

Hong Kong Exchange and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.



Kiu Hung Energy Holdings Limited
僑雄能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00381)

**VERY SUBSTANTIAL ACQUISITION
INVOLVING ISSUE OF CONSIDERATION SHARES
AND CONVERTIBLE NOTES;
CONTINUING CONNECTED TRANSACTIONS
AND
RESUMPTION OF TRADING**

Financial adviser to the Company



KINGSTON CORPORATE FINANCE LIMITED

ACQUISITION AGREEMENT

Reference is made to the announcement of the Company dated 3 February 2010 in relation to the MOU. Subsequent to the signing of the MOU, the Purchaser and the Vendor entered into the Acquisition Agreement on 24 February 2010 (as supplemented by a supplemental agreement dated 3 March 2010).

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share and the Sale Debt (if any) of the Target Company at a consideration for not more than HK\$1,439,100,000, out of which HK\$1,550,000 has been paid in cash as refundable deposit within 5 Business Days from the date of signing of the Acquisition Agreement; HK\$3,575,000 will be paid in cash as refundable deposit within 5 Business Days after the receipt of the Examination Report by the Purchaser; HK\$3,575,000 will be paid in cash as refundable deposit within 5 Business Days after the receipt of the Technical Report by the Purchaser while the remaining balance of HK\$1,430,400,000 will be satisfied in the following manner and order:

- (i) as to HK\$3,575,000 by payment in cash upon Completion;
- (ii) as to HK\$209,200,000 by the issue of the Consideration Shares to the Vendor or its nominee(s) at the Issue Price upon Completion;
- (iii) up to HK\$1,095,862,500 (subject to adjustment) by the issue of the Convertible Note A at its full face value to the Vendor or its nominee(s) upon Completion;
- (iv) as to HK\$121,762,500 by the issue of the Convertible Note B at its full face value to the Vendor or its nominee(s) on the third anniversary of the Completion Date provided that all the conditions set forth in the section headed “Conditions Subsequent for issue of the Convertible Note B” have been satisfied.

As the consideration ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition is more than 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

To the best of Directors’ knowledge, information and belief, having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons. As at the date of this announcement, the Vendor and its ultimate beneficial owners do not hold any Shares. Since no Shareholder has any material interest in the Acquisition, no Shareholder is required to abstain from voting at the EGM on the resolution to approve the Acquisition Agreement and the transactions contemplated thereunder.

CONSULTANCY AGREEMENT

The Purchaser and the Vendor entered into the Consultancy Agreement on 3 March 2010, pursuant to which, the Purchaser will, conditional upon Completion having occurred, appoint the Vendor as the consultant to the Purchaser and to provide assistance to the Target Group, as may be required, in connection with the exploration of coal mines, and the preparation, processing, sales and transportation of coal carried on and/or intended to be carried on by the Target Group for a three-year period commencing on the Completion Date. The consultancy fee for the whole period shall be HK\$900,000 and shall be satisfied by payment in cash on the third anniversary of the Completion Date.

Upon Completion, the Vendor will become a substantial Shareholder (as defined in the Listing Rules) and is therefore a connected person of the Company pursuant to the Listing Rules. Thus the Consultancy Agreement will constitute a continuing connected transaction for the Company. As each of the relevant percentage ratios as set out in Rule 14.07 of the Listing Rules for the consultancy fee to be paid to the Vendor under the Consultancy Agreement is less than 2.5 per cent. of the applicable percentage ratios of the Company and the annual consideration is less than HK\$1,000,000, the Consultancy Agreement will be classified as a continuing connected transaction under Rule 14A.33(3) of the Listing Rules and is exempt from the reporting, announcement and independent shareholders' approval requirement under the Listing Rules.

A circular containing, among other things, (i) further details of the Acquisition; (ii) financial information on the Target Group; (iii) the unaudited pro-forma financial information on the Group as enlarged by the Acquisition; (iv) the valuation report on the fair market value of the Mines to be prepared by an independent professional valuer; (v) the Technical Report; and (vi) a notice of the EGM, will be despatched to Shareholders as soon as practicable in accordance with the Listing Rules.

SUSPENSION AND RESUMPTION OF TRADING IN THE SHARES

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 25 February 2010 pending the release of this announcement. Application has been made by the Company for resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 18 March 2010.

INTRODUCTION

Reference is made to the announcement of the Company dated 3 February 2010 in relation to the MOU. Subsequent to the signing of the MOU, the Purchaser and the Vendor entered into: (i) the Acquisition Agreement on 24 February 2010 (as supplemented by a supplemental agreement dated 3 March 2010) at a total consideration for not more than HK\$1,439,100,000; and (ii) the Consultancy Agreement on 3 March 2010. Summaries of the major terms of the Acquisition Agreement and the Consultancy Agreement are set out below.

THE ACQUISITION AGREEMENT

Date

24 February 2010 (as supplemented by a supplemental agreement dated 3 March 2010)

Parties

- (i) Strong Master Holdings Limited, a wholly owned subsidiary of the Company, as Purchaser; and
- (ii) Wonder Return Limited, as Vendor.

In November 2009, Ms. Liu Xin, who indirectly owns 10% of the issued share capital of the Vendor met with Mr. Yu Won Kong, Dennis (“Mr. Yu”), the executive Director and chief executive officer of the Company in a business occasion. Ms. Liu Xin then introduced Mr. Yu to Mr. Amgalanbat Gombosuren, the ultimate shareholder of the remaining 90% of the issued share capital of the Vendor. To the best of Directors’ knowledge, information and belief, having made all reasonable enquiries: (i) the Vendor and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons; and (ii) the Vendor and its associates did not have any prior business relationship with and are not connected with the vendors or their associates of the mines previously acquired by the Company.

Save and except the Acquisition Agreement and the Consultancy Agreement which will last for 3 years from the Completion Date, there are no prior and/or continuing businesses or transactions entered into between the Vendor and the Company, its connected persons and associates. As at the date of this announcement, the Vendor and its ultimate beneficial owners do not hold any Shares. Upon Completion and the completion of the Consultancy Agreement, there will not be any change to the Board.

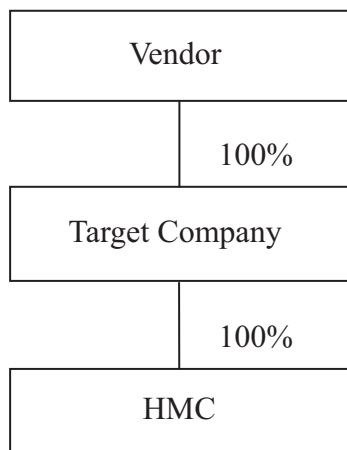
Assets to be acquired

Upon Completion, the Company, through the Purchaser, will hold the Sale Share and the Sale Debt (if any) of the Target Company and the results of Target Group will be consolidated into the financial statements of the Group.

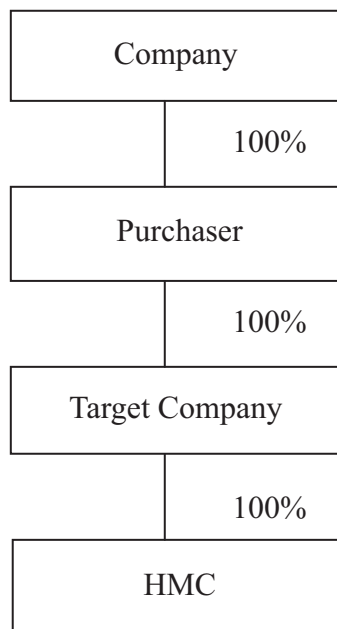
Shareholding structure of the Target Group

Set out below are the shareholding structures of the Target Group (i) immediately before Completion, and (ii) immediately after Completion:

(i) Immediately before Completion



(ii) Immediately after Completion



Consideration

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share and the Sale Debt (if any) of the Target Company at a consideration for not more than HK\$1,439,100,000, out of which HK\$1,550,000 has been paid in cash as refundable deposit (the "First Deposit") within 5 Business Days from the date of signing of the Acquisition Agreement; HK\$3,575,000 will be paid in cash as refundable deposit (the "Second Deposit") within 5 Business Days after the receipt of the Examination Report by the Purchaser; HK\$3,575,000 will be paid in cash as refundable deposit (the "Third Deposit") within 5 Business Days after the receipt of the Technical Report by the Purchaser while the remaining balance of HK\$1,430,400,000 will be satisfied in the following manner and order:

- (i) as to HK\$3,575,000 by payment in cash upon Completion;
- (ii) as to HK\$209,200,000 by the issue of the Consideration Shares to the Vendor or its nominee(s) at the Issue Price upon Completion;
- (iii) up to HK\$1,095,862,500 (subject to adjustment) by the issue of the Convertible Note A at its full face value to the Vendor or its nominee(s) upon Completion; and

- (iv) as to HK\$121,762,500 by the issue of the Convertible Note B at its full face value to the Vendor or its nominee(s) on the third anniversary of the Completion Date provided that all the conditions set forth in the section headed “Conditions Subsequent for issue of the Convertible Note B” have been satisfied.

In the event that any of the conditions set out in the section headed “Conditions Precedent” below (the “Conditions”) has not been satisfied or waived by the Purchaser (as the case may be) on or before the Long Stop Date, the Acquisition Agreement shall automatically terminate and the Vendor shall forthwith return the First Deposit, the Second Deposit and the Third Deposit (where the same has been paid to the Vendor) (collectively, the “Deposits”) to the Purchaser without interest, whereupon none of the parties to the Acquisition Agreement shall have any other claim of any nature or liabilities hereunder whatsoever against the other party under the Acquisition Agreement (save for any antecedent breaches of the terms hereof).

In addition, in the event that all Conditions have been satisfied on or before Long Stop Date but Completion does not take place, the Vendor shall forthwith return the Deposits to the Purchaser, without interest, upon request of the Purchaser.

Consideration Adjustment

Consideration will be adjusted in the following events, upon which, the aggregate principal amount of the Convertible Note A will be reduced:

- (a) In the event that the Technical Report indicating the Mines have reserves of coking coal of less than 360 million tonnes in aggregate according to the JORC, the Consideration shall be adjusted in accordance with the following formula:

Adjusted Consideration

= The reserves of coking coal according to the JORC of the Mines as indicated in the Technical Report x HK\$4 per tonne.

- (b) In the event that there are liabilities as shown in the Completion Account, the Consideration shall be further reduced by the amount of liabilities as shown therein on a dollar to dollar basis.

If any of the conditions set forth in the section headed “Conditions Subsequent for issue of the Convertible Note B” has not been satisfied or waived by the Purchaser (as the case may be) at or before the time specified in such conditions, the Consideration shall be further reduced by the amount of HK\$121,762,500 such that the Company shall not be required to issue the Convertible Note B on the third anniversary of the Completion Date.

The Consideration was determined on normal commercial terms and arrived at after arm’s length negotiation between the Purchaser and the Vendor after taking into consideration (i) that the Acquisition will enable the Group to expand its access to the coal mining sector with an aim of broadening the

income base of the Group; (ii) the business prospect of the Target Group; (iii) the potentially growing demand for coal resources in the future; and (iv) that no significant cash outflow of the Company is required to finance the Acquisition as the Consideration will be substantially satisfied by the issue of the Consideration Shares and the Convertible Notes, subject to the Purchaser having received (aa) a valuation report on the fair market value of the Mines, to be issued by an independent professional valuer, showing the valuation of the Mines to be no less than the Consideration, and (bb) the Technical Report in respect of the Mines, indicating that the Mines have reserves of coking coal of no less than 300 million tonnes in aggregate.

In view of the above, the Board considers that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

Completion is subject to and conditional upon the satisfaction or the waiver (as the case may be) of the following conditions:

- (i) the Shareholders (or independent Shareholders, if required) having passed the relevant resolutions at a general meeting approving the Acquisition Agreement and the transactions contemplated thereunder, including the issue of the Convertible Notes and the issue and allotment of the Conversion Shares and the Consideration Shares pursuant to the Acquisition Agreement;
- (ii) the Purchaser completing, to its satisfaction, a due diligence review (the “Due Diligence”) on the Target Group and the Mines, which shall include but not limited to geological, technical, legal, incorporation, continuance, assets, liabilities, financial and operational aspects of the Target Group and the Mines;
- (iii) the Purchaser having received the Technical Report in respect of the Mines in form and substance satisfactory to the Purchaser indicating that the Mines have reserves of coking coal of no less than 300 million tonnes in aggregate based on the JORC and that such reserves shall comply with the quality standards as acceptable by the Purchaser;
- (iv) the Purchaser having received a valuation report on the fair market value of the Mines in form and substance satisfactory to the Purchaser issued by an independent professional valuer acceptable to and appointed by the Purchaser showing the valuation of the Mines to be not less than the Consideration;
- (v) the Purchaser having received (aa) an opinion issued by a Mongolian lawyer approved by the Purchaser in respect of each member of the Target Group which is incorporated in Mongolia and the Licences governed by the Laws of Mongolia in form and substance satisfactory to the Purchaser, confirming that, including but not limited to, the due incorporation of each member of the Target Group which is incorporated in Mongolia, the business scope of each member of the Target Group which is incorporated in Mongolia, compliance with all applicable law and regulations by each member of the Target Group which is incorporated in Mongolia and the legality of the Licences

and such other aspects of Mongolian Law as the Purchaser may reasonably consider appropriate or relevant to the transactions contemplated under the Acquisition Agreement; (bb) an opinion issued by a BVI lawyer approved by the Purchaser in respect of each member of the Target Group which is incorporated in the BVI in form and substance satisfactory to the Purchaser, confirming that, including but not limited to, the due incorporation, valid subsisting and good standing as a limited liability company under the laws of the BVI and has full power to own its assets and such other aspects of BVI law as the Purchaser may reasonably consider appropriate or relevant to the transactions contemplated under the Acquisition Agreement;

- (vi) each of the three exploration licences in respect of the Mines has been converted/transformed into a mining licence and all mining licences of the Mines having been granted to the Target Group;
- (vii) all requisite consents, approvals and authorization from governmental and other authorities in all applicable jurisdictions in connection with the transactions contemplated under the Acquisition Agreement and the implementation of these transactions and all other matters incidental thereto having been obtained;
- (viii) the approval for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares issuable under the Convertible Notes having been granted by the Stock Exchange and not having been revoked;
- (ix) no indication being received from the Stock Exchange that the transaction contemplated under the Acquisition Agreement will be treated or, as the case may be, ruled by the Stock Exchange as a “reverse takeover” under the Listing Rules, or may otherwise trigger mandatory general offer obligations under the Takeovers Code;
- (x) all Vendor’s Warranties remaining true and accurate and not misleading in any material respect as if repeated at Completion by reference to the facts and circumstances subsisting at Completion Date;
- (xi) all Purchaser’s Warranties remaining true and accurate and not misleading in any material respect as if repeated at Completion by reference to the facts and circumstances subsisting at Completion Date; and
- (xii) the Consultancy Agreement having been executed by the Vendor.

The Purchaser shall be entitled at its absolute discretion at any time by a notice in writing to the Vendor to waive any of the conditions above (save and except the condition (i), (vii) and (viii), which cannot be waived) either in whole or in part. If (aa) any of the conditions has not been satisfied (or waived by the Purchaser, as the case may be) at or before 5:00 p.m. on the Long Stop Date; or (bb) the Purchaser informs the Vendor in writing that it is not satisfied with the results of the Due Diligence, the Acquisition Agreement shall automatically terminate and the Vendor shall forthwith return the First Deposit, the Second Deposit and the Third Deposit (where the same have been paid to the Vendor) to

the Purchaser without interest, whereupon none of the parties to the Acquisition Agreement shall have any claim of any nature or liabilities whatsoever against any of the other parties under the Acquisition Agreement (save for any antecedent breaches of the terms hereof).

Completion

Completion shall take place within 10 Business Days after the fulfillment or, where applicable, waiver (as the case may be) of the conditions precedent to the Acquisition Agreement (or such other date as the Vendor and the Purchaser may agree in writing).

Consideration Shares

Based on the Issue Price, an aggregate of 523,000,000 Consideration Shares would be allotted and issued, representing:

- (i) approximately 11.11% of the issued share capital of the Company as at the date of this announcement;
- (ii) approximately 10.00% of the total issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares; and
- (iii) approximately 6.32% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares, assuming full conversion of the Convertible Notes at the Conversion Price.

The Consideration Shares when allotted and issued, shall rank *pari passu* in all respects amongst themselves and with the Shares in issue on the date of allotment and issue of the Consideration Shares and be entitled to dividends and other rights carried by the Shares. There is no restriction on subsequent sale of the Consideration Shares.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange.

Convertible Note A

Upon Completion, in the event that the Consideration shall exceed HK\$221,475,000, the Company will issue the Convertible Note A in a principal amount up to HK\$1,095,862,500 to the Vendor or its nominee(s) for the amount exceeding HK\$221,475,000 but not more than HK\$1,317,337,500. The 2,739,656,250 Note A Conversion Shares (subject to adjustment) to be allotted and issued at the Conversion Price, assuming the full exercise of the Note A Conversion Rights, represents:

- (i) approximately 58.19% of the issued share capital of the Company as at the date of this announcement;

- (ii) approximately 36.78% of the total issued share capital of the Company as enlarged by the allotment and issue of the Note A Conversion Shares, assuming full exercise of the Note A Conversion Rights at the Conversion Price; and
- (iii) approximately 34.37% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Note A Conversion Shares, assuming full exercise of the Note A Conversion Rights at the Conversion Price.

The Note A Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the EGM and will be allotted and issued upon exercise of the Note A Conversion Rights. The Note A Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects amongst themselves and with the Shares in issue on the date of allotment and issue of the Note A Conversion Shares and be entitled to dividends and other rights carried by the Shares. There is no restriction on subsequent sale of the Note A Conversion Shares.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Note A Conversion Shares on the Stock Exchange.

The principal terms of the Convertible Note A are summarised as follows:

Maximum Principal amount:	HK\$1,095,862,500
Maturity date:	The date falling on the third anniversary of the date of issue of the Convertible Note A
Interest:	The Convertible Note A shall not bear any interest
Redemption:	On the Maturity Date, the Company may redeem all and not some of the Convertible Note A which has not been converted, redeemed, purchased or cancelled on the Maturity Date at a redemption price of HK\$1
Conversion Price:	The Conversion Price shall be the price at which each Note A Conversion Share will be issued upon a conversion of all or any part of the Convertible Note A, being HK\$0.40 (which shall in any case, from time to time, be subject to usual anti-dilution adjustments in certain events such as share consolidation, share subdivision, capital distribution and capitalization issue of profits or reserves). Every adjustment to the Conversion Price shall be certified (at the option of the Company) either by its auditors for the time being or by an approved merchant bank

Conversion:	<p>Subject as hereinafter provided and that any conversion of the Convertible Note A does not (i) result in the percentage of Shares held in the hands of public (as defined in the Listing Rules) falling below the minimum percentage prescribed under the Listing Rules; (ii) trigger a mandatory offer obligation of Rule 26 of the Takeovers Code on the part of the relevant holder of the Convertible Note A, whether or not such mandatory offer obligation is triggered by the fact that the number of the Note A Conversion Shares to be allotted and issued upon the exercise of the Note A Conversion Rights and, if applicable, together with any Shares already owned or agreed to be acquired by such holder of the Convertible Note A and/or parties acting in concert with it, represents 30% or more (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued ordinary share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code; and (iii) result in the shareholding interest of the relevant holder of the Convertible Note A immediately after the exercise of the Note A Conversion Rights, together with any Shares already owned or agreed to be acquired by such holder of the Convertible Note A and/or parties acting in concert with it represents 20% or more of the then issued ordinary share capital of the Company, the holder of the Convertible Note A will have the right, on a day in which the Stock Exchange is open for the business of dealing in securities (excluding Saturday, Sunday and public holiday, and days on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) during the Conversion Period A, to convert the whole or part of such principal amount of the Convertible Note A set out therein into the Note A Conversion Shares at the Conversion Price, other than the Convertible Note A which have been called for redemption before the Maturity Date</p>
Status of the Convertible Note A:	<p>The obligations of the Company arising under the Convertible Note A constitute direct, unconditional, unsecured and unsubordinated obligations of the Company and rank <i>pari passu</i> and rateably without preference (with the exception of obligations in respect of taxes and certain other statutory exceptions) equally with all other present and future unsecured and unsubordinated obligations of the Company</p>
Transferability:	<p>The Convertible Note A may be freely assigned and transferred provided that no assignment or transfer shall be made to a connected person of the Company without the prior approval of the Company and provided further that the principal amount to be assigned or transferred is at least HK\$5,000,000 and in integral multiples of HK\$5,000,000 unless the amount of the outstanding Convertible Note A is less than HK\$5,000,000 in which case the whole (but not part only) of that amount may be assigned and transferred</p>

Voting Rights:	The holder of the Convertible Note A will not be entitled to attend or vote at any meetings of the Company
Application for Listing:	No application will be made for a listing of the Convertible Note A on the Stock Exchange or any stock or securities exchange

Convertible Note B

Subject to the satisfaction of all conditions set forth in the section headed “Conditions Subsequent for issue of the Convertible Note B”, the Company will issue the Convertible Note B in an aggregate principal amount of HK\$121,762,500 to the Vendor or its nominee(s) on the third anniversary of the Completion.

Assuming the full exercise of Note B Conversion Rights, 304,406,250 Note B Conversion Shares (subject to adjustment) will be allotted and issued at the Conversion Price which represents:

- (i) approximately 6.47% of the issued share capital of the Company as at the date of this announcement;
- (ii) approximately 6.07% of the total issued share capital of the Company as enlarged by the allotment and issue of the Note B Conversion Shares; and
- (iii) approximately 3.68% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, the Conversion Shares, assuming full exercise of Note A Conversion Rights and Note B Conversion Rights at the Conversion Price.

The Note B Conversion Shares will also be allotted and issued pursuant to the specific mandate to be sought at the EGM and will be allotted and issued upon exercise of the Note B Conversion Rights. The Note B Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects amongst themselves and with the Shares in issue on the date of allotment and issue of the Note B Conversion Shares and be entitled to dividends and other rights carried by the Shares. There is no restriction on subsequent sale of the Note B Conversion Shares.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Note B Conversion Shares on the Stock Exchange.

The principal terms of the Convertible Note B are summarized as follows:

Principal amount:	HK\$121,762,500
Maturity date:	The date falling on the third anniversary of the date of issue of the Convertible Note B
Interest:	The Convertible Note B shall not bear any interest

Redemption:	On the Maturity Date, the Company may redeem all and not some only of the Convertible Note B which has not been converted, redeemed, purchased or cancelled on the Maturity Date at a redemption price of HK\$1
Conversion Price:	The Conversion Price shall be the price at which each Note B Conversion Share(s) will be issued upon a conversion of all or any part of the Convertible Note B, being HK\$0.40 (which shall in any case, from time to time, be subject to usual anti-dilution adjustments in certain events such share consolidation, share subdivision, capital distribution and capitalization issue of profits or reserves). Every adjustment to the Conversion Price shall be certified (at the option of the Company) either by its auditors for the time being or by an approved merchant bank
Conversion:	Subject as hereinafter provided and that any conversion of the Convertible Note B does not (i) result in the percentage of Shares held in the hands of public (as defined in the Listing Rules) falling below the minimum percentage prescribed under the Listing Rules; (ii) trigger a mandatory offer obligation of Rule 26 of the Takeovers Code on the part of the relevant holder of the Convertible Note B, whether or not such mandatory offer obligation is triggered by the fact that the number of Note B Conversion Share(s) to be allotted and issued upon the exercise of the Note B Conversion Rights and, if applicable, together with any Shares already owned or agreed to be acquired by such holder of Convertible Note B and/or parties acting in concert with it, represents 30% or more (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued ordinary share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code; and (iii) result in the shareholding interest of the relevant holder of the Convertible Note B immediately after the exercise of the Note B Conversion Rights, together with any Shares already owned or agreed to be acquired by such holder of the Convertible Note B and/or parties acting in concert with it represents 20% or more of the then issued ordinary share capital of the Company, the holder of the Convertible Note B will have the right, on a day in which the Stock Exchange is open for the business of dealing in securities (excluding Saturday, Sunday and public holiday, and days on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) during the Conversion Period B, to convert the whole or part of such principal amount of the Convertible Note B set out therein into the Note B Conversion Share(s) at the Conversion Price, other than the Convertible Note B which have been called for redemption before the Maturity Date

Status of the Convertible Note B:	The obligations of the Company arising under the Convertible Note B constitute direct, unconditional, unsecured and unsubordinated obligations of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes and certain other statutory exceptions) equally with all other present and future unsecured and unsubordinated obligations of the Company
Transferability:	Convertible Note B may be freely assigned and transferred provided that no assignment or transfer shall be made to a connected person of the Company without the prior approval of the Company and provided further that the principal amount to be assigned or transferred is at least HK\$5,000,000 and in integral multiples of HK\$5,000,000 unless the amount of the outstanding Convertible Note B is less than HK\$5,000,000 in which case the whole (but not part only) of that amount may be assigned and transferred
Voting Rights:	The holder of the Convertible Note B will not be entitled to attend or vote at any meetings of the Company
Application for Listing:	No application will be made for a listing of the Convertible Note B on the Stock Exchange or any stock or securities exchange

Conditions Subsequent for issue of the Convertible Note B

Issue of the Convertible Note B is subject to the following conditions:

- (a) the Licences are valid, subsisting and in full force and effect and have not been revoked (in the case of the exploration licences, other than as a result of the conversion/transformation of the exploration licences to the mining licences) within 3 years after the Completion and the Vendor is not aware of any factor which may affect the validity, subsistence and renewal of such Licences as at the date of issue of the Convertible Note B;
- (b) the mining activities in the Mines as regulated by the mining licence to be granted have been commenced on or before the third anniversary of the Completion Date and have not been unduly interrupted for a continue period of over 90 consecutive calendar days after its commencement and there is no claim or other factors which is known to the Vendor to be pending and which may have a material adverse effect on the operation of such mining activity as at the date of issue of the Convertible Note B;
- (c) the Target Group having acquired the necessary licences or having appointed a third party who has acquired the necessary licences to transport coal and other relevant products from the Mines to Yarant and Baitag Border Station on or before the third anniversary of the Completion Date and the Vendor is not aware of any factor which may affect the validity, subsistence and renewal of the relevant transportation licences as at the date of issue of the Convertible Note B; and

- (d) the Consultancy Agreement has not been early terminated before the third anniversary of the Completion Date.

The Purchaser shall be entitled at its absolute discretion at any time by a notice in writing to the Vendor to waive any of the above conditions either in whole or in part.

Issue Price and Conversion Price

The Issue Price of HK\$0.40 for each Consideration Share and the initial Conversion Price of HK\$0.40 for each of the Note A Conversion Share and the Note B Conversion Share represent:

- (i) a premium of approximately 33.33% to the closing price of the Shares of HK\$0.30 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 40.85% to the average of the closing prices of the Shares of approximately HK\$0.284 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including Last Trading Day;
- (iii) a premium of approximately 21.21% to the average of the closing prices of the Shares of approximately HK\$0.330 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 334.78% to the unaudited net asset value per Share of approximately HK\$0.092, which is calculated based on the unaudited net asset value of the Company of HK\$435,230,000 as at 30 June 2009 as stated in its 2009 interim report divided by its total number of 4,708,306,800 issued Shares as at the date of the Last Trading Day.

The Issue Price and Conversion Price were determined after arm's length negotiation between the Purchaser and the Vendor with reference to the recent trading price of the Shares and the recent market sentiment of the financial market in Hong Kong. The Directors consider that the Issue Price and Conversion Price are fair and reasonable and in the interests of the Company and the Shareholders taken as a whole.

THE CONSULTANCY AGREEMENT

The Purchaser entered into the Consultancy Agreement with the Vendor on 3 March 2010, pursuant to which, the Purchaser will, conditional upon Completion having occurred, appoint the Vendor as the consultant to the Purchaser and to provide assistance to the Target Group, as may be required, in connection with the exploration of coal mines, preparation and processing and sales and transportation of coal carried on and/or intended to be carried on by the Target Group for the period commencing on the Completion Date to the date immediately prior to the third anniversary of the Completion Date.

The consultancy fee for the whole period shall be HK\$900,000 and shall be satisfied by payment in cash on the third anniversary of the Completion Date. The consultancy fee was agreed after taking into account various factors including, principally, the local business connection and good relationship between the Consultant and the local government authorities in Mongolia. The Directors (including the independent non-executive Directors) believe that the terms of the Consultancy Agreement (including the consultancy fee) are on normal commercial terms and fair and reasonable, and are also in the interests of the Company and the Shareholders as a whole.

Financial Information of the Target Group

The Target Group is engaged and/or intends to be engaged in the business of exploration of coal mines, preparation and processing and sales and transportation of coal.

The Target Company is a company incorporated in the BVI with limited liability on 6 August 2009, the entire issued share capital of which is owned by the Vendor as at the date of the Acquisition Agreement. As at the date of this announcement, the major asset of the Target Company is the entire issued share capital of HMC, which is a company established in Mongolia with a registered capital of USD200,000 consisting of cash MNT287,000,000 (equivalent to approximately HK\$1,557,835).

Except for investment holding the three exploration licences in respect of the Mines, the Target Group has not carried out any business and therefore no audited consolidation accounts for the year ended 31 December 2009 have been prepared. Based on the unaudited consolidated management account of the Target Group for the period from the date of incorporation of the Target Company to 31 December 2009, the Target Group recorded no profit and loss items as all incorporation expenses has been capitalized. For the period from 1 January 2010 to 15 February 2010, the Target Group incurred a loss before tax and a loss after tax of approximately HK\$373,000 (MNT68,790,000). As of 15 February 2010, the unaudited consolidated net asset value of the Target Group as at 15 February 2010 was approximately MNT218,210,900 (equivalent to approximately HK\$1,184,448).

Update on the coal business of the Group

As at the date of this announcement, the Group owned the mining rights of Huanghuashan Coal Mine and exploration rights of Banyanhushuo Coalfield and Guerbanhada Coal Mine, all located in Inner Mongolia Autonomous Region, PRC with a total estimated coal sources of 570 million tonnes. The Huanghuashan Coal Mine had officially commenced production in December 2009 as scheduled. The Group is in the process of preparing documents required in respect of the mining license application of the Guerbanhada Coal Mine. It is expected that the application documents will be submitted by the Group in 2010. For Banyanhushuo Coalfield, it is expected that the Group will perform the final stage of exploration in 2010.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in design, manufacture, sale of a wide range of toys and decorative gift items and exploration and mining of natural resources.

As disclosed in the interim report of the Company for the six months ended 30 June 2009, the Company would continue exploring investment opportunities in the energy and natural resources industries with earning potentials in order to expand its existing operations and diversify its businesses. Hence the Company has been actively exploring new investment opportunities with profitable prospects. In view of the worldwide increasing demand for natural resources and the business expansion opportunities to be enlightened by the Acquisition, the Directors consider that it will further create strategic values to the Group by increasing the amount of its coal reserves, broadening the variety of its coal reserves and enhancing its market position of its coal mining business. The Directors also expect that the Target Group will contribute to the cash flows and revenue of the Group in the long run.

The Board is of the opinion that the terms of the Acquisition Agreement are fair and reasonable and that the Acquisition is in the interest of the Company and the Shareholders as a whole.

As at the date of this announcement, save for the Acquisition, the Company did not have any arrangement or understanding or agreement or negotiation for asset disposal or further asset acquisition and had no plans to dispose of and/or scale down its existing business.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following table summarises the shareholding structure of the Company (a) as at the date of this announcement; (b) immediately after allotment and issue of the Consideration Shares; (c) immediately after the allotment and issue of the Consideration Shares and the Note A Conversion Shares (assuming the Note A Conversion Rights are fully exercised); (d) immediately after the allotment and issue of the Consideration Shares and the Note A Conversion Shares (assuming the Note A Conversion Rights are exercised to the extent that the Vendor and/or parties acting in concert with it, if any, do not hold 20% or more of the then issued Shares); and (e) immediately after the allotment and issue of the Consideration Shares, the Note A Conversion Shares and the Note B Conversion Shares (assuming the Note A Conversion Rights and the Note B Conversion Rights are exercised to the extent that the Vendor and/or parties acting in concert with it, if any, do not hold 20% or more of the then issued Shares).

The scenarios below are for illustration and reference purposes only. Pursuant to the terms of the Convertible Notes, it is provided that any conversion of the Convertible Notes shall not: (i) result in the percentage of the Shares held in the hands of public (as defined in the Listing Rules) falling below the minimum percentage prescribed under the Listing Rules; (ii) trigger a mandatory offer obligation under Rule 26 of

the Takeovers Code; and (iii) result in the shareholding interest of the relevant holder of the Convertible Notes and/or parties acting in concert with it, if any, after the exercise of the Note A Conversion Rights and the Note B Conversion Rights, holding 20% or more of the then issued Shares.

Shareholder	(a)		(b)		(c)		(d)		(e)	
	As at the date of this announcement		Immediately after the allotment and issue of the Consideration Shares		Immediately after the allotment and issue of the Consideration Shares and the Note A Conversion Shares (assuming the Note A Conversion Rights are fully exercised) (Note 2)		Immediately after the allotment and issue of the Consideration Shares and the Note A Conversion Shares (assuming the Note A Conversion Rights are exercised to the extent that the Vendor and/or parties acting in concert with it, if any, do not hold 20% or more of the then issued Shares)		Immediately after the allotment and issue of the Consideration Shares and the Note B Conversion Shares (assuming the Note A Conversion Rights and the Note B Conversion Rights are exercised to the extent that the Vendor and/or parties acting in concert with it, if any, do not hold 20% or more of the then issued Shares)	
	No. of Shares	% of shareholding	No. of Shares	% of shareholding	No. of Shares	% of shareholding	No. of Shares	% of shareholding	No. of Shares	% of shareholding
Legend Win	767,500,000	16.30%	767,500,000	14.67%	767,500,000	9.63%	767,500,000	9.63%	767,500,000	9.27%
Ruan Yuan	530,000,000	11.26%	530,000,000	10.13%	530,000,000	6.65%	530,000,000	6.65%	530,000,000	6.40%
Yu Won Kong, Dennis	479,500,000	10.18%	479,500,000	9.17%	479,500,000	6.02%	479,500,000	6.02%	479,500,000	5.79%
Vendor	–	–	523,000,000	10.00%	3,262,656,250	40.93%	1,593,395,514	19.99%	1,654,246,323	19.99%
Public Shareholders	2,931,306,800	62.26%	2,931,306,800	56.03%	2,931,306,800	36.77%	2,931,306,800	36.77%	2,931,306,800	35.44%
Other public Shareholders (Note 1)	–	–	–	–	–	–	1,669,260,736	20.94%	1,912,816,177	23.11%
Total	<u>4,708,306,800</u>	<u>100.00%</u>	<u>5,231,306,800</u>	<u>100.00%</u>	<u>7,970,963,050</u>	<u>100.00%</u>	<u>7,970,963,050</u>	<u>100.00%</u>	<u>8,275,369,300</u>	<u>100.00%</u>

Notes:

- Other public Shareholders refer to the Shareholders who have converted the Convertible Note A and/or the Convertible Note B and have exercised the Note A Conversion Rights and the Note B Conversion Rights, that are not taken up and have been assigned and transferred by the Vendor to independent third parties.
- For illustration purpose only. Such scenario will never occur as the Note A Conversion Rights will be restricted such that any conversion of the Convertible Note A will not result in the shareholding interest of the relevant holder of the Convertible Note A immediately after the exercise of the Note A Conversion Rights, together with any Shares already owned or agreed to be acquired by such holder of the Convertible Note A and/or parties acting in concert with it representing 20% or more of the then issued Shares.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Pursuant to Rule 14.49 of the Listing Rules, the Acquisition Agreement and the transactions contemplated thereunder, including, but not limited to (i) the issue of Consideration Shares; (ii) the issue of the Convertible Notes; and (iii) the allotment and issue of the Conversion Shares are subject to the approval of the Shareholders by way of poll at the EGM.

An EGM will be convened and held to consider and, if thought fit, to approve (i) the Acquisition Agreement and the transactions contemplated thereunder, (ii) the grant of the specific mandate for the issue of the Consideration Shares; (iii) the issue of the Convertible Notes; and (iv) the grant of specific mandate for the issue of the Conversion Shares upon exercise of the Conversion Rights.

Upon Completion, the Vendor will become a substantial Shareholder and is therefore a connected person of the Company pursuant to the Listing Rules. Thus the Consultancy Agreement will constitute a continuing connected transaction of the Company. As each of the relevant percentage ratios as set out in Rule 14.07 of the Listing Rules for the consultancy fee to be paid to the Vendor under the Consultancy Agreement is less than 2.5 per cent. of the applicable percentage ratios of the Company and the annual consideration is less than HK\$1,000,000, the Consultancy Agreement will be classified as a continuing connected transaction under Rule 14A.33(3) of the Listing Rules and is exempt from reporting, announcement and the independent shareholders' approval requirement under the Listing Rules.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Vendor and its ultimate beneficial owner and their respective associates does not hold any Shares as the date of this announcement and no Shareholder has a material interest in the Acquisition, and therefore no Shareholder is required to abstain from voting at the EGM.

A circular containing, among other things, (i) further details of the Acquisition; (ii) financial information on the Target Group; (iii) the unaudited pro-forma financial information on the Group as enlarged by the Acquisition; (iv) the valuation report on the fair market value of the Mines to be prepared by an independent professional valuer; (v) the Technical Report; and (vi) a notice of the EGM, will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

As the Acquisition is subject to the fulfillment of a number of conditions precedent, it may or may not be completed. Shareholders and potential investors should exercise caution when dealing in the Shares.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 25 February 2010 pending release of this announcement. Application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 18 March 2010.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following respective meanings.

“Acquisition”	the proposed acquisition of the Sale Share and the Sale Debt (if any) by the Company pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional sale and purchase agreement dated 24 February 2010 (as supplemented by a supplemental agreement dated 3 March 2010) entered into between the Purchaser and the Vendor in relation to the Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding Saturday, Sunday and public holidays and days on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for general banking transactions in Hong Kong throughout their normal business hours
“BVI”	British Virgin Islands
“Company”	Kiu Hung Energy Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	the completion of the Acquisition
“Completion Account”	the audited consolidated balance sheet of the Target Group as at a date not earlier than 30 days prior to the Completion Date and the audited profit and loss accounts of the Target Company and HMC for the period commencing from the date of incorporation of the Target Company to a date not earlier than 30 days prior to the Completion Date, to be prepared by an independent accountant acceptable to the Purchaser to be provided by the Vendor
“Completion Date”	the date of Completion, which shall be within 10 Business Days after the conditions set out in the section headed “Conditions Precedent” have been fulfilled or waived (as the case may be) (or such other date as may be agreed by the parties in writing)

“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Consideration”	Not more than HK\$1,439,100,000 (subject to adjustment), being the total consideration payable by the Company to the Vendor pursuant to the Acquisition Agreement
“Consideration Share(s)”	523,000,000 new Shares to be allotted and issued by the Company to the Vendor or its nominee(s) at the Issue Price upon Completion to satisfy part of the Consideration pursuant to the Acquisition Agreement
“Consultancy Agreement”	the conditional consultancy agreement dated 3 March 2010 entered into between the Purchaser and the Vendor in respect of the consultancy services to be provided by the Vendor to the Target Group
“Conversion Period A”	the period commencing from the issue date of the Convertible Note A and ending on the calendar day immediately before the Maturity Date
“Conversion Period B”	the period commencing from the issue date of the Convertible Note B and ending on the calendar day immediately before the Maturity Date
“Conversion Price”	the conversion price of HK\$0.40 per Note A Conversion Share (subject to adjustment) or Note B Conversion Share (subject to adjustment) (as the case may be)
“Conversion Share(s)”	collectively the Note A Conversion Share(s) and the Note B Conversion Share(s)
“Convertible Note A”	the zero coupon convertible note in a principal amount of not more than HK\$1,095,862,500 (subject to adjustment) to be issued by the Company to the Vendor or its nominee(s) upon Completion to satisfy part of the Consideration pursuant to the Acquisition Agreement
“Convertible Note B”	the zero coupon convertible note in a principal amount of HK\$121,762,500 to be issued by the Company to the Vendor or its nominee(s) on the third anniversary of the Completion Date to satisfy part of the Consideration pursuant to the Acquisition Agreement
“Convertible Notes”	collectively the Convertible Note A and the Convertible Note B
“Director(s)”	the director(s) of the Company

“EGM”	an extraordinary general meeting of the Company to be convened and held for the purpose of considering, and if thought fit, approving, among other things, (i) the Acquisition Agreement and the transactions contemplated thereunder, (ii) the grant of the specific mandate for the issue of the Consideration Shares; (iii) the issue of the Convertible Notes; and (iv) the grant of specific mandate for the issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Notes
“Examination Report”	a report to be prepared by an expert whose opinion is based largely on findings from drilling of holes from each of the Mines, in the form and substance, acceptable to the Purchaser, showing that coking coal will be produced from the Mines
“Group”	the Company and its subsidiaries
“HMC”	HMC Natural Resource Corporation LLC, a company incorporated in Mongolia with limited liability and owned as to 100% by the Target Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Issue Price”	HK\$0.40 per Consideration Share
“JORC”	Joint Ore Reserves Committee Code
“Last Trading Day”	24 February 2010, being the last trading day on which the Shares were traded on the Stock Exchange prior to suspension of trading in the Shares pending the release of this announcement
“Licences”	include (1) the three exploration licences in respect of the Mines and/or the mining licences to be converted or transformed from the exploration licences and (2) the transportation licence to be acquired by the Target Group (or the Target Group has appointed a third party who has acquired the necessary licences), allowing the Target Group to transport coal and other relevant products from the Mines to Yarant and Baitag Border Station
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 September 2010 or such other date as may be agreed by the parties in writing

“Maturity Date”	on the date falling on the third anniversary of the date of issue of the Convertible Note A or the Convertible Note B (as the case may be)
“Mines”	three mining sites in Hovd province (科布多省), Mongolia
“MOU”	the memorandum of understanding entered into between the Purchaser and the Vendor on 3 February 2010 in respect of the possible acquisition of the Sale Share
“Note A Conversion Rights”	the rights attached to the Convertible Note A to convert the same or a part thereof into Conversion Shares pursuant to terms and conditions set out in the Convertible Note A
“Note A Conversion Share(s)”	2,739,656,250 new Shares (subject to adjustment) to be allotted and issued by the Company to the holders of the Convertible Note A upon exercise of the Note A Conversion Rights at the Conversion Price
“Note B Conversion Rights”	the rights attached to the Convertible Note B to convert the same or a part thereof into Conversion Shares pursuant to terms and conditions set out in the Convertible Note B
“Note B Conversion Share(s)”	304,406,250 new Shares (subject to adjustment) to be allotted and issued by the Company to the holders of the Convertible Note B upon exercise of the Note B Conversion Rights at the Conversion Price
“PRC”	the People’s Republic of China, which, for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	Strong Master Holdings Limited, a company incorporated in the BVI with limited liability and a wholly owned subsidiary of the Company
“Purchaser’s Warrants”	the representation, warranties and undertakings given by the Purchaser
“Sale Debt”	all obligations, liabilities and debts owing or incurred by the Target Group to the Vendor as at and after Completion, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion
“Sale Share”	the entire issued share capital of the Target Company

“Share(s)”	ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	Shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers
“Target Company”	First Dean Holdings Limited, a company incorporated in the BVI with limited liability and owned as to 100% by the Vendor
“Target Group”	the Target Company and its subsidiaries
“Technical Adviser”	the independent technical adviser acceptable to and appointed by the Purchaser to prepare the Technical Report in respect of the Mines
“Technical Report”	a technical report (to be conducted in compliance with the requirements under Chapter 18 of the Listing Rules) to be issued by the Technical Adviser
“Vendor” or “Consultant”	Wonder Return Limited, a company incorporated in the BVI with limited liability, is an investment holding company owned as to 90% by Mr. Amgalanbat Gombosuren and 10% by Golden Hunt International Group Limited, a company incorporated in the BVI with limited liability and beneficially owned as to 100% by Ms. Liu Xin
“Vendor’s Warranties”	the representation, warranties and undertakings given by the Vendor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“USD”	United States dollars, the lawful currency of the United States of America
“MNT”	Togrog or Tugrik, the lawful currency of Mongolia
“%”	per cent.

For the purpose of illustration only, translation of MNT into HK\$ is made in this announcement at the rate of HK\$1 = MNT184.23. No representation is made that any amounts in HK\$ and MNT could have been or could be converted at the above rate and at any other rates or at all.

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

Hong Kong, 17 March 2010

As at the date of this announcement, the Board comprises four executive directors, Mr. Hui Kee Fung, Mr. Yu Won Kong, Dennis, Mr. Guo Tianjue and Mr. Lam Kit Sun and three independent non-executive directors, Mr. Lam Siu Lun, Simon, Mr. Zhang Xianmin and Mr. Mohammed Ibrahim Munshi.