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**僑雄國際控股有限公司**

**Kiu Hung International Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 381)

**VERY SUBSTANTIAL ACQUISITION –  
ACQUISITION OF 70% EQUITY INTERESTS IN MINGRUNFENG INVOLVING  
ISSUE OF NEW SHARES  
AND  
RESUMPTION OF TRADING**

**Financial adviser to Kiu Hung International Holdings Limited**



**KINGSTON CORPORATE FINANCE LIMITED**

**THE AGREEMENTS**

On 2 September 2006, Bright Asset, an indirect wholly-owned subsidiary of the Company, and the Original Shareholders entered into the Capital Contribution Agreement, pursuant to which Bright Asset will contribute RMB20 million (equivalent to approximately HK\$19.6 million) to the capital of Mingrunfeng in return for 51% equity interests in Mingrunfeng; and the Acquisition Agreement, pursuant to which Bright Asset will acquire an additional 19% equity interests in Mingrunfeng from the Original Shareholders within 60 days after Mingrunfeng has obtained the exploration rights of the Coal Mine at a consideration of HK\$42.9 million to be satisfied by the allotment and issue of an aggregate of 130,000,000 Consideration Shares at an issue price of HK\$0.33 per Consideration Share.

On 22 September 2006, Bright Asset further entered into the Loan Facility Agreement and the Guarantee Agreement. Pursuant to the Loan Facility Agreement, Bright Asset, as lender, has agreed to provide, and Mingrunfeng, as borrower, has agreed to accept, a revolving loan facility of not exceeding RMB40 million (equivalent to approximately HK\$39.2 million) subject to the terms and conditions of the Loan Facility Agreement. Pursuant to the Guarantee Agreement, after approval of the Capital Contribution Agreement by the relevant government authorities and the completion of any necessary procedure to change the particulars in the business license of Mingrunfeng, Bright Asset and the Original Shareholders shall provide guarantees for any future loan facility which may be secured by Mingrunfeng in proportion to their respective shareholdings in Mingrunfeng from time to time and in the form that the lenders of such loan facility may accept should the lenders of such loan facility request for guarantee being provided by the shareholders of Mingrunfeng.

**INFORMATION ON MINGRUNFENG**

Mingrunfeng is a company established in the PRC on 24 September 2003 and is principally engaged in the trading of construction materials and electrical appliances and the provision of related consultancy services. Mingrunfeng has become dormant since June 2004 and has entered into the Co-Operation Agreement with Guoxin on 15 June 2006 for the exploration of the Coal Mine in Xilinguolemeng of the Inner Mongolia Autonomous Region of the PRC with an area of approximately 227.80 km<sup>2</sup>.

The preliminary estimated reserves of the Coal Mine by Longwang pursuant to the Specifications for Coal, Peat Exploration (煤、泥炭地質勘探規範)<sup>#</sup> is approximately 109.35 million tons. If reference is made to the minimum concession price of the exploration and exploitation rights of coal mine of RMB1.5 per ton of coal set by the People's Government of Inner Mongolia Autonomous Region, the preliminary potential value of the exploration rights of the Coal Mine is estimated to be approximately RMB164.0 million. According to estimation made by Longwang based on the conditions of the present coal market of Inner Mongolia Autonomous Region, the expected price of the coal in the Coal Mine is approximately RMB130 per ton. As advised by the Directors, the aforementioned RMB1.5 per ton of coal refers to the concession price of the exploration and exploitation rights of coal mine and the aforementioned RMB130 per ton of coal refers to the market price of coal.

Pursuant to the Co-Operation Agreement, among other things, i) Guoxin is responsible for the application of the exploration rights of the Coal Mine; ii) Mingrunfeng is responsible for the provision of technical advise and supervision of the exploration works of the Coal Mine; and iii) Guoxin will transfer its entire exploration rights of the Coal Mine to Mingrunfeng when the exploration works of the Coal Mine has reached the general exploration stage in return for a cash consideration representing 20% of the value of the exploration rights of the Coal Mine as being appraised by an independent valuation institution to be agreed by Guoxin and Mingrunfeng.

Further details of Guoxin and the exploration works of the Coal Mine are set out in the sub-heading of "Guoxin and the Co-Operation Agreement" in the section headed "Information on Mingrunfeng" and the section headed "Information on the exploration works" below respectively.

**Shareholders and potential investors of the Company should note that the information on the Coal Mine is primarily based on the preliminary exploration report conducted by Longwang in August 2006 and the preliminary estimated reserves of the Coal Mine is subject to further revision as additional exploration works will be performed by Longwang for the Coal Mine. The Acquisition is subject to the obtaining of the Exploration License before 31 October 2007 and the possible mining activities in the Coal Mine is subject to the obtaining of the exploitation rights of the Coal Mine.**

**The risk factors relating to the acquisition of Mingrunfeng are set out in the section "Risks associated with the acquisition of Mingrunfeng" below**

#### **GENERAL**

The Transactions constitute a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules and will result in the diversion to exploration for natural resources of 10% or more of the consolidated total assets of the Group. Therefore, the Transactions are subject to approval by Shareholders at a general meeting under Rule 14.49 and Rule 18.07(2) of the Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, no Shareholder is required to abstain from voting at the general meeting.

An extraordinary general meeting will be held to consider and, if thought fit, pass the resolutions to the Transactions. A circular containing, among other things, further details of the Transactions and other necessary disclosures as required under Rule 18.09 of the Listing Rules will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

#### **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on Monday, 4 September 2006 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange from 9:30 a.m. on Wednesday, 27 September 2006.

## **INTRODUCTION**

On 2 and 22 September 2006, Bright Asset, an indirect wholly-owned subsidiary of the Company, entered into a number of agreements in relation to the acquisition of 51%, or up to 70%, equity interests in Mingrunfeng and the financial arrangements of Mingrunfeng upon completion of such acquisition. Details of the Agreements and the transactions contemplated thereunder and Mingrunfeng are set out below.

## **THE AGREEMENTS**

### **CAPITAL CONTRIBUTION AGREEMENT**

**Date of the Capital Contribution Agreement:** 2 September 2006

#### **Parties to the Capital Contribution Agreement:**

New investor to Mingrunfeng: Bright Asset

Original shareholders of Mingrunfeng: Original Shareholders

#### *Note:*

According to the PRC Legal Opinion, as requested by the departments approving the establishment of enterprises with foreign investment (外商投資企業審批部門)#, the agreements in relation to the contribution of capital of enterprises with foreign investment should be jointly signed by the original shareholder(s) of such companies and the new investor(s). Accordingly, the parties to the Capital Contribution Agreement are Bright Asset (being the new investor to Mingrunfeng) and the Original Shareholders (being the original shareholders of Mingrunfeng).

### **Capital Contribution**

All parties to the Capital Contribution Agreement have agreed to Bright Asset's contribution of RMB20 million (equivalent to approximately HK\$19.6 million) to the capital of Mingrunfeng. Of the RMB20 million, i) RMB0.52 million (equivalent to approximately HK\$0.51 million) shall be paid to increase the registered capital of Mingrunfeng for a return of 51% of the equity interests in Mingrunfeng as enlarged by the Capital Contribution; and ii) the balance of RMB19.48 million (equivalent to approximately HK\$19.10 million) shall be credited to the capital reserve account of Mingrunfeng.

Upon completion of the Capital Contribution, the registered capital of Mingrunfeng shall be increased by RMB0.52 million (equivalent to approximately HK\$0.51 million) from RMB0.50 million (equivalent to approximately HK\$0.49 million) as at the date of this announcement to RMB1.02 million (equivalent to approximately HK\$1 million). Upon completion of the Capital Contribution, Mingrunfeng will become a 51%-owned subsidiary of the Company and the results of Mingrunfeng will be consolidated into the consolidated financial statements of the Group.

### **Consideration**

The consideration for the Capital Contribution is RMB20 million (equivalent to approximately HK\$19.6 million) payable in cash and shall be payable in equivalent foreign currency to Mingrunfeng within five business days upon obtaining approval from the relevant PRC authorities in respect of the Capital Contribution Agreement or other documents incidental to the Capital Contribution Agreement including the joint venture contract required by the Bureau of Commerce which shall be signed by Bright Asset and the Original Shareholders relating to Mingrunfeng upon completion of the Capital Contribution, the articles of association of Mingrunfeng and other related documents (the date of issuing of the Revised Certificate shall be treated as the date of approval).

Pursuant to the Capital Contribution Agreement, RMB15 million (equivalent to approximately HK\$14.7 million) shall be payable in cash to Mingrunfeng as deposit within ten business days upon the signing of the Capital Contribution Agreement. Such deposit has been paid on 15 September 2006. Such deposit of RMB15 million (equivalent to approximately HK\$14.7 million) shall be refunded to Bright Asset or its nominees without interest within five business days upon payment of the consideration of RMB20 million to Mingrunfeng. The advance payment of the deposit as earnest money is agreed between Bright Asset and the Original Shareholders after arm's length negotiation.

According to the PRC Legal Opinion, under the PRC regulations, considerations for foreign investments in PRC companies shall be remitted in foreign currency from abroad or contributed from legally generated domestic income. Accordingly, the Capital Contribution Agreement was entered into with a payment arrangement such that the deposit and the consideration are to be paid separately.

Pursuant to the Capital Contribution Agreement and the Deposit Agreement, the Original Shareholders irrevocably guarantee that in the event Mingrunfeng defaults in refunding the deposit of RMB15 million, such deposit shall be repaid by the Original Shareholders to Bright Asset or its nominees in proportion to the respective shareholdings of the Original Shareholders in Mingrunfeng as before completion of the Capital Contribution. The entering into of the Deposit Agreement is to provide further assurance on the refunding arrangement set out in the Capital Contribution Agreement. In addition, the Directors consider the chance for Mingrunfeng in not refunding the deposit after making the Capital Contribution will not be significant as Bright Asset will control the majority of the board of directors of Mingrunfeng upon completion of the Capital Contribution.

The consideration for the Capital Contribution was arrived at after arm's length negotiations between the parties to the Capital Contribution Agreement taking into account, among other things, i) the net asset value of Mingrunfeng of approximately RMB0.2 million (equivalent to approximately HK\$0.2 million) as at 31 December 2005; ii) the preliminary estimated reserves of the Coal Mine of approximately 109.35 million tons made by Longwang and the preliminary estimated value of the exploration rights of the Coal Mine of approximately RMB164.0 million if reference is made to the minimum concession price of the exploration and exploration rights of coal mine of RMB1.5 per ton of coal set by the People's Government of Inner Mongolia Autonomous Region; and iii) the reconnaissance stage of the exploration works in respect of the Coal Mine has been completed. Description of stages of the exploration works in respect of the Coal Mine are set out in the section headed "Information on the exploration works" below.

The Capital Contribution will be financed by the net proceeds of the Open Offer.

### **Conditions precedent**

Completion of the Capital Contribution is subject to the following conditions:

- (a) the obtaining of the Revised Certificate by Mingrunfeng and the completion of any necessary procedure to the change of particulars in the business license of Mingrunfeng;
- (b) the Capital Contribution will not be in breach of rules and requirements of any relevant government authorities;

- (c) from the date of the Capital Contribution Agreement until the contribution of capital in accordance with the agreement, there being no material changes in the circumstances, facts or situations of the Original Shareholders which would cause or might cause material breach of the warranties and obligations of the relevant parties under the Capital Contribution Agreement;
- (d) if required by the Stock Exchange or other regulatory authorities, the passing of the necessary resolutions by the Shareholders at an extraordinary general meeting of the Company to approve the Capital Contribution Agreement and the transactions contemplated thereunder;
- (e) the obtaining of a PRC legal opinion in form and substance satisfactory to Bright Asset;
- (f) Bright Asset being satisfied with the results of the due diligence exercise to be conducted on the assets, liabilities, operations and affairs of Mingrunfeng; and
- (g) the obtaining of approval from the relevant PRC authorities in respect of the Capital Contribution Agreement or other documents incidental to the Capital Contribution Agreement including the joint venture contract required by the Bureau of Commerce which shall be signed by Bright Asset and the Original Shareholders relating to Mingrunfeng upon completion of the Capital Contribution, the articles of association of Mingrunfeng and other related documents (the date of the issuing of the Revised Certificate shall be treated as the date of approval).

If any of the above conditions cannot be fulfilled (save for those waived by the relevant parties) before 1 March 2007 (or any other date the parties may agree from time to time), the Capital Contribution Agreement shall be terminated. Accordingly, pursuant to the Capital Contribution Agreement and/or the Deposit Agreement, i) Mingrunfeng shall refund the deposit of RMB15 million (equivalent to approximately HK\$14.7 million) to Bright Asset or its nominees without interest within five business days upon receiving the written notification from Bright Asset that the conditions to the Capital Contribution Agreement have not been fulfilled; ii) an amount of approximately RMB5 million (equivalent to approximately HK\$4.9 million), being among other things the expenses already incurred in conjunction with the Capital Contribution payable by Mingrunfeng, shall be borne by the Original Shareholders and Bright Asset in proportion to their respective shareholdings in Mingrunfeng as if the Capital Contribution has been completed; and iii) the Capital Contribution shall not proceed. Pursuant to the Capital Contribution Agreement, if the Capital Contribution Agreement is terminated, save for approximately RMB5 million in expenses incurred by Mingrunfeng as aforementioned in (ii) above, Bright Asset shall not be responsible for any other expenses incurred by Mingrunfeng.

#### **Other terms**

- Bright Asset and the Original Shareholders will share the profit of Mingrunfeng in proportion of their respective equity interests in Mingrunfeng.
- The board of directors of Mingrunfeng shall comprise three members, of which two of the members shall be nominated by Bright Asset and the remaining one member shall be nominated by the Original Shareholders.
- The party who breaches the terms of the Capital Contribution Agreement and leads to the incapability of executing the Capital Contribution Agreement shall pay a compensation equivalent to 20% of the deposit of RMB15 million (equivalent to approximately HK\$14.7 million), being RMB3 million (equivalent to approximately HK\$2.9 million), to the parties not in breach of the Capital Contribution Agreement in proportion to their respective shareholdings in Mingrunfeng as if the Capital Contribution has been completed.



## **ACQUISITION AGREEMENT**

**Date of the Acquisition Agreement:** 2 September 2006

### **Parties to the Acquisition Agreement:**

Purchaser: Bright Asset

Vendors: Original Shareholders

### **Acquisition**

Pursuant to the Acquisition Agreement, Bright Asset has agreed to acquire, and the Original Shareholders have agreed to dispose of, an aggregate of 19% of the equity interests in Mingrunfeng, consisting of 6.2%, 2.3%, 3.1% and 7.4% of the equity interests in Mingrunfeng from Mr. Yang, Jumplex, First Choice and Wise House respectively within 60 days after Mingrunfeng has obtained the Exploration License, being the legal certificate for the entire exploration rights of the Coal Mine, pursuant to the terms of the Co-Operation Agreement. Further details of the Co-Operation Agreement are set out under the sub-heading of “Guoxin and the Co-Operation Agreement” in the section headed “Information on Mingrunfeng” below.

Upon completion of the Acquisition, together with the 51% equity interests of Mingrunfeng obtained through the Capital Contribution, Mingrunfeng will become a 70%-owned subsidiary of the Company.

### **Consideration**

The consideration for the Acquisition is HK\$42.9 million and shall be satisfied by the allotment and issue of an aggregate of 130,000,000 Consideration Shares at an issue price of HK\$0.33 per Share. Of the 130,000,000 Consideration Shares, 42,421,053, 15,736,842, 21,210,526 and 50,631,579 Consideration Shares will be allotted and issued to Mr. Yang, Jumplex, First Choice and Wise House respectively. The Consideration Shares together represent approximately 4.35% of the existing issued share capital of the Company as at the date of this announcement and approximately 4.17% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The issue price of the Consideration Shares at HK\$0.33 per Share represents i) a discount of approximately 18.52% to the closing price of HK\$0.405 per Share as quoted on the Stock Exchange on 1 September 2006, being the last trading day prior to the suspension of trading in the Shares before the issue of this announcement; ii) a discount of approximately 17.91% to the average closing price of approximately HK\$0.402 per Share as quoted on the Stock Exchange for the last five trading days up to and including 1 September 2006; and iii) a discount of approximately 15.60% to the average closing price of approximately HK\$0.391 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 1 September 2006. Pursuant to the Acquisition Agreement, there is no restriction on the subsequent sale of the Consideration Shares by the Original Shareholders and the issue price of HK\$0.33 per Consideration Share is not subject to any adjustment. The consideration and the terms of the Acquisition (including the number and issue price of the Consideration Shares) were arrived at after arm’s length negotiation between the parties to the Acquisition Agreement taking into account, among other things, i) the recent trading price and trading volume of the Shares; ii) the preliminary estimated reserves of the Coal Mine of approximately 109.35 million tons made by Longwang and the preliminary estimated value of the exploration rights of the Coal Mine of approximately RMB164.0 million if reference is made to the minimum concession price of the exploration and exploration rights of coal mine of RMB1.5 per

ton of coal set by the People's Government of Inner Mongolia Autonomous Region; and iii) the Exploration License will have been obtained by Mingrunfeng prior to the Acquisition.

The Directors consider that the consideration for the Acquisition of HK\$42.9 million being higher than the consideration for the Capital Contribution is justifiable as Mingrunfeng will have obtained the Exploration License before completion of the Acquisition and accordingly the business risk that the Exploration License may not be obtained by Mingrunfeng for it to proceed to the exploration of the Coal Mine will be significantly reduced.

The issue of the Consideration Shares is conditional upon i) the passing of the necessary resolution(s) by the shareholders at an extraordinary general meeting of the Company; and ii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares. Application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares prior to completion of the Acquisition.

### **Conditions precedent**

Completion of the Acquisition is subject to the following conditions:

- (a) the parties to the Acquisition Agreement fulfill their obligations under the Capital Contribution Agreement and the Capital Contribution Agreement having been approved by the relevant government authorities;
- (b) the Acquisition will not be in breach of rules and requirements of any relevant government authorities;
- (c) there being no material changes in the circumstances, facts or situations of the Original Shareholders which would cause or might cause material breach of the warranties of the Acquisition Agreement;
- (d) if required by the Stock Exchange or other regulatory authorities, the passing of the necessary resolutions by the Shareholders at an extraordinary general meeting of the Company to approve the Acquisition Agreement and the transactions contemplated thereunder; and
- (e) the obtaining of approval from the relevant PRC authorities in respect of the Acquisition Agreement or other documents incidental to the Acquisition Agreement including the joint venture contract required by the Bureau of Commerce which shall be signed by Bright Asset and the Original Shareholders relating to Mingrunfeng upon completion of the Acquisition, the articles of association of Mingrunfeng and other related documents.

**In the event that the Exploration License cannot be obtained by Mingrunfeng before 31 October 2007, the Acquisition shall not proceed.**

### **Other terms**

The party who breaches the terms of the Acquisition Agreement and leads to the incapability of performing the Acquisition Agreement shall pay a compensation equivalent to 20% of RMB15 million (equivalent to approximately HK\$14.7 million), being RMB3 million (equivalent to approximately HK\$2.9 million), to the parties not in breach of the Acquisition Agreement in proportion to their respective shareholdings in Mingrunfeng as if the Capital Contribution has been completed.

## **LOAN FACILITY AGREEMENT**

**Date of the Loan Facility Agreement:** 22 September 2006

### **Parties to the Loan Facility Agreement:**

Lender: Bright Asset

Borrower: Mingrunfeng

### **Loan Facility to be provided by Bright Asset**

Pursuant to the Loan Facility Agreement, Bright Asset, as lender, has agreed to provide, and Mingrunfeng, as borrower, has agreed to accept, a revolving loan facility of not exceeding RMB40 million (equivalent to approximately HK\$39.2 million).

### **Drawdown period**

The Loan Facility shall be for a term of three years commencing from the date of the first drawdown made by Mingrunfeng, and a written notice has to be provided by Mingrunfeng for each drawdown. Should Mingrunfeng intend to make any drawdown under the Loan Facility Agreement and such drawdown be approved by Bright Asset and the Board, Bright Asset and Mingrunfeng shall enter into a specific loan agreement specifying, among other things, the amount of loan being drawdown. Bright Asset will only release the loan amount to Mingrunfeng after such specific loan agreements are registered with the relevant government authorities. Bright Asset and the Board shall have the absolute discretion to approve or decline such proposed drawdown made by Mingrunfeng.

### **Term**

Bright Asset shall have the absolute discretion to demand Mingrunfeng to repay, in whole or in part, the principal and interest for the time being outstanding within 30 days upon giving a written notice to Mingrunfeng.

### **Interest**

The amount drawdown under the Loan Facility shall bear interest at the rate of 3% per annum above the Hong Kong Dollar Prime Rate quoted by The Bank of China (Hong Kong) Limited from time to time, payable by Mingrunfeng on a quarterly basis. In addition, Mingrunfeng shall procure the Original Shareholders to provide irrevocable guarantee to Bright Asset for any loan amount drawdown by Mingrunfeng.

### **Conditions precedent**

The Loan Facility Agreement is conditional upon:

- (a) the passing of the necessary resolutions by the Shareholders at an extraordinary general meeting of the Company to approve the Loan Facility Agreement and the transactions contemplated thereunder;
- (b) the Capital Contribution Agreement being approved by the relevant government authorities and the completion of any necessary procedure to the change of particulars in the business license of Mingrunfeng; and
- (c) the completion of the Capital Contribution.



## **GUARANTEE AGREEMENT**

On 22 September 2006, Bright Asset and the Original Shareholders entered into the Guarantee Agreement pursuant to which, after the approval of the Capital Contribution Agreement by the relevant government authorities and the completion of any necessary procedure to change the particulars in the business license of Mingrunfeng, Bright Asset and the Original Shareholders shall provide guarantees for any future loan facility which may be secured by Mingrunfeng in proportion to their respective shareholdings in Mingrunfeng from time to time and in the form that the lenders of such loan facility may accept should the lenders of such loan facility demand for guarantee being provided by the shareholders of Mingrunfeng.

### **Other terms**

- In the event that Bright Asset or the Original Shareholders is a lender of such loan facility to Mingrunfeng, save for such lender, Bright Asset and the Original Shareholders shall provide guarantees for such loan facility which may be secured by Mingrunfeng in proportion to their respective shareholdings in Mingrunfeng from time to time.
- In the event that Bright Asset or the Original Shareholders is incapable to provide guarantee for any future loan facility which may be secured by Mingrunfeng in proportion to their respective shareholdings in Mingrunfeng from time to time, or in the form that the lender accepts, other parties to the Guarantee Agreement shall have no obligations to provide such guarantee.

### **Conditions precedent**

The Guarantee Agreement is conditional upon:

- (a) the passing of the necessary resolutions by the Shareholders at an extraordinary general meeting of the Company to approve the Guarantee Agreement and the transactions contemplated thereunder;
- (b) the fulfillment of all the conditions precedent of the Capital Contribution (please refer to the sub-heading of “Condition precedents” in the section headed “Capital Contribution Agreement”).

## **IMPLICATIONS OF POSSIBLE CONNECTED TRANSACTION**

In accordance with Rule 14A of the Listing Rules, each of Mr. Yang and Wise House who will be interested in more than 10% equity interests in Mingrunfeng will become the connected persons of the Company after completion of the Capital Contribution. Any transactions as defined under Rule 14A.13 of the Listing Rules to be entered into between Mr. Yang or Wise House and the Group, such as in the event that Mr. Yang and Wise House are the lenders of loan facilities to Mingrunfeng, will constitute connected transactions. In the event that such connected transactions occur, the Company will comply with the requirements under the Listing Rules and Shareholders' approval may be required.

## **INFORMATION ON MINGRUNFENG**

### **Mingrunfeng**

Mingrunfeng is a company established in the PRC on 24 September 2003 and is principally engaged in the trading of construction materials and electrical appliances and the provision of related consultancy services. Mingrunfeng has become dormant since June 2004 and has entered into the Co-Operation Agreement with Guoxin on 15 June 2006 for the exploration of the Coal Mine in Xilinguolemeng of the Inner Mongolia Autonomous Region of the PRC with an area of approximately 227.80 km<sup>2</sup>.

According to the audited financial statements of Mingrunfeng as prepared under the PRC accounting standards, Mingrunfeng recorded audited net losses before and after taxation of approximately RMB0.1 million (equivalent to approximately HK\$0.1 million) for the year ended 31 December 2004 and RMB0.2 million (equivalent to approximately HK\$0.2 million) for the year ended 31 December 2005. As at 31 December 2005, the total assets and net assets of Mingrunfeng were approximately RMB1.0 million (equivalent to approximately HK\$1.0 million) and RMB0.2 million (equivalent to approximately HK\$0.2 million) respectively.

### **Guoxin and the Co-Operation Agreement**

Guoxin is a company established in the PRC on 20 October 2004 and is principally engaged in provision of exploration and consultancy services in relation to mines and sale of mining equipment. Guoxin is the legal owner of the Exploration License, being the legal certificate for the exploration rights of the Coal Mine, which is effective from 12 June 2006 to 31 October 2007. To the best of the Directors' knowledge, information and belief and after having made all reasonable enquiries, Guoxin and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Pursuant to the Co-Operation Agreement, among other things, i) Guoxin is responsible for the application of the exploration rights of the Coal Mine; ii) Mingrunfeng is responsible for the provision of technical advise and supervision of the exploration works of the Coal Mine; and iii) Guoxin will transfer its entire exploration rights of the Coal Mine to Mingrunfeng when the exploration works of the Coal Mine has reached the general exploration stage in return for a cash consideration representing 20% of the value of the exploration rights of the Coal Mine as being appraised by an independent valuation institution to be agreed by Guoxin and Mingrunfeng.

To discharge the responsibilities under the Co-Operation Agreement, Mingrunfeng appointed Longwang on July 2006 to perform the exploration works of the Coal Mine and recruited two engineers with relevant experience and expertise to follow the exploration progress of Longwang. Guoxin will make the necessary applications for the transfer of the Exploration License to Mingrunfeng upon the cash consideration representing 20% of the value of the exploration rights of the Coal Mine has been paid by Mingrunfeng.

The cash consideration for the transfer of the Exploration License from Guoxin to Mingrunfeng will be trusted to an independent notary office when the exploration works of the Coal Mine has reached the general exploration stage and will be disbursed to Guoxin after completion of the transfer of the Exploration License to Mingrunfeng.

A qualified independent valuation institution will be appointed for the valuation of the exploration rights of the Coal Mine. The cash consideration for the exploration rights of the Coal Mine is not subject to the exploration results but solely depends on the value of the exploration rights as appraised by the independent valuation institution and such amount can only be ascertained after the exploration works of the Coal Mine has reached the general exploration stage. The completion of the general exploration stage should be verified upon the obtaining of the verification on the general exploration report from the Department of Land and Resources of Inner Mongolia Autonomous Region.

The cash consideration representing 20% of the value of the exploration rights of the Coal Mine to be paid by Mingruneng, which will become a 51%-owned subsidiary of the Company upon completion of the Capital Contribution, to Guoxin under the Co-Operation Agreement will be financed by, among other ways, the internal resources of Mingrunfeng or bank borrowings if the directors of Mingrunfeng consider appropriate.

The reconnaissance stage in respect of the Coal Mine has been completed in August 2006. According to Longwang, the general exploration stage is expected to be reached by the end of March 2007. Accordingly, the independent valuation on the value of the exploration rights and the transfer of the Exploration License from Guoxin to Mingrunfeng is expected to be available and to take place by the end of March 2007. The Exploration License is expected to be obtained by Mingrunfeng subsequent to the completion of the necessary procedures for the transfer of the Exploration License by the end of June 2007.

Based on the PRC Legal Opinion, the Exploration License is validly held by Guoxin and the arrangements under the Co-Operation Agreement, including the transfer of the Exploration License from Guoxin to Mingrunfeng, are valid and legally enforceable under the PRC laws. The Exploration License is freely transferable subject to the approval by the relevant government authorities.

### **Longwang**

Longwang, the professional geological exploration company in charge of the exploration works of the Coal Mine, was established in the PRC on 12 May 2005 and is a holder of the Certificate of Qualification for Geological Exploration (地質勘查資質證書)<sup>#</sup> issued by the Ministry of Land and Resources of the PRC. In 2006, Longwang was accredited with the ISO9001 quality assurance certificate and the ISO14001 environmental management certificate. Given the qualifications of Longwang, the Directors consider the exploration report conducted by Longwang to be reliable. To the best knowledge of the Directors, Longwang together with its ultimate beneficial owners are third parties independent of the Company and its connected persons.

### **The Coal Mine**

The preliminary estimated reserves of the Coal Mine by Longwang pursuant to the Specifications for Coal, Peat Exploration (煤、泥炭地質勘探規範)<sup>#</sup> is approximately 109.35 million tons. If reference is made to the minimum concession price of the exploration and exploitation rights of coal mine of RMB1.5 per ton of coal set by the People's Government of Inner Mongolia Autonomous Region, the preliminary potential value of the exploration rights of the Coal Mine is estimated to be approximately RMB164.0 million. According to estimation made by Longwang based on the conditions of the present coal market of Inner Mongolia Autonomous Region, the expected price of the coal in the Coal Mine is approximately RMB130 per ton. As advised by the Directors, the aforementioned RMB1.5 per ton of coal refers to the concession price of the exploration and exploitation rights of coal mine and the aforementioned RMB130 per ton of coal refers to the market price of coal. Given that the exploration works and the preliminary estimation are carried out by Longwang which is a holder of the Certificate of Qualification for Geological Exploration (地質勘查資質證書)<sup>#</sup> issued by the Ministry of Land and Resources of the PRC, the Directors consider it is of little chance that the exploration results for the Coal Mine will have a substantial deviation from the preliminary estimated reserve. The Coal Mine is owned by the PRC government and only the holder of the Exploration License has the exploration rights on the Coal Mine.

**Shareholders and potential investors of the Company should note that the information on the Coal Mine is primarily based on the preliminary exploration report conducted by Longwang in August 2006 and the preliminary estimated reserves of the Coal Mine is subject to further revision as additional exploration works will be performed by Longwang on the Coal Mine. The Acquisition is subject to the obtaining of the Exploration License before 31 October 2007 and the mining activities in the Coal Mine is subject to the obtaining of the exploitation rights of the Coal Mine.**

## INFORMATION ON THE EXPLORATION WORKS

Pursuant to the Classification For Resources, exploration works consist of four stages, namely reconnaissance stage (預查階段)#, prospecting stage (普查階段)#, general exploration stage (詳查階段)#, and detailed exploration stage (勘查階段)#. The objectives of the different stages of exploration works can be summarized as follows:

- Reconnaissance stage: to identify a site with greater mineralization potential available, projected resource can be estimated where there are sufficient bases.
- Prospecting stage: to roughly identify the general condition of geology and structure in the prospecting site; to roughly obtain the features of the form, occurrence and quality of an ore body (bed) and to roughly understand the technical requirements for mining; and to finally propose whether it is worthy of a further general exploration or to identify a scope of the site for the general exploration stage.
- General exploration stage: to primarily identify the geology, structure and form of a major ore body and the occurrence, size and quality of the ores; to primarily ascertain the continuity of an ore body and to primarily identify the technical requirements for mining; where necessary, to identify the scope for the detailed exploration stage for pre-feasibility study, general planning for a mine as well as use in a mine proposal.
- Detailed exploration stage: to ascertain the continuity of the ore body (bed) in the spaces between by conducting more frequent samplings in a mineral deposit with a known industrial value or in an exploratory site identified during the general exploration stage to identify the geological features of the mineral deposit; to ascertain the form, occurrence, size and space location of an ore body as well as the quality and features of the ores; to identify the technical requirements for exploration of the ore body, and to conduct laboratory procedural tests or laboratory expanding and continuous tests on the processability, selectivity and smeltability of minerals; where necessary, a semi-industrial test should be performed to provide a base for a feasibility study or the construction design of a mine.

## SHAREHOLDING STRUCTURE OF MINGRUNFENG

The following table sets out the shareholding structure of Mingrunfeng i) as at the date of this announcement; ii) immediately upon completion of the Capital Contribution; and iii) immediately upon completion of the Capital Contribution and the Acquisition:

	<b>As at the date of this announcement</b>	<b>Immediately upon completion of the Capital Contribution</b>	<b>Immediately upon completion of the Capital Contribution and the Acquisition</b>
Bright Asset	–	51%	70%
Mr. Yang	32.65%	16%	9.8%
Jumplex	12.24%	6%	3.7%
First Choice	16.33%	8%	4.9%
Wise House	38.78%	19%	11.6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

## **RISKS ASSOCIATED WITH THE ACQUISITION OF MINGRUNFENG**

Set out below are some of the risks associated with the acquisition of Mingrunfeng:

- The transfer of the Exploration License from Guoxin to Mingrunfeng is subject to the approval of the relevant government authorities. Should the Capital Contribution be approved and completed, in the event that Mingrunfeng cannot obtain the Exploration License, the transactions contemplated under the Acquisition and the Co-Operation Agreement shall not proceed and the Group's investment in Mingrunfeng will lose its presumed future value from the Exploration License.
- The renewal of the Exploration License which will expire on 31 October 2007 is subject to the approval of the relevant government authorities. Should the Capital Contribution and the Acquisition be approved and completed, in the event that the Mingrunfeng cannot obtain such renewal of the Exploration License, Mingrunfeng, a then 70%-owned subsidiary of the Company, will lose the exploration rights of the Coal Mine.
- The mining activities in the Coal Mine is subject to the obtaining of the exploitation rights of the Coal Mine from the relevant government authorities. Should Mingrunfeng fail to obtain the exploitation rights of the Coal Mine, Mingrunfeng will have no right to conduct mining activities in the Coal Mine.
- The gain or revenue generated from the Coal Mine are subject to the cyclical nature of the domestic and international coal market which are affected by numerous factors beyond the Company's control, for example, general economic conditions in the PRC and elsewhere in the world, weather conditions, fluctuations in the development and growth of industries with a high demand of coal. The selling price of coal and the profit margin will depend on market supply and demand forces in the domestic and international markets.

## **REASONS FOR ENTERING INTO THE AGREEMENTS**

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the design, manufacture and sale of toys and decorative gift items. In order to diversify the businesses of the Group, the Company has been actively exploring new investment opportunities with profitable prospects. In view of the worldwide increasing demand for natural and energy resources, the Board is of the opinion that the entering into of the Agreements will provide an opportunity for the Group to enter into the natural and energy resources industry and to diversify the business risk resulting from the over-concentration of the businesses of the Group.

Upon transfer of the Exploration License from Guoxin to Mingrunfeng, the Group can either dispose the Exploration License for a return of cash consideration or perform exploration works in the Coal Mine and apply for relevant permits, licenses and approval to conduct mining activities in the Coal Mine, both of which will potentially generate gain or revenue for the Group. The Group intends to recruit experts with relevant experience and expertise in the natural and energy resources industry to facilitate the management of Mingrunfeng and to maximize the potential value of the Coal Mine.

Taking into account, among other things, that i) the preliminary estimated reserves of the Coal Mine of approximately 109.35 million tons made by Longwang and the preliminary estimated value of the exploration rights of the Coal Mine of approximately RMB164.0 million if reference is made to the minimum concession price of RMB1.5 per ton of coal set by the People's Government of



Inner Mongolia Autonomous Region; ii) the preliminary exploration report conducted by Longwang and the fieldwork investigation on the Coal Mine carried out by the Directors; iii) it is anticipated that the Exploration License will be obtained by Mingrunfeng by the end of June 2007 subsequent to completion of the Capital Contribution and necessary procedures for the transfer of the Exploration License from Guoxin to Mingrunfeng; iv) based on the PRC legal opinion, application can be made within 30 days prior to the expiration of the Exploration License to extend the exploration rights of the Coal Mine for a term of not more than two years; v) Guoxin will use its best endeavours to assist in the renewal of the Exploration License before transfer of the Exploration License to Mingrunfeng; and vi) the Group, upon completion of the Capital Contribution, will have a control over Mingrunfeng which holds the consideration for the Capital Contribution paid by the Group and accordingly the Group will have a control over the capital contributed to Mingrunfeng by Bright Asset no matter whether the transfer of the Exploration License from Guoxin to Mingrunfeng pursuant to the Co-Operation Agreement takes place, the Directors consider that the terms of the Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The two-stage acquisition of shareholding interests in Mingrunfeng as to 51% by the Capital Contribution and as to an additional 19% by the Acquisition instead of a direct one-off acquisition of 70% is to reflect, amongst other things, the timing for Mingrunfeng to obtain the Exploration License from Guoxin after completion of the Capital Contribution but before completion of the Acquisition. Such arrangement is determined between Bright Asset and the Original Shareholders after arm's length negotiation. The Directors consider that the entering into of the two separate agreements for the Capital Contribution and the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Regarding the Loan Facility Agreement, despite there may have or may not have a pledge of assets for the Loan Facility which may be drawdown by Mingrunfeng, taking into account, among other things, that i) the Loan Facility Agreement is conditional on completion of the Capital Contribution, which implies that the Group will have control over Mingrunfeng and the Loan Facility at the time when Mingrunfeng can drawdown the Loan Facility; and ii) pursuant to the Loan Facility Agreement, Mingrunfeng shall procure the Original Shareholders to provide irrevocable guarantee to Bright Asset for any amount drawn by Mingrunfeng, the Directors consider that the terms of the Loan Facility Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **GENERAL**

Bright Asset is a company incorporated in the British Virgin Islands and is an indirect wholly-owned subsidiary of the Company. Jumplex, First Choice and Wise House are companies incorporated in the British Virgin Islands. As informed by the directors of Jumplex, First Choice and Wise House, these companies are principally engaged in investment holdings in the PRC.

To the best of the Directors' knowledge, information and belief and after having made all reasonable enquiries, Jumplex, First Choice, Wise House and their respective ultimate beneficial owners and Mr. Yang are third parties independent of the Company and its connected persons.

The Transactions constitute a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules and will result in the diversion to exploration for natural resources of 10% or more of the consolidated total assets of the Group. Therefore, the Transactions are subject to approval by Shareholders at a general meeting under Rule 14.49 and Rule 18.07(2) of the Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, no Shareholder is required to abstain from voting at the general meeting.

An extraordinary general meeting of the Company will be held to consider and, if thought fit, pass the resolutions to the Transactions. A circular containing, among other things, further details of the Transactions and other necessary disclosures as required under Rule 18.09 of the Listing Rules will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on Monday, 4 September 2006 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange from 9:30 a.m. on Wednesday, 27 September 2006.

## **DEFINITIONS**

The following defined terms are used in this announcement:

“Acquisition”	acquisition of an aggregate of 19% equity interests in Mingrunfeng by Bright Asset from the Original Shareholders subject to and upon the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the agreement dated 2 September 2006 entered into between Bright Asset and the Original Shareholders in respect of the Acquisition
“Agreements”	Capital Contribution Agreement, Acquisition Agreement, Loan Facility Agreement and Guarantee Agreement
“Board”	the board of Directors
“Bright Asset”	Bright Asset Investments Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company
“Capital Contribution”	contribution of RMB20 million (equivalent to approximately HK\$19.6 million) to the capital of Mingrunfeng by Bright Asset in return for 51% equity interests in Mingrunfeng subject to and upon the terms and conditions of the Capital Contribution Agreement
“Capital Contribution Agreement”	the agreement dated 2 September 2006 entered into between Bright Asset and the Original Shareholders in respect of the Capital Contribution
“Classification For Resources”	the Classification for Resources/Reserves of Solid Fuels and Mineral Commodities (固體礦產資源／儲量分類) issued by State Bureau of Quality and Technical Supervision (國家質量技術監督局)

“Co-Operation Agreement”	the co-operation agreement dated 15 June 2006 entered into between Mingrunfeng and Guoxin in respect of the exploration of the Coal Mine in Xilinguolemeng of the Inner Mongolia Autonomous Region of the PRC with an area of approximately 227.80 km <sup>2</sup> and the transfer of the exploration rights of the Coal Mine from Guoxin to Mingrunfeng
“Coal Mine”	the Guerbanhada Coal Mine (古爾班哈達煤礦點)# located in Xilinguolemeng (錫林郭勒盟) of the Inner Mongolia Autonomous Region of the PRC
“Company”	Kiu Hung International Holdings Limited, a company incorporated in the Cayman Islands and the issued shares of which are listed on the Stock Exchange
“connected persons”	has the meaning ascribed thereto in the Listing Rules
“Consideration Shares”	new Shares to be issued by the Company as the consideration for the Acquisition
“Deposit Agreement”	the agreement dated 2 September 2006 entered into, among other parties, between Bright Asset, Bright Asset’s nominee and the Original Shareholders in respect of the payment of deposit for the Capital Contribution
“Directors”	the directors of the Company
“Exploration License”	the Exploration License for Mineral Resources (礦產資源勘查許可證), being the legal certificate for the entire exploration rights of the Coal Mine
“First Choice”	First Choice Resources Limited, a company incorporated in the British Virgin Islands, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules)
“Group”	the Company and its subsidiaries
“Guarantee Agreement”	the agreement dated 22 September 2006 entered into between Bright Asset and the Original Shareholders in respect of the provision of guarantees by Bright Asset and the Original Shareholders for any future loan facility which may be secured by Mingrunfeng
“Guoxin”	Xilinguole Guoxin Mines Co., Ltd. (錫林郭勒國鑫礦業有限公司)#, a company established in the PRC, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jumplex”	Jumplex Investments Limited, a company incorporated in the British Virgin Islands, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Facility”	the revolving loan facility of not exceeding RMB40 million to be provided by Bright Asset to Mingrunfeng subject to and upon the terms and conditions of the Loan Facility Agreement
“Loan Facility Agreement”	the agreement dated 22 September 2006 entered into between Bright Asset, as lender, and Mingrunfeng, as borrower, in respect of the Loan Facility
“Longwang”	Inner Mongolia Longwang Geological Exploration Co., Ltd. (內蒙古龍旺地質勘探有限責任公司)#, a company established in the PRC on 12 May 2005 and is a holder of the Certificate of Qualification for Geological Exploration (地質勘查資質證書)# issued by the Ministry of Land and Resources of the PRC, being the professional geological exploration company in charge of the exploration works of the Coal Mine, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons
“Mingrunfeng”	Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司)#, a company established in the PRC, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons
“Mr. Yang”	Yang Runzhi, a third party independent of the Company and its connected persons
“Open Offer”	open offer of Shares conducted by the Company in August 2006
“Original Shareholders”	Mr. Yang, Jumplex, First Choice and Wise House, being the shareholders of Mingrunfeng prior to the completion of the Capital Contribution Agreement
“PRC”	The People’s Republic of China which for the purpose of this announcement excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Legal Opinion”	the PRC legal opinion given by Guantao Law Firm (觀韜律師事務所) on 2 and 20 September 2006

“Revised Certificate”	the Certificate of Approval for Establishment of Enterprises with Foreign Investment (外商投資企業批准證書) of Mingrunfeng being revised for the change in shareholding structure of Mingrunfeng as a result of the entering into of the Capital Contribution Agreement to be granted by the Beijing Municipal Bureau of Commerce
“Share(s)”	ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	holders of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the transactions contemplated under the Agreements
“Wise House”	Wise House Limited, a company incorporated in the British Virgin Islands, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“km <sup>2</sup> ”	square kilometre(s)
“%”	per cent.

*Exchange rate used in this announcement between Hong Kong dollars and Renminbi is HK\$1 = RMB1.02.*

*# denotes English transliteration of Chinese words and is provided for identification purposes only.*

By Order of the Board  
**Kiu Hung International Holdings Limited**  
**Hui Kee Fung**  
*Chairman*

Hong Kong, 26 September 2006

*As at the date of this announcement, the Board comprises three executive Directors, Mr. Hui Kee Fung, Mr. Hui Ki Yau, Madam Hui Hung Tan, Teresa and three independent non-executive Directors, Mr. Peng Guanghui, Mr. Kung King Ching, Conrad and Mr. Tang Rongzu.*

Please also refer to the published version of this announcement in China Daily.