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Kiu Hung International Holdings Limited

僑雄國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00381)

DISCLOSEABLE TRANSACTION IN RELATION TO DISPOSAL OF SUBSIDIARY

DISPOSAL OF SUBSIDIARY

The Board is pleased to announce that, on 15 December 2018 (after trading hours of the Stock Exchange), Bright Asset Investments Limited (“Bright Asset”) and Lucky Dragon Resources Limited (“Lucky Dragon”) (collectively referred to as the “Vendors”), indirect wholly owned subsidiaries of the Company, entered into the Sale and Purchase Agreements for the sale of the 80% equity interests of Inner Mongolia Mingrunfeng Energy Co., Ltd. (“Mingrunfeng Energy”) and Inner Mongolia Run Heng Mining Company Limited (“Run Heng Mining”) (collectively referred to as the “Target Companies”) to Fujian Heng Lian Group Limited* (the “Purchaser”), at the consideration of RMB7,500,000 (equivalent to approximately HK\$8,349,000) and RMB7,500,000 (equivalent to approximately HK\$8,349,000) respectively (the “Disposal”) through the Public Auction process and the completion of the Disposal contemplated under the Sale and Purchase Agreement took place on 9 January 2019. Upon Completion, the Target Companies become associate companies of the Company and are no longer subsidiaries of the Company.

To the best of the Director’s knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are third parties independent of the Group and its connected persons.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Having considered, including but not limited to, (1) the uncertainty of the growth of mining industry in the PRC and (2) the potential downward pressure of economic growth of the PRC, the Directors consider that the Disposal represents an exit opportunity for the Company to realise its investment and to better utilise the resources of the Company.

Based on the above, the Directors are of the view that the terms of the Disposal are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS FROM THE DISPOSAL

The Company intends to use the net proceeds from the Disposal for working capital purposes.

LISTING RULES IMPLICATIONS

Since the highest of the applicable percentage ratios in respect of the amount of the Disposal is more than 5% but less than 25%, the Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

The Company genuinely believed that the Disposals were part of the Group's ordinary and usual course of business and were therefore exempt from compliance with any requirements under Chapter 14 of the Listing Rules. Having received the guidance and advice from the independent financial adviser, the Company accepted that the Disposal fall within the definition of "transactions" under Rule 14.04(1) of the Listing Rules and regrettably admitted that it had breached Rules 14.34 and 14.37(2) of the Listing Rules (to the extent applicable).

1. INTRODUCTION

The Board is pleased to announce that, on 15 December 2018 (after trading hours of the Stock Exchange), the Vendors, wholly owned subsidiaries of the Company, entered into the Sale and Purchase Agreements with the Purchaser.

2. PRINCIPAL TERMS OF THE SALE AND PURCHASE AGREEMENTS

Sales and Purchase Agreement 1

Date

15 December 2018 (after trading hours of the Stock Exchange)

Parties

- (i) The Vendor A: Bright Asset Investments Limited
- (ii) The Purchaser: Fujian Heng Lian Group Limited*

Pursuant to the Sale and Purchase Agreement 1, the Vendor A has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire 80% equity interest of Mingrunfeng Energy at a consideration of RMB7,500,000 (equivalent to HK\$8,349,000).

Sales and Purchase Agreement 2

Date

15 December 2018 (after trading hours of the Stock Exchange)

Parties

(iii) The Vendor B: Lucky Dragon Resources Limited

(iv) The Purchaser: Fujian Heng Lian Group Limited*

Pursuant to the Sale and Purchase Agreement 2, the Vendor B has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire 80% equity interest of Run Heng Mining at a consideration of RMB7,500,000 (equivalent to HK\$8,349,000).

To the best of the Director's knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are third parties independent of the Group and its connected persons.

Consideration

The total consideration of RMB15,000,000 (equivalent to approximately HK\$16,698,000), was paid by the Purchaser to the Vendors (or their respective nominees) in proportion to their respective selling interest in the Target Companies at Completion, which are to be satisfied by the Purchaser's own resources.

The Consideration was arrived through a Public Auction process took place in Fujian Province in the PRC and the Consideration offered by the Purchaser was one of the highest offered among other bidders.

Based on the aforesaid, the Directors are of the view that the Consideration is fair and reasonable and on normal commercial terms and that the entering into of the Sale and Purchase Agreements is in the interests of the Company and the Shareholders as a whole.

Closing

Closing was took place on the date of completion of share transfer of 80% equity interest of Mingrunfeng Energy and 80% equity interest of Run Heng Mining, which was 15 January 2019 (the "Closing").

3. FINANCIAL EFFECTS OF THE DISPOSAL

Immediately after the Closing, the Target Companies will become associate companies of the Company and are no longer subsidiaries of the Company, their financial results will no longer be consolidated into the Group's financial statements.

Subject to the review of the Company's auditor, based on (i) the unaudited carrying value of exploration rights held by the Target Companies of approximately HK\$113,692,000 as at 30 June 2018; and (ii) the Consideration of RMB15,000,000 (equivalent to approximately HK\$16,698,000), the Group currently expects to record a loss arising from the Disposal of approximately HK\$96,994,000 upon the Closing.

4. USE OF PROCEEDS FROM THE DISPOSAL

The Company intends to use the net proceeds from the Disposal for working capital purposes.

5. REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Having considered, including but not limited to, (1) the uncertainty of the growth of mining industry in the PRC and (2) the potential downward pressure of economic growth of the PRC, the Directors consider that the Disposal represents an exit opportunity for the Company to realise its investment and to better utilise the resources of the Company.

Based on the above, the Directors are of the view that the terms of the Disposal are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. INFORMATION ABOUT THE TARGET COMPANIES

Mingrunfeng Energy

Mingrunfeng Energy is a company incorporated in the PRC with limited liability on 24 September 2003 and owns the exploration rights of Guerbanada Coal Mine ("GCM"), which is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report, GCM has estimated coal resources of approximately 106 million tonnes of high quality thermal coal. The current licence period of the exploration right of GCM is from 21 July 2017 to 20 July 2019.

Set out below are the unaudited results of Mingrunfeng Energy for the six months period ended 30 June 2018 prepared under the general accepted accounting principles in the PRC:

	From 1 January 2018 to 30 June 2018
	<i>RMB'000</i>
	(unaudited)
Turnover	—
Net loss before tax	(418)
Net loss after tax	(418)

Run Heng Mining

Run Heng Mining is a company incorporated in the PRC with limited liability on 11 January 2005 and owns the exploration rights of Bayanhushuo Coal Field (“BCF”), which is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report, BCF has estimated coal resources of approximately 394.05 million tonnes of high quality thermal coal. The current licence period of the exploration right of BCF is from 4 July 2016 to 4 July 2018.

Set out below are the unaudited results of Run Heng Mining for the six months period ended 30 June 2018 prepared under the general accepted accounting principles in the PRC:

	From 1 January 2018 to 30 June 2018
	<i>RMB'000</i>
	(unaudited)
Turnover	—
Net loss before tax	(164)
Net loss after tax	(164)

7. INFORMATION ON THE PURCHASER

The Purchaser is a company incorporated in the PRC with limited liability and is principally engaged in wholesale of coal, trading of building materials and machinery and sales and development of real estate.

8. INFORMATION ON THE COMPANY AND THE VENDORS

The Company

The Company is an investment company and its subsidiaries are principally engaged in the manufacturing and trading of toys and gifts items, exploration of natural resources and the investment in various potential businesses including fruit plantation, leisure and culture.

Bright Asset

Bright Asset is a company incorporated in the British Virgin Islands and an indirect wholly owned subsidiary of the Company. It is principally engaged in the business of investment holding.

Lucky Dragon

Lucky Dragon is a company incorporated in the British Virgin Islands and an indirect wholly owned subsidiary of the Company. It is principally engaged in the business of investment holding.

9. LISTING RULES IMPLICATIONS

Since the highest of the applicable percentage ratios in respect of the amount of the Disposal is more than 5% but less than 25%, the Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

The Company genuinely believed that the Disposals were part of the Group's ordinary and usual course of business and were therefore exempt from compliance with any requirements under Chapter 14 of the Listing Rules. Having received the guidance and advice from the independent financial adviser, the Company accepted that the Disposal fall within the definition of "transactions" under Rule 14.04(1) of the Listing Rules and regrettably admitted that it had breached Rules 14.34 and 14.37(2) of the Listing Rules (to the extent applicable).

10. PREVENTION OF BREACHING THE LISTING RULES IN THE FUTURE

In order to minimize the chance of breaching the Listing Rules by the Group in the future, the Company has adopted the following measures:

1. As preventive control, a letter has been issued by the Company to the directors of the board and managers of subsidiaries of the Group to remind them to consult the financial controller and company secretary of the Company directly/indirectly for any possible transactions which may constitute notifiable transactions, connected transaction and/or other disclosures under the Listing Rules. In addition, they are urged to study the previous training materials of the Listing Rules again and to pay attention to the previous faxes/correspondence issued by the Company regarding compliance with the Listing Rules. Re-training of the Listing Rules will be given to the directors and management who were involved in the disposal of subsidiaries so as to refresh their memory in due course.
2. In addition, the Board will, as soon as practicable and following further investigation and consideration of the Group's internal control needs, engage an appropriately experienced professional company to review and suggest ways to enhance the Group's overall internal control system. The Board has not yet appointed any professional company to review its internal control needs but it expects that such appointment will be made within three months after this Announcement.
3. As detection control, all subsidiaries of the Group are required to copy the signed agreements and send to the Company for records unless waived by the Company.

11. DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meanings given to them as below:

“Board”	the board of Directors of the Company;
“Bright Asset”	Bright Asset Investments Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly owned subsidiary of the Company;
“Company”	Kiu Hung International Holdings Limited (Stock Code: 381), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange;
“Completion”	the completion of the Disposal pursuant to the terms and conditions of the Sale and Purchase Agreements;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Consideration”	the total consideration payable by the Purchaser to the Vendors for the Disposal, being RMB15,000,000;
“Director(s)”	the director(s) of the Company;
“Disposal”	the transaction contemplated under the Sale and Purchase Agreement;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“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 with limited liability and an indirect wholly owned subsidiary of the Company;
“Mingrunfeng Energy”	Inner Mongolia Mingrunfeng Energy Co., Ltd., a company incorporated in PRC with limited liability;
“PRC”	the People’s Republic of China, excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan;

“Public Auction”	the public auction held on 15 December 2018 by the independent auction house, Fujian Province Guang Ye Auction Company Limited* (福建省廣業拍賣有限公司) in Fujian Province in the PRC;
“Purchaser”	Fujian Heng Lian Group Limited* (福建恆聯集團有限公司), a company incorporated in the PRC with limited liability and is ultimately beneficially owned by Mr. Chen Qin (陳欽);
“Run Heng Mining”	Inner Mongolia Run Heng Mining Company Limited, a company incorporated in PRC with limited liability;
“Sale and Purchase Agreement 1”	the conditional sale and purchase agreement dated 15 December 2018 entered into between the Purchaser and Vendor A in relation to the acquisition of 80% equity interest of Mingrunfeng Energy;
“Sale and Purchase Agreement 2”	the conditional sale and purchase agreement dated 15 December 2018 entered into between the Purchaser and Vendor B in relation to the acquisition of 80% equity interest of Run Heng Mining;
“Sale and Purchase Agreements”	the Sale and Purchase Agreement 1 and the Sale and Purchase Agreement 2;
“Share(s)”	ordinary share(s) of HK\$0.1 each in the capital of the Company;
“Shareholders”	the holders of Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Target Companies”	Mingrunfeng Energy and Run Heng Mining;
“Vendor A”	Bright Asset;
“Vendor B”	Lucky Dragon;
“Vendors”	Bright Asset and Lucky Dragon;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC;
“%”	per cent.

For the purpose of this announcement, unless otherwise indicated, the exchange rate of RMB1 = HK\$1.1132 has been used for currency conversion. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amount in RMB or HK\$ has been, could have been or may be converted at such exchange rate.

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

Hong Kong, 31 May 2019

As at the date of this announcement, the Board comprises seven executive Directors, Mr. Hui Kee Fung, Mr. Yu Won Kong, Dennis, Mr. Zhang Yun, Mr. Zhang Qijun, Mr. Shu Zhong Wen, Mr. Pun Yat Kan and Ms. Cui Yu (suspended) and four independent non-executive Directors, Mr. So Chun Pong, Ricky, Mr. Wang Xiao Ning, Mr. Cheung Man Loon, Michael and Mr. Cheng Ho On.