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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 and continued in Bermuda with limited liability)

(Stock Code: 00381)

MEMORANDUM OF UNDERSTANDING IN RELATION TO A POSSIBLE ACQUISITION

This announcement is made by Kiu Hung International Holdings Limited (the “**Company**”, together with its subsidiaries and associates, the “**Group**”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) and the inside information provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“**SFO**”).

The board of directors (the “**Directors**”) of the Company (the “**Board**”) is pleased to announce that, on 8 September 2022 (after trading hours of the Stock Exchange), Inner Mongolia Zhonghe Mining Co., Ltd. (內蒙古眾合礦業有限公司), a controlling subsidiary of the Company, and Mr. Shi Xiaolei and Mr. Shi Yugen (collectively, the “**Vendors**”) entered into a memorandum of understanding (the “**MOU**”) in relation to the common wishes of a possible acquisition of certain equity interests in 山西亞美實業有限公司 (the “**Target Company**”) by the Company (or its wholly-owned subsidiaries) from the Vendors (the “**Possible Acquisition**”). Details of the MOU are set out below:

THE MOU

Date: 8 September 2022 (after trading hours of the Stock Exchange)

Parties: (1) Mr. Shi Xiaolei and Mr. Shi Yugen, as the Vendors; and
(2) Inner Mongolia Zhonghe Mining Co., Ltd. (內蒙古眾合礦業有限公司), a controlling subsidiary of the Company, as the Buyer.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, the Vendors and their ultimate beneficial owners are third parties who are independent of and not connected with the Company and its connected persons (has the meaning as ascribed to it under the Listing Rules).

Assets to be acquired

Pursuant to the MOU, the Vendors intend to sell and the Company (or its wholly-owned subsidiary) intends to acquire certain equity interests in the Target Company.

As at the date of this announcement, the Vendors own 100% equity interests in the Target Company.

Consideration

The amount of the equity interests under the Possible Acquisition and the payment terms for the Consideration are subject to further negotiation among the parties to the MOU.

Exclusivity

Pursuant to the MOU, during the period commencing the date of the MOU to the date ending on the earliest of (i) ninety (90) days from signing the MOU; or (ii) the written confirmation by the parties that the Possible Acquisition shall not proceed; or (iii) the violation of the confidentiality obligations as set out in the MOU by any party (or its subsidiaries and affiliates or their representatives) (the “**Exclusivity Period**”), the Vendors shall not enter into any agreement, arrangement or understanding with the Buyer (or its wholly-owned subsidiaries) and any other parties in relation to the sale and purchase of interests in the Target Company; and (ii) the parties shall negotiate in good faith in relation to the Possible Acquisition in the absence of all other parties.

Due Diligence

After signing the MOU and during the Exclusivity Period, the Company (and its advisers and/or agents) shall be entitled to conduct a due diligence review on the status, legal ownership, legal and other affairs of the Target Company. The Vendors shall provide assistance to the Company (and its advisers and/or agents) in this respect.

Formal Agreement

The parties to the MOU shall negotiate in good faith to ensure that the Formal Agreement be entered into as soon as possible and in any event on or before the date falling ninety (90) days from the date of signing the MOU (or such later date as the parties to the MOU may agree in writing).

Legal Effect

The MOU shall not have legally binding obligations on the parties on the substantive terms in relation to the Possible Acquisition (including the issue price, consideration, and capital commitment). It, however, shall be legally binding as to certain miscellaneous and general terms relating to confidentiality, the exclusivity period, the due diligence review, expenses, termination, and governing laws contained therein.

INFORMATION ON THE VENDORS AND THE TARGET COMPANY

Mr. Shi Xiaolei is a merchant. As advised by Mr. Shi, he graduated from the Department of Psychology of Beijing Geely University in 2005, and is a national level-2 psychological counselor. He joined 山西亞美實業有限公司 in 2007, engaging in mining project management.

Mr. Shi Yegen is a merchant. As advised by Mr. Shi, he graduated from the Department of Business Administration of Shanxi University, and was an executive director of 山西亞美實業有限公司 in 1996. Mr. Shi was awarded the title of The Outstanding Young Entrepreneur of Taiyuan City in 1997.

The Target Company is a company incorporated in the PRC with limited liability. As advised by the Vendors, the Target Company obtained the mining permit for the Songshubei Gold Mine issued by the Department of Land and Resources of Inner Mongolia Autonomous Region on 18 June 2007 with a mining area of 2,4313 square kilometres. The Songshubei Gold Mine Area is located at 90km west of Kekeyiligeng Town, Wuchuan County, Hohhot. The administrative area is under the jurisdiction of Halareshao Town, Wuchuan County, Inner Mongolia Autonomous Region.

According to the information provided by the Vendors, as of 2019, nine ore bodies were successively discovered in the Songshubei Gold Mine area within the area of the mining license of the Target Company. Limited by the financial pressure, the Target Company only conducted detailed production investigation on the benchmark elevation of No. 1 ore body and submitted the filed reserve (122b+333) ore volume of 80,680.96 tonnes and gold metal volume of 2.02 tonnes in 2016, with an average grade of 23.25g/tonne. Meanwhile, the associated silver, copper, molybdenum and tellurium have reached the comprehensive recovery and utilisation evaluation index. Subsequently, the Target Company continued to supplement the exploration of orebody No. 1 in 2019, and further increased the resource reserves of Au ore (333) 25,512.21 tonnes, Au metal volume of 0.54 tonnes, with an average grade of 21.32g/t (yet to be inspected and accepted). At this point, the mine has 122b+333 grade ore reserves of 150,829.85 tonnes and 3.63 tonnes of retained gold metal at an average grade of 24.12g/t, including 44636.68 tonnes of 122b+333 grade ore below the mining license elevation and gold metal volume of 1.07 tonnes.

Based on the price from the SHMET (上海金屬網) and without taking into account the value of the associated ore types, the value of the retained gold metal in the mine area is estimated to be $3,368\text{kg} * 1,000\text{g} * \$380/\text{g} = \text{RMB}1.279 \text{ billion}$.

The Target Company ceased production in January 2017 till March 2018 and had been suspended production since March 2018 until now, after the lift of the production suspension order. At present, all kinds of licenses and production equipment are basically complete and meet the conditions for rapid resumption of work. If the transaction is concluded, it is expected that an additional investment of not more than RMB30 million will be available to resume work and production within three months. The price of the Possible Acquisition and the funding for production contribution will be obtained by the Company and the Buyer through debt financing. Combining the opinions from the geological experts, the Songshubei Gold Mine has greater potential for resources and better development prospects. Within the area of 2,4313 square kilometres of the Target Company, the previous geological work only involved a small part. Limited by financial pressure, it has only conducted delineation

control for one ore body (No. 1 ore body), and other ore bodies have not been systematically invested in exploration engineering and delineation control. If the follow-up transaction is completed, the potential prospective resources of the Target Company may reach 20 tonnes of gold, 16 tonnes of associated silver, 20,000 tonnes of copper, 138 tonnes of molybdenum, 67 tonnes of tellurium, 10 million tonnes of magnetite, and the total resources value is expected to exceed RMB10 billion, with the subsequent investment of exploration funds by the Company.

REASONS FOR AND BENEFITS OF THE POSSIBLE ACQUISITION

The Group is principally engaged in (i) manufacturing and trading of toys and gifts items; (ii) exploration of natural resources; (iii) trading of Chinese herbs business; and (iv) investment in various potential businesses including fruit plantation, Chinese rice wine, leisure and culture.

The Songshubei Gold Mine is a mine with relatively smaller reserves but richer grades, and has a larger mining area with high reserve growth prospects. Once normal production is achieved, the mine will bring a stronger profitability and stable cash flow, which can realize benefits soonest.

The Board considers that the Possible Acquisition is in line with the Group's investment strategy to seek business opportunities, and intends to acquire high quality business with good potential for the expansion of the Group's business. The Possible Acquisition would provide an opportunity for the Company to diversify the Group's income stream and enhance Shareholders' value.

LISTING RULES IMPLICATIONS

In accordance with Chapter 14 of the Listing Rules, the proposed acquisition, if materialized, may constitute a discloseable transaction of the Company. The Company will comply with the relevant requirements under the Listing Rules as and when appropriate. As the proposed acquisition may or may not proceed, shareholders and prospective investors of the Company are therefore advised to exercise caution when dealing in the shares of the Company.

By Order of the Board
Kiu Hung International Holdings Limited
Zhang Qijun
Chairman

Hong Kong, 8 September 2022

As at the date of this announcement, the Board comprises three executive Directors, Mr. Zhang Qijun, Mr. Liu Mingqing and Ms. Lai Yee Man; and three independent non-executive Directors, Mr. Kong Chun Wing, Mr. Wang Xiao Ning and Ms. Chen Yuxin.