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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
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 1 April 2010 in relation to the MOU. Subsequent to the signing of the MOU, the Purchaser, the Vendor and the Company have entered into the Acquisition Agreement on 8 July 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\$8,889,110,000, which will be satisfied in the following manner and order:

- (i) as to HK\$300,000,000 (subject to adjustment) by cashier order or cheque issued by a licensed bank in Hong Kong in cash within one month after the Completion Date or the date on which the Purchaser and the Vendor have confirmed whether or not any adjustment is required pursuant to the Acquisition Agreement, whichever is later;

- (ii) as to HK\$200,000,000 (subject to adjustment) by the issue of the non-interest bearing and unsecured Promissory Note to the Vendor within seven Business Days after the Completion Date, and the latest payment date of the Promissory Note will be four months after the Completion Date;
- (iii) as to HK\$481,000,000 (subject to adjustment) by the issue of the Consideration Shares to the Vendor or its nominee(s) at the Issue Price within seven Business Days after the Completion Date;
- (iv) as to HK\$1,944,650,000 (subject to adjustment) by the issue of the Convertible Note A at its full face value to the Vendor or its nominee(s) within seven Business Days after the Completion Date;
- (v) as to HK\$1,824,000,000 (subject to adjustment), out of which (a) HK\$608,000,000 (subject to adjustment) by the issue of the Convertible Note B at its full face value to the Vendor or its nominee(s) within ten Business Days after the release of the Guarantee Proof for the financial year ending 31 December 2010 of the Target Group or within seven Business Days after the Completion Date, whichever is later or such other date as may be agreed by the parties in writing; and (b) HK\$1,216,000,000 (subject to adjustment) by the issue of the Convertible Note C at its full face value to the Vendor or its nominee(s) within ten Business Days after the release of the Guarantee Proof for the financial year ending 31 December 2011 of the Target Group or such other date as may be agreed by the parties in writing; and
- (vi) as to HK\$4,139,460,000 (subject to adjustment) by the issue of the Convertible Note D at its full face value to the Vendor or its nominee(s) within ten Business Days after all of the conditions precedent set out under paragraph headed “Conditions precedent of the Deferred Consideration” in this announcement are fulfilled and/ or if applicable, waived in whole or in part (as the case may be) in accordance with the Acquisition Agreement or the date on which the Purchaser and the Vendor have confirmed whether or not any adjustment is required pursuant to the Acquisition Agreement, whichever is later (or such other date as may be agreed by the parties in writing).

Further information in respect of the adjustments to the Consideration are set out under the paragraphs headed “Consideration Adjustments” in this announcement.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition are 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, its ultimate beneficial owners and their respective associates are third parties independent of and not connected with the Company and its connected persons. As at the date of this announcement, the Vendor, its ultimate beneficial owners and their respective associates 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.

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. Since additional time will be required by the reporting accountants to the Company for preparation of the accountants' report of the Target Company, the Company expects that the said circular will be despatched on or before 31 December 2010.

The Acquisition is subject to the fulfillment of a number of conditions precedent and therefore it may or may not be completed. The satisfaction of certain such conditions precedent (such as the satisfaction of a due diligence review on the Target Group and its assets) is at the Purchaser's discretion. As at the date of this announcement, the Purchaser is still obtaining the necessary information from the Vendor and such due diligence work is still in progress.

Shareholders and potential investors should exercise extreme caution when dealing in the Shares.

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 9 July 2010 pending the 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 23 August 2010.

INTRODUCTION

Reference is made to the announcement of the Company dated 1 April 2010 in relation to the MOU. Subsequent to the signing of the MOU, the Purchaser, the Vendor and the Company entered into the Acquisition Agreement on 8 July 2010 at a consideration for not more than HK\$8,889,110,000. Summaries of the major terms of the Acquisition Agreement are set out below.

THE ACQUISITION AGREEMENT

Date

8 July 2010

Parties

- (i) Lot Treasures Investments Limited, a wholly-owned subsidiary of the Company, as Purchaser;
- (ii) Fast Glory Holdings Limited, as Vendor; and
- (iii) the Company, as issuer of the Consideration Shares, the Convertible Notes and the Conversion Shares.

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, 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, 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.

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\$8,889,110,000, which will be satisfied in the following manner and order:

- (i) as to HK\$300,000,000 (subject to adjustment) by cashier order or cheque issued by a licensed bank in Hong Kong in cash within one month after the Completion Date or the date on which the Purchaser and the Vendor have confirmed whether or not any adjustment is required pursuant to the Acquisition Agreement, whichever is later;

- (ii) as to HK\$200,000,000 (subject to adjustment) by the issue of the non-interest bearing and unsecured Promissory Note to the Vendor within seven Business Days after the Completion Date, and the latest payment date of the Promissory Note will be four months after the Completion Date;
- (iii) as to HK\$481,000,000 (subject to adjustment) by the issue of the Consideration Shares to the Vendor or its nominee(s) at the Issue Price within seven Business Days after the Completion Date;
- (iv) as to HK\$1,944,650,000 (subject to adjustment) by the issue of the Convertible Note A at its full face value to the Vendor or its nominee(s) within seven Business Days after the Completion Date;
- (v) as to HK\$1,824,000,000 (subject to adjustment), out of which (a) HK\$608,000,000 (subject to adjustment) by the issue of the Convertible Note B at its full face value to the Vendor or its nominee(s) within ten Business Days after the release of the Guarantee Proof for the financial year ending 31 December 2010 of the Target Group or within seven Business Days after the Completion Date, whichever is later or such other date as may be agreed by the parties in writing; and (b) HK\$1,216,000,000 (subject to adjustment) by the issue of the Convertible Note C at its full face value to the Vendor or its nominee(s) within ten Business Days after the release of the Guarantee Proof for the financial year ending 31 December 2011 of the Target Group or such other date as may be agreed by the parties in writing); and
- (vi) as to HK\$4,139,460,000 (subject to adjustment) by the issue of the Convertible Note D at its full face value to the Vendor or its nominee(s) within ten Business Days after all of the conditions precedent set out under the paragraph headed “Conditions precedent of the Deferred Consideration” in this announcement are fulfilled and/or if applicable, waived in whole or in part thereof (as the case may be) in accordance with the Acquisition Agreement or the date on which the Purchaser and the Vendor have confirmed whether or not any adjustment is required pursuant to the Acquisition Agreement, whichever is later (or such other date as may be agreed by the parties in writing), being the Deferred Consideration.

The Company intends to finance the HK\$300 million cash consideration by way of equity fund raising such as placing of new Shares or loans or other credit facilities to be extended to the Company or a combination of any of them of which the Board considers as most appropriate and in the best interest of the Company under the then market condition. The Company will make a separate announcement when the type and terms of the financing are decided upon.

The basis of allocation of the Consideration into cash, Promissory Note, Consideration Shares and Convertible Notes was agreed upon by the Purchaser, the Vendor and the Company on an arm's length basis considering factors such as (a) the cash availability of the Group, (b) costs of financing through those different means of payment of Consideration from the Company's perspective, and (c) the broadening of the capital base of the Company upon and after Completion.

Further information in respect of the adjustments to the Consideration based on profits and resources are set out under the paragraph headed “Consideration Adjustments” below.

As disclosed in the announcement of the Company dated 1 April 2010 in relation to the MOU, the Purchaser would acquire the entire issued share capital of the Target Company which, together with its subsidiaries, will hold exploration and mining licenses of certain mines located in Guizhou Province, the PRC with an aggregate amount of coal reserves of approximately 690 million tonnes upon completion of the relevant reorganization.

After further negotiation with the Vendor, the Purchaser had decided to acquire eight mining licenses of the Mines with an aggregate amount of coal resources of approximately 642.47 million tonnes as set out in the Acquisition Agreement. In addition, instead of acquiring the exploration license of a mine, namely, the Anluo Mine, the Purchaser decided to acquire the mining license of Anluo Mine upon, among other conditions precedent set out in the paragraph headed “Conditions precedent of the Deferred Consideration”, the Vendor having procured Luo An Company to convert the exploration license of Anluo Mine into a mining license with an annual production of not less than 2.4 million tonnes. The Vendor and the Purchaser have also agreed to refer to “resources”, instead of “reserves” of the Mines in the Acquisition Agreement. The Acquisition Agreement overrides the terms of the MOU.

The acquisition of the Anluo Mine is conditional upon, among the others, the conversion of its exploration license into a mining license which will incur additional expenses and costs to the Vendor such as taxes, application fee and time costs. As a mining license could provide more assurance and confident to the Company; and that Anluo Mine is the largest mine among the Mines to be acquired by the Company with an estimated resources of approximately 318.42 million tonnes, the Purchaser and the Vendor have mutually and conditionally agreed to raise the amount of the total consideration payable by the Purchaser to the Vendor pursuant to the Acquisition Agreement be no more than HK\$8,889,110,000 as opposed to the amount of not more than HK\$5,800,000,000 as disclosed in the announcement dated 1 April 2010.

The Consideration (including the unit price of HK\$13 per tonne) was agreed upon by the Purchaser and the Vendor on an arm’s length basis with references to (a) the information provided by the Vendor on the quality and development of the Mines, (b) the Vendor’s estimates of the resources of anthracite coal, (c) market prices of the coal products, (d) the availability of similar type of coal mines in China, (e) the price range of comparable coal resources offered in the market; and (f) the transaction prices of similar coal mines in China. In particular, the basis for determining the value of the Mines amounting to not more than HK\$8,889,110,000 is based on the total estimated anthracite coal resources available of not less than 642.47 million tonnes valued at HK\$13 per tonne plus a premium of HK\$537,000,000.

The Directors have also taken into consideration that (i) 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; (iv) the various provisions/mechanisms in place to adjust the Consideration based on the profits and resources of the Target Group, as well as the Completion Accounts and the Luo An Completion

Accounts. Details are set out under the paragraph headed “Consideration Adjustments”, “Conditions Precedent” and “Conditions precedent of the Deferred Consideration” below; and (v) the major part of the Consideration will be satisfied by the issue of the Consideration Shares and the Convertible Notes. As the estimated coal resources of not less than 642.47 million tonnes is subject to due diligence review by the Purchaser and the review by the Technical Adviser and based on the above factors, even though the valuation and technical reports in respect of the Mines are yet to be provided by the valuer and the Technical Adviser, the Directors consider that the basis for determining the Consideration as stated above is fair and reasonable.

The Directors confirm that the Consideration was not determined based on any preliminary valuation, no profit forecast will be required under Rule 14.61.

Based on the abovementioned, the Directors are therefore of the view that the Consideration (including the unit price of HK\$13 per tonne) is fair and reasonable.

Consideration Adjustments

(i) based on profits:

The Vendor irrevocably undertakes to the Purchaser that, subject to the terms of the Acquisition Agreement, the Net Profit for the financial year ending 31 December 2010 shall not be less than RMB170,000,000 (equivalent to approximately HK\$193,800,000) (the “**2010 Expected Profit**”) and the Net Profit for the financial year ending 31 December 2011 shall not be less than RMB400,000,000 (equivalent to approximately HK\$456,000,000) (the “**2011 Expected Profit**”).

The basis for agreeing with the adjustments to the Consideration based on profits of the Target Group for each of the years ending 31 December 2010 and 31 December 2011 and the relevant consideration adjustments was agreed upon by the Purchaser, the Vendor and the Company on an arm's length basis considering factors such as: (a) save for the two Mines which are currently in operation, the remaining Mines with mining licenses, which are relatively bigger in terms of planned production capacity and are currently under construction, are expected to commence operation during 2011 to 2013, (b) the expected increase in utilization rate of the mines which are currently in operation, given further capital will be deployed by the Vendor in enhancing the efficiency of the current operation workflow of the Mines in 2010 or before the Completion, (c) the future development of the Mines, and (d) the expected market price movements of the coal products.

For the avoidance of doubt, the 2010 Expected Profit shall not be affected by the valuation on the fair value of the assets of the Target Group by the relevant independent professional valuer.

Pursuant to the Acquisition Agreement, the face value of Convertible Note B is subject to downward adjustment if the net profit for the year ending 31 December 2010 (the “**2010 Actual Profit**”) is less than the 2010 Expected Profit in accordance with the formula below:

$$\begin{array}{l} \text{Adjusted face value of} \\ \text{Convertible Note B (in HK\$)} \end{array} = \frac{\text{2010 Actual Profit (in RMB)}}{\text{2010 Expected Profit (in RMB)}} \times \text{HK\$608,000,000}$$

Pursuant to the Acquisition Agreement, the face value of the Convertible Note C is subject to downward adjustment if the net profit for the year ending 31 December 2011 (the “**2011 Actual Profit**”) is less than the 2011 Expected Profit in accordance with the formula below:

$$\begin{array}{l} \text{Adjusted face value of} \\ \text{Convertible Note C (in HK\$)} \end{array} = \frac{\text{2011 Actual Profit (in RMB)}}{\text{2011 Expected Profit (in RMB)}} \times \text{HK\$1,216,000,000}$$

For the avoidance of doubt, no adjustment to the face value of the Convertible Note B shall be required if the 2010 Actual Profit is equal to or more than the 2010 Expected Profit and no adjustment to the face value of the Convertible Note C shall be required if the 2011 Actual Profit is equal to or more than the 2011 Expected Profit.

In the event that the Target Group records a loss for the financial year ending 31 December 2010, the Convertible Note B will not be issued to the Vendor or its nominee(s) and the Consideration will be adjusted downward accordingly regardless of whether the 2011 Actual Profit reaches or exceeds the 2011 Expected Profit. Likewise, in the event that the Target Group records a loss for the financial year ending 31 December 2011, the Convertible Note C will not be issued to the Vendor or its nominee(s) and the Consideration will be adjusted downward accordingly regardless of whether the 2010 Actual Profit reaches or exceeds the 2010 Expected Profit.

(ii) based on resources:

The Vendor irrevocably undertakes to the Company that:

- (i) the Mines (excluding the Anluo Mine) shall have an aggregate resources of anthracite coal of not less than 324.05 million tonnes; of which Indicated Resources (together with resources with higher level of confidence) shall represent not less than 80% of the aggregate resources, which is approximately 259.24 million tonnes of anthracite coal; and
- (ii) the Anluo Mine shall have an aggregate resources of anthracite coal of not less than 318.42 million tonnes; of which Indicated Resources (together with resources with higher level of confidence) shall represent not less than 80% of the aggregate resources, which is approximately 254.74 million tonnes of anthracite coal.

In any event, the actual amount of anthracite coal resources and the required level of confidence as mentioned above shall be supported by the Technical Report prepared under the JORC Code.

In the event that the Technical Report indicating the Mines (excluding the Anluo Mine) have resources of anthracite coal of less than 324.05 million tonnes, or the actual amount of Indicated Resources (together with resources with higher level of confidence) is less than 259.24 million tonnes according to the JORC Code, the Consideration shall be adjusted downward in the sequence of part (i) to part (iv) under the paragraph headed “Consideration” by the shortfall amount (“**First Shortfall Amount**”) determined in accordance with the following formula:

- 1) *Where there is any shortfall of resources in respect of the Mines (excluding the Anluo Mine):*

First Shortfall Amount equals to the higher of:

- a. 324.05 million tonnes – actual amount of aggregate resources of the Mines (excluding the Anluo Mine) as indicated in the Technical Report x HK\$13 per tonne; and
- b. 259.24 million tonnes – actual amount of Indicated Resources of the Mines (excluding the Anluo Mine) as indicated in the Technical Report x HK\$13 per tonne.

In the event that the Technical Report indicating the Anluo Mine has resources of anthracite coal of less than 318.42 million tonnes, or the actual amount of Indicated Resources (together with resources with higher level of confidence) is less than 254.74 million tonnes according to the JORC Code, the Deferred Consideration shall be adjusted downward by the shortfall amount (“**Second Shortfall Amount**”) determined in accordance with the following formula:

- 2) *Where there is any shortfall of resources in respect of the Anluo Mine:*

Second Shortfall Amount equals to the higher of:

- a. 318.42 million tonnes – actual amount of aggregate resources of Anluo Mine as indicated in the Technical Report x HK\$13 per tonne; and
- b. 254.74 million tonnes – actual amount of Indicated Resources of the Anluo Mine as indicated in the Technical Report x HK\$13 per tonne.

For the avoidance of doubt, no upward adjustment to the Consideration shall be required if the actual amounts of aggregate resources and/or the Indicated Resources (together with resources with higher level of confidence) of the Mines as indicated in the Technical Report are more than the amounts of aggregate resources and/or the Indicated Resources as undertaken by the Vendor (as the case may be).

The management of the Company had site-visited all the mines of the Target Group, discussed the situation of each of the Mines with the relevant management of each mine, obtained the information provided by the Vendor on the quality and development of the Mines and considered the Vendor’s estimates of the resources of anthracite coal.

According to the Vendor, the total coal resources of 642.47 million tonnes were derived at by the Vendor based on the following:

- (a) Out of the eight Mines, two of them, namely Huawo and Chayuan are currently under operation with estimated total coal resources of approximately 67.00 million tonnes. The Vendor has considered the current operation data, the previous exploration data and the exploration work conducting by it in estimating the resources of these two Mines.
- (b) Tiziyan and Gangjiachang are two coal Mines which have been exploited in the past with the old production system by individuals with estimated total coal resources of approximately 63.35 million tonnes. Tiziyan and Gangjiachang are now under construction for technical reform to increase the production volume and improve the safety level. The Vendor has considered the history of these two mines, the previous exploration data and the exploration work conducting by it in estimating the resources of these two Mines.
- (c) Baiyanjiao, Tiancheng and Guixing are three new coal Mines under construction and Anluo is a mine with exploration license. According to four documents received by the Vendor, namely, (i) a draft resource reserves verification and exploration report for Baiyanjiao, (ii) a draft geological exploration report for Tiancheng, (iii) a draft coal mine geological exploration report for Guixing (those three draft reports were prepared under the Chinese resource reporting guidelines) and (iv) the coal resources geological survey report prepared by Guizhou Coalfield Geology Bureau (貴州省煤田地質局) in August 2009 for Anluo, the total estimated coal resources for Baiyanjiao, Tiancheng, Guixing and Anluo were approximately 512.12 million tonnes.

However, the coal resources estimates provided by the Vendor as stated above have not been confirmed by the Technical Adviser to be appointed by the Purchaser. The Technical Adviser, namely, SRK Consulting (Hong Kong) Limited will conduct a review of the resources of the Mines to determine if the guaranteed amount of total coal resources of 642.47 million tonnes and indicated resources of 513.98 million tonnes are fulfilled before the issuance of circular.

In view of the above information, the Company has performed preliminary due diligence work on the Mines by delegating the coal mining experts, who have over 10 years of experience in the coal industry and are currently employed by the Company's subsidiaries in Inner Mongolia Province, to discuss with the Vendor about the resources amount of the Mines. During the preliminary due diligence process, the Company has considered (i) the general geographic and coal distribution data in Guizhou Province which is being one of the important coal production bases in China, (ii) the history of the Mines, (iii) the current operation data of the Mines; (iv) the exploration data set out in the draft preliminary exploration reports received by the Vendor; and (v) the exploration works conducting by the Vendor in assessing the coal resources of the Mines.

Based on the preliminary due diligence work conducted on the Mines and the information about the Mines obtained from the Vendor described above, the Company believes that resources exist in the Mines, the amount of such resources is to be reviewed by SRK Consulting (Hong Kong) Limited.

Further, to ensure that the interests of the Company and the Shareholders are well-protected, the Directors have also taken into consideration (i) the profits guarantee and resources guarantee given by the Vendor; (ii) the downward Consideration adjustment mechanisms based on the profits of the Target Group for the years 2010 and 2011 and the amount of resources of the Mines as set out in this announcement, as well as the Completion Accounts and the Luo An Completion Accounts; (iii) the guaranteed amount of total resources of 642.47 million tonnes and indicated resources of 513.98 million tonnes will be subject to review by the Technical Adviser; and (iv) the Purchaser's right not to proceed with the Acquisition if it is not satisfied with, for examples, its due diligence review on the Target Group and its assets, the reserve reports, feasibility study reports, Technical Reports and/or valuation reports of the Mines pursuant to the Acquisition Agreement. Accordingly, the Directors are of the view that the terms under the Acquisition Agreement are fair and reasonable and in the best interest of the Shareholders as a whole.

Conditions Precedent

Completion is subject to and conditional upon the satisfaction of the following conditions:

- (i) the Purchaser having obtained all requisite consents, approvals and authorization required under all applicable laws and regulations in connection with the transactions contemplated under the Acquisition Agreement and the implementation of these transactions and all other matters incidental thereto, including the relevant requirements under the Listing Rules and all relevant resolutions having been passed by the Shareholders (or independent Shareholders, if required) at a general meeting as required under the Listing Rules 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 Vendor having obtained all requisite authorization and approvals including the approvals, consents and authorization of all relevant authorities in the PRC (if so required under the relevant laws and regulations) in connection with the documents and conditions required under the Acquisition Agreement and the transactions contemplated hereunder (including the representations, guarantees and the Vendor's Warranties made by the Vendor therein);
- (iii) 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;
- (iv) no indication being received by the Company from the Stock Exchange that the transaction contemplated under the Acquisition Agreement will constitute or be deemed (as the case may be) by the Stock Exchange as a "reverse takeover" under the Listing Rules;
- (v) the transactions contemplated under the Acquisition Agreement will not trigger mandatory general offer obligations under the Takeovers Code;

- (vi) the Purchaser having completed, to its satisfaction, a due diligence review on the Target Group and its assets, which shall include but not limited to geological, technical, legal, restructuring, quality of resources owned, resources, exploration licenses, mining licenses, financial and operational aspects of the assets of the Target Group;
- (vii) the Purchaser having received a reserve report and feasibility study report prepared at the cost of the Vendor on the Mines (excluding the Anluo Mine) in form and substance satisfactory to the Purchaser. In particular, the feasibility study report should cover a study on the comprehensive design, costing and capital expenditure in respect of the method(s) for the development of the Mines (excluding the Anluo Mine) in which appropriate assessments have been made of realistically assumed geological, mining, metallurgical, economic, marketing, legal, environmental, social, governmental, engineering, operational and all other relevant factors, which are considered in enough detail to demonstrate at the time of reporting that extraction is reasonably justified and the factors reasonably serve as the basis for a final decision by a financial institution to finance the development of the relevant development project(s) and acceptable by the Stock Exchange;
- (viii) the Purchaser having received the Technical Report prepared at the cost of the Purchaser in respect of the Mines (excluding the Anluo Mine) in form and substance satisfactory to the Purchaser indicating that the Mines (excluding the Anluo Mine) have aggregate resources of anthracite coal of no less than 324.05 million tonnes and Indicated Resources (together with resources with higher level of confidence) represent not less 80% of the aggregate resources, which is approximately 259.24 million tonnes of anthracite coal based on the JORC Code and the standards as acceptable by the Stock Exchange. The Technical Report shall also indicate that the feasibility study report as mentioned in item (vii) above is true and correct, practicable and in compliance with the standards recognized by the Stock Exchange;
- (ix) the Purchaser having received a valuation report on the fair market value of the Mines (excluding the Anluo Mine) issued by an independent professional valuer in form and substance satisfactory to the Purchaser showing the valuation of the Mines (excluding the Anluo Mine) to be not less than the HK\$4,749,650,000;
- (x) the Reorganization having been completed at the cost of the Vendor;
- (xi) the Purchaser having received an opinion issued by a PRC lawyer approved by the Purchaser in respect of (1) legality, validity and enforceability of relevant documents in relation to each member of the Target Group which is incorporated in the PRC (excluding the Luo An Company), and the Mines (excluding the Anluo Mine) and (2) all matters relating to the Acquisition Agreement and the transactions contemplated thereunder (including but not limited to the legality, validity and enforceability of the Reorganisation; ownership of assets and continuance of operation after Completion; and the transactions contemplated under the Acquisition Agreement) in form and substance satisfactory to the Purchaser;
- (xii) all Vendor's Warranties in respect of the Mines (excluding the Anluo Mine) remaining true and accurate and not misleading in all material respect as if they are repeated at Completion by reference to the facts and circumstances subsisting at Completion Date;

- (xiii) service agreements, subject to review and satisfaction of the Purchaser, having been entered into between the Target Group company as agreed by the parties and its key personnel for at least 3-year service tenure after the Completion; and
- (xiv) all Purchaser's Warranties remaining true and accurate and not misleading in all material respect as if they are repeated at Completion by reference to the facts and circumstances subsisting at Completion Date.

As required under item (ix) above, the valuation report of the Mines (excluding the Anluo Mine) to be issued by an independent professional valuer shall show that the Mines (excluding the Anluo Mine) have a fair market value of not less than HK\$4,749,650,000, which was determined based on the total estimated anthracite coal resources available for not less than 324.05 million tonnes valued at HK\$13 per tonne plus a premium of HK\$537,000,000 after taking into consideration that (i) 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; (iv) the adjustments to the Consideration based on the profits and resources of the Target Group as set out under the paragraph headed "Consideration Adjustments" below; and (v) the major part of the Consideration will be satisfied by the issue of the Consideration Shares and the Convertible Notes.

The unit price of HK\$13 per tonne was determined based on, among other factors, the transaction prices of similar coal mines in China.

The Purchaser shall be entitled at its discretion at any time by a notice in writing to the Vendor to waive any of the conditions above (save and except the conditions (i) to (v), which cannot be waived) either in whole or in part. The Vendor shall be entitled at its discretion at any time by a notice in writing to the Purchaser to waive the condition (xiv) above either in whole or in part. If any of the conditions has not been satisfied or waived (as the case may be) on the First Long Stop Date, the Purchaser has no obligation to proceed with the transactions under the Acquisition Agreement and that the Acquisition Agreement will cease to be effective (save and except certain provisions in connection with confidentiality, notice, costs and governing laws and jurisdictions which will remain effective).

In addition, the Vendor has agreed to deliver the Completion Accounts to the Purchaser within three Business Days after the Completion Date, and the cash Consideration of HK\$300,000,000 shall be adjusted downward by the relevant amount if:

- (i) the Target Group (excluding Luo An Company) has any bank loans or long-term liabilities (excluding the Sale Debt, if applicable) as shown in its Completion Accounts;
- (ii) the current assets of the Target Group are less than its current liabilities (including any account payables and any current liabilities and debts incurred in the ordinary and usual course of business of the Target Group) as shown in the Group Management Accounts of 31 December 2009; or

- (iii) the net current assets amount (i.e., current assets less current liabilities) of the Target Group as shown in the Completion Accounts is less than the net current assets amount as at 31 December 2009 as shown in the Group Management Accounts of 31 December 2009.

The Purchaser is entitled to review the “current assets” mentioned above to be shown in the Completion Accounts and the Group Management Accounts of 31 December 2009, no cash payment will be made to the Vendor until the Purchaser is satisfied with the quality, content and classification of the Completion Accounts and the Group Management Accounts of 31 December 2009.

Having considered: (i) all payments of the Consideration (excluding the Convertible Note D) will only be made after Completion Date, i.e. after all required reports, conditions and warranties set out under the paragraph headed “Conditions Precedent” are satisfied thus providing a higher level of comfort to the Purchaser; (ii) the Completion Accounts and the Group Management Accounts of 31 December 2009 are subject to the due diligence review of the Purchaser prior to making any cash payment; (iii) provisions are in place to allow downward adjustments to the cash Consideration; and (iv) the benefits of the Acquisition as detailed under the paragraph headed “Reasons for and benefits of the Acquisition” in this announcement, after arm’s length negotiations with the Vendor, the Board considers that the payment arrangement and the cash Consideration adjustment mechanism are fair and reasonable.

In addition, the Company will consider and assess the information stated in the feasibility study reports and the Technical Reports including the extractability of the Mines as well as the opinion of the competent person before it decides whether or not to proceed with the Acquisition.

Completion of the Acquisition

Completion shall take place on the third Business Day after the fulfillment or, where applicable, waiver either in whole or in part (as the case may be) of the abovementioned conditions precedent to the Acquisition Agreement (or such other date as the Vendor and the Purchaser may agree in writing).

Conditions precedent of the Deferred Consideration

Deferred Consideration is subject to and conditional upon the satisfaction of the following conditions:

- (i) the Vendor having procured the Luo An Company to convert the exploration license of the Anluo Mine into the mining license with an annual production of not less than 2.4 million tonnes (the “**Conversion**”) and the Luo An Company owns 100% of the Anluo Mine and has acquired the relevant production safety licence;
- (ii) the Vendor having procured the shareholder(s) of the Luo An Company to transfer its or their entire equity interests in the Luo An Company to First Gain after the Conversion;

- (iii) all fees and expenses incurred or to be incurred (including but not limited to the payment for the mining license and other fees related to the use of Anluo Mine, save and except the mining royalties as required under Article 9 of Measures for the Registration Administration of Mineral Resources of Exploration, which remain outstanding as of the Deferred Consideration Payment Date.) in relation to the Conversion and the share transfer of the Luo An Company having been paid by the Vendor;
- (iv) the Purchaser having completed, to its satisfaction, a due diligence review on the Luo An Company and the Anluo Mine, which shall include but not limited to geological, technical, legal, restructuring, quality of resources owned, resources, exploration licenses, mining licenses, financial and operational aspects of the Luo An Company and the Anluo Mine;
- (v) the Purchaser having received a reserve report and feasibility study report prepared at the cost of the Vendor on the Anluo Mine in form and substance satisfactory to the Purchaser. In particular, the feasibility study report should cover a study on the comprehensive design, costing and capital expenditure in respect of the method(s) for the development of the Anluo Mine in which appropriate assessments have been made of realistically assumed geological, mining, metallurgical, economic, marketing, legal, environmental, social, governmental, engineering, operational and all other relevant factors, which are considered in enough detail to demonstrate at the time of reporting that extraction is reasonably justified and the factors reasonably serve as the basis for a final decision by a financial institution to finance the development of the relevant development project(s) and acceptable by the Stock Exchange;
- (vi) the Purchaser having received the Technical Report prepared at the cost of the Purchaser in respect of the Anluo Mine in form and substance satisfactory to the Purchaser indicating that the Anluo Mine has aggregate resources of anthracite coal of not less than 318.42 million tonnes and Indicated Resources (together with resources with higher level of confidence) represent not less than 80% of the aggregate resources, which is approximately 254.74 million tonnes of anthracite coal based on the JORC Code and the standards as acceptable by the Stock Exchange. The Technical Report shall also indicate that the feasibility study report as mentioned in item (v) above is true and correct, practicable and in compliance with the standards recognized by the Stock Exchange;
- (vii) the Purchaser having received a valuation report on the fair market value of the Anluo Mine issued by an independent professional valuer in form and substance satisfactory to the Purchaser showing the valuation of the Anluo Mine to be not less than the HK\$4,139,460,000;
- (viii) the Purchaser having received an opinion issued by a PRC lawyer approved by the Purchaser in respect of (1) legality, validity and enforceability of relevant documents in relation to the Luo An Company, and the Anluo Mine and (2) all matters relating to the Luo An Acquisition and the transactions contemplated thereunder (including but not limited to the legality, validity and enforceability of the share transfer of the Luo An Company and obtaining the mining license of the Anluo Mine) in form and substance satisfactory to the Purchaser; and

- (ix) all Vendor's Warranties in respect of or applicable to the Anluo Mine remaining true and accurate and not misleading in all material respect as if they are repeated at the Deferred Consideration Payment Date completion of the Luo An Acquisition by reference to the facts and circumstances subsisting at payment date of the Deferred Consideration.

As required under item (vii) above, the valuation report of the Anluo Mine to be issued by an independent professional valuer shall show that the Anluo Mine has a fair market value of not less than HK\$4,139,460,000, which was determined based on the total estimated anthracite coal resources available for not less than 318.42 million tonnes valued at HK\$13 per tonne.

The unit price of HK\$13 per tonne was determined based on, among other factors, the transaction prices of similar coal mines in China.

The Purchaser shall be entitled at its discretion at any time by a notice in writing to the Vendor to waive any of the conditions above either in whole or in part. If any of the conditions has not been satisfied (or waived by the Purchaser, as the case may be) on the Second Long Stop Date, the Purchaser has no obligation to pay the Deferred Consideration to the Vendor.

In addition, the Vendor has agreed to deliver the Luo An Completion Accounts to the Purchaser within three Business Days after all the conditions precedent set out under the paragraph headed "Conditions precedent of the Deferred Consideration" in this announcement have been fulfilled or waived by the Purchaser in whole or in part (as the case maybe), and the principal amount of Convertible Note D shall be adjusted downward by the relevant amount if:

- (i) the Luo An Series of Companies have any bank loans or long-term liabilities (excluding the Sale Debt, if applicable) as at the Deferred Consideration Payment Date as shown in the Luo An Completion Accounts; or
- (ii) the current assets of Luo An Series of Companies are less than its current liabilities (including any account payables and any current liabilities and debts incurred in the ordinary and usual course of business of Luo An Company) as at the Deferred Consideration Payment Date as shown in the Luo An Completion Accounts.

The Purchaser is entitled to review the "current assets" mentioned above to be shown in the Luo An Completion Accounts, Convertible Note D will be issued to the Vendor after the Purchaser is satisfied with its due diligence review on the quality, content and classification of the Luo An Completion Accounts.

Having considered: (i) the Deferred Consideration will only be made after all required reports, conditions and warranties set out under the paragraph headed "Conditions Precedent of the Deferred Consideration" are satisfied thus providing a higher level of comfort to the Purchaser; (ii) the Luo An Completion Accounts is subject to the due diligence review of the Purchaser prior to the issue of the Convertible Note D; (iii) provisions are in place to allow downward adjustments to the principal

amount of the Convertible Note D to be issued; and (iv) the benefits of the Acquisition as detailed under the paragraph headed “Reasons for and benefits of the Acquisition” in this announcement, after arm’s length negotiations with the Vendor, the Board considers that the payment arrangement and the Deferred Consideration adjustment mechanism are fair and reasonable.

The settlement of the Deferred Consideration shall take place within ten Business Days after the fulfillment or, where applicable, waiver either in whole or in part (as the case may be) of the conditions precedent to the Deferred Consideration or the date on which the Purchaser and the Vendor have confirmed whether or not any adjustment is required pursuant to the Acquisition Agreement, whichever is later (or such other date as the Vendor and the Purchaser may agree in writing).

The Directors (including the independent non-executive Directors) believe that the terms of the Acquisition Agreement are on normal commercial terms and fair and reasonable, and are also in the interests of the Company and the Shareholders as a whole.

Promissory Note

The terms of the Promissory Note have been negotiated on an arm’s length basis and the principal terms of which are summarised below:

Issuer

The Company

Principal amount

HK\$200,000,000 (subject to adjustment)

Interest

The Promissory Note carries no interest.

Maturity

4 months from the date of issuance

Consideration Shares

Based on the Issue Price, 1,202,500,000 Consideration Shares (subject to adjustment) would be allotted and issued, representing:

- (i) approximately 24.99% of the issued share capital of the Company as at the date of this announcement;

- (ii) approximately 19.99% of the total issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares; and
- (iii) approximately 4.66% 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.

The amount of the Consideration Shares and the Issue Price shall be subject to adjustment in the event of share consolidation and share subdivision before issue of the Consideration Shares.

Convertible Note A

The Company will issue the Convertible Note A in an aggregate principal amount of HK\$1,944,650,000 (subject to adjustment) to the Vendor or its nominee(s) within seven Business Days after the Completion Date. The 4,861,625,000 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, represent:

- (i) approximately 101.01% of the issued share capital of the Company as at the date of this announcement;
- (ii) approximately 50.25% 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;
- (iii) approximately 44.70% 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; and
- (iv) approximately 18.85% 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 exercise of the conversion rights attached to the Convertible Notes 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\$1,944,650,000
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 resources). Every adjustment to the Conversion Price shall be certified by a financial adviser designated by the Company
Conversion:	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 20% 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

Status of the Convertible
Note A:

The obligations of the Company arising under the Convertible Note A 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 A may be freely assigned and transferred provided that (i) such assignment or transfer shall be in compliance with the conditions set out in the approval obtained from the Listing Committee of the Stock Exchange in relation to the listing of, and permission to deal in, the Note A Conversion Shares (if any); (ii) 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; (iii) no assignment or transfer shall be made to any person who is a connected person of the Company; and (iv) such assignment or transfer shall be subject to (where applicable) the conditions, approvals, requirements and any other provisions of or under the Listing Rules, the Takeovers Code and all applicable laws and regulations. The holder of the Convertible Note A shall notify the Company in writing about the identity and particulars of the assignee(s) or transferee(s) and such other information as requested by the Company at least three Business Days prior to such assignment or transfer.

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

The Company will issue the Convertible Note B in an aggregate principal amount of HK\$608,000,000 (subject to adjustment) to the Vendor or its nominee(s) within ten Business Days after the release of the Guarantee Proof in respect of the financial year ending 31 December 2010 of the Target Group or within seven Business Days after the Completion Date, whichever is later or such other date as may be agreed by the parties in writing.

Assuming the full exercise of Note B Conversion Rights, 1,520,000,000 Note B Conversion Shares (subject to adjustment) will be allotted and issued at the Conversion Price which represent:

- (i) approximately 31.58% of the issued share capital of the Company as at the date of this announcement;
- (ii) approximately 24.00% 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 12.26% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, the Note A Conversion Shares and the Note B Conversion Shares, assuming full exercise of Note A Conversion Rights and Note B Conversion Rights at the Conversion Price; and
- (iv) approximately 5.89% 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 exercise of the conversion rights attached to the Convertible Notes 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:

Maximum principal amount:	HK\$608,000,000
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 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 as share consolidation, share subdivision, capital distribution and capitalization issue of profits or resources). Every adjustment to the Conversion Price shall be certified by a financial adviser designated by the Company;
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 20% 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: (i) such assignment or transfer shall be in compliance with the conditions set out in the approval obtained from the Listing Committee of the Stock Exchange in relation to the listing of, and permission to deal in, the Note B Conversion Shares (if any); (ii) 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; (iii) no assignment or transfer shall be made to any person who is a connected person of the Company; and (iv) such assignment or transfer shall be subject to (where applicable) the conditions, approvals, requirements and any other provisions of or under the Listing Rules, the Takeovers Code and all applicable laws and regulations. The holder of the Convertible Note B shall notify the Company in writing about the identity and particulars of the assignee(s) or transferee(s) and such other information as requested by the Company at least three Business Days prior to such assignment or transfer.

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

Convertible Note C

The Company will issue the Convertible Note C in an aggregate principal amount of HK\$1,216,000,000 (subject to adjustment) to the Vendor or its nominee(s) within ten Business Days after the release of the Guarantee Proof in respect of the financial year ending 31 December 2011 of the Target Group or such other date as may be agreed by the parties in writing.

Assuming the full exercise of Note C Conversion Rights, 3,040,000,000 Note C Conversion Shares (subject to adjustment) will be allotted and issued at the Conversion Price which represents:

- (i) approximately 63.16% of the issued share capital of the Company as at the date of this announcement;
- (ii) approximately 38.71% of the total issued share capital of the Company as enlarged by the allotment and issue of the Note C Conversion Shares; and
- (iii) approximately 19.69% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, the Note A Conversion Shares, the Note B Conversion Shares and the Note C Conversion Shares, assuming full exercise of Note A Conversion Rights, Note B Conversion Rights and Note C Conversion Rights at the Conversion Price; and
- (iv) approximately 11.79% 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 exercise of the conversion rights attached to the Convertible Notes at the Conversion Price

The Note C 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 C Conversion Rights.

The Note C 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 C Conversion Shares and be entitled to dividends and other rights carried by the Shares. There is no restriction on subsequent sale of the Note C Conversion Shares.

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

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

Maximum principal amount:	HK\$1,216,000,000
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Maturity date:	The date falling on the third anniversary of the date of issue of the Convertible Note C
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Interest:	The Convertible Note C shall not bear any interest
Redemption:	On the Maturity Date, the Company may redeem all and not some only of the Convertible Note C 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 C Conversion Share will be issued upon a conversion of all or any part of the Convertible Note C, 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 resources). Every adjustment to the Conversion Price shall be certified by a financial adviser designated by the Company
Conversion:	Subject as hereinafter provided and that any conversion of the Convertible Note C 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 C, whether or not such mandatory offer obligation is triggered by the fact that the number of Note C Conversion Share(s) to be allotted and issued upon the exercise of the Note C Conversion Rights and, if applicable, together with any Shares already owned or agreed to be acquired by such holder of Convertible Note C and/or parties acting in concert with it, represents 20% 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 C immediately after the exercise of the Note C Conversion Rights, together with any Shares already owned or agreed to be acquired by such holder of the Convertible Note C 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 C 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 C, to convert the whole or part of such principal amount of the Convertible Note C set out therein into the Note C Conversion Share(s) at the Conversion Price, other than the Convertible Note C which have been called for redemption before the Maturity Date

Status of the Convertible
Note C:

The obligations of the Company arising under the Convertible Note C 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 C may be freely assigned and transferred provided that: (i) such assignment or transfer shall be in compliance with the conditions set out in the approval obtained from the Listing Committee of the Stock Exchange in relation to the listing of, and permission to deal in, the Note C Conversion Shares (if any); (ii) 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 C is less than HK\$5,000,000 in which case the whole (but not part only) of that amount may be assigned and transferred; (iii) no assignment or transfer shall be made to any person who is a connected person of the Company; and (iv) such assignment or transfer shall be subject to (where applicable) the conditions, approvals, requirements and any other provisions of or under the Listing Rules, the Takeovers Code and all applicable laws and regulations. The holder of the Convertible Note C shall notify the Company in writing about the identity and particulars of the assignee(s) or transferee(s) and such other information as requested by the Company at least three Business Days prior to such assignment or transfer.

Voting Rights:

The holder of the Convertible Note C 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 C on the Stock Exchange or any stock or securities exchange

Convertible Note D

The Company will issue the Convertible Note D in an aggregate principal amount of HK\$4,139,460,000 (subject to adjustment) to the Vendor or its nominee(s) within ten Business Days after all of the conditions precedent set out under the paragraph headed “Conditions precedent of the Deferred Consideration” in this announcement have been fulfilled and/ or if applicable, waived in whole or in part in accordance with the Acquisition Agreement (as the case may be) or the date on which the Purchaser and the Vendor have confirmed whether or not any adjustment is required pursuant to the Acquisition Agreement, whichever is later (or such other date as may be agreed by the parties in writing).

Assuming the full exercise of Note D Conversion Rights, 10,348,650,000 Note D Conversion Shares (subject to adjustment) will be allotted and issued at the Conversion Price which represents:

- (i) approximately 215.02% of the issued share capital of the Company as at the date of this announcement;
- (ii) approximately 68.26% of the total issued share capital of the Company as enlarged by the allotment and issue of the Note D Conversion Shares; and
- (iii) approximately 40.13% 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 exercise of the conversion rights attached to the Convertible Notes at the Conversion Price

The Note D 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 D Conversion Rights.

The Note D 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 D Conversion Shares and be entitled to dividends and other rights carried by the Shares. There is no restriction on subsequent sale of the Note D Conversion Shares.

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

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

Maximum principal amount:	HK\$4,139,460,000
Maturity date:	The date falling on the third anniversary of the date of issue of the Convertible Note D
Interest:	The Convertible Note D shall not bear any interest

Redemption:	On the Maturity Date, the Company may redeem all and not some only of the Convertible Note D 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 D Conversion Share will be issued upon a conversion of all or any part of the Convertible Note D, 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 resources). Every adjustment to the Conversion Price shall be certified by a financial adviser designated by the Company
Conversion:	Subject as hereinafter provided and that any conversion of the Convertible Note D 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 D, whether or not such mandatory offer obligation is triggered by the fact that the number of Note D Conversion Share(s) to be allotted and issued upon the exercise of the Note D Conversion Rights and, if applicable, together with any Shares already owned or agreed to be acquired by such holder of Convertible Note D and/or parties acting in concert with it, represents 20% 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 D immediately after the exercise of the Note D Conversion Rights, together with any Shares already owned or agreed to be acquired by such holder of the Convertible Note D 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 D 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 D, to convert the whole or part of such principal amount of the Convertible Note D set out therein into the Note D Conversion Share(s) at the Conversion Price, other than the Convertible Note D which have been called for redemption before the Maturity Date

Status of the Convertible Note D:	The obligations of the Company arising under the Convertible Note D 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 D may be freely assigned and transferred provided that: (i) such assignment or transfer shall be in compliance with the conditions set out in the approval obtained from the Listing Committee of the Stock Exchange in relation to the listing of, and permission to deal in, the Note D Conversion Shares (if any); (ii) 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 D is less than HK\$5,000,000 in which case the whole (but not part only) of that amount may be assigned and transferred; (iii) no assignment or transfer shall be made to any person who is a connected person of the Company; and (iv) such assignment or transfer shall be subject to (where applicable) the conditions, approvals, requirements and any other provisions of or under the Listing Rules, the Takeovers Code and all applicable laws and regulations. The holder of the Convertible Note D shall notify the Company in writing about the identity and particulars of the assignee(s) or transferee(s) and such other information as requested by the Company at least three Business Days prior to such assignment or transfer.
Voting Rights:	The holder of the Convertible Note D 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 D on the Stock Exchange or any stock or securities exchange

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, Note B Conversion Share, Note C Conversion Share and Note D Conversion Share represent:

- (i) a discount of approximately 11.11% to the closing price of the Shares of HK\$0.45 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 5.66% to the average of the closing prices of the Shares of approximately HK\$0.424 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including Last Trading Day;

- (iii) a discount of approximately 4.08% to the average of the closing prices of the Shares of approximately HK\$0.417 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 479.71% to the audited net asset value per Share of approximately HK\$0.069, which is calculated based on the audited net asset value of the Company of HK\$331,437,000 as at 31 December 2009 as stated in its 2009 annual report divided by its total number of 4,812,826,800 issued Shares as at the Last Trading Day.

The Issue Price and Conversion Price were determined after arm's length negotiation between the Purchaser, the Company 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.

UNDERTAKING BY THE VENDOR

The Vendor has undertaken to the Purchaser to procure its beneficial owners and parties acting in concert with it, if any, shall not, in aggregate, hold 20% or more of the entire issued share capital of the Company as long as the Vendor is a holder of the Convertible Notes, such that there will not be any change of control in the Company for the purpose of the Takeovers Code.

UNDERTAKING BY THE COMPANY

The Company has undertaken to the Purchaser that before it has completed its obligation to issue the Consideration Shares and the Conversion Shares pursuant to the terms and conditions of the Acquisition Agreement, it will not issue any new securities at an issue price represents a discount of 20% or more to the "benchmark price" of the securities as referred to in Rule 13.36(5) of the Listing Rules (save and except those securities committed to be issued by the Company prior to signing of the Acquisition Agreement).

INFORMATION ON THE VENDOR AND THE TARGET COMPANY

The Vendor

The Vendor is an investment holding company which has no other operating business or major assets other than the mining licenses of the Mines upon completion of the Reorganisation.

The Target Company

The Target Company is incorporated in the BVI on 15 March 2010 with limited liability and is wholly-owned by the Vendor. Upon completion of the Reorganisation, the Target Group will be principally engaged in exploration, refining and sale of anthracite coal and the principal assets of the Target Group will be seven mining licenses covering seven mines located in Guizhou Province, PRC having an estimated total resources of anthracite coal of approximately 324.05 million tonnes based on the JORC Code. On the Deferred Consideration Payment Date, the Target Group will have obtained one additional mining license covering one mine located in Guizhou Province, PRC having an estimated resources of anthracite coal of approximately 318.42 million tonnes based on the JORC Code.

Under the supplemental agreement to the Acquisition Agreement, the number of mines under the Target Group was reduced by one due to the safety condition of that mine.

Based on the information provided by the Vendor, details relating to the status of the Mines are set out as follows:

Coal Mine	Current License Type	Current status	Expected operation commencement date	Estimated Resources (’000 Tonnes)
Huawo	Mining License	In operation	–	35,000
Chayuan	Mining License	In operation	–	32,000
Baiyanjiao	Mining License	Under Construction	Fourth Quarter 2011	84,560
Tiziyuan	Mining License	Under Construction	First Quarter 2011	31,350
Gangjiachang	Mining License	Under Construction	First Quarter 2011	32,000
Tiancheng	Mining License	Under Construction	Fourth Quarter 2011	54,380
Guixing	Mining License	Under Construction	Fourth Quarter 2011	54,760
			Subtotal	324,050
Anluo	Exploration License (note)	Carrying no operation	Fourth Quarter 2013	318,420
			Total	<u>642,470</u>

Note: The acquisition of Anluo Mine is conditional upon, among the others, the conversion of its exploration license into the mining license.

The Company will appoint a competent person to issue a technical report to provide the estimated amounts of resources in respect of the Mines (by clearly distinguishing them between measured, indicated and inferred) in accordance with the JORC Code and such technical report will form part of the Company’s circular in relation to the Acquisition.

Upon Completion, the Company through the Purchaser will be interested in the entire equity interests of the Target Company. The Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Company will be fully consolidated into the financial statements of the Group upon Completion.

Financial information of the Target Group

Given that only two of the Mines are operating while the rest of the Mines are either under construction or carrying no operation, only the two subsidiaries of the Target Group respectively holding two operating mines have prepared their financial statements. Therefore, no audited consolidated accounts of the Target Group for the years ended 31 December 2008 and 31 December 2009 have been prepared. Based on the unaudited combined financial statements of the two operating subsidiaries of the Target Group, two operating subsidiaries of the Target Group recorded the net profits before taxation and extraordinary items of approximately RMB16,509,496 (equivalent to approximately HK\$18,820,825) and approximately RMB9,923,351 (equivalent to approximately HK\$11,312,620) for the year ended 31 December 2008 and 31 December 2009 respectively and the net profits after taxation and extraordinary items of approximately RMB13,496,117 (equivalent to approximately HK\$15,385,573) and RMB6,657,351 (equivalent to approximately HK\$7,589,380) for the year ended 31 December 2008 and 31 December 2009 respectively. As of 31 December 2009, the unaudited combined net asset value of the two operating subsidiaries of the Target Group was approximately RMB24,932,839 (equivalent to approximately HK\$28,423,436).

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 Guerbandada Coal Mine, all located in Inner Mongolia Autonomous Region, PRC with a total estimated coal resources under the JORC Code as follows:

	Inferred Resources <i>(note 3)</i> <i>(Million Tonnes)</i>
Guerbandada Coal Mine (“GCM”)	106.00 <i>(note 1)</i>
Huanghuashan Coal Mine (“HCM”)	7.85 <i>(note 2)</i>
Bayanhushuo Coal Field (“BCF”)	394.05 <i>(note 2)</i>
	<hr/>
Total	<u><u>507.90</u></u>

In order to comply with Rule 18.29 of the Listing Rules with effect from 3 June 2010, around 63.6 million tonnes of coal resources have been excluded from the original estimate of total coal resources of 571.5 million tonnes. As such, the Company’s total estimated amount of resources for the three existing mines have been adjusted to 507.90 million tonnes.

Among the 63.6 million tonnes of excluded coal resources, 22.9 million tonnes of them representing additional coal resources of GCM estimated by a coal reserve assessment report approved by the Department of Land and Resources of Inner Mongolia on 1 June 2007 as a result of completion of the detailed stage of exploration but have not been reviewed by Steff Robertson and Kirsten (Australasia) Pty Ltd (“SRK”) nor another competent person as defined by Rule 18.21 of the Listing Rule. Another 40.7 million tonnes of them representing the coal resources of BCF which is classified as “Unclassified” category according to the JORC Code by the technical report issued by SRK dated 31 January 2008.

Notes:

1. The information is extracted from the technical report issued by SRK which performed an independent review of the estimated resources of GCM. The technical report formed part of the Company’s circular dated 30 March 2007 in compliance with the Listing Rules in relation to the Company’s very substantial acquisition.
2. The information is extracted from the technical reports issued by SRK which performed an independent review of the estimated resources of HCM and BCF, respectively. The technical reports formed part of the Company’s circular dated 31 January 2008 in compliance with the Listing Rules in relation to the Company’s very substantial acquisition.
3. The estimated resources of the three existing mines are prepared in compliance with the PRC resources reporting standard. According to each of the technical reports, if SRK were to compare these resources estimation to the JORC Code standard, each of the estimated resources would be equivalent to the inferred resources based on the principles of the JORC Code.

The Huanghushan 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 Bayanhushuo Coal Field, it is expected that the Group will perform the final stage of exploration in 2010.

Reference is made to the Company’s announcement dated 17 March 2010, in which the Board announced that Strong Master Holdings Limited, a wholly-owned subsidiary of the Company and Wonder Return Limited, a company incorporated in the BVI with limited liability and is an investment holding company, entered into 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 (the “Mongolian Acquisition”), which is to be payable in cash, by issuing of new shares (the “Mongolian Consideration Shares”) and by issuing of convertible notes (the “Mongolian Convertible Notes”). The target group under the acquisition agreement dated 24 February 2010 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, which holds the respective exploration licences of three mining sites in Hovd Province (科布多省), Mongolia. As at the date of this announcement, the Company is finalising the contents of the corresponding circular, including but not limited to preparation of the technical report, the valuation report, and the unaudited pro-forma financial information of the enlarged group.

The Mongolian Acquisition is of similar nature to the Acquisition and the existing coal business of the Company, therefore the Company's scope of business will not change following the Acquisition. However, the Company expected that upon completion of the Mongolian Acquisition and the Acquisition, the operation and scale of the Company's coal business will be substantially expanded, the amount of coal resources will be substantially increased and the variety of its coal resources will be broadened. Since the Company's coal business is important for the Group as it allows the Group to tap the energy and natural resources business, and the Company is positive about the prospect of the coal mining industry in the PRC due to the fact that coal is the major source of energy consumption in the PRC, the Company considers that the Mongolian Acquisition and the Acquisition will create a solid foundation for the Company's future expansion and growth in the energy and natural resources sector.

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 annual report of the Company for the year ended 31 December 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 resources, broadening the variety of its coal resources and enhancing the market position of its coal mining business. The Directors also expect that the Target Group will contribute to the cash flows, revenue and net profit of the Group upon the Completion.

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); (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); (f) immediately after the allotment and issue of the Consideration Shares, the Note A Conversion Shares, Note B Conversion Shares and the Note C Conversion Shares (assuming the Note A Conversion Rights, the Note B Conversion Rights and the Note C 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 (g) immediately after the allotment and issue of the Consideration Shares and the Conversion Shares (assuming the 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 Conversion Rights, holding 20% or more of the then issued Shares.

Shareholder	(a)		(b)		(c)		(d)		(e)		(f)		(g)	
	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 conversion of Note A Conversion Shares (assuming Convertible Note A and the relevant rights are fully converted and exercised in full) (Note 4)		Immediately after the allotment and issue of the Consideration Shares and the conversion of Note A Conversion Shares (assuming Convertible Note A and the relevant rights are converted and exercised to the extent that the Vendor and/or parties acting in concert with it, if any, do not hold more than 20% of the then issued ordinary share capital of the Company)		Immediately after the allotment and issue of the Consideration Shares and the conversion of Note A Conversion Shares and Note B Conversion Shares (assuming Convertible Note A and Convertible Note B and their relevant rights are converted and exercised to the extent that the Vendor and/or parties acting in concert with it, if any, do not hold more than 20% of the then issued ordinary share capital of the Company)		Immediately after the allotment and issue of the Consideration Shares and the conversion of Note A Conversion Shares, Note B Conversion Shares and Note C Conversion Shares (assuming Convertible Note A, Convertible Note B and Convertible Note C and their relevant rights are converted and exercised to the extent that the Vendor and/or parties acting in concert with it, if any, do not hold more than 20% of the then issued ordinary share capital of the Company)		Immediately after the allotment and issue of the Consideration Shares and the conversion of the Conversion Shares (assuming the Convertible Notes and their relevant rights are converted and exercised to the extent that the Vendor and/or parties acting in concert with it, if any, do not hold more than 20% of the then issued ordinary share capital of the Company)	
	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	No. of Shares	% of shareholding	No. of Shares	% of shareholding
Legend Win Profits Limited (Note 2)	767,500,000	15.95%	767,500,000	12.76%	767,500,000	7.06%	767,500,000	7.06%	767,500,000	6.19%	767,500,000	4.97%	767,500,000	2.98%
Ruan Yuan	530,000,000	11.01%	530,000,000	8.81%	530,000,000	4.87%	530,000,000	4.87%	530,000,000	4.28%	530,000,000	3.43%	530,000,000	2.06%
Yu Won Kong, Dennis (Note 1)	465,000,000	9.66%	465,000,000	7.73%	465,000,000	4.28%	465,000,000	4.28%	465,000,000	3.75%	465,000,000	3.01%	465,000,000	1.80%
Ho Siu Lan (Note 1)	14,500,000	0.30%	14,500,000	0.24%	14,500,000	0.13%	14,500,000	0.13%	14,500,000	0.12%	14,500,000	0.09%	14,500,000	0.06%
Vendor	–	–	1,202,500,000	19.99%	6,064,125,000	55.75%	2,174,302,665	19.99%	2,478,150,665	19.99%	3,085,846,665	19.99%	5,154,541,800	19.99%
Public Shareholders	3,035,826,800	63.08%	3,035,826,800	50.47%	3,035,826,800	27.91%	3,035,826,800	27.91%	3,035,826,800	24.49%	3,035,826,800	19.67%	3,035,826,800	11.77%
Other public Shareholders (Note 3)	–	–	–	–	–	–	3,889,822,335	35.76%	5,105,974,335	41.18%	7,538,278,335	48.84%	15,818,233,200	61.34%
Total	4,812,826,800	100.00%	6,015,326,800	100.00%	10,876,951,800	100.00%	10,876,951,800	100.00%	12,396,951,800	100.00%	15,436,951,800	100.00%	25,785,601,800	100.00%

Notes:

1. Mr. Yu Won Kong, Dennis (“Mr. Yu”) is the executive Director and Ms. Ho Siu Lan is the spouse of Mr. Yu.
2. Legend Win Profits Limited is a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Mr. Hui Kee Fung and Hui’s K. K. Foundation Limited as to 38.95 and 5.26%, respectively. Hui’s K. K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Mr. Hui Kee Fung, is a registered member and director of Hui’s K. K. Foundation Limited.
3. Other public Shareholders refer to the Shareholders who have converted the Convertible Note A and/or the Convertible Note B and/or the Convertible Note C and/or the Convertible Note D and have exercised the Conversion Rights, that are not taken up and have been assigned and transferred by the Vendor to independent third parties.
4. For illustration purpose only. Such scenario will never occur as the conversion rights will be restricted such that any conversion of the Convertible Notes will not result in the shareholding interest of the relevant holder of the Convertible Notes immediately after the exercise of the conversion rights, together with any Shares already owned or agreed to be acquired by such holder of the Convertible Notes and/or parties acting in concert with it representing 20% or more of the then issued Shares.

The following table summarises the shareholding structure of the Company (a) as at the date of this announcement; (b) immediately after the allotment and issue of the Consideration Shares and the Conversion Shares (assuming the 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 (c) immediately after the allotment and issue of the Consideration Shares and the Conversion Shares (assuming the 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 the allotment and issue

of the Mongolian Mines Consideration Shares and the Mongolian Mines Conversion Shares (assuming the Conversion Rights are exercised to the extent that Wonder Return Limited and/or parties acting in concert with it, if any, do not hold 20% or more of the then issued Shares).

Shareholder	(a)		(b)		(c)	
	As at the date of this announcement		Immediately after the allotment and issue of the Consideration Shares and the conversion of the Conversion Shares (assuming the Convertible Notes and their relevant rights are converted and exercised to the extent that Vendor and/or parties acting in concert with it, if any, do not hold more than 20% of the then issued ordinary share capital of the Company)		Immediately after the allotment and issue of the Mongolian Mines Consideration Shares and the conversion of the Mongolian Mines Conversion Shares (assuming the Mongolian Mines Convertible Notes and their relevant rights are converted and exercised to the extent that Vendor and/or parties acting in concert with it, if any, do not hold more than 20% of the then issued ordinary share capital of the Company)	
	No. of Shares	% of shareholding	No. of Shares	% of shareholding	No. of Shares	% of shareholding
Legend Win Profits Limited (note 2)	767,500,000	15.95%	767,500,000	2.98%	767,500,000	2.61%
Ruan Yuan	530,000,000	11.01%	530,000,000	2.06%	530,000,000	1.81%
Yu Won Kong, Dennis (note 1)	465,000,000	9.66%	465,000,000	1.80%	465,000,000	1.58%
Ho Siu Lan (note 1)	14,500,000	0.30%	14,500,000	0.06%	14,500,000	0.05%
Vendor	–	–	5,154,541,800	19.99%	5,867,597,594	19.99%
Wonder Return Limited	–	–	–	–	3,567,062,500	12.15%
Public Shareholders	3,035,826,800	63.08%	3,035,826,800	11.77%	3,035,826,800	10.34%
Other public Shareholders (note 3)	–	–	15,818,233,200	61.34%	15,105,177,406	51.47%
Total	<u>4,812,826,800</u>	<u>100.00%</u>	<u>25,785,601,800</u>	<u>100.00%</u>	<u>29,352,664,300</u>	<u>100.00%</u>

Notes:

1. Mr. Yu Won Kong, Dennis (“Mr. Yu”) is the executive Director and Ms. Ho Siu Lan is the spouse of Mr. Yu.
2. Legend Win Profits Limited is a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Mr. Hui Kee Fung and Hui’s K. K. Foundation Limited as to 38.95% and 5.26%, respectively. Hui’s K. K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have any share capital. Mr. Hui Kee Fung, is a registered members and director of Hui’s K. K. Foundation Limited.

3. Other public Shareholders refer to the Shareholders who have converted the Convertible Note A and/or the Convertible Note B and/or the Convertible Note C and/or the Convertible Note D and have exercised the Conversion Rights, that are not taken up and have been assigned and transferred by the Vendor to independent third parties and the Shareholders who have converted the Mongolian Mines Convertible Note A and/or the Mongolian Mines Convertible Note B and have exercised the Mongolian Mines Conversion Rights, that are not taken up and have been assigned and transferred by Wonder Return Limited to independent third parties.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition are more than 100%, the Acquisition constitutes a very substantial acquisition for 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 the 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.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Vendor and its ultimate beneficial owners 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 on the resolution to approve the Acquisition Agreement and the transactions contemplated thereunder.

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. Since additional time will be required by the reporting accountants to the Company for preparation of the accountants' report of the Target Company, the Company expects that the said circular will be despatched on or before 31 December 2010.

The Acquisition is subject to the fulfillment of a number of conditions precedent and therefore it may or may not be completed. The satisfaction of certain such conditions precedent (such as the satisfaction of a due diligence review on the Target Group and its assets) is at the Purchaser's discretion. As at the date of this announcement, the Purchaser is still obtaining the necessary information from the Vendor and such due diligence work is still in progress.

Shareholders and potential investors should exercise extreme 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 9 July 2010 pending the 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 23 August 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 through the Purchaser pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional sale and purchase agreement dated 8 July 2010 (as supplemented by a supplemental agreement dated 20 August 2010) entered into between the Purchaser, the Vendor and the Company in relation to the Acquisition
“Anluo Mine”	a mine site located in Guizhou Province, PRC, having an estimated resources of anthracite coal of approximately 318.42 million tonnes based on the JORC Code
“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 Accounts”	the unaudited balance sheet and income statement of the Target Group as at the Completion Date and all the relevant notes to the financial statements
“Completion Date”	the date of Completion, which shall be on the third Business Day after the conditions set out in the section headed “Conditions Precedent” have been fulfilled or waived either in whole or in part (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\$8,889,110,000 (subject to adjustment), being the total consideration payable by the Purchaser to the Vendor pursuant to the Acquisition Agreement
“Consideration Share(s)”	1,202,500,000 new Shares (subject to adjustment) to be allotted and issued by the Company to the Vendor or its nominee(s) at the Issue Price within seven Business Days after the Completion Date to satisfy part of the Consideration pursuant to the Acquisition Agreement
“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 Period C”	the period commencing from the issue date of the Convertible Note C and ending on the calendar day immediately before the Maturity Date
“Conversion Period D”	the period commencing from the issue date of the Convertible Note D 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 or Note B Conversion Share or Note C Conversion Share or Note D Conversion Share (as the case may be) (subject to adjustment in the event of share consolidation and share subdivision before the relevant issuance dates and subject to adjustments after the relevant issuance dates as set out in the summary of principal terms of each batch of the Convertible Notes in this announcement)

“Conversion Share(s)”	collectively the Note A Conversion Share(s), Note B Conversion Share(s), Note C Conversion Share(s) and Note D Conversion Share(s)
“Convertible Note A”	the zero coupon convertible note in a principal amount of HK\$1,944,650,000 (subject to adjustment) to be issued by the Company to the Vendor or its nominee(s) 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\$608,000,000 (subject to adjustment) to be issued by the Company to the Vendor or its nominee(s) to satisfy part of the Consideration pursuant to the Acquisition Agreement
“Convertible Note C”	the zero coupon convertible note in a principal amount of HK\$1,216,000,000 (subject to adjustment) to be issued by the Company to the Vendor or its nominee(s) to satisfy part of the Consideration pursuant to the Acquisition Agreement
“Convertible Note D”	the zero coupon convertible note in a principal amount of HK\$4,139,460,000 (subject to adjustment) to be issued by the Company to the Vendor or its nominee(s) to satisfy part of the Consideration pursuant to the Acquisition Agreement
“Convertible Notes”	collectively the Convertible Note A, Convertible Note B, Convertible Note C and Convertible Note D
“Deferred Consideration”	the deferred consideration to be paid or adjusted (as the case may be) in respect of the issuance of the Convertible Note D pursuant to the Acquisition Agreement as described in the paragraphs headed “Consideration” and “Conditions precedent of the Deferred Consideration” in this announcement
“Deferred Consideration Payment Date”	the third Business Day after the conditions precedent set out under the paragraph headed “Conditions Precedent of the Deferred Consideration” have been fulfilled or waived either in whole or in part (as the case may be) (or such other date as may be agreed by the parties in writing)
“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
“First Gain”	First Gain Enterprises Limited*(福裕企業有限公司), a company established under the laws of Hong Kong and a wholly owned subsidiary of the Target Company
“First Long Stop Date”	30 April 2011 or such other date as may be agreed by the parties in writing
“Group”	the Company and its subsidiaries
“Group Management Accounts of 31 December 2009”	the unaudited balance sheet and income statement of the Target Group for the year ended on 31 December 2009 and all the relevant notes to the financial statements
“Guarantee Proof”	a certificate to be issued by a qualified auditor to be appointed by the Purchaser certifying the actual amount of Net Profit in the relevant financial year 2010 and 2011 respectively together with the audited pro forma combined financial statements signed and issued by such auditor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Indicated Resource”	that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence
“Issue Price”	HK\$0.40 per Consideration Share
“JORC”	Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia

“JORC Code”	the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves, published by the JORC
“Last Trading Day”	8 July 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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Luo An Acquisition”	the proposed acquisition of the entire equity interest in Luo An Company by First Gain pursuant to the Acquisition Agreement
“Luo An Company”	Guizhou LuoAn Coal Mines Development Limited *(貴州洛安煤業有限公司), a company established in PRC with limited liability or any company that owns the Anluo Mine
“Luo An Completion Accounts”	the unaudited balance sheet and income statement of Luo An Series of Companies as at the Deferred Consideration Payment Date and all the relevant notes to the financial statements
“Luo An Series of Companies”	First Gain and its subsidiaries (including Luo An Company)
“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 or the Convertible Note C or the Convertible Note D (as the case may be)
“Mines”	the eight mining sites in Guizhou Province, PRC having an estimated total resources of anthracite coal of approximately 642.47 million tonnes based on the JORC Code
“MOU”	the memorandum of understanding entered into between the Purchaser and the Vendor on 1 April 2010 in respect of the possible acquisition of the Sale Share
“Net Profit”	the combined net profit after tax and extraordinary items of the Target Group which excludes the upward or downward adjustment of the face value based on the assets valuation as to be shown in its audited pro forma combined accounts for the financial year ending 31 December 2010 or 31 December 2011 (as the case may be) to be prepared by a qualified accounting firm according to the accounting standards in Hong Kong

“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)”	4,861,625,000 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)”	1,520,000,000 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
“Note C Conversion Rights”	the rights attached to the Convertible Note C to convert the same or a part thereof into Conversion Shares pursuant to terms and conditions set out in the Convertible Note C
“Note C Conversion Share(s)”	3,040,000,000 new Shares (subject to adjustment) to be allotted and issued by the Company to the holders of the Convertible Note C upon exercise of the Note C Conversion Rights at the Conversion Price
“Note D Conversion Rights”	the rights attached to the Convertible Note D to convert the same or a part thereof into Conversion Shares pursuant to terms and conditions set out in the Convertible Note D
“Note D Conversion Share(s)”	10,348,650,000 new Shares (subject to adjustment) to be allotted and issued by the Company to the holders of the Convertible Note D upon exercise of the Note D 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”	Lot Treasures Investments Limited, a company incorporated in the BVI with limited liability and a wholly owned subsidiary of the Company
“Purchaser’s Warranties”	the representations, warranties and undertakings given by the Purchaser under the Acquisition Agreement

“Reorganisation”	the acquisition to be undertaken by the Target Company to acquire (directly or indirectly) 100% legal and beneficial interests in the Mines
“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
“Second Long Stop Date”	28 February 2012 or such other date as may be agreed by the parties in writing
“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”	Sino View Group 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 to be appointed by the Purchaser to prepare the Technical Report(s) in respect of the Mines (excluding the Anluo Mine) and/ or the Anluo Mine (as the case may be)
“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”	Fast Glory Holdings Limited, a company incorporated in the BVI with limited liability, is an investment holding company
“Vendor’s Warranties”	the representations, warranties and undertakings given by the Vendor under the Acquisition Agreement
“%”	per cent.

For the purpose of illustration only, translation of RMB into HK\$ is made in this announcement at the rate of HK\$1 = RMB1.14. No representation is made that any amounts in HK\$ and RMB 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, 20 August 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.

** for identification purposes only*