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China South City Holdings Limited
華南城控股有限公司
(incorporated in Hong Kong with limited liability)
(Stock code: 1668)

DISCLOSEABLE TRANSACTION

ACQUISITION OF HOBA FURNISHING

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The Board is pleased to announce that on 29 July 2013, the Subscriber, an indirect wholly-owned subsidiary of the Company, entered into the Subscription Agreement with HOBA Furnishing, and pursuant to that agreement, the Subscriber has conditionally agreed to acquire (by way of subscription), and HOBA Furnishing has conditionally agreed to issue, the Subscription Shares at the aggregate subscription price of RMB522,210,000 (equivalent to approximately HK\$656,470,000). The Subscription Shares will represent 75% of the issued share capital of HOBA Furnishing (as enlarged by the issue of the Subscription Shares) upon Completion.

HOBA Furnishing is principally engaged in the operation of furnishing centres in the PRC for the supply of quality home furnishing products and accessories. The Company believes that the established business of HOBA Furnishing, which operates nine furnishing centres in six cities in the PRC, will give the Group immediate access to the furnishing industry, which, together with the integration of the operations of HOBA Furnishing into the integrated logistics and trade centres currently operated by the Group, is expected to speed up the pace of establishing the Group's home furnishing business in a number of projects across the PRC.

LISTING RULES IMPLICATIONS

Since one of the applicable percentage ratios for the Subscription is more than 5% but all of the ratios are less than 25%, the Subscription constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements thereunder.

INTRODUCTION

The Board is pleased to announce that on 29 July 2013, the Subscriber, an indirect wholly-owned subsidiary of the Company, entered into the Subscription Agreement with HOBA Furnishing, and pursuant to that agreement, the Subscriber has conditionally agreed to acquire (by way of subscription), and HOBA Furnishing has conditionally agreed to issue, the Subscription Shares at the aggregate subscription price of RMB522,210,000 (equivalent to approximately HK\$656,470,000). The Subscription Shares will represent 75% of the issued share capital of HOBA Furnishing (as enlarged by the issue of the Subscription Shares) upon Completion.

THE SUBSCRIPTION AGREEMENT

Date

29 July 2013

Parties

- (i) The Subscriber; and
- (ii) HOBA Furnishing

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, HOBA Furnishing and its ultimate beneficial owners are Independent Third Parties.

Subject Matter

Pursuant to the Subscription Agreement, the Subscriber has conditionally agreed to acquire (by way of subscription), and HOBA Furnishing has conditionally agreed to issue, the Subscription Shares at the Subscription Price in two tranches.

Subscription Price

The aggregate subscription price payable by the Subscriber to HOBA Furnishing under the Subscription Agreement shall be RMB522,210,000 (equivalent to approximately HK\$656,470,000) (the "**Subscription Price**"), which shall be satisfied in the following manner:

- (i) 20% of the Subscription Price, that is, RMB104,442,000 (equivalent to approximately HK\$131,294,000), shall be paid by the Subscriber in cash within 10 working days from the date on which all the Conditions Precedent to the First Tranche Subscription are satisfied or waived (as the case may be); and
- (ii) 80% of the Subscription Price, that is, RMB417,768,000 (equivalent to approximately HK\$525,176,000), shall be paid by the Subscriber within two years from the completion of the relevant registration procedures of the First Tranche Subscription with the competent PRC authorities (but subject to the Conditions Precedent to the Second Tranche Subscription having been satisfied or waived (as the case may be)) in the following manner:

- (a) first by the injection of all or, at the sole discretion of the Subscriber, a part, of the Nanning Properties into HOBA Furnishing, provided that such amount shall represent no more than 70% of the Subscription Price, that is, RMB365,547,000 (equivalent to approximately HK\$459,529,000); and
- (b) as to the balance, by the payment of cash.

As the Subscriber will determine at its sole discretion the extent to which the Nanning Properties will be injected into HOBA Furnishing, the proportion in which the Subscription Price will be satisfied by cash payment will be adjusted accordingly (save that the cash portion of the Subscription Price shall represent no less than 30% of the Subscription Price, that is, RMB156,663,000 (equivalent to approximately HK\$196,941,000)).

The Subscription Price was arrived at after arm's length negotiations between the Subscriber and HOBA Furnishing and taking into account, inter alia, the net assets position of HOBA Furnishing, the business prospects of HOBA Furnishing and HOBA Furnishing's reputation in the industry.

The Subscription Price will be funded by the internal resources of the Company or the Group.

Conditions Precedent to the Subscription

The First Tranche Subscription is conditional upon the satisfaction or waiver (as the case may be) of, inter alia, the following conditions (the "**Conditions Precedent to the First Tranche Subscription**"):

- (i) the Subscriber and the Existing Equity Holders having entered into a shareholders' agreement in respect of the main terms of cooperation between the parties (including, inter alia, the composition of the board of HOBA Furnishing and the voting rights at board meetings and general meetings) and the articles of HOBA Furnishing having been amended in accordance with the requirements of the Subscription Agreement and the abovementioned shareholders' agreement to the satisfaction of the Subscriber and the Existing Equity Holders;
- (ii) HOBA Furnishing having opened a designated bank account for the Subscriber's payment of the relevant Subscription Price for the purpose of capital injection;
- (iii) the issue of the Subscription Shares, the enlargement of share capital of HOBA Furnishing, the proposed amendments to the articles of HOBA Furnishing, the signing of the Subscription Agreement by HOBA Furnishing, the handling of the relevant registration procedures with the competent PRC authorities by person(s) appointed by the Subscriber in respect of the First Tranche Subscription and the unconditional waiver of the Existing Equity Holders' pre-emptive rights over the issue of the Subscription Shares having been duly approved by the directors and the shareholders of HOBA Furnishing;
- (iv) HOBA Furnishing having confirmed that its financial statements for the year ended 31 December 2012 is true, accurate, complete and free of any omission and a professional valuer having issued a valuation report in relation to the assets and business of HOBA Furnishing;

- (v) the Subscriber and the Existing Equity Holders having executed letter(s) confirming the identity of the shareholders of HOBA Furnishing, their respective shareholding and the registered capital of HOBA Furnishing immediately after Completion;
- (vi) HOBA Investment having undertaken to change or procure the change of its company name and the company names of its subsidiaries;
- (vii) HOBA Investment and its shareholder(s) having:
 - (a) (where necessary) undertaken to recognize the validity of the Subscription Agreement, the abovementioned shareholders' agreement and the resolutions of the board and shareholders' meetings of HOBA Furnishing at which the transactions contemplated thereby were approved;
 - (b) confirmed that, except for certain lease agreement relating to certain properties in the PRC, there are no outstanding debts, liabilities and obligations owing or incurred by HOBA Furnishing to HOBA Investment or its sole shareholder; and
 - (c) undertaken not to make any demand or claim of any type against HOBA Furnishing relating to any debts incurred thereafter;
- (viii) the legal representatives of certain subsidiaries of HOBA Furnishing having been replaced by persons not connected with the current legal representatives, and HOBA Furnishing having accepted the Subscriber's appointment of certain inspectors with assess rights to the operation and management of HOBA Furnishing;
- (ix) all material issues (including but not limited to legal and financial issues) in respect of HOBA Furnishing having been fully, truthfully, completely, accurately and fairly disclosed to the Subscriber, and the Subscriber, in its sole discretion, being satisfied with the results of the due diligence on HOBA Furnishing;
- (x) there being no material adverse change in the business operations and financial conditions of HOBA Furnishing, any material breach of laws or regulations, disposal of or creation of encumbrance on HOBA Furnishing's material assets, or incurring of significant liabilities by HOBA Furnishing, and save as disclosed to the Subscriber, there being no transfer of all or part of the shares of HOBA Furnishing and there being no creation of rights or any other encumbrances which affects the shares of HOBA Furnishing;
- (xi) there being no breach of the abovementioned shareholders' agreement by the Existing Equity Holders, the warranties and undertakings given by the Existing Equity Holders therein remains true, accurate and free of material omission, and the claims concerning the shareholding of certain Existing Equity Holders having no adverse effect on the Subscription and the future operations of HOBA Furnishing; and
- (xii) the announcement to be issued by the Company pursuant to the Listing Rules in respect of the transactions under the Subscription Agreement having been published, no objection or condition (that cannot be accepted by the Company) having been raised or imposed by the Stock Exchange with respect to the transactions under the Subscription Agreement, and that all obligations of the Company under the Listing Rules having been fully complied with.

The above conditions (iii) to (xi) may be waived in whole or in part by the Subscriber at its absolute discretion. In the event that the Conditions Precedent to the First Tranche Subscription are not satisfied (or waived) within three months of the date of the Subscription Agreement, the Subscriber shall have the right (but not any obligation) to terminate the Subscription Agreement.

The Second Tranche Subscription is conditional upon the satisfaction or waiver (as the case may be) of, inter alia, the following conditions (the “**Conditions Precedent to the Second Tranche Subscription**”):

- (i) the Conditions Precedent to the First Tranche Subscription remain being satisfied;
- (ii) the amended articles of HOBA Furnishing having come into effect and having been registered with the competent PRC authorities;
- (iii) the First Tranche Subscription having been completed and registered with the competent PRC authorities and the Subscriber having become a shareholder of HOBA Furnishing;
- (iv) within 20 days of the payment of the relevant subscription price in respect of the First Tranche Subscription, the passing of the resolutions in the board meeting and the shareholders’ meeting (as the case may be) of HOBA Furnishing to be held in accordance with the requirements of its articles for the purpose of approving (a) the increase in the number of directors of HOBA Furnishing to seven and (b) the appointment of five directors, a supervisor and a deputy general manager (chief financial officer) as nominated by the Subscriber, and the completion of registration with the competent PRC authorities in relation to the abovementioned changes to the directors and supervisor;
- (v) HOBA Furnishing having procured a minority shareholder of 深圳市德高投資發展有限公司 (Shenzhen Degao Investment Development Co., Ltd.*) (a subsidiary of HOBA Furnishing), to transfer her equity interest to HOBA Furnishing or its nominees, and the completion of registration procedures with the competent PRC authorities; and
- (vi) HOBA Furnishing having authorised person(s) nominated by the Subscriber to register the First Tranche Subscription with the competent PRC authorities.

The above Conditions Precedent to the Second Tranche Subscription may be waived in whole or in part by the Subscriber. As long as the Conditions Precedent to the Second Tranche Subscription are not satisfied (or waived), the Subscriber shall have the right (but not any obligation) to terminate the Subscription Agreement and to require HOBA Furnishing to refund any Subscription Price paid by the Subscriber under the Subscription Agreement and repurchase all or part of the Subscription Shares that have been issued to the Subscriber under the First Tranche Subscription.

Other terms

It is agreed that, if it becomes apparent that (a) any representations and warranties given by HOBA Furnishing is untrue, misleading or contain material omission, or (b) any judgment has been entered against certain Existing Equity Holders in respect of the claims concerning

such Existing Equity Holders' shareholding in HOBA Furnishing, the Subscriber shall, in accordance with the terms of the Subscription Agreement, have the right (but not any obligation) to terminate the Subscription Agreement and to require HOBA Furnishing to refund any Subscription Price paid by the Subscriber and repurchase all or part of the Subscription Shares that have been issued to the Subscriber.

INFORMATION ON HOBA FURNISHING

HOBA Furnishing is a company established in the PRC with limited liability. HOBA Furnishing is principally engaged in the operation of furnishing centres in the PRC for the supply of quality home furnishing products and accessories, including branded furniture, lighting, fabric, home decoration, household items and bedding. HOBA Furnishing has developed a good reputation and operation network in the home furnishing industry through its established business, which operates nine furnishing centres in six cities in the PRC.

As at the date of this announcement, the registered capital of HOBA Furnishing is RMB120,000,000 (equivalent to approximately HK\$150,852,000), which is owned by certain Independent Third Parties (the "Existing Equity Holders"), comprising, insofar as the Company is aware, inter alia, certain directors of HOBA Furnishing or their controlled corporation(s). Subject to and after the completion of the Subscription, the registered capital of HOBA Furnishing will be increased to RMB480,000,000 (equivalent to approximately HK\$603,408,000), which will then be owned as to 75% by the Subscriber and the balance by the Existing Equity Holders.

Set out below is a summary of certain audited consolidated financial information of HOBA Furnishing for the two years ended 31 December 2011 and 2012 prepared in accordance with the generally accepted accounting principles in the PRC:

	For the year ended 31 December 2012 (RMB'000) (audited)	For the year ended 31 December 2011 (RMB'000) (audited)
Revenue	230,056	319,615
Net profit/(loss) (before taxation)	1,983	(25,064)
Net loss (after taxation)	(1,778)	(40,001)
	As at 31 December 2012 (RMB'000) (audited)	As at 31 December 2011 (RMB'000) (audited)
Net assets	127,832	130,396

Upon Completion, HOBA Furnishing will become an indirect non wholly-owned subsidiary of the Company and its results will be consolidated into the Group's consolidated financial statements.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Group is principally engaged in the development and operation of large-scale integrated logistics and trade centres in the PRC. The Group intends to establish a home furnishing business in a number of its projects across the PRC.

The Subscription will allow the Group to utilise HOBA Furnishing's reputation and the experience of HOBA Furnishing's management team in establishing the Group's operation in connection with the home furnishing industry. The Board believes that the established brand and operation network of HOBA Furnishing will give the Group immediate access to the furnishing industry, which, together with the integration of the operations of HOBA Furnishing into the integrated logistics and trade centres currently operated by the Group, is expected to speed up the pace of establishing the Group's home furnishing business in a number of projects across the PRC, create synergies with the Group's current operations and satisfy the needs of development plans of the Group, which in turn will enhance the Group's long term development.

On the basis of the foregoing, the Board considers that the Subscription is fair and reasonable and is in the interests of the Group and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Since one of the applicable percentage ratios for the Subscription is more than 5% but all of the ratios are less than 25%, the Subscription constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements thereunder.

The Directors confirm that none of the Company's Directors, controlling shareholders or their respective associates has any direct or indirect interest in the Subscription Agreement.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Board”	the board of Directors of the Company
“Company”	China South City Holdings Limited (華南城控股有限公司), a company incorporated in Hong Kong whose shares are listed on the Main Board of the Stock Exchange
“Completion”	the completion of the Subscription
“Conditions Precedent to the First Tranche Subscription”	has the meaning ascribed to it under the section headed “The Subscription Agreement – Conditions Precedent to the Subscription”
“Conditions Precedent to the Second Tranche Subscription”	has the meaning ascribed to it under the section headed “The Subscription Agreement – Conditions Precedent to the Subscription”

“connected person(s)”		has the meaning ascribed thereto under the Listing Rules
“Director(s)”		the director(s) of the Company
“Existing Holders”	Equity	has the meaning ascribed to it under the section headed “Information on HOBA Furnishing”
“First Subscription”	Tranche	the subscription of 72,000,000 shares in HOBA Furnishing (being part of the Subscription Shares) by the Subscriber pursuant to the Subscription Agreement
“Group”		the Company and its subsidiaries
“HOBA Furnishing”		深圳市好百年家居連鎖股份有限公司 (Shenzhen HOBA Home Furnishing Chain Store Co., Ltd.*), a company incorporated in the PRC with limited liability
“HOBA Investment”		深圳市好百年投資發展有限公司 (Shenzhen HOBA Investment Development Co., Ltd.*), a company incorporated in the PRC with limited liability
“Hong Kong”		the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Parties”	Third	third parties independent of the Company and its connected persons
“Listing Rules”		the Rules Governing the Listing of the Securities on the Stock Exchange
“Nanning Properties”		certain trade centre properties owned by the Subscriber which are located in No.56 Shajing Avenue, Jiangnan District, Nanning City, Guangxi Zhuang Autonomous Region, PRC
“PRC”		the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Second Subscription”	Tranche	the subscription of the remaining 288,000,000 shares in HOBA Furnishing (being part of the Subscription Shares) by the Subscriber pursuant to the Subscription Agreement
“Shareholder(s)”		holder(s) of ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Stock Exchange”		The Stock Exchange of Hong Kong Limited

“Subscriber”	南寧華南城有限公司 (Nanning China South City Company Limited*), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Subscription”	the subscription of the Subscription Shares by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 29 July 2013 entered into between the Subscriber and HOBA Furnishing in respect of the Subscription
“Subscription Price”	has the meaning ascribed to it under the section headed “The Subscription Agreement – Subscription Price”
“Subscription Shares”	an aggregate of 360,000,000 new shares in the registered capital of HOBA Furnishing to be issued to the Subscriber pursuant to the Subscription Agreement
“working day(s)”	day(s) other than statutory public holidays in the PRC
“HK\$”	Hong Kong dollars(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

Unless otherwise specified in this announcement, translation of RMB into HK\$ is made in this announcement, for illustration purpose only, at the rate of RMB1 to HK\$1.2571. No representation is made that any amount in RMB could have been or could be converted at such rate or any other rates.

** The English translation is provided for identification purposes only.*

For and on behalf of the Board
China South City Holdings Limited
CHENG Chung Hing
Co-chairman and Executive Director

Hong Kong, 29 July 2013

As at the date of this announcement, the executive directors of the Company are Mr. Cheng Chung Hing, Mr. Leung Moon Lam and Professor Xu Yang; the non-executive directors of the Company are Dr. Ma Kai Cheung, SBS, BBS, Mr. Sun Kai Lit Cliff, BBS, JP, Dr. Ma Wai Mo and Mr. Cheng Tai Po; and the independent non-executive directors of the Company are Mr. Leung Kwan Yuen Andrew, GBS, SBS, JP, Mr. Li Wai Keung, Mr. Hui Chiu Chung Stephen, JP and Mr. Yung Wing Ki Samuel, SBS, MH, JP.