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## **SHUN CHEONG HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**Stock Code: 650**

### **PROPOSED CAPITAL REORGANISATION INVOLVING SHARE CONSOLIDATION, CAPITAL REDUCTION, SHARE SUBDIVISION AND CANCELLATION OF SHARE PREMIUM ACCOUNT ONGOING CONNECTED TRANSACTION**

**Financial adviser**

**WATTERSON ASIA LIMITED**

#### **CAPITAL REORGANISATION**

The Directors propose to put forward the following Capital Reorganisation to shareholders for consideration:

- (a) the consolidation of every four Existing Shares of HK\$0.10 each (issued and unissued) into one Consolidated Share;
- (b) the reduction of the nominal value of each Consolidated Share in issue from HK\$0.40 into HK\$0.01 by the cancellation of HK\$0.39 from the paid-up capital on each Consolidated Share;
- (c) the subdivision of each authorised but unissued Consolidated Share of HK\$0.40 into 40 New Shares of HK\$0.01 each;
- (d) the application of the total credit of HK\$45,212,856 arising from the Capital Reduction to set off part of the accumulated losses of the Company which totaled HK\$108,935,656 as at 31 March 2004 (the latest published audited balance sheet date); and

- (e) the cancellation of the share premium account by HK\$110,631,927 and the application of the credit arising as follows:
  - (i) to eliminate the balance of the accumulated losses of the Company as at 31 March 2004; and
  - (ii) to apply the remaining credit of HK\$46,909,127 arising therefrom to the Company's contributed surplus account.

Existing Shares are currently traded in board lots of 2,000 Existing Shares. Upon the Capital Reorganisation becoming effective, the New Shares will be traded in board lots of 10,000 New Shares.

### **ONGOING CONNECTED TRANSACTION**

The Directors also wish to announce that Ever Billion, a wholly-owned subsidiary of the Company, has on 10 August 2004 entered into the Agreement with Chinney Construction, a connected person as defined under the Listing Rules, to act as the sub-contractor of Chinney Construction for a 3-year buildings and land maintenance contract awarded by the Architectural Services Department of the Government to Chinney Construction on 31 March 2004. Based on information provided by the Government, total contract amount payable by the Government under the 3-year Contract is estimated to be around HK\$300 million.

The Agreement, which is entered into in the ordinary and usual course of business of the Group, constitutes ongoing connected transactions of the Company under Rule 14A.35 of the Listing Rules and is therefore subject to the approval of independent shareholders of the Company under the Listing Rules.

A circular containing details of the Agreement, advice from an independent financial adviser in respect of the Agreement and other information will be sent to shareholders in due course for the purpose of seeking the approval of independent shareholders of the Company at a special general meeting to be convened.

### **SUSPENSION AND RESUMPTION OF TRADING IN THE EXISTING SHARES**

Trading in the Existing Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 6 August 2004 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Existing Shares with effect from 9:30 a.m. on 11 August 2004.

### **CAPITAL REORGANISATION**

The Directors propose to put forward the following to Shareholders to effect the Capital Reorganisation pursuant to the Companies Act:

- (a) the consolidation of every four Existing Shares of HK\$0.10 each (issued and unissued) into one Consolidated Share;

- (b) the reduction of the nominal value of each Consolidated Share in issue from HK\$0.40 into HK\$0.01 by the cancellation of HK\$0.39 from the paid-up capital on each Consolidated Share;
- (c) the subdivision of each authorised but unissued Consolidated Share of HK\$0.40 into 40 New Shares of HK\$0.01 each;
- (d) the application of the total credit of HK\$45,212,856 arising from the Capital Reduction to set off part of the accumulated losses of the Company as at 31 March 2004 which totaled HK\$108,935,656 as at 31 March 2004 (the latest published audited balance sheet date); and
- (e) the cancellation of the share premium account by HK\$110,631,927 and the application of the credit arising as follows:
  - (i) to eliminate the balance of the accumulated losses of the Company as at 31 March 2004; and
  - (ii) to apply the remaining credit of HK\$46,909,127 arising therefrom to the Company's contributed surplus account.

As at the date of this announcement, the authorised share capital of the Company was HK\$80,000,000 divided into 800,000,000 Existing Shares and the issued share capital of the Company was HK\$46,372,160 divided into 463,721,600 Existing Shares. The nominal value of the paid up capital and the sums standing to the credit of the share premium account as set out in the Company's audited financial statements for the year ended 31 March 2004 were approximately HK\$46.37 million and HK\$110.63 million respectively. The Company currently has no outstanding options, warrants or other securities convertible into or giving rights to subscribe for Existing Shares.

Based on the number of issued Existing Shares as at the date of this announcement, the Capital Reduction will cause the paid up capital of the Company to be reduced by approximately HK\$45.21 million. Such amount will be applied to eliminate part of the accumulated losses of the Company, which amounted to approximately HK\$108.94 million as at 31 March 2004.

In addition, the share premium account of HK\$110,631,927 as at 31 March 2004 is to be cancelled and the application of the credit arising as follows:

- (i) to eliminate the balance of the accumulated losses of the Company as at 31 March 2004 as shown in the audited accounts of the Company for the year ended 31 March 2004; and
- (ii) to apply the remaining credit of HK\$46,909,127 arising therefrom to the Company's contributed surplus account.

Upon the Capital Reorganisation becoming effective, the authorised share capital of the Company will be HK\$80,000,000 divided into 8,000,000,000 New Shares and the issued share capital of the Company will be HK\$1,159,304 divided into 115,930,400 New Shares.

The Existing Shares are currently traded in board lots of 2,000 Existing Shares. Based on the closing price of HK\$0.065 per Existing Share as at 5 August 2004, being the last trading date of the Existing Shares prior to the date of this announcement, the market value per board lot of the Existing Shares is HK\$130. The New Shares will be traded in board lots of 10,000 New Shares and the estimated market value per board lot of the New Shares will be HK\$2,600 (calculated based on the closing price of HK\$0.065 per Existing Share as at 5 August 2004 and assuming the Capital Reorganisation has become effective). The New Shares, when issued, will rank pari passu in all respects with each other.

## **CONDITIONS OF THE CAPITAL REORGANISATION**

The Capital Reorganisation will be conditional upon, inter alia, the following:

- (a) the passing of a special resolution by the Company's shareholders at a special general meeting ("SGM") to approve the Capital Reorganisation;
- (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares to be issued upon the Capital Reorganisation becoming effective; and
- (c) the compliance with the relevant procedural requirements under the Companies Act to effect the Capital Reorganisation. The above procedural requirements include the publication of a press notice in an appointed newspaper in Bermuda advertising the Capital Reduction and the filing of memoranda of reduction of share capital with the Registrar of Companies in Bermuda.

Assuming all the conditions are fulfilled, the Capital Reorganisation will become effective upon the date of the SGM. Further announcement(s) will be made by the Company to inform the shareholders of the effective date of the Capital Reorganisation.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the New Shares upon implementation of the Capital Reorganisation.

## EFFECTS OF THE CAPITAL REORGANISATION

The following table sets out the effects of the Capital Reorganisation on the share capital of the Company:

	Prior to the Capital Reorganisation	After Share Consolidation	After Capital Reduction and Share Subdivision	Upon completion of Capital Reorganisation
Number of authorised shares	800,000,000	200,000,000	8,000,000,000	8,000,000,000
Authorised share capital	HK\$80,000,000	HK\$80,000,000	HK\$80,000,000	HK\$80,000,000
Nominal value per share	HK\$0.10	HK\$0.40	HK\$0.01	HK\$0.01
Number of shares issued and fully paid	463,721,600	115,930,400	115,930,400	115,930,400
Issued share capital	HK\$46,372,160	HK\$46,372,160	HK\$1,159,304	HK\$1,159,304

Implementation of the Capital Reorganisation will not alter the underlying assets, liabilities or financial position of the Group nor will the rights of the shareholders of the Company, particularly with respect to their proportional interests in the Company and voting rights, be affected in any way.

## REASONS FOR THE CAPITAL REDUCTION AND CANCELLATION OF THE SHARE PREMIUM ACCOUNT

As at 31 March 2004, the Company had accumulated losses of approximately HK\$108.94 million. With such accumulated losses, the Company would not be able to pay dividends to shareholders until such accumulated losses are eliminated. The Capital Reduction and the reduction of the Company's share premium account will cancel all such accumulated losses. Under the Capital Reorganisation, the remaining credit arising from the cancellation of the share premium account will be transferred to the Company's contributed surplus account. The cancellation of the Company's accumulated losses and the transfer of the remaining credit in the share premium account, which is capital in nature and non-distributable to the Company's shareholders, to the contributed surplus account, which is distributable to shareholders under the Companies Act, will allow greater flexibility for the Company to pay dividends in the future. However, the Board does not have an intention to declare any dividend distribution at this stage. The Directors are of the view that the above cancellation and the transfer of amounts from share premium account to the contributed surplus account are both appropriate and in the best interests of the Company.

## REASONS FOR THE SHARE CONSOLIDATION

Based on the closing price of HK\$0.065 per Existing Shares as at 5 August 2004, being the last trading date of the Existing Shares prior to the date of this announcement, the market value of a board lot of 2,000 Existing Shares is HK\$130 and that of a board lot of 10,000 New Shares is expected to be HK\$2,600. With the Share Consolidation and new board lot size, the transaction cost per dollar value of each New Share will be lower. The Directors are of the view that such Share Consolidation is in the interests of the Company and its shareholders.

## EXPECTED TIMETABLE

The expected timetable for the Capital Reorganisation is as follows:

2004

Despatch of circular to convene SGM .....	Tuesday, 24 August
Latest time for lodging proxy forms for SGM .....	11:30 a.m. on Tuesday, 14 September
SGM .....	11:30 a.m. on Thursday, 16 September
Effective date of the Capital Reorganisation .....	Friday, 17 September
Dealings in the New Shares to commence .....	Friday, 17 September
First day for the designated broker to stand in the market to provide matching services .....	Friday, 17 September
Original counter for trading in Existing Shares (represented by Existing Share certificates) in board lots of 2,000 closes .....	9:30 a.m. on Friday, 17 September
Temporary counter for trading in the New Shares (represented by Existing Share certificates) in board lots of 500 opens .....	9:30 a.m. on Friday, 17 September
First day of free exchange of existing share certificates for the Existing Shares for new certificates for the New Shares .....	Friday, 17 September
Original counter for trading in the New Shares (represented by New Shares certificates) in board lots of 10,000 reopens .....	9:30 a.m. on Tuesday, 5 October
Parallel trading in New Shares (represented by both Existing Share and New Share certificates) begins .....	9:30 a.m. on Tuesday, 5 October
Temporary counter for trading in New Shares (represented by Existing Share certificates) in board lots of 500 closes .....	4:00 p.m. on Wednesday, 27 October
Parallel trading in New Shares (represented by both Existing Share and New Share certificates) ends .....	4:00 p.m. on Wednesday, 27 October
Last day for the designated broker to stand in the market to provide matching services .....	Wednesday, 27 October
Last day for free exchange of Existing Share certificates for New Share certificates .....	Monday, 1 November

Should there be any change in the timetable above and the procedure for free exchange of share certificates, a separate announcement will be made. Any revised timetable and procedures will also be set out in the circular to be sent to shareholders of the Company for the purpose of convening the SGM.

## **FREE EXCHANGE OF NEW SHARE CERTIFICATES AND TRADING ARRANGEMENTS**

Subject to the Capital Reorganisation becoming effective, shareholders of the Company may, during a specified period, submit certificates for the Existing Shares to the Company's registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for exchange, at the expense of the Company, for certificates for the New Shares. Thereafter, certificates for Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each new certificate issued for New Shares. Nevertheless, certificates for Existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for New Shares at any time at the expense of shareholders.

In order to alleviate the difficulties arising from the existence of odd lots of the New Shares, the Company will procure a broker to arrange the matching of the sales and purchases of odd lots of the New Shares. Details of such odd lots arrangement will be provided in the circular to be despatched to shareholders.

## **ONGOING CONNECTED TRANSACTION**

On 10 August 2004, Ever Billion entered into the Agreement with Chinney Construction to act as a subcontractor to Chinney Construction in respect of the maintenance Contract awarded by the Architectural Services Department of the Government to Chinney Construction on 31 March 2004. The Contract, which is for a term of 3 years from 1 April 2004, involves the alterations, additions, maintenance and repair of all buildings and lands and other properties within the area of Wanchai (South) and Wanchai (North) for which the Architectural Services Department (Property Services Branch) of the Government is responsible.

Based on information provided by the Government, the annual contract amount payable by the Government under the Contract is estimated to be approximately HK\$100 million. However, based on past experience of the Directors, the above estimated amount is subject to an upward or downward adjustment of 20%, with the actual amount based on specific work order requirements in a particular year. The terms of the Contract provide that the Government shall pay the contractor up to 85% of the value of work order completed with the balance of 15% payable upon certification by the Government. Depending on the type of building maintenance work involved, such maintenance work normally last up to six months. And certification and payment of the balance amount by the Government in respect of work done usually takes another six months. Consequently, payment by the Government under this Contract is expected to extend beyond 31 March 2007, especially for orders issued towards the end of the Contract term, and will continue during the year ending 31 March 2008. As far as the Group is concerned, Ever Billion will only book its revenue arising from the Contract after the relevant work done under the Contract has been certified by the Government and upon payment is made by Chinney Construction under the Agreement.

Under the Agreement, Ever Billion will act as the subcontractor to Chinney Construction under the Contract and Chinney Construction, as the manager of the Contract, is entitled to deduct a management fee of 2% on amounts receivable from the Government and shall pay the balance to Ever Billion within one month from the receipt of moneys from the Government. The terms of the Agreement between Chinney Construction, a main contractor, and Ever Billion, the sub-contractor, are on normal commercial terms and are in line with market practice.

Chinney Construction is owned as to 86.05% by Chinney Investments, Limited, a company in which Dr. Wong Sai Wing, James, Chairman and executive Director, has control, and as to 13.95% by Mr. Chan Yuen Keung, Zuric, an executive Director. As Chinney Construction is regarded as an associate of Dr. Wong Sai Wing, James and Mr. Chan Yuen Keung, Zuric, both of whom have shareholding interests in and are directors of Chinney Construction, the Agreement constitutes an ongoing connected transaction of the Company under the Listing Rules.

Based on the annual contract amount as indicated by the Government and its payment practice as mentioned above, the Directors expect the annual cap amount under the Agreement, as required under the Listing Rules, for each of the three years to 31 March 2007 will amount to approximately HK\$120 million annually and that for the year ending 31 March 2008 will amount to not more than HK\$78 million. The basis of calculation of the cap amount for the year ending 31 March 2008 derives from the cap amount for the year ending 31 March 2007. However, the cap amount for the year ending 31 March 2008 is different from that of the previous year due to the fact that work is expected to continue to be carried out during the first half of the year ending 31 March 2008 for orders placed in the second half of the year ending 31 March 2007 and that payments will continue to be received throughout the year ending 31 March 2008. Consequently, for the year ending 31 March 2008, the cap amount is calculated based on (i) half of the expected maximum contract amount of HK\$120 million for the year ending 31 March 2007 in respect of work orders placed towards the end of the Contract period; (ii) 15% of balance payment in respect of the amount of work orders totaling HK\$60 million expected to be placed by the Government in the first half of 31 March 2007 and completed in the second half of 31 March 2007 with payment made in the first half of 31 March 2008; and (iii) 15% of balance payment in respect of the amount of work orders totaling HK\$60 million expected to be placed by the Government in the second half of 31 March 2007 and completed in the first half of 31 March 2008 with payment made in the second half of 31 March 2008.

The Board is of the view that the above payment schedule under the Agreement is in accordance with the terms of the Contract between the Government and Chinney Construction, and that they are on normal commercial terms and in line with industry practice. Watterson Asia Limited, as financial adviser to the Company, is also of the opinion that the terms of the Agreement, particularly with regard to payment to subcontractors, are in line with industry practice and on normal commercial terms.



## **REASONS FOR THE ONGOING CONNECTED TRANSACTION**

The Group is principally engaged in the provision of multi-disciplinary building services, comprising electrical system engineering, water pumping and fire services, air-conditioning, plumbing and drainage, environmental engineering and project management. Chinney Construction is principally engaged in building construction business in both the public and private sectors in Hong Kong.

Ever Billion was awarded this contract through a tender put up by Chinney Construction and the Agreement was entered into on normal commercial terms. The Agreement enables the Group, as a business strategy, to diversify its building related contracting services, which include the provision of electrical system engineering, water pumping, fire services and air conditioning services into building maintenance services. Consequently, the Directors are of the view that the Agreement is in the interest of the Group and that the terms of the Agreement are fair and reasonable so far as the shareholders of the Company are concerned.

## **REQUIREMENTS OF THE LISTING RULES**

The Agreement constitutes an ongoing connected transaction of the Group under Rule 14A.35 of the Listing Rules and will be subject to the approval of independent shareholders at a general meeting. An independent board committee will be appointed to consider the terms of Agreement and the annual cap to be imposed pursuant to the requirements of the Listing Rules. An independent financial adviser will be appointed to advise the independent board committee of the Company on the fairness and reasonableness of the terms of the Agreement and the relevant annual cap.

## **GENERAL**

A circular to shareholders, together with the letter of advice from the independent financial adviser with respect to the Agreement, will be despatched to shareholders in due course for the purpose of convening the SGM to consider the Capital Reorganisation and the Agreement.

Mr. Chan Yuen Keung, Zuric, as executive directors of both the Company and Chinney Construction as well as a shareholder of Chinney Construction with 13.95% interests and a shareholder of the Company with 10 million shares, representing approximately 2.16% in the issued share capital of the Company, will abstain from voting on the resolution relating to the Agreement to be proposed at the SGM.

## **SUSPENSION AND RESUMPTION OF TRADING IN THE EXISTING SHARES**

Trading in the Existing Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 6 August 2004 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Existing Shares with effect from 9:30 a.m. on 11 August 2004.

## DEFINITIONS

In this announcement, the following expressions have the following meanings:

“Agreement”	the agreement dated 10 August 2004 between Ever Billion and Chinney Construction regarding the subcontracting of the maintenance contract awarded by the Architectural Services Department of the Government to Chinney Construction pursuant to the Contract dated 31 March 2004
“Board”	the board of Directors
“Capital Reduction”	the proposed reduction of the nominal value of the issued share capital of the Company from HK\$0.40 per Consolidated Share to HK\$0.01 per New Share
“Capital Reorganisation”	the proposed Share Consolidation, Capital Reduction, Share Subdivision, the cancellation of share premium account of the Company, the elimination of the Group’s accumulated losses and the transfer of the balance of the amount attributable to the share premium account to contributed surplus account
“Chinney Construction”	Chinney Construction Company, Limited, an associate of connected persons of the Company as defined under the Listing Rules
“Company”	Shun Cheong Holdings Limited, an exempted company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Companies Act”	The Companies Act 1981 of Bermuda (as amended)
“Consolidated Share(s)”	share(s) of nominal value HK\$0.40 each in the share capital of the Company immediately after the Share Consolidation but before the Capital Reduction
“Contract”	the 3-year buildings and land maintenance contract dated 31 March 2004 awarded by the Architectural Services Department of the Government to Chinney Construction
“Directors”	directors of the Company
“Ever Billion”	Ever Billion Engineering Limited, a wholly-owned subsidiary of the Company
“Existing Share(s)”	share(s) of nominal value HK\$0.10 each in the capital of the Company prior to the Capital Reorganisation becoming effective
“Government”	Government of the Hong Kong Special Administrative Region
“Group”	The Company and its subsidiaries
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“New Share(s)”	share(s) of nominal value HK\$0.01 each in the capital of the Company upon completion of the Capital Reorganisation

“Share Consolidation”	The proposed consolidation of every four issued and authorised but unissued Existing Shares into one Consolidated Share
“Share Subdivision”	the proposed subdivision of each authorised but unissued Consolidated Share into 40 New Shares of nominal value HK\$0.01 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board  
**Shun Cheong Holdings Limited**  
**Wong Sai Wing, James**  
*Chairman*

Hong Kong, 10 August 2004

*As at the date hereof, the Board of the Company comprises of nine Directors, of whom four are executive Directors, namely Dr. Wong Sai Wing, James, Mr. Chan Yuen Keung, Zuric, Mr. Au Shiu Wai, Frank and Mr. Au Yu Fai, Patrick; two non-executive Directors, namely Mr. Yu Sek Kee, Stephen and Mr. Hong Yiu, and three independent non-executive Directors, namely Dr. Chan Chok Ki, Mr. Ho Hin Kwan, Edmund and Mr. Yu Hon To, David.*

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