

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

**If you have sold or transferred** all your securities in South China Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

---



## **SOUTH CHINA HOLDINGS LIMITED**

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

### **DISCLOSEABLE TRANSACTION**

---

## CONTENTS

---

	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b>	
Introduction .....	4
Summary of the Proposal .....	5
Scheme Price .....	6
Conditions of the Scheme .....	7
Regulatory Approvals .....	7
Reasons for the Proposal .....	8
Information Relating to Wah Shing .....	8
Effects of the Scheme .....	9
General .....	11
Additional Information .....	11
<b>APPENDIX — GENERAL INFORMATION</b> .....	12

---

## DEFINITIONS

---

*In this circular, unless the context requires otherwise, the following expressions have the following meanings:*

“Announcement”	the announcement dated 26 March 2003 issued jointly by the Company and South China Industries relating to the Proposal and published in The Standard and Hong Kong Economic Journal on 27 March 2003
“Board”	the board of Directors of the Company
“Code”	the Singapore Code on Takeovers and Mergers (as revised with effect from 1 January 2002)
“Companies Act”	the Companies Act 1981 of Bermuda (as amended and modified from time to time)
“Company”	South China Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the securities of which are listed on the Stock Exchange
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Supreme Court of Bermuda at which the Scheme will be voted upon. Based on tentative timetable of the Proposal, the Court Meeting is expected to be held on or about 11 June 2003 or such later date as directed by the Supreme Court of Bermuda
“Director(s)”	the director(s) of the Company
“Effective Date”	the date on which the Scheme, if approved, becomes effective in accordance with the Scheme, which is expected to be on or before 31 July 2003
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	14 April 2003, being the latest practicable date prior to the issue of this circular for ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Proposal”	the proposal for the privatisation of Wah Shing by South China Industries (BVI) by way of the Scheme
“S\$”	Singapore dollar(s), the lawful currency of Singapore

---

## DEFINITIONS

---

“Scheme”	a scheme of arrangement under Section 99 of the Companies Act involving the cancellation of all the Scheme Shares
“Scheme Document”	document of Wah Shing to be despatched to Shareholders in due course containing full details of the Scheme
“Scheme Price”	S\$0.065 in cash for each Scheme Share
“Scheme Share(s)”	share(s) held by the Scheme Shareholder(s)
“Scheme Shareholder(s)”	shareholder(s) of Wah Shing who are independent and not connected to a director, chief executive or substantial shareholder of the Company and South China Industries or any of their subsidiaries or an associate of any of them
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGX-ST”	The Singapore Exchange Securities Trading Limited
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	share(s) of HK\$0.20 each in the capital of Wah Shing
“South China Group”	the Company, South China Industries and their subsidiaries
“South China Industries”	South China Industries Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange and which was beneficially owned as to about 74.74% by the Company as at the Latest Practicable Date
“South China Industries (BVI)”	South China Industries (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability, which was beneficially wholly-owned by South China Industries
“Special General Meeting”	a meeting of Shareholders to be convened to consider and approve the passing of a special resolution for the Scheme. Based on the tentative timetable of the Proposal, the Special General Meeting is expected to be held on or about 11 June 2003 soon after the conclusion of the Court Meeting or such later date as the Supreme Court of Bermuda may direct the Court Meeting to be convened
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

---

## DEFINITIONS

---

“Wah Shing”	Wah Shing International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the SGX-ST and which was beneficially owned as to about 52.77% by South China Industries (BVI) (both directly and through nominees) and is a non-wholly owned subsidiary of South China Industries
“Wah Shing Group”	Wah Shing and its subsidiaries
“%”	per cent.

An exchange rate of S\$1 to HK\$4.5 is used in this circular.



## **SOUTH CHINA HOLDINGS LIMITED**

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

*Executive Directors:*

Mr. Ng Hung Sang, Robert (*Chairman*)  
Mr. Richard Howard Gorges  
Ms. Cheung Choi Ngor, Christina  
Mr. Yuen Kam Tim, Francis

*Non-executive Director:*

Mr. Tan Boon Seng

*Independent Non-executive Directors:*

Mr. David Michael Norman  
Mr. David John Blackett

*Registered Office:*

P.O. Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

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

28th Floor  
Bank of China Tower  
1 Garden Road  
Central, Hong Kong

16 April 2003

*To the shareholders and,  
the warrant holders of the Company*

Dear Sir or Madam,

### **DISCLOSEABLE TRANSACTION**

#### **INTRODUCTION**

On 26 March 2003, the Company and South China Industries jointly announced that South China Industries, through its wholly-owned subsidiary, South China Industries (BVI), requested the directors of Wah Shing to put forward a proposal to the Scheme Shareholders regarding a proposed privatisation of Wah Shing by South China Industries (BVI) by way of a scheme of arrangement under Section 99 of the Companies Act.

By proposing that the Proposal be implemented through the Scheme, Scheme Shareholders are provided the opportunity to decide at the Court Meeting whether they consider the Scheme to be in their best interests.

---

## LETTER FROM THE BOARD

---

As at the Latest Practicable Date, the Scheme Shareholders were interested in 128,536,312 Shares, representing about 47.23% of the issued share capital of Wah Shing and there were no outstanding options, warrants or convertible securities issued by Wah Shing. As at the Latest Practicable Date, the Company beneficially held 74.74% of the issued share capital of South China Industries, which was indirectly interested in 143,623,688 Shares, representing 52.77% of the issued share capital of Wah Shing. Thus, the Company was interested in 39.44% of the issued share capital of Wah Shing.

If the Scheme becomes effective, it will constitute a discloseable transaction of the Company under the Listing Rules. The purpose of this circular is to provide you with details of the Proposal as set out below.

### SUMMARY OF THE PROPOSAL

Subject to the conditions of the Scheme as set out below being fulfilled, the Proposal to be implemented by way of the Scheme will mainly involve the following procedures:

- (a) upon the Scheme being approved by the requisite majority of the Scheme Shareholders at the Court Meeting and the special resolution to approve and give effect to the Scheme being duly passed at the Special General Meeting, an application will be made to the Supreme Court of Bermuda (the “Court”) by Wah Shing for sanctioning of the Scheme;
- (b) the Scheme will become effective upon an office copy of the order of the Court sanctioning the Scheme under Section 99 of the Companies Act being duly registered by the Registrar of Companies in Bermuda;
- (c) on the Effective Date:
  - (i) all the Scheme Shares will be cancelled and extinguished by way of a capital reduction;
  - (ii) in consideration of such cancellation, the Scheme Shareholders will receive from South China Industries (BVI), the Scheme Price in cash for each Scheme Share held;
  - (iii) the credit arising in Wah Shing’s books of account as a result of the said reduction in item (i) above will be applied to a reserve account in Wah Shing’s books of account; and
  - (iv) once the Scheme becomes effective and binding, Wah Shing will become a wholly-owned subsidiary of South China Industries (BVI) and it will then proceed to delist Wah Shing from the SGX-ST.

- (d) payment of the Scheme Price will be effected by cheques not later than 21 days after the Effective Date. Unless indicated otherwise in writing, all such cheques shall be sent by post to the Scheme Shareholders at their respective addresses as appearing in the register of members of Wah Shing on the Effective Date at their own risk;
- (e) all certificates existing on the Effective Date in respect of holding of any number of Scheme Shares shall cease to be valid on and from the Effective Date for any purpose as documents of title and every holder thereof shall be bound on the request of Wah Shing to deliver up to Wah Shing the certificates for his or her holdings in such Scheme Shares; and
- (f) each of South China Industries (BVI) and its nominees will agree to be bound by the Scheme and will undertake to the Court to be bound thereby.

### SCHEME PRICE

The Scheme Price represents:

- (i) a premium of approximately 7.69% above the last transacted price per Share on the SGX-ST of S\$0.060 (equivalent to approximately HK\$0.270) as at the Latest Practicable Date;
- (ii) a premium of approximately 44.44% above the last transacted price per Share on the SGX-ST of S\$0.045 (equivalent to approximately HK\$0.203) as at 26 March 2003, being the last trading day of the Shares on the SGX-ST prior to the release of the Announcement;
- (iii) a premium of approximately 46.07% above the average of the last transacted prices per Share of S\$0.0445 (equivalent to approximately HK\$0.200) over the last 10 days on which the Shares were traded on the SGX-ST prior to the release of the Announcement; and
- (iv) a discount of approximately 76.79% to the unaudited consolidated net tangible asset value per Share as of 31 December 2002 of approximately HK\$1.28 (equivalent to approximately S\$0.28).

The Scheme Price is determined based on the market prices and the trading volume of the Shares on the SGX-ST for the last three months.

On the basis of the consideration of the Scheme Price, the amount of cash required for the Proposal is approximately S\$8.35 million (equivalent to approximately HK\$37.58 million). South China Industries intends to finance the cash required for the Proposal from bank borrowing readily and immediately available to South China Industries on normal commercial terms. The financial adviser appointed by Wah Shing in Singapore is satisfied that sufficient financial resources are available to South China Industries for the implementation of the Proposal.

### CONDITIONS OF THE SCHEME

The Scheme is subject to the following conditions and will become effective and binding if:

- (a) the Scheme is approved by a majority in number of the Scheme Shareholders holding at least three-fourths in value of the Scheme Shares that are voted either in person or by proxy at the Court Meeting;
- (b) the special resolution to approve and give effect to the Scheme (including the reduction of the issued share capital of Wah Shing by the cancellation of the Scheme Shares) is approved at the Special General Meeting;
- (c) the Scheme (with or without modifications) is sanctioned by the Court, and an office copy of the order of the Court is delivered to the Registrar of Companies in Bermuda for registration; and
- (d) the procedural requirements of Section 46 of the Companies Act in relation to the reduction of the issued share capital of Wah Shing are complied with.

Assuming that all the above conditions are fulfilled, it is expected that the Scheme will become effective on or before 31 July 2003 (or such later date(s), if any, as the Court may allow). Further announcements in respect of the Effective Date of the Scheme will be made in due course.

If any of the above conditions is not fulfilled, the Scheme will not become effective and will not be binding on the Scheme Shareholders, South China Industries (BVI) and its nominees. Further announcement will be made in that event. The Scheme will lapse if it does not become effective on or before 31 July 2003 (or such later date(s), if any, as the Court may allow). Announcement will be made in the event that the Scheme does not become effective or lapses.

**Shareholders of the Company and potential investors in the Company should be aware that the implementation of the Proposal is subject to the conditions set out above being fulfilled and thus may or may not become effective. They are advised to exercise caution when dealing in securities of the Company.**

### REGULATORY APPROVALS

- (a) The Securities Industry Council of Singapore has confirmed, inter alia, that rules 14, 15, 16, 17, 20.1, 21, 22, 28, 29 and 33.2 and note 1(b) to rule 19 of the Code do not apply to the Scheme, subject to the following conditions:
  - (i) South China Industries (BVI) and its concert parties abstain from voting at the Court Meeting and the Special General Meeting;

- (ii) the Scheme Document discloses the current voting rights of South China Industries (BVI) and its concert parties in Wah Shing and their voting rights in Wah Shing after the Scheme;
  - (iii) the directors of Wah Shing who are also directors of South China Industries (BVI) or who are acting in concert with or nominees of South China Industries (BVI) abstain from making a recommendation on the Scheme to the Scheme Shareholders; and
  - (iv) Wah Shing appoints an independent financial adviser to advise the Shareholders on the Scheme.
- (b) The Scheme will be subject to the approval of all relevant regulatory authorities, including the Court as stated in condition (c) above.

### REASONS FOR THE PROPOSAL

The directors of the Company and South China Industries consider that the implementation of the Proposal is in the best interests of their shareholders as it will streamline the group structure through the elimination of a listed vehicle to achieve cost efficiency and save much management time and costs involved with increased regulatory and corporate governance requirements.

The Proposal will also enable the South China Group to acquire total ownership of Wah Shing Group at a discount to its net tangible asset value and allow a greater flexibility towards the management of Wah Shing Group. At present, there is no intention to change the board members of Wah Shing after the Scheme becomes effective.

### INFORMATION RELATING TO WAH SHING

Wah Shing was incorporated in Bermuda and its shares have been listed on the Main Board of the SGX-ST since 1996. As at the Latest Practicable Date, the issued and paid-up share capital of Wah Shing consists of 272,160,000 ordinary shares of HK\$0.20 each. South China Industries (BVI) currently holds 143,623,688 Shares (both directly and through nominees), representing approximately 52.77% of the issued share capital of Wah Shing. Other than disclosed above, no person who is connected to any director, chief executive or substantial shareholders of the Company and South China Industries or any of their subsidiary or an associate of any of them has any interest in Wah Shing. Wah Shing is an investment holding company and its subsidiaries are principally engaged in the manufacturing and distribution of toys, toy-related products and moulds under Original Equipment Manufacturing and Original Design Manufacturing arrangements.

## LETTER FROM THE BOARD

The table below sets out the shareholding structure of Wah Shing as at the Latest Practicable Date and immediately upon completion of the Proposal:

	<b>As at the Latest Practicable Date</b>		<b>Upon completion of the Proposal</b>	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
South China Industries (BVI) directly and through its nominees	143,623,688	52.77	143,623,688	100.00
Scheme Shareholders	<u>128,536,312</u>	<u>47.23</u>	<u>0</u>	<u>0</u>
	<u>272,160,000</u>	<u>100.00</u>	<u>143,623,688</u>	<u>100.00</u>

As at the Latest Practicable Date, there were no outstanding options, warrants or convertible securities issued by Wah Shing.

A summary of the audited consolidated results for the year ended 31 December 2001 and the unaudited consolidated results for the year ended 31 December 2002 (based on International Financial Reporting Standards published by the International Accounting Standards Board) of Wah Shing is set out below:

	<b>For the year ended 31 December</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	1,237,885	1,146,422
Profits (loss) from operations	10,118	(114,056)
Profit (loss) before taxation	9,528	(121,589)
Profit (loss) after tax but before minority interests	8,675	(154,607)
Profit (loss) attributable to Shareholders	3,149	(156,980)

As at 31 December 2002, the unaudited consolidated net tangible assets of Wah Shing was approximately HK\$347.9 million, or approximately HK\$1.28 per Share (equivalent to approximately S\$0.28 per Share) (based on 272,160,000 Shares in issue as at the Latest Practicable Date).

### EFFECTS OF THE SCHEME

#### (a) Ownership and voting control

As at the Latest Practicable Date, the Company beneficially held 74.74% of the issued share capital of South China Industries, which was indirectly interested in 143,623,688 Shares, representing 52.77% of the issued share capital of Wah Shing. Thus, the Company was interested in 39.44% of the issued share capital of Wah Shing.

Upon completion of the Proposal, South China Industries will be indirectly interested in 143,623,688 Shares, representing 100% of the then issued share capital of Wah Shing. On the basis that the Company's shareholding in South China Industries remains unchanged prior to the completion of the Proposal, the Company, through its interest in South China Industries, will hold 74.74% of the issued share capital of Wah Shing and Wah Shing will become an indirect owned subsidiary of the Company.

(b) **Financial position**

(i) *Loss*

The loss per share of the South China Group based on the unaudited loss for the six months ended 30 June 2002 was about HK\$0.0469. The pro forma loss per share of the South China Group for the six months ended 30 June 2002 (assuming that the Proposal had become effective on 1 January 2002) was about HK\$0.0486. This represents an increase in the South China Group's loss per share of 3.6%.

(ii) *Net assets*

The net tangible asset value per share of the Company based on the unaudited net tangible asset value of the South China Group as at 30 June 2002 was about HK\$0.384. The pro forma net tangible asset value per share of the Company as at 30 June 2002 (assuming that the Proposal had become effective on 1 January 2002) was about HK\$0.440. This represents an increase in the net tangible asset value per share of the Company of 14.6%.

(iii) *Net debt / equity ratio*

The net debt (long-term bank borrowings) / equity ratio of the South China Group based on the unaudited accounts as at 30 June 2002 was about 17.4%. The pro forma net debt / equity ratio of the South China Group as at 30 June 2002 (assuming that the Proposal had become effective on 1 January 2002) was about 15.2%. This represents a decrease in net debt / equity ratio of the South China Group of 2.2%.

(c) **Business**

South China Industries intends to maintain the existing businesses of Wah Shing upon its privatisation. Wah Shing directors have confirmed that upon the privatisation of Wah Shing, they do not intend to make any significant changes to the existing businesses or make significant disposals of assets or interests in the subsidiaries of Wah Shing in the near future. Whether or not the Scheme becomes effective, Wah Shing directors do not have any intention to make any significant changes to the existing businesses, employment of the staff of Wah Shing Group or any significant redeployment of its fixed assets.

The directors of South China Industries intend that the listing of the Shares on the SGX-ST will be withdrawn if the Scheme becomes effective and be maintained in the event that the Scheme does not become effective or lapses.

---

## LETTER FROM THE BOARD

---

### GENERAL

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in trading and manufacturing, securities and commodities brokerage and trading, margin financing, money lending, provision of corporate advisory services and underwriting services, information and technology related businesses, real estate investment and development, implementation and marketing of software applications, publishing and printing businesses, marketing and promotional services, sale of air tickets and provision of other related travel services.

South China Industries 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 development, information and technology related and provision of travel related businesses. The Company beneficially holds 74.74% of the issued share capital of South China Industries. South China Industries is the immediate holding company of South China Industries (BVI).

Pursuant to the Listing Rules, if the Scheme becomes effective, it will constitute a discloseable transaction for the Company.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix which forms part of this circular.

Yours faithfully,  
For and on behalf of the Board  
**SOUTH CHINA HOLDINGS LIMITED**  
**Ng Hung Sang, Robert**  
*Chairman*

1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Listing Rules for the purpose of providing information with regard to the discloseable transaction and 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. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures and short positions 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 any such Directors and chief executives of the Company would be taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies are as follows:

Directors’ interests in shares and warrants

(a) The Company

Name of Director	Number of ordinary shares and warrants			
	Personal interests	Family interests	Corporate interests	Other interests
			(Note a)	
Mr. Ng Hung Sang, Robert				
- shares	71,592,200	—	1,272,529,612	—
- warrants (Note b)	14,317,440	—	254,505,922	—
Mr. Richard Howard Gorges				
- shares	—	—	487,949,760	—
- warrants (Note b)	—	—	97,589,952	—
Ms. Cheung Choi Ngor, Christina				
- shares	—	—	487,949,760	—
- warrants (Note b)	—	—	97,589,952	—

(b) **Subsidiary - South China Brokerage Company Limited (“South China Brokerage”)**

Name of Director	Number of ordinary shares and warrants			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Ng Hung Sang, Robert				
- shares	7,378,000	—	—	—
- warrants ( <i>Note c</i> )	1,475,600	—	—	—
Mr. Richard Howard Gorges				
- shares	16,174,000	—	—	—
- warrants ( <i>Note c</i> )	3,234,800	—	—	—
Mr. Yuen Kam Tim, Francis				
- shares	7,175,000	—	—	—
- warrants	—	—	—	—

(c) **Subsidiary - The Express News Limited**

Name of Director	Number of ordinary shares			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Ng Hung Sang, Robert ( <i>Note d</i> )	—	—	30	—

Notes:

- (a) Mr. Ng Hung Sang, Robert, Mr. Richard Howard Gorges and Ms. Cheung Choi Ngor, Christina, through companies wholly-owned and controlled by them, have interests in 487,949,760 shares and 97,589,952 warrants in the Company. Mr. Ng Hung Sang, Robert personally owns 71,592,200 shares and 14,317,440 warrants and through companies wholly-owned and controlled by him, beneficially owns 784,579,852 shares and 156,915,970 warrants in the Company.
- (b) These warrants will expire on 23 July 2003.
- (c) These warrants will expire on 21 June 2003.
- (d) Mr. Ng Hung Sang, Robert and his family, through a company wholly-owned and controlled by them, have interests in 30 shares in The Express News Limited.

Directors’ rights to acquire shares

Pursuant to the share option scheme of South China Brokerage adopted on 12 July 1993 (the “Old Scheme”), as at the Latest Practicable Date, the Directors had share options granted by South China Brokerage to subscribe for ordinary shares of HK\$0.025 each in South China Brokerage as follows:

Name of Director	Date of grant	Exercisable Period	Number of underlying shares comprised in the options outstanding as at the Latest Practicable Date	
			Initial Exercise Price (Note a) HK\$	Practicable Date (Note b)
Mr. Ng Hung Sang, Robert	15/8/1993	15/8/1994-11/7/2003	0.180	100,000,000
Mr. Richard Howard Gorges	15/8/1993	15/8/1994-11/7/2003	0.180	50,000,000
Ms. Cheung Choi Ngor, Christina	15/8/1993	15/8/1994-11/7/2003	0.180	100,000,000

Notes:

- (a) The exercise price is subject to adjustment.
- (b) The Old Scheme was terminated and replaced by a new share option scheme (the “New Scheme”) on 18 June 2002 pursuant to an ordinary resolution passed at the annual general meeting of South China Brokerage held on 31 May 2002. All outstanding share options granted under the Old Scheme prior to its termination will remain in force until they lapse on 12 July 2003.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests in any securities and short positions 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 any such Directors and chief executives of the Company would be taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following shareholders, other than a Director or chief executive of the Company, had interest or short position in the shares and 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 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the South China Group and the amount of each of the shareholder’s interest in such securities were as follows:

Name of shareholder	Number of ordinary shares	Number of warrants	Approximate percentage of issued share capital/warrants
Parkfield Holdings Limited	371,864,000	74,372,800	20.39%
Fung Shing Group Limited	396,050,252	79,210,050	21.72%
Earntrade Investments Limited (“Earntrade”)	487,949,760 <i>(Note)</i>	97,589,952 <i>(Note)</i>	26.76%
Bannock Investment Limited (“Bannock”)	237,303,360 <i>(Note)</i>	47,460,672 <i>(Note)</i>	13.01%

*Note:* Earntrade is the holding company of Bannock. The 487,940,760 shares and 97,589,952 warrants referred to above include the 237,303,360 shares and 47,460,672 warrants held by Bannock respectively.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other shareholders who had an interest or short position in the shares and 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 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the South China Group.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the Company or any of its subsidiaries which is not determinable by the South China Group within one year without payment of compensation, other than statutory compensation.

5. LITIGATION

As at the Latest Practicable Date, the South China Group was involved in the following outstanding litigations:

- (a) Taiyo Development Limited, a minority shareholder of a non-wholly owned subsidiary of the South China Group, Lion City Real Estate Limited filed a claim on 25 December

2000 for an order to dissolve the joint development agreement of a property development project in China and liquidation of the project and payment of RMB11,378,056.89 and costs to the Intermediate People's Court of Dongguan, Guangdong Province Mainland China against a subsidiary of the South China Group, Bondrobe Enterprises Limited ("Bondrobe") which engages in property development in Mainland China. In December 2001, the Intermediate People's Court of Dongguan delivered a judgment and ordered (1) the termination of the aforesaid joint development agreement, (2) the minority shareholder to take possession of the South China Group interest in the property development project, and (3) Bondrobe to receive cash and other receivables of approximately HK\$19.2 million. Based on this judgment, the Group could suffer a net loss of investment of approximately HK\$11.9 million. In January 2002, the South China Group appealed to the Superior People's Court of Guangdong Province regarding the judgment delivered by the Intermediate People's Court of Dongguan, and at the same time counterclaimed against the minority shareholder for damages for breach of contract and refund of investment amounts. On 15 May 2002, the Superior People's Court of Guangdong Province upheld the judgment. The South China Group applied for a review of the court's decision and the Superior People's Court of Guangdong Province in January 2003 notified Bondrobe that after preliminary investigation and examination the Court granted leave to review the judgment. Based on the advice of a legal counsel, the Directors believe that they have sufficient evidence and legal basis for the review and the South China Group claim will prevail.

- (b) The Group undertook to indemnify the shareholder of a former associate for a corporate guarantee granted by the former associate in respect of the banking facilities granted to an associate ("HNF") of the South China Group amounting to US\$3 million (equivalent to approximately HK\$23.3 million). Such facilities were also secured by an irrevocable standby letter of credit issued by a bank established in Mainland China and guaranteed by a former director of the former associate and three other parties. An outstanding legal claim was lodged in March 1999 by the bank against the former associate and other guarantors in respect of the borrowings of HNF of approximately HK\$19 million. The case was adjourned and has not proceeded since 1999. It had also been in abeyance since January 2000. The Directors do not believe that the South China Group will have any significant obligation in respect of this outstanding claim.
- (c) There was outstanding litigation originally lodged in February 1999 against, amongst others, the South China Group in respect of a claim for damages of unspecified amount in relation to alleged breach of the terms of a confidentiality agreement or duty of confidence to acquire the shares in Four Seas Travel International Limited (the former name of Fourseas.com Limited). The Directors believe that the South China Group has good grounds to resist the claim because the plaintiffs failed to diligently prosecute the action. In addition, one of the defendants, not being a member of the South China Group, has successfully applied to strike off the claim against him which weakened the credibility of the plaintiffs. The Directors do not believe that the South China Group will have any significant obligation in respect of this outstanding claim.

Save as disclosed above, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

**6. MISCELLANEOUS**

- (a) The Secretary of the Company is Mr. Yuen Kam Tim, Francis, a fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.
- (b) The registered office of the Company is at P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies and its head office and principal place of business in Hong Kong is at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.
- (c) The share registrars and transfer office of the Company in Hong Kong is Standard Registrars Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.