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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 TRANSACTIONS - DISPOSAL OF SUBSIDIARIES AND ASSIGNMENT OF LOAN

The Board is pleased to announce that on 28 September 2011, China Central City and CSC Shenzhen (both being wholly owned subsidiaries of the Company), Project Co (a wholly owned subsidiary of both the Target Co and the Company), the Share Purchaser and the Loan Purchaser have entered into the Agreement, pursuant to which (among other things): (i) China Central City has agreed to sell and the Share Purchaser has agreed to purchase the Sale Shares (comprising the entire issued share capital of the Target Co) at a consideration of RMB730 million (equivalent to approximately HK\$892.8 million); and (ii) CSC Shenzhen has agreed to assign and the Loan Purchaser has agreed to purchase the Loan at a consideration of approximately RMB237.8 million (equivalent to approximately HK\$290.8 million). The aggregate consideration of the Sale of approximately RMB967.8 million (equivalent to approximately HK\$1,183.6 million), is determined with reference to the arm's length negotiation among parties to the Agreement. After Transfer, the Target Co Group will cease to be subsidiaries of the Company.

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Sale exceeds 5% but is less than 25%, the transactions contemplated under the Agreement constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules and therefore the Company is subject to the reporting and announcement requirements but is exempt from shareholders' approval requirement.

A. INTRODUCTION

On 28 September 2011, China Central City and CSC Shenzhen (both being wholly owned subsidiaries of the Company), Project Co (a wholly owned subsidiary of both the Target Co and the Company), the Share Purchaser and the Loan Purchaser have entered into the

Agreement, pursuant to which (among other things): (i) China Central City has agreed to sell and the Share Purchaser has agreed to purchase the Sale Shares; and (ii) CSC Shenzhen has agreed to assign and the Loan Purchaser has agreed to purchase the Loan.

B. THE AGREEMENT

Date : 28 September 2011

Parties:

- (1) China Central City (as vendor of the Sale Shares)
- (2) CSC Shenzhen (as vendor of the Loan)
- (3) Project Co
- (4) The Share Purchaser (as purchaser of the Sale Shares)
- (5) The Loan Purchaser (as purchaser of the Loan)

The Share Purchaser is a wholly owned subsidiary of the Loan Purchaser and is principally engaged in investment holding. The principal activities of the Loan Purchaser are property development, property agency, property management and trading. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, the Share Purchaser, the Loan Purchaser and their ultimate beneficial owner(s) are third party(ies) which is/are independent of the Company and the connected persons of the Company as defined under the Listing Rules.

1. Assets to be disposed

Pursuant to the Agreement (among other things): (i) China Central City has agreed to sell and the Share Purchaser has agreed to purchase the Sale Shares; and (ii) CSC Shenzhen has agreed to assign and the Loan Purchaser has agreed to purchase the Loan.

The Sale Shares represent the entire issued share capital of the Target Co and the Loan represents the amount due from the Project Co to CSC Shenzhen as at 27 September 2011.

2. Consideration

The aggregate consideration of the Sale, which is determined with reference to the arm's length negotiation among the parties to the Agreement, is approximately RMB967.8 million (equivalent to approximately HK\$1,183.6 million), comprising the Sale Shares Consideration of RMB730 million (equivalent to approximately HK\$892.8 million), and the Loan Consideration of approximately RMB237.8 million (equivalent to approximately HK\$290.8 million).

The Sale Shares Consideration shall be paid by the Share Purchaser to China Central City in cash in any currency designated by China Central City in the following manner:

- (i) the first instalment in the amount of RMB200 million (equivalent to approximately HK\$244.6 million) shall be paid on the date of signing the Agreement;

- (ii) the second instalment in the amount of RMB100 million (equivalent to approximately HK\$122.3 million) shall be paid within 10 days after signing the Agreement;
- (iii) the third instalment in the amount of RMB200 million (equivalent to approximately HK\$244.6 million) shall be paid within 6 months after signing the Agreement; and
- (iv) the remainder of the Sale Shares Consideration in the amount of RMB230 million (equivalent to approximately HK\$281.3 million) shall be paid within 9 months after signing the Agreement.

The Loan Consideration shall be paid by the Loan Purchaser to CSC Shenzhen in cash in the following manner:

- (i) the first payment of RMB100 million (equivalent to approximately HK\$122.3 million) shall be paid within 6 months after signing the Agreement; and
- (ii) the remainder of the Loan Consideration in the amount of approximately RMB137.8 million (equivalent to approximately HK\$168.5 million) shall be paid within 9 months after signing the Agreement.

3. Transfer and Completion

Pursuant to the Agreement, the parties agree that the transfer of the Sale Shares shall occur on the date which all conditions precedent have been satisfied, which the Sale Shares shall be transferred from China Central City to the Share Purchaser and the Loan shall be assigned to the Loan Purchaser. After the transfer of the Sale Shares to the Share Purchaser, the Target Co Group will cease to be subsidiaries of the Company. Completion will take place upon (i) the aggregate consideration of the Sale having been settled; and (ii) the statutory registrations of the Project Co having been completed.

4. Project Co Guarantee

Due to the bank administrative procedures, it will take some time for the Project Co Guarantee to be released. The Share Purchaser has agreed to procure the release of the Project Co Guarantee as soon as practicable after the signing of the Agreement. In the event that the Project Co Guarantee has not been released within 9 months after the signing of the Agreement, the Share Purchaser has agreed to procure that the relevant bank borrowings be repaid.

5. Conditions Precedent to Transfer

Transfer is conditional upon the following conditions:

- (i) the board of directors of China Central City having resolved to approve the sale of the Sale Shares;

- (ii) the board of directors of the Share Purchaser having resolved to approve the purchase of the Sale Shares;
- (iii) the board of directors of the Loan Purchaser having resolved to approve the acceptance of the assignment of the Loan; and
- (iv) China Central City having effected the release of the FP Share Charge and the FG Share Charge.

The FP Share Charge and the FG Share Charge were part of the security for the obligations of the Company under the Notes and the Indenture. Details of the Notes and the Indenture were disclosed in the announcement of the Company dated 17 January 2011.

The above conditions precedent to the Transfer have been satisfied in full on the date of this announcement and as such, the Transfer as between the parties under the Agreement took place on the date of this announcement.

C. INFORMATION ON THE TARGET CO GROUP

The Target Co, being a wholly owned subsidiary of the Company prior to the Sale contemplated under the Agreement, is an investment holding company. The principal activities of the Target Co Group are investment holding and property development, with which the property development business is conducted by the Project Co, which is located in Linjiang Section of Donghuan Road, Heyuan City, Guangdong Province, the PRC and occupies a site area of approximately 1.14 million square metres.

For the purpose of this announcement, assuming the Target Co Group had been formed since 1 January 2009, set out below are certain unaudited combined financial information of the Target Co Group for each of the two financial years ended 31 December 2010 prepared in accordance with the Hong Kong Financial Reporting Standards:

	For year ended 31 December 2009 RMB'000	For year ended 31 December 2010 RMB'000
Net loss before tax	1,736	6,646
Net loss after tax	1,736	6,646

As at 31 August 2011, the unaudited combined net asset value of the Target Co Group was approximately RMB213.6 million (equivalent to approximately HK\$261.2 million). The valuation of the Target Co Group as at 31 August 2011 appraised by an independent valuer is of approximately RMB706.7 million (equivalent to approximately HK\$864.3 million), which represented the fair market value of the Target Co Group based on the assets approach. The book value of the Loan was approximately RMB237.8 million (equivalent to approximately HK\$290.8 million).

D. REASONS FOR THE SALE AND BENEFITS TO THE COMPANY

The principal activities of the Group are the development and operation of large-scale integrated logistics and trade centers in the PRC, and the provision of a comprehensive trading platform of raw materials and finished products for domestic and international wholesale suppliers, buyers, manufacturers and distributors. The Target Co Group is primarily focused on residential projects development which is not the core business of the Group.

The gain expected to accrue to the Group from the Sale would be approximately HK\$380 million. The estimated gain (which is subject to auditors' confirmation) is calculated by reference to the unaudited financial statements of the Target Co Group prepared in accordance with Hong Kong Financial Reporting Standards and represents, among other things, the difference between the aggregate consideration of the Sale and the aggregate of (i) investment cost to the Target Co; (ii) unaudited combined net asset value of the Target Co Group; (iii) book value of the Loan; (iv) the foreign currency translation reserve related to the Project Co; and (v) the related tax effect of the Sale. The proceeds from the Sale will be used as additional working capital for the development of the Group's business. The Company believes that the disposal of the Target Co Group which allows it to focus on its core business is beneficial to the Group.

Having considered the above, the Directors (including the independent non-executive Directors) consider that the Agreement which has been entered into on normal commercial terms under arms' length negotiation and is beneficial to the Group, is fair and reasonable and is in the interests of the Shareholders as a whole.

E. LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Sale exceeds 5% but is less than 25%, the transactions contemplated under the Agreement constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules and therefore the Company is subject to the reporting and announcement requirements but is exempt from shareholders' approval requirement.

F. DEFINITIONS

“Agreement”	the agreement dated 28 September 2011 between China Central City, CSC Shenzhen, Project Co, the Share Purchaser and the Loan Purchaser in relation to the Sale
“Board”	the board of Directors
“China Central City”	China Central City (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“Company”	China South City Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange

“Completion”	Completion of the sale and purchase of the Sale Shares and the assignment of the Loan in accordance with the terms and conditions of the Agreement
“CSC Shenzhen”	華南國際工業原料城(深圳)有限公司 (China South International Industrial Materials City (Shenzhen) Co. Limited*), a company incorporated in the PRC and a wholly owned subsidiary of the Company
“Director(s)”	director(s) of the Company
“FG Share Charge”	the share charge dated 14 January 2011 made between Target Co and the Hongkong and Shanghai Banking Corporation Limited pursuant to which Target Co mortgaged, charged and assigned by way of first priority fixed charge the shares in Fortune Great Investment Limited, a subsidiary of Target Co, to the Hongkong and Shanghai Banking Corporation Limited
“FP Share Charge”	the share charge dated 14 January 2011 made between China Central City and the Hongkong and Shanghai Banking Corporation Limited pursuant to which China Central City mortgaged, charged and assigned by way of first priority fixed charge the shares in Target Co to the Hongkong and Shanghai Banking Corporation Limited
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Indenture”	the indenture dated 14 January 2011 made between the Company (as issuer), the Subsidiary Guarantors (as guarantor) and the Hongkong and Shanghai Banking Corporation Limited (as trustee) pursuant to which the Notes were issued
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the amount of approximately RMB237.8 million (equivalent to approximately HK\$290.8 million) due from Project Co to CSC Shenzhen as at 27 September 2011

“Loan Consideration”	the amount of approximately RMB237.8 million, being the book value of the Loan as at 27 September 2011, which is the amount payable by the Loan Purchaser for the purchase of the Loan pursuant to the Agreement
“Loan Purchaser”	深圳市國泰房地產開發有限公司(Shenzhen Shi Guo Tai Fang Di Chan Kai Fa Ltd*), a company incorporated in the PRC
“Notes”	13.50% senior notes due 2016 of an aggregate principal amount of US\$250,000,000 issued by the Company
“PRC”	the People's Republic of China, which, for the purpose of this announcement, unless otherwise specified, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Project Co”	華南城實業(河源)有限公司(China South City Enterprise (Heyuan) Co. Ltd.*), a company incorporated in the PRC, a wholly owned subsidiary of both the Target Co and the Company
“Project Co Guarantee”	the guarantee relating to the guarantee agreement dated 21 September 2010 in the amount of RMB180 million given by CSC Shenzhen in respect of the bank borrowings of the Project Co for the purpose of property development in favour of 華商銀行 (Chinese Mercantile Bank)
“RMB”	Renminbi, the lawful currency of the PRC
“Sale”	the sale of the Sale Shares and the assignment of the Loan pursuant to the Agreement
“Sale Shares”	3 ordinary shares of US\$1 each in the share capital of the Target Co, representing the entire issued share capital of the Target Co
“Sale Shares Consideration”	an amount equivalent to RMB730 million, being the amount payable by the Share Purchaser for the purchase of the Sale Shares pursuant to the Agreement
“Shareholder(s)”	holder(s) of Share(s)
“Share Purchaser”	Gold Chino Limited (金華豐有限公司), a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Loan

	Purchaser
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary Guarantors”	the subsidiaries of the Company which provide a guarantee for the payment of the Notes provided that those Subsidiary Guarantors will not include any subsidiaries of the Company incorporated under the laws of the PRC
“Transfer”	transfer of the Sale Shares and the assignment of the Loan in accordance with the terms and conditions of the Agreement
“Target Co”	Fortune Pace Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“Target Co Group”	the Target Co and its subsidiaries
“US\$”	United States dollars, the lawful currency of the United States of America

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\$1.223. No representation is made that any amount in RMB could have been or could be converted at such rate or any other rates.

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

Hong Kong, 28 September 2011

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, Dr. Ma Wai Mo and Mr. Cheng Tai Po; and the independent non-executive Directors are Mr. Leung Kwan Yuen Andrew, GBS, SBS, JP, Mr. Li Wai Keung, Mr. Hui Chiu Chung Stephen, JP and Mr. Shi Wan Peng.

** for identification purpose only*