

TAKEOVERS AND MERGERS PANEL

**Conditional Cash Offer on behalf of Eastland Enterprises Inc.,
a wholly-owned subsidiary of Emperor (China Concept) Investments Limited,
for Hong Kong Daily News Holdings Limited**

Independence of Financial Adviser

Anglo Chinese Corporate Finance, Limited

Introduction

1. On 26 September 1994 the Panel considered a referral by the Takeovers and Mergers Executive arising from a request by Anglo Chinese Corporate Finance, Limited ("Anglo Chinese") to act as the independent financial adviser to the independent committee of the board of directors of Hong Kong Daily News Holdings Limited ("HKDN") in relation to the conditional cash offers (the "Offers") by South China Capital Limited ("South China") on behalf of Eastland Enterprises Inc. ("Eastland"), a wholly-owned subsidiary of Emperor (China Concept) Investments Limited ("Emperor China"), to acquire all the issued shares (the "Shares") and outstanding warrants (the "Warrants") of HKDN.

Background

2. The Offers are mandatory general offers made in compliance with Rule 26 of the Code as a result of the acquisition of Shares by Eastland through the voluntary exercise of the subscription rights for 2,740,000 Warrants. Prior to the exercise, Eastland, Emperor China and parties acting in concert with them held approximately 34.5% of the Shares and approximately 47.4% of the Warrants. The exercise of the Warrants was sufficient to increase the holding of Eastland, Emperor China and parties acting in concert with them to approximately 35.2%, thereby exceeding the 35% threshold of Rule 26. The offer prices for the Shares and the Warrants, namely \$1.62 and \$0.62 respectively, are the minimum offer prices permitted under the Code based on the maximum price of \$1.62 paid by Eastland, Emperor China or parties acting in concert with them for Shares during the six months preceding the announcement of the Offers, the last closing price of the Shares before the announcement of \$1.60, and the exercise price for the Warrants of

\$1.00.

3. In October 1992 Anglo Chinese made an offer on behalf of Emperor China (then called Bo Shing Holdings Limited) for Lolliman Holdings Limited ("Lolliman"). Lolliman was then an investment holding company whose subsidiaries were principally engaged in property investment and management and investment holding. Its most significant non-property investments were its 45% interest in Best Fulfil Inc. and its approximately 33% interest in HKDN.

4. In June 1993 Emperor China and Emperor International Holdings Limited ("Emperor International"), an associated company of Emperor China, entered into a conditional agreement for the disposition of their aggregate indirect 60% shareholding in Lolliman. At the same time Lolliman entered into a conditional agreement to transfer its 33.2% interest in HKDN to Emperor China. Anglo Chinese was initially appointed to advise the independent committee of the board of directors of Lolliman in respect of the resulting general offer for Lolliman and Lolliman's disposition of HKDN to Emperor China, but the Panel ruled that appointment to be inappropriate (the "Lolliman Decision").

5. Anglo Chinese acted for Emperor China and Emperor International on various other

merits of an offer.

8. Rule 2.1 specifically addresses the obligations which fall upon the board of the offeree company. It provides that a "board which receives an offer, or is approached with

Appendix I

2.6 Persons not suited to give independent advice.

A person who has, or had, a connection, financial or otherwise, with the offeror or offeree company of a kind likely to create a conflict of interest will not be regarded as a suitable person to give independent advice.

2.7 Independent financial advisers and independent shareholders

A financial adviser will not normally be considered to be independent if he is considered to have a relationship with the offeror, the offeree company, or the controlling shareholder(s) of either of them, which is reasonably likely to affect the objectivity of his advice. If there are shareholders who are not independent because they have an interest in the proposed transaction other than their interest as a shareholder of the offeror or offeree company, as the case may be, the independent adviser should endeavour to represent the best interest of the offeror or the offeree company, respectively, by concerning itself only with the interests of the independent shareholders, i.e. those shareholders of the company who have no other (or a h7.9are)16(sha)8-(eh)3)lders ho

