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**South China Holdings Limited**

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



**South China Brokerage Company Limited**

*(Incorporated in Hong Kong with limited liability)*  
**(Stock Code: 619)**

**(DISCLOSEABLE TRANSACTION)**

**(DISCLOSEABLE TRANSACTION AND  
SHARE TRANSACTION)**

**ACQUISITION OF 100% INTEREST IN A COMPANY WITH A CONTROLLING  
INTEREST IN EXPLORATION/MINING RIGHTS IN GOLD,  
COPPER AND TUNGSTEN MINES  
AND  
SUSPENSION AND RESUMPTION OF TRADING OF SHARES**

The board of directors of each of SCH and SCB jointly announce that on 2 March 2006, HRL, a wholly-owned subsidiary of SCB, entered into the Agreement with the Vendors pursuant to which the Vendors will transfer the entire issued share capital of NewCo to HRL and NewCo will have 51% equity interest in PRC Co on Completion Date at a consideration of HK\$38,250,000 to be satisfied by the allotment and issue of the Consideration Shares at an issue price of HK\$0.13 per Consideration Share.

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

At the request of SCB, trading in the SCB Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Friday, 3 March 2006 pending release of this announcement. Application has been made by SCB to the Stock Exchange for resumption of trading in the SCB Shares with effect from 9:30 a.m. on Wednesday, 8 March 2006.

**Investors and shareholders are reminded that the Acquisition is conditional on the fulfillment of certain conditions and, accordingly, may or may not proceed and are advised to exercise with caution when dealing in the securities of SCH and SCB. Further announcement will be made if there is any substantial development of the Acquisition.**

**This announcement appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of SCH or SCB.**

**INTRODUCTION**

The board of directors of each of SCH and SCB jointly announce that on 2 March 2006, HRL a wholly-owned subsidiary of SCB, entered into the Agreement with the Vendors pursuant to which the Vendors will transfer the entire issued share capital of NewCo to HRL and NewCo will have 51% equity interest in PRC Co on Completion Date at a consideration of HK\$38,250,000, to be satisfied by the allotment and issue of Consideration Shares at an issue price of HK\$0.13 per Consideration Share.

As at the date of this announcement, Vendor 1 and Vendor 2 have an 80% and a 20% of equity interest in a PRC domestic corporation respectively which will, on or before Completion, be converted and known as PRC Co. On Completion Date, Vendors will have transferred the entire issued share capital of NewCo to HRL and NewCo will have acquired 51% equity interest in PRC Co. The remaining 49% of the equity interest of PRC Co will be held by the Vendors. PRC Co will, through its subsidiaries, have acquired 51% of PRC Sub1, 60% of PRC Sub2, 100% of PRC Sub3, 60% of PRC Sub4 and the right to enjoy 50% of the net profit after tax in PRC Sub5 under a business cooperation contract arrangement. It is intended that the above acquisitions of interest in PRC Co and PRC Subs will be by way of transfer of the existing equity interest.

As at the date of this announcement, the status of the ownership and the exploration right and mining right are as follows: –

- PRC Sub1 – Application to the relevant PRC Government authority is in progress to transfer a 51% equity interest in PRC Sub1 with an exploration right of a gold mine from a third party to PRC Co. A contract in respect of the said transfer of equity interest has been signed.
- PRC Sub2 – Application to the relevant PRC Government authority is in progress to transfer 60% equity interest in PRC Sub2 with exploration and mining rights of a copper mine from Vendor 1 to PRC Co.
- PRC Sub3 – PRC Co has 100% equity interest in PRC Sub3 with exploration right of a copper mine.
- PRC Sub4 – A contract is being negotiated with a third party for transferring 60% equity interest of PRC Sub4 with an exploration right in a tungsten mine to PRC Co.

The exploration rights is the assessing rights given to the owner to ascertain the mine reserve and potential production while the mining rights is the rights to do mining and obtaining of metals.

All the mines are located in the North Western part of PRC.

Legal advice has been obtained by SCB that there is no restriction on a foreign company to own controlling interest in mines in PRC.

After the due diligence mentioned in Condition Precedent 4, the ownership of PRC Co in PRC Subs, the permits/licences issued by the relevant PRC authorities, tenor and remaining tenor in respect of the exploration and mining rights held by PRC Subs as well as the registered and paid up capital of PRC Subs will be ascertained.

On Completion Date, the aggregate net asset value of NewCo Group will amount to approximately RMB11,000,000. PRC Co was set up on 8 July 2005. Neither revenue nor profit was recorded in the books of PRC Co since incorporation.

### **The Agreement**

*Date:* 2 March 2006

#### *Parties*

*Vendors:* Vendor 1 and Vendor 2

*Purchaser:* HRL

#### *Subject*

Entire issued share capital of NewCo.

#### *Consideration*

HK\$38,250,000 to be satisfied by the allotment and issue of the Consideration Shares. The consideration has been arrived at after arm's length negotiations between the parties involved and was determined by reference to the net assets value of NewCo Group to be acquired together with the ownership of the mining and exploration rights by the PRC Co Group, and the potential reserve and rate of return on the mines.

If the Vendors cannot secure the exploration right in tungsten before Completion and cannot find a replacement exploration right in natural resources with similar worth (value to be determined at the Purchaser's discretion), the consideration will be adjusted to HK\$30,000,000 and to be satisfied by the allotment and issue of 230,760,000 SCB Shares instead.

The Consideration Shares will be issued under the general mandate granted to the directors of SCB by the shareholders of SCB on 25 May 2005. Under the said general mandate, 972,398,188 of SCB Shares can be issued. As at the date of this announcement, no SCB Shares have been issued under the said general mandate. Application to the Stock Exchange for listing and permission to deal in the Consideration Shares will be made by SCB.

The Consideration Shares represent (i) a premium of approximately 16.1% to the closing price of HK\$0.112 per SCB Share as quoted on the Stock Exchange on 2 March 2006; (ii) a premium of approximately 24.3% to the average of the closing prices of HK\$0.105 per SCB Share as quoted on the Stock Exchange for five consecutive trading days up to and including 2 March 2006; (iii) a premium of approximately 106.3% to the audited consolidated net assets value of SCB of approximately HK\$0.063 per SCB Share as at 31 December 2004; and (iv) a premium of approximately 94% to the unaudited consolidated net assets value of SCB of approximately HK\$0.067 per SCB Share as at 30 June 2005. Based on the closing price of HK\$0.112 per SCB Share as quoted on the Stock Exchange on 2 March 2006, the aggregate market value of the Consideration Shares amounted to approximately HK\$32,954,000.

The Consideration Shares represent approximately 6.05% of the existing issued share capital of SCB and approximately 5.71% of the issued share capital of SCB as enlarged by the Consideration Shares. SCH's interest in SCB will be diluted from 74.59% to 70.33%. In case of adjustment to Consideration Shares as stated above, the adjusted Consideration Shares represent approximately 4.75% of the existing issued share capital of SCB and approximately 4.53% of the issued share capital of SCB as enlarged by the Consideration Shares. SCH's interest in SCB will be diluted from 74.59% to 71.21%.

#### *Other Material Terms*

- (a) The Purchaser has the pre-emptive right to purchase from the Vendors the remaining 49% interest in PRC Co.
- (b) On Completion Date, the Vendors warrant that total net asset value of PRC Co shall not be less than RMB11,000,000 and there will have no liability.
- (c) The consolidated net profit after tax of PRC Co Group shall not be less than RMB1,000,000 for the first full financial year after the Completion Date and not less than RMB5,000,000 each financial year thereafter.
- (d) All material decisions to be taken by PRC Co before Completion Date shall be subject to the Purchaser's consent.
- (e) On Completion, the Vendors and certain senior management including experts shall remain under the employment of PRC Co for three years and one year respectively.

Failing any of the above material terms will constitute breaches of warranty and representations of the Agreement.

#### *Completion Date*

On or before 31 December 2006 or such later date as the Purchaser shall agree.

#### *Restriction on sale of the Consideration Shares*

Upon Completion, the Vendors shall have the following rights for disposal or pledge of the Consideration Shares:—

1. Within two years after the Completion, if the closing price of the SCB Share for the 5 consecutive preceding days is below HK\$0.45, the Vendors shall not sell, transfer or pledge the Consideration Shares to a third party;
2. Within two years after the Completion, if the closing price of the SCB Share for the 5 consecutive preceding days is or above HK\$0.45, the Vendors shall have the right to sell, transfer or pledge 50% of the Consideration Shares to a third party;

3. Within the third year after the Completion, the Vendors shall have the right to dispose of 50% of the Consideration Shares regardless the closing price of the SCB Shares; and
4. Within the fourth year after the Completion, the Vendors shall have the right to sell, transfer or pledge the remaining 50% of the Consideration Shares to a third party.

Share certificates of all the Consideration Shares shall be kept by a custodian, to be mutually agreed by the Purchaser and the Vendors, for a period of four years from the Completion Date.

## **CONDITIONS PRECEDENT**

The Agreement is conditional upon, among others, the following:

1. Due establishment of NewCo and its acquisition of 51% equity interest in PRC Co. PRC Co will, through its subsidiaries, own 51% of PRC Sub1, 60% of PRC Sub2, 100% of PRC Sub3, 60% of PRC Sub4 and enjoy 50% of the net profit after tax in PRC Sub5.
2. PRC Sub1 obtains an exploration right in a gold mine, PRC Sub2 obtains the exploration and mining rights in a copper mine, PRC Sub3 obtains an exploration right in a copper mine, PRC Sub4 obtains an exploration right in a tungsten mine and PRC Sub5 obtains licence in valuation of mines business. All the mines are located in the North Western part of PRC. The Ministry of Land and Resources at the provincial level of the Government of the PRC (中國省級人民政府國土資源主管部門) grants the exploration rights and/or mining permits in gold, copper and tungsten mines to PRC Subs.
3. Issuance of relevant approval certificates and business licences and proof of the ownership in various subsidiaries under NewCo inter alia, in respect of (i) setting up of NewCo, (ii) NewCo's acquisition of 51% in PRC Co, (iii) PRC Co changing from a PRC domestic corporation to a Sino-foreign equity joint venture, (iv) PRC Co's acquisition of PRC Subs and the signing of a business cooperation contract for sharing profit in PRC Sub5.
4. Permission of the management of SCB to investigate the business of PRC Co and SCB's satisfaction to the due diligence work on PRC Co and its subsidiaries for a period of 3 months from the date of the Agreement.
5. SCB's satisfaction to the opinion on the Acquisition, including but not limited to matters mentioned in Conditions Precedent 2 and 3 above issued by the lawyers practising in PRC.
6. The Agreement having been approved by the Approval Authority and duly completed and the parties to the Agreement having performed all their obligations under the Agreement.
7. Relevant Approval Authority having issued the relevant approval certificates in respect of the Acquisition.

The Purchaser has the right to waive any one of the conditions stipulated above. SCH and SCB shall make further announcements with reasons given if any of the Conditions Precedent is waived.

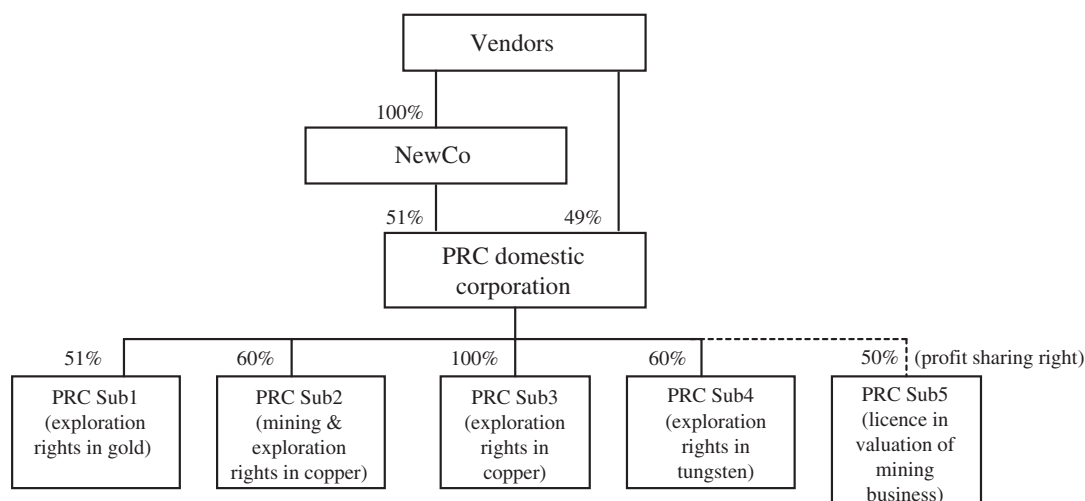
## **COMPLETION**

Completion shall take place on Completion Date where all the conditions as set out in the Agreement have been satisfied or waived.

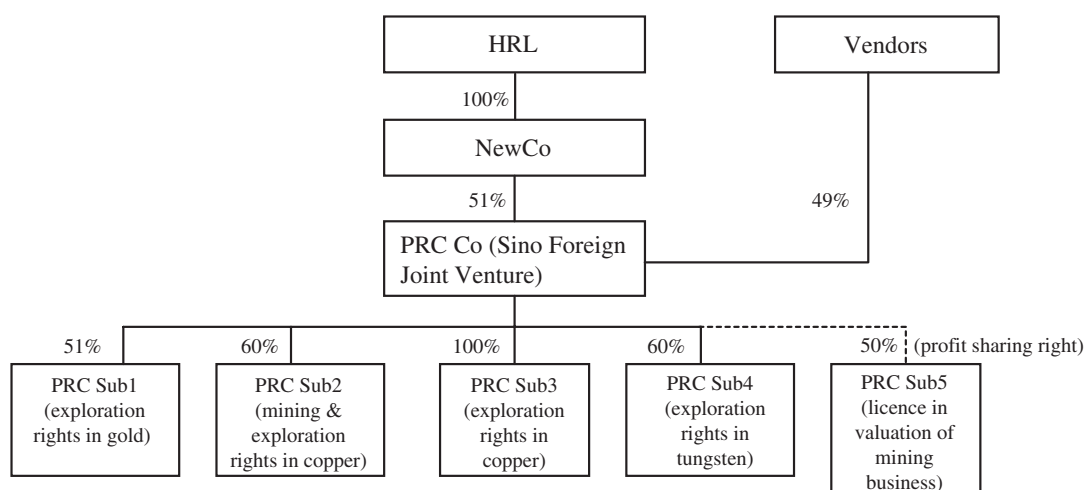
## THE STRUCTURE

The group structure before and on Completion shall be as follows:

*Immediately before Completion and after Conditions Precedent being fulfilled*



*On Completion:*



## REASONS FOR THE TRANSACTION

The demand for natural resources is imminent. The expertise in the exploring and mining industry of natural resources is unique. With the assistance and involvement of the Vendors, the directors of SCB believe that the Acquisition will provide a good opportunity to expand into other business avenues and to explore its revenue sources.

**As the management of SCB has no previous experience in the mining business, there is a possible risk that the management of SCB may not be in the best position to make a sound business judgment when expanding to this new business.** Notwithstanding the above, technical expert having the appropriate experience to provide technical advice on, inter alia, estimated reserves and production projections will be appointed to advise the Company if necessary. As a Condition Precedent, experts in the mining industry have been recruited by PRC Co Group and shall remain under the employment of the NewCo Group for a period of one year after Completion. No valuation report on the mines is available as at the date of this announcement.

Accordingly, the directors of SCH are of the view that the terms of the Agreement are fair and reasonable and the Acquisition is in the interests of SCH and its shareholders as a whole. The directors of SCB are of the view that the terms of the Agreement are fair and reasonable and the Acquisition is in the interests of SCB and its shareholders as a whole.

## **INFORMATION ON SCH**

SCH is an investment holding company. Its subsidiaries and associates are principally engaged in 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 businesses, marketing and promotional services, sale of air ticket and travel related businesses.

## **INFORMATION ON SCB**

SCB is an investment holding company. The principal activities of its subsidiaries consist of securities trading and investment, money lending, property investment, securities and commodities broking, the provision of corporate advisory and underwriting services and investment holding.

## **INFORMATION ON VENDORS**

The Vendors are two individuals of PRC, and possess knowledge and experience in exploring and mining activities in natural resources, in particular in minerals such as gold, copper and tungsten.

To the best knowledge, information and belief of the directors of SCH and SCB, after all reasonable enquiry, the Vendors are third parties independent of SCH and SCB and connected persons of SCH and SCB.

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of SCB, trading in the SCB Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Friday, 3 March 2006 pending release of this announcement. Application has been made by SCB to the Stock Exchange for resumption of trading in the SCB Shares with effect from 9:30 a.m. on Wednesday, 8 March 2006.

## **GENERAL**

The Acquisition constitutes a discloseable transaction for SCH and a discloseable and share transaction for SCB under the Listing Rules. A circular containing, amongst others, details of the Acquisition will be sent to the respective shareholders of SCH and SCB as soon as practicable.

## **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 SCB comprises (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges, Mr. Chan Hing Wah, Mr. Ng Chun Sang and Mr. Ng Yuk Yeung, Paul as executive directors; and (2) Ms. Wong Siu Yin, Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung, Eric as independent non-executive directors.

## **DEFINITIONS**

“Acquisition”	the proposed acquisition of the entire issued share capital of NewCo
“Agreement”	a conditional agreement dated 2 March 2006 entered into between the Purchaser and the Vendors
“Approval Authority”	the registration with the Local Administration for Industry and Commerce (工商局) and all relevant government authorities in the PRC, including the 中華人民共和國商務部 (Ministry of Commerce of the PRC) or its authorised delegate(s), whose approvals are required to approve the Agreement
“Completion”	completion of the Acquisition
“Completion Date”	on or before 31 December 2006 or such later date as the Purchaser shall agree

“Consideration Shares”	294,230,000 new shares in SCB to be issued to the Vendors in relation to the Acquisition
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“HRL”	Harvest Rise Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of SCB
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NewCo”	a limited company to be incorporated in the British Virgin Islands
“NewCo Group”	NewCo and its subsidiaries
“PRC”	The People’s Republic of China
“PRC Co”	a company established under the laws of PRC
“PRC Co Group”	PRC Co and its subsidiaries
“PRC Subs”	PRC Sub1, PRC Sub2, PRC Sub3, PRC Sub4
“Purchaser”	HRL
“RMB”	Reminbi, the lawful currency of PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SCB”	South China Brokerage Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange. It was beneficially owned as to 74.59% by SCH
“SCB Share(s)”	ordinary shares of HK\$0.025 each in the share capital of SCB
“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
“Vendors”	Vendor 1 and Vendor 2 being two PRC individuals and third parties independent of SCH and SCB and connected persons (as defined under the Listing Rules) of SCH and SCB
“%”	per cent.

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

By order of the Board  
**South China Brokerage Company Limited**  
**Chan Hing Wah**  
*Director*

Hong Kong, 7 March 2006

A 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.