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**Kiu Hung International Holdings Limited**  
**僑雄國際控股有限公司**

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

(Stock Code: 00381)

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION  
IN RELATION TO ACQUISITION OF COAL BUSINESS  
AND  
RESUMPTION OF TRADING**

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



**KINGSTON CORPORATE FINANCE LIMITED**

**THE ACQUISITION**

On 16 August 2007, the Purchaser, being a wholly-owned subsidiary of the Company, and the Vendor entered into the Acquisition Agreement pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share, being the entire issued share capital of Lucky Dragon and the Indebtedness at a total consideration of HK\$840 million (subject to Adjustment A, B and/or C).

Lucky Dragon owns the entire equity interest in Heng Yuan which in turn owns (i) the mining rights and other relevant operation facilities and properties in relation to the Huanghuashan Coal Mine and (ii) the exploration rights of the Xi Meng Coal Mine which are located in Inner Mongolia, the PRC.

## **GENERAL**

Mr. Yu, being a director of the Vendor who is beneficially interested in 22.5% of the issued share capital of the Vendor, is a connected person of the Company by virtue of him being a substantial Shareholder by holding approximately 10.48% of the issued share capital of the Company as at the date of this announcement. Therefore the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Acquisition also constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules.

According to the Listing Rules, the Acquisition is subject to, among the others, the Independent Shareholders' approval at the EGM, voting by way of poll. Mr. Yu, Ms. Kau and their respective associates are required to abstain from voting on the relevant resolutions in respect of the Acquisition Agreement and the transactions contemplated thereunder at the EGM.

An Independent Board Committee will be established to advise the Independent Shareholders in relation to the terms of the Acquisition. An independent financial adviser will be appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details of the Acquisition and other necessary disclosures as required under Rule 18.09 of the Listing Rules; (ii) the letter of recommendation from the Independent Board Committee; (iii) the letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM, will be despatched to the Shareholders as soon as practicable.

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on Thursday, 16 August 2007 pending the release of this announcement. Application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 2:30 p.m. on Wednesday, 5 September 2007.

On 3 August 2007, the Company announced that a wholly-owned subsidiary of the Company had entered into the MOU in relation to the proposed acquisition of the Sale Share. Please refer to the announcement of the Company dated 3 August 2007 for details of the MOU. Thereafter, the Company has entered into a formal agreement in relation to such acquisition on 16 August 2007 and the details of which are set out in this announcement.

## **THE ACQUISITION AGREEMENT**

**Date:** 16 August 2007

### **Parties:**

**Vendor:** Gold Dynasty Investments Limited, a company incorporated in the British Virgin Islands with limited liability, is beneficially owned as to 22.5% by Mr. Yu; 22.5% by Ms. Kau; and 55% by Mr. Chung Chi Shing. The principal business activity of the Vendor is investment holding in the PRC.

The Vendor, Mr. Yu, Ms. Kau and Mr. Chung Chi Shing are presumed to be parties acting in concert with each other under the Takeovers Code by virtue of the respective shareholding interests of Mr. Yu, Ms. Kau and Mr. Chung Chi Shing in the Vendor.

As at the date of this announcement, Mr. Yu and Ms. Kau are interested in approximately 10.48% and 3.86% of the entire issued share capital of the Company respectively. Only Mr. Yu and Mr. Chung are the directors of the Vendor.

As confirmed by the Vendor, other than the business relationship as the beneficial owners of the Vendor, Mr. Yu and Ms. Kau do not have any other relationship. Mr. Yu and Ms. Kau are independent of and not connected with (as defined in the Listing Rules) each other.

Mr. Yu is a connected person of the Company by virtue of him being a substantial Shareholder by holding approximately 10.48% of the issued share capital of the Company as at the date of this announcement. The Vendor is deemed to be a connected person of the Company. Mr. Chung Chi Shing is an Independent Third Party.

**Purchaser:** Growth Gain Investments Limited, an wholly-owned subsidiary of the Company

### **Subject to be acquired**

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share, being the entire issued share capital of Lucky Dragon and the Indebtedness free from all encumbrances together with all rights attached thereto and all dividends and distributions declared, paid or made in respect thereof after the date of the Acquisition Agreement.

### **Consideration and payment terms**

The total Consideration of HK\$840 million is comprised of (i) HK\$40 million (not subject to any adjustment) and (ii) HK\$800 million in various means of payment (subject to Adjustment A, B and/or C).

The amount of the consideration for the Indebtedness will equal to the amount of the outstanding indebtedness of Lucky Dragon owed to the Vendor as at the date of the Completion. The amount of the consideration for the Sale Share will equal to the total Consideration less the amount of Indebtedness as at the date of the Completion. The amount of Indebtedness as at the date of this announcement is HK\$20,759,862.20.

The Consideration shall be settled in the following manner:

- (a) as to HK\$3 million payable by way of cashier orders upon the signing of the Acquisition Agreement;
- (b) as to HK\$837 million (subject to Adjustment A, B and/or C) payable on Completion as follows:
  - (i) the sum of HK\$157 million shall be payable by way of cashier orders;
  - (ii) the balance of HK\$680 million, minus such amounts as may be deducted according to Adjustment A, B and/or C, shall be payable as follows:
    - (a) HK\$420 million shall be satisfied by the allotment and issue of Consideration Shares at an issue price of HK\$0.70 per Consideration Share; and
    - (b) HK\$260 million shall be satisfied by the issue of Convertible Notes with a conversion price of HK\$0.70 per Conversion Share.

The cash portion of the Consideration will be financed by internal financial resources of the Group, available banking facilities and/or raising of capital from the equity market. The Company has not yet reached a decision on the form or mix of such financing activities and the Company has not entered into any agreement to raise capital from the equity or debt market.

#### *Adjustment A*

- If the reserve of the Xi Meng Coal Mine, as assessed by the Mining Expert, is less than 400 million tons, the Consideration shall be adjusted by deducting the sum of HK\$2.0 per ton of the shortfall according to the report compiled by the Mining Expert. Such amount shall be deducted (i) firstly from the value of the Convertible Notes and (ii) secondly, if such amount exceeds the principal amount of the Convertible Notes, from the value of the Consideration Shares;
- If the reserve of the Xi Meng Coal Mine, as assessed by the Mining Expert, is more than 400 million tons, the Consideration shall be adjusted by adding the sum of HK\$0.1 per ton of increment according to the report compiled by the Mining Expert on the cash portion.

### *Adjustment B*

Pursuant to the Lucky Dragon Agreements dated 19 July 2007, Lucky Dragon has acquired the entire interest in Heng Yuan from certain Independent Third Parties. Nevertheless, the consideration payable by Heng Yuan to such pre-existing shareholders of Heng Yuan remains outstanding as at the date of this announcement as the amount of such consideration can only be determined upon completion of the general exploration stage on the Xi Meng Coal Mine by an independent PRC exploration company.

If any of such consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan (the calculation method of the consideration is set out in the sub-section headed “Lucky Dragon” under “INFORMATION ON SUBJECT ASSETS” in this announcement) and/or any premium for exploration right (“探礦權款價”) payable by Heng Yuan to the relevant authorities of land and resources (“相關國土資源管理部門”) and any exploration costs (“勘探費”) payable by Heng Yuan to the PRC exploration company remains outstanding immediately before the Completion, the Purchaser shall:

- (a) deduct such outstanding amounts from the cash consideration of HK\$157 million and make direct payment of the same to the pre-existing shareholders of Heng Yuan, the relevant authorities of land and resources and/or the PRC exploration company; and
- (b) pay the remaining balance to the Vendor by way of cashier orders.

In case that the cash consideration of HK\$157 million is less than the amounts payable and remaining outstanding by Lucky Dragon, then such insufficient balance shall be deducted (i) firstly from the value of the Convertible Notes and (ii) secondly, if such amount exceeds the principal amount of the Convertible Notes, from the value of the Consideration Shares.

### *Adjustment C*

Pursuant to the Acquisition Agreement, the Vendor shall deliver to the Purchaser the Completion Accounts within two months after the Completion.

If the total liabilities as shown in the Completion Accounts is greater than the total liabilities as shown in the Management Accounts, then the Consideration shall be adjusted by deducting an amount equal to the difference between the total liabilities as shown in the Completion Accounts and the total liabilities as shown in the Management Accounts on a dollar to dollar basis and the Vendor shall set off such amount against the payment obligations of the Company under the Convertible Notes. Should such amount to be deducted exceed the principal amount of the Convertible Notes which remains outstanding at the time, the Vendor shall pay any shortfall to the Purchaser by cash within two business days after the production of the Completion Accounts. For the purpose of this Adjustment C, the amount of deduction shall not take into consideration the amount of (i) Indebtedness, (ii) unpaid consideration payable to the pre-existing shareholders of Heng Yuan, (iii) any exploration costs payable to the PRC exploration company and (iv) any premium for exploration rights payable to the relevant authorities of land and resources, as the Indebtedness (i.e. item (i) above) will be assigned by the Vendor to the Purchaser pursuant to the Acquisition Agreement and Adjustment B has already provided for the deduction of the amount of unpaid consideration payable

to the pre-existing shareholders of Heng Yuan (i.e. item (ii) above), any exploration costs payable to the PRC exploration company (i.e. item (iii) above) and any premium for exploration rights payable to the relevant authorities of land and resources (i.e. item (iv) above).

### **Basis of Consideration**

The Consideration was determined after arm's length negotiation with reference to, among other things, (i) the net asset value of Lucky Dragon and Heng Yuan; (ii) the preliminary estimated reserves of the Huanghuashan Coal Mine and the Xi Meng Coal Mine; (iii) the prospect of coal mining industry in the PRC; and (iv) the continuing tension for global energy demand. Taking the above factors into account, the Directors are of the view that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

In respect of Adjustment A, the reserve of 400 million tons set out in the Acquisition Agreement, which is only a reference, is agreed between the Purchaser and the Vendor to determine the Consideration after arm's length negotiation even though the preliminary estimation made by the PRC Exploration Company is only about 300 million tons after taking into account (i) the final coal reserve will be based on the assessment to be made by the Mining Expert and such result is not available as at the date of the Acquisition Agreement and (ii) the amount of the coal reserves in the Xi Meng Coal Mine as assessed by the PRC Exploration Company is a preliminary estimation only and it is expected that greater amount of coal reserves will be found as the exploration proceeds. After further consideration and after arm's length negotiation, the parties to the Acquisition Agreement have arrived at the acquisition cost of HK\$2 per ton of coal (i.e. equivalent to a reduction of HK\$2 per ton of shortfall from the reference reserve of 400 million tons) with reference to (i) the range of the acquisition costs of HK\$4 and HK\$12 per ton of coal of various coal mines paid by other listed issuer as announced in the first half of 2007; (ii) the prospect of the coal mining industry in the PRC; and (iii) the continual tension for global energy demand. The basis for arriving at the acquisition cost of HK\$0.1 per ton of increment of reserve is determined by the parties with reference to the consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan (the calculation method of the consideration is set out in the sub-section headed "Lucky Dragon" under "INFORMATION ON SUBJECT ASSETS" in this announcement). Based on the factors above, the Directors are of the view that the Consideration is fair and reasonable.

The Directors are aware of the considerable premium when comparing the Consideration with the original cost paid/payable by Lucky Dragon in relation to its acquisition of the entire equity interest in Heng Yuan. The Directors consider the amount of Consideration and the premium payable for the Acquisition is justifiable taking into account the following factors:

- the acquisition cost for every ton of coal payable to the Vendor is relatively less than the range of the acquisition cost of HK\$4 and HK\$12 per ton of coal of various coal mines paid by other listed issuer as announced in the first half of 2007;
- the at-pit market price of the coal of the Xi Meng Coal Mine of approximately RMB190 per ton as being estimated by the coal expert employed by the Group is significantly greater than the consideration of HK\$2 per ton of coal payable by the Group;

- before the execution of the MOU, the Directors of the Company does not have any information or knowledge about Heng Yuan or its pre-existing shareholders and therefore it is impossible for the Company to directly acquire the equity interest of Heng Yuan from its pre-existing shareholders at a lower cost;
- the Vendor has refused to sell Lucky Dragon to the Purchaser and expressed its intention to seek other buyers for Lucky Dragon if the acquisition cost per ton of coal for the initial 400 million tons of coal of the Xi Meng Coal Mine is less than HK\$2; and
- the Directors have not come across other opportunities to acquire other coal mines with significant amount of coal reserves (i.e. coal mines with amount of coal reserves similar or greater than the coal reserves of Heng Yuan) which can significantly build up the amount of aggregate coal reserves of the Group.

Taking into account the above, the Directors are of the opinion that the Acquisition is in the interests of the Company and the Shareholders as a whole.

Prior to the execution of the Acquisition Agreement, the Directors have made the following due diligence exercise for Heng Yuan:

- arranged the coal experts employed by the Group to make discussion with the PRC Exploration Company, to monitor their exploration works and review their exploration data;
- consulted the coal experts about the recent market coal price;
- arranged the PRC legal advisers to review the corporate and legal documents (including the exploration license of the Xi Meng Coal Mine and the mining license of the Huanghuashan Coal Mine); and
- studied recent industrial researches about the coal industry and examined recent coal industry related data published by various government authorities.

The basis in respect of the issue price of HK\$0.70 of the Consideration Shares and the conversion price of HK\$0.70 of the Convertible Notes were determined between the Purchaser and the Vendor after arm's length negotiations with reference to, among other things, the closing price of the Shares ranging from HK\$0.65 to HK\$1.00 during the six months period immediately prior to the publication of the Unusual Movements Announcement. The Directors are of the opinion that the recent rally in the share price of the Company only commences after the publication of the Unusual Movements Announcement and consider the issue price of the Consideration Shares and the conversion price of the Convertible Notes to be reasonable after arm's length negotiations between the Purchaser and the Vendor. In view of the foregoing, the Directors are of the view that the issue price of the Consideration Shares and the conversion price of the Convertible Notes are fair and reasonable.

The issue price of HK\$0.70 per Consideration Share and the conversion price of HK\$0.70 per Conversion Share under the Convertible Notes represent:

- (i) a discount of approximately 44.9% to the closing price of the Shares of HK\$1.27 on the Last Trading Day;
- (ii) a discount of approximately 48.1% to the 5-day average closing price of the Shares of approximately HK\$1.35 in the last five consecutive trading days up to and including the Last Trading Date;
- (iii) a discount of approximately 50.7% to the 10-day average closing price of the Shares of approximately HK\$1.42 in the last ten consecutive trading days up to and including the Last Trading Date;
- (iv) a discount of approximately 38.1% to the 30-day average closing price of the Shares of approximately HK\$1.13 in the last thirty consecutive trading days up to and including the Last Trading Date;
- (v) a discount of approximately 19.5% to the 90-day average closing price of the Shares of approximately HK\$0.87 in the last ninety consecutive trading days up to and including the Last Trading Date; and
- (vi) a discount of approximately 7.9% to the 180-day average closing price of the Shares of approximately HK\$0.76 in the last one hundred and eighty consecutive trading days up to and including the Last Trading Date.

Assuming no adjustment has to be made to the Consideration, a total of 600,000,000 Consideration Shares will be issued upon Completion. The 600,000,000 Consideration Shares represents approximately 18.25% of the existing issued share capital of the Company as at the date of this announcement and approximately 15.43% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. The issue of the Consideration Shares is subject to the approval of the Independent Shareholders at the EGM.

Assuming no adjustment has to be made to the Consideration, a total of 371,428,571 Conversion Shares will be issued in the event that the conversion rights attaching to the Convertible Notes were fully exercised, the 371,428,571 Conversion Shares represent approximately 11.30% of the existing issued share capital of the Company as at the date of this announcement and approximately 8.72% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares. The issue of the Convertible Notes and Conversion Shares is subject to the approval of the Independent Shareholders at the EGM.

The Consideration Shares and the Conversion Shares upon issue will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares and the Conversion Shares. There will be no restriction on the subsequent sale of the Consideration Shares, Convertible Notes and Conversion Shares.

An application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares and Conversion Shares.



## **The Convertible Notes**

The terms of the Convertible Notes have been negotiated on arm's length basis and the principal terms of which are summarized below:

### *Principal amount*

HK\$260,000,000

### *Interest*

No interest in the principal amount

### *Maturity*

Second anniversary of the date of issue

### *Denomination*

In multiple of HK\$700,000

### *Form*

Registered form only

### *Conversion Price*

HK\$0.70 per Conversion Share, which is subject to adjustment for sub-division or consolidation or reclassification of new Shares, issue of Shares by way of capitalization of profit or reserves; capital distribution, issue Shares for cash or issue consideration Shares at a price which is less than 80% of the market price, bonus issues, rights issues and other dilutive events and repurchase of any Shares by the Company. The adjustment to the Conversion Price is subject to review by independent financial adviser and/or auditor appointed by the Company.

The overriding principle as set out in the Stock Exchange's letter dated 5 September 2005 is that no adjustment to the exercise price or number of shares should be to the advantage of share option scheme participants without prior shareholders' approval. The adjustment that will be made to the conversion price if and only if in the event of, among other things, sub-division or consolidation of new Shares, bonus issues, rights issues and other dilutive events. Nevertheless, the Directors believe that the adjustment considerations set out in the Convertible Note in general accord with the overriding principle.

### *Conversion*

The holder(s) of the Convertible Notes has/have the right to convert the whole or any part of the principal amount of the Convertible Notes into Conversion Shares from time to time following the issue of the Convertible Notes at the conversion price of HK\$0.70 per Conversion Share at integral multiple of HK\$700,000 save that if the outstanding principal amount of the relevant Convertible Note is less than HK\$700,000, the whole (but not part only) of the outstanding principal amount of the relevant Convertible Note must be converted.

The conversion rights attaching to the Convertible Notes shall only be exercisable to the extent that such conversion will not result in (i) an insufficiency of public float of Shares as required by the Listing Rules or (ii) the holder of the Conversion Shares and parties acting in concert with it, in aggregate, holding more than 28% of the entire issued share capital of the Company).

The Company will not issue any Conversion Shares to the Vendor if upon the issue of such Conversion Shares will result in (i) an insufficiency of public float of Shares as required by the Listing Rules or (ii) shareholding of the Vendor and/or parties acting in concert with it holding more than 28% of the entire issued share capital of the Company.

### *Ranking*

The Conversion Shares upon issue will rank pari passu in all respects among themselves and with all other Shares in issue on the date of such allotment and issue.

### *Redemption*

The Convertible Notes are not redeemable by the Company up to the maturity date of the Convertible Notes. Any Convertible Notes which remains outstanding will be redeemed by the Company at 100% of the outstanding principal amount on the maturity date of the Convertible Notes.

### *Transferability*

The Convertible Notes may be transferred or assigned to any third party with prior written consent of the Company and prior approval of the Stock Exchange, if so required. The Company shall give notice to the Stock Exchange for any transfer of the Convertible Notes and shall state whether any connected person of the Company is involved.

### *Voting*

The holder(s) of the Convertible Notes will not be entitled to attend or vote at any meetings of the Company by reason only of being the holder(s) of the Convertible Notes.

### *Events of default*

All Convertible Notes contain an event of default provision which provides that on the occurrence of certain events of default (e.g. repayment overdue, insolvency and liquidation) specified in the Convertible Notes and the holder(s) of the Convertible Notes holding not more than 51% in the principal amount of the Convertible Notes then outstanding giving a notice to the Company, each of the holders of the Convertible Notes shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant Convertible Notes.

### **Conditions of the Acquisition Agreement**

Completion of the Acquisition Agreement is conditional upon:

- (a) the Acquisition Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders at the EGM;
- (b) the results of the due diligence on the Lucky Dragon and Heng Yuan are satisfactory to the Purchaser;
- (c) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares;
- (d) the Listing Committee of the Stock Exchange granting the listing of and the permission to deal in the Conversion Shares;
- (e) the business type of Heng Yuan as registered with relevant authorities of land and resources (“相關國土資源管理部門”) in connection with the mining license (“採礦權證”) of the Huanghuashan Coal Mine be changed from that of a domestic enterprise (“內資企業”) to that of a foreign enterprise (“外資企業”) and completion of all related procedures, registrations and filings;
- (f) the obtaining of the approval from the Department of Commerce of Inner Mongolia (“內蒙古自治區商務部”) and the Administration of Industry and Commerce of Inner Mongolia (“內蒙古自治區工商行政管理局”) by Heng Yuan to include coal mining (“煤炭開採”) as the scope of business of Heng Yuan and completion of all related procedures, registrations and filings; and
- (g) the Vendor’s warranties remaining true and accurate in all material respects.

If any of the above conditions has not been fulfilled or if conditions (b), (e), (f) and (g) have not been waived by the Purchaser on or before 31 December 2007 (or such later date as may be agreed between the Purchaser and the Vendor), the obligation of the parties under the Acquisition Agreement shall cease and the Acquisition Agreement shall terminate and cease to be of any further effect save in respect of claims arising out of any antecedent breach of the Acquisition Agreement. The Vendor shall refund the sum of HK\$3 million paid by the Purchaser upon the signing of the Acquisition Agreement as mentioned in the sub-section headed “Consideration and payment terms” under “THE ACQUISITION AGREEMENT” in this announcement within seven business days upon termination of the Acquisition Agreement.

## **Completion**

Completion shall take place within ten business days after the Acquisition Agreement becoming unconditional. Thereafter, Lucky Dragon will cease to be a wholly-owned subsidiary of the Vendor and become a wholly-owned subsidiary of the Purchaser.

## **UNDERTAKING BY THE VENDOR**

The Vendor has undertaken to the Purchaser:

- a) to procure its beneficial owners and parties acting in concert with them shall not, in aggregate, hold more than 28% of the entire issued share capital of the Company as long as Gold Dynasty is a holder of the Convertible Notes; and
- b) to retain for a period of one year from the Completion, the unencumbered beneficial ownership of (i) the Convertible Notes; or (ii) the Conversion Shares received from the conversion of such Convertible Notes; or (iii) the net proceeds from the disposal of such Conversion Shares, with aggregate value of not less than HK\$70 million. If the aggregate value is equivalent to less than HK\$70 million, the Vendor shall cover such shortfall within two business days by depositing additional cash on a dollar for dollar basis. For security purpose, the relevant (i) Convertible Notes; or (ii) Conversion Shares received from the conversion of such Convertible Notes; or (iii) net proceeds from the disposal of such Conversion Shares, shall be deposited with an escrow agent to be mutually agreed between the Vendor and the Purchaser.

## **INFORMATION ON SUBJECT ASSETS**

### **Lucky Dragon**

Lucky Dragon is a company incorporated in the British Virgin Islands on 30 April 2007 with limited liability and holds the entire equity interest in Heng Yuan. Lucky Dragon has entered into the Lucky Dragon Agreements on 19 July 2007 to acquire the entire equity interest in Heng Yuan from certain Independent Third Parties. As confirmed by the Vendor, save for Mr. Yu's shareholding interests of 22.5% in the Vendor and approximately 10.48% in the Company and Ms. Kau's shareholding interests of 22.5% in the Vendor and approximately 3.86% in the Company, the pre-existing shareholders of Heng Yuan, the Vendor and its ultimate shareholders and the substantial shareholders of the Company and their associates/ultimate shareholders are independent of and not connected with each other. Nevertheless, the consideration payable by Heng Yuan to such pre-existing shareholders of Heng Yuan remains outstanding as at the date of this announcement as the amount of such consideration can only be determined upon completion of the general exploration stage on the Xi Meng Coal Mine by an independent PRC exploration company. Pursuant to the terms of the Lucky Dragon Agreement, Lucky Dragon shall settle the outstanding considerations to the pre-existing shareholders of Heng Yuan as follows:

- A) a fixed consideration of RMB32 million not subject to any adjustment; and
- B) an adjustable consideration based on the amount of coal reserves as assessed by an independent PRC exploration company at the general exploration stage on the Xi Meng Coal Mine will be added in the event that:
- (i) the amount of coal reserves of the Xi Meng Coal Mine is less than 200 million tons, Lucky Dragon shall pay RMB0.16 per ton of total coal reserves;
  - (ii) the amount of coal reserves of the Xi Meng Coal Mine is more than 200 million tons but less than 300 million tons, Lucky Dragon shall pay RMB0.2 per ton of total coal reserves; and
  - (iii) the amount of coal reserves of the Xi Meng Coal Mine is more than 300 million tons, Lucky Dragon shall pay RMB60 million (which is equivalent to RMB0.2 per ton of coal for the initial 300 million tons of coal reserves) plus RMB0.1 per ton of additional coal reserves in excess of the initial 300 million tons.

As at the date of this announcement, Lucky Dragon was indebted to the Vendor in the sum of HK\$20,759,862.20. As at the date of this announcement, Lucky Dragon is wholly and beneficially owned by the Vendor. Save for its equity interests in Heng Yuan and a bank balance of approximately HK\$20.7 million, Lucky Dragon has no other investment or major asset as at the date of this announcement. Before the execution of the MOU, the management of the Company does not have any information or knowledge about Heng Yuan or its pre-existing shareholders.

The following table sets out a summary of the unaudited financial figures of Lucky Dragon prepared in accordance with the Hong Kong Financial Reporting Standards:

	<b>For the period from 30 April 2007 (date of incorporation) to 31 July 2007 Unaudited (HK\$'000)</b>
Turnover	–
Loss before tax	30
Loss after tax	30
	<b>As at 31 July 2007 Unaudited (HK\$'000)</b>
Deficiency in assets	30

## Heng Yuan

Heng Yuan is a wholly-owned foreign enterprise established in the PRC on 11 January 2005. It is principally engaged in the sale of mine products other than noble metal and iron ore but has become dormant since its establishment. Heng Yuan owns (i) the mining rights and other relevant operation facilities and properties in relation to the Huanghuashan Coal Mine situated in Tongliao City of Inner Mongolia and (ii) the exploration rights of the Xi Meng Coal Mine situated in Xilinguolemeng of Inner Mongolia. Mining rights allow the owner of the mining license to exploit and sell the coal resources, while exploration rights allow the owner of the exploration license to perform exploration works on the coal mine. The operating period of the mining rights in the Huanghuashan Coal Mine is from May 2005 to May 2010. The operating period of the exploration rights in the Xi Meng Coal Mine is from July 2005 to July 2008. Based on the PRC legal opinion, applications for extensions can be made within 30 days prior to the expiration of the mining rights and the exploration rights. The mining rights in the Huanghuashan Coal Mine is subject to an extension of 5 years while the exploration rights in the Xi Meng Coal Mine is subject to an extension of 2 years. According to the PRC legal opinion, Heng Yuan does not have any legal obstacles for the renewal of the mining rights and and the exploration rights.

Heng Yuan is currently the holder of the mining license of the Huanghuashan Coal Mine. Heng Yuan is also the holder of the exploration license of the Xi Meng Coal Mine while its exploration works are being performed. Heng Yuan will make application with relevant authorities of land and resources (“相關國土資源管理部門”) to change the business type in association with its mining license (“採礦權證”) of the Huanghuashan Coal Mine from a domestic enterprise (“內資企業”) to a foreign enterprise (“外資企業”). Save for the interests in the Huanghuashan Coal Mine and the Xi Meng Coal Mine, Heng Yuan has no other investments or major assets as at the date of this announcement.

The following table sets out a summary of the unaudited financial results of Heng Yuan prepared in accordance with the PRC accounting standards:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Turnover	–	–
Profit/(Loss) before tax	–	–
Profit/(Loss) after tax	–	–
		<b>As at</b>
		<b>31 December</b>
		<b>2006</b>
		<b>(Unaudited)</b>
		<b>RMB'000</b>
Net assets		22,105

## **Huanghuashan Coal Mine**

The Huanghuashan Coal Mine is located in Tongliao City of Inner Mongolia. Heng Yuan owns the mining rights and other relevant operating facilities and properties in relation to the mining rights of the Huanghuashan Coal Mine. Nevertheless, the exploitation work of Huanghuashan Coal Mine is still subject to the obtaining of Coal Production Safety Permit (“煤炭安全生產許可證”) and Coal Production Permit (“煤炭生產許可證”) from the relevant authorities of land and resources. After Heng Yuan has obtained the Coal Production Safety Permit and Coal Production Permit, Heng Yuan can then make application to the government authorities for the inclusion of coal mining (“煤炭生產”) as its principal activities in its business license and to commence coal mining activities. The Coal Production Safety Permit, Coal Production Permit and the approval for for the inclusion of coal mining as its principal activities are expected to be obtained before the Completion. The PRC legal adviser of the Company does not foresee any obstacles for obtaining the above permissions and approvals.

Pursuant to a resource/reserve assessment report (“資源／儲量核實報告”) compiled by Team 472 of the Inner Mongolia Bureau of Coal Field Geology (“內蒙古煤田地質局472勘探隊”) in 2004, Huanghuashan Coal Mine has an estimated coal reserves of approximately 5.42 million tons. The current at-pit market price of the coal expected to be extracted from the Huanghuashan Coal Mine is approximately RMB250 per ton as estimated by a coal expert of the Group based on the conditions of the present coal market. The Directors are of the opinion that the coal price of the Huanghuashan Coal Mine as estimated by the coal expert of the Group is fair and reasonable as the coal expert has over 41 years of experience in the PRC coal industry. Prior to joining the Group in July 2007, the coal expert has worked with the Handan Coal Bureau (“邯鄲煤炭局”), the Handan Mining Bureau (“邯鄲礦務局”) and the Hebei Research Institute of Coal Science (“河北省煤炭科學研究所”). In addition, the coal expert has also worked as the panel head of the Panel of Energy Enterprises in Guangdong and Zhejiang Provinces (“廣東省及浙江省能源企業專家組組長”). The Group will appoint the Mining Expert to compile a technical report for the Huanghuashan Coal Mine and such report will be included in the circular to be despatched to the Shareholders.

## **Xi Meng Coal Mine**

The Xi Meng Coal Mine is located in Xilinguolemeng of Inner Mongolia. Heng Yuan is the legal owner of the exploration rights of the Xi Meng Coal Mine. Heng Yuan has appointed the PRC Exploration Company to perform exploration works for the Xi Meng Coal Mine and the general exploration stage is expected to be completed by the end of October 2007. Heng Yuan currently holds all the necessary license for the exploration of the Xi Meng Coal Mine. The Directors expect that application for the mining rights of the Xi Meng Coal Mine will be made in the first half of 2008. The PRC legal adviser of the Company expects that there will be no legal obstacles for obtaining the mining rights.

The amount of the coal reserves in the Xi Meng Coal Mine cannot be estimated with certainty as at the date of this announcement. Based on the progressive results of the exploration works performed by the PRC Exploration Company and pursuant to the Specifications for Coal Peat Exploration (“煤、泥炭地質勘探規範”), the amount of the coal reserves in the Xi Meng Coal Mine as assessed by the PRC Exploration Company will be more than 300 million tons. The current at-pit market price of the coal expected to be extracted from the Xi Meng Coal Mine is approximately RMB190 per ton as estimated by a coal expert

of the Group based on the coal samples extracted from the Xi Meng Coal Mine and the conditions of the present coal market. The Directors are of the opinion that the coal price of the Xi Meng Coal Mine as estimated by the coal expert of the Group is fair and reasonable as the coal expert has over 41 years of experience in the PRC coal industry. Prior to joining the Group in July 2007, the coal expert has worked with the Handan Coal Bureau (“邯鄲煤炭局”), the Handan Mining Bureau (“邯鄲礦務局”) and the Hebei Research Institute of Coal Science (“河北省煤炭科學研究所”). In addition, the coal expert has also worked as the panel head of the Panel of Energy Enterprises in Guangdong and Zhejiang Provinces (“廣東省及浙江省能源企業專家組組長”). The Group will appoint the Mining Expert to compile a technical report for the Xi Meng Coal Mine and such report will be included in the circular to be despatched to the Shareholders.

## **RISKS ASSOCIATED WITH THE ACQUISITION**

Set out below are some of the risks associated with the Acquisition:

- The renewal of the mining rights of the Huanghuashan Coal Mine which will expire in May 2010 is subject to the approval of the relevant government authorities. Shall the Acquisition be approved and completed while Heng Yuan cannot obtain such renewal of the mining rights of the Huanghuashan Coal Mine, Heng Yuan, a then indirect wholly-owned subsidiary of the Company, will lose the mining rights of the Huanghuashan Coal Mine.
- The renewal of the exploration rights of the Xi Meng Coal Mine which will expire in July 2008 is subject to the approval of the relevant government authorities. Shall the Acquisition be approved and completed while Heng Yuan cannot obtain such renewal of the exploration rights of the Xi Meng Coal Mine, Heng Yuan, a then indirect wholly-owned subsidiary of the Company, will lose the exploration rights of the Xi Meng Coal Mine.
- The mining activities in the Xi Meng Coal Mine is subject to the obtaining of the mining rights of the Xi Meng Coal Mine from the relevant government authorities. In the event that Heng Yuan fails to obtain the mining rights of the Xi Meng Coal Mine, Heng Yuan will have no right to conduct mining activities in the Xi Meng Coal Mine.
- The gain or revenue generated from the Xi Meng Coal Mine and the Huanghuashan Coal Mine are subject to the cyclical nature of the domestic and international coal market which are affected by numerous factors beyond the Company’s control, for example, general economic conditions in the PRC and elsewhere in the world, weather conditions, fluctuations in the development and growth of industries with high demand of coal. The selling price of coal and the profit margin will depend on market supply and demand forces in the domestic and international markets.



## REASONS FOR THE ACQUISITION

The Company and its subsidiaries are principally engaged in the design, manufacture and sale of toys and decorative gift items, and exploration and exploitation of coal mines. In order to diversify the businesses of the Group, the Company has been actively exploring new investment opportunities with profitable prospects. In view of the worldwide increasing demand for natural and energy resources, the Company has commenced to diversify its business portfolio in the first half of 2007 by the acquisition of the Guerbanhada Coal Mine located in Inner Mongolia, the PRC through the acquisition of the equity interests in Mingrunfeng (details of which are set out in the announcements dated 26 September 2006, 1 February 2007 and 3 April 2007 and the circular dated 30 March 2007 issued by the Company). By tapping into the business expansion opportunities to be enlightened by the Acquisition, the Directors consider that the Acquisition will further create strategic values for the Company by increasing the coal reserves and broadening the geological strength of its coal business and therefore will be in the interests of the Company and the Shareholders as a whole. There is not any term in the Acquisition Agreement which allows for the appointment of Directors in the Company by the Vendor and the Company currently has no plan to change the composition of the Board.

The Directors are positive about the prospect of the coal mining industry in the PRC. According to the industrial research published on 31 July 2007 made by China International Capital Corporation Limited (“中國國際金融有限公司”), coal accounted for approximately 70% of PRC’s energy consumption. According to Quamnet, in 2005, the power sector accounted for approximately 52% of the coal consumption in the PRC, followed by steel (14%) and construction (mainly cement; 9%). Recent PRC industrial data published by the National Development and Reform Commission of the PRC (“國家發展和改革委員會”) also suggested for strong demand for coal by various industrial sectors. For instance, for the first seven months of 2007, PRC electricity output has increased by approximately 16.5% as compared with the same period of 2006 and while the electricity output for coal-fired electricity plants for the first seven months of 2007 has increased by approximately 18.6% as compared with the same period for 2006. According to State Power Information Network of the PRC (“國家電力信息網”), coal-fired electricity accounted for approximately 80% of the total electricity generation in the PRC. According to Quamnet, crude steel and cement outputs in the PRC rose by approximately 23% and 12%, respectively, in the first four months of 2007 as compared with the same period in 2006. China National Capital Corporation Limited has estimated that coal demand in the PRC will increase from approximately 2.38 billion tons in 2006 to approximately 3.01 billion tons in 2010. Statistics from the General Administration of Customs of the PRC (“中國海關總署”) also revealed that PRC has become a net coal importer in 2007. In view of the continual economic growth in the PRC, the directors are of the opinion that demand for coal from the electricity and other industries will continue to be robust in the foreseeable future and the tension for global energy demand will continue.

Given that the Consideration was determined with reference to, among other things, (i) the net asset value of Lucky Dragon and Heng Yuan; (ii) the preliminary estimated reserves of the Huanghuashan Coal Mine and the Xi Meng Coal Mine; (iii) the prospect of coal mining industry in the PRC and (iv) the continuing tension for global energy demand after arm’s length negotiation, the Directors consider that the terms of the Acquisition Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

## SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND AFTER THE ACQUISITION

The following table sets out the shareholding structure of the Company as at the date of this announcement and the effects of the Acquisition assuming that no adjustment has to be made to the Consideration:

	As at the date of this announcement		Immediately after Completion and issue of Consideration Shares but assuming no Convertible Notes are exercised		Immediately after Completion and issue of Consideration Shares and assuming the Convertible Notes are fully exercised (Note 3)	
	Approximate		Approximate		Approximate	
	Shares	%	Shares	%	Shares	%
Legend Win Profits Limited (Note 1)	1,567,500,000	47.67%	1,567,500,000	40.32%	1,567,500,000	36.80%
Mr. Yu (Note 2)	344,500,000	10.48%	344,500,000	8.86%	344,500,000	8.09%
Ms. Kau (Note 2)	126,870,000	3.86%	126,870,000	3.26%	126,870,000	2.98%
The Vendor (Note 2)	0	0.00%	600,000,000	15.43%	971,428,571	22.81%
Other public Shareholders	1,249,042,880	37.99%	1,249,042,880	32.13%	1,249,042,880	29.32%
<b>Total</b>	<b><u>3,287,912,880</u></b>	<b><u>100.00%</u></b>	<b><u>3,887,912,880</u></b>	<b><u>100.00%</u></b>	<b><u>4,259,341,451</u></b>	<b><u>100.00%</u></b>

### Notes:

- 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 Hui Kee Fung, Hui Ki Yau, Hui Hung Tan, Teresa, all being executive Directors, and Hui's K.K. Foundation Limited as to 38.95%, 32.63%, 23.16% 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. Hui Kee Fung, Hui Ki Yau, Hui Hung Tan, Teresa, all being executive Directors are the registered members and directors of Hui's K.K. Foundation Limited
- Mr. Yu is a director and a shareholder of the Vendor. Ms. Kau is a shareholder of the Vendor. Pursuant to the Acquisition Agreement, the Vendor has undertaken to procure its beneficial owners and parties acting in concert with them shall not, in aggregate, hold more than 28% of the entire issued share capital of the Company as long as the Vendor is a holder of the Convertible Notes. The Vendor, Mr. Yu, Ms. Kau and Mr. Chung Chi Shing are presumed to be parties acting in concert with each other under the Takeovers Code by virtue of the respective shareholding interests of Mr. Yu, Ms. Kau and Mr. Chung Chi Shing in the Vendor.
- This column is for illustrative purpose. Pursuant to the terms of the Acquisition Agreement, the Company will not issue any Conversion Shares to the Vendor if upon the issue of such Conversion Shares will result in (i) an insufficiency of public float of Shares as required by the Listing Rules or (ii) shareholding of the Vendor and/or parties acting in concert with it holding more than 28% of the entire issued share capital of the Company.

The Company will comply with the relevant requirements of the Takeovers Code if the Convertible Notes are exercised.

As at the date of this announcement, save for the options which were granted to the Group's employees conferring rights to subscribe for 68,578,800 new Shares, the Company has no outstanding options, warrants or convertible instruments to subscribe for any Shares.

## **GENERAL**

Mr. Yu, being a director of the Vendor and is beneficially interested in 22.5% of the issued share capital of the Vendor, is a connected person of the Company by virtue of him being a substantial Shareholder by holding approximately 10.48% of the issued share capital of the Company as at the date of this announcement. Therefore the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Acquisition also constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Other than the Acquisition, the Company did not have any transaction with the Vendor and its associates and its ultimate beneficial owners within the preceding 24 months period and has not concluded any acquisition with Mr. Yu, Ms. Kau or the Vendor in the past 24 months. The Company does not have any change in control (as defined in the Takeovers Code) within the past 24 months.

To the best of the Directors' knowledge, information and belief and after having made all reasonable enquires, the Vendor confirms that the Vendor is independent and not a connected person of the vendors of Mingrunfeng. There is no relationship between the Acquisition and the acquisition of Mingrunfeng. Details of Mingrunfeng are set out in the announcements dated 26 September 2006, 1 February 2007, 3 April 2007 and the circular dated 30 March 2007 issued by the Company.

According to the Listing Rules, the Acquisition is subject to, among the others, the Independent Shareholders' approval at the EGM, by way of poll. Mr. Yu, Ms. Kau and their respective associates are required to abstain from voting on the relevant resolutions in respect of the Acquisition Agreement and the transactions contemplated thereunder at the EGM.

An Independent Board Committee will be established to advise the Independent Shareholders in relation to the terms of the Acquisition. An independent financial adviser will be appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition.

A circular containing, among other things, (i) further details of the Acquisition and other necessary disclosures as required under Rule 18.09 of the Listing Rules; (ii) the letter of recommendation from the Independent Board Committee; (iii) the letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM, will be despatched to the Shareholders as soon as practicable.

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on Thursday, 16 August 2007 pending the release of this announcement. Application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 2:30 p.m. on Wednesday, 5 September 2007.

## DEFINITIONS

“Acquisition”	the acquisition of the Sale Share and the Indebtedness by the Purchaser from the Vendor pursuant to the Acquisition Agreement
“Acquisition Agreement”	the agreement dated 16 August 2007 and the letter of amendments dated 4 September 2007 entered into between the Purchaser and the Vendor in respect of the Acquisition
“acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“Adjustment A/B/C”	The terms of the adjustment on the Consideration as described in the sub-section headed “Consideration and payment terms” under “THE ACQUISITION” in this announcement
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	Kiu Hung International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition
“Completion Accounts”	the audited financial statements of each of Lucky Dragon and Heng Yuan as at Completion to be prepared by an accounting firm as agreed by the Purchaser and the Vendor
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Consideration”	the consideration of HK\$840 million (subject to Adjustment A,B and/or C) for the Acquisition
“Consideration Share(s)”	new Share(s) to be issued by the Company as part of the Consideration
“Conversion Share(s)”	new Share(s) to be allotted and issued to the holder of the Convertible Notes upon exercise of the conversion right attaching to the Convertible Notes
“Convertible Note(s)”	the zero coupon convertible note(s) with a two-year term in the principal amount of HK\$260 million to be issued as part of the Consideration
“Directors”	the directors of the Company

“EGM”	the extraordinary general meeting of the Company to be convened for considering and, if though fit, approving, among other matters, the Acquisition and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Heng Yuan”	通遼市恒源礦業有限責任公司 (Tongliao City Heng Yuan Mining Company Limited), a wholly-owned foreign enterprise established in the PRC and a wholly-owned subsidiary of Lucky Dragon
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huanghuashan Coal Mine”	the Huanghuashan Coal Mine (“黃花山煤礦”) situated in the Tongliao City of Inner Mongolia (“內蒙古通遼市”)
“Indebtedness”	the outstanding indebtedness of Lucky Dragon owed to the Vendor at Completion
“Independent Board Committee”	a board comprising all the independent non-executive Directors to advise the Independent Shareholders as to the terms of the Acquisition Agreements and transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than Mr. Yu, Ms. Kau and their respective associates and those who are required to abstain from voting under the Listing Rules and their respective associates (if any)
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons and is not connected person of the Company
“Inner Mongolia”	the Inner Mongolia Autonomous Region of the PRC
“Last Trading Date”	15 August 2007, being the last trading day for the Shares before this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Lucky Dragon”	Lucky Dragon Resources Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Vendor
“Lucky Dragon Agreements”	the two written agreements both dated 19 July 2007 whereby Lucky Dragon acquired the entire equity interest in Heng Yuan from certain Independent Third Parties

“Management Accounts”	the unaudited balance sheets of Lucky Dragon as at 31 July 2007 and Heng Yuan as at 15 July 2007 and the unaudited profit and loss accounts of Lucky Dragon for the period commencing from its date of incorporation to 31 July 2007
“Mining Expert”	Steffen Robertson and Kirsten (Australasian) Pty. Ltd (trading as SRK Consulting, or any other expert as agreed between the Purchaser and the Vendor), an independent mining and geological consultant, being the technical adviser appointed by the Company to compile technical report(s) for the Huanghuashan Coal Mine and the Xi Meng Coal Mine
“Mingrunfeng”	Beijing Mingrunfeng Trading Co., Ltd. (“北京銘潤峰商貿有限公司”), a company established in the PRC and is a subsidiary of the Company acquired through a series of acquisitions with details set out in the announcements dated 26 September 2006, 1 February 2007, 3 April 2007 and the circular dated 30 March 2007 issued by the Company
“MOU”	a memorandum of understanding dated 31 July 2007 entered into between the Purchaser and the Vendor in relation to the proposed acquisition of the Sale Share
“Ms. Kau”	Ms. Kau Man Wai, Leslie, a shareholder holding 22.5% issued share capital of the Vendor and a Shareholder who is interested in approximately 3.86% of the issued share capital of the Company as at the date of this announcement
“Mr. Yu”	Mr. Yu Won Kong, Dennis, a substantial Shareholder who is interested in approximately 10.48% of the issued share capital of the Company as at the date of this announcement
“PRC”	the People’s Republic of China
“PRC Exploration Company”	Team 104 of the Inner Mongolia Bureau of Coal Field Geology (“內蒙古煤田地質局104勘探隊”), a holder of the Certificate of Qualification for Geological Exploration (“地質勘查資質證書”) issued by the Ministry of Land and Resources of the PRC
“Purchaser”	Growth Gain Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company, being the purchaser under the Acquisition Agreement
“Sale Share”	1 share of US1.00 in Lucky Dragon, representing the entire issued share capital of Lucky Dragon

“Shareholders”	holders of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial Shareholder”	has the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Unusual Movements Announcement”	the unusual price and volume movements announcement of the Company dated 17 July 2007
“Vendor”	Gold Dynasty Investments Limited, a company incorporated in the British Virgin Islands with limited liability, being the vendor under the Acquisition Agreement
“Xi Meng Coal Mine”	The Bayanhushuo Coal Field (“巴彥呼碩煤田”) situated in Xilinguolemeng of Inner Mongolia (“內蒙古錫林郭勒盟”) of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

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

Hong Kong, 4 September 2007

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