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# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

### **Major and Connected Transactions in relation to the indirect disposal by South China Industries Limited of 51% equity interest in Praise Rich Limited**

### **Major and Connected Transactions in relation to the Continuing Guarantee and the Guarantee**

**Financial Adviser to South China Holdings Limited**



**South China Capital Limited**

**Independent Financial Adviser  
to the Independent Board Committee and the Independent Shareholders**



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A letter from the Board is set out on pages 7 to 22 of this circular. A letter from the Independent Board Committee is set out on page 23 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 24 to 52 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 Thursday, 8 March 2007 at 3:15 p.m. is set out on pages 74 to 76 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.

12 February 2007

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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 20 October 2006 entered into among CPL, the Vendor and SCI in relation to the Transaction and was subsequently amended and restated by the Amended Agreement;
“Amended Agreement”	the amended and restated agreement dated 9 January 2007 entered into among CPL, the Vendor and SCI in relation to the Revised Transaction;
“Announcement”	the joint announcement of the Company, SCI and CPL dated 10 January 2007 containing information, among other things, regarding the Revised Transaction;
“associate(s)”	has the meaning ascribed to it in the Listing Rules and the GEM Listing Rules;
“Bank”	China Construction Bank Corporation;
“Bannock”	Bannock Investment Limited, a company incorporated in the Republic of Liberia and a wholly-owned subsidiary of Earnttrade. Bannock is owned as to 60% by Mr. Ng, 20% by Ms. Cheung and 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) on which banks are open for business in Hong Kong;
“Company”	South China Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
“Completion”	completion of the Revised Transaction pursuant to the Amended Agreement;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules and the GEM Listing Rules;
“Consideration”	HK\$408 million, being the total consideration for the Revised Sale Shares and the Revised Sale Debt;
“Continuing Guarantee”	a guarantee provided and to be continued by SCI in favour of the Bank to secure the liabilities of Ever Talent in respect of a loan facility of HK\$80 million under the Loan Agreement;

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## DEFINITIONS

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“Convertible Note”	a non-interest bearing convertible note due in 2012 carrying a right to subscribe for CPL Shares at HK\$0.075 per CPL Share on any Business Day prior to five Business Days before the date of final maturity;
“CPL”	Capital Publications Limited (Stock code: 8155), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM;
“CPL Board”	the board of CPL Directors;
“CPL Directors”	the directors (including the independent non-executive directors) of CPL;
“CPL EGM”	the extraordinary general meeting of CPL to be held on 8 March 2007 to approve, among other things, the Revised Transaction, the issue of the Convertible Note and the issue of CPL Shares upon conversion of the Convertible Note;
“CPL Group”	CPL and its subsidiaries;
“CPL Independent Shareholders”	holders of CPL Shares other than the Vendor and its ultimate beneficial owners and their respective associates;
“CPL Shareholders”	holders of CPL Shares;
“CPL Share(s)”	share(s) of HK\$0.01 each in the share capital of CPL;
“CSC Asia” or “Independent Financial Adviser”	CSC Asia Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO;
“Directors”	the directors of the Company;
“Disposed Group”	Praise Rich and its subsidiaries;
“Earntrade”	Earntrade Investments Limited, a company incorporated in Hong Kong with limited liability and is owned as to 60% by Mr. Ng, 20% by Ms. Cheung and 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 8 March 2007 to approve, among other things, the Revised Transaction, the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI;

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## DEFINITIONS

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“Ever Talent”	Ever Talent Limited, a company incorporated in Hong Kong with limited liability, being a wholly-owned subsidiary of Praise Rich and the 80% foreign investor in Liaoning Dafa;
“Executive”	the executive director of the Corporate Finance Division of the SFC or any of his delegate;
“Fung Shing”	Fung Shing Group Limited, a company incorporated in the British Virgin Islands with limited liability and 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;
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM;
“Greenearn”	Greenearn Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company, 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;
“Guarantee”	a guarantee under the Amended Agreement to be provided by SCI in favour of an Independent Third Party to secure the Proposed Facility;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors (save and except for Ms. Wong Siu Yin, Elizabeth) established to advise the Independent Shareholders on the terms of the Amended Agreement (including the Revised Transaction, the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI);
“Independent Shareholders”	holders of the Shares other than CPL and its ultimate beneficial owners and their respective associates;
“Independent Third Party(ies)”	third party(ies) independent of, and not connected with the Company, SCI and CPL, their subsidiaries and their respective connected persons as defined under the Listing Rules and GEM Listing Rules;

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## DEFINITIONS

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“Latest Practicable Date”	6 February 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;
“Liaoning Dafa”	遼寧大發房地產有限責任公司 (Liaoning Dafa Real Estate Co., Ltd.), a company incorporated with limited liability under the laws of the PRC and is indirectly-owned as to 80% by the Vendor;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Loan Agreement”	an agreement dated 14 June 2006 entered into between Ever Talent and the Bank, whereby the Bank agreed to grant a loan facility of HK\$80 million to Ever Talent for a period of three years from the date of the Loan Agreement;
“Mr. Gorges”	Mr. Richard Howard Gorges, a director of the Company and SCI;
“Mr. Ng”	Mr. Ng Hung Sang, a director of the Company, SCI and CPL;
“Ms. Cheung”	Ms. Cheung Choi Ngor, a director of the Company and SCI;
“Noteholder”	the Vendor or as it may direct any subsidiary of SCI as nominee;
“Parkfield”	Parkfield Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and 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;
“Praise Rich”	Praise Rich Limited, a company incorporated in the British Virgin Islands with limited liability, an indirect wholly-owned subsidiary of SCI and is immediately owned as to 100% by the Vendor;
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, Macau and Taiwan;
“Project”	the development of the Property as described in the section headed “Information on the Disposed Group” of this circular;
“Property”	a site at Zhaoyang Street in the Shenhe District of Shenyang, the PRC (中國瀋陽市沈河區朝陽街);
“Proposed Facility”	the proposed loan facility of up to an aggregate principal amount of HK\$500 million proposed to be borrowed by any member of the Disposed Group from the Independent Third Party(ies) on normal commercial terms at market interest rate to finance the development cost of the Project;

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## DEFINITIONS

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“Revised Sale Debt”	51% of the Sale Debt to be sold to CPL pursuant to the Amended Agreement. As at the date of the Announcement and also the Latest Practicable Date, the face value of which was approximately HK\$47.7 million;
“Revised Sale Shares”	51 shares of US\$1.00 each in the share capital of Praise Rich, representing 51% of the enlarged issued share capital of Praise Rich as at the date of the Amended Agreement. As at the date of the Announcement and also the Latest Practicable Date, the purchase price of which was approximately HK\$360.3 million;
“Revised Transaction”	the acquisition of the Revised Sale Shares and the Revised Sale Debt by CPL from the Vendor pursuant to the Amended Agreement;
“Ronastar”	Ronastar Investments Limited, a company incorporated in the British Virgin Islands with limited liability and 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;
“Sale Debt”	a sum at Completion representing the total outstanding interest-free debts due from Ever Talent to Able Management Limited which is a wholly-owned subsidiary of SCI as at the date of the Amended Agreement;
“Sale Share”	one share of US\$1.00 each in the share capital of Praise Rich, representing the entire issued share capital of Praise Rich as at the date of the Agreement;
“SCI”	South China Industries Limited (Stock code: 413), 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;
“SCI Board”	the board of SCI Directors;
“SCI Directors”	the directors (including the independent non-executive directors) of SCI;
“SCI EGM”	the extraordinary general meeting of SCI to be held on 8 March 2007 to approve, among other things, the Revised Transaction, the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee;
“SCI Shareholders”	holders of SCI Shares;
“SCI Share(s)”	share(s) of HK\$0.10 each in the share capital of SCI;
“SFC”	the Securities and Futures Commission;

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## DEFINITIONS

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“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$0.025 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“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, further details of which are described in the section headed “Relationship between Mr. Ng and his associates” of this circular;
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Repurchases;
“Transaction”	the proposed acquisition of the Sale Share and the Sale Debt by CPL from the Vendor;
“U.S.”	the United States of America;
“Vendor”	WTS International (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially owned as to 100% by SCI which is beneficially owned as to approximately 74.79% by the Company;
“Worldunity”	Worldunity Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company, further details of which are described in the section headed “Relationship between Mr. Ng and his associates” of this circular;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC;
“sq.m.”	square metres; and
“%”	per cent.

*Unless otherwise specified in this circular, amounts denominated in RMB have been translated, for the purpose of illustration only, into HK\$ at an exchange rate of HK\$1.00 = RMB1.00.*





**SOUTH CHINA HOLDINGS LIMITED**

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

(Stock Code: 265)

***Executive Directors:***

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

***Non-executive Directors:***

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

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

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

***Registered office:***

Offshore Incorporations  
(Cayman) Limited  
Scotia Centre  
4th Floor  
P.O. Box 2804  
George Town  
Grand Cayman  
Cayman Islands

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

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

12 February 2007

*To the Shareholders*

Dear Sir or Madam,

**Major and Connected Transactions  
in relation to the indirect disposal by  
South China Industries Limited of  
51% equity interest in Praise Rich Limited**

**Major and Connected Transactions  
in relation to the Continuing Guarantee and the Guarantee**

**INTRODUCTION**

On 23 October 2006, the Company, SCI and CPL jointly announced that, inter alia, CPL, the Vendor and SCI entered into the Agreement pursuant to which the Vendor conditionally agreed to sell the Sale Share and procure the sale of the Sale Debt to CPL at a consideration of HK\$800 million. The consideration is to be satisfied by CPL issuing to the Noteholder a Convertible Note in the principal amount of HK\$800 million.

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## LETTER FROM THE BOARD

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Subsequently on 20 November 2006, a joint announcement was published by the Company, SCI and CPL regarding, inter alia, the submission by the Company and SCI to the Stock Exchange for application of Rule 14.68(2)(b) of the Listing Rules to the Transaction or for a waiver from the requirement under Rule 14.68(2)(a)(i) of the Listing Rules that the accountants' report on the listed group must relate to a financial period ended six months or less before the circular is issued (the "Waiver"). On 8 November 2006, the Stock Exchange replied that the disclosure requirement under Rule 14.68(2)(a)(i) should apply to the Transaction and no such waiver was warranted. Both the Company and SCI thus made an appeal to the Secretary of the Listing Committee of the Stock Exchange (the "Listing Committee") on 13 November 2006 to seek for a review on the decision made by the Stock Exchange.

The Listing Committee turned down the application for the Waiver afterwards. Accordingly, an accountants' report for each of the Company and SCI is required under Rule 14.68(2)(a) of the Listing Rules and it is expected that the accountants' reports will not be practicable to be issued until the end of March 2007. The Directors, SCI Directors and CPL Directors considered that the long completion time would cause uncertainty to the investors as well as dealings in the Shares, SCI Shares and CPL Shares respectively. To avoid further delay to the completion of the Transaction, on 9 January 2007, CPL, the Vendor and SCI entered into the Amended Agreement pursuant to which, inter alia, the Vendor has conditionally agreed to sell to CPL the Revised Sale Shares, instead of a 100% equity interest in the original issued share capital of Praise Rich as previously agreed under the Agreement, and to procure the sale to CPL of the Revised Sale Debt at an aggregate consideration of HK\$408 million. The Consideration is to be satisfied by CPL issuing to the Noteholder a Convertible Note in a reduced principal amount of HK\$408 million. As agreed by the contracting parties to the Agreement, the Agreement was amended and restated in its entirety as provided in the Amended Agreement with effect from (and inclusive of) the date of the Amended Agreement. Save and except for the aforementioned, in effect, the other principal terms of the Agreement, including the principal terms of the Convertible Note and the terms of the Guarantee, shall remain unchanged as provided in the Amended Agreement.

The purpose of this circular is to provide you with (i) further information regarding the Revised Transaction, the Revised Sale Shares and the Revised Sale Debt, the Convertible Note, and the Guarantee; (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 relating to the Project; and (v) a notice convening the EGM.

### **I. THE AMENDED AGREEMENT DATED 9 JANUARY 2007**

Vendor:	WTS International (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially owned as to 100% by SCI which is beneficially owned as to approximately 74.79% by the Company. The Vendor is principally engaged in investment holding and its subsidiaries are principally engaged in the manufacturing and trading of toys, shoes and electronic products, property development and investment.
Purchaser:	CPL, being a company beneficially owned as to approximately 68.45% by Mr. Ng and his associates
Guarantor:	SCI, being a company beneficially owned as to approximately 74.79% by the Company

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## LETTER FROM THE BOARD

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Subject matter and principal terms of the Amended Agreement:

The Vendor has agreed conditionally to sell the Revised Sale Shares and procure the sale of the Revised Sale Debt to CPL at the Consideration.

SCI has unconditionally and irrevocably agreed to guarantee the due performance of the Vendor's obligations.

SCI has also agreed to continue granting the Continuing Guarantee without charging for any guarantee fee to secure the due and punctual performance of the obligations of Ever Talent in respect of a loan facility of HK\$80 million under the Loan Agreement provided that each of the Loan Agreement and such guarantee has not been terminated on or prior to Completion.

In addition, SCI has undertaken with CPL to provide the Guarantee without charging for any guarantee fee for a period of not exceeding three years from Completion for securing the due and punctual performance of the full obligations of any member of the Disposed Group under the Proposed Facility of up to HK\$500 million.

The Vendor and SCI have jointly and severally undertaken with CPL that they would render or cause to be rendered to any member of the Disposed Group and/or CPL all such assistance as CPL (for itself and on behalf of the Disposed Group) may reasonably require in connection with obtaining the proper land use right in respect of the Property.

Pursuant to the Amended Agreement, SCI and the Vendor have agreed to indemnify the Disposed Group against any land appreciation tax that may become payable by the Disposed Group under the PRC laws and regulations in respect of the Property. Based on the estimated deferred tax liabilities of HK\$153.2 million, SCI and the Vendor are to indemnify the tax amount of HK\$62.5 million.

On top of the above, the Amended Agreement also (i) provides for the post-Completion operation and management of Praise Rich by the Vendor and CPL jointly, and for CPL's pre-emptive rights over the shares of Praise Rich then held by the Vendor; and (ii) refers to, inter alia, the right of appointment of directors in accordance with shareholding percentage, quorum of directors' and shareholders' meetings and the pre-emptive rights in respect of Praise Rich.

In relation to the right of appointment of directors as aforementioned, pursuant to the Amended Agreement, the maximum number of directors of Praise Rich shall be three. The Vendor shall have the right to appoint and remove up to one director, and CPL shall have the right to appoint and remove up to two directors. The quorum of directors' meetings of Praise Rich shall be two, of whom one shall be a director appointed by the Vendor and one shall be a director appointed by CPL; whereas the quorum for shareholders' meetings of Praise Rich shall be the Vendor and CPL, representing 100% of the issued share capital of Praise Rich upon Completion (whether present in person or by proxy or representative).

Regarding the pre-emptive rights as aforementioned, before transferring or disposing of its shares of Praise Rich, the Vendor shall give a notice in writing to CPL that it desires to transfer or dispose of the same.

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## LETTER FROM THE BOARD

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No fee or remuneration will be paid or received in respect of the post-Completion operation and management of Praise Rich under the Amended Agreement by any contracting parties to the Amended Agreement.

**Consideration:**

The total consideration for the sale and purchase of the Revised Sale Shares and the Revised Sale Debt shall be HK\$408 million, which comprises (i) the total face value of the Revised Sale Debt at Completion; and (ii) the purchase price for the Revised Sale Shares, being the difference between the Consideration and the total face value of the Revised Sale Debt. As at the date of the Announcement and also the Latest Practicable Date, approximately HK\$47.7 million was the Revised Sale Debt and approximately HK\$360.3 million was the purchase price for the Revised Sale Shares. The Consideration will be satisfied by CPL issuing the Convertible Note to the Noteholder on Completion.

The principal terms of the Convertible Note will be set out in the section headed “Principal Terms of the Convertible Note” of this circular. In the event that the Noteholder does not convert the Convertible Note in full into CPL Shares before the maturity of the Convertible Note, upon presentation on the maturity date of the original of the Convertible Note to CPL, the Convertible Note shall be redeemed by CPL at its principal amount outstanding. Further details are set out below.

Assuming that the conversion rights attached to the Convertible Note have been fully exercised, 5,440,000,000 CPL Shares will be issued at the agreed issue price of HK\$0.075 per CPL Share. The market values of the 5,440,000,000 CPL Shares are approximately HK\$380.8 million and HK\$897.6 million respectively based on (i) the closing price per CPL Share of HK\$0.07 on 8 January 2007, being the date prior to the suspension of trading in CPL shares on 9 January 2007; and (ii) the closing price per CPL Share of HK\$0.165 as at the Latest Practicable Date.

The Consideration was determined after arm’s length negotiation between CPL and SCI with reference to, among other things, (i) the face value of the Revised Sale Debt as at the date of the Announcement, being approximately HK\$47.7 million; (ii) the unaudited consolidated net liabilities attributable to the equity holders of Praise Rich as at 31 August 2006 of approximately HK\$6 million before re-valuation of the Property; and (iii) the preliminary valuation on the Property as a development site of RMB650 million as at 31 October 2006 being provided by Jones Lang LaSalle, an independent professional property valuer, subject to various good title and development proposal approval assumptions. The date of the valuation of the Property as set out in the property valuation report in Appendix II to this circular is 30 November 2006. Jones Lang LaSalle considered that there are no material changes to the market value of the Property from 31 October 2006 to 30 November 2006. Jones Lang LaSalle has relied on its inspection in October 2006 to form its opinion of the market value of the Property as set out in the property valuation report.

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## LETTER FROM THE BOARD

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The capital value of the proposed development (assuming completion as at the date of valuation) would be in the region of RMB1,750 million on an estimated total gross floor area of 120,000 sq.m.. The values as just mentioned represent 100% interest of the Property and the proposed development respectively. As the land use right certificate for the Property had not yet been obtained as at the date of valuation, the property valuer has assigned no commercial value to the Property.

Conditions Precedent:

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

- (a) the acquisition of the Revised Sale Shares and the Revised Sale Debt, the transactions contemplated under the Amended Agreement, and the issue of the Convertible Note all having been approved by CPL Shareholders (or such of them as are not required to abstain from voting under the GEM Listing Rules) in CPL EGM taken by way of poll;
- (b) the disposal of the Revised Sale Shares and the Revised Sale Debt, the transactions contemplated under the Amended Agreement, and the provision of the Guarantee by SCI all having been approved by SCI Shareholders (or such of them as are not required to abstain from voting under the Listing Rules) in SCI EGM taken by way of poll;
- (c) the disposal of the Revised Sale Shares and the Revised Sale Debt, the transactions contemplated under the Amended Agreement, and the provision of the Guarantee by SCI all having been approved by the Shareholders (or such of them as are not required to abstain from voting under the Listing Rules) in the EGM taken by way of poll;
- (d) the Executive having ruled that the full conversion of the Conversion Note by the Noteholder will not trigger any obligation on the part of the Noteholder and its concert parties to make a general offer for all the CPL Shares not already owned by the Noteholder or its concert parties under Rule 26 of the Takeovers Code;
- (e) the listing of, and permission to deal in, CPL Shares to be issued upon the conversion of the Convertible Note having been granted by the Stock Exchange and such grant not having been revoked prior to Completion;
- (f) the PRC legal opinion confirming that, among other things, there will be no legal obstacle for Liaoning Dafa to obtain the relevant land use right certificate in respect of the Property; and
- (g) written consent of the Bank in respect of the sale of the Revised Sale Shares having been obtained.

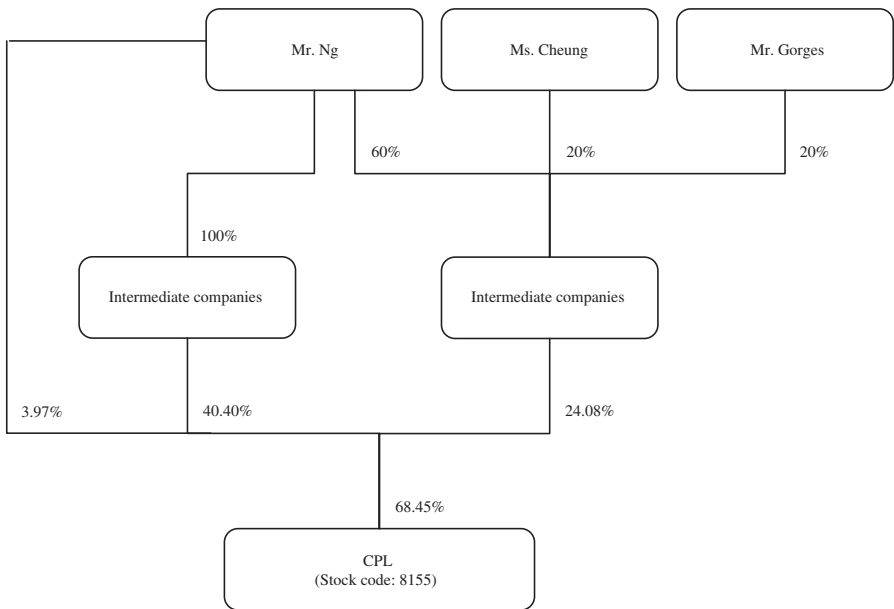
LETTER FROM THE BOARD

The conditions precedent are required to be fulfilled on or before 31 March 2007. If the conditions precedent have not been satisfied or waived (as the case may be) on or before the date aforesaid, the Amended Agreement shall cease and terminate, provided that the rights and liabilities of the contracting parties to the Amended Agreement which have accrued prior to termination shall subsist. As at the Latest Practicable Date, the condition precedent enumerated (d) above has been fulfilled and no other conditions precedent have been fulfilled or waived.

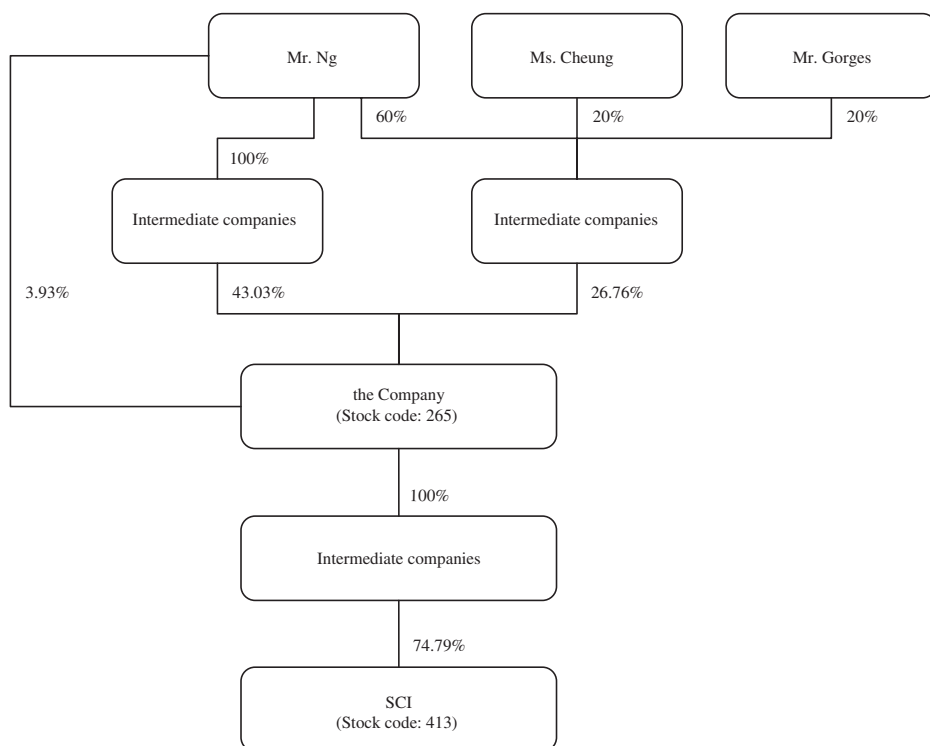
**Completion:** Completion shall take place on the second Business Day after the day on which the last of the conditions precedent is fulfilled or waived or such other date as CPL, the Vendor and SCI may agree, subject to the conditions precedent being fulfilled or waived in accordance with the Amended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

The following diagrams illustrate the shareholding structure of CPL and the Company (i) immediately before Completion; (ii) immediately after Completion and before full conversion of the Convertible Note by the Noteholder; and (iii) immediately after Completion and after full conversion of the Convertible Note by the Noteholder.

*The shareholding structure of CPL immediately before Completion*



*The shareholding structure of the Company immediately before Completion*



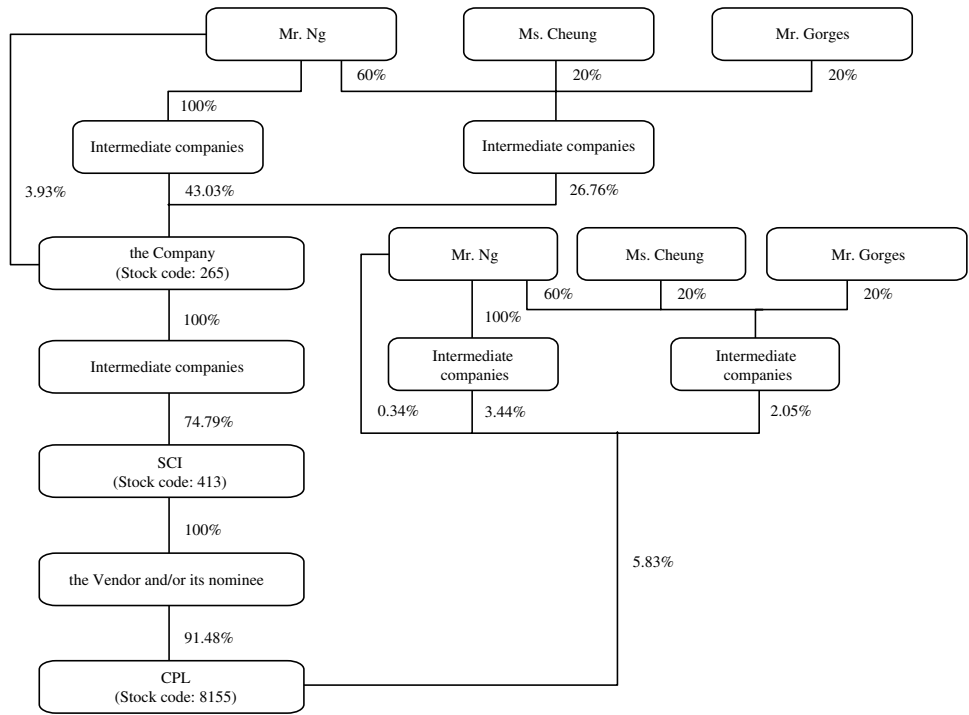
The diagram illustrates the ownership structure of the Vendor and/or its nominee, showing the flow from Mr. Ng, Ms. Cheung, and Mr. Gorges through various intermediate companies to the Vendor and/or its nominee, and also showing a direct path to CPL (Stock code: 8155).

**Ownership Structure:**

- Mr. Ng** (60%) and **Ms. Cheung** (20%) own **Intermediate companies** (43.03% combined).
- Mr. Gorges** (20%) owns **Intermediate companies** (26.76%).
- Intermediate companies** (43.03%) own **the Company (Stock code: 265)** (100%).
- Intermediate companies** (26.76%) own **Intermediate companies** (3.97% combined).
- the Company (Stock code: 265)** (100%) owns **Intermediate companies** (74.79%).
- Intermediate companies** (74.79%) own **SCI (Stock code: 413)** (100%).
- SCI (Stock code: 413)** (100%) owns **the Vendor and/or its nominee** (100%).
- Intermediate companies** (3.97%) own **Convertible Note** (100%).
- Convertible Note** (100%) owns **CPL (Stock code: 8155)** (68.45%).
- Intermediate companies** (24.08%) own **CPL (Stock code: 8155)** (68.45%).

LETTER FROM THE BOARD

*The shareholding structure of the Company and CPL immediately after Completion and after full conversion of the Convertible Note by the Noteholder*



II. PRINCIPAL TERMS OF THE CONVERTIBLE NOTE

Principal amount:	HK\$408 million
Interest:	The Convertible Note does not bear any interest
Maturity:	The fifth anniversary of the date of issue of the Convertible Note
Conversion rights:	The Noteholder will have the right to convert, on any Business Day prior to five Business Days before the maturity date, the whole or any part(s) of the principal amount of the Convertible Note into CPL Shares at the conversion price.
Conversion price:	HK\$0.075 per CPL Share
	The conversion price is subject to adjustments in the event of share consolidation or sub-division, capitalisation of profits or reserves, capital distribution, rights issue and other dilutive events.
	The conversion price was determined after arm’s length negotiation taking into account the 5-year tenor of the Convertible Note, the potential dilution effect on the shareholding structure of CPL, and the closing prices of CPL Shares on the dates of the Agreement and the Amended Agreement respectively.



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## LETTER FROM THE BOARD

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The conversion price represents (i) a discount of approximately 54.5% to the closing price of CPL Shares of HK\$0.165 as at the Latest Practicable Date; (ii) a premium of approximately 7.1% over the closing price of CPL Shares of HK\$0.07 on 8 January 2007, being the date prior to the suspension of trading in CPL Shares on 9 January 2007; (iii) a discount of approximately 0.3% to the average closing price of CPL Shares of HK\$0.0752 on the Stock Exchange for the five trading days immediately before 8 January 2007, being the date prior to the suspension of trading in CPL Shares on 9 January 2007; and (iv) a premium of approximately 58.36 times over the net asset value per CPL Share of approximately HK\$0.001, based on the unaudited consolidated accounts of CPL as at 30 June 2006 and the then number of CPL Shares in issue.

Status of CPL Shares:

The CPL Shares to be issued under the Convertible Note will rank *pari passu* in all respects with the CPL Shares in issue as at the date of exercise of the conversion rights attached to the Convertible Note.

Based on the conversion price of HK\$0.075 per CPL Share, a maximum of 5,440,000,000 CPL Shares will fall to be allotted and issued upon full conversion of the Convertible Note, representing approximately 10.74 times of the existing issued share capital of CPL or approximately 91.48% of the enlarged issued share capital of CPL upon full conversion of the Convertible Note.

Application for listing:

An application has been made by CPL to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in CPL Shares which may be issued under the Convertible Note. However, no application will be made for the listing of the Convertible Note on the Stock Exchange or any other stock exchange.

Transferability:

The Convertible Note or any part(s) thereof may be assigned or transferred to any third party subject to (a) the approval of the Stock Exchange; (b) the compliance of the conditions under the approval for listing in respect of the CPL Shares to be issued under the Convertible Note; and (c) all applicable laws and regulations.

Early Redemption:

The Noteholder has the option to request CPL to redeem the whole or part of the outstanding principal amount of the Convertible Note after the third anniversary of the date of its issue till the maturity date of the Convertible Note.

CPL will, subject to the conditions of the Amended Agreement as stated in the previous section headed "The Amended Agreement dated 9 January 2007" of this circular, issue the Convertible Note to the Noteholder upon Completion. The issue of the Convertible Note and CPL Shares fall to be allotted and issued upon conversion of the Convertible Note will be subject to the approval by CPL Independent Shareholders in CPL EGM.

The Company has no current intention to exercise the conversion rights in respect of the Convertible Note to be issued under the Amended Agreement as it would be inappropriate for the Company to hold the interest in the Project by two separate entities in the Group if the Convertible Note was converted. The Company will comply with the requisite requirements including obtaining the approval of the Independent Shareholders under the Listing Rules upon the conversion of the Convertible Note to acquire the shareholding interest in CPL.

Furthermore, the Company has no current intention to exercise the early redemption option until CPL is financially capable to do so or until the maturity date of the Convertible Note.

### III. INFORMATION ON THE DISPOSED GROUP

#### Overview

CPL will acquire from the Vendor the Revised Sale Shares and the Revised Sale Debt, and indirectly acquire 80% interest in Liaoning Dafa.

Praise Rich, an indirect wholly-owned subsidiary of SCI, is an investment holding company holding all of the shares of Ever Talent, which is a company incorporated in Hong Kong and in turn is the 80% foreign investor in a PRC equity joint venture, namely, Liaoning Dafa. Liaoning Dafa is a limited liability company which was incorporated in the PRC and registered on 25 September 2000 with two PRC investors, namely Mr. Wen Heyi (溫和義) (“Mr. Wen”) and Ms. Wen Meixia (溫美霞) (“Ms. Wen”).

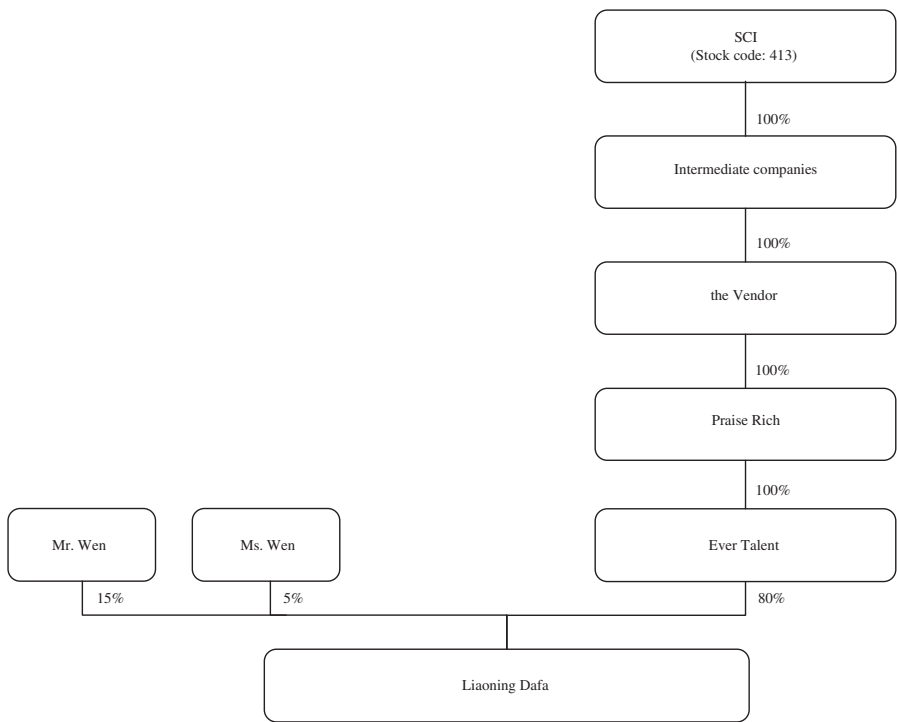
On 10 July 2005, Ever Talent entered into a conditional agreement to acquire 75% equity interest in Liaoning Dafa from Ms. Wen at a consideration of RMB7.5 million, and Ever Talent and the remaining investors had contributed pro-ratedly to Liaoning Dafa in the amounts of RMB60 million and RMB20 million respectively as capital injection. Liaoning Dafa was therefore transformed from a domestic PRC company to a sino-foreign equity joint venture on 14 October 2005. Subsequently on 6 June 2006, Ever Talent further injected cash in stages into Liaoning Dafa while Mr. Wen and Ms. Wen had not made a pro-rata injection of the capital. Mr. Wen and Ms. Wen agreed to the increase in equity interest of Ever Talent in Liaoning Dafa from 75% to 80% and as a result, Mr. Wen and Ms. Wen’s equity interests in Liaoning Dafa were diluted from 20% and 5% to 15% and 5% respectively. The total contributions from Ever Talent, Mr. Wen and Ms. Wen in Liaoning Dafa were RMB161.6 million, RMB30.3 million and RMB10.1 million respectively as at the Latest Practicable Date.

Save as the aforementioned equity interests in Liaoning Dafa, Mr. Wen and Ms. Wen are independent of and unrelated to the Company, the Vendor, SCI, CPL, Mr. Ng and their respective associates. They do not hold any shares of the Company and SCI and are not connected persons of CPL and its associates. Mr. Ng and his associates are the existing controlling group of shareholders of the Company, SCI and CPL. To the best knowledge of the Directors, Mr. Wen and Ms. Wen did not hold any SCI Shares, CPL Shares and the Shares as at the Latest Practicable Date.

On 24 November 2003, Liaoning Dafa entered into a contract titled “掛牌交易成交確認書 (Confirmation on Completion of Auction Sales)” with 瀋陽市土地儲備交易中心 (Shenyang Municipal Land Reserve and Exchange Centre) for the acquisition of a piece of land located at Zhaoyang Street in the Shenhe District of Shenyang, the PRC (中國瀋陽市沈河區朝陽街) with a site area of 7,622 sq.m. for approximately RMB35 million and 15,612 sq.m. for afforestation which require the payment of relocation compensation by Liaoning Dafa of approximately RMB140 million for the development of a seven-storey shopping mall with a proposed aggregate gross floor area of

# LETTER FROM THE BOARD

approximately 125,000 sq.m.. The total area of the said piece of land and the afforestation hence is of 23,234 sq.m.. On 20 December 2006, Liaoning Dafa received the construction planning permit of the Property. According to the construction planning permit, the site area of the Property is enlarged from 7,622 sq.m. to 18,841.5 sq.m. whereas the area of the afforestation is reduced from 15,612 sq.m. to 3,140 sq.m.. Moreover, there is an additional inclusion of spaces for road of 3,960 sq.m.. Hence, the Property should comprise of an area of 25,941.5 sq.m. in total. The total gross floor area of the proposed development of the seven-storey shopping mall is expected to be revised from 125,000 sq.m. to 120,000 sq.m. due to the latest change in layout of the shopping mall. Liaoning Dafa is in the process of completing the formal formalities and procedures for the acquisition of the land use right pertaining to the Property. The land cost of approximately RMB35 million and the land premium of approximately RMB33 million had been fully paid. Such land cost and land premium had already included (i) the additional consideration of RMB32,705,134 as a result of the extension of the site area of the Property; and (ii) the additional amount of land premium in view of the updated construction land use planning permit. As at the Latest Practicable Date, the relocation work was almost completed and approximately RMB118 million out of an estimated total relocation compensation of approximately RMB140 million payable to the original occupants of the Property had already been paid. Liaoning Dafa is responsible for the demolition and resettlement and the urban ancillary facility fees in respect of the Property. All of the Company, SCI, CPL, Liaoning Dafa and the PRC legal adviser to the Company have not been able to ascertain the exact amount of such obligations. The amount of RMB140 million had already accounted for the revision of the relocation compensation costs including the demolition and resettlement and the urban ancillary fees as just mentioned. The estimated building construction costs of RMB470 million will be funded by investors' equity of Liaoning Dafa, the internal resources of the Disposed Group and bank loan. Investors' equity of Liaoning Dafa refers to the existing equity of Liaoning Dafa and any additional capital injection by the shareholders of Liaoning Dafa or shareholders' loan to Liaoning Dafa, if any, that may exist before Completion. Moreover, the source of funding of Ever Talent or Praise Rich before Completion will be drawn from the internal resources of the Company. The Directors consider that the Disposed Group would be able to finance part of the building construction costs from its internal resources which mainly come from idle funds and expected receipts from arrangement on leasing the Property shortly before the completion of the Project. The construction of the Project is expected to be completed in 2008 and the completed properties are currently intended to be held mainly for long-term investment purpose. The following diagram illustrates the shareholding structure of SCI and its subsidiaries before Completion:



# LETTER FROM THE BOARD

## Financial Information

Praise Rich was incorporated in the British Virgin Islands with limited liability on 23 May 2005. Based on the Hong Kong Generally Accepted Accounting Principles, the audited consolidated net loss before and after taxation, and extraordinary items of Praise Rich and its subsidiaries for the period from 23 May 2005 (date of incorporation) to 31 December 2005 and for the year ended 31 December 2006 were approximately HK\$1.8 million and HK\$7.6 million respectively. No turnover was reported in the book of Praise Rich and its subsidiaries for the said period and financial year as the Project is still in relocation stage. The carrying value of the Property of HK\$188 million included in the consolidated financial results of Praise Rich is stated at cost. Praise Rich will no longer be a subsidiary of the Company and will be accounted for as an associated company of the Company immediately after Completion but before full conversion of the Convertible Note. The audited consolidated net liabilities attributable to the equity holders of Praise Rich as at 31 December 2006 was approximately HK\$3 million. Upon Completion, Praise Rich will be accounted for as a subsidiary of CPL.

## IV. CHANGES TO THE SHAREHOLDING IN CPL AS A RESULT OF THE REVISED TRANSACTION AND CONVERSION OF THE CONVERTIBLE NOTE

The following table sets out the shareholding structure of CPL (based on information received by CPL and notified pursuant to Part XV of the SFO as at the Latest Practicable Date) immediately before and after Completion and full conversion of the Convertible Note (assuming that there are no changes other than those contemplated in the Amended Agreement):

	Immediately before Completion		After Completion, assuming no conversion rights attached to the Convertible Note have been exercised by the Noteholder		After Completion, assuming the conversion rights attached to the Convertible Note have been fully exercised by the Noteholder	
	<i>No. of issued CPL Shares</i>	<i>Approximate %</i>	<i>No. of issued CPL Shares</i>	<i>Approximate %</i>	<i>No. of CPL Shares</i>	<i>Approximate %</i>
Mr. Ng and his associates (other than the Noteholder)	346,709,203	68.45	346,709,203	68.45	346,709,203	5.83
The Noteholder	–	–	–	–	5,440,000,000	91.48
Public shareholders	159,789,141	31.55	159,789,141	31.55	159,789,141	2.69
<b>Total</b>	<b>506,498,344</b>	<b>100.00</b>	<b>506,498,344</b>	<b>100.00</b>	<b>5,946,498,344</b>	<b>100.00</b>

The Company has no current intention to exercise the conversion rights in respect of the Convertible Note.

### 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, real estate investment and development, implementation and marketing of software applications, magazines publishing and printing 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, metal tooling, leather products, motors, machinery, capacitors, clothing, property investment and development, agriculture, information technology and travel related businesses. The Company beneficially holds approximately 74.79% of the total issued share capital of SCI.

### VII. INFORMATION ON CPL

CPL is an investment holding company. Its subsidiaries are principally engaged in publication and marketing of a monthly Chinese financial and economic magazines, namely “資本雜誌 Capital”, “資本才俊 Capital CEO” and “資本企業家 Capital Entrepreneur”.

CPL is owned as to approximately 20.02% by Parkfield, 19.55% by Fung Shing, 0.83% by Ronastar, 12.37% by Eartrade, 11.71% by Bannock and 3.97% by Mr. Ng. Each of Parkfield, Fung Shing and Ronastar is wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Eartrade and Eartrade is owned as to 60% by Mr. Ng, 20% by Ms. Cheung and 20% by Mr. Gorges. Each of Parkfield, Fung Shing, Ronastar, Eartrade and Bannock is an associate of Mr. Ng within the meaning of the GEM Listing Rules and a connected person of CPL within the meaning of the GEM Listing Rules.

The unaudited consolidated net asset value of CPL as at 30 June 2006 was HK\$640,000. CPL had a loss of HK\$3,561,000 and a loss of HK\$1,950,000 attributable to the shareholders for the two years ended 31 December 2005 respectively.

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

The Company is owned as to approximately 20.39% by Parkfield, 21.72% by Fung Shing, 0.92% by Ronastar, 13.75% by Eartrade, 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 Eartrade and Eartrade is owned as to 60% by Mr. Ng, 20% by Ms. Cheung and 20% by Mr. Gorges. Each of Parkfield, Fung Shing, Ronastar, Eartrade 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.

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## LETTER FROM THE BOARD

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SCI is owned as to approximately 51.59% by Super Giant, 18.51% by Worldunity and 4.69% by Greenearn. Each of Super Giant, Worldunity and Greenearn is wholly-owned by the Company through its wholly-owned subsidiaries, South China (BVI) Limited and Tek Lee Finance and Investment Corporation Limited. Mr. Ng is the controlling shareholder of the Company and each of Super Giant, Worldunity and Greenearn is an associate of Mr. Ng within the meaning of the Listing Rules and a connected person of SCI within the meaning of the Listing Rules.

### **IX. REASONS FOR THE REVISED TRANSACTION, THE PROVISION OF THE CONTINUING GUARANTEE AND THE GUARANTEE**

The Directors consider that it is in the interests of the Company and the Shareholders as a whole to enter into the Amended Agreement and to indirectly dispose of 51% equity interest in Praise Rich to avoid further delay in completion of the Transaction as the disposal serves the purpose of delineating active participation of the Group in property development assets of SCI which is in line with the business strategy of SCI. Furthermore, the indirect disposal of 51% equity interest of the issued share capital of Praise Rich will allow the Company (through SCI) to retain 49% equity interest in Praise Rich which owns 80% interest in the Project and the Company (through SCI) may still benefit from potential capital appreciation in the value of the Project in the future. Moreover, in case the capital appreciation in value of the Property is extremely large, the Group will have a flexibility to procure the Noteholder to convert the Convertible Note. As confirmed by the SCI Directors, SCI has no present intention to dispose of its remaining 49% equity interest in Praise Rich.

The Directors are also of the view that the Amended Agreement and the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In view of the financial position of CPL and to ensure the timely development of the Project, SCI agreed to continue the provision of the Continuing Guarantee to secure the due and punctual performance of the obligations of Ever Talent and to provide the Guarantee to secure the due and punctual performance of the full obligations of any member of the Disposed Group under the Proposed Facility. CPL will also provide such guarantee if required by the Independent Third Party(ies) under the Proposed Facility although it is not obliged to do so under the Amended Agreement. The loan facility of HK\$80 million under the Loan Agreement was used for financing the equity capital contribution to Liaoning Dafa. In view of the substantial value of the Property held by Liaoning Dafa, the Directors consider that the expected risk associated with the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee is extremely low. Accordingly, the Directors and SCI Directors consider that the provision of the Continuing Guarantee without charging for any guarantee fee and the provision of the Guarantee without charging for any guarantee fee for a period of not exceeding three years are both fair and reasonable so far as the Independent Shareholders are concerned. Having also considered the aforementioned overall benefits which the Revised Transaction would likely to bring to the Company, the Directors are of the view that the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI is in the interests of the Company and the Shareholders as a whole.

### **X. FINANCIAL EFFECT OF THE REVISED TRANSACTION, THE CONTINUING GUARANTEE AND THE GUARANTEE ON THE COMPANY**

#### **Immediately after Completion but before full conversion of the Convertible Note by the Noteholder**

Assuming that the value of the Convertible Note (which is subject to early redemption after three years) is not discounted to its net present value, the Company (through SCI) would have a gain on disposal of approximately HK\$376 million arising from the Revised Transaction. On the basis that the value of the zero coupon Convertible Note (which is subject to early redemption after three years) is discounted to its net present value based on an estimated discount rate of 4.69% (by reference to the yield of 3-year U.S. government securities as published by the U.S. Federal Reserve), the Company (through SCI) would have a gain on disposal of approximately HK\$323 million arising from the Revised Transaction. The above assumptions are only included to demonstrate the sensitivity of the gain on disposal with different yield rates. The gain on the disposal was determined based on the fair value of loan option and the convertible option under the Convertible Note net of the audited consolidated net liabilities attributable to the equity holders of Praise Rich as at 31 December 2006 and the value of the Revised Sale Debt as at the date of the Amended Agreement and the value of tax indemnity of approximately HK\$62.5 million under the Amended Agreement. The fair value of loan option and convertible option, among other things, are dependent on the effective interest rate and risk free rate applied for the Convertible Note and prevailing market price and volatility of the underlying securities as at the date of Completion which cannot be ascertained at the date of this circular.

Upon Completion, the Group would receive the Convertible Note from CPL. Accordingly, the total assets of the Group would be increased by the net amount of the fair value of the Convertible Note less the consolidated total assets of Praise Rich. The liabilities of the Group would be reduced by the liabilities of Praise Rich and increased by the value of tax indemnity.

The provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI will have no effect on the assets and liabilities and earnings of the Group.

### **XI. GENERAL**

Praise Rich, an indirect wholly-owned subsidiary of SCI, is an investment holding company holding all of the shares of Ever Talent which in turn is the 80% foreign investor in Liaoning Dafa. Immediately after Completion, CPL will own 51% of the issued share capital of Praise Rich, representing approximately 40.8% of the economic interest in Liaoning Dafa and the Vendor will own 49% of the issued share capital of Praise Rich, representing approximately 39.2% of the economic interest in Liaoning Dafa.

Mr. Ng and his associates are the existing controlling group of shareholders of the Company, SCI and CPL. Under the Listing Rules, the Revised Transaction will constitute a major transaction and connected transaction for the Company and the Continuing Guarantee and the Guarantee will constitute a major transaction and connected transaction for the Company.

The Revised Transaction and all other transactions contemplated under the Amended Agreement, the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI are conditional upon, among other things, the approval of the Independent



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## LETTER FROM THE BOARD

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Shareholders. 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 Revised Transaction, the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI in the EGM. Mr. Ng and his associates can control and are entitled to exercise control over the voting right in respect of their respective Shares.

To the best knowledge and belief of the Directors, other than those disclosed above and in the section headed “Information on the Disposed Group” of this circular, Mr. Wen, Ms. Wen, CPL and its ultimate beneficial owners and their respective associates are not interested in any Shares as at the Latest Practicable Date.

The Directors consider that the terms of the Amended Agreement (including the Revised Transaction, the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI) 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. David John Blackett and Mr. Cheng Hong Kei has made recommendations to the Independent Shareholders in relation to the terms of the Amended Agreement (including the Revised Transaction, the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI). Ms. Wong Siu Yin, Elizabeth, who is an independent non-executive Director of both the Company and SCI, is considered to have a material interest in the Revised Transaction, the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI and therefore cannot act as a member of the Independent Board Committee. CSC Asia was appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

### RECOMMENDATION

Set out on pages 74 to 76 of this circular is a notice convening the EGM which will be held at 28/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Thursday, 8 March 2007 at 3:15 p.m. in which ordinary resolutions will be proposed to approve, among other things, the Revised Transaction, the provision of the Continuing Guarantee and the undertaking of the provision the Guarantee by SCI. The Board considers that the terms of the Amended Agreement (including the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI) 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 resolutions to be proposed in the EGM.

### 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)

12 February 2007

*To the Independent Shareholders*

Dear Sir or Madam,

**Major and Connected Transactions  
in relation to the indirect disposal by  
South China Industries Limited of  
51% equity interest in Praise Rich Limited**

**Major and Connected Transactions  
in relation to the Continuing Guarantee and the Guarantee**

As members of the Independent Board Committee, we have been appointed to advise you in connection with the terms of the Amended Agreement (including the Revised Transaction, the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI), details of which are set out in the letter from the Board contained in this circular to the Shareholders dated 12 February 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 Amended Agreement (including the Revised Transaction, the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI) and the advice of the Independent Financial Adviser in relation thereto as set out on pages 24 to 52 of this circular, we are of the opinion that the terms of the Amended Agreement (including the Revised Transaction, the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI) 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 resolutions to be proposed in the EGM to approve the Revised Transaction, the provision of the Continuing Guarantee and the undertaking of the provision of the Guarantee by SCI.

Yours faithfully,

For and on behalf of the

**Independent Board Committee**

**David John Blackett**

**Cheng Hong Kei**

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## LETTER FROM CSC ASIA

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*The following is the text of a letter of advice from CSC Asia which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Revised Transaction and the Guarantee.*



**CSC Asia Limited**  
Units 3204-07, 32/F  
Cosco Tower  
183 Queen's Road Central  
Hong Kong

12 February 2007

*To: The independent board committee and  
the independent shareholders of South China Holdings Limited*

Dear Sirs,

**Major and Connected Transactions  
in relation to the indirect disposal by South China Industries Limited of  
51% interest in Praise Rich Limited**

**Major and Connected Transactions  
in relation to the Continuing Guarantee and the Guarantee**

### INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Revised Transaction (including the provision of the Continuing Guarantee) and the undertaking of the provision of the Guarantee by SCI are (i) on normal commercial terms; (ii) fair and reasonable; and (iii) in the interests of the Company and the Shareholders as a whole, and whether or not the Independent Shareholders should vote in favour of the resolution to approve the Revised Transaction (including the provision of the Continuing Guarantee) and the undertaking of the provision of the Guarantee by SCI at the EGM. Details of the Revised Transaction (including the Continuing Guarantee) and the Guarantee are set out in the letter from the Board (the "Letter from the Board") contained in the circular of the Company to the Shareholders dated 12 February 2007 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 20 October 2006, CPL, the Vendor and SCI entered into the Agreement in relation to the Transaction. On 9 January 2007, the same parties to the Agreement entered into the Amended Agreement in relation to the Revised Transaction. Accordingly, the Agreement shall be deemed, to be amended and restated in its entirety with effect from the date of the Amended Agreement. Pursuant to the terms of the Amended Agreement, the Vendor has conditionally agreed to sell a 51% interest in the enlarged issue share capital of Praise Rich (the Revised Sale Shares), instead of the entire issued share capital of Praise Rich (the Sale Share) as previously stipulated in the Agreement, and to procure the sale to CPL of 51% of

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## LETTER FROM CSC ASIA

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the total outstanding interest-free debts owing from Ever Talent to Able Management Limited (the Revised Sale Debt) as at Completion at an aggregate consideration of HK\$408 million, instead of HK\$800 million as stipulated in the Agreement. The Consideration of the Revised Transaction is to be satisfied by CPL issuing to the Noteholder the zero coupon Convertible Note in the principal amount of HK\$408 million.

Pursuant to the terms under the Amended Agreement, SCI has undertaken with CPL to continue to guarantee in favour of the Bank without charging any guarantee fee to secure the due and punctual performance of the obligations of Ever Talent in respect of a loan facility of HK\$80 million (the “Loan”) under the Loan Agreement whilst the provision of the Guarantee is stipulated as one of the conditions precedent to Completion. Pursuant to the letter agreement entered into between SCI and CPL on 9 January 2007, SCI has undertaken with CPL to provide the Guarantee without charging for any guarantee fee for a period of not exceeding three years from Completion for securing the due and punctual performance of the full obligations of any member of the Disposed Group under the Proposed Facility up to HK\$500 million to finance the development cost of the Project (the “Guarantee Agreement”).

The Revised Transaction constitutes a major and connected transaction for the Company under the Listing Rules and is therefore subject to the approval of the Independent Shareholders at the EGM by way of a poll. The Continuing Guarantee and the Guarantee constitute major and connected transactions for the Company under the Listing Rules and are therefore also subject to the approval of the Independent Shareholders at the EGM by way of a poll.

The Company is the indirect holding company of SCI and beneficially holds approximately 74.79% of the total issued share capital of SCI. Mr. Ng and his associates are the existing controlling group of shareholders in CPL, SCI and the Company. Accordingly, Mr. Ng and his associates are required to abstain from voting in respect of the resolutions to approve the Revised Transaction (including the provision of the Continuing Guarantee) and the undertaking of the provision of the Guarantee by SCI at the EGM.

The Independent Board Committee comprising of Mr. David John Blackett and Mr. Cheng Hong Kei, has been formed to advise the Independent Shareholders as to consider the terms of the Revised Transaction (including the provision of the Continuing Guarantee) and the undertaking of the provision of the Guarantee by SCI and to make recommendations to the Independent Shareholders whether the Independent Shareholders should vote in favour of all relevant resolutions to be proposed at the EGM to approve the Revised Transaction (including the provision of the Continuing Guarantee) and the undertaking of the provision of the Guarantee by SCI. We, CSC Asia Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

CSC Asia Limited is independent from, and not connected with, the Company or any of its substantial shareholders, directors or chief executive, or any of their respective associates, and is accordingly qualified to give independent advice to the Independent Board Committee and the Independent Shareholders.

### **BASIS OF OUR OPINION**

In formulating our recommendations, we have relied on the information and facts supplied by the Company and the representations of, the Directors and management of the Company, including those set out in the Circular. We have assumed that all the information and representations so supplied by the Company and/or the Directors and all information and representations referred to or contained in the Circular, for which the Company and the Directors are solely and wholly responsible, were true, accurate and complete at the time they were made and continue to be so as the date hereof. No representation or warranty, expressed or implied, is made by us on the accuracy of such information or representation. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no material facts the omission of which would make any statements in the Circular misleading.

In addition, we have also reviewed the independent valuation report prepared by Jones Lang LaSalle (the “Valuer”) in respect of the Property as set out in Appendix II to the Circular (the “Valuation Report”). We have also discussed with the Valuer the valuation of the Property prepared by it.

We consider that we have reviewed sufficient information and documents to reach an informed view to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendations. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Directors and management of the Company. We have not, however, conducted any independent investigation into the businesses or affairs or assets and liabilities or future prospects of the Company or any of its associates or other parties involved in the Revised Transaction (including the provision of the Continuing Guarantee) or the undertaking of the provision the Guarantee by SCI.

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

In formulating our opinion regarding the terms of the Revised Transaction (including the provision of the Continuing Guarantee) and undertaking of the provision of the Guarantee by SCI, we have taken into consideration the following principal factors and reasons:

#### **(A) THE REVISED TRANSACTION**

##### **(I) Background of and reasons for the Revised Transaction**

The Amended Agreement was entered into on 9 January 2007, pursuant to which, the Vendor, an indirectly wholly-owned subsidiary of SCI, had agreed to sell its 51% interest in the enlarged issued share capital of Praise Rich and procure the sale of the Revised Sale Debt to CPL. Upon Completion and assuming no conversion of the Convertible Note, Praise Rich will cease to be a subsidiary of the Company and SCI and will be accounted for as an associated company of SCI and the Company. However, upon Completion and assuming full conversion of the Convertible Note, Praise Rich and CPL will both be accounted as subsidiaries of the Company and SCI.

(a) *Information of the Disposed Group*

Information of Praise Rich

Praise Rich is an indirectly wholly-owned subsidiary of SCI and a directly wholly-owned subsidiary of the Vendor. The ultimate sole asset of Praise Rich is its indirect 80% interests of the Property. According to the Letter from the Board, Praise Rich is an investment holding company incorporated in the British Virgin Islands on 23 May 2005 holding 100% interest in Ever Talent. Based on the audited financial statement of Praise Rich for the period from 23 May 2005 (date of incorporation) to 31 December 2005 and the year ended 31 December 2006 (as extracted from Praise Rich's financial statements from the circular dated 12 February 2007 issued by CPL to its shareholders in relation to the Revised Transaction (the "CPL Circular")), audited consolidated net loss before and after taxation, and extraordinary items excluding minority interests amounted to approximately HK\$1.5 million and approximately HK\$6.5 million respectively. Praise Rich's audited consolidated net liabilities excluding minority interests as at 31 December 2006 amounted to approximately HK\$3.0 million. No turnover has been recorded since 23 May 2005 (date of incorporation) to the year ended 31 December 2006 in the accounts of Praise Rich as the Project is still in relocation stage.

Information of Ever Talent

Ever Talent is principally an investment holding company incorporated in Hong Kong on 30 May 2005 with its main asset being 80% shareholding of Liaoning Dafa, a Sino-foreign joint venture. Pursuant to a conditional agreement dated 10 July 2005, entered into between Ever Talent and Ms. Wen Meixia (溫美霞) ("Ms. Wen"), Ever Talent acquired 75% equity interests in Liaoning Dafa at a consideration of RMB7.5 million (equivalent to approximately HK\$7.5 million). Subsequently on 6 June 2006, Ever Talent further injected cash into Liaoning Dafa while Ms. Wen and Mr. Wen Heyi (溫和義) ("Mr. Wen") had not made a pro-rata injection of the capital. As at the Latest Practicable Date, Ever Talent is interested in 80% in Liaoning Dafa while Mr. and Ms. Wen are interested in 15% and 5% respectively in Liaoning Dafa.

Information of Liaoning Dafa

Liaoning Dafa is a limited liability company incorporated in the PRC on 25 September 2000 with two PRC investors, namely Ms. Wen and Mr. Wen. Liaoning Dafa has transformed into a Sino-foreign joint venture company on 14 October 2005 whereby Ever Talent is the foreign investor while Mr. Wen and Ms. Wen being the PRC investors.

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## LETTER FROM CSC ASIA

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As at the Latest Practicable Date, the total investment of Liaoning Dafa is RMB577 million (equivalent to approximately HK\$577 million), of which RMB202 million (equivalent to approximately HK\$202 million) is made up of its registered capital. As at the Latest Practicable Date, contributions to the registered capital of Liaoning Dafa were met as to RMB161.6 million (equivalent to approximately HK\$161.6 million) by Ever Talent and as to an aggregate of RMB40.4 million (equivalent to approximately HK\$40.4 million) by the two PRC joint venture parties, namely Mr. Wen and Ms. Wen, representing 80% and 20% shareholding interests of Liaoning Dafa respectively.

Liaoning Dafa is principally engaged in property development in the PRC. The sole asset of Liaoning Dafa is the Property.

Pursuant to a contract entitled “掛牌交易成交確認書” (Confirmation on Completion of Auction Sales) entered into between Liaoning Dafa and “瀋陽市土地儲備交易中心” (Shenyang Municipal Land Reserve and Exchange Centre) on 24 November 2003 (the “Contract”), Liaoning Dafa acquired the Property with a site area of 7,621.9 sq.m. for approximately RMB35 million (equivalent to approximately HK\$35 million) which required the payment of relocation compensation. According to a construction planning permit dated 17 May 2004, total site area of the Property was 23,234 sq.m. comprised planned construction area of 7,622 sq.m., green area of 13,830 sq.m. and road area of 1,782 sq.m. Subsequently, Liaoning Dafa received a construction planning permit on 20 December 2006 indicated that the planned construction area was revised from 7,622 sq.m. to 18,841.5 sq.m., green area was revised from 13,830 sq.m. to 3,140 sq.m. and road area was revised from 1,782 sq.m. to 3,960 sq.m. (totalling site area to 25,941.5 sq.m.).

### Information of the Property

As mentioned above, the total site area of the Property is 25,941.5 sq.m. including green area of 3,140 sq.m. and road area of 3,960 sq.m. The Property is located at the western side of Zhaoyang Street in Shenhe District of Shenyang, Liaoning Province, the PRC (中國瀋陽市沈河區朝陽街). According to the Letter from the Board and the Valuation Report, the Property will be developed into a seven-storey shopping mall (with three basement levels and four above-ground levels) with a proposed aggregate gross floor area (“GFA”) of approximately 120,000 sq.m.

According to the Letter from the Board, Liaoning Dafa is in the process of completing the formal formalities and procedures for the acquisition of the land use right pertaining to the Property. It was also stated that as at the Latest Practicable Date, the relocation was almost completed and approximately RMB118 million (equivalent to approximately HK\$118 million) out of an estimated total relocation compensation of approximately RMB140 million (equivalent to approximately HK\$140 million) payable to the original occupants of the Property had already been paid. The

amount of RMB140 million (equivalent to approximately HK\$140 million) had already accounted for the revision of the relocation compensation costs. According to the Letter from the Board, the construction of the Project is expected to be completed in 2008 and its building construction costs will be funded by investors' equity of Liaoning Dafa, the internal resources of the Disposed Group and bank loans. As advised by the Directors and the SCI Directors, total estimated construction costs of the Project is expected to be approximately RMB470 million (equivalent to approximately HK\$470 million).

***(b) Reasons for and benefits of the Revised Transaction***

The Group is principally engaged in a diversified range of business mainly in the following business areas: trading and manufacturing, securities and financial services, information technology business, property investment and development, media and publication, agricultural production and travel related services. The SCI Group is principally engaged in the manufacturing and trading, property investment and development, agriculture, information technology and travel related businesses.

According to the annual report of SCI for the year ended 31 December 2005, it was stated that the immediate focus of the SCI Group would be on fortifying its industrial platform in coming years. Furthermore, according to the interim report of SCI for the six months ended 30 June 2006 (the "Interim Report"), the SCI Group was in the process of consolidating and restructuring its manufacturing operations to strengthen its expanded industrial capacity and profitability.

We noted from recent joint announcements made by the Company and SCI, as part of the SCI Group's strategy of corporate restructuring to focus on its core manufacturing business and to consolidate and restructure this core segment, the SCI Group had privatised Wah Shing International Holdings Limited, a principal subsidiary previously listed on the Singapore Exchange Securities Trading Limited during the six months ended 30 June 2006. Furthermore, the Company and SCI had jointly announced on the restructuring of its footwear business carried out by Nority International Group Limited, the shares of which are listed on the Stock Exchange.

As advised by the Directors and the SCI Directors, the Revised Transaction enables the Group to delineate active participation of the Group in property development which is in line with the business strategy of the Company.

Upon Completion, SCI will retain 49% equity interest in Praise Rich. Upon Completion and assuming full conversion of the Convertible Note, SCI will effectively hold approximately 91.48% interest of CPL and the Company will indirectly hold approximately 68.42% interest of CPL through its effective approximately 74.79% interest in SCI, hence, CPL will become a subsidiary of both SCI and the Company. As stated in the Letter from the Board, SCI has no present intention to dispose of its remaining 49% equity interest in Praise Rich.



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## LETTER FROM CSC ASIA

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The Amended Agreement also provides for the post-Completion operation and management of Praise Rich by the Vendor (a wholly-owned subsidiary of SCI) and CPL jointly, and the rights of appointment of directors in accordance with shareholding percentage in respect of Praise Rich, SCI will still be able to retain some influence over Praise Rich's business, which in essence, will be able to maintain some influence overseeing the development of the Property and may benefit from potential capital appreciation in the value of the Project in the future. Furthermore, as stated in the Letter from the Board, in case the capital appreciation in value of the Property is extremely large, the SCI Group will have a flexibility to procure the Noteholder to convert the Convertible Note at a relatively low cost. Moreover, in the event that additional funding is required for the development of the Property, upon Completion, CPL, as a separate listed vehicle, can raise capital fund in the open market without placing further reliance on SCI. We therefore consider that the Revised Transaction will provide an additional fund raising platform to finance the development of the Project in the future through CPL.

Furthermore, as mentioned in the above paragraph, the SCI Group had been realising its business strategy and restructuring plan duly and gradually to fortify its industrial platform. We consider that the Revised Transaction would also provide a clearer picture of the value of SCI's core manufacturing business to its shareholders. Accordingly, we concur with the views of the Directors and the SCI Directors that the Revised Transaction is a step taken by SCI to manifest a clear delineation in the SCI Group's core business from property development in the PRC and concentrate on its core manufacturing business.

Notwithstanding the unattractive financial position of CPL that CPL had reported unaudited losses during the six months ended 30 June 2006 with unaudited NAV of approximately HK\$0.64 million as at 30 June 2006, taking into account i) the Revised Transaction enables the Group to delineate active participation of the Group in property development; ii) in case the capital appreciation in value of the Property is extremely large, the SCI Group will have a flexibility to procure the Noteholder to convert the Convertible Note at a relatively low cost; and iii) CPL, as a separate listed vehicle, can raise capital fund in the open market without placing further reliance on SCI, we consider that there are sound commercial and strategic reasons for the Revised Transaction and is in line with the overall strategy of the Group and the SCI Group, and is in interests of the Company and the Shareholders as a whole.



### (II) Principal terms of the Amended Agreement

#### (a) *Consideration*

##### Basis of Consideration

Pursuant to the Amended Agreement, the total consideration for the sale of the Revised Sale Shares and the Revised Sale Debt by the Vendor (a wholly-owned subsidiary of SCI) to CPL shall be HK\$408 million which comprises (i) a consideration for the Revised Sale Debt, being an amount equal to the face value of the Revised Sale Debt at Completion; and (ii) a consideration for the Revised Sale Shares, being an amount equal to the difference between the Consideration and the consideration for the Revised Sale Debt, and will be satisfied by CPL issuing the Convertible Note to the Vendor on Completion. As at the date of the Announcement and the Latest Practicable Date, the face value of the Revised Sale Debt was approximately HK\$47.7 million. Accordingly, the consideration for the Revised Sale Shares as at the date of the Announcement and the Latest Practicable Date was approximately HK\$360.3 million (the “Revised Sale Shares Consideration”).

We note that the Consideration was determined after arm’s length negotiation between CPL and SCI with reference to, among other things, (i) the face value of the Revised Sale Debt as at the date of the Announcement, being approximately HK\$47.7 million; (ii) the unaudited consolidated net liabilities attributable to equity holders of Praise Rich as at 31 August 2006 of approximately HK\$6 million before re-valuation of the Property; and (iii) the preliminary valuation of the Property as a development site being RMB650 million (equivalent to approximately HK\$650 million) as at 31 October 2006 (subject to various assumptions of good title and development proposal approvals) as appraised by the Valuer.

In considering whether the Consideration is fair and reasonable, we have considered the factors set out below.

#### (1) **Revised Sale Debt**

We consider that the consideration for the Revised Sale Debt (being approximately HK\$47.7 million as at the date of the Announcement and the Latest Practicable Date) is an amount equal to the face value of the Revised Sale Debt which is on a dollar-for-dollar basis is fair and reasonable.

### (2) Revised Sale Shares

We have noted from the Letter from the Board that Praise Rich is an investment holding company and has not recorded any revenue since its incorporation. As mentioned above, Praise Rich has no material assets or business except for its holding of 80% indirect interests in Liaoning Dafa. Given that Praise Rich is an investment holding company and has no other material assets except for its investment in Ever Talent which in turn is interested in 80% of Liaoning Dafa holding the Property, we are of the view that the inclusion of the value of Praise Rich being net liabilities as well as independent valuation of the Property as reference for the determination of the Consideration to be fair and reasonable.

Furthermore, according to the Letter from the Board, it also referred to the capital value of the proposed development (assuming completion as at the date of valuation) would be in the region of RMB1,750 million (equivalent to approximately HK\$1,750 million) on an estimated total GFA of approximately 120,000 sq.m. Having considered that the construction of the Property is still underway and the ultimate principal asset of Praise Rich is in fact the Property, we are of the view that referring to the valuation of the Property in the region of RMB650 million (equivalent to approximately HK\$650 million) rather than the assessed capital value of the proposed development being in the region of RMB1,750 million (equivalent to approximately HK\$1,750 million) will provide a clearer, justifiable and more appropriate indicator in performing our analysis regarding the consideration of the Revised Sale Shares. As such, our analysis below will principally be referring to the valuation of the Property of RMB650 million (equivalent to approximately HK\$650 million).

In this connection, we have (i) reviewed the valuation report dated 12 February 2007 prepared by the Valuer as set out in Appendix II to this circular; and (ii) compared the Revised Sale Shares Consideration with the fair value of Praise Rich. Given that Praise Rich had been making losses for the year ended 31 December 2006, the use of price-earnings multiple as reference to assess the Revised Sale Shares Consideration is not applicable, we opt not to apply price-earning multiple as part of our analysis.

(i) *Comparing with independent property valuation*

According to the Valuation Report set out in Appendix II to the Circular, the Valuer had assigned no commercial value to the Property as the land use right certificate of the Property has not yet been obtained as at the date of valuation. However, the Valuer has assessed that 100% of the Property is valued in the region of RMB650 million (equivalent to approximately HK\$650 million) as at 30 November 2006 on the assumptions that, inter alia, the land use right certificate has been obtained (the “Valuation”).

We have reviewed the legal opinion provided by Praise Rich’s PRC legal adviser and have discussed with Praise Rich’s PRC legal adviser as to the progress of obtaining the land use rights certificate and any legal obstacles in this regard and we have been advised that upon full settlement of demolition and resettlement costs and urban facility fees in connection with the Property (the “Outstanding Obligations”) and completion of formal processing procedures including attending to land use right registration, there shall be no legal impediment for Liaoning Dafa to obtain the land use right of the Property. On the assumption that Liaoning Dafa has fulfilled the Outstanding Obligations and completed the formal processing procedures, we consider that it is reasonable to apply the indicative market value of the Property of RMB650 million (equivalent to approximately HK\$650 million) as our reference for analysis.

In addition, we have discussed with the Valuer and reviewed the methodology, bases, considerations and key assumptions employed in the valuation of the Property as contained in the Valuation Report. As stated in the Valuation Report, the valuation of the Property was made on the market value basis applying the direct comparison approach. The Valuer has advised that by adopting the direct comparison approach, it has valued the Property by assuming the sale of the Property in its existing state and by making reference based on comparing the land sales evidence available in the market. The Valuer has also advised that the principal bases, considerations and key assumptions underlying the Valuation are based on the recent land price for land sites in Shenyang, the PRC which are comparable to the Property.

Having regard to the above discussion with the Valuer, we are of the view that the valuation methodology adopted by the Valuer is generally consistent with market practices and we are not aware of any reasons to doubt the fairness and appropriateness of the bases, considerations and key assumptions adopted by the Valuer in arriving at the Valuation.

Based on the valuation of RMB650 million (equivalent to approximately HK\$650 million), 51% equity interest of Praise Rich's 80% attributable interest in the Property is equivalent to RMB265.2 million (equivalent to approximately HK\$265.2 million). Accordingly, the Revised Sale Shares Consideration of approximately HK\$360.3 million for 51% equity interest of Praise Rich's 80% attributable interest in Liaoning Dafa represents a premium of approximately 35.86% to the Valuation attributable to Praise Rich. Considering that the Valuation has been used as one of the determination factors, we are of the view that the premium of the Revised Sale Share Consideration over the Valuation attributable to Praise Rich is in the interest of the Company and the Shareholders as a whole.

*(ii) Comparing with the fair value of Praise Rich*

We note that the Revised Sale Shares Consideration was determined with reference, among other things, to Praise Rich's net liabilities before re-valuation of the Property. However, we consider applying 51% equity interest of the fair value of Praise Rich taking into account the Valuation which is subject to various assumptions of good title and development proposal approvals (the "Fair Value") as our analysis will provide a clearer picture on the value of Praise Rich. Based on the latest available audited financial information of Praise Rich, the audited consolidated net liabilities attributable to equity holders of Praise Rich as at 31 December 2006 amounted to approximately HK\$3 million. 51% equity interest of the Fair Value amounted to approximately HK\$125.3 million and composed of the following elements (the following computations are for illustrative purposes only):

# LETTER FROM CSC ASIA

	<i>HK\$ million</i>	<i>HK\$ million</i>
Audited consolidated net liabilities of Praise Rich attributable to equity holders of Praise Rich as at 31 December 2006 (as shown in the financial statements of Praise Rich extracted from the CPL Circular)		(3.0)
Excess of valuation over the carrying value of the Property based on the Valuation which is subject to various assumptions of good title and development proposal approvals (as extracted from the unaudited pro forma consolidated balance sheet of the CPL Group immediately after Completion including the Disposed Group (the “CPL Enlarged Group”) as set out in Appendix IV to the CPL Circular (the “CPL Pro Forma Balance Sheet”)) ( <i>note</i> )	464.1	
<i>Less:</i> Deferred tax liabilities (as extracted from the CPL Pro Forma Balance Sheet) ( <i>note</i> )	153.2	
Excess of valuation over the carrying value of the Property in Praise Rich net of deferred tax liabilities	310.9	
<i>Add:</i> Excess of valuation over the carrying value of the Property in Praise Rich net of deferred tax liabilities attributable to Praise Rich of 80% interest		248.7
Fair Value		245.7
51% equity interest of the Fair Value		125.3

*Note:* The unaudited pro forma consolidated balance sheet of the CPL Enlarged Group which has been prepared for illustrative purpose only, has been prepared based on the audited consolidated balance sheet of the CPL Group as at 31 December 2005 and the audited consolidated balance sheet of the Disposed Group as at 31 December 2006 as if the Revised Transaction has been completed on 31 December 2005 with the assumption that the Land Use Right Certificate has been obtained by the Disposed Group.

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## LETTER FROM CSC ASIA

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The Revised Sale Shares Consideration of HK\$360.3 million represents a premium over 51% equity interest of Praise Rich's net worth as at 31 August 2006 being net liabilities and a premium of approximately 187.5% over 51% equity interest of the Fair Value.

Taking into consideration that the Revised Sale Shares Consideration represents a premium of i) approximately 35.86% over the Valuation attributable to Praise Rich; and ii) approximately 187.5% over 51% of the equity interest of the Fair Value, we are of the view that the Revised Sale Shares Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In summary, we are of the view that the Consideration of HK\$408 million under the Amended Agreement for the Revised Sale Debt and the Revised Sale Shares is on normal commercial terms and is fair and reasonable so far as the interest of the Independent Shareholders are concerned.

**(b) *Convertible Note***

Pursuant to the Amended Agreement, the consideration for the Revised Transaction is to be satisfied by CPL issuing the Convertible Note with an aggregate principal amount of HK\$408 million to the Noteholder (a subsidiary of SCI).

The principal terms of the Convertible Note are stated in the Letter from the Board. In particular, the Convertible Note will be for a term of five years, bearing no interest and will not be listed. The Noteholder has the option to request CPL to redeem the Convertible Note after the third anniversary of the date of its issue till the maturity date of the Convertible Note. As stated in the Letter from the Board, the Company has no current intention to exercise the conversion rights in respect to the Convertible Note.

Assuming full conversion of the Convertible Note at the conversion price of HK\$0.075 per CPL Share (the "Conversion Price"), a total of 5,440,000,000 CPL Shares will be issued, representing approximately 10.74 times of the existing issued share capital of CPL as at the Latest Practicable Date and approximately 91.48% of the enlarged issued share capital of CPL.

**(1) *Conversion Price***

As advised by the Directors and the SCI Directors, the Conversion Price was determined after arm's length negotiations between the parties taking into account the five-year term of the Convertible Note, the potential dilution effect on the shareholding structure of CPL and closing prices of CPL Shares on the dates of the Agreement and the Amended Agreement respectively.

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## LETTER FROM CSC ASIA

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The conversion price of HK\$0.075 per CPL Share represents:

- (a) a premium of 50% over the closing price of HK\$0.0500 per CPL Share as quoted on the Stock Exchange on 19 October 2006 (being the last trading day prior to the suspension of trading in the CPL Shares on 20 October 2006 pending the release of the joint announcement dated 23 October 2006 relating to the Transaction);
- (b) a premium of approximately 7.14% over the closing price of HK\$0.0700 per CPL Share as quoted on the Stock Exchange on 8 January 2007 (being the last trading day prior to the suspension of trading in the CPL Shares on 9 January 2007 pending the release of the Announcement relating to the Revised Transaction) (the “Last Trading Day”);
- (c) a discount of approximately 0.27% to the average closing prices of the CPL Shares of HK\$0.0752 per CPL Share as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day;
- (d) a discount of approximately 30.30% to the average closing prices of the CPL Shares of HK\$0.1076 per CPL Share as quoted on the Stock Exchange for the ten trading days up to and including the Last Trading Day;
- (e) a discount of approximately 54.19% to the average closing prices of the CPL Shares of HK\$0.1637 per CPL Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (f) a discount of approximately 54.55% to the closing price of HK\$0.165 per CPL Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (g) a premium of approximately 58.52 times over the unaudited NAV per CPL Share of approximately HK\$0.00126 as at 30 June 2006.

# LETTER FROM CSC ASIA

## Analysis

### (i) Review on share prices of CPL

In our analysis, we consider it to be reasonable to make reference to the prevailing market price of CPL by referencing to the share price performance in a longer period, being the 12-month period commencing 11 January 2006 (being one year preceding the date of the Announcement) and up to and including the Latest Practicable Date (the “Review Period”) to demonstrate the trend of the market value of the CPL Shares.

The highest and lowest closing prices and the average daily closing price of the CPL Shares as quoted on the Stock Exchange in each month during the Review Period are shown as follows:

Month	Highest closing price (HK\$)	Lowest closing price (HK\$)	Average daily closing price (HK\$)	Discount of the Conversion Price to the average daily closing price (%)
<b>2006</b>				
January (from and including 11 January 2006)	0.200	0.195	0.198	62.12
February	0.195	0.190	0.195	61.54
March	0.190	0.150	0.184	59.24
April	0.160	0.145	0.152	50.66
May	0.150	0.120	0.135	44.44
June	0.120	0.120	0.120	37.50
July	0.120	0.120	0.120	37.50
August	0.120	0.120	0.120	37.50
September	0.120	0.043	0.111	32.43
October ( <i>Note 1</i> )	0.320	0.050	0.120	37.50
November	0.265	0.190	0.219	65.75
December	0.200	0.100	0.179	58.10
<b>2007</b>				
January ( <i>Note 2</i> )	0.220	0.070	0.142	47.18
February (up to and including the Latest Practicable Date)	0.165	0.150	0.155	51.61
Review Period	0.320	0.043	0.152	50.66

Source: [www.hkex.com.hk](http://www.hkex.com.hk)

#### Notes:

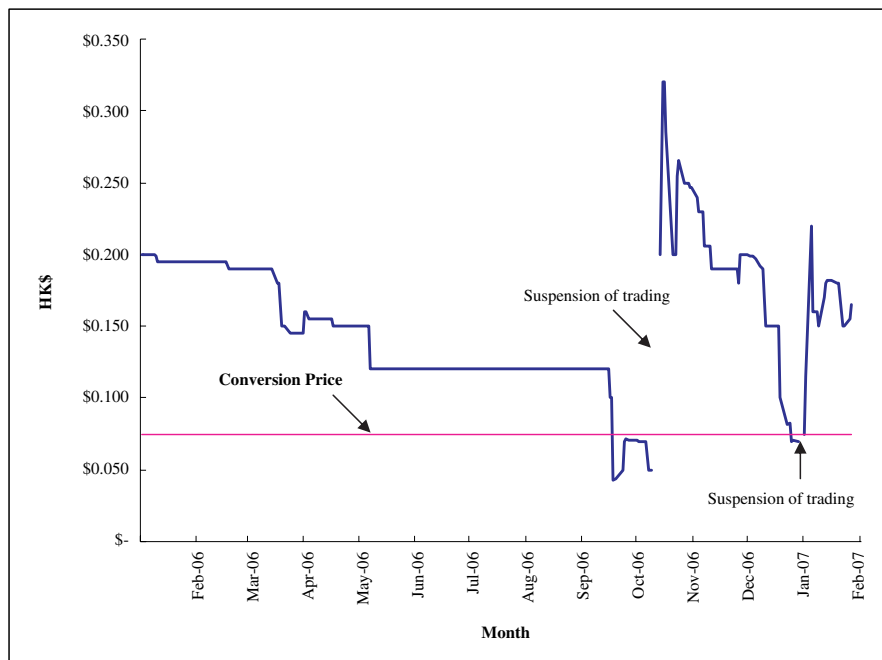
- Trading in the CPL Shares was suspended from 20 October 2006 to 23 October 2006.
- Trading in the CPL Shares was suspended on both dates being 9 January 2007 and 10 January 2007.



## LETTER FROM CSC ASIA

Set out below is the graph showing the historical closing prices of the CPL Shares as quoted on the Stock Exchange versus the Conversion Price during the Review Period.

**Chart: Closing prices of the CPL Shares and the Conversion Price during the Review Period**



Source: [www.hkex.com.hk](http://www.hkex.com.hk)

As set out in the chart above, closing prices of the CPL Shares were above the Conversion Price on most of the trading days during the Review Period. Moreover, we note that the daily closing price of the CPL Shares was above the Conversion Price in 244 trading days out of a total of 263 trading days during the Review Period and in the range of HK\$0.043 to HK\$0.320 per CPL Share.

Immediately following the publication of the Announcement and up to and including the Latest Practicable Date, the daily closing price of CPL Shares, save and except for 11 January 2007 which closed at HK\$0.075, was above the Conversion Price at all of the trading days.

During the Review Period, the highest and lowest closing prices per CPL Share were HK\$0.32 (recorded on 25 October 2006) and HK\$0.043 (recorded on 28 September 2006), respectively. The Conversion Price of HK\$0.075 per CPL Share represents a discount of approximately 76.56% to such highest closing price and a premium of approximately 74.42% over such lowest closing price.

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## LETTER FROM CSC ASIA

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(ii) *Comparison with market comparables*

Given that the Conversion Price was determined after arm's length negotiation taking into account, among other things, the five-year tenor of the Convertible Note and the Noteholder is entitled to request CPL to redeem the Convertible Note after the third anniversary of the date of its issue till the maturity date of the Convertible Note, we have reviewed transactions announced during the period from 1 January 2006 to the Latest Practicable Date by companies listed in Hong Kong involving the issue of unlisted three to five-year term convertible notes/bonds with fixed initial conversion price and fixed interest rate to the relevant vendors to satisfy all or part of the consideration for acquisition (the "Comparable Notes").

In this connection, we have identified, on a best effort basis, a total of 18 Comparable Notes during the period under review. The following table sets out the key terms of the Comparable Notes.

**Table: Terms of the Comparable Notes**

Date of announcement	Issuer (stock code)	Principal amount (HK\$ million)	Life (years)	Coupon	Premium/ (discount) of conversion price over/(to) closing price of the last trading day immediately prior to the date of the respective announcement/ suspension of trading
20 January 2006	Good Fellow Group Limited (now known as China Grand Forestry Resources Group Limited) (910)	210.4	4	1.5%	(21.6)%
7 February 2006	Cheung Tai Hong Holdings Limited (now known as Macau Prime Properties Holdings Limited) (199)	60.0	4.5	0%	12.8%

## LETTER FROM CSC ASIA

Date of announcement	Issuer (stock code)	Principal amount (HK\$ million)	Life (years)	Coupon	Premium/ (discount) of conversion price over/(to) closing price of the last trading day immediately prior to the date of the respective announcement/ suspension of trading
28 February 2006	Honesty Treasure International Holdings Limited (600)	93.8	5	2.5%	(15.9)%
7 April 2006	Hon Po Group (Lobster King) Limited (now known as China Energy Development Holdings Limited) (228) (“Hon Po”) (Note 1)	5,000.0	5	0%	320.2%
7 April 2006	Hon Po (228) (Note 1)	3,955.0	5	0%	572.3%
26 April 2006	Uni-Bio Science Group Limited (690)	114.0	3	0%	(50.0)%
28 April 2006	CCT Telecom Holdings Limited (138)	30.0	3	0%	(2.6)%
28 April 2006	China HealthCare Holdings Limited (673)	18.4	4	2%	(31.8)%
12 May 2006	PYI Corporation Limited (498)	116.5	3	0%	30.8%
7 June 2006	Daido Group Limited (544)	104.4	5	0%	(3.3)%
4 July 2006	Everbest Century Holdings Limited (578)	20.0	3	1%	27.3%

# LETTER FROM CSC ASIA

Date of announcement	Issuer (stock code)	Principal amount (HK\$ million)	Life (years)	Coupon	Premium/ (discount) of conversion price over/(to) closing price of the last trading day immediately prior to the date of the respective announcement/ suspension of trading
13 July 2006	Yanion International Holdings Limited (82)	66.3	3	0%	(30.0)%
22 August 2006	Wing Shan International Limited (570)	282.4	3.5	3%	6.3%
19 October 2006	139 Holdings Limited (139)	110.0	4	0%	54.9%
9 November 2006	Aptus Holdings Limited (8212)	234.0	5	0% (from date of issue to 1.5 years) and 5% (after 1.5 years)	20.0%
19 December 2006	Asia Standard Hotel Group Limited (292)	300.0	4	0%	10.5%
21 December 2006	Far East Consortium International Limited (35)	331.4	5	0%	15.0%
9 January 2007	China Primary Resources Holdings Limited (formerly known as China Advance Holdings Limited) (8117)	230.0	5	0%	(4.2)%
			<b>Maximum</b> (Notes 2 and 3)	<b>5.0%</b>	<b>54.9%</b>
			<b>Minimum</b> (Note 3)	<b>0%</b>	<b>(50.0)%</b>
			<b>Mean</b> (Note 3)		<b>1.1%</b>
			<b>Median</b> (Note 3)		<b>1.8%</b>
11 January 2007	CPL (8155) (Note 4)	408.0	5	0%	7.1%

Source: [www.hkex.com.hk](http://www.hkex.com.hk)

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## LETTER FROM CSC ASIA

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*Note:*

1. We consider Hon Po as an outlier as trading of its shares has been suspended since 29 August 2005 in respect to the above mentioned convertible bonds issue.
2. Reference also made to Aptus Holdings Limited's annual interest of 0% from date of issue of its convertible bonds to 1.5 years and 5% after 1.5 years.
3. We have not included Hon Po in the representations of the maximum, minimum, mean and median as we consider Hon Po as an outlier.
4. Being the Convertible Note issued by CPL to the Noteholder pursuant to the Amended Agreement.

As shown in the above table, the conversion prices of the Comparable Notes to their respective share prices as at the last trading day immediately preceding the relevant announcement dates ranged from a discount of approximately 50.0% to a premium of approximately 54.9% (the "CN Trading Price Range") with mean premium of approximately 1.1% and median premium of approximately 1.8%.

The Conversion Price, being a premium of approximately 7.1% to the closing price of HK\$0.070 per CPL Share as quoted on the Stock Exchange on the Last Trading Day is within the CN Trading Price Range and above both the mean and median of the CN Trading Price Range.

In light of the above and having taken into account of (i) the Conversion Price represents a discount to the closing prices of CPL Shares at most time during the Review Period; and (ii) the premium of the Conversion Price to the closing price immediately prior to date of the Amended Agreement is above the mean and median of the CN Trading Price Range but falls within the CN Trading Price Range, we are of the view that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

### *(2) Interest rate*

The Comparable Notes carry an annual interest rates ranging from zero to 5% interest. We note that 12 out of the 18 Comparable Notes carry interest rate of zero per annum excluding Aptus Holdings Limited as its convertible bonds will carry an annual interest rate of 5% beginning from its first year and seventh month anniversary. Having regard (i) the reasons for entering into of the Revised Transaction as discussed in the above section headed "Background of and reasons for the Revised Transaction" in particularly, (a) the Revised Transaction enables the Group to delineate active participation of the Group in property development; (b) providing the Company via SCI with greater flexibility to adopt a wait-and-see approach in investing in a listed vehicle; (c) in case the capital appreciation in value of the Property is extremely large, the SCI Group will have a flexibility to procure the Noteholder to convert the Convertible Note at a relatively low cost; and (d) the Revised Transaction will provide an additional fund raising platform to finance the development of

the Project in the future through CPL; (ii) more than 50% of the Comparable Notes carry interest rate of zero per annum and that it is not uncommon for listed companies to issue zero coupon convertible notes/bonds; and (iii) other principal terms to the Convertible Note such as the Conversion Price, maturity and transferability, we consider that zero interest rate is justifiable.

(3) *Maturity*

In view of the tenor of the Convertible Note to be five years and with an option to require CPL to redeem after the third anniversary of the date of its issue till the maturity date of the Convertible Note, we consider that the tenor of the Convertible Note is the time allowance for SCI to consider whether it would exercise the conversion rights attached to the Convertible Note.

(4) *Transferability*

We note that the Convertible Note may be freely assigned or transferred to any third party. We consider that the free transferability provides flexibility to SCI to exit in the event that SCI chooses to liquidate part of its investment in the Project earlier, and such feature, is in the interests of SCI and the SCI Shareholders as a whole.

Having considered the above analysis, we are of the view that the terms of the Convertible Note are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

In summary, the Convertible Note will provide the Company via SCI with greater flexibility to adopt a wait-and-see approach in investing in a listed vehicle and in case the capital appreciation in value of the Property is extremely large, to procure the Noteholder to convert the Convertible Note at a relatively low cost. The Company via SCI can also obtain a controlling stake in CPL through the exercise of the conversion rights attaching to the Convertible Note at a time when the SCI Directors consider appropriate. In the event that SCI is not satisfied with the performance of the business of CPL, SCI can simply exit by transferring the Convertible Note to third parties (other than connected person of CPL) or demand full repayment from CPL upon maturity. Accordingly, we consider the Consideration to be satisfied in the form of the Convertible Note provides SCI with an option with flexibility to acquire a controlling stake in CPL at the time the SCI Directors consider it is in the interest of SCI as a whole and therefore it is commercially justifiable for the Company via SCI to receive the Consideration in the form of the Convertible Note.

*(c) The Continuing Guarantee*

Pursuant to the Amended Agreement, SCI has undertaken with CPL to continue to guarantee in favour of the Bank without charging any guarantee fee to secure the due and punctual performance of the obligations of Ever Talent in respect of the Loan under the Loan Agreement provided that each of the Loan Agreement and such guarantee has not been terminated on or prior to Completion.

Pursuant to the Loan Agreement, the proceeds of the Loan should be used exclusively for financing Ever Talent's equity capital contribution to Liaoning Dafa. As confirmed by the SCI Directors and the Directors, the Loan has been fully drawn and has been utilised by Ever Talent in the equity capital contribution to Liaoning Dafa.

Pursuant to the terms of the Amended Agreement, SCI will not charge any guarantee fee for the Continuing Guarantee. Taking into account that (i) the Revised Transaction enables the Group to delineate active participation of the Group in property development; (ii) the purpose of continuing granting the Loan Guarantee is to secure the due and punctual performance of the obligations of Ever Talent and any member of the Disposed Group under the Loan; (iii) as confirmed by the SCI Directors and the Directors, the Loan Facility has been fully utilised for equity capital contribution by Ever Talent to Liaoning Dafa; and (iv) SCI will retain 49% equity interest in Praise Rich, we consider that it is reasonable and on normal commercial terms for SCI by not charging any guarantee fee.

According to the Interim Report, the unaudited consolidated NAV (including minority interests) and unaudited consolidated net tangible assets ("NTAV") (including minority interests) of the SCI Group was approximately HK\$1,262.1 million and HK\$1,240.7 million as at 30 June 2006 respectively. In the event the entire amount of the Continuing Guarantee is called upon, SCI will bear the full liability of the Loan of HK\$80 million (before including any interest expenses or associated costs incurred by the Bank in enforcing the Continuing Guarantee), which represents approximately 6.34% and 6.45% of the SCI Group's unaudited consolidated NAV (including minority interests) and NTAV (including minority interests) as at 30 June 2006 respectively.

Although any default by Ever Talent on the Loan will have negative impact on the financial position of the SCI Group, having considered that (i) the Loan has been fully utilised for Liaoning Dafa's equity capital contribution by Ever Talent as per the Loan Agreement's stated purpose; (ii) the provision of the Loan Guarantee does not involve any cash outflow of SCI unless the Loan Guarantee is enforced by the bank; (iii) based on CPL's net current asset position as at 30 June 2006, CPL may not be able to fully provide pro rata guarantee to Ever Talent in the event the Loan shall be called upon; (iv) the Continuing Guarantee by SCI is regarded by the Bank as an essential condition to the Loan; and (v) to ensure the continuing of the Loan and sufficiency of funding for the operation of Praise Rich, we are of the view that the Continuing Guarantee is in the interests of the Company and the Independent Shareholders as a whole.

In light of the above, we consider that the terms of the Revised Transaction (including the provision of the Continuing Guarantee) are on normal commercial terms.

### **(III) Financial effects of the Revised Transaction**

The Company is the holding company of SCI holding approximately 74.79% of the issued share capital of SCI.

#### *(a) Earnings*

As stated in the Letter from the Board, it is expected that the Revised Transaction will realize a gain on disposal of approximately HK\$376 million to SCI under the assumption that the value of the Convertible Note (which is subject to early redemption after three years) is not discounted to its net present value (the “Nominal Gain”). On the basis that the value of the Convertible Note (which is subject to early redemption after three years) is discounted to its net present value based on an estimated discount rate of 4.69% (by reference to the yield of three-year U.S. government securities as published by the U.S. Federal Reserve), as a result of the Revised Transaction, the gain expected to accrue to SCI is estimated to be approximately HK\$323 million (the “Discounted Gain”). The above assumptions are included to demonstrate the sensitivity of the gain on disposal with different yield rates.

As a result of the Revised Transaction, the effect on the Group’s earnings attributable to shareholders of the Company will be equivalent to Company’s approximately 74.79% attributable interest in SCI. Accordingly, such earnings will be increased by approximately HK\$281 million under the assumption that the value of the Convertible Bond (which is subject to early redemption after three years) is not discounted to its net present value and approximately HK\$242 million under the assumption that the value of the Convertible Bond (which is subject to early redemption after three years) is discounted to its net present value based on an estimated discount rate of 4.69%, as a result of the Revised Transaction.

If the Convertible Note would be fully converted upon Completion, CPL will effectively become an approximately 91.48% and 68.42% subsidiary of SCI and the Company respectively. All gains or losses will be eliminated in full in the consolidated financial accounts of SCI and the Company.

Although the above calculated estimated gains are subject to be reviewed by the Company’s auditors, we consider that such enhancement to the Group’s results assuming no conversion of the Convertible Note upon Completion would be in the interests of the Company and the Shareholders as a whole.



*(b) Net asset value*

The Group recorded an unaudited NAV (excluding minority interests) of approximately HK\$1,072.4 million as at 30 June 2006.

Although Praise Rich will cease to be a subsidiary of the Company upon Completion, the Group's NAV will be increased by the Company's approximately 74.79% attributable interest in the Nominal Gain (amounted to approximately HK\$265 million) under the assumption that the value of the Convertible Note (which is subject to early redemption after three years) is not discounted to its net present value and by the Company's 74.79% effective interest in the Discounted Gain (amounted to approximately HK\$226 million) on the basis that the value of the Convertible Note (which is subject to early redemption after three years) is discounted to its net present value based on an estimated discount rate of 4.69%. The Company's approximately 74.79% attributable interest in the Nominal Gain and the Discounted Gain represent increase of approximately 24.71% and 21.07% respectively as compared with the Group's unaudited NAV as at 30 June 2006.

*(c) Gearing*

The Group had net debt (being bank borrowings, advances from minority shareholders of subsidiaries, advances from shareholders and less cash and bank balances) as at 30 June 2006 of approximately HK\$571.9 million. The gearing ratio of the Group, which is equal to net debt divided by total equity, as at 30 June 2006 would amount to approximately 53.33%. Upon Completion, the gearing ratio of the Group will be reduced as a result of the expected increase of the Group's NAV by the estimated gain mentioned in the above paragraphs.

### OVERALL

Based on the above, we consider that the Revised Transaction will have positive financial impacts on the Group and are in the interests of the Shareholders and the Company as a whole.

### **(B) THE GUARANTEE**

#### **(I) Background to and reasons for the undertaking of the provision of the Guarantee by SCI**

Pursuant to the Guarantee Agreement, SCI has undertaken with CPL to provide the Guarantee in favour of an Independent Third Party without charging any guarantee fee for a period of not exceeding three years from Completion for securing the due and punctual performance of the full obligations of any member of the Disposed Group under the Proposed Facility up to HK\$500 million.

As stated in the Letter from the Board, in view of the financial position of CPL and to ensure the timely development of the Project, SCI agreed to provide the Guarantee to secure the due and punctual performance of the full obligations of any member of the Disposed Group under the Proposed Facility.

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## LETTER FROM CSC ASIA

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As mentioned in the Letter from the Board and discussed above, the Disposed Group is indirectly interested in 80% of Liaoning Dafa whose sole asset is the Property. As advised by the Directors and the SCI Directors, if the Proposed Facility is not available to the Disposed Group, the Disposed Group's development plans on the Project which is expected to be completed in 2008 will be barred and the business operation of the Disposed Group may be adversely affected, which may have an adverse impact on the Group and the SCI Group.

Based on the audited financial statement of Praise Rich, the audited consolidated net liabilities attributable to equity holders of Praise Rich as at 31 December 2006 amounted to approximately HK\$3.0 million. Praise Rich's bank balances and cash were approximately HK\$5.3 million as at 31 December 2006. Given Praise Rich's net liabilities position, the obtaining of the Proposed Facility is necessary for the Disposed Group to finance the development costs of the Project.

The Directors and the SCI Directors have advised that the estimated development costs is approximately RMB470 million (equivalent to approximately HK\$470 million) which is approximately in line with the aggregate amount of the Proposed Facility of up to an aggregate principal HK\$500 million. As such, based on the Property's estimated construction costs as advised by the Directors and the SCI Directors, we consider that the Proposed Facility of up to an aggregate principal of HK\$500 million is not excessive.

Upon Completion, Praise Rich will cease to be a subsidiary of both the Company and SCI and will be accounted as an associated company of the Company and SCI whilst Praise Rich will be a subsidiary of CPL, SCI and the Company may still benefit from future potential capital appreciation in the value of the Project. If the Convertible Note is fully converted, SCI will beneficially hold approximately 91.48% interest of CPL and the Company will beneficially hold approximately 68.42% indirect interest of CPL through SCI, hence, CPL and the Disposed Group will become indirect subsidiaries of both the Company and SCI.

Pursuant to the terms of the Guarantee Agreement, SCI will not charge any guarantee fee under the Guarantee. Taking into account that (i) the Revised Transaction enables the Group to delineate active participation of the Group in property development; (ii) the purpose of the provision of the Guarantee is to secure the due and punctual performance of the obligations of any member of the Disposed Group under the Loan Facility; (iii) the Proposed Facility will be used to finance the development costs of the Project; and (iv) SCI will retain 49% equity interest in Praise Rich, we consider that it is reasonable and on normal commercial terms for SCI by not charging any guarantee fee.

Given the fact that availability of the Proposed Facility is essential for the Disposed Group to finance the development costs of the Project, we are of the view that the undertaking of the provision of the Guarantee by SCI is in the interests of the Company and the Independent Shareholders as a whole.

**(II) Alternatives to the Proposed Facility**

As advised by the management of SCI and the Company, and the Directors and the SCI Directors, it is difficult for the Disposed Group to independently obtain facility or funding without the support from its shareholders. It is noted that SCI is still a controlling shareholder of the Disposed Group before Completion.

Given that SCI will retain 49% equity interest in the Disposed Group upon Completion, the Directors and the SCI Directors consider that the provision of the Guarantee in favour of an Independent Third Party to secure the Proposed Facility to the Disposed Group for the purpose of financing the development of the Project is more practical and in the better interests of SCI to secure its benefit from future potential capital appreciation in the value of the Project and the provision of the Guarantee instead of advances from SCI as a shareholder of the Disposed Group would not involve an immediate cash outflow for SCI and would be more desirable. Accordingly, the Proposed Facility was the best alternative for the Disposed Group to raise funds for financing the Project's development costs.

**(III) Financial position of CPL**

Upon Completion and according to the Company's current intention of not exercising the conversion rights in respect of the Convertible Note, CPL will be the Disposed Group's indirect controlling shareholder while SCI will become a substantial shareholder of the Disposed Group.

Set out below is the summary of the financial information of CPL extracted from its annual report for the year ended 31 December 2005, interim report for the six months ended 30 June 2006 and the third quarterly report for the nine months ended 30 September 2006:

	<b>Nine months ended 30 September 2006 Unaudited HK\$ million</b>	<b>Six months ended 30 June 2006 Unaudited HK\$ million</b>	<b>Year ended 31 December</b>	
			<b>2005 Audited HK\$ million</b>	<b>2004 Audited HK\$ million</b>
Turnover	17.09	12.31	25.14	15.71
Net loss attributable to shareholders	(0.73)	(0.20)	(1.95)	(3.56)
<b>As at</b>	<b>30 June 2006 Unaudited HK\$ million</b>	<b>31 December 2005 Audited HK\$ million</b>		
Bank borrowings	—	—		
Bank balances and cash	0.56	1.33		
NAV	0.64	0.84		

According to the Letter from the Board, CPL will also provide guarantee if required by the Independent Third Part(ies) under the Proposed Facility even though CPL is not obliged to do so under the Amended Agreement. However, as illustrated above, CPL's net potential exposure is in excessive for CPL's financial position as at 30 June 2006. Given the unattractive financial position of the CPL Group, it does not seem feasible for CPL to provide financial assistance to the Disposed Group at this stage. In the event that the Guarantee should be called upon, based on CPL's financial position as at 30 June 2006, SCI would be required to take up nearly 100% of the total amount.

#### **(IV) Financial effects to the Group**

With the Company being the holding company of SCI, accordingly, the following financial effects of the Guarantee on SCI or the SCI Group will also have an impact to the Group.

As opposed to an outright cash payment as in the case of advances, the provision of the Guarantee will not have any direct impact on the profitability, liabilities or gearing of the SCI Group but will involve a contingent obligation to SCI (if any default by the Disposed Group of the Proposed Facility) for the funding of the development of the Project.

In the event the Disposed Group fails to meet its obligation to repay the Proposed Facility together with the interest thereof, SCI shall, by virtue of the provision of the Guarantee, assume such obligation under the Proposed Facility. On such basis, we envisage that a contingent liability of HK\$500 million (plus any interest expenses or associated costs) shall be incurred by SCI if any default by the Disposed Group of the Proposed Facility.

According to the Interim Report, the unaudited consolidated NAV (including minority interests) and unaudited consolidated NTAV (including minority interests) of the SCI Group was approximately HK\$1,262.1 million and HK\$1,240.7 million as at 30 June 2006 respectively. In the event the entire amount of the Guarantee is called upon, SCI will bear the full liability of the Proposed Facility up to HK\$500 million (before including any interest expenses or associated costs incurred by the proposed Independent Third Party banks in enforcing the Guarantee), which represents approximately 39.62% and 40.30% of the SCI Group's unaudited consolidated NAV (including minority interests) and unaudited consolidated NTAV (including minority interests) as at 30 June 2006 respectively.

In view of the analysis above, the Shareholders should note that any default by the Disposed Group on the Proposed Facility would have negative impact on the financial position of the SCI Group if the Guarantee was provided. Notwithstanding such potential impact, taking into account that (i) the Proposed Facility is necessary for the Disposed Group to fund and to ensure the timely development of the Project; (ii) SCI will retain 49% equity interest over the Disposed Group and will be able to monitor the management and operation of the Project and the use of the loan proceeds; (iii) providing corporate guarantee is a condition for obtaining the Proposed Facility; (iv) the Project is of great importance to the potential revenue of the Disposed Group and in essence to the SCI Group as SCI will retain 49% equity interest over the Disposed Group; and (v) the provision of the Guarantee does not involve any cash

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## LETTER FROM CSC ASIA

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outflow of SCI unless the Guarantee is enforced by the Independent Third Party, we therefore consider that the benefits from the proposed provision of financial assistance by SCI to the Disposed Group by way of provision of the Guarantee is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### RECOMMENDATION

Having considered the above principal factors and reasons in respect to the Revised Transaction (including the provision of the Continuing Guarantee) and the undertaking of the provision of the Guarantee by SCI, in particular,

- the Revised Transaction (i) enables SCI to manifest a clear delineation in the SCI Group's core business from property development in the PRC and concentrate on its core manufacturing business, (ii) enables the Group to delineate active participation of the Group in property development which is in line with the business strategy of the Company; and (iii) provides an additional fund raising platform to finance the development of the Project in the future through CPL;
- the consideration for the Revised Sale Debt is an amount equal to the face value of the Revised Sale Debt which is on a dollar-for-dollar basis;
- the Revised Sale Shares Consideration represents premium over the Valuation attributable to Praise Rich and 51% equity interest of the Fair Value respectively;
- SCI to receive the Consideration in the form of the Convertible Note being justifiable given that (i) it provides the Company via SCI an option with flexibility to acquire a controlling stake in CPL; (ii) the Conversion Price in general represents a discount to the closing prices of CPL Shares at most time during the Review Period; and (iii) the premium of the Conversion Price to CPL's closing price prior to the date of the Amended Agreement is above the mean and median of the CN Trading Price Range but is within the CN Trading Price Range;
- the Group will realize a gain arising from the Revised Transaction assuming no conversion of the Convertible Note;
- although the Convertible Note carries zero interest rate, (i) it is not uncommon for listed companies to issue zero coupon convertible notes/bonds the Convertible Note; (ii) the Convertible Note will provide SCI with greater flexibility to adopt a wait-and-see approach in investing in a listed vehicle; and (iii) in case the capital appreciation in value of the Property is extremely large, to procure the Noteholder to convert the Convertible Note at a relatively low cost;

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## LETTER FROM CSC ASIA

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- although SCI will not charge any guarantee fee for the Continuing Guarantee and that any default by Ever Talent on the Loan will have negative impact on the financial position of the SCI Group, (i) the purpose of the Continuing Guarantee is to secure the due and punctual performance of the obligations of Ever Talent; (ii) the Loan has been fully utilised for equity capital contribution by Ever Talent to Liaoning Dafa; (iii) SCI will retain 49% equity interest in Praise Rich; (iv) the Continuing Guarantee by SCI is regarded by the Bank as an essential condition to the Loan; and (v) to ensure the continuing of Loan and sufficiency of funding for the operation of Praise Rich; and
- although SCI will not charge any guarantee fee for the Guarantee and that any default by Disposed Group on the Proposed Facility will have negative impact on the financial position of the SCI Group, (i) the purpose of the Guarantee is to secure the due and punctual performance of the obligations of any member of the Disposed Group under the Loan Facility; (ii) the Loan Facility will be used to finance the development cost of the Project; (iii) SCI will retain 49% equity interest in Praise Rich; and (iv) the fact that the provision of the Guarantee solely by SCI represents virtually the only feasible means to obtain the Proposed Facility;

we are of the view that the terms of the Revised Transaction (including the provision of the Continuing Guarantee) and the undertaking of the provision of the Guarantee by SCI are fair and reasonable and on normal commercial terms and the entering into of the Amended Agreement is in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole. Accordingly, we would advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions to approve the Revised Transaction (including the provision of the Continuing Guarantee) and the undertaking of the provision of the Guarantee by SCI at the EGM.

Yours faithfully,  
For and on behalf of  
**CSC Asia Limited**

**Andrew Chiu**  
*Managing Director*

**Patra Lee**  
*Director*

**1. INDEBTEDNESS**

As at the close of business on 31 December 2006, the Group had unsecured and secured bank borrowings of HK\$133 million and HK\$635 million respectively including unsecured and secured bank overdrafts of approximately HK\$62 million and HK\$45 million. The bank borrowings were secured by mortgage and other charges of properties, plant and equipment, inventories, listed securities and bank deposits of the Group and certain listed securities of the clients in Hong Kong with aggregate net book value of HK\$937 million. All banking facilities were guaranteed either by the Company or its subsidiaries. As at 31 December 2006, the Group had hire purchase commitments of HK\$16 million and the advances from shareholders and minority shareholders of subsidiaries were amounted to HK\$22 million and HK\$25 million respectively. Save and except for the above, the Group did not have any other outstanding bank borrowings, mortgage, charge or any other borrowings, liabilities under acceptances or acceptance credits or hire purchase commitments.

The Group had provided guarantees to banks for banking facilities granted to Firm Wise Investment Limited (an associated company of SCI) of HK\$210.0 million and to an Independent Third Party for banking facilities utilised by an associate of HK\$13.5 million. Save and except for the above, the Group did not have any other material contingent liabilities.

As at the close of business on 31 December 2006, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, and term loans.

The Directors are not aware of any material adverse changes in the Group's indebtedness position and contingent liabilities since 31 December 2006.

**2. WORKING CAPITAL**

The Directors, after due and careful consideration, are of the opinion that, taking into account of the internal resources and banking facilities available to the Group, the Group will have sufficient working capital for at least twelve months from the date of this circular.

**3. MATERIAL ADVERSE CHANGE**

Up to the Latest Practicable Date, the Directors are not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 December 2005, being the date to which the latest audited consolidated financial statements of the Group were made up.

**4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP****Trading and Manufacturing**

During the second half of 2006, the Group saw stronger orders from clients for its trading and manufacturing operations. The performance of Wah Shing International Holdings Limited, a wholly-owned subsidiary of the Company, is expected to improve and the shoe manufacturing in Tianjin, the PRC, is expected to perform well in 2007.

With the disposal of shares of Nority International Group Limited in January 2007, the Group can concentrate its resources on the manufacturing business.

**Property Investment and Development**

The Group will benefit further from the rising local market demand for office space on renewal of leases of its commercial properties.

The property development project of a prime retail shopping complex in Shenyang, the PRC, with a gross retail rental floor areas of about 120,000 sq.m. is underway and the pre-construction work is expected to commence soon.

The Group intends to invest in property investment projects in prime locations in the PRC with high development potential and will have no active participation in property development projects in the PRC after Completion.

**Travel and Related Services**

Hong Kong Four Seas Tour Limited, a wholly-owned subsidiary of SCI, will continue to build upon the positive performance in 2006. Various additional revenue sources are being tapped, including new products and new services. The Group intends to expand into the PRC market.

**Securities and Financial Services**

The Group's securities broking business still faces intense competition from banks offering related services. Riding on its long established reputation in the local broking business and its well-developed online trading platform, "Sctrade System", the Group should be able to fortify its position among its competitors and continue to maintain steady growth. In fact, the Group is actively studying the feasibility of introducing more financial products onto its online trading platform. The Directors expect that it would be able to further improve the Group's services and use as an edge to attract more new clients.

The Group intends to channel more resources to redefine and strengthen the market position of its financial and securities business in the short run.

**Media and Publications**

After adjustments to its existing magazine portfolio and streamlining of costs across several magazine platforms, the Group's media business unit will be a leaner operation in 2007. Management will continue to closely monitor the performance of individual magazine in Hong Kong, while more efforts will be placed in the Group's PRC magazines which continue to gain ground in terms of advertising and circulation revenues.

**Information and Technology**

The information and technology operation will further expand in the provision of services and software development. It will not only provide steady and recurring revenue stream but also enhance the profit margin of the business unit. In the meantime, the Group is still investigating the possibility of a listing on London's Alternative Investment Market and other similar exchange although no concrete plan has been formulated in this respect.



Agriculture

Rising prices in agricultural produce are generally a good sign for the Group’s agricultural business units. The Directors are optimistic that such trend will benefit its freshwater produce harvests, but the Directors remain cautious for the Group’s fruit products to be harvested this year. Overall, the Group is still looking to expand acreage in Hebei, the PRC, as acquisition is still cheap, and is in the progress to consider other arable land area in northern provinces of the PRC in the near future. The Group is exploring the possibility of deploying its agricultural lands for other purposes in order to create more values and returns to the Shareholders.

*The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular and received from Jones Lang LaSalle, an independent professional property valuer, in connection with their valuation as at 30 November 2006 of the Property.*



Jones Lang LaSalle Limited  
Valuation Advisory Services  
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tel +852 2846 5000 fax +852 2968 0078  
Company Licence No.: C-003464

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牌照號碼C-003464

12 February 2007

The Directors  
South China Holdings Limited  
28/F, Bank of China Tower  
No. 1 Garden Road  
Central, Hong Kong

The Directors  
South China Industries Limited  
28/F, Bank of China Tower  
No. 1 Garden Road  
Central, Hong Kong

The Directors  
Capital Publications Limited  
Unit A, 3rd Floor  
Wah Shing Centre  
5 Fung Yip Street  
Chai Wan  
Hong Kong

Dear Sirs

**Re: Valuation for a Development Site Located at Zhaoyang Street, Shenhe District, Shenyang, Liaoning Province, the People Republic of China (“the Property”)**

**INSTRUCTIONS AND DATE OF VALUATION**

In accordance with your joint instructions for us to value the captioned leasehold property interest held by South China Holdings Limited (“SCHL”) and South China Industries Limited (“SCIL”) via its subsidiaries and/or associates, we confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we deem necessary to derive our opinion as to the market value of the development site identified as No. 2003-078 Da Zhong Li Di Kuai (as in the Confirmation on Completion of Auction Sales) located at Zhaoyang Street, Shenhe District of Shenyang, Liaoning Province in the People Republic of China, as at 30 November 2006 (“the date of valuation”).

The purpose of this valuation instruction is in relation to a very significant acquisition and connected transaction for Capital Publications Limited and a major disposal and connected transaction for SCHL and SCIL. Hereinafter, we referred these three parties to as the Instructing Parties.

**INTRODUCTION****Basis of Valuation and Assumptions**

Our valuation is made on the basis of the market value adopted by the Hong Kong Institute of Surveyors 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.”

In preparing the valuation, we have complied with the requirements as set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

According to the Instructing Parties’ PRC legal adviser, Jincheng & Tongda Law Firm (the legal adviser); the land use right certificate of the Property has not yet been obtained. However, the legal adviser is of the opinion that the land use right certificate of the Property can be obtained without any legal impediment upon full settlement of the compensation/resettlement costs and urban ancillary facility fees and through proper registration and application procedures. Nonetheless, due to the lack of proper legal title and insufficient title proofs as at the date of valuation, we have assigned no commercial value to the Property.

Despite the foregoing, the Instructing Parties instructed us to prepare an opinion of market value of the Property, assuming the property interest has good and enforceable title with free and uninterrupted right to use, occupy and assign the property interest for the whole of the unexpired term as granted. The value conclusion and assumptions made on this basis of valuation is set out in the notes of the valuation certificate.

The valuation has been made on the assumption that the owner sells the Property on the market without the benefit of deferred terms contracts, leasebacks, joint venture agreements or any similar arrangements which could serve to affect the value of the Property. No allowance has been made in the valuation for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation that 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 that could affect its value.

**Method of Valuation**

In valuing the Property which is a development site, we have assessed the property interest on the basis that it will be developed and completed in accordance with the latest development proposals provided to us. In the course of our valuation, we have adopted the direct comparison approach by making reference to comparable land sales transactions in the locality.

**Source of Information**

We have relied to a considerable extent on the information provided by the Instructing Parties and we have no reason to doubt the truth and accuracy of the information provided to us. The Instructing Parties also advised that no material facts have been omitted from the information supplied and we have no reason to suspect that material information has been withheld.

We were provided with copies of confirmation on completion of auction sales, site plan, land grant contract and the construction planning land use permit relating to the title of the Property. For title matters, we have relied on the opinion provided by the legal adviser.

We have accepted advice given to us on such matters as tenure, site area, easement, planning approvals, the proposed development scheme, floor areas, estimated construction cost and timing of the proposed development and all relevant matters supplied by the Instructing Parties. Dimensions, measurements and areas included in the valuation report are based on information contained in copies of documents provided to us and are therefore only approximations. No on site measurements have been taken to verify the correctness of the site area.

**Property Inspection**

We have inspected the Property and its surrounding areas in October 2006. We were not instructed to carry out any investigations on site in order to determine the suitability of ground conditions and services, nor did we undertake archaeological, ecological or environmental surveys. Our valuation is on the basis that these aspects are satisfactory and no extraordinary costs or delays will be incurred during the construction period due to these, or to archaeological or ecological matters. However, should it be established subsequently that contamination, subsidence or other defects exist at the Property or on any neighboring land, or that the Property has been or being put to any contaminative use, we reserve the right to adjust the value reported herein.

**Currency**

All currency stated herein this report is in Renminbi.

Our valuation certificate is attached hereto.

Yours faithfully

For and on behalf of

**Jones Lang LaSalle Limited**

**Rita Wong Sing Ming**

*Registered Professional Surveyor (GP)*

*BBus, MHKIS, AAPI*

*Regional Director*

*Ms Wong is a Registered Professional Surveyor and a Regional Director with the Valuation Advisory Services Department of Jones Lang LaSalle Limited. She has about 13 years of experience for valuation of properties in the PRC.*

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value as at 30 November 2006
<p>A development site located at the western side of Zhaoyang Street, Shenhe District, Shenyang, Liaoning Province, the PRC. (“the Property”)</p> <p>(Described as No. 2003-078 Da Zhong Li Di Kuai in the Confirmation on Completion of Auction Sales)</p>	<p>The Property comprises a roughly rectangular shaped site located at the western side of Zhaoyang Street, close to its junction with Zhong Jie, which is a pedestrianised street.</p> <p>According to the Confirmation on Completion of Auction Sales, the site area is approximately 7,621.9 m². <i>(See Notes 1 and 4(iii)).</i> The Property was designated for commercial use, with land use term of 40 years.</p> <p>Based on the information provided by the Instructing Parties, the Property is proposed for a retail development, currently known as Central Square (“the Proposed Development”) with planned gross floor area (GFA) of approximately 120,000 m². <i>(See Note 7).</i></p>	<p>As per our recent site inspection, the majority of the site area was vacant, whilst portion was occupied by some aged and dilapidated low-rise structures. Most of the units within the remaining on-site structures were vacant.</p> <p>As advised by the Instructing Parties, relocation and demolition works are currently in progress.</p>	<p>No commercial value</p> <p><i>(See Notes 5,7 &amp; 8)</i></p>

Notes:

1. According to the copy of the Confirmation on Completion of Auction Sales No. Shen Tu Jiao Zi [2003] 49 dated 24 November 2003 between Liaoning Dafa Real Estate Co., Ltd. (hereinafter referred as “Liaoning Dafa”) and Shenyang Municipal Land Reserve and Exchange Centre (hereinafter referred as the “Exchange Centre”), Liaoning Dafa was the successful bidder of the Property at a consideration of RMB34,664,401. The purchaser would be responsible for the compensation/resettlement costs of the green area estimated at RMB28,250,600 and any excess compensation/resettlement costs.

Salient development conditions as stipulated in the Confirmation on Completion of Auction Sales are as follows:

(i)	Site area:	7,621.9 m <sup>2</sup>
(ii)	Planned Use:	Commercial
(iii)	Permitted Plot Ratio:	Not to exceed 1 (excluding the areas of basement car park and ancillary facilities)
(iv)	Permitted Site Coverage:	Not to exceed 20%
(v)	Height Restrictions:	Not to exceed 18m
(vi)	Land Use Term:	40 years

A supplementary document (關於2003-078號大翠里地塊面積增加的補充說明) dated 1 November 2006 issued by the Exchange Centre confirmed an extension of the site area of the Property by 11,219.6 m<sup>2</sup>, bringing the total construction site area to 18,841.5 m<sup>2</sup>, subject to an additional consideration of RMB32,705,134. Subsequently, we were advised that a binding State-owned Land Use Right Grant Contract No. Shen Gui Guo Tu Chu He Zi [2006] 0172 has been signed on 31 December 2006. The total acquisition costs of the land payable by Liaoning Dafa under the Contract amounted to RMB67,369,535.20 and such total acquisition costs have been paid in full.

Salient development conditions as stipulated in the State-owned Land Use Right Grant Contract are as follows:

(i)	Site area:	18,841.5m <sup>2</sup>
(ii)	Permitted Use:	Commercial
(iii)	Permitted Plot Ratio:	Not to exceed 1
(iv)	Height Restrictions:	Not to exceed 18m
(v)	Land Use Term:	40 years
(vi)	Others:	The grantee should commence construction works within 6 months from the date of obtaining the construction works planning permit and complete the construction works within the time limit set by relevant government departments.

2. According to the information provided by the Instructing Parties, Liaoning Dafa is a Sino-foreign joint venture company incorporated in the PRC. Praise Rich Limited is an investment holding company holding all of the shares of Ever Talent Limited, which in turn is the 80% foreign investor of Liaoning Dafa. South China Industries Limited indirectly holds the entire issued share capital of Praise Rich Limited. As a summary, Liaoning Dafa, Ever Talent Limited and Praise Rich Limited are all subsidiaries of South China Industries Limited. South China Industries Limited is owned as to 74.79% by South China Holdings Limited.
3. The status of title and grant of major approvals and licenses in accordance with the information provided to us by the Instructing Parties and the aforesaid legal opinion are as follows:

(i)	Confirmation on Completion of Auction Sales and a Supplementary Document	Yes
(ii)	State-owned Land Use Right Grant Contract	Yes
(iii)	State-owned Land Use Right Certificate	No
(iv)	Construction Land Use Planning Permit	Yes
(v)	Site Plan	Yes
(vi)	Construction Works Planning Permit	No
(vii)	Construction Works Commencement Permit	No
(viii)	Business License for Liaoning Dafa Real Estate Co., Ltd.	Yes

4. We have been provided with the Instructing Parties’ PRC legal adviser’s opinion, which inter-alia, contains the following:
- (i) Liaoning Dafa has not obtained the land use right certificate of the Property.

(ii) Liaoning Dafa had settled the total acquisition costs as stipulated in the State-owned Land Use Right Grant Contract in full.

(iii) Based on Construction Land Use Planning Permit No. Shen Gui Tu Zheng Fu Zi 04 Nian 0064 dated 17 May 2004, Da Zhong Li Di Kuai comprises three portions of land including (a) planned construction area of 7,622 m², (b) green area of 13,830 m² and (c) road area of 1,782 m² with total site area of 23,234 m².
- According to the latest Construction Land Use Planning Permit No. Shen Gui Tu Zheng Zi 2006 Nian 0285 dated 20 December 2006, the areas for the three portions of land were revised to (a) planned construction area of 18,841.5 m², (b) green area of 3,140 m² and (c) road area of 3,960 m². The total site area as defined in this permit was revised to 25,941.5 m². The development parameters set out in this planning permit are as follows:
- Permitted Use:Commercial

Permitted Plot Ratio:Not to exceed 1

Permitted Site Coverage:Not to exceed 20%

Height Restriction:Not to exceed 18m
- Liaoning Dafa had only acquired the land use right of the land portion (a) through the Confirmation on Completion of Auction Sales. The land use right of the green area and road area are vested to the government.
- (iv) Liaoning Dafa is responsible for the demolition and resettlement and the urban ancillary facility fees in respect of the Property (collectively “the Outstanding Obligations”) pursuant to the State-owned Land Use Right Grant Contract. Liaoning Dafa has not fully complied with the Outstanding Obligations yet. The PRC lawyer has not been able to ascertain the exact amount payable by Liaoning Dafa for complying with the Outstanding Obligations.

(v) Subject to complying with the Outstanding Obligations, attending to land use right registration and obtaining the land use right certificate in respect of the land, there shall be no legal impediment in Liaoning Dafa obtaining the land use right to the land.
5. No commercial value has been assigned to the Property as the land use right certificate has not yet been obtained as at the date of valuation.
6. As per the information provided by the Instructing Parties, the total compensation/resettlement costs was estimated at around RMB140 million including all expected Outstanding Obligations.

7. As advised by the Instructing Parties, Liaoning Dafa is currently negotiating with the Shenyang Plan and Land Resources Bureau to increase the developable gross floor area.

According to the schematic development plans provided, the Proposed Development would comprise a 7-storey (including 3 basement levels and 4 above-ground levels) retail development with total gross floor area of approximately 120,000 m<sup>2</sup>. We were further advised that there would be an underground connection linking the future mass transit system to the basement levels 1 and 2 of the Proposed Development.

As at the date of valuation, the proposed developable area of the Proposed Development was not consistent with the development conditions as stipulated in the Confirmation on Completion of Auction Sales and the Construction Land Use Planning Permit. We were advised that modification of the relevant development conditions and payment of land premium (if any) would be required.

8. We have been instructed to assess the market value of the Property as a development site based on the following assumptions as at 30 November 2006:

- (i) the land use right certificate (including the extended site area) has been obtained;
- (ii) the Property and the Proposed Development are free of any encumbrances and could be freely assigned, mortgaged, let and transferred in the market;
- (iii) the land premium (including the extension of site area and modification of the development conditions) and all compensation/resettlement costs have been fully paid and settled;
- (iv) the Proposed Development would be built and complete on schedule and in accordance with the provided development schematic plans and estimated development costs;
- (v) the proposed retail centre with a gross floor area of approximately 120,000 m<sup>2</sup> would be approved by relevant government authorities;
- (vi) As per cost estimates provided by the Instruction Parties, the construction cost for the Proposed Development was estimated at approximately RMB470,000,000 (excluding any other associated development costs).

Based on the above assumptions, the market value of the unencumbered leasehold interest of the Property, as a site proposed for retail development with the benefit of vacant possession, was in the region of RMB650,000,000 as at 30 November 2006. The capital value of the Proposed Development, assuming it were completed as at 30 November 2006, was assessed in the region of RMB1,750,000,000. These values represent 100% interest of the Property and the Proposed Development respectively.



1. RESPONSIBILITY STATEMENT

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

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

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

(a) Long positions in ordinary shares of HK\$0.025 each of the Company:

Name of Director	Note	Number of Shares held, capacity and nature of interest		Total	Approximate percentage of the Company’s issued share capital
		Beneficial owner	Interest of controlled 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 Brokerage Company Limited (“SCB”) (Note b)

Name of Director	Note	Number of		Capacity and nature of interest	Approximate percentage of the associated corporation’s issued share capital
		ordinary shares held			
Mr. Ng	(c)	7,378,000	Beneficial owner		0.15%
		3,654,002,500	Interest of controlled corporations		73.01%
		3,661,380,500			73.16%
Mr. Gorges		12,174,000	Beneficial owner		0.24%

(ii) SCI (Note d)

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

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

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

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

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

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

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

*Notes:*

- (a) The 1,272,529,612 Shares held by Mr. Ng through controlled corporations referred to above 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 73.01% of the issued share capital of SCB.
- (c) The 3,654,002,500 shares of SCB 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 SCB 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 SCB.
- (g) Express News 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 Express News.

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

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

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, those persons, other than Directors or chief executive of the Company, who had an interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who 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:

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

Note:

- (a) Bannock is a wholly-owned subsidiary of Earntrade. The 487,949,760 Shares held by Earntrade include 237,303,360 Shares held by Bannock directly.

As at the Latest Practicable Date, Mr. Ng is a common director of the Company, Earntrade, Bannock, Parkfield and Fung Shing; while Mr. Gorges and Ms. Cheung are the common directors of the Company, Earntrade and Bannock.

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 the Company and its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

#### 5. DIRECTORS' INTERESTS IN ASSETS

Save as and except for Mr. Ng, Mr. Gorges and Ms. Cheung who have material interests in the Revised Transaction, 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 2005, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

#### 6. DIRECTORS' INTERESTS IN CONTRACTS

Save as and except for Mr. Ng, Mr. Gorges and Ms. Cheung who have material interests in the Revised Transaction, as at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting.

#### 7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ng, being the Chairman of the Company, is also the Chairman of Jessica Publications Limited ("Jessica") and CPL. Mr. Ng, personally and through Parkfield, Fung Shing and Ronastar, has interest in Jessica and CPL. 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 CPL. However, Ms. Cheung and Mr. Gorges are neither directors nor involved in the day-to-day management of Jessica and CPL. As both Jessica and CPL are principally engaged in the publication business, Mr. Ng is regarded as interested in such competing business of the Group. Mr. Ng Yuk Fung, Peter, an executive director and the Chief Executive Officer of Jessica and also an executive director of CPL, is regarded as interested in such competing business of the Group.

Each of the Company, Jessica and CPL has its own executive directors who are not common directors for each other and will supervise the operations of these three companies respectively. In addition, the Directors are of the view that the Company can carry on its business independently of and at arm's length from the business of CPL and Jessica as the Group's relevant publication business has its own target reader market and contents which are different from those of Jessica and CPL.

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

Save as disclosed above (including the information of Mr. Ng, Mr. Gorges, Ms. Cheung, 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.

## 8. RIGHT TO DEMAND A POLL

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

- (i) the Chairman of the meeting; or
- (ii) at least five members present in person or by proxy and entitled to vote or who represent in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (iii) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

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

## 9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary and usual course of business) have been entered into by the Company and/or any member of the Group within the two years immediately preceding the date of this circular, and are or may be material:

1. an agreement dated 10 July 2005 entered into between Ever Talent and Ms. Wen in respect of the acquisition by Ever Talent of 75% equity interest in Liaoning Dafa from Ms. Wen at a consideration of RMB7.5 million (and the supplemental agreements dated 14 July 2005, 29 August 2005, 12 September 2005 and 6 June 2006);
2. an agreement dated 2 March 2006 entered into among Harvest Rise Limited, a wholly-owned subsidiary of SCB, and two PRC individuals (being third parties independent of the Company and SCB and their respective connected persons (the "Two Vendors")). Pursuant to the aforesaid agreement, the Two Vendors agreed to transfer the entire issued share capital of a limited company to be incorporated in the British Virgin Islands ("Newco") to Harvest Rise Limited and Newco would have 51% equity interest in a company established under the laws of the PRC at a consideration of HK\$38,250,000 to be satisfied by the allotment and issue of 294,230,000 new shares of SCB to the Two Vendors at an issue price of HK\$0.13 per consideration share. Subsequently, a termination agreement dated 15 August 2006 was entered into among the aforesaid contracting parties to terminate the aforesaid agreement;



3. an agreement dated 24 March 2006 entered into among Mr. Guo King Nang, Ms. Kuo Huang Chin Kuan and Mr. Guo Jian Shen as vendors and Micon Limited, a wholly-owned subsidiary of the Company, as purchaser in relation to the sale and purchase of 24,972,500 shares of HK\$0.10 each in Nority International Group Limited (“Nority International”) at a consideration of HK\$11,737,075;
4. an assets transfer contract dated 13 May 2006 entered into between 南京機電產業(集團)有限公司(Nanjing Machinery & Electronics Industrial (Group) Co., Ltd.) and Calming Investments Limited, a wholly-owned subsidiary of the Company, for the acquisition of 87% of the transferred net assets at a consideration of RMB41,655,600;
5. the Agreement dated 20 October 2006 entered into among the Company, CPL and the Vendor pursuant to which the Vendor conditionally agreed to sell to CPL the Sale Share and to procure the sale to CPL of the Sale Debt at a consideration of HK\$800 million. This agreement was subsequently amended and restated by the Amended Agreement;
6. an agreement dated 6 November 2006 entered into among Micon Limited, SCI and Chinese Success Limited relating to the sale and purchase of 255,885,561 shares of Nority International beneficially owned by Micon Limited at an aggregate consideration of HK\$105,424,851.13 and a supplemental agreement dated 24 November 2006 entered into among the aforesaid contracting parties amending certain terms of the aforesaid agreement;
7. an agreement dated 6 November 2006 and entered into among Nority International, Micon Limited and SCI to dispose and assign by Nority International to Micon Limited the 120,000,000 shares of US\$0.10 each in the share capital of Nority (BVI) Limited and the sum of HK\$25,347,048 which is due and owned by Nority (BVI) Limited to Nority International at a consideration of HK\$75,555,000;
8. a subscription agreement dated 6 November 2006 entered into among Micon Limited (the subscriber), Nority International (the vendor) and Nority Limited (“Nority”) relating to the subscription of 35% of the voting class A shares in the capital of Nority at a consideration of HK\$3,520,000;
9. an agreement dated 21 December 2006 entered into among Jessica, South China Strategic Limited (“SCS”), a wholly-owned subsidiary of SCI and SCI, pursuant to which SCS had conditionally agreed to sell the projects relating the agricultural businesses in the PRC to Jessica at a consideration of HK\$140,000,000. The consideration will be satisfied by Jessica issuing a convertible note. Subsequently, a termination agreement dated 27 December 2006 was entered into among the aforesaid contracting parties to terminate the aforesaid agreement; and
10. the Amended Agreement dated 9 January 2007 entered into among CPL, the Vendor and SCI pursuant to which the Vendor conditionally agreed to sell to CPL the Revised Sale Shares and to procure the sale to CPL of the Revised Sale Debt at a consideration of HK\$408 million.

## 10. LITIGATION

So far as the Directors are aware, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claims which is, in the opinion of the Directors, of material importance and no litigation or claims which is, in the opinion of the Directors, of material importance is known to them to be pending or threatened against any of the Company and its subsidiaries.

**11. 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:

Jincheng & Tongda Law Firm      registered law firm in the PRC  
(Shenyang office)

CSC Asia                                  a licensed corporation to carry out type 6 (advising on  
corporate finance) regulated activity under the SFO

Jones Lang LaSalle                      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 legal opinion of Jincheng & Tongda Law Firm (Shenyang office) was prepared for the purpose of the property valuation report of Jones Lang LaSalle. The letter from CSC Asia and the property valuation report of Jones Lang LaSalle 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 2005, the date to which the latest published audited financial statements of the Group were made up.

**12. GENERAL**

- (a) The secretary of the Company and qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Ms. Cheung Siu Lan, who is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of the Australian Society of Certified Practising Accountants. She is also an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.
- (b) The registered office of the Company is situated at Offshore Incorporations (Cayman) Limited, Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands, and its principal place of business in Hong Kong is situated at 28th Floor, Bank of China Tower, 1 Garden Road Central, Hong Kong. The share registrars and transfer office of the Company is Union Registrars Limited at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.
- (c) The English text of this circular shall prevail over the Chinese text.

**13. 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 circulars of the Company issued since 31 December 2005;
- (b) the memorandum and articles of association of the Company;
- (c) the published audited consolidated accounts of the Group for each of the two financial years ended 31 December 2004, 31 December 2005 and the published unaudited interim consolidated accounts of the Group for the six months ended 30 June 2006 together with all notes, certificates or information required by the Companies Ordinance;
- (d) the letter from the Independent Board Committee, the text of which is set out in the section of this circular headed “Letter from the Independent Board Committee”;
- (e) the letter from CSC Asia, the text of which is set out in the section of this circular headed “Letter from CSC Asia”;
- (f) the property valuation report prepared by Jones Lang LaSalle, the text of which is set out in Appendix II to this circular;
- (g) the written consents from each of Jincheng & Tongda Law Firm (Shenyang office), CSC Asia and Jones Lang LaSalle referred to in the paragraph headed “Qualifications of Experts, Consents and Experts’ Interests” above; and
- (h) each of the material contracts referred in the paragraph headed “Material Contracts” above.



**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 Thursday, 8 March 2007 at 3:15 p.m. for the purpose of considering and, if thought fit, passing (with or without modification) the following resolutions:

**ORDINARY RESOLUTIONS**

- “1. To approve, confirm and ratify the sale by WTS International (BVI) Limited (“**WTS**”) of 51 shares of US\$1.00 each in the share capital of Praise Rich Limited (“**Praise Rich**”), representing 51% of the existing issued share capital of Praise Rich, an indirect wholly-owned subsidiary of South China Industries Limited (“**SCI**”) (which is in turn a subsidiary of the Company owned as to 74.79% by the Company), and WTS’ procurement of the sale of a sum representing 51% of the total outstanding interest-free debts owing from Ever Talent Limited (“**Ever Talent**”) to Able Management Limited, a wholly-owned subsidiary of SCI, as at completion of the sale and purchase to Capital Publications Limited (“**CPL**”) (the “**Transaction**”) pursuant to the amended and restated share purchase agreement dated 9 January 2007 (which has amended and restated in its entirety the share purchase agreement dated 20 October 2006 among CPL, WTS and SCI) (the “**Amended Agreement**”) (copies of these agreements have been produced to the EGM marked “A1” and “A2” and initialed by the Chairman of the EGM for the purpose of identification) entered into between CPL, WTS and SCI, and the continuance after completion of the Transaction of the guarantee provided by SCI (the “**Guarantee**”) in favour of China Construction Bank Corporation (the “**Bank**”) to secure the liabilities of Ever Talent in respect of a loan facility of HK\$80,000,000 under the loan agreement dated 14 June 2006 entered into between Ever Talent and the Bank, and all transactions contemplated thereunder (details of which are set out in the joint announcements of the Company, SCI and CPL dated 23 October 2006 and 10 January 2007 and the circular dated 12 February 2007 issued by the Company) 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 incidental to, ancillary to or in connection with the matters contemplated in or relating to the Amended Agreement, the Guarantee and the other transactions contemplated under the Amended Agreement and the Guarantee as he/she/they may consider necessary, desirable or expedient.”

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## NOTICE OF EGM

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- “2. To approve, confirm and ratify the undertaking by South China Industries Limited (“**SCI**”) relating to the provision of the guarantee by SCI in favour of an independent third party to secure a proposed loan facility of up to an aggregate principal amount of HK\$500 million proposed to be borrowed by any of Praise Rich Limited or its subsidiaries from the independent third party on normal commercial terms at market interest rate to finance the development costs of a property project in the People’s Republic of China (the “**Proposed Guarantee**”) pursuant to a letter agreement dated 9 January 2007 entered into between Capital Publications Limited (“**CPL**”) and SCI (the “**Letter Agreement**”) (a copy of which has been produced to the EGM marked “B” and initialed by the Chairman of the EGM for the purpose of identification), and all transactions contemplated thereunder (details of which are set out in the joint announcements of the Company, SCI and CPL dated 23 October 2006 and 10 January 2007 and the circular dated 12 February 2007 issued by the Company) 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 incidental to, ancillary to or in connection with the matters contemplated in or relating to the Letter Agreement, the Proposed Guarantee and the other transactions contemplated under the Letter Agreement and the Proposed Guarantee as he/she/they may consider necessary, desirable or expedient.”
- “3. To approve, confirm and ratify the terms and conditions of the non-interest bearing convertible note (the “**Convertible Note**”) in the principal amount of HK\$408 million due 2012 to be issued by Capital Publications Limited in favour of WTS International (BVI) Limited (“**WTS**”) or as it may direct any subsidiary of South China Industries Limited (“**SCI**”) as nominee pursuant to the amended and restated share purchase agreement dated 9 January 2007 among SCI, Capital Publications Limited and WTS (a copy of the Convertible Note incorporating its terms and conditions has been produced to the EGM marked “C” and initialed by the Chairman of the EGM for the purpose of identification), and subject to compliance with the requirements laid down by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in force from time to time, 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 documents, instruments and agreements and to do all such acts or things deemed by him/her/them to be incidental to, ancillary to or in connection with the matters contemplated in or relating to the Convertible Note (including, without limitation, the exercise of the redemption, conversion and other rights attaching to the Convertible Note) and the other transactions contemplated under the Convertible Note as he/she/they may consider necessary, desirable or expedient.”

By Order of the Board  
**Cheung Siu Lan**  
*Company Secretary*

Hong Kong, 12 February 2007

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## NOTICE OF EGM

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*Principal Place of Business in Hong Kong:*

28th Floor

Bank of China Tower

1 Garden Road

Central

Hong Kong

*Notes:*

1. Any member of the Company entitled to attend and vote at the meeting 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.