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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 acquisition of SCI Sale Shares and SCI Sale Debts  
and  
in relation to disposal of the Sale Shares and the Sale Debts**

**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 7 to 16 of this circular. A letter from the Independent Board Committee is set out on page 17 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 18 to 27 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 Tuesday, 21 August 2007 at 11:00 a.m. is set out on pages 43 to 44 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 Room 1803, 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 share purchase agreement dated 4 July 2007 entered into among SC Strategic, Full Sino, Tek Lee and SC Media in relation to the Transactions;                                                                                                                                                                                                                                     |
| “Artful”              | Artful Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company;                                                                                                                                                                                                                                  |
| “associate(s)”        | has the meaning ascribed to it under the Listing Rules;                                                                                                                                                                                                                                                                                                                              |
| “Bank”                | Chong Hing Bank Limited (formerly known as Liu Chong Hing Bank Limited) or its successors;                                                                                                                                                                                                                                                                                           |
| “Bannock”             | Bannock Investment Limited, a company incorporated in the Republic of Liberia with limited liability and a wholly-owned subsidiary of Earnttrade, which is in turn owned as to 60% by Mr. Ng, 20% by Ms. Cheung and the remaining 20% by Mr. Gorges, further details of which are described in the section headed “Relationship between Mr. Ng and his associates” of this circular; |
| “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;                                                                                                                                                                                                                                                         |
| “CCASS”               | the Central Clearing and Settlement System established and operated by HKSCC;                                                                                                                                                                                                                                                                                                        |
| “Company”             | South China Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;                                                                                                                                                                                                 |
| “Completion”          | completion of the Transactions pursuant to the Agreement;                                                                                                                                                                                                                                                                                                                            |
| “Completion Date”     | the second Business Day after all the conditions have 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;                                                                                                                                                                                                                                                                                                                              |
| “Consideration”       | HK\$122.1 million, being the consideration for the Sale Shares and the Sale Debts;                                                                                                                                                                                                                                                                                                   |

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## DEFINITIONS

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|-----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Debenture and Berths”                        | the debentures and berths legally and beneficially owned by the relevant subsidiaries of Welbeck, details of which are set out in the section headed “Information on the Sale Group”;                                                                                                                                            |
| “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, as to 20% by Ms. Cheung and as to the remaining 20% by Mr. Gorges, further details of which are described in the section headed “Relationship between Mr. Ng and his associates” of this circular; |
| “EGM”                                         | the extraordinary general meeting of the Company to be held on 21 August 2007 to approve, among other things, the Transactions;                                                                                                                                                                                                  |
| “EN”                                          | The Express News Limited, a company incorporated in Hong Kong with limited liability which is an indirect subsidiary of the Company;                                                                                                                                                                                             |
| “FS Travel”                                   | Four Seas Travel (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of SC Strategic;                                                                                                                                                             |
| “Full Sino”                                   | Full Sino Profits Limited, a company incorporated in the British Virgin Islands with limited liability which is indirectly wholly-owned by SCI;                                                                                                                                                                                  |
| “Fung Shing”                                  | Fung Shing Group Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by Mr. Ng, further details of which are described in the section headed “Relationship between Mr. Ng and his associates” of this circular;                                                           |
| “Group”                                       | the Company and its subsidiaries;                                                                                                                                                                                                                                                                                                |
| “Greenearn”                                   | Greenearn Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company;                                                                                                                                                                                          |
| “Hercules” or “Independent Financial Adviser” | Hercules Capital Limited, the independent financial adviser to the Independent Shareholders and the Independent Board Committee, a corporation licensed under the SFO to engage in type 6 (advising on corporate finance) of the regulated activity as defined in the SFO;                                                       |

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## DEFINITIONS

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|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Hong Kong”                    | the Hong Kong Special Administrative Region of the PRC;                                                                                                                                                                                                                   |
| “HKSCC”                        | Hong Kong Securities Clearing Company Limited;                                                                                                                                                                                                                            |
| “Independent Board Committee”  | an independent committee of the Board established to advise the Independent Shareholders on the Transactions;                                                                                                                                                             |
| “Independent Shareholders”     | holders of the Shares other than Mr. Ng and his associates;                                                                                                                                                                                                               |
| “Independent Third Party(ies)” | third party(ies) independent of, and not connected with the Company and SCI, their subsidiaries and their respective connected persons as defined under the Listing Rules;                                                                                                |
| “Latest Practicable Date”      | 20 July 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular;                                                                                                |
| “Limehouse”                    | Limehouse Investments Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company;                                                                                                        |
| “Listing Rules”                | the Rules Governing the Listing of Securities on the Stock Exchange;                                                                                                                                                                                                      |
| “Mr. Gorges”                   | Mr. Richard Howard Gorges, a director of the Company and SCI;                                                                                                                                                                                                             |
| “Mr. Ng”                       | Mr. Ng Hung Sang, a director of the Company and SCI;                                                                                                                                                                                                                      |
| “Ms. Cheung”                   | Ms. Cheung Choi Ngor, a director of the Company and SCI;                                                                                                                                                                                                                  |
| “Nominee(s)”                   | any wholly-owned subsidiary(ies) (direct or indirect) of the Company which will be nominated by the Company to acquire the SCI Sale Shares and the SCI Sale Debts;                                                                                                        |
| “Parkfield”                    | Parkfield Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and being wholly-owned by Mr. Ng, further details of which are described in the section headed “Relationship between Mr. Ng and his associates” of this circular; |
| “PRC”                          | the People’s Republic of China, excluding Hong Kong, Macau and Taiwan;                                                                                                                                                                                                    |

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## DEFINITIONS

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|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Property 1”   | Unit A, Ground Floor, Cheung Wah Industrial Building, Nos. 10-12 Shipyard Lane, Quarry Bay, Hong Kong with a saleable area of 5,172 sq.ft. and a yard of 550 sq.ft. and Property 1 is currently vacant and is planned to be leased for commercial use;                            |
| “Property 2”   | Unit B, Ground Floor, Cheung Wah Industrial Building, Nos. 10-12 Shipyard Lane, Quarry Bay, Hong Kong with a saleable area of 5,625 sq.ft. and a yard of 550 sq.ft. and Property 2 is currently leased for commercial use;                                                        |
| “Ronastar”     | Ronastar Investments Limited, a company incorporated in the British Virgin Islands with limited liability and being wholly owned by Mr. Ng, further details of which are described in the section headed “Relationship between Mr. Ng and his associates” of this circular;       |
| “Sale Group”   | collectively, Limehouse, Welbeck and Artful and their respective subsidiaries;                                                                                                                                                                                                    |
| “Sale Debts”   | the total outstanding interest-free loans (HK\$192.0 million in the aggregate as at the date of the Agreement) due from the relevant members of the Sale Group to Tek Lee and Diamond Coin Assets Limited (being a wholly-owned subsidiary of Tek Lee) as at the Completion Date; |
| “Sale Shares”  | collectively, (i) 1 share in Limehouse, representing the entire issued share capital of Limehouse; (ii) 1 share in Welbeck, representing the entire issued share capital of Welbeck; and (iii) 1 share in Artful, representing the entire issued share capital of Artful;         |
| “SC Media”     | South China Media Limited, a company incorporated in Hong Kong with limited liability, which is indirectly wholly-owned by the Company;                                                                                                                                           |
| “SC Strategic” | South China Strategic Limited, a company incorporated in Hong Kong with limited liability which is indirectly wholly-owned by SCI;                                                                                                                                                |
| “SCI”          | South China Industries Limited, an exempted company incorporated in the Cayman Islands with limited liability and a subsidiary of the Company, the shares of which are listed on the Main Board of the Stock Exchange;                                                            |

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## DEFINITIONS

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| “SCI Board”                       | the board of SCI Directors;                                                                                                                                                                                                        |
| “SCI Consideration”               | HK\$122.1 million, being consideration for the SCI Sale Shares and the SCI Sale Debts;                                                                                                                                             |
| “SCI Directors”                   | the directors (including the independent non-executive directors) of SCI;                                                                                                                                                          |
| “SCI EGM”                         | the extraordinary general meeting of SCI to be held on 21 August 2007 to approve, among other things, the Transactions;                                                                                                            |
| “SCI Independent Board Committee” | an independent committee of the SCI Board established to advise the SCI Independent Shareholders on the Transactions;                                                                                                              |
| “SCI Nominee(s)”                  | any wholly-owned subsidiary(ies) (direct or indirect) of SCI which will be nominated by SCI to acquire the SCH Sale Shares and the SCH Sale Debts;                                                                                 |
| “SCI Sale Debts”                  | the total outstanding interest-free loans (HK\$48.4 million in the aggregate as at the date of the Agreement) due from relevant members of the SCI Sale Group to SC Strategic (being an indirect subsidiary of SCI) at Completion; |
| “SCI Sale Group”                  | collectively, SCN and FS Travel and their respective subsidiaries;                                                                                                                                                                 |
| “SCI Sale Shares”                 | collectively, (i) 1 share in SCN, representing the entire issued share capital of SCN; and (ii) 100 shares in FS Travel, representing the entire issued share capital of FS Travel;                                                |
| “SCI Shareholders”                | holders of SCI Shares;                                                                                                                                                                                                             |
| “SCI Share(s)”                    | ordinary share(s) of HK\$0.10 each in the share capital of SCI;                                                                                                                                                                    |
| “SCN”                             | Southchinanet.com (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of SCI;                                                                       |
| “Shareholders”                    | holders of the Shares;                                                                                                                                                                                                             |
| “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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| “Spark-Inn”      | Spark-Inn Investments Limited, a company incorporated in Hong Kong with limited liability which is a wholly-owned subsidiary of Limehouse;                       |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited;                                                                                                                         |
| “Super Giant”    | Super Giant Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company;                   |
| “Tek Lee”        | Tek Lee Finance and Investment Corporation Limited, a company incorporated in Hong Kong with limited liability, which is indirectly wholly-owned by the Company; |
| “Transactions”   | collectively, the proposed disposal of the Sale Shares and the Sale Debts and the proposed acquisition of the SCI Sale Shares and the SCI Sale Debts;            |
| “Welbeck”        | Welbeck Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company;    |
| “Worldunity”     | Worldunity Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company;                         |
| “HK\$”           | Hong Kong dollars, the lawful currency of Hong Kong; and                                                                                                         |
| “%”              | 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:***

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

25 July 2007

*To the Shareholders*

Dear Sir or Madam,

**Discloseable and Connected Transactions  
in relation to acquisition of SCI Sale Shares and SCI Sale Debts  
and  
in relation to disposal of the Sale Shares and the Sale Debts**

**I. INTRODUCTION**

On 4 July 2007, SC Strategic, Full Sino, Tek Lee and SC Media entered into the Agreement pursuant to which, among other things, (i) SC Strategic and Full Sino agreed to sell the SCI Sale Shares and to sell and/or procure the sale of (as the case may be) the SCI Sale Debts to Nominee(s) at a consideration of HK\$122.1 million; and (ii) Tek Lee and SC Media agreed to sell the Sale Shares and to sell and/or procure the sale of (as the case may be) the Sale Debts to SCI Nominee(s) at a consideration of HK\$122.1 million, in each case upon and subject to the terms and conditions set out therein.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with (i) further information regarding the Transactions; (ii) the recommendation from the Independent Board Committee; (iii) the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) a property valuation report; and (v) a notice convening the EGM.

### II. THE AGREEMENT

Date: 4 July 2007

Vendors of the Sale Shares: (1) Tek Lee Finance and Investment Corporation Limited, a company incorporated in Hong Kong with limited liability, which is indirectly wholly-owned by the Company. Tek Lee is principally engaged in investment holding and its subsidiaries are principally engaged in the trading and manufacturing, financial services, property investment and development, magazines publishing business, agriculture, information technology business and travel related business.

(2) South China Media Limited, a company incorporated in Hong Kong with limited liability, which is indirectly wholly-owned by the Company. SC Media is principally engaged in the magazines publishing business.

Vendors of the SCI Sale Shares: (1) South China Strategic Limited, a company incorporated in Hong Kong with limited liability, which is indirectly wholly-owned by SCI. SC Strategic is principally engaged in investment holding and its subsidiaries are principally engaged in agriculture, information technology, travel related businesses and property business.

(2) Full Sino Profits Limited, a company incorporated in the British Virgin Islands with limited liability, which is indirectly wholly-owned by SCI. Full Sino is an investment holding company and holds the entire issued share capital of FS Travel.

Purchaser(s) of the Sale Shares and the Sale Debts: SCINominee(s), being any wholly-owned subsidiary(ies) (direct or indirect) of SCI which will be nominated by SCI to acquire the Sale Shares and the Sale Debts.

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## LETTER FROM THE BOARD

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|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purchaser(s) of the SCI Sale Shares and the SCI Sale Debts: | the Nominee(s), being any wholly-owned subsidiary(ies) (direct or indirect) of the Company which will be nominated by the Company to acquire the SCI Sale Shares and the SCI Sale Debts.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Subject matter and principal terms of the Transactions:     | <p>Tek Lee and SC Media have agreed conditionally to sell the Sale Shares and to sell and/or procure the sale of (as the case may be) the Sale Debts at the Consideration.</p> <p>SC Strategic and Full Sino have agreed conditionally to sell the SCI Sale Shares and to sell and/or procure the sale of (as the case may be) the SCI Sale Debts at the SCI Consideration.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Consideration:                                              | <p>The total consideration for the sale of the Sale Shares and the Sale Debts shall be HK\$122.1 million which shall comprise:—</p> <ul style="list-style-type: none"><li>(i) HK\$75.2 million representing the aggregate net liabilities of the Sale Group as at 31 December 2006 excluding the aggregate face value of the Sale Debts as at such date;</li><li>(ii) HK\$156.6 million representing a reasonable estimate of the aggregate face value of the Sale Debts as at the Completion Date net of discount on the Sale Debts; and</li><li>(iii) adjustment amounting to HK\$40.7 million for the revaluation net of relevant tax effect of each of Property 1, Property 2 and the Debentures and Berths as at 31 May 2007,</li></ul> <p>which shall be satisfied in exchange for the SCI Consideration.</p> <p>The Consideration was determined after arm's length negotiation between the contracting parties with reference to, among other things, (i) the unaudited consolidated net asset/liabilities attributable to the equity holders of Limehouse, Welbeck and Artful as at 31 December 2006 of approximately net asset of HK\$7.7 million, net asset of HK\$0.8 million and net liabilities of HK\$83.7 million attributable to the Company's equity holders respectively; (ii) the total face value of the Sale Debts as at the date of the Agreement, being HK\$192.0 million, discounted by a sum of HK\$35.4 million based on</p> |

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## LETTER FROM THE BOARD

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the preliminary valuation of Property 2 by an independent professional valuer up to 31 May 2007 of HK\$40 million. The valuation of Property 2 attributable to the equity holders of Artful, based on an effective interest of 70% in EN, should be HK\$28 million. As the total value of shares and debts of EN was approximately HK\$63.4 million, a discount of HK\$35.4 million on Sale Debts assigned was used to reflect the fair value of Property 2; (iii) the adjustment for market valuation of each of Property 1 and Property 2 as at 31 May 2007 net of relevant tax effect; and (iv) the adjustment for market valuation of the Debentures and Berths as at 31 May 2007.

### SCI Consideration:

The total consideration for the acquisition of the SCI Sale Shares and the SCI Sale Debts shall be HK\$122.1 million which shall comprise:–

- (i) HK\$48.4 million representing a reasonable estimate of the aggregate face value of the SCI Sale Debts as at the Completion Date;
- (ii) HK\$13.6 million representing the aggregate net asset value of the SCI Sale Shares as at 31 December 2006 excluding the aggregate face value of the SCI Sale Debts of HK\$48.4 million as at such date; and
- (iii) Cash consideration of HK\$60.1 million,

which shall be satisfied in exchange for the Consideration.

The SCI Consideration was determined after arm's length negotiation between the contracting parties with reference to, among other things, (i) the total face value of the SCI Sale Debts as at the date of the Agreement, being HK\$48.4 million, and (ii) the unaudited combined net assets/liabilities attributable to the equity holders of SCN and FS Travel as at 31 December 2006 of approximately net liabilities of HK\$21.1 million and net asset value of HK\$34.7 million respectively.

### Conditions Precedent:

Completion is conditional upon the fulfilment (or waiver, as the case may be) of the following conditions, among others:

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## LETTER FROM THE BOARD

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- (a) the approval by the SCI Shareholders (other than those prohibited from voting under the Listing Rules) in general meeting by way of a poll of (i) the disposal by SC Strategic and Full Sino of the SCI Sale Shares and the SCI Sale Debts; (ii) the acquisition by the SCI Nominees of the Sale Shares and the Sale Debts; and (iii) all other transactions contemplated under the Agreement;
- (b) if applicable, the obtaining of all consents from any of the government or regulatory authorities and/or other third parties which are necessary or desirable in connection with the execution and performance of the Agreement and any of the transactions contemplated under the Agreement; and
- (c) the parties to the Agreement having received documents evidencing (to their reasonable satisfaction) (i) the cancellation of the general banking facilities contemplated by the facility letter dated 13 February 2007 from the Bank to the Company and countersigned by the Company, and (ii) the release of the mortgage over Property 1 and Property 2 executed by Spark-Inn and EN in favour of the Bank in respect of the facilities referred to in (i) above, in either case on or before Completion.

The conditions precedent are required to be fulfilled on or before 30 September 2007 or such a later date as the parties to the Agreement may agree in writing. If the conditions precedent have not been satisfied or waived (as the case may be) on or before the date aforesaid, such parties shall be entitled to treat the Agreement as terminated, provided that the rights and liabilities of the parties to the Agreement which have accrued prior to termination shall subsist. As at the Latest Practicable Date, no condition precedent has been fulfilled or waived.

### Completion:

Completion shall take place on the second Business Day after the day on which the last of the conditions precedent is fulfilled or waived or such other date as the parties to the Agreement may agree, subject to the conditions precedent being fulfilled or waived in accordance with the Agreement.

### III. INFORMATION ON THE SALE GROUP

#### Overview

Upon Completion, Tek Lee and SC Media will dispose of the Sale Shares and the Sale Debts to SCI Nominee(s).

Tek Lee is the holding company of Limehouse and Welbeck. Limehouse is the holding company of Spark-Inn which is currently holding Property 1.

Welbeck and its subsidiaries hold 6 corporate and 30 individual long term wet berth memberships debentures (with pre-requisite to own a berth), 20 corporate and 18 individual short term wet berth memberships debentures (without the pre-requisite to own a berth but being required to lease a berth), 8 corporate and 10 individual drystack memberships debentures of The Clearwater Bay Golf & Country Club, Sai Kung, Hong Kong together with 36 berth ownership in total (of which 2, 4, 9 and 21 berths are in length of 70 feet, 60 feet, 50 feet and 45 feet respectively). All these memberships and ownership are held for long term investment and are currently not under any lease arrangement. The original acquisition cost of the Debentures and Berths is HK\$33.5 million.

SC Media is the holding company of Artful which in turn holds 70% of EN, with the remaining 30% held by an associate of Mr. Ng Hung Sang, the Chairman and Executive Director of each of the Company and SCI. Artful, through EN, holds Property 2. The original acquisition cost of Property 1 and Property 2 are HK\$14.0 million and HK\$0.6 million respectively. Upon Completion, the Sale Group will be subsidiaries of SCI and will be indirect subsidiaries of the Company through its interests in SCI.

#### Financial Information

The unaudited consolidated net asset value of Limehouse and its subsidiaries as at 31 December 2006 was HK\$7.7 million. The unaudited consolidated revenue, profit before and after tax for the years ended 31 December 2006 and 31 December 2005 were HK\$0.9 million, HK\$9.8 million, HK\$8.1 million and HK\$0.9 million, HK\$4.0 million, HK\$3.1 million respectively.

The unaudited consolidated net liabilities of Artful and its subsidiaries attributable to the equity holders of Artful as at 31 December 2006 was HK\$83.7 million. The unaudited consolidated revenue, profit before and after tax for the years ended 31 December 2006 and 31 December 2005 were HK\$0.9 million, HK\$13.2 million, HK\$13.2 million and HK\$1.2 million, HK\$5.0 million, HK\$5.0 million respectively. The unaudited consolidated revenue of Artful for the year ended 31 December 2005 has been restated from HK\$5.2 million as stated on the Company's announcement dated 4 July 2007 to HK\$1.2 million to conform with the Group's presentation of the financial statements for the year ended 31 December 2006.

The unaudited consolidated net asset value of Welbeck and its subsidiaries as at 31 December 2006 was HK\$0.8 million. No combined revenue, profit nor loss before and after tax for the years ended 31 December 2006 and 31 December 2005 were recorded.

#### IV. INFORMATION ON THE SCI SALE GROUP

##### Overview

Upon Completion, SC Strategic and Full Sino will dispose of the SCI Sale Shares and the SCI Sale Debts to the Nominee(s). SC Strategic is the holding company of SCN and Full Sino which in turn is the holding company of FS Travel. SCN and its subsidiaries are principally engaged in sale and development of software applications and licensing in the PRC. FS Travel and its subsidiaries principally provide services for hotel and air ticket booking and related travel business. Upon Completion, SCI Sale Group ceases to be subsidiaries of SCI but will be subsidiaries of the Company and fellow subsidiaries of SCI.

##### Financial Information

The unaudited consolidated net liabilities of SCN and its subsidiaries as at 31 December 2006 was HK\$21.1 million. The unaudited consolidated revenue, loss before and after tax for the years ended 31 December 2006 and 31 December 2005 were HK\$72.1 million, HK\$3.9 million, HK\$3.9 million and HK\$81.1 million, HK\$2.8 million, HK\$3.0 million respectively.

The unaudited consolidated net asset value of FS Travel and its subsidiaries as at 31 December 2006 was HK\$34.7 million. The unaudited consolidated revenue, profit before and after tax for the years ended 31 December 2006 and 31 December 2005 were HK\$1,908.6 million, HK\$24.6 million, HK\$20.3 million and HK\$1,629.9 million, HK\$16.9 million, HK\$28.1 million respectively.

#### V. 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 air tickets and the provision of other related services.

#### VI. INFORMATION ON SCI

SCI is an investment holding company. Its subsidiaries and associates are principally engaged in the manufacturing and trading of toys, compressors, shoes, 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 total issued share capital of SCI.

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## LETTER FROM THE BOARD

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### VII. RELATIONSHIP BETWEEN MR. NG AND HIS ASSOCIATES

The Company is owned as to 20.39% by Parkfield, 21.72% by Fung Shing, 0.92% by Ronastar, 13.75% by Earnttrade and 13.01% by Bannock and 3.93% by Mr. Ng. Each of Parkfield, Fung Shing and Ronastar is wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earnttrade which is owned as to 60% by Mr. Ng, as to 20% by Ms. Cheung and as to the remaining 20% by Mr. Gorges. Each of Parkfield, Fung Shing, Ronastar, Earnttrade and Bannock is an associate of Mr. Ng within the meaning of the Listing Rules and a connected person of the Company within the meaning of the Listing Rules. To the best knowledge of the Directors, the remaining shareholdings of the Company are owned by the Independent Third Parties.

### VIII. REASONS FOR THE TRANSACTIONS

By streamlining the business of its subsidiaries, the Directors believe that such restructure will bring a clearer picture of SCI's core business activities to its investors thus benefiting SCI and all SCI Shareholders as a whole. Other than the benefit from streamlining the business of SCI, the acquisition of SCI Sale Shares would enable the Company to rationalize the group structure by retaining businesses under different platforms. The other businesses (namely the travel business and information technology business) are centralized under the Company for strategical development. Upon Completion, the Company will focus on financial services through South China Financial Holdings Limited, a subsidiary of the Company and the shares of which are also listed on the Stock Exchange, and also engage in property, manufacturing and agriculture and woods businesses through SCI. The Directors believe that the terms of the Agreement are on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

### IX. GAIN/LOSS ON THE TRANSACTIONS

There will be no expected gain/loss from the Transactions as all intra-group transactions will be eliminated in full in the consolidated financial statements of the Company.

Other than the adjustments required for the independent professional valuation of Property 1 and Property 2 and the Debentures and Berths as at 31 May 2007, there is no material change in the estimated net carrying value of the Sale Shares, the Sale Debts, SCI Sale Shares and SCI Sale Debts between 31 December 2006 and Completion. Accordingly, no material gain/loss on the Transactions is expected for the Company at Completion.

The Transactions will not have any material effect on the assets and liabilities of the Group.

### X. GENERAL

As the percentage ratios under the relevant tests of the Transactions are more than 5% but less than 25% and Mr. Ng Hung Sang, a substantial shareholder of the Company, is also a substantial shareholder of EN and hence a connected person of the Company, the Transactions constitute discloseable and connected transactions for the Company under the Listing Rules.

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## LETTER FROM THE BOARD

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The Transactions and all other transactions contemplated under the Agreement are conditional upon, among other things, the approval of the Independent Shareholders of the Transactions at the EGM. Voting on the above will be conducted by way of poll by the Independent Shareholders. As mentioned in the section headed “Relationship between Mr. Ng and his associates” of this circular, the approximate percentage of beneficial interests of Mr. Ng and that of Parkfield, Fung Shing, Ronastar, Earntrade and Bannock, all being associates of Mr. Ng, in the shares of the Company are altogether 73.72%. Accordingly, they are required to abstain from voting in respect of the resolutions to approve the Transactions. Mr. Ng and his associates can control and are entitled to exercise control over the voting rights in respect of their respective Shares.

To the best knowledge and belief of the Directors, save as disclosed above, none of the Shareholders have a material interest in the Transactions and will therefore be required to abstain from voting at the EGM.

The Directors consider that the terms of the Agreement (including the Transactions) are on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee comprising Mr. Cheng Hong Kei and Mr. David John Blackett has made recommendations to the Independent Shareholders in relation to the terms of the Agreement (including the Transactions). Mrs. Tse Wong Siu Yin, Elizabeth, who is an independent non-executive director of both the Company and SCI, is therefore required to abstain from acting as a member of the Independent Board Committee. Hercules was appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Agreement (including the Transactions).

### **RECOMMENDATION**

Set out on pages 43 to 44 of this circular is a notice convening the EGM which will be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 21 August 2007 at 11:00 a.m. in which ordinary resolution will be proposed to approve, among other things, the Transactions. The Board considers that the terms of the Agreement (including the Transactions) 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 at the EGM to approve the Transactions.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

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

Yours faithfully,  
For and on behalf of the Board  
**Cheung Choi Ngor**  
*Director*



**SOUTH CHINA HOLDINGS LIMITED**

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

(Stock Code: 265)

25 July 2007

*To the Independent Shareholders*

Dear Sir or Madam,

**Discloseable and Connected Transactions  
in relation to acquisition of SCI Sale Shares and SCI Sale Debts  
and  
in relation to disposal of the Sale Shares and the Sale Debts**

As members of the Independent Board Committee, we have been appointed to advise you in connection with the terms of the Agreement (including the Transactions), the details of which are set out in the letter from the Board contained in this circular to the Shareholders dated 25 July 2007 of which this letter forms part. Terms defined in this circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Agreement (including the Transactions) and the advice of the Independent Financial Adviser in relation thereto as set out on pages 18 to 27 of this circular, we are of the opinion that the terms of the Agreement (including the Transactions) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore recommend you to vote in favour of the resolution to be proposed in the EGM to approve the terms of the Agreement (including the Transactions).

Yours faithfully,

For and on behalf of the

**Independent Board Committee**

**David John Blackett**

**Cheng Hong Kei**

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## LETTER FROM HERCULES

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*The following is the text of a letter of advice in connection with the Agreement from Hercules 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

25 July 2007

*To the Independent Board Committee  
and the Independent Shareholders*

Dear Sirs,

**Discloseable and Connected Transactions  
in relation to  
the acquisition of SCI Sale Shares and SCI Sale Debts  
and  
the disposal of the Sale Shares and the Sale Debts**

#### **1 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 Agreement, details of which are set out in the Letter from the Board contained in the circular dated 25 July 2007 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 4 July 2007, the Company and SCI jointly announced that Tek Lee and SC Media (wholly-owned subsidiaries of the Company) and SC Strategic and Full Sino (wholly-owned subsidiaries of SCI) entered into the Agreement on 4 July 2007, pursuant to which, among other things, (i) SC Strategic and Full Sino have conditionally agreed to sell the SCI Sale Shares and to sell and/or procure the sale of (as the case may be) the SCI Sale Debts to SCH Nominee(s) at a consideration of HK\$122.1 million (the “Acquisition”); and (ii) Tek Lee and SC Media have agreed to sell the Sale Shares and to sell and/or procure the sale of (as the case may be) the Sale Debts to SCI Nominee(s) at a consideration of HK\$122.1 million (the “Disposal”).

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## LETTER FROM HERCULES

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Since the relevant percentage ratios defined in Rule 14.07 of the Listing Rules in respect of each of the Transactions represent more than 5% but less than 25%, each of the Transactions constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. Furthermore, as Mr. Ng Hung Sang, a substantial shareholder of the Company, is also a substantial shareholder of EN, one of the companies comprising the Sale Group, the Disposal constitutes a connected transaction for the Company under Rule 14A.13(1)(b) of the Listing Rules. As the Acquisition and the Disposal are inter-conditional, the Acquisition also constitutes a connected transaction for the Company. Accordingly, the Transactions are subject to approval by the Independent Shareholders, by way of poll, at the EGM. Mr. Ng Hung Sang and his associates shall abstain from voting at the EGM.

The Independent Board Committee, comprising two independent non-executive Directors, namely Mr. David John Blackett and Mr. Cheng Hong Kei, has been established to consider the transactions contemplated under the Agreement and to advise the Independent Shareholders on the fairness and reasonableness of the Transactions. As Mrs. Tse Wong Siu Yin, Elizabeth is an independent non-executive director of both the Company and SCI, she was considered not suitable for giving advice in respect of the Transactions to the Independent Shareholders and was thus excluded from being a member of the Independent Board Committee. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in connection with the Transactions, 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 the Shareholders as a whole.

## **2 BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have reviewed, inter alia, the Circular, the Agreement, financial statements of the Company, the Sale Group and SCI Sale Group 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 have also reviewed the property valuation report for Property 1 and Property 2 as set out in Appendix I to the Circular (the “Property Valuation Report”). As stated in the Property Valuation Report, the valuer has adopted the comparison approach by making reference to comparable sale evidence as available in the relevant market and appropriate adjustments for the differences between the subject property and the comparables in terms of age, time, location, floor level and other relevant factors, which they consider to be a generally accepted valuation approach in determining the valuation of the properties. We also understand from the valuer that such approach is in compliance with the standards and guidelines set out in HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors. Given the valuation methodology applied by the valuer is normal and consistent with the market practice and in compliance with the standards published by the Hong Kong Institute of Surveyors, we consider that the methodology adopted in their valuation is appropriate. For the valuation of the Debenture and Berths, we have also discussed with the valuer the basis, assumptions and the methodology used in preparing its valuation. We are not aware of any unusual assumptions being made and we consider that the methodology adopted in the valuation of the Debenture and Berths is appropriate.

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.

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

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

#### **3.1 Reasons and Rationale for the Transactions**

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 air tickets and the provision of other related services.

SCI is an investment holding company owned as to approximately 74.79% by the Company. Its subsidiaries and associates are principally engaged in the manufacturing and trading of toys, compressors, shoes, leather products, motors, machinery, capacitors, clothing, property investment and development, agriculture, information technology and travel related businesses. The shares of SCI are listed on the Main Board of the Stock Exchange.

Upon Completion, the travel business and information technology business will be centralized under the Company for strategic development while the businesses of property, manufacturing, agriculture and woods will be mainly conducted through SCI. The Directors believe that the group restructuring resulted from the Transactions will enable the Group to segregate its businesses under different listing vehicles which in turn can attract investors with various investment criteria or foci.

Given that (i) SCI is a subsidiary of the Company and the benefits derived from the Transactions by SCI shall also be shared by the Company; (ii) the Transactions will not result in any change in the consolidated net asset value and earnings of the Company, further details of the financial impacts on the Group is presented in the section 3.6 below; (iii) the restructuring will enable the Company and SCI to concentrate their resources and expertise on their respective designated businesses which in turn may increase operational efficiencies of both the Company and SCI; (iv) the streamlined business in both the Company and SCI may attract investments from industry-specific investors in both the Company and SCI, we concur with the Directors that the Transactions are in the interests of the Company and its Shareholders as a whole.

### **3.2 Information on the Sale Group**

The Sale Group mainly comprises Limehouse, Welbeck and Artful. The major assets of the Sale Group include (i) two factory units located in Ground Floor, Cheung Wah Industrial Building, Nos. 10-12, Shipyard Lane, Quarry Bay, Hong Kong with total saleable areas of 10,797 square feet, one unit of which is currently under lease for commercial use while another is vacant at the moment; (ii) ownership of thirty six berths (of which, two are in length of 70 feet, four are in 60 feet, nine are in 50 feet and 21 are in 45 feet); and (iii) berth membership debentures, which include 6 corporate and 30 individual long term wet berth membership debentures (having which is the pre-requisite for owning a berth), 20 corporate and 18 individual short term wet berth membership debentures (having which is the pre-requisite for leasing a berth), 8 corporate and 10 individual drystack membership debentures, in The Clearwater Bay Golf & Country Club, Sai Kung, Hong Kong.

## LETTER FROM HERCULES

The unaudited combined financial information of the Sale Group is summarized as follows:

|                                                         | <b>For the Year ended</b> |                  |
|---------------------------------------------------------|---------------------------|------------------|
|                                                         | <b>31 December</b>        |                  |
|                                                         | <b>2006</b>               | <b>2005</b>      |
|                                                         | (unaudited)               | (unaudited)      |
|                                                         | (HK\$'000)                | (HK\$'000)       |
| Turnover                                                | <u>1,848</u>              | <u>2,120</u>     |
| Profit before taxation                                  | <u>22,940</u>             | <u>8,948</u>     |
| Profit after taxation<br>(excluding minority interests) | <u>17,277</u>             | <u>6,610</u>     |
|                                                         | <b>As at 31 December</b>  |                  |
|                                                         | <b>2006</b>               | <b>2005</b>      |
|                                                         | (unaudited)               | (unaudited)      |
|                                                         | (HK\$'000)                | (HK\$'000)       |
| Total assets                                            | <u>117,987</u>            | <u>96,159</u>    |
| Total liabilities                                       | <u>(225,316)</u>          | <u>(221,219)</u> |
| Net liabilities (excluding minority interests)          | <u>(75,206)</u>           | <u>(88,983)</u>  |

According to the Directors, the turnover of the Sale Group for the years under review were mainly derived from the rental income of Property 1 and Property 2 while the profit of the Sale Group for the years under review were mainly derived from the revaluation gain on Property 1 and Property 2. The berth ownerships and memberships have not generated any revenue or profit to the Group during the years under review.

### 3.3 Information on SCI Sale Group

The SCI Sale Group mainly comprises FS Travel and SCN, which are principally engaged in hotel and air ticket booking and related travel business and development of software applications and licensing in the PRC respectively.

## LETTER FROM HERCULES

The unaudited combined financial information of the SCI Sale Group is summarized as follows:

|                                                         | <b>For the Year ended</b>                |                                          |
|---------------------------------------------------------|------------------------------------------|------------------------------------------|
|                                                         | <b>31 December</b>                       |                                          |
|                                                         | <b>2006</b><br>(unaudited)<br>(HK\$'000) | <b>2005</b><br>(unaudited)<br>(HK\$'000) |
| Turnover                                                | <u>1,980,636</u>                         | <u>1,710,980</u>                         |
| Profit before taxation                                  | <u>20,654</u>                            | <u>14,096</u>                            |
| Profit after taxation<br>(excluding minority interests) | <u>15,356</u>                            | <u>24,452</u>                            |
|                                                         |                                          |                                          |
|                                                         | <b>As at 31 December</b>                 |                                          |
|                                                         | <b>2006</b>                              | <b>2005</b>                              |
|                                                         | (unaudited)<br>(HK\$'000)                | (unaudited)<br>(HK\$'000)                |
| Total assets                                            | <u>263,930</u>                           | <u>265,322</u>                           |
| Total liabilities                                       | <u>(243,442)</u>                         | <u>(240,777)</u>                         |
| Net assets (excluding minority interests)               | <u>13,645</u>                            | <u>18,608</u>                            |

According to the Directors, the turnover of the SCI Sale Group for the years under review were mainly derived from the travel business of FS Travel, which accounted for over 96% and 95% of the revenue for the year of 2006 and 2005 respectively. The net profit after taxation of FS Travel for the year ended 31 December 2006 and 2005 amounted to approximately HK\$20.3 million and HK\$28.1 million respectively. On the other hand, the software development and licensing business of SCN recorded losses continuously during the period under review.

As at 31 December 2006, SCN recorded unaudited consolidated net liabilities of HK\$21.1 million while FS Travel had unaudited consolidated net asset value of HK\$34.7 million. Taken together the values of SCN and FS Travel, the net asset value attributable to equity holders of the SCI Sale Group amounted to approximately HK\$13.6 million as at 31 December 2006.

### **3.4 Consideration of the Disposal**

The aggregate consideration for the sale of the Sale Shares and the Sale Debts is HK\$122.1 million, which comprises (i) the combined net liabilities of the Sale Group of approximately HK\$75.2 million; (ii) the estimated total face value of the Sale Debts, net of discount on the Sale Debts, as at Completion of approximately HK\$156.6 million; and (iii) the adjustment amounting to approximately HK\$40.7 million for the revaluation surplus net of the relevant tax effect of the Property 1, Property 2, the Debenture and Berths based on the valuations as at 31 May 2007. The consideration will be satisfied in exchange for the SCI Consideration.

According to the Directors, the Consideration was determined after arm's length negotiation between the contracting parties with reference to, among other things, (i) the unaudited consolidated net asset/liabilities attributable to the equity holders of Limehouse, Welbeck and Artful as at 31 December 2006 of net assets of approximately HK\$7.7 million, net assets of approximately HK\$0.8 million and net liabilities of approximately HK\$83.7 million respectively; (ii) the total face value of the Sale Debts as at the date of the Agreement, being approximately HK\$192.0 million, discounted by a sum of HK\$35.4 million based on the preliminary valuation of Property 2 of HK\$40.0 million as at 31 May 2007 conducted by an independent professional valuer; (iii) the adjustment for market valuation of Property 1 and Property 2 as at 31 May 2007, net of relevant tax effect; and (iv) the adjustment for market valuation of the Debenture and Berths as at 31 May 2007.

The following is a summary of the adjusted value of the Sale Shares and Sale Debts:

|                                                                               | <b>Amount</b><br>(HK\$'000) |
|-------------------------------------------------------------------------------|-----------------------------|
| Unaudited combined net deficits of the<br>Sale Group as at 31 December 2006   | (75,200)                    |
| The estimated total face value of the<br>Sale Debts as at the Completion Date | 156,600                     |
| Revaluation surplus, net of tax effect                                        | <u>40,700</u>               |
| Adjusted value                                                                | <u><u>122,100</u></u>       |

Given that the Consideration of approximately HK\$122.1 million is at par with the adjusted value of the Sale Shares and the Sale Debts, and none of the commonly used valuation methods such as net assets approach, price-to-earnings approach and dividends approach is applicable for valuing the Sale Shares, we consider that the Consideration to be fair and reasonable to the Company and the Independent Shareholders as a whole and on normal commercial terms.

### 3.5 Consideration of the Acquisition

The aggregate consideration for the acquisition of the SCI Sale Shares and SCI Sale Debts is HK\$122.1 million, which comprises (i) the combined net asset value of the SCI Sale Group of approximately HK\$13.6 million; (ii) the estimated total face value of the SCI Sale Debts as at Completion of approximately HK\$48.4 million; and (iii) the cash consideration of HK\$60.1 million. The SCI Consideration will be satisfied in exchange for the Consideration.

According to the Directors, the SCI Consideration was determined after arm's length negotiation between the contracting parties with reference to, among other things, (i) the unaudited combined net asset/liabilities attributable to the equity holders of SCN and FS Travel as at 31 December 2006 of net liabilities of approximately HK\$21.1 million and net asset value of approximately HK\$34.7 million respectively; (ii) the total face value of the SCI Sale Debts as at the date of the Agreement, being approximately HK\$48.4 million.

Since the SCI Sale Debts are interest-free debts without any option right, the fair value of them should be fairly reflected by their face value. Therefore, we consider that the consideration for the SCI Sale Debts, which is equivalent to the face value of the SCI Sale Debts at Completion, to be fair and reasonable.

In forming our opinion on the consideration of the SCI Sale Shares, we have considered the following comparison approaches, namely price-to-earnings approach, dividends approach and net assets approach, which are commonly adopted in evaluation of a company.

#### *Price-to-earnings Approach*

The SCI Sale Group recorded a net profit after taxation (excluding minority interest) of approximately HK\$15.4 million for the year ended 31 December 2006. After deducting the considerations for the SCI Sale Debts and the cash component, the consideration for the SCI Sale Shares amounted to approximately HK\$13.6 million. Accordingly, the price-to-earnings ratio ("P/E") of the SCI Sale Group implied by the SCI Consideration is approximately 0.88.

#### *Dividends Approach*

For the year ended 31 December 2005 and 2006, the dividend paid out by the SCI Sale Group amounted to approximately HK\$20.3 million and HK\$20.8 million respectively. Based on the average annual dividend of approximately HK\$20.55 million, the dividend yield of the SCI Sale Group implied by the SCI Consideration is approximately 1.51.

#### *Net Assets Approach*

Based on the unaudited combined accounts of the SCI Sale Group, the combined net assets attributable to equity holders of SCI Sale Group as at 31 December 2006 amounted to approximately HK\$13.6 million. Therefore, the price-to-book ratio ("P/B") of the SCI Sale Group implied by the SCI Consideration is approximately 1.0.

## LETTER FROM HERCULES

As we were unable to find reliable financial data of private companies that engage in business similar to the SCI Sale Group for comparison purposes, we have considered all the companies which (a) are currently listed on the Main Board of the Stock Exchange; and (b) engage in travel-related businesses, which is the core business of the SCI Sale Group. On this basis and to our best knowledge, we have identified three comparable companies (the “Comparables”) and set out in Table 1 below a comparison of the valuation statistics of the SCI Sale Group implied by the SCI Consideration with the market valuations at which the Comparables are currently trading.

**Table 1: Trading multiples of the Comparables**

| Company Name/<br>(Stock Code)                                   | P/E<br>(times)     | P/B<br>(times)     | Dividend<br>Yield<br>(times) |
|-----------------------------------------------------------------|--------------------|--------------------|------------------------------|
| China Travel International<br>Investment Holdings Limited (308) | 70.1               | 2.6                | 0.6                          |
| Morning Star Resources Limited (542)                            | 38.2               | 2.2                | 0.0                          |
| Wing On Travel (Holdings) Limited (1189)                        | N/A                | 0.4                | 2.2                          |
| <b>Average</b>                                                  | <b>54.2</b>        | <b>1.7</b>         | <b>0.9</b>                   |
| <b>Maximum</b>                                                  | <b>70.1</b>        | <b>2.6</b>         | <b>2.2</b>                   |
| <b>Minimum</b>                                                  | <b>38.2</b>        | <b>0.4</b>         | <b>0.0</b>                   |
| <b>The SCI Sale Group</b>                                       | <b><u>0.88</u></b> | <b><u>1.00</u></b> | <b><u>1.51</u></b>           |

*Note:* The trading statistics of the Comparables were quoted from ThomsonOneBanker as at the Latest Practicable Date.

As shown in Table 1, the P/E and P/B of the SCI Sale Group are lower than the average P/E and P/B of the Comparables and the dividend yield of the SCI Sale Group is higher than the average dividend yield of the Comparables. On the above basis, we consider that the consideration for the SCI Sale Shares and overall the SCI Consideration to be fair and reasonable to the Company and the Independent Shareholders as a whole and on normal commercial terms.

### 3.6 Financial effects of the Transactions

#### 3.6.1 Earnings

As SCI is a subsidiary of the Company, no effects on the consolidated profit of the Company are expected from the Transactions as the Transactions constitute intra-group transactions and all the effects, if any, will be eliminated in full in the consolidated financial statements of the Company.

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## LETTER FROM HERCULES

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### 3.6.2 Cashflow

There will be no effects on the consolidated cashflow of the Company as the cash inflow to the SCH Nominee resulted from the Acquisition will be off-set by the cash outflow of the SCI Nominee.

### 3.6.3 Net Asset Value

The Transactions will not result in any significant impact on the consolidated net asset value of the Company except the revaluation surplus of the Property 1, Property 2 and the Debentures and Berths.

Concluding from the above, the Transactions will have a positive effect on the consolidated net asset value of the Company while having no adverse impacts on the consolidated earnings and cashflow of the Company.

## 4 RECOMMENDATION

Having considered the factors detailed in the previous sections, we are of the view that the Agreement is on normal commercial terms which are 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 resolutions 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*

*The following is the text of a letter, a summary of value and a valuation certificate, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation of the property located in Hong Kong held by the Group.*

## BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong  
香港灣仔港灣道6-8號瑞安中心3111-18室  
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863  
Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

25 July 2007

The Directors

**South China Holdings Limited**

28th Floor, Bank of China Tower

No. 1 Garden Road

Central, Hong Kong

Dear Sirs,

**Re: Valuation of a property located in Hong Kong (the “property”)**

### INSTRUCTIONS

We refer to your instructions for us to value the property held by South China Holdings Limited (the “Company”) and/or its subsidiaries (hereinafter referred to as the “Group”) located in Hong Kong. We confirm that we have conducted an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property as at 31 May 2007 (the “date of valuation”).

### BASIS OF VALUATION

Our valuation of the concerned property has been based on the Market Value, which is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

### VALUATION METHODOLOGY

We have valued the property which is held by the Group for investment purpose on an open market basis by the Comparison Approach assuming sale in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. Appropriate adjustments have been made to account for the differences between the subject property and the comparables in terms of age, time, location, floor level and other relevant factors. In the course of our valuation, we have also considered the Investment Approach by taking into account the market rent of the property if it would be let to tenant.

**TITLE INVESTIGATION**

We have caused land searches to be made at the relevant Land Registry and have been provided with copies of title document and tenancy agreement. We have been advised by the Group that no further relevant documents have been produced. However, we have neither examined the original documents to verify ownership nor to ascertain the existence of any amendments, which do not appear on the copies handed to us. All documents have been used for reference only.

**VALUATION ASSUMPTIONS**

Our valuation has been made on the assumption that the property is sold in the open market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the property. In addition, no account has been taken of any option or right of pre-emption concerning or effecting the sale of the property and no forced sale situation in any manner is assumed in our valuation.

In valuing the property, we have relied on the advice and any other information relating to the property given by the Group that the Group has valid and enforceable title to the property which is freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent has been fully settled.

**VALUATION CONSIDERATIONS**

In the course of our valuation, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy and other relevant information.

Dimensions, measurements and areas included in the valuation certificate are based on information contained in the leases and other documents provided to us and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your confirmation that no material facts have been omitted from the information so supplied.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property or for any expenses or taxation, which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

Our valuation has been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuation has been prepared under the generally accepted valuation procedures and is in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars (HK\$) and no allowances have been made for any exchange transfers.

Our Summary of Value and the Valuation Certificate are attached herewith.

Yours faithfully  
For and on behalf of  
**BMI APPRAISALS LIMITED**

**Dr. Tony C.H. Cheng**  
*BSc, MUD, MBA (Finance), MSc (Eng),  
PhD (Econ), MHKIS, MCI Arb, AFA, SIFM, FCIM,  
MASCE, MIET, MIEEE, MASME, MIIE  
Director*

**Joannau W.F. Chan**  
*BSc. MSc. MRICS MHKIS RPS(GP)  
Director*

Notes:

Dr. Tony C.H. Cheng is a Chartered Surveyor who has over 14 years’ experience in valuations of properties in Hong Kong and the People’s Republic of China.

Ms. Joannau W.F. Chan is a Chartered Surveyor who has over 14 years’ experience in valuations of properties in Hong Kong and over 8 years’ experience in valuations of properties in the People’s Republic of China.

| SUMMARY VALUE                                                                                                                   |                                                                |                                          |                                                                 |
|---------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|------------------------------------------|-----------------------------------------------------------------|
| Property                                                                                                                        | Market Value<br>in existing state<br>as at 31 May 2007<br>HK\$ | Interest<br>attributable<br>to the Group | Value attributable<br>to the Group<br>as at 31 May 2007<br>HK\$ |
| Units A and B on<br>Ground Floor,<br>Cheung Wah Industrial Building,<br>Nos. 10 – 12 Shipyard Lane,<br>Quarry Bay,<br>Hong Kong | 80,000,000                                                     | Unit A – 100%<br>Unit B – 70%            | Unit A – 38,320,000<br>Unit B – 29,176,000                      |
|                                                                                                                                 |                                                                |                                          |                                                                 |
| Total:                                                                                                                          | 80,000,000                                                     |                                          | 67,496,000                                                      |

VALUATION CERTIFICATE

| Property                                                                                                                        | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Particulars of occupancy                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Market Value in existing state as at 31 May 2007<br>HK\$                     |                          |   |              |              |      |            |             |   |              |              |      |            |             |               |                      |                       |             |                     |                    |  |                                                               |
|---------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|--------------------------|---|--------------|--------------|------|------------|-------------|---|--------------|--------------|------|------------|-------------|---------------|----------------------|-----------------------|-------------|---------------------|--------------------|--|---------------------------------------------------------------|
| Units A and B on Ground Floor, Cheung Wah Industrial Building, Nos. 10-12 Shipyard Lane, Quarry Bay, Hong Kong                  | The property comprises a combined workshop unit on the ground floor of a 13-storey industrial building completed in 1971.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | The property is vacant as at the date of valuation. However, as per our information provided by the Group, Unit B is currently let for a term of 3 years from 25 June 2007 to 24 June 2009 at a monthly rent of HK\$150,000, and from 25 June 2009 to 24 June 2010 at a monthly rent of HK\$165,000, exclusive of management fee, air-conditioning charges, rates and other outgoings with 2 rent-free periods from 25 June 2007 to 24 July 2007 and 25 June 2008 to 24 July 2008. | 80,000,000<br>(Unit A – 100% interest attributable to the Group: 38,320,000) |                          |   |              |              |      |            |             |   |              |              |      |            |             |               |                      |                       |             |                     |                    |  |                                                               |
| 2/26th equal and undivided shares of and in Sub-section 3 of Section E of Quarry Bay Marine Lot No. 2 and the extension thereto | The total saleable area (“SA”) of the property is approximately 10,797 sq.ft. (or about 1,003.07 sq.m.) and a yard of approximately 1,100 sq.ft. (or about 102.19 sq.m). The breakdowns of which are as below:– <table><tr><th>Unit</th><th>Saleable Area<br/>(sq.ft.)</th><th>Saleable Area<br/>(sq.m.)</th></tr><tr><td>A</td><td>5,172 sq.ft.</td><td>480.49 sq.m.</td></tr><tr><td>Yard</td><td>550 sq.ft.</td><td>51.10 sq.m.</td></tr><tr><td>B</td><td>5,625 sq.ft.</td><td>522.58 sq.m.</td></tr><tr><td>Yard</td><td>550 sq.ft.</td><td>51.10 sq.m.</td></tr><tr><td><b>Total:</b></td><td><b>10,797 sq.ft.</b></td><td><b>1,003.07 sq.m.</b></td></tr><tr><td><b>Yard</b></td><td><b>1,100 sq.ft.</b></td><td><b>102.19sq.m.</b></td></tr></table> The property is held under a government lease for a term of 999 years from 18 April 1900. | Unit                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Saleable Area<br>(sq.ft.)                                                    | Saleable Area<br>(sq.m.) | A | 5,172 sq.ft. | 480.49 sq.m. | Yard | 550 sq.ft. | 51.10 sq.m. | B | 5,625 sq.ft. | 522.58 sq.m. | Yard | 550 sq.ft. | 51.10 sq.m. | <b>Total:</b> | <b>10,797 sq.ft.</b> | <b>1,003.07 sq.m.</b> | <b>Yard</b> | <b>1,100 sq.ft.</b> | <b>102.19sq.m.</b> |  | (Unit B – 70% interest attributable to the Group: 29,176,000) |
| Unit                                                                                                                            | Saleable Area<br>(sq.ft.)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Saleable Area<br>(sq.m.)                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                              |                          |   |              |              |      |            |             |   |              |              |      |            |             |               |                      |                       |             |                     |                    |  |                                                               |
| A                                                                                                                               | 5,172 sq.ft.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 480.49 sq.m.                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                              |                          |   |              |              |      |            |             |   |              |              |      |            |             |               |                      |                       |             |                     |                    |  |                                                               |
| Yard                                                                                                                            | 550 sq.ft.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 51.10 sq.m.                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                              |                          |   |              |              |      |            |             |   |              |              |      |            |             |               |                      |                       |             |                     |                    |  |                                                               |
| B                                                                                                                               | 5,625 sq.ft.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 522.58 sq.m.                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                              |                          |   |              |              |      |            |             |   |              |              |      |            |             |               |                      |                       |             |                     |                    |  |                                                               |
| Yard                                                                                                                            | 550 sq.ft.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 51.10 sq.m.                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                              |                          |   |              |              |      |            |             |   |              |              |      |            |             |               |                      |                       |             |                     |                    |  |                                                               |
| <b>Total:</b>                                                                                                                   | <b>10,797 sq.ft.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>1,003.07 sq.m.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                              |                          |   |              |              |      |            |             |   |              |              |      |            |             |               |                      |                       |             |                     |                    |  |                                                               |
| <b>Yard</b>                                                                                                                     | <b>1,100 sq.ft.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>102.19sq.m.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                              |                          |   |              |              |      |            |             |   |              |              |      |            |             |               |                      |                       |             |                     |                    |  |                                                               |

Notes:

- The registered owner of Unit A of the property is Spark-Inn Investments Limited dated 21 July 1993 registered vide Memorial No. UB5743700.
- The registered owner of Unit B of the property is The Express News Limited dated 1 March 1971 registered vide Memorial No. UB802038.

3. The Deed of Mutual Covenant dated 25 February 1971 is registered vide Memorial No. UB799122.
4. The property is subject to the following material encumbrances:
  - a) Mortgage to secure general banking facilities in favour of Chong Hing Bank Limited (formerly known as Liu Chong Hing Bank Limited) vide Memorial No.UB6683207 dated 25 June 1996;
  - b) Order No. DRZ/U15/0004/03 under Sec. 26 of the Buildings Ordinance by the Building Authority vide Memorial No. UB9192207 dated 5 March 2004. (For exterior and common areas of the building); and
  - c) Order No. DRZ/U15/012/03 under S.28(3) of the Buildings Ordinance by the Building Authority vide Memorial No. UB9203840 dated 5 March 2004. (Re: For common drains only).
5. Our valuation has been prepared based on the assumption that except for the aforesaid mortgage in Note (4a), the property is not subject to any other mortgage or material encumbrances.
6. For the purpose of our valuation, we have assumed that the works stipulated in the Orders under Notes (4b) and (4c) have been completed to the satisfaction of the Building Authority.
7. For your reference purposes, the arithmetic breakdowns based on the saleable areas for Unit A and Unit B are HK\$38,320,000 and HK\$41,680,000 respectively.
8. Spark-Inn Investments Limited is an indirect wholly-owned subsidiary of the Company.
9. The Express News Limited is an indirect 70%-owned subsidiary of the Company.

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,<br>capacity and<br>nature of interest |                                           |  | Total         | Approximate<br>percentage of<br>the Company’s<br>issued<br>share capital |
|------------------|------|--------------------------------------------------------------|-------------------------------------------|--|---------------|--------------------------------------------------------------------------|
|                  |      | Beneficial<br>owner                                          | Interest of<br>controlled<br>corporations |  |               |                                                                          |
| Mr. Ng           | (a)  | 71,652,200                                                   | 1,272,529,612                             |  | 1,344,181,812 | 73.72%                                                                   |
| Mr. Gorges       | (a)  | –                                                            | 487,949,760                               |  | 487,949,760   | 26.76%                                                                   |
| 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 Financial Holdings Limited (“SCF”) (Note b)

| Name of Director | Note | Number of<br>ordinary<br>shares held | Capacity and<br>nature of interest  | Approximate<br>percentage of<br>the associated<br>corporation’s<br>issued<br>share capital |
|------------------|------|--------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------|
| Mr. Ng           | (c)  | 3,660,502,500                        | Interest of controlled corporations | 73.08%                                                                                     |
| Mr. Gorges       |      | 12,174,000                           | Beneficial owner                    | 0.24%                                                                                      |

(ii) SCI (Note d)

| Name of Director | Note | Number of<br>ordinary<br>shares held | Capacity and<br>nature of interest  | Approximate<br>percentage of<br>the associated<br>corporation’s<br>issued<br>share capital |
|------------------|------|--------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------|
| Mr. Ng           | (e)  | 396,641,357                          | Interest of controlled corporations | 74.79%                                                                                     |

(iii) South China Financial Credits Limited (“SCFC”) (Note f)

| Name of Director       |  | Number of<br>ordinary<br>shares held | Capacity and<br>nature of interest | Approximate<br>percentage of<br>the associated<br>corporation’s<br>issued<br>share capital |
|------------------------|--|--------------------------------------|------------------------------------|--------------------------------------------------------------------------------------------|
| Mr. Ng Yuk Fung, Peter |  | 250,000                              | Beneficial owner                   | 0.59%                                                                                      |

(iv) The Express News Limited (“EN”) *(Note g)*

| Name of Director | Note | Number of<br>ordinary<br>shares held | Capacity and<br>nature of interest   | Approximate<br>percentage of<br>the associated<br>corporation’s<br>issued<br>share capital |
|------------------|------|--------------------------------------|--------------------------------------|--------------------------------------------------------------------------------------------|
| Mr. Ng           | (h)  | 30                                   | Interest of a controlled corporation | 30%                                                                                        |

2. *Interests in underlying shares of SCF – share options scheme of SCF*

| Name of Director       | Capacity         | Number of<br>underlying shares* | Approximate<br>percentage of<br>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<br>(DD/MM/YY) | Subscription<br>price per share<br>HK\$ | No. of share<br>options granted | Exercise period<br>(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 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 Earnttrade. Parkfield, Fung Shing and Ronastar are all wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earnttrade 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 are deemed to have an interest in 487,949,760 Shares, which are being held by both Bannock and Earnttrade.
- (b) The Company owns approximately 73.08% of the issued share capital of SCF.
- (c) The 3,660,502,500 shares of SCF are 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 SCF under the SFO.
- (d) SCI is a 74.79% owned subsidiary of the Company.
- (e) The 396,641,357 SCI Shares are 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) SCFC is a 98.36% owned subsidiary of SCF.
- (g) EN is a 70% owned subsidiary of the Company.
- (h) Mr. Ng and his family, through a company wholly-owned and controlled by them, have interests in 30 shares of EN.

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 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 positions in the Shares

| Name of Shareholder | Notes     | Capacity and nature of interest                           | Number of ordinary Shares held | Approximate percentage of the Company’s issued share capital |
|---------------------|-----------|-----------------------------------------------------------|--------------------------------|--------------------------------------------------------------|
| Eartrade            | (a) & (b) | Beneficial owner and interest of 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 Eartrade. The 487,949,760 Shares held by Eartrade include 237,303,360 Shares held by Bannock directly.
- (b) Mr. Ng, Mr. Gorges and Ms. Cheung are also the directors of both Eartrade and Bannock. Mr. Ng is also the director of Parkfield and Fung Shing.

As at the Latest Practicable Date, Mr. Ng, the chairman and executive director of the Company, is also a director of each of Parkfield, Fung Shing, Earntrade, Bannock and SCI. Mr. Ng Yuk Fung, Peter, executive director of the Company, is also an executive director of SCI. Ms. Ng Yuk Mui, Jessica, non-executive director of the Company, is also a non-executive director of SCI.

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) 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 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; 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 any member of the Group which is not determinable by any member of the Group within one year without payment of compensation (other than statutory compensation).

#### **5. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

Mr. Ng, being the Chairman of the Company, is also the Chairman and substantial shareholder of Jessica Publications Limited ("Jessica") and South China Land Limited ("SCL"). Mr. Ng, personally and through Parkfield, Fung Shing and Ronastar, has interest in Jessica and SCL. Mr. Ng together with Ms. Cheung and Mr. Gorges, the Directors, have beneficial interests in Earntrade, which directly and indirectly through Bannock holds shares of Jessica and SCL. As Jessica is principally engaged in the publication business, Mr. Ng is regarded as interested in such competing business with the Group while Ms. Cheung and Mr. Gorges are neither directors nor involved in the day-to-day management of Jessica, they are therefore not regarded to have any competing business with the Group. Mr. Ng Yuk Fung, Peter, an executive director and the chief executive officer of Jessica, is regarded as interested in such competing business with the Group. Ms. Ng Yuk Mui, Jessica is a non-executive director of Jessica. 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.

Moreover, SCL is principally engaged in the publication and property businesses and Ms. Cheung and Mr. Gorges are involved in the day-to-day management of the property business of SCL. As such, Mr. Ng, Ms. Cheung and Mr. Gorges are regarded as interested in such competing businesses with the Group. Mr. Ng Yuk Fung, Peter, an executive director of SCL, is regarded as interested in such competing business with the Group. Ms. Ng Yuk Mui, Jessica is a non-executive director of SCL. She is not regarded to have any competing business with the Group since she is not involved in the day-to-day business of SCL.

However, the Group holds a substantial interest in SCL through the convertible notes issued by SCL. The interest of Mr. Ng, Ms. Cheung and Mr. Gorges and that of the Group in SCL are aligned. If the convertible notes were converted to the extent that SCL becomes a subsidiary of the Group, SCL property business will then merge into the businesses of the Group and the relevant Directors will cease to have interest in such competing business.

Save as aforesaid, the Directors are of the view that the Company can carry on its business independently of and at arm's length from the businesses of Jessica and SCL as the Group's relevant publication business has its own target reader market and contents which are different from those of Jessica and SCL.

Save as disclosed above (including the information of Mr. Ng, Ms. Cheung, Mr. Gorges, Mr. Ng Yuk Fung, Peter and Ms. Ng Yuk Mui, Jessica), 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 competition with the business of the Group or any conflicts with the interests of the Group.

## **6. 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:

- (a) the Chairman of the meeting; or
- (b) 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 and vote at the meeting; or
- (c) 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
- (d) if required by the Listing Rules, 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.

## **7. 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 Group or the Company and its subsidiaries.

**8. QUALIFICATIONS OF EXPERTS, CONSENTS AND EXPERTS' INTERESTS**

- (a) The following are qualifications of experts who have given opinions, letters or advice which are contained or referred to in this circular:

|          |                                                                                                                                          |
|----------|------------------------------------------------------------------------------------------------------------------------------------------|
| Hercules | a corporation licensed under the SFO to engage in type 6 (advising on corporate finance) of the regulated activity as defined in the SFO |
|----------|------------------------------------------------------------------------------------------------------------------------------------------|

|                        |                                             |
|------------------------|---------------------------------------------|
| BMI Appraisals Limited | an independent professional property valuer |
|------------------------|---------------------------------------------|

(Collectively, the “Experts”)

- (b) None of the Experts has 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) Each of the Experts has given and has 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 and the property valuation report of BMI Appraisals Limited were made for incorporation in this circular.
- (d) None of the Experts had 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 Company were made up.

**9. DIRECTORS' INTERESTS IN ASSETS**

- (a) On 9 January 2007, WTS International (BVI) Limited (“WTS”), a wholly-owned subsidiary of SCI, entered into a share purchase agreement with SCL, of which Mr. Ng is a substantial shareholder, and SCI 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. 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 with SCL and SCI 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. 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.

Save as and except for Mr. Ng who has material interests in the transactions as disclosed above and the Transactions, 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.

## 10. 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) Save and except for the agreements referred to in the paragraph headed “Directors’ Interests in Assets” and the Agreement, there is no contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Group.
- (d) Up to the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest published audited accounts of the Group which were made up.
- (e) The English text of this circular shall prevail over the Chinese text.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during the normal business hours 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 to in the paragraph headed “Directors’ Interests in Assets” above; and
- (b) the Agreement.



## SOUTH CHINA HOLDINGS LIMITED

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

(Stock Code: 265)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of South China Holdings Limited (the “**Company**”) will be held at 28/F., Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 21 August 2007 at 11:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution:

### ORDINARY RESOLUTION

“To approve, confirm and ratify the share purchase agreement dated 4 July 2007 entered into among South China Strategic Limited (“**SC Strategic**”) (an indirectly wholly-owned subsidiary of South China Industries Limited (“**SCI**”)), Full Sino Profits Limited (“**Full Sino**”) (an indirectly wholly-owned subsidiary of SCI), Tek Lee Finance and Investment Corporation Limited (“**Tek Lee**”) (an indirectly wholly-owned subsidiary of the Company) and South China Media Limited (“**SC Media**”) (an indirectly wholly-owned subsidiary of the Company) (the “**Agreement**”) (a copy of which has been produced to the EGM marked “A” and initialed by the Chairman of the EGM for the purpose of identification) in respect of, among other things (a)(i) the sale by SC Strategic of 1 share in Southchinanet.com (BVI) Limited (“**SCN**”), representing the entire issued share capital of SCN and sale by Full Sino of 100 shares in Four Seas Travel (BVI) Limited (“**FS Travel**”), representing the entire issued share capital of FS Travel and (ii) the sale and/or the procurement of the sale by SC Strategic and Full Sino of (as the case may be) the total outstanding interest-free loans due from the relevant members of the SCI Sale Group (as defined in the circular dated 25 July 2007 issued by the Company (the “**Circular**”)) to SC Strategic to the wholly-owned subsidiary(ies) (direct or indirect) of the Company and (b)(i) the sale by Tek Lee of 1 share in Limehouse Investments Limited (“**Limehouse**”), representing the entire issued share capital of Limehouse and 1 share in Welbeck Holdings Limited (“**Welbeck**”), representing the entire issued share capital of Welbeck and the sale by SC Media of 1 share in Artful Limited (“**Artful**”), representing the entire issued share capital of Artful and (ii) the sale and/or the procurement of the sale by Tek Lee and SC Media of (as the case may be) the total outstanding interest-free loans due from the relevant members of the SCH Sale Group (as defined in the Circular) to Tek Lee and Diamond Coin Assets Limited to the wholly-owned subsidiary(ies) (direct or indirect) of SCI pursuant to the Agreement (collectively the “**Transactions**”) and all transactions contemplated thereunder (details of which are set out in the joint announcement of the Company and SCI dated 4 July 2007 and the Circular) and to authorise any one director of the Company (the “**Director**”), 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, for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her/them to be

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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incidental to, ancillary to or in connection with the matters contemplated in or relating to the Transactions and the other transactions contemplated under the Transactions as he/she/they may consider necessary, desirable or expedient.”

On behalf of the Board  
**Cheung Siu Lan**  
*Company Secretary*

Hong Kong, 25 July 2007

*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 is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. 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 Room 1803, 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.