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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)**

**CONNECTED TRANSACTIONS**  
**NON-EXERCISE OF RIGHTS OF FIRST OFFER**

Reference is made to the Prospectus in relation to, among other things, the Deeds of Option and Undertaking entered into by each of Mr. Cheng and Mr. Leung on 4 September 2009.

Each of Mr. Cheng and Mr. Leung recently received a written notice from Man Sang BVI stating, among other things, its intention to acquire the effective interests in Northeast Logistics City held by Mr. Cheng and Mr. Leung respectively, for a total consideration of US\$117,758,638 which will be satisfied by way of a new issue of ordinary shares in Man Sang BVI. Mr. Cheng and Mr. Leung have an effective interest in Northeast Logistics City of approximately 30% and 11% respectively.

Each of Mr. Cheng and Mr. Leung has notified the Company on 3 February 2010 the details of the Proposed Transaction and sought the confirmation from the Company whether it would like to exercise its Rights of First Offer.

The Rights of First Offer will entitle the Company to acquire the effective interests in Northeast Logistics City from each of Mr. Cheng and Mr. Leung, representing a total of 41% effective interests in Northeast Logistics City for a total consideration of US\$117,758,638, which is the same price offered by Man Sang BVI. It is expected that if the Rights of First Offer are exercised, the Company will pay such consideration by internal resources and borrowings from financial institutions. The Company understands that the consideration is determined with reference to the financial and business conditions of Northeast Logistics City.

Subject to the approval of the Independent Shareholders at the EGM, the Board intends to inform Mr. Cheng and Mr. Leung of the Company's decision that it will not exercise the Rights of First Offer.

Since the non-exercise of the Rights of First Offer involves the Company and each of Mr. Cheng and Mr. Leung and the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) exceeds 2.5%, the transactions contemplated thereunder will constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Accordingly, the Company is subject to the relevant reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

A circular containing, among others, (i) details of the non-exercise of the Rights of First Offer; (ii) the recommendations of the Independent Board Committee to the Independent Shareholders in relation to the non-exercise of the Rights of First Offer; (iii) the advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM will be despatched to the Shareholders as soon as practicable.

## **BACKGROUND**

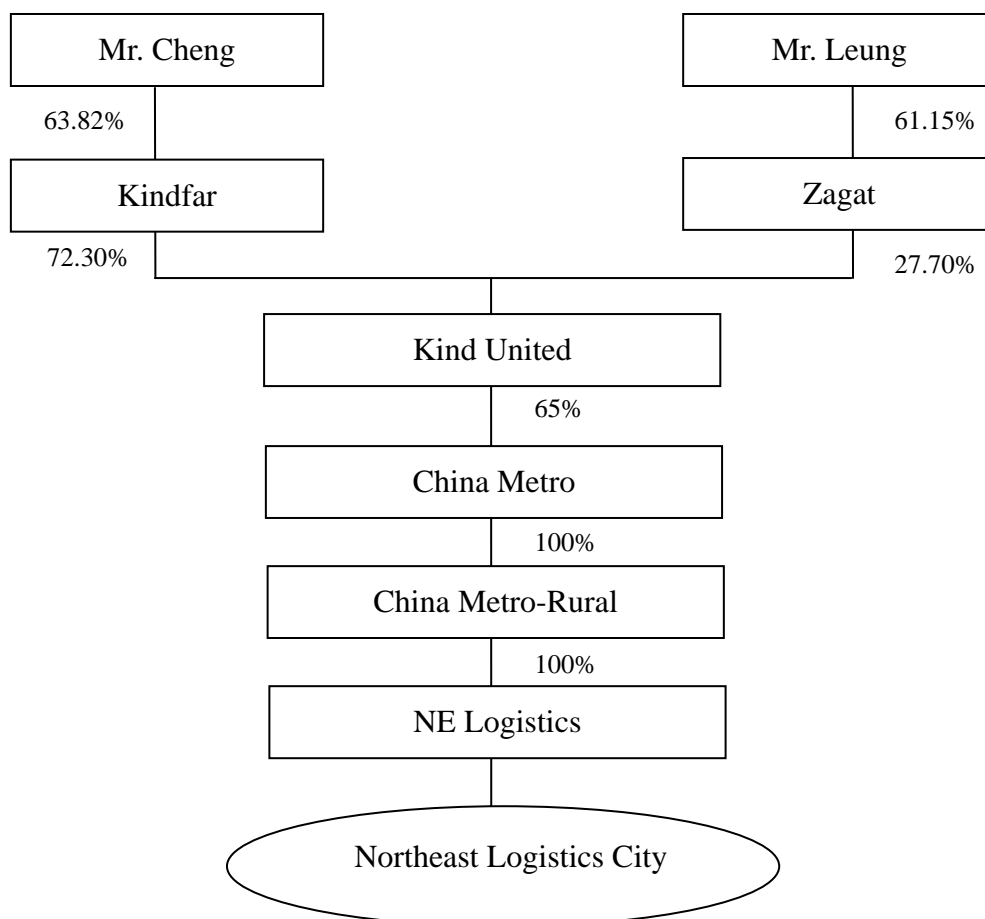
Reference is made to the Prospectus in relation to, among other things, the Deeds of Option and Undertaking entered into by each of Mr. Cheng and Mr. Leung on 4 September 2009.

Each of Mr. Cheng and Mr. Leung recently received a written notice from Man Sang BVI stating, among other things, its intention to acquire the effective interests in Northeast Logistics City held by Mr. Cheng and Mr. Leung respectively, for a total consideration of US\$117,758,638 which will be satisfied by way of a new issue of ordinary shares in Man Sang BVI. Mr. Cheng and Mr. Leung have an effective interest in Northeast Logistics City of approximately 30% and 11% respectively.

## **RIGHTS OF FIRST OFFER**

Each of Mr. Cheng and Mr. Leung has notified the Company on 3 February 2010 the details of the Proposed Transaction and sought the confirmation from the Company whether it would like to exercise its Rights of First Offer.

As at the date of this announcement, Northeast Logistics City is indirectly held by each of Mr. Cheng and Mr. Leung under the following shareholding structure:



The Rights of First Offer will entitle the Company to acquire the effective interests in Northeast Logistics City from each of Mr. Cheng and Mr. Leung, representing a total of 41% effective interests in Northeast Logistics City for a total consideration of US\$117,758,638, which is the same price offered by Man Sang BVI. It is expected that if the Rights of First Offer are exercised, the Company will pay such consideration by internal resources and borrowings from financial institutions. The Company understands that the consideration is determined with reference to the financial and business conditions of Northeast Logistics City.

## **NORTHEAST LOGISTICS CITY**

Northeast Logistics City is a comprehensive and integrated agricultural logistics and trade center providing products such as foodstuffs, agricultural products, local specialty products, works of art, construction materials, furniture, electrical equipment and textiles in Tieling of the Liaoning Province, which is located in the northeastern part of the PRC. It commenced its business in August 2009. It is expected to have a total planned GFA of approximately 8 million square meters on a total planned site area of approximately 4 million square meters upon completion of all phases.

As mentioned in the Prospectus, the Company understands from the management of Northeast Logistics City that, on the national level, the northeastern region of the PRC is a major base for agricultural products due to the fertile lands and farming machineries and tools (including fertilizers) are prevalent in the region. Accordingly, the primary goal of Northeast Logistics City is to capture the demand for the agricultural sector and other related economic advantages.

China Metro is the indirect holding company of the developer and operator of Northeast Logistics City. Based on the unaudited consolidated financial statements of China Metro prepared in accordance with the International Financial Reporting Standards for the two financial years ended 31 March 2008 and 2009, the profit before taxation and extraordinary items of China Metro are as follows:

	For the financial year ended 31 March 2008	For the financial year ended 31 March 2009
Profit before taxation and extraordinary items of China Metro	HK\$4,620,566	HK\$111,577,386

The unaudited net asset value of China Metro, based on the International Financial Reporting Standards, as at 31 December 2009 was HK\$261,316,492.

Mr. Cheng and Mr. Leung have an effective interest in China Metro of approximately 30% and 11% respectively.

#### **REASONS FOR NOT EXERCISING THE RIGHTS OF FIRST OFFER**

The Board has been provided with various documents in relation to Northeast Logistics City, including, a business plan of Northeast Logistics City and the relevant financial information of Northeast Logistics City.

Having taken into account the principal factors and considerations set out below, the Independent Directors (excluding the independent non-executive Directors who reserve their views pending receipt of advice from Vinco Capital) have on 19 February 2010 concluded that it would not be in the best interests of the Company and the Shareholders as a whole to exercise the Rights of First Offer at the present time:

1. China South City and Northeast Logistics City primarily supply products for industrial and agricultural sectors respectively. The products offered by, and the occupants of, Northeast Logistics City will be distinctively different from those of the Group. Considering that the Group has no relevant experience in operating logistics and trade center for the agricultural sector, the Independent Directors are of a view that substantial manpower and capital will be required to efficiently operate the business of Northeast Logistics City. In addition, since there is currently no imminent competition between China South City and Northeast Logistics City given the difference in the focus of business sectors and geographical distance, the Company considers that it is not necessary to reduce competition by acquiring the effective interests in Northeast Logistics City held by Mr. Cheng and Mr. Leung respectively. Therefore it is not commercially beneficial to the Group to acquire Northeast Logistics City.

2. The Group has 5 projects for development including, China South City Phase 2, China South City Nanning, China South City Nanchang, China South City Xi'an and Heyuan project. These projects are in line with the business development strategy of the Group. The Independent Directors are of the view that the exercise of the Rights of First Offer will require additional costs and capital injection that may have an impact on the development of the existing projects which are more in line with the current business development strategy of the Company. According to the business plan, the total development cost for the construction of the remaining phases of Northeast Logistics City is approximately RMB17 billion.
3. Given the brand name of the Company together with the relevant expertise obtained from the development, management and operation of integrated logistics trade centers such as China South City, China South City Nanning and China South City Nanchang, the Independent Directors are of the view that the Company has the capability and the necessary experience to develop a brand new comprehensive and integrated logistics and trade center at a more cost effective manner. According to the business plan, the existing land use rights of Northeast Logistics City are approximately 1,788,000 square meters. Pursuant to a master agreement entered into between Northeast Logistics City and the Tieling City municipal government of the PRC, Northeast Logistics City has the right to further acquire approximately 2,137,000 square meters of land at a consideration of approximately RMB176 per square meter (inclusive of all taxes) but the final cost will be determined by way of a public tender. When comparing the consideration to be paid in relation to the acquisition of 41% of the effective interests in Northeast Logistics City against 41% of the area of the existing land use rights of Northeast Logistics City, the cost for the existing land use rights of Northeast Logistics City in relation to the acquisition will approximately be RMB1,104 per square meter. However, the costs for the existing land use rights of the existing projects of the Company are approximately RMB150 to RMB529 per square meter, with an average of approximately RMB369 per square meter. Such costs are relatively lower than the cost for the existing land use rights of Northeast Logistics City in relation to the acquisition. As such, the consideration required to acquire the effective interests in Northeast Logistics City is not commercially attractive to the Company.

Having taken into account the principal factors and considerations above, the Independent Directors agree that it would be in the interests of the Company and the Shareholders as a whole not to exercise the Rights of First Offer are fair and reasonable. Subject to compliance with the relevant requirements of the Listing Rules, the Board intends to inform Mr. Cheng and Mr. Leung of the Company's decision that it will not exercise the Rights of First Offer.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, as Mr. Cheng and Mr. Leung are Directors and the Substantial Shareholders, Mr. Cheng and Mr. Leung are regarded as connected persons of the Company.

As at the date of this announcement, Mr. Cheng and Mr. Leung together with their respective associates interested in 2,532,508,558 shares and 722,874,712 shares in the

Company, representing 42.21% and 12.05% of the existing issued share capital of the Company respectively.

Since the non-exercise of the Rights of First Offer involves the Company and each of Mr. Cheng and Mr. Leung and the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) exceeds 2.5%, the transactions contemplated thereunder will constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Accordingly, the Company is subject to the relevant reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of the Rights of First Offer. The Company has appointed Vinco Capital as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

A circular containing, among others, (i) details of the non-exercise of the Rights of First Offer; (ii) the recommendations of the Independent Board Committee to the Independent Shareholders in relation to the non-exercise of the Rights of First Offer; (iii) the advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM will be despatched to the Shareholders as soon as practicable.

The EGM will be convened as soon as practicable at which an ordinary resolution will be proposed for the Independent Shareholders to consider, and if thought fit, to approve the non-exercise of the Rights of First Offer and related matters. Each of Mr. Cheng and Mr. Leung and his respective associates, being the connected persons of the Company having a material interest in the Proposed Transaction, will abstain from voting at the EGM.

## **GENERAL**

### **The Company**

The Company is a developer and operator of large-scale, integrated logistics and trade centers in the PRC. It currently operates China South City in Shenzhen, the Guangdong Province, the PRC.

### **Man Sang BVI**

Man Sang BVI is a company incorporated in the British Virgin Islands with its shares listed on the NYSE Amex under the ticker symbol of "MHJ". It is principally engaged in the purchase, process, assembly, merchandise and wholesale distribution of pearls, pearl jewelry products and jewelry products. As at the date of this announcement, Mr. Cheng is the chairman, president, chief executive officer and the Substantial Shareholder of Man Sang BVI, whilst Mr. Leung does not have any interests or any position in Man Sang BVI.

## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“China Metro”	China Metro-Rural Limited (formerly known as Mega Dragon Limited), a company incorporated in the Cayman Islands and in the process of redomiciliation to the British Virgin Islands, which is the indirect holding company of NE Logistics
“China Metro-Rural”	China Metro-Rural Exchange Limited, a company incorporated in Hong Kong which is the holding company of NE Logistics and directly wholly owned by China Metro
“China South City”	the integrated logistics and trade center in Shenzhen, the Guangdong Province of the PRC developed and operated by the Group
“Company”	China South City Holdings Limited, a company incorporated in Hong Kong whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deed(s) of Option and Undertaking”	the deed(s) of option and undertaking dated 4 September 2009 entered into between the Company and each of Mr. Cheng and Mr. Leung
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting to be convened and held for the purpose of considering and, if thought fit, to approve the non-exercise of the Rights of First Offer
“GFA”	the gross floor area
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee of the Company comprising the independent non-executive Directors who do not have a material interest in the subject matter
“Independent Directors”	the Directors other than Mr. Cheng, Mr. Leung and the independent non-executive Directors
“Independent Shareholder(s)”	the Shareholders other than Mr. Cheng and Mr. Leung and their respective associates
“Kindfar”	Kindfar International Limited, a company incorporated in the British Virgin Islands which is directly owned as to 63.82% by Mr. Cheng
“Kind United”	Kind United Holdings Limited, a company incorporated in the British Virgin Islands which is directly owned as to 72.30% by Kindfar and 27.70% by Zagat respectively
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Man Sang BVI”	Man Sang International (B.V.I.) Limited, a company listed on the NYSE Amex
“Mr. Cheng”	Mr. Cheng Chung Hing, a Director and a Substantial Shareholder
“Mr. Leung”	Mr. Leung Moon Lam, a Director and a Substantial Shareholder
“NE Logistics”	China Northeast Logistics City Co. Ltd. (鐵嶺東北物流城有限公司), a company incorporated in the PRC which develops and operates Northeast Logistics City
“Northeast Logistics City”	a comprehensive and integrated logistics and trade center, details of which are set out under the section headed “Northeast Logistics City”
“PRC”	the People’s Republic of China
“Proposed Transaction”	the transaction proposed to be entered into by Man Sang BVI for the acquisition of all effective interests in Northeast Logistics City held by Mr. Cheng and Mr. Leung respectively



“Prospectus”	the prospectus of the Company issued on 17 September 2009
“RMB”	Renminbi, the lawful currency of the PRC
“Right(s) of First Offer”	the right(s) of first offer granted to the Company by Mr. Cheng and Mr. Leung respectively in relation to their effective interests in Northeast Logistics City
“SFO”	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
“Shareholder(s)”	the shareholder(s) of the Company
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“US\$”	the United States dollar, the lawful currency of the United States of America
“Vinco Capital”	Grand Vinco Capital Limited, a wholly-owned subsidiary of Vinco Financial Group Limited (stock code: 8340), a corporation licensed to carry out business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the non-exercise of the Rights of First Offer
“Zagat”	Zagat International Limited, a company incorporated in the British Virgin Islands which is directly owned as to 61.15% by Mr. Leung
“%”	per cent

By order of the Board  
**China South City Holdings Limited**  
**Cheng Chung Hing**  
*Co-Chairman and Executive Director*

Hong Kong, 19 February 2010

*As at the date of this announcement, the executive Directors are Mr. Cheng Chung Hing, Mr. Leung Moon Lam and Professor Xu Yang; the non-executive Directors are Dr. Ma Kai Cheung, SBS, BBS, Mr. Sun Kai Lit Cliff, BBS, JP and Dr. Ma Wai Mo; and the independent non-executive Directors are Mr. Shi Wan Peng, Mr. Leung Kwan Yuen Andrew, SBS, JP and Mr. Li Wai Keung.*