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## **SOUTH CHINA HOLDINGS LIMITED**

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

(Stock Code: 265)

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

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



## **SOUTH CHINA INDUSTRIES LIMITED**

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

(Stock Code: 413)

**Major Transaction and Connected Transactions  
in relation to indirect disposal  
of 51% interest in Praise Rich Limited**

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



## **South China Capital Limited**

**Financial Adviser to South China Holdings Limited  
and South China Industries Limited**



## **CAPITAL PUBLICATIONS LIMITED**

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

(Stock Code: 8155)

**Very Substantial Acquisition and Connected Transactions  
in relation to acquisition of 51% interest in Praise Rich Limited**

**Proposed Change of Name**

**JOINT ANNOUNCEMENT**

### **THE ACQUISITION**

Further to the joint announcements of SCH, SCI and CPL dated 23 October 2006 and 20 November 2006, SCI and SCH wish to announce that the Listing Committee of the Stock Exchange has turned down the application for a waiver from strict compliance under Rule 14.68(2)(a) of the Listing Rules. An accountants' report for each of SCI and SCH 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 issue until end of March 2007. The CPL Directors, SCI Directors and SCH Directors consider that the long Completion time causes uncertainty to the investors as well as dealings in the CPL Shares, SCI Shares and SCH Shares respectively. To avoid further delay to completion of the Transaction, on 9 January 2007, CPL, the Vendor and SCI entered into the amended and restated share purchase agreement (the "Amended Agreement") pursuant to which (among other things) the Vendor has conditionally agreed to sell to CPL a 51% interest in the enlarged issued share capital of Praise Rich (the "Revised Sale Shares"), instead of a 100% interest in the original issued share capital of Praise Rich as previously agreed, and to procure the sale to CPL of 51% of the total outstanding interest-free debts owing from Ever Talent to Able Management Limited (a wholly-owned subsidiary of SCI) as at Completion (the "Revised Sale Debt") at an aggregate consideration of HK\$408 million (collectively, the "Revised Transaction"). The consideration is to be satisfied by CPL issuing to the Noteholder the Convertible Bond in a reduced principal amount of HK\$408 million. The Amended Agreement also provides, among other things, 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 in Praise Rich then held by the Vendor. Except for the aforementioned, the other principal terms of the Agreement including the principal terms of the Convertible Bond and the terms of the Guarantee remain unchanged.

Mr. Ng and his associates are the existing controlling group of shareholders in CPL, SCH and SCI. Under the GEM Listing Rules, the Revised Transaction will constitute a connected transaction and very substantial acquisition for CPL. Under the Listing Rules, the Revised Transaction will constitute a connected transaction and major transactions for both SCI and SCH and the Guarantee will constitute a connected transaction and major transaction for both SCI and SCH.

**As Completion is subject to the fulfilment of a number of conditions precedent, the Revised Transaction may or may not proceed. CPL Shareholders, SCI Shareholders and SCH Shareholders, and potential investors, should exercise caution when dealing in the CPL Shares, SCI Shares and SCH Shares respectively.**

At the request of CPL, SCI and SCH, trading in the CPL Shares, SCI Shares and SCH Shares on the Stock Exchange were suspended with effect from 9:36 a.m. on Tuesday, 9 January 2007 pending release of this announcement. Application has been made by CPL, SCI and SCH to the Stock Exchange for the resumption of trading in the CPL Shares, SCI Shares and SCH Shares with effect from 9:30 a.m. on 11 January 2007.

Terms used in this announcement shall have the same meanings as defined in the joint announcements of SCH, SCI and CPL dated 23 October 2006 and 20 November 2006 unless the context otherwise provides.

### **THE AMENDED AGREEMENT**

Further to the joint announcements of SCH, SCI and CPL dated 23 October 2006 and 20 November 2006, SCH and SCI wish to announce that the Listing Committee of the Stock Exchange has turned down the application for a waiver from strict compliance under Rule 14.68(2)(a) of the Listing Rules. An accountants' report for each of SCI and SCH 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 issue until end of March 2007. The CPL Directors, SCI Directors and SCH Directors consider that the long Completion time causes uncertainty to the investors as well as dealings in the CPL Shares, SCI Shares and SCH Shares respectively. To avoid further delay to completion of the Transaction, on 9 January 2007, CPL, the Vendor and SCI entered into the amended and restated share purchase agreement (the "Amended Agreement") pursuant to which (among other things) the Vendor has conditionally agreed to sell to CPL a 51% interest in the enlarged issued share capital of Praise Rich (the "Revised Sale Shares"), instead of a 100% interest in the original issued share capital of Praise Rich as previously agreed, and to procure the sale to CPL of 51% of the total outstanding interest-free debts owing from Ever Talent to Able Management Limited (a wholly-owned subsidiary of SCI) as at Completion (the "Revised Sale Debt") at an aggregate consideration of HK\$408 million (collectively, the "Revised Transaction"). The consideration comprises (i) the Revised Sale Debt at Completion and (ii) the purchase price for the Revised Sale Shares, being the difference between the consideration and the Revised Sale Debt. As at the date of this announcement, HK\$47.7 million is the Revised Sale Debt and HK\$360.3 million is the purchase price for the Revised Sale Shares. The consideration is to be satisfied by CPL issuing to the Noteholder the Convertible Bond in a reduced principal amount of HK\$408 million.

Assuming that the conversion right attached to the Convertible Bond has 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 value of the 5,440,000,000 CPL Shares (based on the closing price per CPL Share of HK\$0.07 on 8 January 2007 being the date prior to the suspension of CPL shares on 9 January 2007) is approximately HK\$380.8 million. The conversion price represents (i) a premium of approximately 7.1% over the closing price of the CPL Shares of HK\$0.07 as at 8 January 2007, being the date prior to the suspension of CPL Shares on 9 January 2007; (ii) a discount of approximately 0.3% of the average closing price of the CPL Shares of HK\$0.0752 on the Stock Exchange for the 5 trading days immediately before 8 January 2007, being the date prior to the suspension of CPL Shares on 9 January 2007; and (iii) 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 CPL Shares in issue.

The consideration is 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 this announcement, being HK\$47.7 million; (ii) the unaudited consolidated net asset value of Praise Rich as at 30 June 2006 of approximately HK\$6 million before re-valuation of the Property; and (iii) the preliminary valuation as at 31 October 2006 provided by Jones Lang LaSalle, an independent professional property valuer, on the Property as a development site being RMB 650 million, subject to various good title and development proposal approvals assumptions. The capital value of the proposed development (assuming completion at the date of valuation) would be in the region of RMB 1,750 million on a estimated total gross floor area of 120,000 sq. m.. As the land use right certificate for the Property has not yet been obtained at the date of valuation, the property valuer has assigned no commercial value to the Property. The respective boards of directors of SCH, SCI and CPL wish to clarify that the preliminary indicative valuation of the Project of approximately over RMB1 billion as stated in the announcement dated 23 October 2006 was based on the capital value on the proposed development (assuming completion as at the date of valuation) of RMB1,830 million on an estimated total gross floor area of 131,475 sq.m. The construction planning permit received by Liaoning Dafa on 20 December 2006 indicated that the site area is enlarged from 7,622 sq. m. to 18,841.5 sq. m. and the afforestation is reduced from 15,612 sq. m. to 3,140 sq. m. and there is an additional inclusion of spaces for road of 3,960 sq. m. (totally 25,941.5 sq. m.). The total gross floor area of the proposed development of a 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.

The Amended Agreement also provides, among other things, 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 in Praise Rich then held by the Vendor. Except for the aforementioned, the other principal terms of the Agreement including the principal terms of the Convertible Bond and the terms of the Guarantee remain unchanged.

The Amended Agreement also refers to (among other things) right of appointment of directors in accordance with shareholding percentage, quorum of directors' and shareholders' meetings and pre-emptive rights in respect of Praise Rich (further details will be disclosed in the respective circulars of CPL, SCI and SCH). No fee or remuneration will be paid or received under the Amended Agreement by any party to the Amended Agreement.

The directors of CPL consider that it is in the interest of CPL and its shareholders as a whole:

- a. to enter into the Amended Agreement and to acquire 51% interest in Praise Rich such that it can acquire control of Praise Rich and the Property with minimal cash outflows and CPL may benefit from potential capital appreciation in the value of the Property in the future. In the event of conversion of the Convertible Bond, the financial position and capital base of CPL may be strengthened;
- b. that the terms of the Amended Agreement are fair and reasonable and on normal commercial terms; and
- c. that other unchanged principal terms of the Agreement are fair and reasonable in the light of the reduced interest in the Property acquired, given the fact that this is the best financing method for CPL and this is the only way to allow CPL to expand its business scope without much pressure on its cash flows.

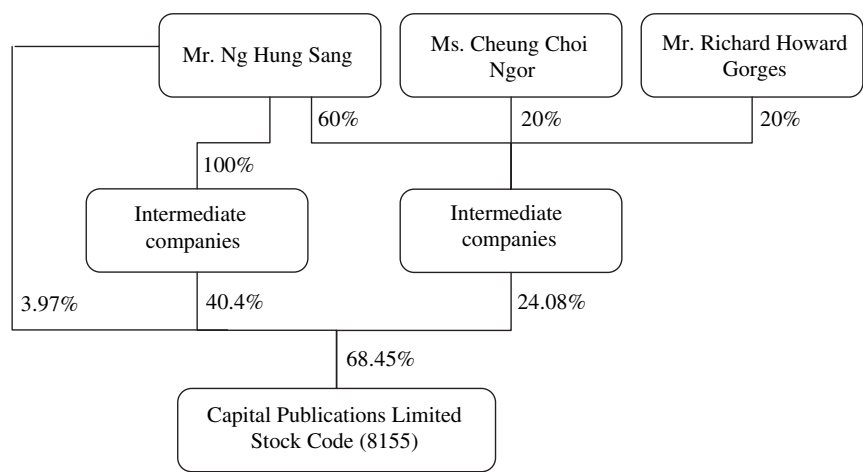
The directors of SCI consider that it is in the interest of SCI and its shareholders as a whole:

- a. to enter into the Amended Agreement and to 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 in property development assets of SCI which is in line with the business strategy of SCI. Furthermore, the disposal of 51% equity interest of the issued share capital of Praise Rich will allow SCI to retain 49% equity interest in Praise Rich which owns 80% interest in the Project and SCI may still benefit from potential capital appreciation in the value of the Project in the future;
- b. that the terms of the Amended Agreement are fair and reasonable and on normal commercial terms;
- c. that in case the capital appreciation in value of the Property is extremely large, SCI has a flexibility to procure the Noteholder to convert the Convertible Bond at a relatively low cost; and
- d. that other unchanged principal terms of the Agreement are fair and reasonable in the light of the reduced interest in the Property disposed of.

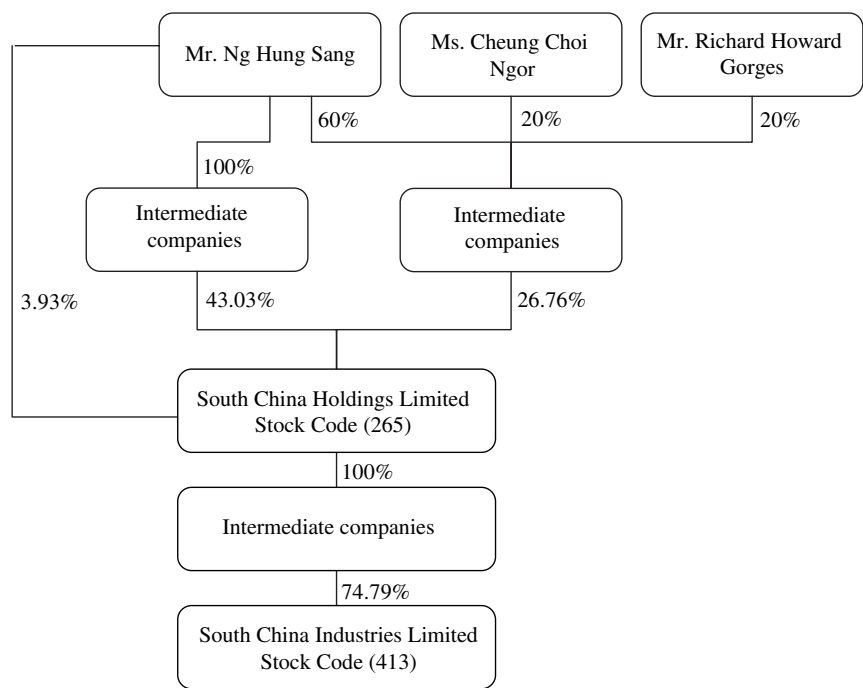
The directors of SCH concur with the view of SCI and consider that the Amended Agreement and the terms thereof are fair and reasonable and in the interest of SCH and its shareholders as a whole.

As a result of the revised consideration and the reduced principal amount of the Convertible Bond, the following diagrams illustrate the corporate and shareholding structures of CPL, SCI and SCH immediately before Completion, and immediately after Completion and before and after full conversion of the Convertible Bond:

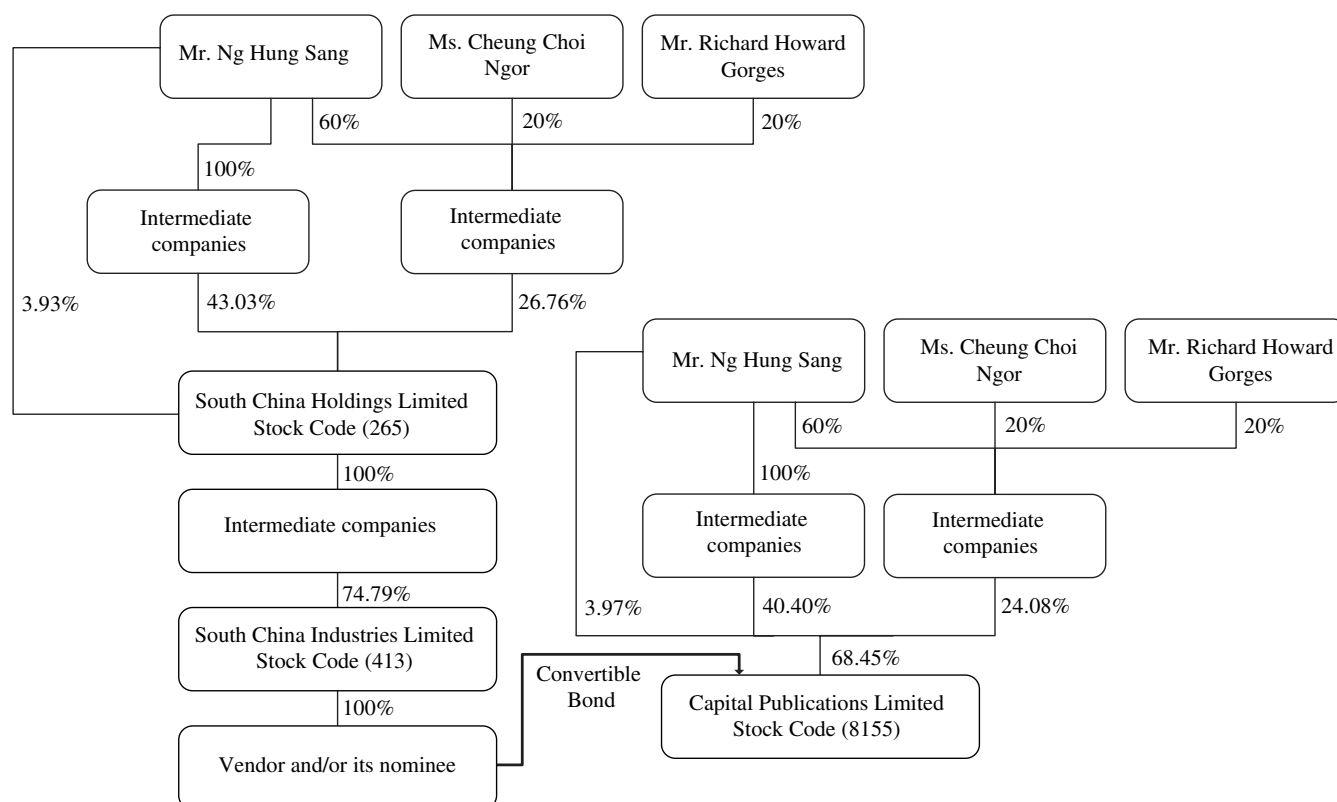
**The shareholding structure of CPL immediately before Completion**



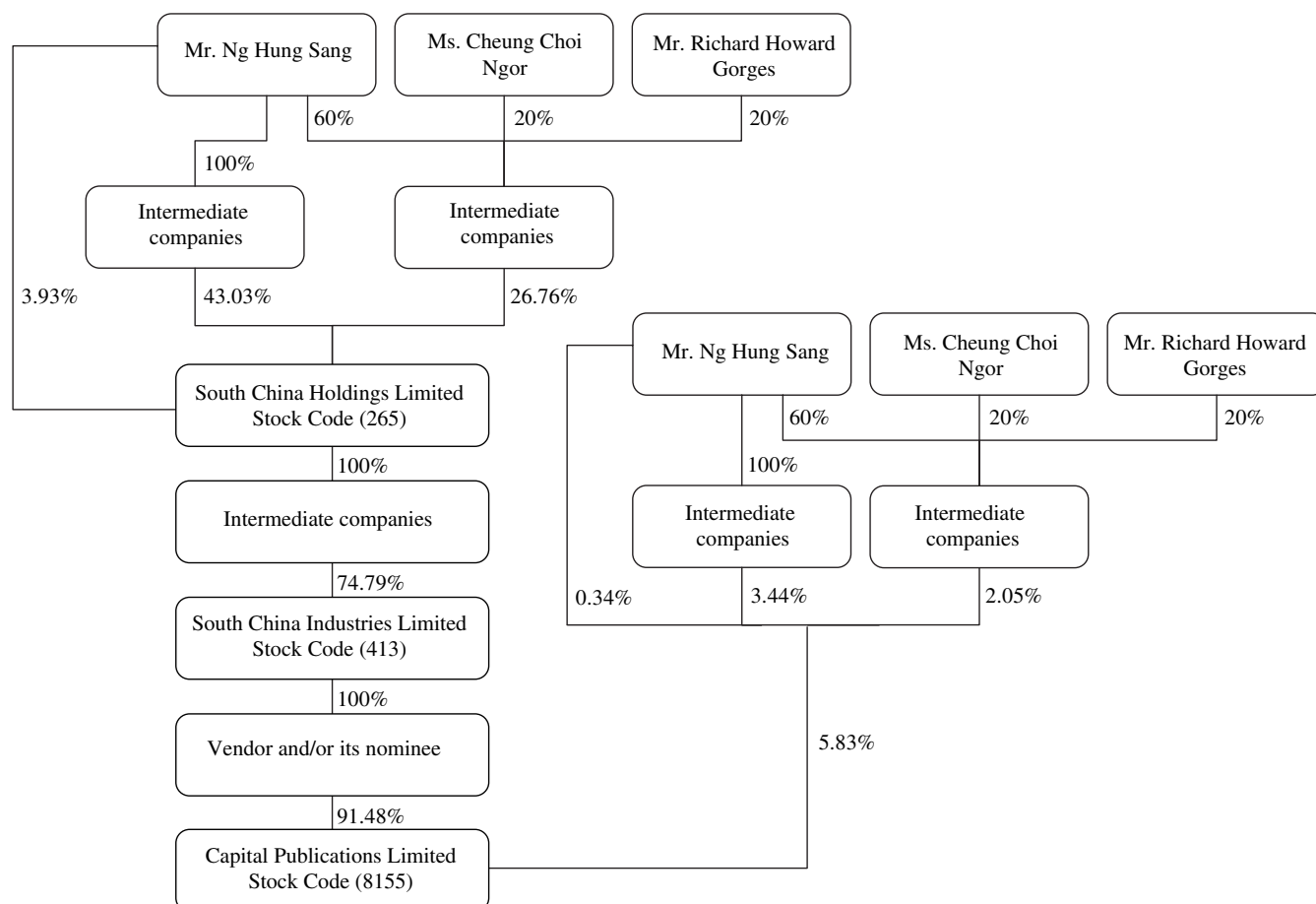
**The shareholding structure of SCI and SCH immediately before Completion**



**The shareholding structure of SCH, SCI and CPL immediately after Completion but before full conversion of the Convertible Bond by the Noteholder**



**The shareholding structure of SCH, SCI and CPL immediately after Completion and full conversion of the Convertible Bond by the Noteholder**



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

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 date of this announcement) immediately before and after Completion and full conversion of the Convertible Bond (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 Bond have been exercised by the Noteholder		After Completion, assuming the conversion rights attached to the Convertible Bond have been fully exercised by the Noteholder	
	No. of issued CPL Shares	Approximate %	No. of issued CPL Shares	Approximate %	No. of CPL Shares	Approximate %
Mr. Ng and his associates	346,709,203	68.45	346,709,203	68.45	5,786,709,203	97.31
Public	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>

Under the terms of the Convertible Bond, the Noteholder shall exercise the right of conversion to the extent that the public float of the Company will not be less than 25% immediately after such conversion. Each of SCH and SCI has no current intention to exercise the conversion rights in respect of the Convertible Bond to be issued under the Amended Agreement as it is inappropriate for SCH and SCI to hold the interest in the Project by two separate entities in SCH Group and SCI Group if the Convertible Bond were converted. SCI and SCH will comply with the requisite requirements under Listing Rules upon the conversion of the Convertible Bond.

Upon Completion, Praise Rich will cease to be a subsidiary of SCH and SCI and will be accounted for as an associated company of SCH and SCI. Praise Rich will become a subsidiary of CPL and will be accounted for as a subsidiary of CPL.

## II. GAIN/LOSS ON DISPOSAL OF THE REVISED SALE SHARES BY THE VENDOR

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

Assuming that the value of the Convertible Bond (which is subject to early redemption after 3 years) is not discounted to its net present value, SCH (through SCI) and SCI would have a gain on disposal of approximately HK\$354 million arising from the Revised Transaction. On the basis that the value of the zero coupon Convertible Bond (which is subject to early redemption after 3 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), SCH (through SCI) and SCI would have a gain on disposal of approximately HK\$302 million arising from the Revised Transaction. The gain on the disposal is determined based on the fair value of loan option and the convertible option under the Convertible Bond net of the attributable net asset value of Praise Rich as at 31 August 2006 and the value of the Revised Sale Debt as at the date of the Amended Agreement and the value of tax indemnity under the Amended Agreement.

The unaudited consolidated net asset value of CPL as at 30 June 2006 was HK\$640,000. CPL had a loss for HK\$3,561,000 and a loss for HK\$1,950,000 attributable to the shareholders for the year ended 31 December 2004 and 31 December 2005 respectively.

### Immediately after Completion and full conversion of the Convertible Bond by the Noteholder

Immediately upon Completion and full conversion of the Convertible Bond (assuming that there will be no change in the issued share capital of CPL from the date of this announcement and up to Completion, save for the issue of the CPL Shares pursuant to the conversion of the Convertible Bond), CPL will become a 91.48% subsidiary of SCH and SCI. All gains or losses will be eliminated in full in the consolidated financial accounts of SCH and SCI as CPL is put under the same group of SCH and SCI.

## III. GENERAL INFORMATION ON SCH

SCH 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.



### INFORMATION ON SCI

SCI is an investment holding company. Its subsidiaries and associates are principally engaged in the manufacturing and trading of toys, compressors, shoes, metal tooling, leather products, motors, machinery, capacitors, clothing, property investment and development, agriculture, information technology and travel related businesses. SCH beneficially holds 74.79% of the total issued share capital of SCI.

### INFORMATION ON CPL

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

Mr. Ng and his associates are the existing controlling group of shareholders in CPL, SCH and SCI. Under the GEM Listing Rules, the Revised Transaction will constitute a connected transaction and very substantial acquisition for CPL. Under the Listing Rules, the Revised Transaction will constitute a connected transaction and major transactions for both SCI and SCH and the Guarantee will constitute a connected transaction and major transaction for both SCI and SCH.

A circular of CPL, containing, among other things, further particulars of the Revised Transaction and the Revised Sale Shares, the Convertible Bond, the Guarantee, the recommendations of the CPL Independent Board Committee, a letter of advice from the independent financial adviser to the CPL Independent Board Committee and the CPL Independent Shareholders, an accountants' report, property valuation reports relating to the Project and notices convening the CPL EGM will be sent to the CPL Shareholders as soon as practicable in accordance with the requirements of the GEM Listing Rules.

A circular of SCI, containing, among other things, further particulars of the Revised Transaction and the Revised Sale Shares, the Convertible Bond, the Guarantee, the recommendations of the SCI Independent Board Committee, a letter of advice from the independent financial adviser to the SCI Independent Board Committee and the SCI Independent Shareholders, property valuation reports relating to the Project and notices convening the SCI EGM will be sent to the SCI Shareholders as soon as practicable in accordance with the requirements of the Listing Rules.

A circular of SCH, containing, among other things, further particulars of the Revised Transaction and the Revised Sale Shares, the Convertible Bond, the Guarantee, the recommendations of the SCH Independent Board Committee, a letter of advice from an independent financial adviser to be appointed to the SCH Independent Board Committee and the SCH Independent Shareholders, property valuation reports relating to the Project and notices convening the SCH EGM will be sent to the SCH Shareholders as soon as practicable in accordance with the requirements of the Listing Rules.

**As Completion is subject to the fulfillment of a number of conditions precedent, the Revised Transaction may or may not proceed. CPL Shareholders, SCI Shareholders and SCH Shareholders, and potential investors, should exercise caution when dealing in the CPL Shares, SCI Shares and SCH Shares respectively.**

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

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

On behalf of the Board of  
**Capital Publications Limited**  
**Ng Yuk Yeung, Paul**  
*Director*

Hong Kong, 10 January 2007

*As at the date of this announcement, the SCH Board comprises four executive directors, being Mr. Ng Hung Sang, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor and Mr. Ng Yuk Fung, Peter; two non-executive directors, being Mr. David Michael Norman and Ms. Ng Yuk Mui, Jessica; and three independent non-executive directors, being Mr. David John Blackett, Ms. Wong Siu Yin, Elizabeth and Mr. Cheng Hong Kei.*

*As at the date of this announcement, the SCI Board comprises four executive directors, being Mr. Ng Hung Sang, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor and Mr. Ng Yuk Fung, Peter; one non-executive director, being Ms. Ng Yuk Mui, Jessica; and three independent non-executive directors, being Mr. Chiu Sin Chun, Ms. Wong Siu Yin, Elizabeth, and Ms. Li Yuen Yu, Alice.*

*As at the date of this announcement, the CPL Board comprises four executive directors, being Mr. Ng Hung Sang, Mr. Ng Yuk Yeung, Paul, Mr. Hui Ping and Mr. Ng Yuk Fung, Peter; one non-executive director, being Ms. Ng Yuk Mui, Jessica; and three independent non-executive directors, being Mr. Law Cho Wa, Dr. Lo Wing Yan, William, JP and Mr. Cheng Yuk Wo.*

*This announcement, for which the CPL Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to CPL. The CPL Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information (other than that relating to SCI and SCH) contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters (other than those relating to SCI and SCH) the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement, other than those relating to SCI and SCH, have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for a minimum period of 7 days from the date of its publication and on the website of CPL at [www.capital-hk.com](http://www.capital-hk.com).*

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