

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**South China Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 265)**



**South China Industries Limited**

*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 413)**

**(DISCLOSEABLE TRANSACTION)**

**(DISCLOSEABLE TRANSACTION)**

## **ACQUISITION OF 87% OF THE TRANSFERRED NET ASSETS IN THE TRANSFER ENTERPRISE AND SET UP OF THE JOINT VENTURE**

The board of directors of each of SCH and SCI jointly announce that on 13 May 2006, Calming Investments Limited, a wholly owned subsidiary of SCI, entered into the Agreement with the Transferor pursuant to which the Transferee will acquire 87% of the Transferred Net Assets in the Transfer Enterprise at a consideration of RMB41,655,600. Pursuant to the Agreement, both the Transferor and the Transferee agreed to set up the Joint Venture by injecting, in aggregate, 100% of the Transferred Net Assets in the Transfer Enterprise to the Joint Venture and as a result the Transferor and the Transferee will hold 13% and 87% equity interest in the Joint Venture respectively.

The Acquisition constitutes a discloseable transaction for each of SCH and SCI under the Listing Rules. A circular containing, amongst others, details of the Acquisition will be sent to the respective shareholders of SCH and SCI in accordance with the relevant requirements of the Listing Rules.

### **INTRODUCTION**

The board of directors of each of SCH and SCI jointly announce that on 13 May 2006, Calming Investments Limited, a wholly owned subsidiary of SCI, entered into the Agreement with the Transferor pursuant to which the Transferee will acquire 87% of the Transferred Net Assets in the Transfer Enterprise at a consideration of RMB41,655,600. Pursuant to the Agreement, both the Transferor and the Transferee agreed to set up the Joint Venture by injecting, in aggregate, 100% of the Transferred Net Assets in the Transfer Enterprise to the Joint Venture and as a result, the Transferor and the Transferee will hold 13% and 87% equity interest in the Joint Venture respectively.

### **The Agreement**

Date: 13 May 2006

Transferor: 南京機電產業(集團)有限公司

Transferee: Calming Investments Limited, a wholly owned subsidiary of SCI

Assets to be acquired:  
87% of the Transferred Net Assets in the Transfer Enterprise

The Transferred Net Assets represent (1) the total assets (including Land Interests and 49% equity interest in Nanjing SC Dafang) and total liabilities of the Transfer Enterprise and (2) a provision for 職工安置備用金 (employees resettlement reserve fund) of approximately RMB35 million.

The employees resettlement reserve fund was provided for based on the number of existing employees under employment, the retired and the spouse of the deceased, the maximum number of years vested for the benefit and the terms of contracts. The employees resettlement reserve fund has not been provided for in the books of the Transfer Enterprise. It will be taken up by the Joint Venture when the employees are transferred to the same.

The Transferor and the Transferee will proceed to set up the Joint Venture once the Agreement is approved by the relevant authority (Ministry of Foreign Trade and Economic Cooperation). Upon the set up of the Joint Venture, 100% of the Transferred Net Assets will be injected in the Joint Venture of which 87% and 13% of the Transferred Net Assets will be used to settle the capital commitment of the Transferee and the Transferor respectively in the Joint Venture.

Both the loss before and after taxation and extraordinary item of the Transfer Enterprise for the year ended 31 December 2004 was approximately RMB17,381,000. Both the loss before and after taxation and extraordinary item of Nanjing SC Dafang for the year ended 31 December 2004 was approximately RMB491,000. Both the loss before and after taxation and extraordinary item of the Transfer Enterprise for the year ended 31 December 2005 was approximately RMB444,000. Both the loss before and after taxation and extraordinary item of Nanjing SC Dafang for the year ended 31 December 2005 was approximately RMB737,000. The net assets value of the Transfer Enterprise per its statutory accounts as at 31 December 2005 were approximately RMB28 million (which does not include the Valuation of the Land Interests). The net assets value of Nanjing SC Dafang as at 31 December 2005 were approximately RMB44 million.

#### Details of the Land Interests:

Address	Usage	Site Area (sq. m.)
中國南京市鼓樓區獅子橋2號, 雲南北路28號 (28 Yunnan North Road, No. 2 Shiziqiao, Gulou District, Nanjing, the PRC)	Commercial/Rental	21,962.5
中國南京市白下區解放路36號 (36 Jiefang Road, Baixia District, Nanjing, the PRC)	Residential/Self-occupied	786.1
中國南京市白下區解放路36號 (36 Jiefang Road, Baixia District, Nanjing, the PRC)	Commercial/Rental	2,290.4
中國南京市鼓樓區丁家橋街道湖北路63號 (63 Hubei Road, Dingjiaqiao Avenue, Gulou District, Nanjing, the PRC)	Residential/Self-occupied	1,188.9
中國南京市鼓樓區獅子橋32號 (32 Shiziqiao, Gulou District, Nanjing, the PRC)	Commercial/Rental	795.0

Consideration: RMB41,655,600. The consideration has been arrived at after arm's length negotiations between the parties involved and was determined by reference to 87% of the value of the Transferred Net Assets (which is determined based on the (1) adjusted book value as at 30 June 2005 of (i) total assets (included Land Interests) of approximately RMB129 million as adjusted for the Valuation and (ii) total liabilities of approximately RMB65 million of the Transfer Enterprise, valued as approximately RMB64 million and (2) a provision of 職工安置備用金 (employees resettlement reserve fund) of approximately RMB35 million) taking into account the good locations and investment potential of the Land Interests.

Payment arrangement: The consideration of RMB41,655,600 for the Acquisition shall be satisfied in cash and payable within ten (10) working days after the relevant authority (Ministry of Foreign Trade and Economic Cooperation) approves the Agreement signed by the Transferor and the Transferee.

**Other Material Terms:**

1. The Transferee warrants the Joint Venture will unconditionally accept and implement the proposals for staff arrangement together with the corresponding supplements as stipulated in the resolutions passed by the union of the Transfer Enterprise on 24 July 2005; and implement the requirements set out in the Corporate Restructuring Program. Under the Corporate Restructuring Program, the Joint Venture is required to take up the existing employees of the Transfer Enterprise to avoid redundancy.
2. The Transferee warrants the Joint Venture will pledge appropriate securities (land titles or cash or assets equivalents) for its commitment for 職工安置備用金 (employees resettlement reserve fund) to the Transferor which serves as the monitoring body for fulfillment of the obligation by the Joint Venture under the Corporate Restructuring Program.

**COMPLETION DATE**

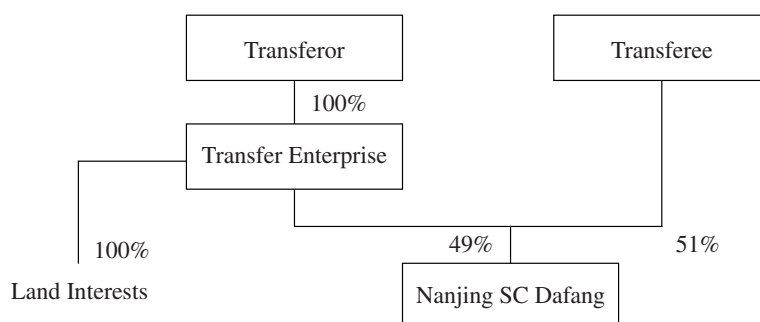
The Completion Date will be the date of signing of the confirmation of transfer in respect of the Transferred Net Assets by the Transferor and the Transferee which will take place after the payment of the consideration.

**COMPLETION**

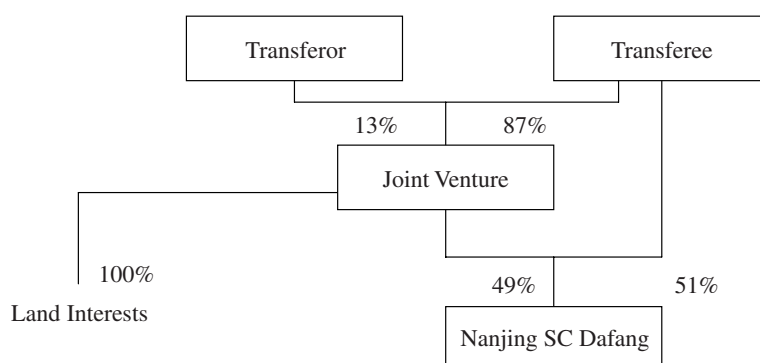
Completion shall take place on Completion Date. Other than the approval of the Agreement by the relevant authority (Ministry of Foreign Trade and Economic Cooperation), there is no condition precedent for the Completion and no approval other than the registration approval in the ordinary course of formation of joint venture is required for the Acquisition and the set up of the Joint Venture.

## STRUCTURES

The group structure before the Acquisition:



The group structure upon setting up the Joint Venture:



*Note:* The Transferred Net Assets of the Transfer Enterprise will be transferred to the Joint Venture upon its formation.

## REASONS FOR THE TRANSACTION

The Transfer Enterprise is one of the state owned enterprises shortlisted by the government to undergo the Corporate Restructuring Program and the Acquisition allows the Transferee to take a controlling stake in Nanjing SC Dafang as well as other valuable Land Interests in Nanjing through the holding of 87% equity interest in the Joint Venture.

Before the Acquisition, the Transferee holds 51% in Nanjing SC Dafang. As the Transferee is not able to exercise control over the financial and operating policies of Nanjing SC Dafang, it was accounted for as an associate of the Transferee in the prior years. Upon completion, the Transferee holds directly 51% and indirectly 49% (through its 87% owned Joint Venture) interest in Nanjing SC Dafang and both the Joint Venture and Nanjing SC Dafang will be accounted for as subsidiaries.

The directors of SCI consider that the terms and conditions of the Agreement are fair and reasonable and the Acquisition is in the interests of SCI and its shareholders as a whole.

The directors of SCH concur with the view of the directors of SCI that the terms and conditions of the Agreement are fair and reasonable and the Acquisition is in the interests of the shareholders as a whole.

## **INFORMATION ON SCH**

SCH is an investment holding company. Its subsidiaries and associates are principally engaged in the trading and manufacturing, securities and commodities brokerage and trading, margin financing, money lending, provision of corporate advisory services and underwriting services, information technology, property investment and development, agriculture, implementation and marketing of software applications, publishing and printing business, marketing and promotional services, sale of air ticket and travel related businesses.

## **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, metal tooling, leather products, motors, machinery, capacitors, clothing, property investment and development, agriculture, information technology and travel related businesses. SCH beneficially holds 74.79% of the total issued share capital of SCI.

## **INFORMATION ON THE TRANSFEROR AND TRANSFER ENTERPRISE**

The Transferor is a state owned enterprise in the PRC and its principal activity is investment holding including holding the equity interest in the Transfer Enterprise.

The Transfer Enterprise is a state owned enterprise in the PRC and its principal activities are holding (i) 49% equity interest in Nanjing SC Dafang; and (ii) certain Land Interests in Nanjing, the PRC. The Transfer Enterprise is a wholly owned subsidiary of the Transferor.

To the best knowledge, information and belief of the directors of SCH and SCI, after all reasonable enquiry, the Transfer Enterprise, the Transferor together with its beneficial owner(s) are third parties independent of SCH and SCI and connected persons of SCH and SCI.

## **GENERAL**

As the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules for the Acquisition represent more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for each of SCH and SCI under Chapter 14 of the Listing Rules.

## **DIRECTORS**

As at the date of this announcement, the board of directors of SCH comprises (1) Mr. Ng Hung Sang, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor and Mr. Ng Yuk Fung, Peter as executive directors; (2) Ms. Ng Yuk Mui, Jessica and Mr. David Michael Norman as non-executive directors; and (3) Mr. David John Blackett, Ms. Wong Siu Yin, Elizabeth and Mr. Cheng Hong Kei as independent non-executive directors.

As at the date of this announcement, the board of directors of SCI comprises (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges, Mr. Ng Yuk Fung, Peter as executive directors; and (2) Ms. Ng Yuk Mui, Jessica as non-executive director; and (3) Ms. Wong Siu Yin, Elizabeth, Mr. Chiu Sin Chun and Ms. Li Yuen Yu, Alice as independent non-executive directors.

## **DEFINITIONS**

“Acquisition”	the acquisition of 87% of the Transferred Net Assets in the Transfer Enterprise pursuant to the Agreement made between the Transferor and the Transferee
“Agreement”	產權交易合同 (Assets Transfer Contract) dated 13 May 2006 entered into between the Transferor and the Transferee for the Acquisition and set up of the Joint Venture

“Completion Date”	the date of signing of the confirmation of transfer in respect of the Transferred Net Assets by the Transferor and the Transferee which will take place after the payment of the consideration.
“Completion”	completion of the Acquisition
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong.
“Joint Venture”	南京微分電機有限公司, a joint venture to be formed to take up the Transferred Net Assets, in which the Transferor and the Transferee will hold 13% and 87% equity interest respectively.
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange.
“Land Interests”	interests in 5 pieces of land in Nanjing held by the Transfer Enterprise, details of the which are disclosed in the paragraph headed “Details of the Land Interests”
“Nanjing SC Dafang”	Nanjing South China Dafang Electric Co., Ltd., a joint venture incorporated in the PRC, with 49% and 51% equity interest held by the Transfer Enterprise and the Transferee respectively, is an associate of each of SCI and SCH. Its principal activities are property holding; manufacturing and sales of micro-motors and after sales services. Upon completion, the Transferee holds directly 51% equity interest in Nanjing SC Dafang and the remaining 49% equity interest will be held through the Joint Venture in which the Transferee will hold 87% equity interest.
“PRC”	The People’s Republic of China.
“RMB”	Reminbi, the lawful currency of the PRC.
“SCH”	South China Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange.
“SCI”	South China Industries Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange. As at the date of this announcement, SCH holds approximately 74.79% of the total issued share capital of SCI.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.
“Transferee”	Calming Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of SCI
“Transferor”	南京機電產業(集團)有限公司, a state owned enterprise incorporated in the PRC and its principal activity is investment holding including holding the equity interest in the Transfer Enterprise.




- “Transferred Net Assets” The Transferred Net Assets represent (1) the total assets (including Land Interests and 49% equity interest in Nanjing SC Dafang) and total liabilities of the Transfer Enterprise and (2) a provision for 職工安置備用金 (employees resettlement reserve fund) of approximately RMB35 million.
- “Transfer Enterprise” 南京微分電機廠(includes 南京微分電機廠勞動服務公司), a state owned enterprise incorporated in the PRC and a wholly owned subsidiary of the Transferor, which principal activities are holding (i) 49% equity interest in Nanjing SC Dafang; and (ii) certain Land Interests in Nanjing, the PRC.
- “Valuation” valuation of Land Interests as at 30 June 2005 performed by the PRC appraisers namely “南京泰衡房地產評估諮詢有限公司” on open market value basis with aggregate appraised value of approximately RMB57.7 million. To the best knowledge, information and belief of the directors of SCH and SCI, after all reasonable enquiry, the PRC appraisers are third parties independent of SCH, SCI, the Transferor, the Transfer Enterprise and their respective connected persons.
- “Corporate Restructuring Program” a government policy promoting the corporate restructuring program namely三聯動for the transformation of state owned enterprise to private enterprise in Nanjing whereby assets, liabilities and employer’s duties of state owned enterprises including, inter alias, the employment, retirement and social security scheme of the existing employees of state owned enterprises, are being dealt with.

On behalf of the board  
of directors of  
**South China Holdings Limited**  
**Cheung Choi Ngor**  
*Director*

On behalf of the board  
of directors of  
**South China Industries Limited**  
**Cheung Choi Ngor**  
*Director*

Hong Kong, 24 May 2006

Copy of this announcement can be obtained  
from our website [www.sctrade.com](http://www.sctrade.com)

 南 華 集 團 成 員  
A Member of South China Group

Please also refer to the published version of this announcement in The Standard.