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**If you have sold or transferred** all your shares in South China Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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## **SOUTH CHINA HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 265)

### **Discloseable and Connected Transaction in relation to sale of 100% in South China Media Limited**

### **Continuing Connected Transactions in relation to the Rental Agreement(s)**

**Independent Financial Adviser  
to the Independent Board Committee and the Independent Shareholders**  
***Hercules***  
**Hercules Capital Limited**

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A letter from the Board is set out on pages 5 to 10 of this circular. A letter from the Independent Board Committee is set out on page 11 of this circular, and a letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 21 of this circular.

A notice convening an extraordinary general meeting of South China Holdings Limited to be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on 4 February 2008 at 4:30 p.m. is set out on pages 33 to 34 of this circular. Whether or not you are able to attend the extraordinary general meeting, you are advised to read the notice and requested to complete and return the enclosed proxy form, in accordance with the instructions printed thereon, to the Company's share registrar, Union Registrars Limited at Rooms 1901-1902, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending, and voting in person, at the extraordinary general meeting or any adjournment thereof should you so wish.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following terms have the meanings set opposite them below:*

“Agreement”	the sale and purchase agreement dated 28 December 2007 entered into between the Vendor and the Purchaser in relation to the Sale
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Bannock”	Bannock Investment Limited, a company incorporated in the Republic of Liberia with limited liability and a wholly-owned subsidiary of Earntrade, which is in turn owned as to 60% by Mr. Ng, 20% by Ms. Cheung Choi Ngor and the remaining 20% by Mr. Richard Howard Gorges
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which banks are generally open for banking business in Hong Kong
“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
“Completion”	completion of the Sale pursuant to the Agreement
“Completion Date”	the second Business Day after the day on which the last of the conditions (other than those referred to in the Agreement) has been fulfilled or waived or such other date as the parties to the Agreement may agree in writing on which Completion is to take place
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Copthorne”	Copthorne Holdings Corporation, a company incorporated in Panama with limited liability, which is a wholly-owned subsidiary of SCC
“Directors”	the directors (including the independent non-executive directors) of the Company
“Earntrade”	Earntrade Investments Limited, a company incorporated in Hong Kong with limited liability which is owned as to 60% by Mr. Ng, 20% by Ms. Cheung Choi Ngor and the remaining 20% by Mr. Richard Howard Gorges

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be held on 4 February 2008 at 4:30 p.m. to approve, among other things, the Sale
“Fung Shing”	Fung Shing Group Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by Mr. Ng
“Group”	the Company and its subsidiaries
“Hercules Capital”	Hercules Capital Limited, a licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sale
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Company comprising Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth and Mr. Cheng Hong Kei established to give its advice to the Independent Shareholders in respect of the Sale
“Independent Shareholders”	Shareholders who are not interested or involved in the Sale, being the Shareholders other than Mr. Ng and his associates
“Latest Practicable Date”	14 January 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining and collation of relevant information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the Main Board of the Stock Exchange
“Mr. Ng”	Mr. Ng Hung Sang, the Chairman and a substantial shareholder of the Company, is also the sole shareholder of the Purchaser
“Parkfield”	Parkfield Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and being wholly-owned by Mr. Ng

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## DEFINITIONS

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“Premises”	the premises situated at units A, B and D on 3rd Floor, units A, B, C and D on 4th Floor, unit D on 10th Floor and units A, B, C and D on 12th Floor (with a total area of 59,017 sq. feet) together with the car parking space nos. 12A, 12B, 13A and 13B of Wah Shing Centre, 5 Fung Yip Street, Chai Wan, Hong Kong
“Purchaser”	Broaden Base Investments Limited, a limited company incorporated in British Virgin Islands and Mr. Ng is the sole shareholder
“Rental Agreement(s)”	the rental agreement(s) to be entered into between SCM Management as the tenant and Copthorne as the landlord for the Premises at an aggregate monthly rental of HK\$307,085 for a term of approximately two years starting from the date of Completion to 31 December 2009
“Ronastar”	Ronastar Investments Limited, a company incorporated in the British Virgin Islands with limited liability and being wholly owned by Mr. Ng
“Sale”	the proposed sale and purchase of the Sale Shares and the Shareholder’s Loan
“Sale Shares”	2 shares in SC Media, representing the entire issued share capital of SC Media
“SCC”	South China (China) Limited, an exempted company incorporated in the Cayman Islands with limited liability, which is a 74.79%-owned subsidiary of the Company. The shares of which are listed on the Stock Exchange
“SC Media”	South China Media Limited, a company incorporated in Hong Kong with limited liability, which is indirectly wholly-owned by the Company
“SC Media Group”	SC Media and its subsidiaries
“SCM Management”	South China Media Management Limited, a company incorporated in Hong Kong with limited liability, which is indirectly wholly-owned by SC Media
“SFO”	the Securities and Futures Ordinance
“Share(s)”	ordinary share(s) of HK\$0.025 each in the share capital of the Company

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## DEFINITIONS

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“Shareholders”	holders of Shares
“Shareholder’s Loan”	a sum representing the total outstanding interest-free loans as at 31 December 2007 due from SC Media to the Vendor
“Shortfall”	excess of the consolidated tangible liabilities over consolidated tangible assets of the SC Media Group as at 31 December 2007 so that the amount of the consolidated net tangible assets of the SC Media Group (excluding the Shareholder’s Loan), after being made good by the Vendor, would be as if it were equal to zero as at 31 December 2007
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tek Lee” or “Vendor”	Tek Lee Finance And Investment Corporation Limited, a company incorporated in Hong Kong with limited liability, which is indirectly wholly-owned by the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent



**SOUTH CHINA HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 265)

***Executive Directors:***

Mr. Ng Hung Sang (*Chairman*)  
Mr. Richard Howard Gorges  
Ms. Cheung Choi Ngor  
Mr. Ng Yuk Fung, Peter

***Non-executive Directors:***

Mr. David Michael Norman  
Ms. Ng Yuk Mui, Jessica

***Independent Non-executive Directors:***

Mr. David John Blackett  
Mrs. Tse Wong Siu Yin, Elizabeth  
Mr. Cheng Hong Kei

***Registered office:***

Scotia Centre  
4th Floor  
P.O. Box 2804  
George Town  
Grand Cayman  
Cayman Islands

***Head Office and Principal Place  
of Business in Hong Kong:***

28/F., Bank of China Tower  
1 Garden Road, Central  
Hong Kong

16 January 2008

*To the Shareholders and, for information only,  
holders of the options of the Company*

Dear Sir or Madam,

**Discloseable and Connected Transaction  
in relation to sale of 100% in South China Media Limited**

**Continuing Connected Transactions  
in relation to the Rental Agreement(s)**

**INTRODUCTION**

On 28 December 2007, the Vendor and the Purchaser entered into the Agreement pursuant to which, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares and the Shareholder's Loan at a consideration of HK\$30 million payable in cash.

The purpose of this circular containing, among other things, (i) further particulars of the Sale; (ii) the recommendations of the Independent Board Committee to the Independent Shareholders regarding the Sale; (iii) the recommendation from Hercules Capital to advise the Independent Board Committee and the Independent Shareholders in relation to the Sale; and (iv) a notice convening the EGM.

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## LETTER FROM THE BOARD

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### THE AGREEMENT

Date:	28 December 2007
Parties:	(1) Broaden Base Investments Limited as the Purchaser (2) Tek Lee as the Vendor
Assets to be sold:	The Sale Shares, being the entire issued share capital of SC Media, and the Shareholder's Loan
Consideration:	HK\$30 million payable in cash
Conditions precedent:	Completion shall be conditional upon, among others: <ul style="list-style-type: none"><li>(i) the approval by the Shareholders (other than those prohibited from voting under the Listing Rules) in general meeting by way of a poll of (a) the disposal by the Vendor of the Sale Shares and the Shareholder's Loan; and (b) all other transactions contemplated under the Agreement; and</li><li>(ii) if applicable, the obtaining of all consents from government or regulatory authorities which are necessary or desirable in connection with the execution and performance of the Agreement and any of the transactions contemplated under the Agreement.</li></ul>
Other principal terms:	<ul style="list-style-type: none"><li>(i) Vendor shall make good the Shortfall by all means including by way of cash payment into SC Media or procuring the creditor(s) ("Creditor(s)") of SC Media, excluding the shareholder of the Shareholder's Loan, to enter into deed of novation with, inter alia, SC Media (as outgoing debtor) and the Vendor (as incoming debtor) within 60 days of the Completion Date whereby the Vendor shall assume the liabilities of the Shortfall owed to the Creditor(s) of SC Media so that the amount of the consolidated net tangible assets of the SC Media Group (excluding the Shareholder's Loan), after being made good by the Vendor, would be as if it were equal to zero as at 31 December 2007 provided that the maximum liability of the Vendor to make good the Shortfall shall be limited to HK\$80,000,000; and</li><li>(ii) although subject to Completion having taken place, the Purchaser shall be responsible for the operation and profit and loss of the SC Media Group as from 1 January 2008 onwards, Vendor will still pay the operating costs and expenses and advances of the SC Media Group between the</li></ul>



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## LETTER FROM THE BOARD

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period from 1 January 2008 and the Completion Date (both dates inclusive) but such amount paid shall be deducted from the amount of the Shortfall to be made good by the Vendor as referred to in (i) above.

Completion:

Completion is expected to take place on the second Business Day after the day on which the last of the conditions is fulfilled or waived or such other date as the parties to the Agreement may agree.

### **Basis of consideration**

The consideration was determined after arms' length negotiations between the Purchaser and the Vendor, an investment holding company, taking into account of (i) the loss history of publishing business; (ii) expected consolidated net assets value as at 31 December 2007 of HK\$0 (without deducting the Shareholder's Loan); and (iii) a premium of HK\$30 million.

The expected net cash outflow of this transaction will be no more than HK\$50,000,000 (being the consideration of HK\$30,000,000 minus maximum liability of HK\$80,000,000) and if the Shortfall were above HK\$80,000,000 the excess amount shall be taken up by the Purchaser. Any movement in the Shareholder's Loan will be net-off by the contrary movement in the amount of the Shortfall and hence, the consideration will not be affected by the amount of the Shareholder's Loan.

Having considered (i) the benefit of streamlining the operations of the Group; (ii) the management can focus on core activities; and (iii) the positive financial impact and improved operating cash flows on the Group, the Directors consider that the Sale is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

### **INFORMATION ON SC MEDIA GROUP**

#### **Overview**

SC Media Group is engaged in the business of publications for the following magazine titles "marie claire", "HIM", "ESQUIRE", "Carplus", "快週刊", "3週刊", "JESSICA's完全女人手冊", "CAPITAL Weekly", "兒童快報週刊", "兒童快報月刊", "星刊88" and "星期五". With the exception of "星刊 88" and "星期五" which are published and sold in PRC, all the magazines are published and sold in Hong Kong.

#### **Financial Information**

The unaudited consolidated net liabilities of SC Media Group as at 31 December 2006, 30 June 2007 and 31 October 2007 were approximately HK\$430.7 million (including advances from group companies of HK\$367.0 million), HK\$443.4 million (including advances from group companies of HK\$387.1 million) and HK\$74.4 million (after the capitalization of a shareholder's loan of HK\$380 million in October 2007) respectively. The unaudited Shareholder's Loan balance as at 31 December 2007 was approximately HK\$14 million. The unaudited consolidated revenue and loss before and after

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## LETTER FROM THE BOARD

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taxation for the year ended 31 December 2006 for the publication business of SC Media Group were approximately HK\$199.8 million, HK\$68.1 million and HK\$68.1 million respectively. The unaudited consolidated revenue and loss before and after taxation for the year ended 31 December 2005 for the publication business of SC Media Group were approximately HK\$227.8 million, HK\$56.0 million and HK\$56.0 million respectively.

### REASONS AND BENEFITS OF THE SALE

As mentioned in previous announcements of the Company made in this year, the Group has undergone various corporate restructure for the purpose of streamlining its business activities, so that resources can be more focused on business segments where upside potential is identified.

In view of the continuous loss making of the publication business, the Group has devoted tremendous management time and efforts in the past with the hope to bring the business from a negative contribution to a positive contribution. Resources have been inappropriately allocated. The sale of the publication business will enable the Group to reserve its energy in core activities with better earning potential.

Currently, both of Mr. Ng and Mr. Ng Yuk Fung, Peter are executive directors of the Company and Mr. Ng is the controlling shareholder and a director of and Mr. Ng Yuk Fung, Peter is also a director of a private group which engage in publication business. The Sale has the advantage of reducing the likely business conflicts and competition, if any, between the companies.

Upon Completion, the Company will cease to hold any equity interest in SC Media Group and SC Media will cease to be a subsidiary of the Company.

### Gain/Loss on the transaction

Had the Sale been completed on 31 December 2007, the Group will recognize a consolidated gain on disposal of subsidiaries of HK\$30 million, taking into account of (i) the consideration of HK\$30 million; and (ii) the expected consolidated net assets value of HK\$0 as at 31 December 2007. In addition, if the Shortfall were above HK\$80,000,000, the gain on disposal of subsidiaries will further increase by the excess amount. The net proceeds from the transaction will be used as general working capital of the Group.

### THE RENTAL AGREEMENT(S)

SCM Management will enter into the Rental Agreement(s) on Completion with Copthorne as the landlord for the Premises at an aggregate monthly rental of HK\$307,085 for a term of approximately two years starting from the date of Completion to 31 December 2009.

The consideration was arrived at after arm's length negotiations between SCM Management and Copthorne with reference to the rental charged to other subsidiaries of the Group and independent third parties in the Wah Shing Centre and the prevailing market rates in the adjacent buildings. The entering into the Rental Agreement(s) would provide the Company with stable rental income and would allow the SC Media Group in continuing the business operation in the Premises after Completion.

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## LETTER FROM THE BOARD

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The Directors believe that the terms of the Rental Agreement(s) are fair and reasonable and in the interests of the Shareholders.

### **Proposed Annual Cap**

Based on the terms of the Rental Agreement(s), the Directors propose that the annual cap, which means the maximum aggregate annual value as defined under the Listing Rules, of the rental contemplated under the Rental Agreement(s) for each year from the Completion shall be HK\$3.7 million.

### **Basis of the Annual Cap**

The annual cap proposed for the rental contemplated under the Rental Agreement(s) is determined by reference to the agreed rent under the Rental Agreement(s).

### **INFORMATION ON THE COMPANY**

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in the trading and manufacturing, securities, bullion and commodities brokerage and trading, margin financing, money lending, provision of corporate advisory services and underwriting services, information technology related businesses, property investment and development, implementation and marketing of software applications, magazines publishing businesses, marketing and promotional services, agricultural production, sale of airline tickets and the provision of other related services.

### **INFORMATION OF SCC**

SCC is an investment holding company listed on the Main Board. SCC and its subsidiaries are principally engaged in the manufacturing of toys, compressors, shoes, electronic toys products, leather products, motors, machinery, capacitors and clothing, property investment and development and agriculture and woods. As at the Latest Practicable Date, the Company beneficially holds approximately 74.79% of the issued share capital of SCC.

### **INFORMATION ON THE PURCHASER**

The Purchaser is an investment holding company incorporated in British Virgin Islands in which Mr. Ng, the chairman and a substantial shareholder of the Company, and Mr. Ng Yuk Fung, Peter, a director of the Company, are the directors. Mr. Ng also owns 100% of the entire issued share capital of the Purchaser. Hence the Purchaser is considered a connected person of the Company.

### **LISTING RULES IMPLICATION**

Mr. Ng, the chairman and a substantial shareholder of the Company, is also the sole shareholder of the Purchaser, hence is considered a connected person of the Company. As the applicable percentage ratios in respect of the Sale and in aggregating the previous connected transaction disclosed in the Company's announcements dated 4 July 2007 and 26 October 2007, represent more than 5% but less than 25%, the Sale is classified as a discloseable and connected transaction under the Listing Rules

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## LETTER FROM THE BOARD

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and is subject to the approval of the Independent Shareholders by way of poll at the EGM. As Mr. Ng is materially interested in the Sale and is entitled to exercise control over the voting rights in respect of the Shares, Mr. Ng and his associates shall abstain from voting for the resolution in connection with the Sale to be proposed at the EGM.

The Sale contemplated under the Agreement is conditional upon, among other things, the approval of the Independent Shareholders of the Sale conducted by way of poll by the Independent Shareholders. As at the Latest Practicable Date, Mr. Ng and his associates hold beneficially 73.72% of the issued share capital of the Company, are required to abstain from voting in respect of the resolution to approve the Sale.

Starting from the Completion Date, payments of the rental contemplated under the Rental Agreement(s) by SCM Management will constitute continuing connected transactions for the Company and SCC under the Listing Rules. As each of the percentage ratios (other than profits ratio) is on an annual basis less than 2.5%, payments of the rental contemplated under the Rental Agreement(s) are only subject to the reporting and announcement requirement and are exempt from the independent shareholders' approval requirements under the Listing Rules. Details of the rental contemplated under the Rental Agreement(s) will be disclosed in the annual report and accounts of the Company. The Company will re-comply with the Listing Rules if the Rental Agreement(s) is renewed upon maturity.

The Independent Board Committee comprising Mr. David John Blackett, Mr. Cheng Hong Kei and Mrs. Tse Wong Siu Yin, Elizabeth has made recommendations to the Independent Shareholders. Hercules Capital was appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Sale.

### RECOMMENDATION

Set out on pages 33 to 34 of this circular is a notice convening the EGM which will be held at 28/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong on 4 February 2008 at 4:30 p.m. in which an ordinary resolution will be proposed to approve the Sale. The Directors consider that the terms of the Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed in the EGM to approve the Sale.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
By the order of the Board  
**Cheung Choi Ngor**  
*Director*



**SOUTH CHINA HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 265)

16 January 2008

*To the Independent Shareholders and, for information only,  
holders of options of the Company*

Dear Sir or Madam,

**Discloseable and Connected Transaction  
in relation to sale of 100% in South China Media Limited**

As members of the Independent Board Committee, we have been appointed to advise you in connection with the terms of the Agreement, details of which are set out in the letter from the Board contained in this circular to the Shareholders dated 16 January 2008 of which this letter forms part. Terms defined in this circular shall have the same meanings in this letter unless the context otherwise requires.

Having considered the terms of the Agreement and the advice of the independent financial adviser in relation thereto as set out on pages 12 to 21 of this circular, we are of the opinion that the terms of the Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the resolution to be proposed in the EGM to approve the Sale.

Yours faithfully,

For and on behalf of the

**Independent Board Committee**

**David John Blackett**

**Cheng Hong Kei**

**Tse Wong Siu Yin, Elizabeth**

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## LETTER FROM HERCULES CAPITAL

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*The following is the text of a letter of advice in connection with the Sale from Hercules Capital to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*

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

1503 Ruttonjee House  
11 Duddell Street  
Central  
Hong Kong

16 January 2008

*To the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### **DISCLOSABLE AND CONNECTED TRANSACTION IN RELATION TO SALE OF 100% IN SOUTH CHINA MEDIA LIMITED**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the terms of the Sale, details of which are set out in the letter from the Board contained in the circular dated 16 January 2008 to the Shareholders (the “Circular”), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

On 28 December 2007, the Vendor, an indirect wholly-owned subsidiary of the Company, and the Purchaser entered into the Agreement, pursuant to which, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares and the Shareholder’s Loan at a total consideration of HK\$30 million, payable in cash. Subsequent to completion of the Agreement, SC Media will cease to be a subsidiary of the Company.

Since the relevant percentage ratios defined in Rule 14.07 of the Listing Rules in respect of the Sale and in aggregating the previous connected transactions disclosed in the Company’s announcements dated 4 July 2007 and 26 October 2007 represent more than 5% but less than 25%, the Sale constitutes a disclosable transaction for the Company under the Listing Rules. Mr. Ng, the chairman and a substantial shareholder of the Company beneficially holding approximately 73.72% of the issued share capital of the Company as at the Latest Practicable Date, is also the controlling shareholder of the Purchaser, hence the Purchaser is considered a connected person of the Company. Accordingly, the Sale also constitutes a connected transaction for the Company under the Listing Rules and is therefore subject to approval by the Independent Shareholders, by way of poll, at the EGM. Mr. Ng and his associates shall abstain from voting for the resolution(s) in connection with the Sale to be proposed at the EGM.

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## LETTER FROM HERCULES CAPITAL

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The Independent Board Committee, comprising three independent non-executive Directors, namely Mr. David John Blackett, Mr. Cheng Hong Kei and Mrs. Tse Wong Siu Yin, Elizabeth, has been established to consider the transactions contemplated under the Agreement and to advise the Independent Shareholders on the fairness and reasonableness of the Sale. We, Hercules Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in connection with the Sale, in particular as to whether the terms of the Agreement are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and its Shareholders as a whole.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have reviewed, inter alia, the Circular, the Agreement, financial statements of the Company and other relevant information provided to us by the Company. We have assumed that such information and statements and any representation made to us are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion. We have also assumed that all information, opinions and representations contained or referred to in the Circular are true, accurate and complete in all material respects as at the date of the Circular, and will continue to be so at the date of the EGM, and that they may be relied upon in formulating our opinion. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We also consider that we have taken all reasonable steps as required under Rule 13.80 of the Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Company. Our opinion is necessarily based on financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion regarding the terms of the Agreement, we have considered the following principal factors and reasons:

#### **1. Background information on the Group**

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in the trading and manufacturing, securities, bullion and commodities brokerage and trading, margin financing, money lending, provision of corporate advisory services and underwriting services, information technology related businesses, property investment and

## LETTER FROM HERCULES CAPITAL

development, implementation and marketing of software applications, magazines publishing businesses, marketing and promotional services, agricultural production, sale of airline tickets and the provision of other related services.

The consolidated financial results and segment information of the Group, which were derived from the 2007 interim report and 2006 annual report of the Group, are summarized as follows:

	For the six months ended 30 June		For the year ended 31 December	
	2007	2006	2006	2005
	(unaudited)	(unaudited)	(audited)	(audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>				
– Media & publications	93,292	98,621	197,815	210,059
– Others ( <i>Note</i> )	2,104,373	1,674,893	4,246,557	4,095,061
– Sub-total	2,197,665	1,773,514	4,444,372	4,305,120
<b>Segment results</b>				
– Media & publications	(21,522)	(47,607)	(65,946)	(54,376)
– Others ( <i>Note</i> )	502,167	194,635	371,526	220,893
– Sub-total	480,645	147,028	305,580	166,517
<b>Profit before taxation</b>	631,793	131,211	306,744	212,651
<b>Profit after taxation attributable to equity holders of the Company</b>	<u>466,603</u>	<u>96,786</u>	<u>205,318</u>	<u>96,574</u>

*Note: Other segments include (i) trading and manufacturing; (ii) property investment and development; (iii) travel and related services; (iv) securities and financial services; (v) information and technology; (vi) agriculture; and (vii) investment holding.*

As shown in the table above, the turnover of the Group increased slightly from HK\$4,305.1 million for the year ended 31 December 2005 to HK\$4,444.4 million for the year ended 31 December 2006 while the turnover from the media and publications segment recorded a decrease from HK\$210.1 million for the year ended 31 December 2005 to HK\$197.8 million for the year ended 31 December 2006. Profit after taxation attributable to the equity holders of the Company increased from approximately HK\$96.6 million for the year ended 31 December 2005 to approximately HK\$205.3 million for the year ended 31 December 2006, representing an increase of approximately 112.5%. The increase in profitability was mainly attributable to the increase in profit from the investment holding segment. On the other hand, the loss attributable



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## LETTER FROM HERCULES CAPITAL

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to the media and publications segment further increased from approximately HK\$54.4 million for the year ended 31 December 2005 to approximately HK\$65.9 million for the year ended 31 December 2006, representing an increase of 21.1%.

With reference to 2007 interim report of the Group, the turnover of the Group for the six months ended 30 June 2007 was HK\$2,197.7 million, representing an increase of 23.9% as compared to the previous corresponding period. However, turnover contributed by the media and publications segment recorded a reduction from HK\$98.6 million for the six months ended 30 June 2006 to HK\$93.3 million for the six months ended 30 June 2007. Profit after taxation attributable to the equity holders of the Company for the six months ended 30 June 2007 was HK\$466.6 million, being almost 4 times of the profit for the corresponding period in 2006. The rise in profit was mainly resulted from the increase in profit from the investment holding segment. For the six months ended 30 June 2007, the media and publications segment of the Group continued to record a loss of HK\$21.5 million although there was a drop of 54.8% in losses for such segment as compared to the last corresponding period. The cut down in loss for the media and publications segment was the result of the divestment in several loss-making magazines and cost tightening measures implemented in both Hong Kong and PRC markets during the period.

### 2. Background information on SC Media Group

SC Media Group is engaged in the business of publications for the following magazine titles “marie claire”, “HIM”, “ESQUIRE”, “Carplus”, “快週刊”, “3週刊”, “JESSICA’s完全女人手冊”, “CAPITAL Weekly”, “兒童快報週刊”, “兒童快報月刊”, “星刊88” and “星期五”. With the exception of “星刊88” and “星期五” which are published and sold in the PRC, all the magazines of SC Media Group are published and sold in Hong Kong.

The unaudited consolidated financial information of SC Media Group is summarized as follows:

	For the six months ended 30 June		For the year ended 31 December	
	2007 (unaudited) (HK\$'000)	2006 (unaudited) (HK\$'000)	2006 (unaudited) (HK\$'000)	2005 (unaudited) (HK\$'000)
Turnover	<u>94,300</u>	<u>99,000</u>	<u>200,700</u>	<u>228,700</u>
Loss for the period/year	<u>12,000</u>	<u>48,400</u>	<u>54,900</u>	<u>51,300</u>

# LETTER FROM HERCULES CAPITAL

	As at				
	31 October	As at 30 June		As at 31 December	
	2007	2007	2006	2006	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Total assets	48,900	98,000	83,200	98,000	82,200
Total liabilities	<u>(123,300)</u>	<u>(541,400)</u>	<u>(506,600)</u>	<u>(528,700)</u>	<u>(457,000)</u>
Net liabilities (Note)	<u><u>(74,400)</u></u>	<u><u>(443,400)</u></u>	<u><u>(423,400)</u></u>	<u><u>(430,700)</u></u>	<u><u>(374,800)</u></u>

*Note: The net liabilities as at 31 October 2007 was arrived at after the capitalization of a shareholder's loan of HK\$380 million in October 2007 and the net liabilities as at 30 June 2007, 30 June 2006, 31 December 2006 and 31 December 2005 included advances from group companies of HK\$ 387.1 million, HK\$333.8 million, HK\$367.0 million and HK\$307.0 million respectively.*

According to the Directors, the turnover of SC Media Group for the periods/years under review was mainly derived from its publication business. For the year ended 31 December 2006, the turnover of SC Media Group decreased by 12.2% when compared with last year to approximately HK\$200.7 million after the divestment in several loss-making magazines during the year. Despite the divestment of some loss-making magazines, the loss for the year further increased from HK\$51.3 million for the year ended 31 December 2005 to HK\$54.9 million for the year ended 31 December 2006, representing an increase of 7.0%. According to the Directors, the increase in loss was mainly attributable to certain unfavorable factors which have imposed adverse impacts on the publication industry, including severe competition, thinned margin, escalating printing costs, wages and other direct production costs.

In 2007, SC Media Group implemented more stringent cost control measures and further divested several non-performing magazine titles. The turnover of SC Media Group reduced slightly from HK\$99.0 million for the six months ended 30 June 2006 to HK\$94.3 million for the six months ended 30 June 2007, while the loss for the six months ended 30 June 2007 decreased to approximately HK\$12.0 million, representing an improvement of approximately 75.2% as compared with the last corresponding period. However, the improvement in results of SC Media Group was mainly attributable to the fair value gain on investment properties of approximately HK\$10.4 million. The subject property was subsequently disposed of in August 2007.

As disclosed in the 2007 interim report of the Company, the Group's management was looking to achieve breakeven for the media and publications business in the second half year of 2007. According to the Directors, the aforementioned statement represents the management's expectations at the time when such statement was made and such statement was predicated on the basis that costs control measures were successfully implemented and contents and income from individual magazines would be enhanced. However, as the market conditions have changed during the year, the unfavorable factors like heightened printing costs, wages and distribution costs had counteracted the management's efforts in improving the profit margin. As a result,

SC Media Group continued to record a consolidated net loss during the four months ended 31 October 2007. We have reviewed the unaudited financial statements of SC Media Group for the ten months ended 31 October 2007, being the latest financial statements that have been prepared by SC Media Group, and noted that SC Media Group had no significant improvements in its financial performance during the period subsequent to 30 June 2007, the date to which the latest published interim financial statements of the Group were made up. As at 31 October 2007, the total assets and liabilities of SC Media Group amounted to approximately HK\$48.9 million and HK\$123.3 million respectively, resulting in a net liability position of HK\$74.4 million. For the total liabilities of HK\$123.3 million as at 31 October 2007, approximately HK\$121.4 million were due to third parties while the balance of HK\$1.9 million were due to related companies.

The Directors anticipate that the unfavorable market conditions may persist in the ensuing years and it may take a longer time for SC Media Group to turnaround its financial performance. Given that there were no material changes in the financial or trading position or outlook of SC Media Group during November and December 2007, we consider that the chance for SC Media Group to achieve breakeven for the year ended 31 December 2007 is relatively remote and concur with the Directors' view that a longer time may be required by SC Media Group to turnaround its performance.

### **3. Reasons for and benefits of the Sale**

In the past few years, in light of the continuous poor performance of the publication business, the Group has devoted tremendous management time and efforts on the publication business with the hope to turnaround its performance. Despite various measures and strategies have been implemented, no significant improvements were noted on the underperformed publication business. On the other hand, as a result of the continuous losses in the past few years, SC Media Group recorded net current liabilities and net liabilities of HK\$85.9 million and HK\$74.4 million respectively as at 31 October 2007. The Directors considered that SC Media Group would be facing liquidity problem if no additional funding were obtained from the Group or external sources. In light of the unsatisfactory performance and financial position of SC Media Group, the Directors expected that it would be difficult, even if not impossible, for SC Media Group to raise fund from external sources on its own.

In view of the unfavorable operating environment and uncertain outlook of the publication business, the Directors consider that it is appropriate and in the interests of the Group to terminate its loss-making business and to reallocate more resources on other profitable businesses of the Group. Although the Group will be responsible for the settlement of the Shortfall (details are set out in section 5 below), the Sale can prevent the Group from suffering further losses and cash outflow for the non-performing publication business, not to mention the cash inflow of approximately HK\$30 million to be brought into the Group from the proceeds of the Sale.

The Directors are also of the view that the Sale can avoid any potential business conflict and competition between the Group and the publication group that is owned and operated by Mr. Ng and Mr. Ng Yuk Fung Peter, the executive Directors and controlling shareholder of the Company.

We have discussed with the Directors on whether or not they have considered liquidating SC Media Group instead of disposing it by means of the Sale. The Directors considered that the Sale is a more effective means for divesting its unprofitable publication business given that (i) the Sale will bring in sale proceeds of HK\$30 million to the Group which shall reduce the Group's possible net cash outflow for settlement of outstanding payables to third parties to a maximum amount of HK\$50 million while liquidation shall not bring in any cash inflow to the Group and the Group has to settle fully the outstanding payables owed by SC Media Group to the third parties, which may or may not be more than HK\$50 million, so as to maintain its reputation in the market and to ensure smooth operations of other businesses of the Group; (ii) various professional fees would have to be incurred in order to execute the liquidation; (iii) prolonged procedures and time would be taken to complete the liquidation process; (iv) although subject to Completion having taken place, the Purchaser is responsible for the operation and profit and loss of SC Media Group as from 1 January 2008 onwards; and (v) liquidation of SC Media Group may give a wrong impression to the public that the Group is experiencing a financial crises and causes adverse impacts on the remaining businesses of the Group. In view of the above factors and reasons and the fact that the Sale would give rise to an unaudited gain on disposal of subsidiaries of approximately HK\$30 million, we concur with the Directors' view that the Sale is in the interest of the Group and the Independent Shareholders as a whole.

#### **4. Consideration for the Sale**

The total consideration for the Sale Shares and the Shareholder's Loan is HK\$30 million, payable in cash. We were informed by the Directors that the consideration was determined after arm's length negotiations between the Purchaser and the Vendor after taking into account (i) the loss history of the publishing business; (ii) the expected zero consolidated net asset value as at 31 December 2007 (excluding the Shareholder's Loan); and (iii) a premium of HK\$30 million represented by the consideration over the net asset value of SC Media Group.

As SC Media Group recorded net losses and it has not declared any dividend in the past, neither the price-earnings approach nor dividend approach, both of which are commonly used in valuation of a company, can be used for assessing the reasonableness of the consideration for the Sale Shares. Furthermore, as SC Media Group will have a zero net asset value after the settlement of the Shortfall by the Group, the assets approach cannot be used for valuation of SC Media Group as well.

As at 31 October 2007, the unaudited net current liabilities, net liabilities and Shareholder's Loan of SC Media Group amounted to approximately HK\$85.9 million, HK\$74.4 million and HK\$0 respectively. Given its unsatisfactory financial performance and financial position, the Directors considered that it would be difficult for SC Media Group to raise fund from external sources on its own. SC Media Group may be even facing liquidity problem if no additional funding is obtained from the Group. Therefore, the Directors considered that the possibility of recovering the Shareholder's Loan, which was estimated to be approximately HK\$14 million as at 31 December 2007, from SC Media Group was very remote and the Group would have to recognize further impairment loss for the Shareholder's Loan even if the Shareholder's Loan was not disposed of to the Purchaser.

Having considered that (i) SC Media Group was suffering from continuous losses in recent years; (ii) it shall have a zero net asset value as at 31 December 2007 after the adjustment for the Shortfall; (iii) the consideration represents a premium of HK\$30 million over its consolidated net asset value; and (iv) the recoverability of the Shareholder's Loan is low, we consider that the consideration for the Sale is fair and reasonable so far as the Independent Shareholders are concerned and it is on normal commercial terms.

### **5. Settlement of the Shortfall by the Group**

Pursuant to the Agreement, the Vendor shall make good the Shortfall by all means including by way of cash payment into SC Media or procuring the creditor(s) ("Creditor(s)") of SC Media, excluding the shareholder of the Shareholder's Loan, to enter into deed of novation with, inter alia, SC Media (as outgoing debtor) and the Vendor (as incoming debtor) within 60 days of the Completion Date whereby the Vendor shall assume the liabilities of the Shortfall owed to the Creditor(s) of SC Media so that the amount of the consolidated net tangible assets of the SC Media Group (excluding the Shareholder's Loan), after being made good by the Vendor, would be as if it were equal to zero as at 31 December 2007 provided that the maximum liability of the Vendor to make good the Shortfall shall be limited to HK\$80 million.

According to the unaudited management accounts of SC Media Group as at 31 October 2007, SC Media Group was in a net liability position of approximately HK\$74.4 million, after the capitalization of shareholder's loan of HK\$380 million in October 2007. The total assets of SC Media Group amounted to HK\$48.9 million, which mainly comprised fixed assets, trade receivables and bank balances of approximately HK\$11.5 million, HK\$22.1 million and HK\$7.3 million respectively. Meanwhile, SC Media Group had total liabilities of HK\$123.3 million, which mainly comprised trade payables and bank borrowings of approximately HK\$90.8 million and HK\$19.4 million respectively. With the assumption that there shall be no significant changes in the consolidated net liabilities of SC Media Group during 1 November 2007 and 31 December 2007, the Vendor shall have to take up the liabilities of approximately HK\$74 million. Should there be any increase in the consolidated net liabilities of SC Media Group, the amount that should be settled by the Vendor will increase accordingly (up to a maximum amount of HK\$80 million).

Given that (i) default on payment of the outstanding payables by SC Media Group shall have significant adverse impacts on the reputation and operations of the remaining businesses of the Group; (ii) the Group has to inject additional funding to SC Media Group for settlement of the outstanding payables even if the Sale is not conducted; (iii) the maximum liability of the Vendor to make good the Shortfall is capped at HK\$80 million; and (iv) the consideration for the Sale is fair and reasonable, we consider that the obligation for the Vendor to settle the Shortfall is commercially justifiable.

### **6. Immediate transfer of the business risk to the Purchaser**

Although subject to Completion having taken place, the Purchaser shall be responsible for the operation and profit and loss of the SC Media Group as from 1 January 2008 onwards. Meanwhile, the Vendor will pay the operating costs and expenses and make advances to SC Media Group for its working capital during the period from 1 January 2008 to the Completion Date (both dates inclusive) but such amount paid shall be deducted from the amount of the Shortfall to be made good by the Vendor.

Notwithstanding that the Vendor will have to continue to make advances to SC Media Group for its working capital before Completion, we consider such arrangement is in the interests of the Group in view of the facts that (i) it effectively transfer the business risk of SC Media Group to the Purchaser; (ii) the Group's results will not be affected by further losses that may be incurred by SC Media Group; and (iii) the advances will be netted off against the Shortfall to be settled by the Vendor.

### **7. Financial effects of the Sale**

#### *Earnings*

The Sale is expected to result in a one-off gain on disposal of subsidiaries of approximately HK\$30 million to the Group, taking into account the consideration of HK\$30 million and the expected consolidated net asset value of HK\$0 as at 31 December 2007. In the event that the Shortfall is above HK\$80 million, the gain on disposal of subsidiaries will further increase by the excess amount.

Upon Completion, the Company will cease to hold any equity interest in SC Media Group and the results of SC Media Group will no longer be consolidated into the financial statements of the Company. Given the continuous loss of SC Media Group, the Group's earnings may improve as a result of the Sale.

#### *Net asset value*

Upon Completion, SC Media will cease to be a subsidiary of the Company and the net liability of SC Media Group will no longer be consolidated into the accounts of the Company. Given a gain is expected to be recorded in the Group for the disposal of SC Media, the net asset value of the Group is expected to increase after Completion.

#### *Cashflow*

Pursuant to the Agreement, the Group will be responsible for taking up the Shortfall for a maximum amount of HK\$80 million. After taking into account the cash inflow of the consideration of HK\$30 million, the expected net cash outflow for the Group will be not more than HK\$50 million (being the consideration of HK\$30 million less the maximum liability of HK\$80 million). If the Shortfall is above HK\$80 million, the excess amount shall be taken up by the Purchaser.

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## LETTER FROM HERCULES CAPITAL

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### *Gearing and working capital*

The Sale will not have any adverse impact on the gearing of the Group (as expressed by total liabilities over total assets) as the decrease in liabilities will be larger than the decrease in assets as a result of the Sale. In addition, the Company intends to use the net proceeds from the Sale as general working capital of the Group. Hence, the working capital of the Group would be enhanced upon Completion.

Having considered the aforementioned financial effects of the Sale on the Group, including the potential enhancement of the net asset value, earnings, gearing and working capital of the Group, we consider that the Sale is in the interests of the Group and the Independent Shareholders as a whole.

### RECOMMENDATION

Having considered the principal factors and reasons stated above, we are of the view that the terms of the Agreement are on normal commercial terms and the Sale is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. As such, we recommend the Independent Board Committee to advise the Independent Shareholders, and recommend the Independent Shareholders, to vote in favor of the resolution(s) to be proposed at the EGM to approve the Agreement and transactions contemplated therein.

Yours faithfully,

For and on behalf of

**Hercules Capital Limited**

**Louis Koo**

*Managing Director*

**Amilia Tsang**

*Director*

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

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

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

(a) The Company

(1) Interests in Shares

Name of Director	Capacity	Number of ordinary shares	Total number of ordinary shares	Approximate percentage of shareholding
Mr. Ng	Beneficial owner Interest of controlled corporations	71,652,200 1,272,529,612 (Note a)	1,344,181,812	73.72%
Richard Howard Gorges ("Mr. Gorges")	Interest of controlled corporations	487,949,760 (Note a)	487,949,760	26.76%
Cheung Choi Ngor ("Ms. Cheung")	Interest of controlled corporations	487,949,760 (Note a)	487,949,760	26.76%



(2) Interest in underlying shares

Name of Director	Capacity	Number of underlying shares <i>(Note)</i>	Approximate percentage of shareholding
Mr. Gorges	Beneficial owner	18,000,000	0.99%
Ms. Cheung	Beneficial owner	18,000,000	0.99%
Mr. Ng Yuk Fung, Peter	Beneficial owner	18,000,000	0.99%
Ms. Ng Yuk Mui, Jessica	Beneficial owner	18,000,000	0.99%

*Note:* These share options were granted on 18 September 2007 at the exercise price of HK\$2.00 per Share with exercise period as follows: (i) not more than 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of the tenth year from the date of grant; (ii) not more than 2/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the tenth year from the date of grant; and (iii) all of the share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the tenth year from the date of grant.

(b) Associated corporation

(1) Interests in shares

(i) SCC *(Note b)*

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporations	1,983,206,785 <i>(Note c)</i>	74.79%

(ii) South China Financial Holdings Limited (“SCFH”) *(Note d)*

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporations	3,660,502,500 <i>(Note e)</i>	72.79%
Mr. Gorges	Beneficial owner	12,174,000	0.24%
Ms. Cheung	Beneficial owner	10,000,000	0.20%

(iii) South China Land Limited (“SCL”) *(Note f)*

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporations	347,273,203 <i>(Note g)</i>	68.56%

(iv) South China Financial Credits Limited (“SCFC”) *(Note h)*

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng Yuk Fung, Peter	Beneficial owner	250,000	0.59%

(v) Prime Prospects Limited (“Prime Prospects”) *(Note i)*

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng	Interest of a controlled corporation	30	30%

(2) *Interest in underlying shares*

(i) SCC

a) Warrants

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Ng	Interests of controlled corporations	396,641,357 <i>(Note j)</i>	14.96%

b) Share options

Name of Director	Capacity	Number of underlying shares <i>(Note)</i>	Approximate percentage of shareholding
Ms. Cheung	Beneficial owner	26,000,000	0.98%
Mr. Ng Yuk Fung, Peter	Beneficial owner	26,000,000	0.98%

*Note:* These share options were granted on 18 September 2007 at the exercise price of HK\$1.50 per share of SCC with exercise period as follows: (i) not more than 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of the tenth year from the date of grant; (ii) not more than 2/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the tenth year from the date of grant; and (iii) all of the share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the tenth year from the date of grant.

(ii) SCFH

a) Warrants

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Ng	Interests of controlled corporations	732,100,500 <i>(Notes k and l)</i>	14.56%
Mr. Gorges	Beneficial owner	2,434,800 <i>(Note k)</i>	0.05%
Ms. Cheung	Beneficial owner	2,000,000 <i>(Note k)</i>	0.04%

b) Share options

Name of Director	Capacity	Number of underlying shares <i>(Note)</i>	Approximate percentage of shareholding
Mr. Gorges	Beneficial owner	30,000,000	0.60%
Ms. Cheung	Beneficial owner	20,000,000	0.40%
Mr. Ng Yuk Fung, Peter	Beneficial owner	50,000,000	1.00%

*Note:* Each of Mr. Gorges and Ms. Cheung was granted with share options to subscribe for 30,000,000 shares of SCFH on 16 March 2006 at the exercise price of HK\$0.128 per share. Ms. Cheung had exercised the share options to subscribe for 10,000,000 shares of SCFH. Mr. Ng Yuk Fung, Peter was granted with share options to subscribe for 30,000,000 shares of SCFH and 20,000,000 shares of SCFH on 16 March 2006 and 26 April 2006 respectively at the exercise price of HK\$0.128 per share.

The exercise period is as follows: (i) 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of third year from the date of grant; (ii) 1/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the fourth year from date of grant; and (iii) 1/3 share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the fifth year from the date of grant.

(iii) SCL

a) Convertible Notes

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporations	10,666,666,666 (Note m)	2,105.96%

b) Share options

Name of Director	Capacity	Number of underlying shares (Note)	Approximate percentage of shareholding
Ng Yuk Fung, Peter	Beneficial owner	5,000,000	0.99%

*Note:* These share options were granted on 14 March 2007 at the exercise price of HK\$0.2166 per share of SCL with exercise period as follows: (i) 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of the third year from the date of grant; (ii) 1/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the fourth year from the date of grant; and (iii) the 1/3 share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the fifth year from the date of grant.

*Notes:*

- (a) The 1,272,529,612 shares of the Company held by Mr. Ng through controlled corporations referred to above include 371,864,000 shares held by Parkfield, 396,050,252 shares held by Fung Shing, 16,665,600 shares held by Ronastar, 237,303,360 shares held by Bannock and 250,646,400 shares held by Earntrade. Parkfield, Fung Shing and Ronastar are all wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Mr. Gorges and 20% by Ms. Cheung, all of whom are considered as parties to an agreement to which Section 317 of the SFO applies. As such, Mr. Ng, Mr. Gorges and Ms. Cheung are deemed to have an interest in 487,949,760 shares, which are being held by both Bannock and Earntrade.
- (b) SCC is a 74.79% owned subsidiary of the Company.
- (c) By virtue of Notes (a) and (b), Mr. Ng has a duty of disclosure under SFO in relation to 1,983,206,785 shares of SCC held by certain wholly-owned subsidiaries of the Company.
- (d) SCFH is a 72.79% owned subsidiary of the Company.
- (e) By virtue of Notes (a) and (d), Mr. Ng has a duty of disclosure under SFO in relation to 3,660,502,500 shares of SCFH held by certain wholly-owned subsidiaries of the Company.
- (f) SCL is a 68.56% owned subsidiary of the Company.
- (g) By virtue of Notes (a) and (b), Mr. Ng has a duty of disclosure under SFO in relation to 347,273,203 shares of SCL held by Skychance Group Limited (“Skychance”), a wholly-owned subsidiary of SCC.
- (h) SCFC is a 98.42% owned subsidiary of SCFH.
- (i) Prime Prospects is a 70% owned subsidiary of SCC.
- (j) These are warrants of SCC which entitle the holders thereof to subscribe at any time during the period from 7 September 2007 to 6 September 2010 (both days inclusive) for fully paid shares of SCC at an initial subscription price of HK\$0.40 per share (subject to adjustments). By virtue of Notes (a) and (b), Mr. Ng is taken to have a duty of disclosure under SFO in relation to 396,641,357 underlying shares of SCC held by certain wholly-owned subsidiaries of the Company.
- (k) These are warrants of SCFH which entitle the holders thereof to subscribe at any time during the period from 23 October 2007 to 22 October 2008 (both days inclusive) for fully paid shares of SCFH at an initial subscription price of HK\$0.168 per share (subject to adjustments).
- (l) By virtue of Notes (a) and (d), Mr. Ng is taken to have a duty of disclosure under SFO in relation to 732,100,500 underlying shares of SCFH to be subscribed under warrants of SCFH held by certain wholly-owned subsidiaries of the Company.
- (m) These are 2 convertible notes issued by SCL to Skychance with the rights to convert into 5,440,000,000 shares of SCL and 5,226,666,666 shares of SCL respectively at a conversion price of HK\$0.075 per share. By virtue of Notes (a) and (b), Mr. Ng is taken to have a duty of disclosure under SFO in relation to 10,666,666,666 underlying shares of SCL.
- (n) All interests disclosed above represent long positions.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS’ AND OTHER PERSONS’ INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER THE SFO

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, those persons, other than the Directors or chief executive of the Company, who had an interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who were, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group and the amount of each such person’s interest in such securities, together with particulars of any options in respect of such capital or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, were as follows:

Long Position in the Shares

Name of Shareholder	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Earntrade	Beneficial owner and interest of a controlled corporation	487,949,760 (Note)	26.76%
Bannock	Beneficial owner	237,303,360 (Note)	13.01%
Parkfield	Beneficial owner	371,864,000	20.39%
Fung Shing	Beneficial owner	396,050,252	21.72%

Note: Bannock is a wholly-owned subsidiary of Earntrade. The 487,949,760 shares in the Company held by Earntrade include 237,303,360 shares held by Bannock directly.

So far as was known to the Directors and chief executive of the Company, other than the interests and short positions disclosed above, there were no persons (other than the Directors or chief executive of the Company) who, as at the Latest Practicable Date, had notified to the Company

any interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group and the amount of each of such person's interest in such securities, together with particulars of any options in respect of such capital or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

#### **4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contracts with the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation other than statutory compensation).

#### **5. DIRECTORS' INTERESTS IN ASSETS**

- (a) On 9 January 2007, WTS International (BVI) Limited ("WTS"), a wholly-owned subsidiary of SCC, entered into a share purchase agreement (the "Agreement I") with SCL, of which Mr. Ng is a substantial shareholder, and SCC in relation to the disposal of 51% equity interest in Praise Rich Limited ("Praise Rich") at a consideration of HK\$408 million by way of issuance of convertible note of SCL, entitling the convertible noteholders to convert into a maximum of 5,440,000,000 shares of SCL at a conversion price of HK\$0.075 per share. The transaction was approved at an extraordinary general meeting of the Company on 8 March 2007 and completed on 12 March 2007. Praise Rich ceased to be a subsidiary and accounted as an associate of the Group upon completion of the transaction.
- (b) On 30 April 2007, WTS entered into a share purchase agreement (the "Agreement II") with SCL and SCC in relation to the disposal of the remaining 49% equity interest in Praise Rich at a consideration of HK\$392 million by way of issuance of convertible note of SCL, entitling the convertible noteholders to convert into a maximum of 5,226,666,666 shares of SCL at a conversion price of HK\$0.075 per share. The transaction was approved at an extraordinary general meeting of the Company on 4 July 2007 and completed on 6 July 2007. Praise Rich became a wholly-owned subsidiary of SCL upon completion of the transaction.
- (c) On 4 July 2007, two wholly-owned subsidiaries of SCC, namely, South China Strategic Limited ("SC Strategic") and Full Sino Profits Limited ("Full Sino") entered into an agreement (the "Agreement III") with Tek Lee and SC Media in relation to (i) the disposal of entire issued share capital of each of Southchinanet.com (BVI) Limited and Four Seas Travel (BVI) Limited at a consideration of HK122.1 million; and (ii) the acquisition of the entire issued share capital of each of Limehouse Investments Limited and Welbeck Holdings Limited at a consideration of HK122.1 million. The transactions were approved at an extraordinary general meeting of the Company on 21 August 2007 and completed on 23 August 2007.

- (d) On 26 October 2007, Skychance entered into a sale and purchase agreement (the “Agreement IV”) with Bannock, Earntrade, Fung Shing, Parkfield, Ronastar and Mr. Ng in relation to the acquisition of 346,709,203 shares of SCL, representing approximately 68.45% of the issued share capital of SCL at an aggregate consideration of HK\$97,078,576.84. The transaction was approved at an extraordinary general meeting of the Company on 4 December 2007, partially completed on 18 December 2007 and fully completed on 9 January 2008. SCL became a subsidiary of the Company upon completion of the transaction.

Save as and except for Mr. Ng who has material interests in the Sale and the transactions as disclosed in (a) and (b) above, and Mr. Ng, Mr. Gorges and Ms. Cheung who have material interest in the transactions as disclosed in (c) and (d) above, as at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have been, since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

## **6. DIRECTORS’ INTERESTS IN CONTRACTS**

Save as and except for Mr. Ng who has material interests in the Sale and the Agreement I and the Agreement II as disclosed in paragraph 5 above, and Mr. Ng, Mr. Gorges and Ms. Cheung who have material interest in the Agreement III and Agreement IV as disclosed in paragraph 5 above, as at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting.

## **7. DIRECTORS’ INTERESTS IN COMPETING BUSINESS**

Mr. Ng is the controlling shareholder of Jessica Publications (BVI) Limited (“Jessica”) and each of Ms. Ng Yuk Mui, Jessica and Mr. Ng Yuk Fung, Peter is a director of Jessica. Jessica is principally engaged in the publication business which are considered as competing businesses of the Group.

Accordingly, each of Mr. Ng, Ms. Ng Yuk Mui, Jessica and Mr. Ng Yuk Fung, Peter is regarded as interested in such competing businesses of the Group.

The Directors are of the view that the Company can carry on its business independently of and at arm’s length from the business of Jessica especially upon completion of the Sale as the Group’s relevant publication business has its own target reader market and contents which are different from those of Jessica.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor any of their respective associates had any interest in any business which causes or may cause any competition with the business of the Group or any conflicts with the interests of the Group.

## **8. RIGHT TO DEMAND A POLL**

Pursuant to the Articles of Association of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) voting by way of poll is required by the Listing Rules or a poll is duly demanded. A poll may be demanded by:

- (i) the chairman of the meeting; or



- (ii) at least five members present in person or by proxy and entitled to vote or who represent in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend any vote at the meeting; or
- (iii) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or
- (iv) if required by the Listing Rules, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent (5%) or more of the total voting rights at such meeting.

Unless a poll is so demanded and not withdrawn, a declaration by the chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company’s book containing the minutes of proceedings of meetings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

**9. LITIGATION**

So far as the Directors are aware, no member of the Group is engaged in any litigation or arbitration or claims which is, in the opinion of the Directors, of material importance and no litigation or claims which is, in the opinion of the Directors, of material importance is known to them to be pending or threatened against any member of the Group.

**10. QUALIFICATION OF EXPERT, CONSENT AND EXPERT’S INTERESTS**

- (a) The following is qualification of expert who has given opinions, letter or advice which is contained or referred to in this circular:  
  

Hercules Capital	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
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- (b) As at the Latest Practicable Date, Hercules Capital did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) As at the Latest Practicable Date, Hercules Capital had not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included. The letter from Hercules Capital was made for incorporation in this circular.

- (d) As at the Latest Practicable Date, Hercules Capital did not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.

## 11. GENERAL

- (a) The secretary of the Company and qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Ms. Cheung Siu Lan, who is a fellow certified public accountant of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of the Australian Society of Certified Practising Accountants. She is also a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.
- (b) The registered office of the Company is situated at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands, and its head office and principal place of business in Hong Kong is situated at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong. The transfer office of the Company is Union Registrars Limited at Rooms 1901-1902 Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.
- (c) The address of Hercules Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, is 1503, Ruttonjee House, 11 Duddell Street, Central, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

## 12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during the normal business hours from 9:00 a.m. to 5:00 p.m. (other than a Saturday, a Sunday and a public holiday) at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on any Business Day from the date of this circular until the date of the EGM.

- (a) each of the agreements referred in the paragraph headed “Directors’ Interests in Assets” above;
- (b) the letter from the Independent Board Committee, the text of which is set out in the section of this circular headed “Letter from the Independent Board Committee”;
- (c) the letter from Hercules Capital, the text of which is set out in the section of this circular headed “Letter from Hercules Capital”;
- (d) the written consent from Hercules Capital referred to in the paragraph headed “Qualification of Expert, Consent and Expert’s Interests” above; and
- (e) the Agreement.

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# NOTICE OF EXTRAORDINARY GENERAL MEETING

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## SOUTH CHINA HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 265)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of South China Holdings Limited (the “Company”) will be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on 4 February 2008 at 4:30 p.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution:

### ORDINARY RESOLUTION

#### “THAT

- (a) the conditional sale and purchase agreement dated 28 December 2007 (the “S&P Agreement”) entered into between (i) Tek Lee Finance And Investment Corporation Limited (which is indirectly wholly-owned by the Company) as the vendor and (ii) Broaden Base Investments Limited as the purchaser, for the sale and purchase of 2 shares in the issued share capital of South China Media Limited (“SC Media”) (being the entire issued share capital of SC Media) and the Shareholder’s Loan (as defined in the S&P Agreement) (the “Sale”) (a copy of the S&P Agreement has been produced to this meeting and marked “A” and initialed by the chairman of the meeting for the purpose of identification) be and are hereby generally and unconditionally approved, confirmed and ratified in all respects and that the Sale and that all the transactions contemplated therein be and are hereby approved, confirmed and ratified; and
- (b) any one director of the Company; or any two directors or any one director and the company secretary of the Company if the affixation of the common seal of the Company is necessary, be and are hereby authorised, for and on behalf of the Company to sign, seal, execute, perfect or deliver (whichever is/are appropriate) the S&P Agreement or to do such further acts and things and execute and deliver such further documents of the Company or otherwise as may be necessary, desirable or expedient to carry out or to give effect to any and/or all transactions contemplated under the Sale and/or the S&P Agreement.”

By order of the board  
**Cheung Choi Ngor**  
*Director*

Hong Kong, 16 January 2008

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Principal Place of Business in Hong Kong:*

28th Floor

Bank of China Tower

1 Garden Road

Central

Hong Kong

*Notes:*

1. Any member of the Company entitled to attend and vote at the meeting by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
2. In order to be valid, a proxy form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's share registrar, Union Registrars Limited at Rooms 1901-1902, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude any member from attending and voting in person at the meeting or any adjourned meeting should he so wish.
3. In case of joint shareholding, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purpose seniority will be determined by the order in which the names stand on the register of members of the Company in respect of the joint shareholding.