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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in South China Holdings Limited, you should at once hand this circular 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 TRANSACTIONS

Financial Adviser to South China Holdings Limited



South China Capital Limited

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

“A Shares”	the voting class A shares of HK\$1.00 each in the capital of Nority carrying the rights and privileges of profit distribution of Nority, priority in the distribution of the assets of Nority on winding up and voting rights at general meetings of Nority, details of which are set out in the articles of association of Nority
“Acquisition”	the acquisition of the Nority (BVI) Sale Shares and the Nority (BVI) Sale Loan by Micon from Nority International
“Acquisition Agreement”	the sale and purchase agreement dated 6 November 2006 entered into between, inter alias, Nority International and Micon in relation to the Acquisition
“Agreement”	the conditional sale and purchase agreement dated 6 November 2006 and supplemental agreement dated 24 November 2006 entered into among Micon, South China Industries and the Offeror relating to the sale and purchase of the Sale Shares
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“B Shares”	the non-voting class B shares of HK\$1.00 each in the capital of Nority carrying the rights and privileges set out in the articles of association of Nority and practically carrying no entitlement to dividend or distribution of profit or asset distribution on winding up
“Business Day”	a day, other than a Saturday, a Sunday, a public holiday and a day on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m., on which licensed banks are open for general banking business in Hong Kong throughout their normal business hours
“BVI”	the British Virgin Islands
“Company”	South China Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Transaction

DEFINITIONS

“Completion Date”	the date of completion of the Transaction, details of which are set out in the paragraph headed “Completion” under the section headed “The Agreement” of this circular
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Connected Transactions”	the transactions contemplated in the Acquisition Agreement, the Nority Subscription Agreement, the Joint Venture Deed and the Put Option Deed, which are considered to be connected transactions of Nority International under the Listing Rules
“Continuing Connected Transactions”	the transactions contemplated in the Management Agreement and the Rental Agreement, which are considered to be continuing connected transactions of Nority International under the Listing Rules
“DD Long Stop Date”	24 November 2006, being a day falling 10 Business Days after the receipt by the Offeror of any document for the purpose of conducting the due diligence review on Nority International
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the shareholders of Nority International to be convened to consider and approve the Connected Transactions, the Continuing Connected Transactions and the Proposed Caps
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Group”	the Company and its subsidiaries including South China Industries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of the Company, and its connected persons
“Joint Announcement”	the joint announcement dated 24 November 2006 published by the Company, South China Industries, Nority International and the Offeror in relation to, amongst others, the Transaction, the Acquisition and the Subscription
“Joint Venture Deed”	the joint venture deed intended to be entered into among Nority International, Micon and Nority on the Completion Date in relation to the funding, management and operation of Nority

DEFINITIONS

“Latest Practicable Date”	15 December 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Agreement”	the management agreement intended to be entered into among Nority International, Nority and South China Strategic on the Completion Date in relation to the operation and management of Nority
“Micon”	Micon Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of South China Industries and the Company
“Mr. Lam”	Mr. Lam Ching Kui, the sole director and the sole beneficial owner of the Offeror
“Nority”	Nority Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Nority International as at the Latest Practicable Date
“Nority (BVI)”	Nority (BVI) Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of Nority International as at the Latest Practicable Date
“Nority (BVI) Sale Loan”	the sum of HK\$25,347,048 which is due and owing by Nority (BVI) to Nority International
“Nority (BVI) Sale Shares”	120,000,000 shares of US\$0.10 each in the share capital of Nority (BVI), representing the entire issued share capital of Nority (BVI)
“Nority Development”	Nority Development Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of Nority (BVI) as at the Latest Practicable Date
“Nority Group”	Nority International and its subsidiaries
“Nority International”	Nority International Group Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“Nority Subscription Agreement”	the subscription agreement dated 6 November 2006 entered into among Micon, Nority International and Nority relating to the subscription of the Subscription Shares by Micon

DEFINITIONS

“Offeror”	Chinese Success Limited, a company incorporated in the BVI with limited liability and wholly-owned by Wai Chun Investment Fund which is in turn wholly-owned by Mr. Lam
“Option Interest”	65 A Shares beneficially owned by Nority International and 12,000,000 B Shares, representing 65% of the issued A Shares and 65% of the voting rights at general meetings of Nority after completion of the Subscription and 100% of the issued B Shares as at the date of signing of the Put Option Deed
“parties acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“percentage ratios”	has the meaning ascribed thereto in the Listing Rules
“PRC”	The People’s Republic of China
“Premises”	the factory building, Nority Industrial Building, No.4 Xiaobian Industrial District, Changan Town, Dongguan City, Guangdong Province, the PRC
“Prime Rate”	in relation to any relevant sum and any relevant period, the best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited at or about 11:00 a.m. (Hong Kong time) on the second Business Day before the commencement of such period
“Proposed Caps”	the proposed caps for the Management Agreement and the Rental Agreement
“Put Option”	the put option to be granted by Micon to Nority International to request Micon to acquire the Option Interest
“Put Option Deed”	the put option deed intended to be entered into among Nority International, Nority and South China Industries on the Completion Date pursuant to the granting of the Put Option
“Rental Agreement”	the rental agreement intended to be entered into between Nority and Nority Development on the Completion Date in relation to the lease of the Rented Premises for the operation of Nority’s business
“Rented Premises”	part of the Premises, the area of which is 28,030.66 sq.m., which is currently utilized by Nority for its operation

DEFINITIONS

“Sale Shares”	255,885,561 shares of Nority International beneficially owned by Micon, representing approximately 95.35% of the issued share capital of Nority International as at the date of the Agreement
“SCI Group”	South China Industries and its subsidiaries
“SFC”	Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.025 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Purchase Conditions”	the conditions set out in the paragraph headed “Conditions Precedent” under the section headed “The Agreement” of this circular
“South China Industries” or “SCI”	South China Industries Limited, an exempted company incorporated in the Cayman Islands with limited liability and a subsidiary of the Company, whose shares are listed on the Main Board of the Stock Exchange
“South China Strategic”	South China Strategic Limited, a company incorporated in Hong Kong with limited liability, the manager of Nority in the Management Agreement and a wholly-owned subsidiary of South China Industries
“Special Dividend”	part of the proceeds from the Acquisition of not exceeding HK\$60 million to be applied by Nority International as special dividend to all its existing shareholders (including Micon which is expected to receive not more than approximately HK\$57.21 million from the Special Dividend) subject to the completion of the Acquisition. The exact amount of the Special Dividend to be distributed is subject to final decision by the board of directors of Nority International
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by Micon pursuant to the Nority Subscription Agreement
“Subscription Shares”	35 A Shares, representing 35% of the enlarged issued A Shares and 35% of the voting rights at general meetings of Nority

DEFINITIONS

“Takeovers Code”	the Codes on Takeovers and Mergers and Share Repurchases
“Transaction”	the sale and purchase of the Sale Shares pursuant to the Agreement
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“sq.m.”	square metre

For the purpose of this circular, unless otherwise indicated, exchange rates of HK\$1.00 = RMB1.02 have been used for currency conversion purposes. This is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$ or RMB have been, could have been or may be converted at such rates or any other exchange rates or at all.

LETTER FROM THE BOARD



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

Ms. Wong Siu Yin, Elizabeth

Mr. Cheng Hong Kei

Registered office:

Offshore Incorporations

(Cayman) Limited

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

18 December 2006

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTIONS

On 6 November 2006, the Offeror entered into the Agreement with Micon and South China Industries, pursuant to which the Offeror conditionally agreed to acquire, and Micon conditionally agreed to dispose of the Sale Shares, representing approximately 95.35% of the total issued share capital of Nority International at an aggregate consideration of HK\$105,424,851.13, equivalent to HK\$0.412 per Sale Share.

On 6 November 2006, Micon entered into the Acquisition Agreement with Nority International and South China Industries to acquire Nority (BVI) Sale Shares and the Nority (BVI) Sale Loan at a consideration of HK\$75,555,000.

On 6 November 2006, Nority International, Micon and Nority entered into the Nority Subscription Agreement, pursuant to which the Subscription Shares will be allotted and issued to Micon at a consideration of HK\$3,520,000 and upon completion of the Subscription, Nority will be converted from a wholly-owned subsidiary to a non wholly-owned subsidiary of Nority International, in which Nority

LETTER FROM THE BOARD

International and Micon will be interested in 65% and 35% of the issued A Shares respectively. Upon completion of the Subscription, it is intended that the Joint Venture Deed, the Put Option Deed and the Management Agreement will be entered into for the purpose of governing the relationship between Nority International and Micon and the operation and management of Nority. For the continuing operation of Nority, the Rental Agreement will be entered into between Nority and Nority Development on the Completion Date.

The purpose of this circular is to provide you with the information regarding the Agreement, the Acquisition Agreement, the Nority Subscription Agreement, the Joint Venture Deed, the Put Option Deed, the Management Agreement and the Rental Agreement, the details of which are set out as below:

I. THE AGREEMENT

Date

6 November 2006

Parties

Vendor:	Micon
Purchaser:	Offeror
Guarantor of the vendor:	South China Industries

South China Industries has agreed to guarantee the due observance and performance by Micon of all the agreements, obligations, commitments and undertakings contained in the Agreement on the part of Micon to be observed and performed.

Sale Shares

The Offeror has agreed to acquire the Sale Shares, representing approximately 95.35% of the total issued share capital of Nority International.

Purchase price and payment terms

An aggregate consideration of HK\$105,424,851.13, equivalent to HK\$0.412 per Sale Share, will be paid in cash by the Offeror to Micon or as Micon may direct. Upon signing of the Agreement, a sum of HK\$10 million was paid by the Offeror to the escrow agent, holding as stakeholder. On Completion, the escrow sum of HK\$10 million shall be released by the escrow agent and a sum of HK\$95,424,851.13 shall be paid by the Offeror to Micon or as it may direct.

The consideration was arrived at after arm's length negotiations between Micon and the Offeror, having taken into account the market performance of the shares of Nority International prior to suspension of trading in the shares of Nority International on 17 May 2006 as a result of the insufficiency of public float following the mandatory unconditional cash offer by Dao Heng Securities Limited on behalf of Micon to acquire all the issued shares of Nority International other than those already beneficially owned or agreed to be acquired by it and parties acting in concert with it (details of which were set out in the response document of Nority International dated 2 May 2006) and the Special Dividend to be made subject to the completion of the Acquisition.

LETTER FROM THE BOARD

Conditions precedent

Completion is conditional upon:

1. The Executive granting “special deal” consent to Nority International under Rule 25 of the Takeovers Code in respect of the following:
 - (a) the Acquisition Agreement and the transactions contemplated thereunder including but not limited to the Rental Agreement and the transactions contemplated thereunder; and
 - (b) the Nority Subscription Agreement and the transactions contemplated thereunder including but not limited to the Joint Venture Deed, the Put Option Deed and the Management Agreement and the respective transactions contemplated thereunder,

in accordance with applicable requirements under the Takeovers Code and any conditions attaching to such consent being fulfilled;
2. The passing of all necessary resolutions by the shareholders of Nority International (other than such shareholders of Nority International who are required to abstain from voting at the general meeting of Nority International pursuant to the requirements under the Takeovers Code and/or the Listing Rules) at the EGM by way of a poll (if required) to approve the agreements, arrangements and transactions referred to in paragraph (1) above;
3. No written or verbal indication or evidence of any indication having been received by any party to the Agreement or Nority International from the Stock Exchange that the trading in the shares of Nority International has been suspended for any reason other than the requirement to maintain minimum public float of Nority International under the Listing Rules or the clearance of the Joint Announcement;
4. The Acquisition Agreement and the Nority Subscription Agreement having become unconditional in accordance with the respective terms thereof (other than the Share Purchase Conditions);
5. No written or verbal indication or evidence of any indication having been received by any party to the Agreement or Nority International from the Stock Exchange or the SFC that as a result of or in connection with the Agreement and/or any or all of the respective agreements referred to in paragraph (1) above and the transactions and arrangements contemplated thereunder:
 - (a) any rules, regulations or requirements of the Stock Exchange and/or the SFC have been, or may or will be, breached; and/or
 - (b) Nority International is, or may or will be, treated as a new listing applicant under the Listing Rules; and/or

LETTER FROM THE BOARD

- (c) the listing status of Nority International on the Stock Exchange may or will be suspended, cancelled, revoked or adversely affected (including, without limitation, the imposition of any unusual or onerous conditions to the listing) for any reason other than the requirement to maintain minimum public float of Nority International under the Listing Rules or the clearance of the Joint Announcement;
- 6. A written independent shareholders' approval of South China Industries and/or the Company (being the ultimate holding company of South China Industries) pursuant to Rule 14A.43 of the Listing Rules approving the transactions contemplated under the Management Agreement, the Rental Agreement and/or the Joint Venture Deed having been delivered to the Offeror, if such approval is required under the Listing Rules;
- 7. The warranties set out in the Agreement having remained true and accurate, and not misleading in all material respects, at all times from the date of the Agreement up to and including the Completion Date;
- 8. All other requisite consents, authorisations and approvals (or, as the case may be, the relevant waiver) in connection with the entering into and performance of the terms of the Agreement having been obtained by the respective parties to the Agreement;
- 9. Micon and South China Industries having fulfilled all their obligations and undertakings contained in the Agreement; and
- 10. The Offeror having notified to Micon that it is reasonably satisfied with the due diligence review.

Save that the Offeror may waive any of the above conditions (except the conditions set out in paragraphs (1), (2), (4) and (6) above) at any time by notice in writing to Micon, no other party to the Agreement may waive any of the above conditions.

In the event any of the above conditions (other than the condition set out in paragraph (10) above) shall not have been fulfilled (or waived by the Offeror) prior to 16 February 2007, or such other date as may be agreed in writing by the parties to the Agreement, and the condition set out in paragraph (10) above shall not have been fulfilled (or waived by the Offeror) prior to the DD Long Stop Date, the escrow sum of HK\$10 million (including any interest accrued thereon) shall be returned to the Offeror and the Agreement shall forthwith terminate and all rights and obligations of the parties to the Agreement shall cease to have effect immediately.

Pursuant to the terms of the Agreement, as the Offeror did not provide a notice to Micon stating that it was not satisfied with the due diligent review on or prior to the DD Long Stop Date, the Offeror and Micon agreed that the condition set out in paragraph (10) above was deemed to be fulfilled and satisfied. For the avoidance of doubt, the written approval set out in paragraph (6) above was not applicable to the Company and South China Industries under the Listing Rules. Save as the conditions set out in paragraph (6) and (10), none of the above conditions have been fulfilled as at the Latest Practicable Date.

LETTER FROM THE BOARD

Others

Pursuant to the Agreement:

1. Micon undertook with the Offeror that at any time prior to Completion, Micon has the right to procure Nority International to declare and pay cash dividends to the shareholders of Nority International provided that the total amount of such dividends shall not exceed HK\$60 million.
2. Micon and South China Industries have given the following warranties:
 - (a) Nority International will have as at Completion (assuming simultaneous completion of the Acquisition Agreement and the Nority Subscription Agreement and after deducting the dividends payable as mentioned in paragraph 1 above) cash in an aggregate amount of not less than HK\$24,000,000.
 - (b) Nority International will have as at Completion total liabilities (excluding any dividends payable as mentioned in paragraph (1) above but including all professional and other expenses of any kind which may be incurred for the purpose of the transactions contemplated by or in connection with the Agreement) of not exceeding HK\$14,000,000 among which HK\$10,000,000 consists of a non-interest bearing loan owing by Nority International to South China Industries and/or its subsidiaries which is not callable by South China Industries and/or its subsidiaries during the first 24 calendar months after the Completion Date.

Completion

Completion will take place on the second Business Day (or such other date as the parties to the Agreement may agree in writing) after the day on which the last of the Share Purchase Conditions (other than those Share Purchase Conditions that shall be fulfilled or waived on Completion) is fulfilled or waived in accordance with the Agreement and Completion shall take place simultaneously with the completion of the Acquisition and the Subscription.

Financial impact of the Agreement on the Group

Upon Completion, Nority International shall cease to be a subsidiary of the Company and South China Industries. The Company will not hold any shares in Nority International. The Company and South China Industries will recognise a gain on disposal of subsidiary and an increase in net asset value of approximately HK\$74 million calculated based on their attributable interests of approximately 95.35% in Nority International and the unaudited net asset value of approximately HK\$92 million as at 30 June 2006 according to Nority International's interim report after adjusted for the payment of Special Dividend of HK\$60 million, the exact amount of which is subject to the final decision by the board of directors of Nority International was approximately HK\$31 million and the gross proceeds of the Transaction is

LETTER FROM THE BOARD

approximately HK\$105 million. Approximately HK\$79 million of the net proceeds from the Transaction will be used to settle the considerations to be paid under the Acquisition Agreement and the Nority Subscription Agreement and the remaining net proceeds will be used as general working capital purpose of the SCI Group.

For the year ended 31 December 2005, the audited net assets and net loss of Nority International were HK\$149,356,000 and HK\$52,386,000 respectively. The total assets and total liabilities of Nority International as at 31 December 2005 were HK\$221,933,000 and HK\$72,577,000 respectively. Upon Completion, the financial results of Nority International will not be consolidated into the financial accounts of the Group.

II. ACQUISITION OF NORITY (BVI) AND THE SUBSCRIPTION

(A) THE ACQUISITION AGREEMENT

Date

6 November 2006

Parties

Vendor:	Nority International
Purchaser:	Micon
Guarantor of the purchaser:	South China Industries

South China Industries has agreed to guarantee the due and punctual performance and observance by Micon of its obligation to pay the consideration of HK\$75,555,000 under the Acquisition Agreement.

Assets to be acquired

Pursuant to the Acquisition Agreement, Micon has agreed to acquire and Nority International has agreed to dispose of and assign, subject to the terms and conditions of the Acquisition Agreement, the Nority (BVI) Sale Shares, representing the entire issued share capital of Nority (BVI), and the Nority (BVI) Sale Loan. After completion of the Acquisition, Nority (BVI) will cease to be a subsidiary of Nority International and will become a wholly-owned subsidiary of Micon.

Conditions precedent

The sale and purchase of the Nority (BVI) Sale Shares and the assignment of the Nority (BVI) Sale Loan is conditional upon the following conditions:

1. the passing by the shareholders of Nority International (other than those prohibited from voting under the Listing Rules and/or the Takeovers Code, if applicable) of all necessary resolutions by way of poll at the EGM approving the Acquisition Agreement and the transactions contemplated thereunder which would constitute a special deal of Nority International under the Takeovers Code;

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2. the grant by the Executive of his consent pursuant to Rule 25 of the Takeovers Code in relation to the entering into of the Acquisition Agreement; and
3. completion of the Agreement and the Nority Subscription Agreement.

None of the parties to the Acquisition Agreement has the right to waive any of the conditions above.

In the event any of the above conditions has not been fulfilled on or prior to 16 February 2007 or such other date as may be agreed by the parties to the Agreement, then neither Nority International nor Micon shall be bound to proceed with the sale and purchase of the Nority (BVI) Sale Shares and the assignment of the Nority (BVI) Sale Loan, whereupon the Acquisition Agreement shall be terminated save in respect of claims arising out of any antecedent breach of the Acquisition Agreement.

Consideration

Upon completion of the Acquisition, Micon agrees to pay to Nority International a total of HK\$75,555,000 in cash as consideration for the Nority (BVI) Sale Shares and the Nority (BVI) Sale Loan. The full amount of the consideration payable by Micon is intended to be financed by the net proceeds from the Transaction.

The consideration was arrived at after arm's length negotiations between Micon and Nority International with reference to the unaudited consolidated net asset value of Nority (BVI) (excluding Nority) as at 30 June 2006 and book value of the Nority (BVI) Sale Loan as at 6 November 2006, which were approximately HK\$43 million and HK\$25 million respectively.

Completion

Completion of the Acquisition shall take place simultaneously with the completion of the Transaction and the Subscription on the Completion Date.

Financial impact of the Acquisition

The Acquisition will not have any effect to the assets and liabilities and earnings position of the Group as the Acquisition is regarded as an intra-group transaction and will be eliminated in full.

Upon completion of the Acquisition, Nority (BVI) will remain as a wholly-owned subsidiary of the Company and its financial results together with the financial results of its subsidiaries will continue to be consolidated into the accounts of the Group. There is no difference between the accounting treatment adopted by the Company before and after the Acquisition in respect of its investment in Nority (BVI) and its subsidiaries in the Group's consolidated account. Nority (BVI) and its subsidiaries remain as an indirect subsidiaries of the Company.

LETTER FROM THE BOARD

Information on Nority (BVI)

Nority (BVI), a company incorporated in the BVI and a wholly-owned subsidiary of Nority International, is principally engaged in the business of investment holding. Its subsidiaries are principally engaged in the holding of the Premises used by Nority and a partially constructed plant in the PRC, the construction of which was suspended due to excess capacity of the Nority Group, two office premises and car parking spaces that are partially vacant or occupied by the Taiwan branch of Wilken Footwear Limited and Wilken Investment Limited, both subsidiaries of Nority (BVI), and a vacant composite property (including a shop unit, a residential unit, a car parking space and a motorcycle parking space) in Taiwan, and securities, in each case for long-term investment purposes.

Subsequent to the mandatory unconditional cash offer made by Micon in respect of the shares of Nority International other than those already beneficially owned by it and parties acting in concert with it, which was closed on 16 May 2006, in order to streamline its operation and rationalise the structure of Nority Group, Nority International underwent a restructuring in September 2006, after which Nority, the principal operating subsidiary of the Nority Group, changed from a subsidiary to a fellow subsidiary of Nority (BVI). In addition, in or about July 2006, Nority International had transferred the footwear businesses previously carried out by Nority (BVI)'s operating subsidiaries (which were mainly the provision of subcontracting and sourcing services to other subsidiaries of Nority (BVI) (including Nority), and export and direct sales of footwear) to Nority.

As at 30 June 2006, the unaudited consolidated net asset value of Nority (BVI) (excluding Nority) amounted to approximately HK\$43 million.

For the year ended 31 December 2004, the unaudited consolidated revenue and profit before and after taxation of Nority (BVI) and its subsidiaries (excluding Nority) were approximately HK\$33.8 million, HK\$0.2 million and HK\$1.5 million respectively. For the year ended 31 December 2005, the unaudited consolidated revenue and loss before and after taxation of Nority (BVI) and its subsidiaries (excluding Nority) were approximately HK\$35.6 million, HK\$21.9 million and HK\$15.2 million respectively. The revenues principally represented export and direct sales of footwear and provision of subcontracting and sourcing services to other subsidiaries of Nority (BVI) (including Nority), the business of which has been transferred to Nority.

Information on Micon

Micon, a company incorporated in Hong Kong with limited liability on 1 July 1988, is a substantial shareholder of Nority International. Micon has been an investor in Nority International since 1990. Micon and the parties acting in concert with it own the Sale Shares, representing approximately 95.35% of the entire issued share capital of Nority International.

Micon is a wholly-owned subsidiary of South China Industries which is itself a subsidiary of the Company. As at the Latest Practicable Date, the principal activity of Micon is investment holding in Nority International, the latter being a company, the shares of which are listed on the Stock Exchange, with its subsidiaries principally engaged in the manufacture and export of athletic and athletic-style leisure footwear, as well as the manufacture of working shoes, safety shoes, golf shoes and other functional shoes.

(B) THE SUBSCRIPTION

(i) The Nority Subscription Agreement

On 6 November 2006, Nority International, Nority and Micon entered into the Nority Subscription Agreement under which Micon has agreed to subscribe for 35 A Shares, representing 35% of the enlarged issued A Shares and 35% of the voting rights at general meetings of Nority after completion of the Subscription. Upon completion of the Subscription, Nority will be converted from a wholly-owned subsidiary to a non-wholly-owned subsidiary of Nority International, in which Nority International and Micon will be interested in 65% and 35% of the issued A Shares respectively, to be operated and managed under the terms and conditions prescribed under the Joint Venture Deed. On the other hand, Micon (as a wholly-owned subsidiary of South China Industries which in turn is a subsidiary of the Company) will account its 35% interest in the A Shares as “investments in associates”.

Parties

Issuer:	Nority
Subscriber:	Micon
Other:	Nority International

Shares to be subscribed for

35 A Shares representing 35% of the enlarged issued A Shares and 35% of the voting rights at general meetings of Nority upon completion of the Subscription.

Terms

Nority is a private company incorporated in Hong Kong with limited liability and as at the Latest Practicable Date has an authorised capital of HK\$12,010,000 divided into 10,000 A Shares and 12,000,000 B Shares, out of which 65 A Shares and 12,000,000 B Shares have been issued and are fully paid up and are beneficially and directly owned by Nority International.

Nority has agreed to allot and issue to Micon and Micon has agreed to subscribe for the Subscription Shares which will enable Micon to exercise or control the exercise of 35% of the voting rights at general meetings of Nority upon completion of the Subscription.

Consideration

Upon completion of the Subscription, Micon shall pay to Nority a total of HK\$3.52 million in cash as consideration for the Subscription Shares. The full amount of the consideration payable by Micon is intended to be financed by the net proceeds from the Transaction and/or the internal resources of Micon or South China Industries.

LETTER FROM THE BOARD

The consideration was arrived at after arm's length negotiations between Nority and Micon taking into account the audited net asset value of Nority as at 31 December 2005 of approximately HK\$56.3 million, the interim dividend of HK\$16 million declared and distributed by Nority in August 2006, and the audited loss after tax of Nority of approximately HK\$35.6 million for the year ended 31 December 2005. The consideration of HK\$3.52 million represents a discount of approximately 77% to the attributable net asset value of Nority as at 31 December 2005 as enlarged by the Subscription being adjusted for the distribution of the aforementioned interim dividend. Having considered the above factors, in particular, the audited loss after tax of Nority for the year ended 31 December 2005 and past operating results of Nority, the Directors consider that the Subscription Agreement is on normal commercial terms and is fair and reasonable.

The Directors also consider that the Subscription would allow Micon, a subsidiary of both the Company and South China Industries, to continue participating in the footwear business of Nority for the benefits of its own footwear operation.

Conditions

Completion of the Subscription shall be conditional upon the following conditions:

1. the passing by the shareholders of Nority International (other than those prohibited from voting under the Listing Rules and/or the Takeovers Code, if applicable) of all necessary resolutions by way of poll at the EGM approving the Nority Subscription Agreement and the transactions contemplated thereunder which would constitute a special deal of Nority International under the Takeovers Code;
2. the grant by the Executive of his consent pursuant to Rule 25 of the Takeovers Code in relation to the entering into of the Nority Subscription Agreement; and
3. completion of each of the Agreement and the Acquisition Agreement.

None of the parties to the Nority Subscription Agreement has the right to waive any of the above conditions. In the event that any of the conditions set forth above shall not have been fulfilled prior to 16 February 2007 or such other date which may be agreed by the parties to the Agreement, then neither Nority nor Micon shall be bound to proceed with the Subscription and the Nority Subscription Agreement shall cease to have any effect save in respect of claims arising out of any antecedent breach of the Nority Subscription Agreement.

Completion

Completion of the Subscription shall take place simultaneously with the completion of the Transaction and the Acquisition on the Completion Date. Upon completion of the Subscription, Nority will be accounted for as an associated company by each of the Company and South China Industries.

LETTER FROM THE BOARD

Financial impact of the Subscription

Following completion of the Subscription, the Group will recognise an increase in the interests in associates and a decrease in bank balances and cash. The Subscription may or may not have any impact on earnings and assets depending on the difference between the fair value of Nority at the actual date of the Subscription and the Subscription proceeds of HK\$3.52 million. The total assets and total liabilities of Nority as at 31 December 2005 were HK\$163.5 million and HK\$107.2 million respectively, and the audited loss after tax of Nority was approximately HK\$35.6 million for the year ended 31 December 2005. Assuming the Subscription was completed on 31 December 2005, the Group would recognise excess over the cost of a business combination in the income statement of HK\$11.8 million calculated based on the difference between the consideration of HK\$3.52 million and 35% of the adjusted enlarged net asset value of Nority as at 31 December 2005 of approximately HK\$43.8 million (being the audited net asset value of Nority of approximately HK\$56.3 million as at 31 December 2005 as adjusted by the interim dividend of HK\$16.0 million paid in August 2006 and enlarged by the Subscription proceeds of HK\$3.52 million). Accordingly, the net asset value of the Group will increase by HK\$11.8 million.

Before completion of the Subscription, the financials of Nority are consolidated into the Group's consolidated accounts. Upon completion of the Subscription, the financials of Nority will be accounted for as an associate using the equity method.

Should the Put Option be exercised by Nority International, the Group will consolidate the results, assets and liabilities of Nority as subsidiary and accordingly, the total assets and total liabilities of the Group will be increased. Assuming the Put Option was exercised on 31 December 2005 by Nority International, the Group will recognise excess over the cost of a business combination in the income statement of HK\$18 million calculated based on the difference between the consideration for Put Option of HK\$10.5 million and 65% of the adjusted enlarged net asset value of Nority as at 31 December 2005 of approximately HK\$43.8 million (being HK\$28.5 million). Accordingly, the net asset value of the Group will further increase by HK\$18 million. In addition, the exercise of the Put Option by Nority International may or may not have any impact on earnings depending on the difference between the fair value of Nority at the actual date of exercise of Put Option and the price of the Put Option of HK\$10.5 million.

Information on Nority

Nority, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Nority International, is principally engaged in the business of manufacture and export of footwear. Nority has no subsidiary or associated company as at the Latest Practicable Date.

For the year ended 31 December 2004, the audited revenue and loss before and after taxation of Nority were approximately HK\$225.7 million, HK\$29.0 million and HK\$29.0 million respectively. For the year ended 31 December 2005, the audited revenue and loss before and after taxation of Nority were approximately HK\$262.1 million, HK\$35.6 million and HK\$35.6 million respectively. The revenues represented sales of footwear. As at 31 December 2005, the audited net asset value of Nority amounted to approximately HK\$56.3 million. Nority declared and distributed a dividend of HK\$16 million in August 2006.

(ii) The Joint Venture Deed

In order to facilitate the operation, financing and management of Nority, it is intended that the Joint Venture Deed, the Put Option Deed and the Management Agreement will be entered into upon completion of the Subscription.

Date

To be entered into on the Completion Date

Parties

- (1) Nority International
- (2) Micon
- (3) Nority

Board of directors

The maximum number of directors for Nority shall be five of whom Nority International shall have the right to appoint and remove up to three directors and Micon shall have the right to appoint and remove up to two directors.

Approval of the board of directors

Apart from certain matters which require the unanimous approval of the board of directors of Nority, questions arising at any meeting of the board of directors of Nority shall be decided by a simple majority and in the case of any equality of votes, the chairman shall not have a second or casting vote.

Funding

For the period from the 1st month to the 24th month after the Completion Date, Nority may satisfy its funding requirement by borrowing (a) from banks or other financial institutions on commercially reasonable terms; or (b) subject to compliance with the Listing Rules by each of Nority International, the Company and South China Industries, from South China Strategic (as manager under the Management Agreement as described below) on terms that are no less favourable than those offered by banks or other financial institutions to Nority for the same amount of loan.

If Nority requires additional funding for its working capital or other purposes after 24 months from the Completion Date, apart from obtaining funding from banks or other financial institutions, the board of directors of Nority may request the shareholders of Nority (namely, Nority International and Micon), to contribute additional funds in the form of interest-bearing shareholders' loans (bearing an interest rate at Prime Rate plus 1%) pro-rata to their respective shareholding interests in Nority.

LETTER FROM THE BOARD

If either Nority International or Micon chooses not to contribute all or any part of its portion of the requested fund, the other shareholder of Nority which contributes in full its portion of the requested fund shall have the right to apply such portion of the contributed fund for subscription in new A Shares at a subscription price per A Share equal to the then net asset value or the par value, whichever is higher, of each A Share.

For the avoidance of doubt, neither South China Strategic, Nority International nor Micon has committed to provide any fixed amount of financing to Nority under the Joint Venture Deed. In the event that (i) further financing is required by Nority after 24 months from the Completion Date, or (ii) either of the shareholders of Nority (namely, Nority International and Micon) elects to apply its contributed fund to Nority for subscription in new A Shares as mentioned above, each of Nority International, the Company and South China Industries has to comply with the applicable Listing Rules at the time when South China Strategic, Nority International or Micon is required to provide financing to Nority or elects to subscribe for new A Shares under the Joint Venture Deed.

(iii) The Put Option Deed

Date

To be entered into on the Completion Date

Parties

Grantor:	Micon
Grantee:	Nority International
Guarantor:	South China Industries

Micon will grant a put option to Nority International whereby Nority International is entitled to request Micon to purchase from Nority International 65 A Shares and 12,000,000 B Shares, representing 65% of the issued A Shares and 65% of the voting rights at general meetings of Nority and 100% of the issued B Shares, at an aggregate exercise price of HK\$10,500,000. The Put Option may be exercised by Nority International at any time during the period commencing from (and including) the day falling 24 months after the date of signing of the Put Option Deed and ending on (and including) the day falling 30 months after the date of signing of the Put Option Deed.

South China Industries as guarantor shall guarantee to Nority International the due and punctual performance and observance by Micon of its obligations to pay the exercise price of HK\$10,500,000 under the Put Option Deed.

LETTER FROM THE BOARD

The consideration was arrived at after arm's length negotiations between Micon and Nority International taking into account the attributable interest represented by the Option Interest based on the audited net asset value of approximately HK\$56.3 million of Nority as at 31 December 2005, the subscription money of HK\$3.52 million from the Subscription pursuant to the Nority Subscription Agreement, the dividend payment declared and distributed by Nority in August 2006, and the audited loss after tax of Nority of approximately HK\$35.6 million for the year ended 31 December 2005. Having considered the above factors, in particular, the audited loss after tax of Nority for the year ended 31 December 2005, the Directors consider that the Put Option Deed is on normal commercial terms and is fair and reasonable. In view of the synergy effect on economies of scale from takeover of control of Nority upon the exercise of the Put Option, the Directors are of the view that the consideration is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

At present, the directors of Micon intend to satisfy the consideration for the Put Option by its internal resources.

Premium

In consideration for the granting of the Put Option, Nority International is required to pay to Micon a premium of HK\$1.

Completion

Completion of the transfer of the Option Interest shall take place on the third Business Day following the receipt by Micon of the notice to exercise the Put Option.

(iv) The Management Agreement

To leverage on the expertise of the management team of South China Strategic in the management and operation of the business of Nority, Nority International and Nority intend to enter into the Management Agreement on the Completion Date with Nority to engage South China Strategic to manage and operate Nority.

Date

To be entered into on the Completion Date

Parties

- (1) Nority International
- (2) Nority
- (3) South China Strategic (as the manager)

LETTER FROM THE BOARD

Term

The appointment of South China Strategic by Nority shall be for a term of three years commencing on the Completion Date and subject to the termination right of Nority as mentioned below and in compliance with the Listing Rules requirements by Nority International, in particular, the obtaining of the approval of the independent shareholders of Nority International, the term of appointment of South China Strategic as the manager under the Management Agreement can be renewed for a further term of three years. However, should Nority decide not to renew the appointment of South China Strategic as the manager for a further term of three years, a termination notice will have to be served by Nority on South China Strategic at least one year before the date falling three years from the Completion Date. Since the existing footwear business of Nority has been solely managed by the employees from South China Industries, Nority expects that it needs a certain period of time to build up its own team of management which includes, but not limited to, sales and marketing, customer relations and production. In addition, it has to establish its own business direction and strategy and to expand its clientele.

Services to be provided

South China Strategic agrees to provide to Nority, from time to time, all management services that is customary and usual for the operation of similar business and that South China Strategic shall consider appropriate for the proper conduct and operation of Nority, subject to and in compliance with the Listing Rules and all other applicable regulatory requirements, and all necessary advice and guidance in respect thereof during the term of the Management Agreement, including but not limited to:

- (1) taking overall management and supervision responsibilities of the business of Nority and setting up the business direction and selling and marketing policies for Nority;
- (2) providing guidance and advice to Nority from time to time in relation to the enhancement of the business operations and internal control systems of Nority; and
- (3) such other services which are incidental to the above services or as agreed by South China Strategic from time to time.

South China Strategic shall have the sole discretion to employ or terminate the employment of any staff employed in the business of Nority, to determine and (on behalf of Nority) pay and grant such remuneration, benefits and other incentives to be payable or granted by Nority to any staff employed in the business of Nority including, without limitation, the payment of any bonus.

Notwithstanding the aforesaid, South China Strategic shall at all times follow all and any lawful instructions given by the board of directors of Nority from time to time when providing any management services described above to Nority in accordance with the provisions of the Management Agreement. South China Strategic shall discharge all its duties in a professional manner and shall keep the board of directors of Nority reasonably informed of the matters concerning the operations and management of the business of Nority.

LETTER FROM THE BOARD

In addition, Nority International, through the persons nominated by it to the board of directors of Nority, would oversee the performance of South China Strategic, including the following:

1. having regular meetings with South China Strategic to review and assess its performance;
2. discussing with South China Strategic from time to time on all material matters concerning the operations and management of the business of Nority;
3. controlling all financial related matters; and
4. all strategic plans, including annual budget and cost plan, and business plans of Nority presented by South China Strategic have to be approved by the board of directors of Nority, which Nority International is entitled to nominate up to three out of five directors of Nority.

Management fees and payment terms

In consideration for the provision of the management services by South China Strategic and in consideration of Micon paying its portion of the management fee for the management services by South China Strategic, Nority International shall pay to South China Strategic a management fee in the sum of HK\$2 million for each of the first three years after the Completion Date and thereafter, in the event that Nority exercises its right to renew the appointment of South China Strategic as the manager to operate the operation of the business of Nority as mentioned above, to be determined based on 10% of the accrued turnover of Nority in preceding year.

The management fee of HK\$6 million for the first three years after the Completion Date is payable in advance by Nority International to South China Strategic on the Completion Date. In the event that the Management Agreement is terminated during the term of the services (the Management Agreement can only be terminated by Nority in the cases, but not limited to, that South China Strategic commits any serious breach of the provisions under the Management Agreement or South China Strategic is proven to have carried out any fraudulent activity, whereas South China Strategic has no right to terminate the Management Agreement), the management fee paid (or due to be paid) by Nority International to South China Strategic in respect of the management services not yet provided shall be retained by South China Strategic. With respect to the management services to be provided after the third year from the Completion Date, the management fee should be paid by Nority International annually in advance to South China Strategic. The full amount of the management fee for the first three years after the Completion Date is intended to be financed by the net proceeds from the Acquisition and/or Nority International's internal resources.

The consideration was arrived at after arm's length negotiations between South China Strategic and Nority International with reference to expected cost required in the management of Nority.

LETTER FROM THE BOARD

Proposed caps

Based on the terms of the Management Agreement, the directors of Nority International propose that the maximum aggregate management fees contemplated under the Management Agreement for each of the first three years after the Completion Date shall be HK\$2 million per year.

Basis of the caps

The caps proposed for the Management Agreement is determined by reference to the agreed management fees under the Management Agreement.

Information on South China Strategic

The principal activities of South China Strategic are investment and property holding, information technology business and provision of management services. The principal activities of its subsidiaries are travel services related business, property investment, information and technology related business and agricultural business. In addition, the footwear manufacturing operation under South China Industries, the intermediate holding company of South China Strategic whose management team mostly resembles that of the SCI Group, was awarded “International Supplier of the Year 2005” by Wal-Mart, a major customer of the footwear manufacturing operation, for three consecutive years. The management team of South China Strategic has extensive experience in footwear business. In view of the extensive experience of the management team of South China Strategic in footwear business, South China Strategic has adequate ability to provide management services under the Management Agreement. South China Strategic will appoint those management staff with experience in the footwear business to carry out the responsibilities as prescribed under the Management Agreement.

(v) The Rental Agreement

For the continuing operation of Nority, Nority intends to enter into the Rental Agreement on the Completion Date with Nority Development to lease back the Rented Premises for the business operation of Nority.

Parties

Lessor:	Nority Development, a subsidiary of the Company after the Completion
Lessee:	Nority

Premises leased

The Rented Premises, being part of the factory building, Nority Industrial Building, No. 4 Xiaobian Industrial District, Changan Town, Dongguan City, Guangdong Province, the PRC. The Rented Premises are currently used by Nority as factory workshop and dormitory.

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Term of the lease

The term of the lease under the Rental Agreement is 24 months from 1 January 2007 to 31 December 2008.

Consideration

Under the Rental Agreement, Nority agrees to pay Nority Development a monthly rental of RMB224,245.28 for the rental area of 28,030.66 sq.m. and Nority is responsible for payment of electricity and water charges and cleaning and management fees.

The consideration was arrived at after arm's length negotiations between Nority Development and Nority with reference to market rental of the surrounding factory premises.

Proposed caps

Based on the terms of the Rental Agreement, the directors of Nority International propose that the maximum annual aggregate rent contemplated under the Rental Agreement shall not exceed RMB2.7 million (equivalent to approximately HK\$2.65 million).

Basis of the caps

The caps proposed for the Rental Agreement are determined by reference to the agreed monthly rental under the Rental Agreement.

Information on Nority Development

Nority Development is a company incorporated in the BVI and a wholly-owned subsidiary of Nority (BVI). Its principal activity is the holding of the Premises.

(C) REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE AGREEMENTS

As stated in the offer document issued by Micon dated 10 April 2006 relating to the mandatory unconditional cash offer to acquire all the issued shares of Nority International other than those already owned by it, Micon would conduct a review on the business activities and assets of the Nority Group for the purpose of formulating business strategies for the future business development of the Nority Group. The principal reason for entering into the Agreement by Micon is that the Directors consider that, through the entering into of the Agreement, Micon is able to dispose the Sale Shares at a considerably reasonable price taking into account the aggregate consideration of HK\$105,424,851.13 for the Sale Shares (or HK\$0.412 per share of Nority International) as well as the entitlement of the Special Dividend of not more than approximately HK\$57.21 million (being 95.35% of the total Special Dividend) representing approximately HK\$0.22 per share of Nority International, the exact amount of which is subject to the final decision by the board of directors of Nority International. When aggregating the consideration for the Sale Shares per share of Nority International and the Special Dividend per share of Nority International (assuming the Special Dividend is HK\$60 million), Micon can receive approximately HK\$0.632 per share of Nority International which represents a premium of approximately 34% over the closing price of HK\$0.47 per share of Nority International as quoted on the Stock Exchange on 16 May 2006, being the last trading day prior to the suspension of trading in the shares of Nority International on 17 May 2006. In addition, by disposing of the Sale Shares, certain costs relating to maintaining a listing vehicle, namely Nority International, can be saved by the Company and South China Industries.

On the other hand, the Directors consider that the entering into of the Acquisition Agreement will allow South China Industries to retain the spare production capacity held by Nority (BVI) in the PRC for its own expansion use while the entering into of the Nority Subscription Agreement and upon Completion, the Joint Venture Deed will allow South China Industries to continue participating in the footwear business of Nority for the benefits of its own footwear operations through the potential synergy effects including, but not limited to, increased bargaining power of their procurement function and the sharing of latest market research. At the same time, the Company and South China Industries can concentrate more of their resources on the investment and development of their existing businesses, including but not limited to the manufacturing and trading of toys, compressors, footwear, metal tooling, leather products, motors, machinery, capacitors, clothing, property investment and development, agriculture, information technology and travel related businesses, with potentially enormous savings from the requirements for maintaining a listed issuer, Nority International.

The Directors (including the independent non-executive Directors) consider that the entering into of the Put Option Deed with Nority International serves the purpose of a downside protection that help to entice the Offeror to enter into both the Agreement and the Subscription Agreement to join force with the Group and the SCI Group in exploring opportunities in the footwear business for their mutual benefits. At the same time, they are also of the view that, in the event that Nority International exercises the Put Option and South China Industries obtains indirect control of 100% of the equity interest in Nority and all the non-core businesses currently held by Nority International, South China Industries will be able to

LETTER FROM THE BOARD

take advantage through the achievement of further economies of scale by integrating the footwear operating business of Nority with the SCI Group's business. On the other hand, the Management Agreement and the Rental Agreement are expected to generate stable income stream to the Group and the SCI Group during the term of such agreements. Hence, the Directors (including the independent non-executive Directors) are of the view that the terms of the Agreement (together with the ancillary transactions contemplated thereunder comprising those contemplated under the Acquisition Agreement, the Nority Subscription Agreement, the Joint Venture Deed, the Put Option Deed, the Management Agreement and the Rental Agreement) are in the interests of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors) believe that the transactions contemplated under the Agreement, the Acquisition Agreement, the Nority Subscription Agreement, the Joint Venture Deed, the Put Option Deed, the Management Agreement and the Rental Agreement are on normal commercial terms, and such terms are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

III. SHAREHOLDING STRUCTURE OF NORITY INTERNATIONAL

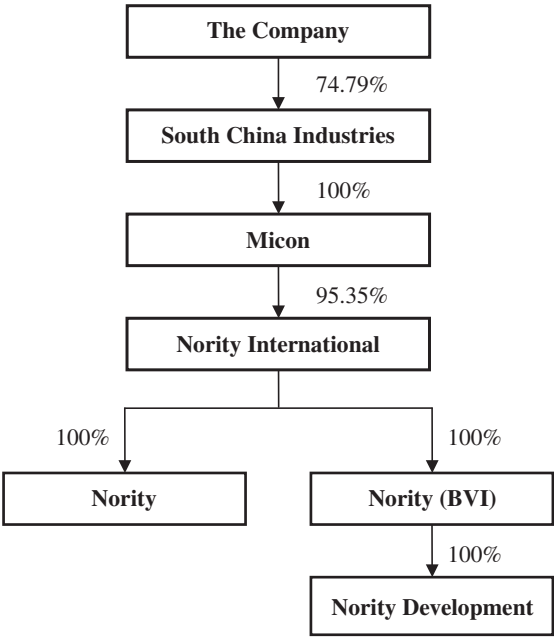
The shareholding structure of Nority International (a) as at the Latest Practicable Date; and (b) immediately upon completion of the Transaction will be as follows:

Shareholders	As at the Latest Practicable Date <i>(% of issued share capital)</i>	Upon completion of the Transaction <i>(% of issued share capital)</i>
Micon	255,885,561 <i>(95.35%)</i>	Nil
Offeror	Nil	255,885,561 <i>(95.35%)</i>
Public	12,487,051 <i>(4.65%)</i>	12,487,051 <i>(4.65%)</i>
Total	268,372,612 <i>(100%)</i>	268,372,612 <i>(100%)</i>

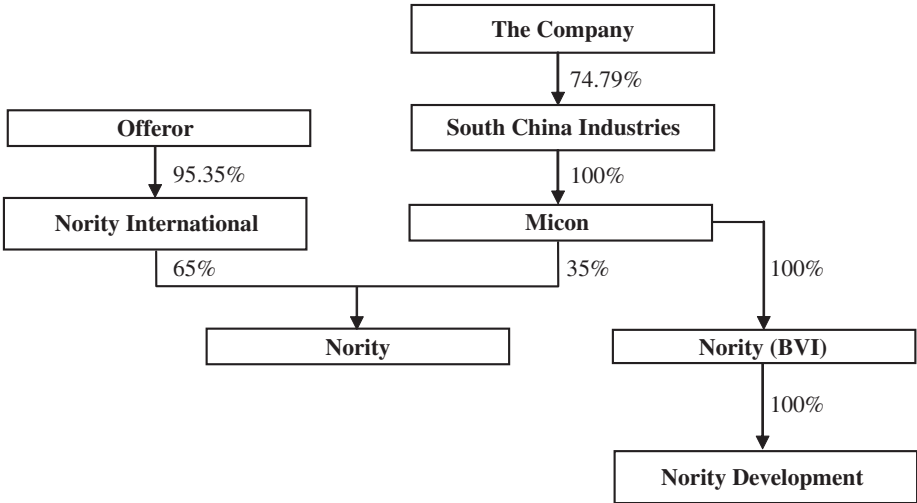
LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF NORITY INTERNATIONAL BEFORE AND AFTER COMPLETION

(a) Before the Completion (after the restructuring of Nority Group carried out in September 2006 in which Nority had changed from a subsidiary to a fellow subsidiary of Nority (BVI))



(b) Immediately after the Completion



IV. INFORMATION ON NORITY GROUP

The core business of Nority International and its subsidiaries is the manufacture and export of athletic and athletic-style leisure footwear, as well as the manufacture of working shoes, safety shoes, golf shoes and other functional shoes.

For the year ended 31 December 2004, the audited consolidated revenue and loss before and after taxation of Nority International were approximately HK\$259.5 million, HK\$30.3 million and HK\$29.0 million respectively. For the year ended 31 December 2005, the audited consolidated revenue and loss before and after taxation of Nority International were approximately HK\$297.6 million, HK\$59.1 million and HK\$52.4 million respectively.

V. INFORMATION ON THE GROUP

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in trading and manufacturing (including footwear trading and manufacturing), property development, travel and related services, securities and financial services, media and publications, information technology and agricultural production.

VI. INFORMATION ON SCI GROUP

South China Industries is an investment holding company. Its subsidiaries and associates, other than Nority International as mentioned above, are principally engaged in the manufacturing and trading of toys, compressors, footwear, metal tooling, leather products, motors, machinery, capacitors, clothing, property investment and development, agriculture, information technology and travel related businesses. The Company beneficially holds approximately 74.79% of the issued share capital of South China Industries.

VII. INFORMATION ON THE OFFEROR

The Offeror is an investment holding company incorporated in the BVI with limited liability on 30 August 2000 and is wholly owned by Wai Chun Investment Fund, which is in turn wholly owned by Mr. Lam. Mr. Lam is also the sole director of the Offeror. Other than the entering into of the Agreement, the Offeror has made substantial investments in a number of companies whose shares are listed on the Stock Exchange. Among all the substantial investments made by Mr. Lam and/or his wholly-owned companies in the listed companies, Mr. Lam and/or the Offeror are currently interested in an aggregate of approximately 5.12% of the issued share capital of Smart Rich Energy Finance (Holdings) Limited (stock code: 1051). Mr. Lam is not a director of any of the listed companies in which he has substantial investments.

Mr. Lam, aged 48, has over 14 years of experience in project investments and securities investments. Mr. Lam has been engaged in industrial and residential property development in the PRC and commercial property investment in Hong Kong and, via his investment companies, has made investments in various projects including, inter alia, mining for rutile, exploitation of coalbed methane and operation of professional training school in the PRC. Following Completion, Mr. Lam will not participate in the management of Nority International and, accordingly, will not be nominated as a director of Nority International by the Offeror.

LETTER FROM THE BOARD

To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, the Offeror and its ultimate beneficial owner are Independent Third Parties and not parties acting in concert with the Group and the SCI Group.

VIII. LISTING RULES IMPLICATION

Since the applicable percentage ratios in respect of the Transaction represents more than 5% but less than 25% for both the Company and South China Industries, the entering into of the Agreement constitutes a discloseable transaction of each of the Company and South China Industries under the Listing Rules.

In addition, since the exercise of the Put Option is not at the discretion of South China Industries, pursuant to Rule 14.74(1) of the Listing Rules, the Put Option Deed will be classified as if the Put Option had been exercised. Since the applicable percentage ratios in respect of the Acquisition Agreement, the Nority Subscription Agreement and the Put Option Deed as if the Put Option had been exercised, when aggregated, represent more than 5% but less than 25% for both the Company and South China Industries, the entering into of the Acquisition Agreement, the Nority Subscription Agreement and the Put Option Deed constitutes a discloseable transactions of each of the Company and South China Industries under the Listing Rules.

Shareholders and investors of the Company and South China Industries should note that the Agreement, the Acquisition Agreement and the Nority Subscription Agreement are conditional upon the fulfillment of certain conditions. Shareholders and investors of the Company and South China Industries are therefore advised to exercise caution in dealing in the securities of the Company and South China Industries.

IX. ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Cheung Choi Ngor
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) Long positions in ordinary shares of HK\$0.025 each of the Company:

Name of Director	Note	Number of Shares held, capacity and nature of interest		Total	Approximate percentage of the Company’s issued share capital
		Directly beneficiary owned	Through controlled corporation		
Ng Hung Sang (“Mr. Ng”)	(a)	71,652,200	1,272,529,612	1,344,181,812	73.72%
Richard Howard Gorges (“Mr. Gorges”)	(a)	–	487,949,760	487,949,760	26.76%
Cheung Choi Ngor (“Ms. Cheung”)	(a)	–	487,949,760	487,949,760	26.76%

(b) Long positions in ordinary shares of associated corporations:

1. Interests in shares

(i) South China Brokerage Company Limited (“SCB”) (Note b)

Name of Director	Note	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation’s issued share capital
Mr. Ng	(c)	7,378,000	Directly beneficiary owned	0.15%
		3,641,102,500	Through controlled corporations	72.75%
		3,648,480,500		72.90%
Mr. Gorges		12,174,000	Directly beneficiary owned	0.24%

(ii) SCI (Note d)

Name of Director	Note	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation’s issued share capital
Mr. Ng	(e)	396,621,357	Through controlled corporations	74.79%

(iii) Nority International (Note f)

Name of Director	Note	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation’s issued share capital
Mr. Ng	(g)	255,885,561	Through controlled corporations	95.35%

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

Name of Director	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation’s issued share capital
Mr. Ng Yuk Fung, Peter	250,000	Directly beneficiary owned	0.59%

(v) The Express News Limited (“Express News”) *(Note i)*

Name of Director	Note	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation’s issued share capital
Mr. Ng	(j)	30	Through controlled corporation	30%

2. Interests in underlying shares of SCB – share options scheme of SCB

Name of Director	Capacity	Number of underlying Shares*	Approximate percentage of shareholding
Mr. Gorges	Beneficial owner	30,000,000	0.60%
Ms. Cheung	Beneficial owner	30,000,000	0.60%
Mr. Ng Yuk Fung, Peter	Beneficial owner	50,000,000	1.00%

* Represents underlying shares subject to share options granted to the Directors, details of which are as follows:

Name of Director	Date of grant (DD/MM/YY)	Subscription price HK\$	No. of share options granted	Exercise period (DD/MM/YY)
Mr. Gorges	16/03/2006	0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Ms. Cheung	16/03/2006	0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Mr. Ng Yuk Fung, Peter	16/03/2006	0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
	26/04/2006	0.128	6,666,667	26/04/2007 – 25/04/2009
			6,666,667	26/04/2008 – 25/04/2010
			6,666,666	26/04/2009 – 25/04/2011

Notes:

- (a) The 1,272,529,612 Shares held by Mr. Ng through controlled corporations referred to above included 371,864,000 Shares held by Parkfield Holdings Limited (“Parkfield”), 396,050,252 Shares held by Fung Shing Group Limited (“Fung Shing”), 16,665,600 Shares held by Ronastar Investments Limited (“Ronastar”), 237,303,360 Shares held by Bannock Investment Limited (“Bannock”) and 250,646,400 shares held by Eartrade Investments Limited (“Eartrade”). Parkfield, Fung Shing and Ronastar are all wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Eartrade which is owned as to 60% by Mr. Ng, 20% by Ms. Cheung and 20% by Mr. Gorges, all of whom are considered as parties to an agreement to which Section 317 of the SFO applies. As such Mr. Ng, Ms. Cheung and Mr. Gorges were deemed to have an interest in 487,949,760 Shares, which are being held by both Bannock and Eartrade.
- (b) The Company owned 72.75% in the issued share capital of SCB.
- (c) The 3,641,102,500 shares in SCB were held by certain wholly owned subsidiaries of the Company. By virtue of the interests in the Shares in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of the Company as described in Note (a) above and as a Director, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of SCB under the SFO.
- (d) SCI was a 74.79% owned subsidiary of the Company.

- (e) The 396,621,357 shares in SCI were held by certain wholly owned subsidiaries of the Company. By virtue of the interests in the Shares in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of the Company as described in Note (a) above and as a Director, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of SCI under the SFO.
- (f) Nority International was a 95.35% owned subsidiary of SCI.
- (g) The 255,885,561 shares in Nority International were held by an indirect wholly-owned subsidiary of SCI. By virtue of the interests in the Shares in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of the Company as described in Note (a) above and as a Director, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of Nority International under the SFO. On 6 November 2006, the Offeror entered into the Agreement with Micon and SCI, pursuant to which the Offeror conditionally agreed to acquire, and Micon conditionally agreed to dispose the Sale Shares.
- (h) SCFC is a 98.36% owned subsidiary of SCB.
- (i) Express News was a 70% owned subsidiary of the Company.
- (j) Mr. Ng and his family, through a company wholly-owned and controlled by them, had interests in 30 shares in Express News.

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

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, those persons, other than 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 was, 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 other 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, were as follows:

Long positions:

Name of Shareholder	Notes	Capacity and nature of interest	Number of ordinary Shares held	Approximate percentage of the Company’s issued share capital
Earntrade	(a) & (b)	Beneficial owner and through a controlled corporation	487,949,760	26.76%
Bannock	(a) & (b)	Beneficial owner	237,303,360	13.01%
Parkfield	(b)	Beneficial owner	371,864,000	20.39%
Fung Shing	(b)	Beneficial owner	396,050,252	21.72%

Note:

- (a) Bannock is a wholly-owned subsidiary of Earntrade. The 487,949,760 Shares held by Earntrade include 237,303,360 Shares held by Bannock directly.
- (b) Mr. Ng, Mr. Gorges and Ms. Cheung are also the directors of both Earntrade and Bannock. Mr. Ng is also the director of Parkfield and Fung Shing.

According to the register of interests and short positions in shares kept by the Company under section 336 of the SFO and 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 a Director or chief executive of the Company) the 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 who was, 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 other member of the Group; 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 Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ng Hung Sang, being the Chairman of the Company, is also the Chairman of Jessica Publications Limited ("Jessica") and Capital Publications Limited ("Capital"). Mr. Ng, personally and through Parkfield, Fung Shing and Ronastar, has interest in Jessica and Capital. Mr. Ng together with Ms. Cheung and Mr. Gorges, the Directors, have beneficial interests in Earntrade, which directly and indirectly through Bannock holds shares in Jessica and Capital. However, Ms. Cheung and Mr. Gorges are neither the directors of Jessica and Capital nor involved in the day-to-day management of the companies. As both Jessica and Capital are principally engaged in publication business, Mr. Ng is regarded to be interested in such competing business of the Group. Mr. Ng Yuk Fung, Peter, an executive director and the Chief Executive Officer of Jessica and also an executive director of Capital, is regarded to be interested in such competing business of the Group.

Since each of the Company, Jessica and Capital has its own executive directors who are not common directors for each other and will supervise the operations of these three companies respectively. In addition, 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 Capital and Jessica as the Group's relevant publication business has its own target reader market and different contents which are different from those of Jessica and Capital.

Ms. Ng Yuk Mui, Jessica is a non-executive director of Jessica and Capital. She is not regarded to have any competing business with the Group since she is not involved in the day-to-day business of Jessica and Capital.

Save as disclosed above (including the information of Mr. Ng Hung Sang, Mr. Ng Yuk Fung, Peter and Ms. Ng Yuk Mui, Jessica who are all common directors of the Company, Jessica and Capital), as at the Latest Practicable Date, none of the Directors or any of their respective associates had any interest in any business which causes or may cause any significant competition with the business of the Group or any significant conflicts with the interests of the Group.

6. LITIGATION

So far as the Directors are aware, neither the Company nor any of its subsidiaries 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 of the Company and its subsidiaries.

7. 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 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 an associate 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 Offshore Incorporations (Cayman) Limited, Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands, and its principal place of business in Hong Kong is situated at 28th Floor, Bank of China Tower, 1 Garden Road Central, Hong Kong. The share registrars and transfer office of the Company is Union Registrars Limited at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.
- (c) The English text of this circular shall prevail over the Chinese text.