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If you have sold or transferred all your shares in Kiu Hung Energy Holdings Limited (the “**Company**”), you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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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)

**(I) ALTERATION OF TERMS OF CONVERTIBLE NOTES;
(II) ISSUE OF NEW CONVERTIBLE NOTES; AND
(III) CONNECTED TRANSACTIONS**

**Independent financial adviser to the Independent Shareholders and
the Independent Board Committee**



A notice convening an extraordinary general meeting (the “**EGM**”) of the Company to be held on Monday, 9 November 2009 at 9:30 a.m. at Kellett Room 3, 3rd Floor, The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong is set out on pages 43 to 45 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

20 October 2009

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“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 entered into between the Purchaser and the Vendor in respect of the Acquisition
“Adjusted Conversion Shares”	new Share(s) to be allotted and issued to the holder of the Convertible Notes upon completion of the Proposed Alterations and exercise of the conversion rights attaching to the Convertible Notes
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (excluding a Saturday and any day on which a tropical cyclone warning no.8 or above or a “black” rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Cinda International”	Cinda International Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the Proposed Alterations, the issue of the New Convertible Notes
“Company”	Kiu Hung Energy 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
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Consideration”	the consideration of HK\$840,000,000 (subject to adjustments) for the Acquisition

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“Conversion Price”	the initial conversion price of HK\$0.70 (subject to adjustments) of the Convertible Notes
“Conversion Share(s)”	new Share(s) to be allotted and issued to the holder of the Convertible Notes upon exercise of the conversion rights attaching to the Convertible Notes
“Convertible Notes”	the zero coupon convertible notes with a two-year term in the principal amount of HK\$254,064,835 issued as part of the Consideration
“Deed”	the deed dated 2 October 2009 entered into between the Company and the Vendor to vary certain terms of the Convertible Notes
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened on Monday, 9 November 2009 at 9:30 a.m. for considering and, if thought fit, approving, among other matters, the Proposed Alterations, the issue of the New Convertible Notes and the transactions contemplated thereunder
“Final Maturity Date”	30 September 2021, being the date falling on the 10th anniversary of the Second Maturity Date
“First Maturity Date”	31 March 2011, being the first maturity date of the Convertible Notes or the New Convertible Notes, as the case may be
“First Maturity Exercise Date”	First Maturity Date (or if the First Maturity Date is a non-Business Day, the immediate preceding Business Day thereof)
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“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 Proposed Alterations, the issue of the New Convertible Notes and transactions contemplated thereunder

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“Independent Shareholders”	Shareholders other than the Vendor and its shareholders and those who are required to abstain from voting under the Listing Rules and their respective associates (if any)
“Latest Practicable Date”	16 October 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“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
“New Conversion Price”	the initial conversion price of HK\$0.25 (subject to adjustments) of the Convertible Notes or the New Convertible Notes, as the case may be
“New Conversion Shares”	new Share(s) to be allotted and issued to the holder of the New Convertible Notes upon exercise of the conversion rights attaching to the New Convertible Notes
“New Convertible Notes”	the zero coupon convertible notes in the principal amount of HK\$35,415,633 to be issued pursuant to the Subscription Agreement
“Promissory Notes”	the zero coupon promissory notes in the principal amount of HK\$95,415,633 issued as part of the Consideration
“Proposed Alterations”	the proposed alterations of the terms of the Convertible Notes
“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”	one share of US1.00 in Lucky Dragon, representing the entire issued share capital of Lucky Dragon
“Second Maturity Date”	30 September 2011, being the second maturity date of the Convertible Notes or the New Convertible Notes, as the case may be

DEFINITIONS

“SFO”	Security Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share(s)”	shares of HK\$0.02 each in the share capital of the Company
“Shareholders”	holders of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the agreement dated 2 October 2009 entered into between the Company and the Vendor in respect of the subscription of the New Convertible Notes
“substantial Shareholder”	has the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Vendor”	Gold Dynasty Investments Limited, a company incorporated in the British Virgin Islands with limited liability, being the vendor under the Acquisition Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Hui Kee Fung (*Chairman*)
Mr. Hui Ki Yau (*Chief Executive Officer*)
Madam Hui Hung Tan, Teresa

Independent non-executive Directors:

Mr. Peng Guanghui
Mr. Kung King Ching, Conrad
Mr. Tang Rongzu

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

*Head office and principal place of
business in Hong Kong:*

14th Floor
Yale Industrial Centre
61-63 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong

20 October 2009

To the Shareholders

Dear Sir or Madam,

**(I) ALTERATION OF TERMS OF CONVERTIBLE NOTES;
(II) ISSUE OF NEW CONVERTIBLE NOTES; AND
(III) CONNECTED TRANSACTIONS**

INTRODUCTION

On 5 October 2009, the Board announced that on 2 October 2009, (i) the Company and the Vendor entered into the Deed to vary certain terms of the Convertible Notes; and (ii) the Company and the Vendor entered into the Subscription Agreement pursuant to which the Vendor has conditional agreed to subscribe or procure subscription by its nominee(s) for convertible notes in the principal amount of HK\$35,415,633 with the rights to convert into 141,662,532 New Conversion Shares at the initial conversion price of HK\$0.25 (subject to adjustments) per New Conversion Share.

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The purpose of this circular is to provide you with details of the Proposed Alterations and the issue of the New Convertible Notes, the recommendation of the Independent Board Committee, the advice from Cinda International to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Alterations and the issue of the New Convertible Notes and to provide you the notice of EGM.

ALTERATION OF TERMS OF CONVERTIBLE NOTES

The Acquisition

Reference is made to the announcements of the Company dated 4 September 2007, 26 March 2008 and 24 April 2008 and the circular of the Company dated 31 January 2008.

On 4 September 2007, the Board announced that the Purchaser, being a wholly-owned subsidiary of the Company, and the Vendor had entered into the Acquisition Agreement on 16 August 2007 (with letter of amendment dated 4 September 2007) pursuant to which the Purchaser had conditionally agreed to acquire and the Vendor had 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\$840,000,000 (subject to adjustments).

The Vendor is principally engaged in investment holding. The ultimate beneficial owners of the Vendor are Yu Won Kong, Dennis, Kau Man Wai Leslie and Chung Chi Shing.

The Convertible Notes

The initial conversion price of the Convertible Notes was set at HK\$0.70 per Conversion Share. The Conversion Price is subject to adjustments as provided for in the terms and conditions of the Convertible Notes.

The conversion rights attaching to the Convertible Notes shall only be exercisable to the extent that such conversion will not result in (i) 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.

Any Convertible Notes which remains outstanding will be redeemed by the Company at 100% of its outstanding principal amount on the maturity date of the Convertible Notes.

The approval for the listing of, and the permission to deal in, the Conversion Shares on the full conversion of the Convertible Notes at the initial Conversion Price of HK\$0.70 was granted by the Listing Committee of the Stock Exchange on 19 March 2008.

On 28 March 2008, all the conditions under the Acquisition Agreement had been fulfilled and Completion took place. The Convertible Notes in the principal amount of HK\$254,064,835 with the rights to convert into 362,949,764 Shares at the initial Conversion Price of HK\$0.70 per Conversion Share were issued by the Company to the Vendor.

LETTER FROM THE BOARD

As at the Latest Practicable Date, (i) the Vendor and its shareholders are the beneficial owners of 918,030,000 Shares; (ii) the Vendor is the holder of the Convertible Notes; and (iii) none of the conversion rights attached to the Convertible Notes have been exercised.

The Deed

On 2 October 2009, the Company and the Vendor entered into the Deed to vary certain terms of the Convertible Notes.

The Company and the Vendor propose to alter the terms of the Convertible Notes such that:

- (i) the Conversion Price be amended from HK\$0.70 (subject to adjustments) to HK\$0.25 (subject to adjustments);
- (ii) the date of maturity of the Convertible Notes be extended from 28 March 2010 to 30 September 2021;
- (iii) unless previously converted or redeemed, the holder(s) of the Convertible Notes shall be deemed to have served on the Company at 4:30 p.m. on the First Maturity Exercise Date a conversion notice to exercise the rights to convert such principal amount of the Convertible Notes outstanding as at the First Maturity Exercise Date into Adjusted Conversion Shares at the New Conversion Price to the maximum possible extent such that the conversion will not result in an insufficiency of public float of Shares as required by the Listing Rules or the holder of the Adjusted Conversion Shares and parties acting in concert with it, in aggregate, do not hold more than 28% of the entire issued share capital of the Company, unless the holder of the Convertible Notes has served on the Company a notice in writing on any date falling not more than three Business Days immediately preceding the First Maturity Exercise Date stating its intention to request to extend the maturity date of the Convertible Notes from the First Maturity Date to the Second Maturity Date in which event the maturity date of the Convertible Notes shall be extended to the Second Maturity Date. Unless previously converted or redeemed, the holder(s) of the Convertible Notes shall be deemed to have served on the Company at 4:30 p.m. on the Second Maturity Date and each anniversary thereafter until and including the Final Maturity Date (or if such date is a non-Business Day, on the immediately preceding Business Day thereof) a conversion notice to exercise the rights to convert, such principal amount of the Convertible Notes outstanding as at such date into Adjusted Conversion Shares at the New Conversion Price to the maximum possible extent such that the conversion will not result in an insufficiency of public float of Shares as required by the Listing Rules or the holder of the Adjusted Conversion Shares and parties acting in concert with it, in aggregate, do not hold more than 28% of the entire issued share capital of the Company; and
- (iv) any Convertible Notes which remains outstanding at the Final Maturity Date will be redeemed by the Company at 100% of its outstanding principal amount.

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Conditions precedent

The Proposed Alterations are subject to:

- (i) if necessary, the passing by the Independent Shareholders who are entitled to vote and not required to be abstained from voting under the Listing Rules at an extraordinary general meeting of the Company to be convened and held, of the necessary resolutions to approve the Proposed Alterations and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Adjusted Conversion Shares to the holder(s) of the Convertible Notes);
- (ii) all necessary consents and approvals required to be obtained on the part of the Company and the Vendor in respect of the Proposed Alterations and the transactions contemplated thereunder having been obtained; and
- (iii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Adjusted Conversion Shares.

If any of the above conditions are not fulfilled on or before 31 December 2009 or such other date as the Company and the Vendor may agree, the Deed shall cease and determine and no party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Deed save in respect of any antecedent breach of any obligation under the Deed.

Completion

Completion will take place on the day falling on the third Business Day after the conditions of the Deed are fulfilled.

Apart from the Proposed Alterations, the remaining terms and conditions of the Convertible Notes remain intact and unchanged.

The Adjusted Conversion Shares

The New Conversion Price of the HK\$0.25 per Adjusted Conversion Share, which is subject to adjustment for, among other matters, sub-division or consolidation or reclassification of new Shares, issue of Shares by way of capitalisation 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.

Upon full conversion of the Convertible Notes in the principal amount of HK\$254,064,835 by the holder(s) of the Convertible Notes at the New Conversion Price, a maximum of 1,016,259,340 Adjusted Conversion Shares will be issued. The Adjusted Conversion Shares will represent: (i)

LETTER FROM THE BOARD

approximately 24.69% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 19.80% of the issued share capital of the Company as enlarged by the allotment and issue of the Adjusted Conversion Shares.

As the approval for the listing of, and the permission to deal in, the Conversion Shares only extends to a maximum number of 362,949,764 Conversion Shares, the Company will apply to the Listing Committee of the Stock Exchange for a new listing approval which covers a maximum number of 1,016,259,340 Adjusted Conversion Shares.

Also, the Company proposes to seek a specific mandate from the Independent Shareholders for the allotment and issue of the Adjusted Conversion Shares.

Relevant Listing Rules

According to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities.

Reasons for the Proposed Alterations

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.

The Proposed Alterations were arrived at after arm's length negotiations between the Company and the Vendor.

Given the effect of the financial tsunami and the relatively weak global financial performance, the trading price of the Shares has been decreased drastically for the past year. The average trading price of the Shares for August 2009 as quoted on the Stock Exchange was approximately HK\$0.234 per Share. The average closing price of approximately HK\$0.221 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including 28 September 2009, the last trading date before the date of signing of the Deed. The average closing price of approximately HK\$0.220 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 28 September 2009, the last trading date before the date of signing of the Deed. Based on such recent trading statistics, both the Company and the Vendor believe that the New Conversion Price will be more realistic and more attractive to the holder(s) of the Convertible Notes thereby making it easier for the holder(s) of the Convertible Notes to convert the Convertible Notes into the Shares during the term of the Convertible Notes.

The Board considers that the extension of the date of maturity of the Convertible Notes will provide more flexibility for the Group to plan its working capital requirements.

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The compulsory conversion of the Convertible Notes into Shares until the Final Maturity Date to the maximum possible extent such that the conversion will not result in an insufficiency of public float as required by the Listing Rules or the holder of the Conversion Shares and parties acting in concert with it, in aggregate, do not hold more than 28% of the entire issued share capital of the Company will improve the financial position of the Company by reducing its debt and enlarging its share capital.

Based on the above, the Board considers that Proposed Alterations is in the interests of the Company and the Shareholders.

ISSUE OF NEW CONVERTIBLE NOTES

The Promissory Notes

On 20 March 2008, the Purchaser entered into a letter of amendment with the Vendor, pursuant to which the Vendor agreed to accept promissory notes in the amount of HK\$157,000,000 (subject to adjustments) to be issued by the Company upon Completion in lieu of the settlement of the cash portion of the Consideration. The parties agreed that the Promissory Notes shall be repaid by the Company to the Vendor on or before 28 September 2008. The principal amount of the Promissory Notes after adjustments was HK\$95,415,633. On 22 April 2008, the Company and the Vendor had agreed that the repayment date of the Promissory Notes was to be extended to 28 September 2009. The Promissory Notes do not bear any interest.

Extension and Repayment of Promissory Notes

On 29 September 2009, the Vendor has agreed in writing to extend the date of repayment of the Promissory Notes in the amount of HK\$60,000,000 to on or before 30 November 2009. As at the Latest Practicable Date, the Promissory Notes in the aggregate principal amount of HK\$60,000,000 was repaid by the Company.

The Deed

On 2 October 2009, the Vendor and the Company entered into a deed to extend the maturity date of the outstanding Promissory Note in the principal amount of HK\$35,415,633 which was not redeemed by the Company to the earlier of (a) the date of completion of the Subscription Agreement; and (b) 31 December 2009.

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The Subscription Agreement

On 2 October 2009, the Company entered into the Subscription Agreement with the Vendor, pursuant to which the Vendor has conditionally agreed to subscribe or procure subscription by its nominee(s) for convertible notes in the principal amount of HK\$35,415,633 with the rights to convert into 141,662,532 New Conversion Shares at the initial conversion price of HK\$0.25 (subject to adjustments) per New Conversion Share. The subscription price payable by the Vendor or procured by the Vendor to be payable its nominee(s) under the Subscription Agreement will be satisfied by capitalising the outstanding principal amount of the Promissory Note of HK\$35,415,633.

The New Convertible Notes

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

Principal Amount

HK\$35,415,633

Interest

No interest in the principal amount

Maturity

30 September 2021

Denomination

In multiple of HK\$700,000

Form

Registered form only

Conversion Price

HK\$0.25 per New Conversion Share, which is subject to adjustment for, among other matters, sub-division or consolidation or reclassification of new Shares, issue of Shares by way of capitalisation 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.

LETTER FROM THE BOARD

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 New Convertible Notes in general accord with the overriding principle.

Conversion

The holder(s) of the New Convertible Notes has/have the rights to convert the whole or any part of the principal amount of the New Convertible Notes into New Conversion Shares from time to time following the issue of the New Convertible Notes at the conversion price of HK\$0.25 per New Conversion Share at integral multiple of HK\$700,000 save that if the outstanding principal amount of the relevant New Convertible Notes is less than HK\$700,000, the whole (but not part only) of the outstanding principal amount of the relevant New Convertible Notes must be converted.

The conversion rights attaching to the New 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.

Unless previously converted or redeemed, the holder(s) of the New Convertible Notes shall be deemed to have served on the Company at 4:30 p.m. on the First Maturity Exercise Date a conversion notice to exercise the rights to convert, such principal amount of the New Convertible Notes outstanding as at the First Maturity Exercise Date into New Conversion Shares at the New Conversion Price to the maximum possible extent such that the conversion will not result in an insufficiency of public float of Shares as required by the Listing Rules or the holder of the New Conversion Shares and parties acting in concert with it, in aggregate, do not hold more than 28% of the entire issued share capital of the Company, unless the holder of the New Convertible Notes has served on the Company a notice in writing on any date falling not more than three Business Days immediately preceding the First Maturity Exercise Date stating its intention to request to extend the maturity date of the New Convertible Notes from the First Maturity Date to the Second Maturity Date in which event the maturity date of the New Convertible Notes shall be extended to the Second Maturity Date.

Unless previously converted or redeemed, the holder(s) of the New Convertible Notes shall be deemed to have served on the Company at 4:30 p.m. on the Second Maturity Date and each anniversary thereafter until and including the Final Maturity Date (or if such date is a non-Business Day, on the immediately preceding Business Day thereof) a conversion notice to exercise the rights to convert, such principal amount of the New Convertible Notes outstanding

LETTER FROM THE BOARD

as at such date into New Conversion Shares at the New Conversion Price to the maximum possible extent such that the conversion will not result in an insufficiency of public float of Shares as required by the Listing Rules or the holder of the New Conversion Shares and parties acting in concert with it, in aggregate, do not hold more than 28% of the entire issued share capital of the Company.

Ranking

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

Transferability

The New Convertible Notes may be transferred or assigned to any third party with minimum amount of HK\$700,000 for each transfer or assignment 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 New Convertible Notes and shall state whether any connected person of the Company is involved.

Voting

The holder(s) of the New 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 New Convertible Notes.

Events of Default

All New 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 New Convertible Notes and the holder(s) of the New Convertible Notes holding more than 51% in the principal amount of the New Convertible Notes then outstanding giving a notice to the Company, each of the holders of the New Convertible Notes shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant New Convertible Notes.

LETTER FROM THE BOARD

The New Conversion Shares

Upon full conversion of the New Convertible Notes in the principal amount of HK\$35,415,633 by the holder(s) of the New Convertible Notes at the New Conversion Price, a maximum of 141,662,532 New Conversion Shares will be issued. The New Conversion Shares will represent: (i) approximately 3.44% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 3.33% of the issued share capital of the Company as enlarged by the allotment and issue of the New Conversion Shares. The New Conversion Price is determined between the Company and the Vendor after arm's length negotiations.

No application will be made for listing of, or permission to deal in, the New Convertible Notes on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the New Conversion Shares.

The Company will seek a specific mandate from the Independent Shareholders for the allotment and issue of the New Conversion Shares. In this regard, an extraordinary general meeting of the Company will be convened and held to pass the necessary resolutions to approve the Subscription Agreement and the transactions contemplated thereunder.

Conditions Precedent

Completion of the Subscription Agreement is conditional upon the fulfillment of the following conditions precedent:

- (i) if necessary, the passing by the Independent Shareholders at an extraordinary general meeting of the Company to be convened and held, of the necessary resolutions to approve the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the New Conversion Shares to the holder(s) of the New Convertible Notes);
- (ii) all necessary consents and approvals required to be obtained on the part of the Company and the Vendor in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained; and
- (iii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the New Conversion Shares.

If any of the above conditions are not fulfilled on or before 31 December 2009 or such other date as the Company and the Vendor may agree, the Subscription Agreement shall cease and determine and no party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Subscription Agreement save in respect of any antecedent breach of any obligation under the Subscription Agreement.

LETTER FROM THE BOARD

Completion

Completion will take place on the day falling on the third Business Day after the conditions of the Subscription Agreement are fulfilled.

Reason for the Issue of New Convertible Notes

The Directors are of the view that the issue of the New Convertible Notes to the Vendor under the Subscription Agreement represents an opportunity for the Company to improve the financial position of the Company by reducing its debt and enlarging its share capital.

The Directors (including the independent non-executive Directors) consider that the terms and conditions of the Subscription Agreement, which were arrived at after arm's length negotiations between the Company and the Vendor, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

FUND RAISING ACTIVITY IN PAST 12 MONTHS

The following is the equity fund raising activities conducted by the Group in the past 12 months immediately preceding the Latest Practicable Date:

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds as announced	Actual use of proceeds
30 November 2008	Top-up placing of 32,000,000 Shares	HK\$8.3 million	As general working capital for the Group's coal energy business	As general working capital for the Group's coal energy business
30 November 2008	Top-up placing of 38,000,000 Shares	HK\$9.9 million	As general working capital for the Group's coal energy business	As general working capital for the Group's coal energy business
30 November 2008	Placing of 37,000,000 new Shares	HK\$9.9 million	As general working capital for the Group's coal energy business	As general working capital for the Group's coal energy business

LETTER FROM THE BOARD

CHANGES OF SHAREHOLDING

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after full conversion of the Convertible Notes but assuming no conversion of the New Convertible Notes; (iii) immediately after full conversion of the New Convertible Notes but assuming no conversion of the Convertible Notes; and (iv) immediately after full conversion of the Convertible Notes and the New Convertible Notes are as follows:

Name of Shareholders	As at the Latest Practicable Date		Immediately after full conversion of the Convertible Notes but assuming no conversion of the New Convertible Notes (Note 2)		Immediately after the full conversion of the New Convertible Notes but assuming no conversion of the Convertible Notes		Immediately after the full conversion of the Convertible Notes and the New Convertible Notes (Note 2)	
	Number of Shares	Approx. %	Number of Shares	Approx. %	Number of Shares	Approx. %	Number of Shares	Approx. %
The Vendor and its shareholders	918,030,000	22.30%	1,934,289,340	37.69%	1,059,692,532	24.89%	2,075,951,872	39.37%
Legend Win Profits Limited (Note 1)	767,500,000	18.65%	767,500,000	14.95%	767,500,000	18.03%	767,500,000	14.55%
Ruan Yuan	530,000,000	12.88%	530,000,000	10.33%	530,000,000	12.45%	530,000,000	10.05%
Other public shareholders	1,900,506,800	46.17%	1,900,506,800	37.03%	1,900,506,800	44.63%	1,900,506,800	36.03%
Total	4,116,036,800	100%	5,132,296,140	100%	4,257,699,332	100%	5,273,958,672	100%

Notes:

(1) The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, Hui Ki Yau and Hui Hung Tan, Teresa 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 and Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited. Hui Kee Fung, Hui Ki Yau and Hui Hung Tan, Teresa are all executive directors of the Company as at the Latest Practicable Date.

(2) For illustrative purposes only.

LISTING RULES IMPLICATIONS

As the Vendor and its shareholders are substantial Shareholders and connected persons of the Company, each of the Proposed Alterations and the issue of the New Convertible Notes constitute a non-exempted connected transaction on the part of the Company under the Listing Rules and are subject to reporting, announcement and Independent Shareholders' approval requirement.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Vendor and its shareholders hold an aggregate of 918,030,000 Shares, representing approximately 22.30% of the entire issued share capital of the Company. Pursuant to Chapter 14A of the Listing Rules, the Vendor, its shareholders and their respective associates are required to abstain from voting on the resolutions at the general meeting of the Company to approve the Proposed Alterations and the issue of the New Convertible Notes.

Pursuant to the Listing Rules, the resolutions proposed at the EGM will be taken by way of poll and an announcement will be made after the EGM on the results of the EGM.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Peng Guanghui, Mr. Kung King Ching, Conrad and Mr. Tang Rongzu, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the Proposed Alterations and the issue of the New Convertible Notes. Cinda International has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

A notice convening the EGM to be held on Monday, 9 November 2009 at 9:30 a.m. at Kellett Room 3, 3rd Floor, The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong is set out on pages 43 to 45 of this circular.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby its has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

RECOMMENDATION

The Board considers that the terms of the Proposed Alterations and the issue of the New Convertible Notes are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions as set out in the notice of the EGM.

LETTER FROM THE BOARD

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 19 and 20 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM in relation to the Proposed Alterations and the issue of the New Convertible Notes; and (ii) the letter from Cinda International, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Alterations and the issue of the New Convertible Notes and the principal factors and reasons considered by it in arriving at its opinions. The text of the letter from Cinda International is set out on pages 21 to 38 of this circular.

The Independent Board Committee, having taken into account the advice of Cinda International, considers that the Proposed Alterations and the issue of the New Convertible Notes are entered into on normal commercial terms, and in the ordinary and usual course of business of the Group and that the terms of the Proposed Alterations and the issue of the New Convertible Notes are fair and reasonable and in the interests of the Group so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in relation to the Proposed Alterations and the issue of the New Convertible Notes.

GENERAL

Your attention is drawn to the general information set out in the appendix to this circular.

Yours faithfully,
Kiu Hung Energy Holdings Limited
Hui Kee Fung
Chairman



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)

20 October 2009

To the Independent Shareholders

Dear Sir or Madam,

(I) ALTERATION OF TERMS OF CONVERTIBLE NOTES;
(II) ISSUE OF NEW CONVERTIBLE NOTES; AND
(III) CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 20 October 2009 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you the terms of the Proposed Alterations and the issue of the New Convertible Notes whether such terms are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole and how to vote on resolutions regarding the Proposed Alterations and the issue of the New Convertible Notes.

Cinda International has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Proposed Alterations and the issue of the New Convertible Notes are fair and reasonable so far as the Independent Shareholders are concerned, whether such terms are in the interests of the Company and the Independent Shareholders as a whole and how to vote on resolutions regarding the Proposed Alterations and the issue of the New Convertible Notes. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 21 to 38 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 18 of the Circular and the additional information set out in the appendix to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Proposed Alterations and the issue of the New Convertible Notes and the advice of Cinda International, we are of the opinion that the terms of the Proposed Alterations and the issue of the New Convertible Notes are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Proposed Alterations and the issue of the New Convertible Notes.

Yours faithfully,

Independent Board Committee of
Kiu Hung Energy Holdings Limited

Mr. Peng Guanghui
Independent
non-executive Director

Mr. Kung King Ching, Conrad
Independent
non-executive Director

Mr. Tang Rongzu
Independent
non-executive Director

LETTER FROM CINDA INTERNATIONAL

The following is the text of a letter prepared by Cinda International for the purposes of inclusion in this circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Alterations and the issue of the New Convertible Notes.



信達國際融資有限公司
CINDA INTERNATIONAL CAPITAL LIMITED

45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

20 October 2009

*To the Independent Board Committee and the
Independent Shareholders of
Kiu Hung Energy Holdings Limited*

Dear Sirs and Madams,

**(I) ALTERATION OF TERMS OF CONVERTIBLE NOTES;
(II) ISSUE OF NEW CONVERTIBLE NOTES; AND
(III) CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Alterations and the issue of the New Convertible Notes, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular (the “**Circular**”) of the Company to the Shareholders dated 20 October 2009, of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

On 5 October 2009, the Board announced that on 2 October 2009, (i) the Company and the Vendor entered into the Deed to vary certain terms of the Convertible Notes; and (ii) the Company and the Vendor entered into the Subscription Agreement pursuant to which the Vendor has conditional agreed to subscribe or procure subscription by its nominee(s) for convertible notes in the principal amount of HK\$35,415,633 with the rights to convert into 141,662,532 New Conversion Shares at the initial conversion price of HK\$0.25 (subject to adjustments) per New Conversion Share.

As the Vendor and its shareholders are substantial Shareholders and connected persons of the Company, each of the Proposed Alterations and the issue of the New Convertible Notes constitute a non-exempted connected transaction on the part of the Company under the Listing Rules and is subject to Independent Shareholders' approval requirement.

LETTER FROM CINDA INTERNATIONAL

As at the Latest Practicable Date, the Vendor and its shareholders hold an aggregate of 918,030,000 Shares, representing approximately 22.31% of the entire issued share capital of the Company. Pursuant to Chapter 14A of the Listing Rules, the Vendor, its shareholders and their respective associates are required to abstain from voting on the resolution at the general meeting of the Company to approve the Proposed Alterations and the issue of the New Convertible Notes.

The Independent Board Committee has been established to advise on the fairness and reasonableness of the Proposed Alterations and the issue of the New Convertible Notes so far as the Independent Shareholders are concerned and as to whether it is in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote. The Independent Board Committee comprising Mr. Peng Guanghui, Mr. Kung King Ching, Conrad and Mr. Tang Rongzu, all being independent non-executive Directors, has been formed to advise the Independent Shareholders in this respect.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

LETTER FROM CINDA INTERNATIONAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Alterations and the issue of the New Convertible Notes, we have taken the following principal factors and reasons into consideration:

1. Background and reasons for the Proposed Alterations and the issue of the New Convertible Notes

(a) Background

As announced by the Company on 4 September 2007, the Convertible Notes with two-year term and zero coupon rate was issued to the Vendor as part of the Consideration. The initial conversion price of the Convertible Notes was set at HK\$0.70 per Conversion Share. The principle amount of the Convertible Notes is HK\$254,064,835 and the original date of maturity of the Convertible Notes is 28 March 2010.

As announced by the Company on 20 March 2008, the Purchaser entered into a letter of amendment with the Vendor, pursuant to which the Vendor agreed to accept promissory notes to be issued by the Company upon Completion in lieu of the settlement of the cash portion of the Consideration. The parties agreed that the Promissory Notes shall be repaid by the Company to the Vendor on or before 28 September 2008. The principal amount of the Promissory Notes after adjustments was HK\$95,415,633. On 22 April 2008, the Company and the Vendor had agreed that the repayment date of the Promissory Notes was to be extended to 28 September 2009. As at the date of this letter, the Promissory Notes in the aggregate principal amount of HK\$60,000,000 was repaid by the Company. On 2 October 2009, the Vendor and the Company entered into a deed to extend the maturity date of the outstanding Promissory Note in the principal amount of HK\$35,415,633 which was not redeemed by the Company to the earlier of (a) the date of completion of the Subscription Agreement; and (b) 31 December 2009. The Promissory Notes do not bear any interest.

(b) Financial performance of the Group

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

LETTER FROM CINDA INTERNATIONAL

Set out below is the summary of the financial highlights for the two years ended 31 December 2008 and for the six months ended 30 June 2009 as extracted from the Group's annual report 2008 and interim report 2009:

	For the financial year ended 31 December		For the six months ended 30 June
	2007	2008	2009
	(Audited)	(Audited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	111,189	133,357	50,664
Gross profit	32,798	41,597	17,268
Loss attributable to equity holders	8,420	158,180	17,807
	As at 31 December		As at 30 June
	2007	2008	2009
	(Audited)	(Audited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank and cash balances	70,557	69,019	83,647
Total assets	514,976	876,764	896,927
Total liabilities	65,881	423,931	461,697
Net current assets/(liabilities)	42,604	(77,454)	(349,917)
Net assets	449,095	452,833	435,230
Debt/equity ratio			
(total borrowings/total equity)	0.07	0.86	0.95

As illustrated above, the Group recorded consecutive losses for the two years ended 31 December 2008 and the six months ended 30 June 2009. For the financial year ended 31 December 2008, the Group recorded a turnover of approximately HK\$133.4 million (2007: HK\$111.2 million), representing an increase of approximately 20% as compared with the preceding year. The Group's loss attributable to equity holders for the year ended 31 December 2008 was approximately HK\$158.5 million (2007: HK\$8.2 million), which was mainly attributable to the goodwill impairment loss of approximately HK\$256.3 million and mining rights impairment loss of approximately HK\$35.5 million. As at 31 December 2008, the Group had total assets of approximately HK\$876.8 million and total liabilities of approximately HK\$423.9 million. The net current liabilities of the Group amounted to approximately HK\$77.5 million as at 31 December 2008. As stated in the annual report 2008, the Group had cash and bank balances of approximately HK\$69.0 million as at 31 December 2008 while the Group's bank and other borrowings (excluding Promissory Notes and Convertible Notes) amounted to approximately HK\$57.0 million (2007: HK\$33.3 million), out of which approximately 68% (2007: 96%) were repayable within one year.

LETTER FROM CINDA INTERNATIONAL

For the six months ended 30 June 2009, the Group's turnover was amounted to approximately HK\$50.7 million (2008: HK\$63.0 million), representing a decrease of approximately 20% as compared with the first half of 2008. Loss attributable to equity holders for the period was approximately HK\$17.8 million (2008: HK\$3.5 million). The Group continued to suffer from liquidity problem with net current liabilities of HK\$349.9 million as at 30 June 2009. As at 30 June 2009, the total assets of the Group amounted approximately HK\$896.9 million and the total liabilities of the Group amounted to approximately HK\$461.7 million (being 99.0% were the current liabilities). As stated in the interim report 2009, the Group had cash and bank balances of approximately HK\$83.6 million as at 30 June 2009 while the Group's bank and other borrowings (excluding Promissory Notes and Convertible Notes) amounted to approximately HK\$78.1 million, out of which approximately 99% was repayable within one year. In addition, the Group had outstanding Promissory Notes payable of approximately HK\$95.4 million (which was due on 28 September 2009) and Convertible Notes of approximately HK\$241.9 million (which will be due on 28 March 2010) as at 30 June 2009. As at the Latest Practicable Date, the Group has outstanding Promissory Notes payable of approximately HK\$35.4 million and the principal amount of the outstanding Convertible Notes amounted to approximately HK\$254.1 million.

Based on the above financial review of the Group in the previous years, we noted that the financial liquidity of the Group is under pressure that the Group's net current liabilities have been increased substantially from approximately HK\$77.5 million as at 31 December 2008 to approximately HK\$349.9 million as at 30 June 2009. As at 30 June 2009, the Group had bank and cash balances of approximately HK\$83.6 million. Taking into account of the cash level of the Group as at 30 June 2009 and the repayment of HK\$60 million to the Vendor prior to the date of this letter, the Company will need to seek other financing alternatives in order to settle the outstanding Promissory Notes payable of approximately HK\$35.4 million and the Convertible Notes of approximately HK\$254.1 million in the event that the Proposed Alterations and the issue of the New Convertible Notes will not proceed. Under the Proposed Alterations and the issue of the New Convertible Notes, the cash payment obligation under the Convertible Notes will be extended to 30 September 2021 and the payment obligation under the Promissory Notes will be substituted by the New Convertible Notes.

(c) *Reasons for the Proposed Alterations and the issue of the New Convertible Notes*

Given the effect of the financial tsunami and the relatively weak global financial performance, the trading price of the Shares has been decreased drastically for the past year. The average trading price of the Shares for August 2009 as quoted on the Stock Exchange was approximately HK\$0.234 per Share. The average closing price of approximately HK\$0.221 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including 28 September 2009, the last trading date before the date of signing of the Deed. The average closing price of approximately

LETTER FROM CINDA INTERNATIONAL

HK\$0.220 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 28 September 2009, the last trading date before the date of signing of the Deed. Based on such recent trading statistics, both the Company and the Vendor believe that the New Conversion Price will be more realistic and more attractive to the holder(s) of the Convertible Notes thereby making it easier for the holder(s) of the Convertible Notes to convert the Convertible Notes into the Shares during the term of the Convertible Notes.

The Board considers that the extension of the date of maturity of the Convertible Notes will provide more flexibility for the Group to plan its working capital requirements.

The compulsory conversion of the Convertible Notes into Shares until the Final Maturity Date to the maximum possible extent such that the conversion will not result in an insufficiency of public float as required by the Listing Rules or the holder of the Conversion Shares and parties acting in concert with it, in aggregate, do not hold more than 28% of the entire issued share capital of the Company will improve the financial position of the Company by reducing its debt and enlarging its share capital.

The Directors are of the view that the issue of the New Convertible Notes to the Vendor under the Subscription Agreement represents an opportunity for the Company to improve the financial position of the Company by reducing its debt and enlarging its share capital. The Directors consider that the terms and conditions of the Subscription Agreement, which were arrived at after arm's length negotiations between the Company and the Vendor, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

As confirmed by the Directors, they have considered other alternative financing methods including seeking for the issuance of new Shares and convertible securities and bank borrowings so as to prepare adequate financial resources to redeem the outstanding Promissory Notes and Convertible Notes in full. Nevertheless, in view of that (i) no investor was interested to subscribe for the Shares or Company's convertible securities; and (ii) no lender was interested to provide lending to the Company due to the weak financial position and poor financial performance of the Company, the Company has failed to secure sufficient financing for the repayment of the Convertible Notes and the outstanding Promissory Notes.

In view of the fact that: (i) the current cash level of the Group of approximately HK\$83.6 million as at 30 June 2009 (less the repayment of HK\$60 million to the Vendor prior to the date of this letter); (ii) in the event that the Convertible Notes and the New Convertible Notes are exercised, the financial position of the Group will be strengthened; (iii) the Proposed Alterations and the issue of the New Convertible Notes in lieu of payment in cash of the Promissory Notes will enable the Company to retain cash in the Company

LETTER FROM CINDA INTERNATIONAL

for future development; and (iv) the failure of the Company to secure sufficient financing for the repayment of the Convertible Notes and Promissory Notes, we concur with the Directors that the Proposed Alterations and the issue of the New Convertible Notes will provide more flexibility for the Group to plan its working capital requirements and will also improve the financial position of the Company by reducing its debt and enlarging its share capital and is in the interests of the Company and the Shareholders as a whole.

2. Major terms of the Proposed Alteration and the New Convertible Notes

As set out in the Letter from the Board, the Company and the Vendor propose to alter the terms of the Convertible Notes such that:

- the Conversion Price be amended from HK\$0.70 (subject to adjustments) to HK\$0.25 (subject to adjustments);
- the date of maturity of the Convertible Notes be extended from 28 March 2010 to 30 September 2021;
- unless previously converted or redeemed, the holder(s) of the Convertible Notes shall be deemed to have served on the Company at 4:30 p.m. on the First Maturity Exercise Date a conversion notice to exercise the rights to convert such principal amount of the Convertible Notes outstanding as at the First Maturity Exercise Date into Adjusted Conversion Shares at the New Conversion Price to the maximum possible extent such that the conversion will not result in an insufficiency of public float of Shares as required by the Listing Rules or the holder of the Adjusted Conversion Shares and parties acting in concert with it, in aggregate, do not hold more than 28% of the entire issued share capital of the Company, unless the holder of the Convertible Notes has served on the Company a notice in writing on any date falling not more than three Business Days immediately preceding the First Maturity Exercise Date stating its intention to request to extend the maturity date of the Convertible Notes from the First Maturity Date to the Second Maturity Date in which event the maturity date of the Convertible Notes shall be extended to the Second Maturity Date. Unless previously converted or redeemed, the holder(s) of the Convertible Notes shall be deemed to have served on the Company at 4:30 p.m. on the Second Maturity Date and each anniversary thereafter until and including the Final Maturity Date (or if such date is a non-Business Day, on the immediately preceding Business Day thereof) a conversion notice to exercise the rights to convert, such principal amount of the Convertible Notes outstanding as at such date into Adjusted Conversion Shares at the New Conversion Price to the maximum possible extent such that the conversion will not result in an insufficiency of public float of Shares as required by the Listing Rules or the holder of the Adjusted Conversion Shares and parties acting in concert with it, in aggregate, do not hold more than 28% of the entire issued share capital of the Company; and
- any Convertible Notes which remains outstanding at the Final Maturity Date will be redeemed by the Company at 100% of its outstanding principal amount.

LETTER FROM CINDA INTERNATIONAL

The terms of the New Convertible Notes are summarised in the paragraph headed “The Subscription Agreement” in the Letter from the Board. Set out below are some of the principal terms of the New Convertible Notes:

Principal amount:	HK\$35,415,633
Interest:	No interest in the principal amount
Maturity:	30 September 2021
Conversion price:	HK\$0.25 per New Conversion Share

(a) *Proposed conversion price of the Convertible Notes and the New Conversion Notes*

As stated in the Letter from the Board, the proposed conversion price of the Convertible Notes and the New Convertible Notes of HK\$0.25 per Share represents:

- (i) a premium of approximately 12.1% over the closing price of the Shares of HK\$0.223 as quoted on the Stock Exchange on 28 September 2009, being the last trading prior to the signing of the Deed and the Subscription Agreement (the “**Last Trading Date**”);
- (ii) a premium of approximately 13.6% over the 5-day average closing price of the Shares of approximately HK\$0.220 as quoted on the Stock Exchange in the last five consecutive trading days up to and including the Last Trading Date;
- (iii) a premium of approximately 13.1% over the 10-day average closing price of the Shares of approximately HK\$0.221 as quoted on the Stock Exchange in the last ten consecutive trading days up to and including the Last Trading Date;
- (iv) a premium of approximately 127.3% over the consolidated net asset value of approximately HK\$0.110 per Share based on the unaudited consolidated accounts of the Company as at 30 June 2009; and
- (v) A discount of approximately 28.6% to the closing price of the Shares of HK\$0.350 as quoted on the Stock Exchange on the Latest Practicable Date.

As disclosed in the Letter from the Board, the Proposed Alterations (including the New Conversion Price) and the terms of the New Convertible Notes have been arrived at after arm’s length negotiation between the Company and the Vendor. In addition, given the effect of the financial tsunami and the relatively weak global financial performance, the trading price of the Shares has been decreased drastically for the past year.

LETTER FROM CINDA INTERNATIONAL

(i) Review on Share price performance

The following diagram illustrates the daily historical closing prices of the Shares traded on the Stock Exchange during the past 12 months, from 2 October 2008 up to and including the Latest Practicable Date (the “**Review Period**”):



Source: <http://www.hkex.com.hk>

Note:

1. Trading in the Shares was suspended on 28 November 2008 pending the release of announcement in relation to the placing and subscription of the Shares.

During the Review Period, the trading of the Shares recorded the lowest closing price of HK\$0.189 per Share on 28 April 2009 and the highest closing price of HK\$0.35 per Share on 15 October 2009 and 16 October 2009 respectively. The average daily closing price of the Shares during the Review Period was approximately HK\$0.245 per Share, while the proposed conversion price of HK\$0.25 of the Convertible Notes and the New Convertible Notes is slightly above the average daily closing price of the Shares in during the Review Period. We also note that the Shares have closed below the proposed conversion price of HK\$0.25 of the Convertible Notes and the New Convertible Notes on 166 trading days, representing approximately 64.6% of the 257 trading days during the Review Period.

LETTER FROM CINDA INTERNATIONAL

We consider that the proposed conversion price of the Convertible Notes and the New Convertible Notes is fair and reasonable so far as the Company and the independent Shareholders are concerned in view that the proposed conversion price represents a premium to the closing price on the Last Trading Date and the average closing price for the last five trading days up to and including the Last Trading Date.

(ii) Review on trading liquidity of the Shares

The average daily trading volume of the Shares and its percentage to the total number of Shares in issue as at the Latest Practicable Date (the “**Total Issued Shares**”) during the Review Period are set out below:

	Average daily trading volume for the month/period <i>(Shares)</i>	Percentage of the average daily trading volume to the number of the issued Shares as at the Latest Practicable Date
2008		
October	563,810	0.014%
November	67,500	0.002%
December	3,450,476	0.084%
2009		
January	480,000	0.012%
February	418,270	0.010%
March	474,091	0.012%
April	764,000	0.019%
May	2,419,245	0.059%
June	4,965,455	0.121%
July	2,240,455	0.054%
August	2,874,286	0.070%
September	2,244,500	0.055%
October (up to the Latest Practicable Date)	32,467,778	0.789%

Source: <http://www.hkex.com.hk>

Notes:

1. Based on 4,116,036,800 total issued Shares as at the Latest Practicable Date.
2. Trading in the Shares was suspended on 28 November 2008 pending the release of the announcement in relation to the placing and subscription of the Shares.

LETTER FROM CINDA INTERNATIONAL

From the above table, we note that the liquidity of the Shares was generally thin during the Review Period. During the Review Period, save and except for the month of October (up to the Latest Practicable Date), the highest percentage of the average daily trading volume to the number of the issued Shares was recorded in June 2009 of approximately 0.121%.

(iii) Comparable analysis

In assessing the fairness and reasonableness of the terms of the Convertible Notes and the New Convertible Notes, we have reviewed and identified, on a best effort basis, 11 companies listed on the Stock Exchange that announced to issue or already issued convertible bonds/notes (the “CN Comparables”) since 25 June 2009, being three months prior to and up to and including the Last Trading Date on which the terms of the Deed and the Subscription Agreement are determined. We believe that the terms of convertible notes of the CN Comparables can reflect the prevailing market sentiments in the period under review. Accordingly, we consider the review on the CN Comparables is appropriate as one of the factors in assessing the fairness and reasonableness of the terms of the Convertible Notes and the New Convertible Notes even though Shareholders should note that the business, operation and prospect of the Company are not the same as the CN Comparables and hence the CN Comparables are only used to provide a general reference for the common market practice of companies listed on the Stock Exchange in transactions regarding issuance of convertible bonds/notes. The table below summarizes our findings:

Company (stock code)	Date of the announcement	Principle amount (HK\$ million)	Coupon rate (%)	Maturity (Years)	Premium/ (discount) of the conversion price over/(to) the closing price as at the Last Trading Date (%)	Premium/ (discount) of the conversion price over/(to) the average closing price for the last five trading days prior to date of announcement (%)
ITC Corporation Limited (372)	24 Sep 09	200	5	2	14.94	10.38
Goldin Financial Holdings Limited (530)	23 Sep 09	1,398.9	5	3	17.80	20.50
Sino-tech International Holdings Limited (724)	23 Sep 09	950.4	N/A	5	(68.40)	(63.70)
Jackin International Holdings Limited (630)	28 Aug 09	50.0	15	2	27.60	30.48

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Company (stock code)	Date of the announcement	Principle amount <i>(HK\$ million)</i>	Coupon rate <i>(%)</i>	Maturity <i>(Years)</i>	Premium/ (discount) of the conversion price over/(to) the closing price as at the Last Trading Date <i>(%)</i>	Premium/ (discount) of the conversion price over/(to) the average closing price for the last five trading days prior to date of announcement <i>(%)</i>
Ming Fung Jewellery Group Limited (860)	25 Aug 09	190.0	3	1.5	1.12	0.45
China Strategic Holdings Limited (235)	20 Aug 09	7,800.0	0	0.5	(65.52)	(69.70)
Fulbond Holdings Limited (1041)	6 Aug 09	800.0	0	3	(74.36)	(75.00)
China Financial Leasing Group Limited (2312)	30 Jun 09	41.25	2	3	(83.43)	(83.50)
Brightoil Petroleum (Holdings) Limited (933)	29 Jun 09	930.0	0	3	(20.60)	(19.20)
Wonderful World Holdings Limited (109)	25 Jun 09	115.50	2	3	(25.00)	(26.83)
Willie Holdings Company Limited (273)	19 Jun 09	600.0	0	3.5	(9.09)	(17.63)
Maximum			15.00	5	27.60	30.48
Minimum			0.00	0.5	(83.45)	(83.45)
Average			4.42	2.63	(22.17)	(22.26)
The Company	5 Oct 09	289.48	0	12	12.11	13.64

Sources: <http://www.hkex.com.hk> and the respective announcements containing details of the CN Comparables.

From the above table, we noted that the conversion prices of the CN Comparables ranged from a discount of approximately 83.45% to a premium of approximately 27.60% to/over the respective closing prices of their shares on the last trading day. In addition, the conversion prices of the CN Comparables ranged from a discount of approximately 83.45% to a premium of approximately 26.58% to/over the respective closing prices for the last five trading days prior to date of

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the respective announcements. Accordingly, the premium of the proposed conversion price of the Convertible Notes or the New Convertible Notes to the closing price of the Shares on the Last Trading Day and to the average closing price of the Share on the last five trading days up to and including the Last Trading Day fall at the high end of the range of those of CN Comparables..

We consider that the proposed conversion price of the Convertible Notes from HK\$0.70 to HK\$0.25 and the New Convertible Notes of HK\$0.25 is fair and reasonable so far as the Company and the independent Shareholders are concerned in view that (i) it is unlikely that the holder(s) of the Convertible Notes would exercise its conversion rights given that the prevailing market price is substantially lower than the initial Conversion Price at HK\$0.70 per Share and the Group is unable to redeem the Convertible Notes and the Promissory Notes considering its financial position; (ii) the reduction in proposed conversion price of the Convertible Notes from HK\$0.70 per Share to HK\$0.25 per Share under the Convertible Notes and the New Conversion Price under the New Convertible Notes will enhance the possibility of the holder(s) of the Convertible Notes and the New Convertible Notes to exercise the conversion rights so as to reduce the liability level of the Group; (iii) the premium represented by the proposed conversion price over the closing price on the Last Trading Date and the average closing price for the last five trading days up to and including the Last Trading Date; and (iv) the conversion price has been determined in light of the price performance of the Shares during the Review Period.

(b) *Other terms of the Proposed Alternations and the New Convertible Notes*

(i) Interest rate

From the table above, the CN Comparables carry annual interest rates ranging from 0.00% to 15.00%. The zero interest rate of the New Convertible Notes is therefore at the minimum of the market range of the CN Comparables and far below the average interest rates of the CN Comparables of approximately 4.42%. In view of the above, we consider that the interest rate of the New Convertible Notes is fair and reasonable so far as the interests of the Company and the Independent Shareholders are concerned.

(ii) Maturity

We noted from the table above, the maturities of the CN Comparables ranged from 0.5 to 5 years with an average of 2.63 years while the term to maturity of the Convertible Notes after the Proposed Alternations and the term to maturity of the New Convertible Notes are substantially higher than the average of the CN Comparables which amounted to approximately 12 years. However, we consider the longer period of maturities of the Convertible Notes and the New Convertible Notes provides more flexibility for the Group and hence loosen the current financial position of the Group which is in the interests of the Company and the Independent Shareholders.

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(iii) Compulsory conversion

Pursuant to the Deed and the Subscription Agreement, subject to the fulfillment of the public float requirement and the Vendor and parties acting in concert with it not holding more than 28% of the issued share capital of the Company, there will be compulsory exercise of conversion rights under the Convertible Notes and the New Convertible Notes on the First Maturity Date, the Second Maturity Date and each anniversary thereafter until and including the Final Maturity Date (save as the holder of the Convertible Notes and the New Convertible Notes may serve on the Company a notice in writing on any date falling not more than three Business Days immediately preceding the First Maturity Exercise Date stating its intention to request to extend the maturity date of the Convertible Notes and the New Convertible Notes from the First Maturity Date to the Second Maturity Date in which event the maturity date of the Convertible Notes and the Convertible Notes shall be extended to the Second Maturity Date). Given the exercise of the conversion rights under the Convertible Notes and the New Convertible Notes will reduce the Group's liability level and enlarge its share capital, we consider that the compulsory conversion is in the interests of the Company and its Shareholders as the Group's liability level will be reduced no matter how the Share price performs in future.

(iv) Redemption

Pursuant to the Deed, any Convertible Notes which remains outstanding at the Final Maturity Date (being the last maturity date) will be redeemed by the Company at 100% of its outstanding principal amount. We consider the redemption clause is similar to the original terms of the Convertible Notes that 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. The redemption terms of the New Convertible Notes are similar to the Convertible Notes. Based on the aforesaid and comparing with the CN comparables, we are of the view that the redemption terms of the Convertible Notes and the New Convertible Notes are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(c) *Conclusion on the terms of the Proposed Alterations*

Having considered (i) the net current liabilities position of the Group as at 30 June 2009; (ii) the entering into of the Deed could help the Company relieve its financial burden in respect of the outstanding principal amount of the initial Convertible Notes; (iii) the proposed conversion price under the Convertible Notes is slightly above the average daily closing price of the Shares in during the Review Period and more realistic to reflect the recent trading price of the Shares over the past year; (iv) the extension of the date of maturity of the Convertible Notes improves the current liabilities position of the Group and hence provide more financial flexibility to the Group; and (v) the

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compulsory conversion of the Convertible Notes into Shares until the Final Maturity Date to the maximum possible extent as described above will improve the financial position of the Company by reducing its debt and enlarging its share capital, we consider that the Proposed Alterations are in the interests of the Company and the Independent Shareholders as a whole.

(d) Conclusion on the terms of the New Convertible Notes

Having considered that (i) the entering into of the Subscription Agreement could help the Company relieve its financial burden in respect of the outstanding principal amount of the Promissory Notes; (ii) the New Conversion Price represents a premium to the prevailing closing prices of the Shares prior to the entering into the Subscription Agreement; and (iii) the New Convertible Notes carry zero interest rate, we are of the view that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

3. Dilution to the shareholdings of the Independent Shareholders

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after full conversion of the Convertible Notes but assuming no conversion of the New Convertible Notes; (iii) immediately after full conversion of the New Convertible Notes but assuming no conversion of the Convertible Notes; and (iv) immediately after full conversion of the Convertible Notes and the New Convertible Notes are as follows:

Name of Shareholders	As at the Latest Practicable Date		Immediately after full conversion of the Convertible Notes but assuming no conversion of the New Convertible Notes <i>(Note 2)</i>		Immediately after the full conversion of the New Convertible Notes but assuming no conversion of the Convertible Notes		Immediately after the full conversion of the Convertible Notes and the New Convertible Notes <i>(Note 2)</i>	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
The Vendor and its shareholders	918,030,000	22.30%	1,934,289,340	37.69%	1,059,692,532	24.89%	2,075,951,872	39.37%
Legend Win Profits Limited <i>(Note 1)</i>	767,500,000	18.65%	767,500,000	14.95%	767,500,000	18.03%	767,500,000	14.55%
Ruan Yuan	530,000,000	12.88%	530,000,000	10.33%	530,000,000	12.45%	530,000,000	10.05%
Other public shareholders	<u>1,900,506,800</u>	<u>46.17%</u>	<u>1,900,506,800</u>	<u>37.03%</u>	<u>1,900,506,800</u>	<u>44.63%</u>	<u>1,900,506,800</u>	<u>36.03%</u>
Total	<u>4,116,036,800</u>	<u>100%</u>	<u>5,132,296,140</u>	<u>100%</u>	<u>4,257,699,332</u>	<u>100%</u>	<u>5,273,958,672</u>	<u>100%</u>

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Notes:

- (1) The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, Hui Ki Yau and Hui Hung Tan, Teresa 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 and Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited. Hui Kee Fung, Hui Ki Yau and Hui Hung Tan, Teresa are all executive directors of the Company as at the date of this announcement.
- (2) For illustrative purpose only.

As illustrated in the above table, the existing aggregate shareholding of the public Shareholders would be diluted from approximately 46.17% to approximately 36.03% immediately after the full conversion of the Convertible Notes and the New Convertible Notes. Nevertheless, it should be noted the Vendor had undertaken that pursuant to the Proposed Alterations, the compulsory conversion of the Convertible Notes into Shares until the Final Maturity Date to the maximum possible extent such that the conversion will not result in an insufficiency of public float as required by the Listing Rules or the holder of the Conversion Shares and parties acting in concert with it, in aggregate, do not hold more than 28% of the entire issued share capital of the Company.

The change of conversion price from HK\$0.70 to HK\$0.25 pursuant to the Deed would enhance the dilution effect of the Shareholders as additional 653,309,576 Shares (representing approximately 15.9% of the existing issued share capital of the Company) will be issued if the entire conversion rights under the Convertible Notes are exercised. However, having considered that (i) the improvement of current liabilities after the completion of the Proposed Alterations and the issue of the New Convertible Notes; (ii) the potential improvement of the gearing of the Group after the exercise of the Convertible Notes and the New Convertible Notes, we are of the opinion that the Proposed Alterations and the issue of the New Convertible Notes would lessen the present financial burden of the Group. Having considered the above, we are of the view that the shareholding dilution effect arising from the exercise of the Convertible Notes and the New Convertible Notes is acceptable.

4. Financial effects of the Proposed Alterations and the issue of the New Convertible Notes

(a) Net asset value

Upon completion of the Proposed Alterations and the issue of the New Convertible Notes, there will not be any immediate material effect or improvement on the net assets position of the Group. Assuming the Convertible Notes and the New Convertible Notes are converted in full, the net assets of the Group will be increased by the principal amount of the Convertible Notes and the New Convertible Notes.

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(b) Liquidity and working capital

As discussed above, without the Proposed Alternations and the issue of New Convertible Notes, the Company is required to pay in cash of approximately HK\$254.1 million for the Convertible Notes due on 28 March 2010 and to pay in cash of approximately HK\$35.4 million for the outstanding Promissory Notes due on 28 September 2009. However, under the Proposed Alterations and the issue of the New Convertible Notes, the cash payment obligation under the Convertible Notes will be extended to 30 September 2021 and the payment obligation under the Promissory Notes will be substituted by the New Convertible Notes. In the interim report 2009 of the Group, the Convertible Notes and the Promissory Notes Bonds were classified as current liabilities as at 30 June 2009. After the Proposed Alternations and the issue of the New Convertible Notes, it is expected that the Convertible Notes and the New Convertible Notes would be reclassified as non-current liabilities. Accordingly, it is expected that the Proposed Alternations and the issue of the New Convertible Notes would have the immediate effect of lowering the Group's current liabilities (due to the reclassification) and will provide more flexibility for the Group to plan its working capital requirements or retain cash for future development.

(c) Debt/equity ratio

According to the Company's 2008 annual report, the debt/equity ratio of the Group as at 31 December 2008 was approximately 85%, which is derived by the Group's borrowings (comprising borrowings, promissory notes and convertible notes) of approximately HK\$386.6 million over its total equity of approximately HK\$452.8 million. Based on the estimation of the Company, as a result of the Proposed Alternations and the issue of the New Convertible Notes, the gearing ratio of the Group are not expected to have any material impact as the Proposed Alternations and the issue of the New Convertible Notes are not expected to have any immediate material effect on the value of the Group's debts and equity given the Convertible Notes will remain outstanding and the outstanding amount of the Promissory Notes will be replaced by the New Convertible Notes.

Having considered (i) the immediate effect of lowering the Group's current liabilities (due to the reclassification), (ii) the increase flexibility for the Group to plan its working capital requirements or retain cash for future development and (iii) the compulsory conversion of the Convertible Notes into Shares until the Final Maturity Date to the maximum possible extent such that the conversion will not result in an insufficiency of public float as required by the Listing Rules or the holder of the Conversion Shares and parties acting in concert with it, in aggregate, do not hold more than 28% of the entire issued share capital of the Company, we consider that the Proposed Alternations and the issue of New Convertible Notes are in the interests of the Company and the Independent Shareholders as a whole.

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RECOMMENDATIONS

Having taken into account the principal factors and reasons referred to the above, we are of the opinion that (i) the Proposed Alterations in relation to the terms of the Convertible Notes, and (ii) the issue of the New Convertible Notes in relation to the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Proposed Alterations and the issue of the New Convertible Notes are in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Proposed Alterations and the issue of the New Convertible Notes.

Yours faithfully,
For and on behalf of
Cinda International Capital Limited
Robert Siu
Executive Director

1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

<i>Authorised</i>	<i>HK\$</i>
10,000,000,000 Shares	200,000,000
 <i>Issued and to be issued, fully paid or credited as fully paid</i>	
4,116,036,800 Shares in issue as at the Latest Practicable Date	82,320,736
1,016,259,340 Conversion Shares to be allotted and issued upon pursuant to the Deed	20,325,187
141,662,532 Conversion Shares to be allotted and issued upon pursuant to the Subscription Agreement	2,833,250
5,273,958,672 Shares	105,479,173

3. DISCLOSURE OF INTERESTS

Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests of the Directors and their associates in the Shares and underlying shares and debenture of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name of Director	Number or attributable number of Shares held or short positions	Capacity	Approximate percentage or attributable percentage of shareholdings (%)
Hui Kee Fung	767,500,000 (L)	Interest of controlled corporation	18.65%

L: Long positions

Note:

1. 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 and Hui Hung Tan, Teresa 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 and Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited.

Save as disclosed above, none of the Directors nor their associates had any interests or short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporations as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. DIRECTORS' SERVICE CONTRACTS

Mr. Hui Kee Fung, an executive Director and chairman of the Board, has entered into a service agreement with the Company for an initial term of three years from 1 July 2009 renewable automatically for successive term of one year.

Save as disclosed above, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation) as at the Latest Practicable Date.

5. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors or their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or, any other conflicts of interest within the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Board confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2008 (being the date to which the latest published audited consolidated accounts of the Group were made up).

7. EXPERT AND CONSENT

The following are the qualification of the expert who have given opinions or advice which are contained in this circular:

Name	Qualifications
Cinda International	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO

Cinda International has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which it appears as at the Latest Practicable Date.

As at the Latest Practicable Date, Cinda International does not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of Cinda International and the directors does not have any direct or indirect interests in any assets which had been since 31 December 2008, the date of which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to, or proposed to be acquired or disposed of by, or leased to, any members of the Group.

8. MISCELLANEOUS

- (a) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group.
- (b) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (c) The head office and principal place of business of the Company in Hong Kong is located at 14th Floor, Yale Industrial Centre, 61-63 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong.
- (d) The principal share registrar and transfer office of the Company is Butterfield Fulcrum Group (Cayman) Limited, Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman, KY1-1107, Cayman Islands.
- (e) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

- (f) The secretary of the Company is Mr. Chan Kwok Yuen, Elvis.
- (g) The English test of this circular shall prevail over their respective Chinese texts in case of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 14th Floor, Yale Industrial Centre, 61-63 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the Acquisition Agreement (with letter of amendment dated 4 September 2007);
- (c) the Deed;
- (d) the letter of amendment dated 20 March 2008 entered into between the Purchaser and the Vendor, in relation to the issue of the Promissory Notes by the Company upon Completion in lieu of the settlement of the cash portion of the Consideration;
- (e) the deed dated 2 October 2009 entered into between the Company and the Vendor to extend the maturity date of the outstanding Promissory Note in the principal amount of HK\$35,415,633;
- (f) the Subscription Agreement;
- (g) the service contract referred to in the section headed “Directors service contracts” in this appendix;
- (h) the letter from the Independent Board Committee, the text of which is set out on page 19 and 20 in this circular; and
- (i) the letter from Cinda International to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 21 to 38 in this circular.

NOTICE OF EGM



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Kiu Hung Energy Holdings Limited (the “**Company**”) will be held on Monday, 9 November 2009 at 9:30 a.m. at Kellett Room 3, 3rd Floor, The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the deed (the “**Deed**”) (a copy of which has been produced to the EGM marked “A” and signed by the chairman of the EGM for the purpose of identification) dated 2 October 2009 and entered into between the Company and Gold Dynasty Investments Limited (the “**Vendor**”) to vary certain terms of the convertible notes in the principal amount of HK\$254,064,835 due 2010 issued by the Company and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) any one or more of the directors (the “**Directors**”) of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Deed and the transactions contemplated thereunder;
- (c) the issue of the convertible notes (the “**Restated Convertible Notes**”) in the principal amount of HK\$254,064,835 due 2021 by the Company in accordance with the terms and conditions of the Deed and the transactions contemplated thereunder be and is hereby approved; and
- (d) any one or more of the Directors be and is/are hereby authorised to take all steps necessary or expedient in his/her/their opinion to implement and/or give effect to the issue of the Restated Convertible Notes including but not limited to the allotment and issue of ordinary shares (each a “**Share**”) of HK\$0.02 each in the share capital of the Company of which may fall to be issued upon the exercise of the conversion rights attached to the Restated Convertible Notes.”

NOTICE OF EGM

2. **“THAT**

- (a) the subscription agreement (the **“Subscription Agreement”**) (a copy of which has been produced to the EGM marked “B” and signed by the chairman of the EGM for the purpose of identification) dated 2 October 2009 and entered into between the Company as issuer and the Vendor as subscriber in relation to the subscription of convertible notes (the **“New Convertible Notes”**) in the principal amount of HK\$35,415,633 due 2021 and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Subscription Agreement and the transactions contemplated thereunder;
- (c) the issue of the New Convertible Notes by the Company in accordance with the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder be and is hereby approved; and
- (d) any one or more of the Directors be and is/are hereby authorised to take all steps necessary or expedient in his/her/their opinion to implement and/or give effect to the issue of the New Convertible Notes including but not limited to the allotment and issue of ordinary Shares of which may fall to be issued upon the exercise of the conversion rights attached to the New Convertible Notes.”

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

Hong Kong, 20 October 2009

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

*Head office and principal place of
business in Hong Kong:*
14th Floor
Yale Industrial Centre
61-63 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong

NOTICE OF EGM

Notes:

1. A member entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the EGM is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the offices of the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.
3. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.