent financial adviser.



A circular containing, among other things, details of the Acquisition, the Group Reorganization, proposed change of company name, financial information of the Group, the pro forma financial information of the Distributed Group and the Remaining Group upon completion of the Group Reorganization, the recommendation from the Independent Board Committee and the advice from the independent financial adviser on the Group Reorganization together with a notice of the EGM is expected to be sent to the Shareholders on or before 16 December 2011 in order to allow sufficient time for the preparation of relevant information for inclusion in the circular.

**The Shareholders should note that the Acquisition, the Group Reorganization as well as the Offer to be made upon completion of the Group Reorganization and the S&P Agreement may or may not proceed. Investors and the Shareholders are urged to exercise caution when dealing in the Shares.**

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Acquisition”	the acquisition of the entire issued share capital of the Target in accordance with the terms and conditions of the S&P Agreement
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Contracts”	the contracts set out in the paragraph headed “The Contractual Arrangements and the Business Contracts” in this announcement
“Civilian Satellite Applications Business”	the operation of various civilian satellite communication businesses in the PRC, including but not limited to, BeiDou satellite positioning, satellite navigation, satellite communication, satellite timing and other related civilian satellite applications
“Company”	South China Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Acquisition
“Composite Offer Document”	a composite offer document in relation to the Offer containing, among others, the offer document including the terms of the Offer, a form of acceptance and transfer of the Distributed Shares and the offeree board circular
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Consideration Share(s)”	Share(s) to be issued and allotted by the Company credited as fully paid at HK\$0.5 per Consideration Share,

	as part of the consideration for the Acquisition, to the Vendor or its nominees in accordance with the terms and conditions of the S&P Agreement
“Contractual Arrangements”	the contractual arrangements effected by entering into the Business Contracts whereby the WFOE shall have an effective control over the financial and operational policies of the PRC Operating Company and be entitled to the economic benefits derived from the operation of the PRC Operating Company
“Conversion Share(s)”	new Share(s) to be issued by the Company upon conversion of the Convertible Notes
“Convertible Notes”	the convertible notes of a principal amount of US\$69,677,419 (equivalent to HK\$540,000,000) with an initial conversion price of HK\$0.49645 per Conversion Share to be issued by the Company, as part of the consideration for the Acquisition, to the Vendor in accordance with the terms and conditions of the S&P Agreement
“Director(s)”	the director(s) of the Company
“Distributed Business”	all business to be transferred to the Distributed Company upon completion of the Group Reorganization, including the business of wholesale and retail travel services in Hong Kong, wholesale and corporate travel services in the PRC, information technology, property investment and development and investment holding
“Distributed Company”	South China (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability
“Distributed Company Independent Shareholder(s)”	the Distributed Company Shareholder(s) other than the Offeror Concert Group
“Distributed Company Shareholder(s)”	holder(s) of the Distributed Share(s)
“Distributed Group”	the Distributed Company and its subsidiaries upon completion of the Group Reorganization
“Distributed Share(s)”	ordinary share(s) of US\$1.00 each in the share capital of the Distributed Company
“Distribution in Specie”	the distribution of all the issued Distributed Shares held by the Company, following the injection of the Distributed Business into the Distributed Company, in specie to the Shareholders whose names appear on the register of members of the Company on the Record Date on the basis of one Distributed Share for each Share held

“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, inter alia, the S&P Agreement and the transactions contemplated thereunder, the Group Reorganization and the proposed change of company name
“Executive”	the Executive Director of the Corporate Finance Division of the SFC and any delegate of the Executive Director
“First Conversion Period”	the period commencing on the date the First Year Profit has been determined by the Company and notified to the Noteholders until the date the Second Year Profits have been determined by the Company and notified to the Noteholders;
“First Year Profits”	the consolidated net profits of the Target Group for the period from 1 April 2012 to 31 March 2013 based on the audited consolidated financial statements prepared by the Company’s auditors or such other financial statements or calculation basis as agreed between the Company and the Vendor
“Group”	the Company and its subsidiaries
“Group Reorganization”	the proposed group reorganization of the Company which, if approved and implemented, will result in (i) the Company continuing as a public listed company with its subsidiaries engaged in the Remaining Business, before the Completion; (ii) the Distributed Business will be transferred to the Distributed Company; and (iii) the Distributed Shares held by the Company will be distributed in specie to the Shareholders on the basis of one Distributed Share for each Share held
“Guarantor”	Mr. Lim Fai, the ultimate beneficial owner of the Sale Shares
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HK Company”	Loyal Tech Enterprises Limited, a company incorporated in Hong Kong with limited liability, which is wholly-owned by the Target
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than Mr. Ng Hung Sang and his associates
“Independent Board Committee”	the independent committee of the Company comprising all the independent non-executive Directors, namely Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth and Mr. Cheng Hong Kei, formed to give recommendations to the Independent Shareholders on the Group Reorganization and the Offer. Ms. Ng Yuk Mui Jessica, a

	<p>non-executive Director, is the daughter of Mr. Ng Hung Sang, the beneficial owner of the Offeror, and Mr. David Michael Norman, a non-executive Director, is a lawyer by profession and provides legal advisory services to the Company on an ad-hoc basis from time to time, are both considered not independent as a result of possible conflict of interests and therefore they cannot act as members of the Independent Board Committee</p>
“Last Trading Day”	28 September 2011, being the last full trading day on which the Shares were traded on the Stock Exchange prior to the publication of this announcement
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Noteholder(s)”	holder(s) of the Convertible Notes
“Offer”	the possible unconditional voluntary cash offer to be made by South China Capital on behalf of the Offeror to acquire all the Distributed Shares (other than those Distributed Shares already owned by or agreed to be acquired by the Offeror Concert Group)
“Offeror”	Total Grace Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially wholly-owned by Mr. Ng Hung Sang
“Offeror Concert Group”	the Offeror and the parties acting in concert with it
“PRC”	the People’s Republic of China, and for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Operating Company”	北京神州天鴻通信技術有限公司 (Beijing Shenzhou Tianhong Communication Technology Company Limited*), a company established under the laws of the PRC to operate the Civilian Satellite Applications Business
“Purchaser”	Bounty Gain Group Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by the Company
“Record Date”	the record date to be fixed to determine the entitlements to the Distribution in Specie
“Remaining Business”	the business to be retained in the Group upon completion of the Group Reorganization, including corporate travel services in Hong Kong, trading and manufacturing of jewellery and investment holding
“Remaining Group”	the Group other than the members of the Distributed Group upon completion of the Group Reorganization but before the Completion

“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	1,000 shares of US\$1.00 each in the share capital of the Target, representing the entire issued share capital of the Target
“Second Conversion Period”	the period commencing on the date the Second Year Profits has been determined by the Company and notified to the Noteholders until the maturity date of the Convertible Notes
“Second Year Profits”	the consolidated net profits of the Target Group for the period from 1 April 2013 to 31 March 2014 based on the audited consolidated financial statements prepared by the Company's auditors or such other financial statements or calculation basis as agreed between the Company and the Vendor
“SFC”	the Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.025 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Shenzhou Tianhong”	北京神州天鴻科技有限公司 (Beijing Shenzhou Tianhong Technology Company Limited*), a company established under the laws of the PRC
“South China Capital”	South China Capital Limited, the financial adviser to the Offeror, a licensed corporation to conduct type 6 (advising on corporate finance) regulated activity registered under the SFO
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“S&P Agreement”	the sale and purchase agreement dated 30 September 2011 entered into between the Purchaser, the Vendor and the Guarantor in relation to the Acquisition
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Target”	Zhong Jie Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by the Vendor
“Target Group”	the Target and its subsidiaries
“Target Group Reorganization”	the reorganization of the Target Group which will result in (i) the establishment of the HK Company and the WFOE; and (ii) the implementation of the Contractual Arrangements

“Total Actual Profits”	the sum of the First Year Profits and the Second Year Profits
“Total Guaranteed Profits”	HK\$100 million, being the amount of profits guaranteed by the Vendor to be generated by the Target Group for the two years ending 31 March 2014
“US\$”	United States dollar, the lawful currency of the United States of America
“Vendor”	Zhao Ling Limited, a company incorporated in the British Virgin Islands with limited liability
“WFOE”	北京偉達遠通科技有限公司(Beijing Wei Da Yuan Tong Technology Company Limited*), a wholly-owned foreign enterprise established under the laws of the PRC, which is wholly-owned by the HK Company
“%”	per cent

By order of the board  
**South China Holdings Limited**  
**Cheung Choi Ngor**  
*Director*

By order of the board  
**Total Grace Investments Limited**  
**Ng Hung Sang**  
*Sole Director*

Hong Kong, 19 October 2011

*As at the date of this announcement, the Board comprises four executive Directors, namely, Mr. Ng Hung Sang, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor and Mr. Ng Yuk Fung, Peter; two non-executive Directors, namely, Ms. Ng Yuk Mui, Jessica and Mr. David Michael Norman; and three independent non-executive Directors, namely, Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth and Mr. Cheng Hong Kei.*

*As at the date of this announcement, the Offeror has only one director, namely Mr. Ng Hung Sang.*

*The Directors jointly and severally accept full responsibility for the accuracy of information contained in this announcement (other than those relating to the Offeror Concert Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement (other than those expressed by the Offeror Concert Group) have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.*

*The sole director of the Offeror accepts full responsibility for the accuracy of information contained in this announcement relating to the Offeror Concert Group and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this announcement as expressed by the Offeror Concert Group have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.*

*In accordance with Rule 3.8 of the Takeovers Code, the full text of Note 11 to Rule 22 of the Takeovers Code is reproduced below and terms used therein shall have the same meaning as those ascribed to them in the Takeovers Code:*

*“Responsibilities of stockbrokers, banks and other intermediaries*

*Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant Rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than \$1 million.*

*This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.*

*Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.”*

*\* for identification purpose only*