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## **KINGWELL GROUP LIMITED**

**京維集團有限公司**

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

**(Stock code: 1195)**

### **MAJOR TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF 70% INTERESTS IN THE GOLD MINES IN SHANDONG PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA INVOLVING THE ISSUE OF CONVERTIBLE NOTE AND PROMISSORY NOTE**

**Financial Adviser**



禹銘投資管理有限公司  
YU MING INVESTMENT MANAGEMENT LIMITED

#### **THE ACQUISITION**

The Company is pleased to announce that after trading hours on 11th January, 2013, the Company and the Vendor entered into the Share Purchase Agreement, pursuant to which the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the entire issued share capital of the Target Company at the Consideration of RMB370 million (approximately HK\$460 million).

The Target Company holds 70% equity interest in each of Jinxin Company and Jinhui Company. Jinxin Company holds the mine exploitation license and mine exploration license of the Shanchakou Mine; and the mine exploitation license of the Jinjiling Mine. It also owns a gold washing plant and a gold refinery plant. Jinhui Company holds the mine exploitation license and mine exploration license of the Yaojia Mine.

The Consideration for the Acquisition of RMB370 million (approximately HK\$460 million) shall be satisfied in the following manner:

- (i) HK\$100 million (approximately RMB80 million) shall be settled by the issue of the Convertible Note to the Vendor or his nominee(s) at Completion; and
- (ii) RMB290 million (approximately HK\$360 million) shall be settled by the issue of the Promissory Note to the Vendor or his nominee(s) at Completion.

Assuming there will be no issue or repurchase of Shares by the Company from the date of this announcement, upon the exercise in full of the Conversion Rights attaching to the Convertible Note at the Conversion Price, the Company will allot and issue an aggregate of 200,000,000 Conversion Shares, representing (i) approximately 13.12% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 11.60% of the total issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. The Conversion Shares will be allotted and issued under the specific mandate to be sought from the Shareholders at the EGM.

Completion is conditional upon, among others things, the Shareholders' approval at the EGM. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company.

#### **LISTING RULES IMPLICATIONS**

As the relevant applicable percentage ratios (as defined in the Listing Rules) are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to, among other things, Shareholders' approval at the EGM. Given no Shareholder has any material interest in the Acquisition, no Shareholder is required to abstain from voting at the EGM on the resolution(s) to approve the Share Purchase Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details of the Acquisition and the Share Purchase Agreement; (ii) the accountant's report of the Target Group; (iii) the Technical Report; (iv) the Valuation Report; and (v) a notice convening the EGM, will be despatched to the Shareholders as soon as possible in accordance with the relevant requirements of the Listing Rules. As the Technical Report is estimated to be completed in March 2013, the Board anticipates that the circular will be despatched to the Shareholders on or before 31st March, 2013.

Reference is made to the announcements of the Company dated 11th October, 2012 and 6th January, 2013, relating to the Letter of Intent entered into by the Company with an Independent Third Party for the possible acquisition of 100% interest in the Target Company, that indirectly owns 70% beneficial interests in three gold mines with refinery facilities in Shandong Province, PRC and the subsequent update on the appointment of professional parties to commence preliminary due diligence review and study on the Target Company.

The Company is pleased to announce that after trading hours on 11th January, 2013, the Company and the Vendor entered into the Share Purchase Agreement, details of which are as follows:

## **THE SHARE PURCHASE AGREEMENT**

### **Date**

11th January, 2013

### **Parties**

Purchaser : the Company

Vendor : Mr. Wu Fong Shing

As at the date of this announcement, to the best of the Directors' knowledge, information and belief, and after having made all reasonable enquires, the Vendor is an Independent Third Party.

### **Assets to be acquired**

Pursuant to the Share Purchase Agreement, the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company, free from all encumbrances.

The Target Company holds 70% equity interest in each of Jinxin Company and Jinhui Company. Jinxin Company holds the mine exploitation license and mine exploration license of the Shanchakou Mine; and the mine exploitation license of Jinjiling Mine. It also owns a gold washing plant and a gold refinery plant. Jinhui Company holds the mine exploitation license and mine exploration license of the Yaojia Mine. Detailed information on the Target Group is set out in the paragraph headed "Information on the Target Group" of this announcement.

## Consideration

The Consideration for the Acquisition of RMB370 million (approximately HK\$460 million) shall be satisfied in the following manner:

- (i) HK\$100 million (approximately RMB80 million) shall be settled by the issue of the Convertible Note to the Vendor or his nominee(s) at Completion; and
- (ii) RMB290 million (approximately HK\$360 million) shall be settled by the issue of the Promissory Note to the Vendor or his nominee(s) at Completion.

The Consideration for the Acquisition was determined after arm's length negotiations between the Company and the Vendor after taking into account, *inter alia*:

- (i) a preliminary estimation of value by the Valuer on the Target Assets of not less than RMB530 million based on, primarily, historical operation information of the Target Group, preliminary technical data and the assumption that the gold reserve of the Gold Mines to be not less than 5 tonnes;
- (ii) the condition of the Share Purchase Agreement that the gold reserve of the Gold Mines and valuation of the Target Assets to be substantiated by a competent person in a technical report and an independent professional valuer in a valuation report in compliance with the Listing Rules to be not less than 5 tonnes and not less than RMB530 million (approximately HK\$660 million), so that the valuation attributable to the Target Company as to 70% beneficial interest in each of Jinxin Company and Jinhui Company as assessed by the Valuer in turn shall not be less than RMB370 million (approximately HK\$460 million) based on the prevailing market condition;
- (iii) the management accounts of the Target Group as at 31st December, 2012; and
- (iv) the latest market statistics and future prospects of the gold mining industry.

The Company has appointed the Valuer to prepare the Valuation Report containing the Listing Rule Valuation to be based on the Technical Report. As the Technical Report is being prepared by SRK Consulting, all information associated with the preliminary estimation of value (including but not limited to the preliminary technical data and historical operation information provided by the Target Group and assumptions associated with the preliminary estimation of value) is subject to verification and change. Accordingly, the preliminary estimation of value may differ from the conclusion of the Valuation Report.

The Valuation Report will be included in the circular to be despatched by the Company to the Shareholders in connection with the Acquisition.

Taking into account the above, in particular, the valuation of the Target Company will not be less than RMB370 million (which is the same as the Consideration) as a condition to the Share Purchase Agreement and the future prospects of the gold mining industry, the Board considers that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Conditions precedent**

Completion is conditional upon satisfaction of the following conditions:

- (a) the Company shall have completed, to its satisfaction, a due diligence review on the Target Group and its assets, which shall include but not limited to the geological, technical, legal, quality of resources owned, resources, exploration licence, mining licence, financial and operational aspects of the Gold Mines, the gold washing plant and the gold refinery plant;
- (b) the Company shall have obtained all requisite consents, approvals and authorization required under all applicable laws and regulations in connection with the transactions contemplated under the Share Purchase Agreement and the implementation of these transactions and all other matters incidental thereto, including the relevant requirements under the Listing Rules and all relevant resolutions shall have been passed by the Board and if required, the Shareholders at a general meeting as required under the Listing Rules, approving the Share Purchase Agreement and the transactions contemplated thereunder, including the issue of the Convertible Note, the allotment and issue of the Conversion Shares and the issue of the Promissory Note;
- (c) the Company shall have received the approval for the listing of, and permission to deal in, the Conversion Shares granted by the Listing Committee of the Stock Exchange and such approval shall not have been revoked or withdrawn;
- (d) the Company shall have received all technical reports and/or a competent person report including, without limitation, a reserve report and a feasibility study report prepared by an independent professional expert on the Gold Mines which are in full compliance with the Listing Rules (if applicable) and in form and substance satisfactory to the Company;
- (e) the Company shall have received a valuation report on the Target Assets issued by an independent professional valuer which is in full compliance with the Listing Rules and in form and substance satisfactory to the Company showing the gold reserve of the Gold Mines to be not less than 5 tonnes and the valuation of the Target Assets to be not less than RMB530 million;
- (f) the valuation of the Target Company as assessed by the independent professional valuer engaged by the Company shall not less than RMB370 million;

- (g) no event or series of events shall have occurred which, in the opinion of the Company, has had or would reasonably be expected to have a Material Adverse Effect;
- (h) all the warranties shall be and remain true and accurate in all material respects on the date of the Share Purchase Agreement and at all times up to and including the Completion Date; and
- (i) the Vendor and the Target Company shall not have breached their respective obligations, covenants and undertakings under the Share Purchase Agreement.

The Company may waive all or any (wholly or partly) of the conditions above at any time prior to Completion by notice in writing to the Vendor. The Vendor shall use and shall procure the Target Company to use all reasonable endeavours to procure satisfaction of conditions (d) to (i) set out above. If any of the conditions set out have not been fulfilled (or waived by the Company) on or before 30th September, 2013 or such later dates as the parties may agree in writing, the Share Purchase Agreement shall be terminated automatically forthwith, and upon such termination, the Share Purchase Agreement shall cease to have effect among the parties. The parties shall not have any further right and liability under or pursuant to the provisions of the Share Purchase Agreement save and except in respect of any antecedent breach occurring prior to such termination.

As at the date of this announcement, none of the conditions precedent has been fulfilled or waived, and the Company has no intention to waive any of the above conditions precedent.

### **Completion**

Completion shall take place on the fifth Business Day following the date on which the last of the conditions precedent referred to in the paragraph headed “Conditions precedent” has been fulfilled (or otherwise waived) or such other date as the parties may agree in writing.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and financials of the Target Group will be consolidated to the financial statements of the Group.

## CONVERTIBLE NOTE

Pursuant to the Share Purchase Agreement, the Company will issue a five-year Convertible Note in the principal amount of HK\$100 million (approximately RMB80 million) to the Vendor or his nominee(s) as part payment of the Consideration upon Completion. Salient terms of the Convertible Note are as follows:

|                                     |   |
|-------------------------------------|---|
| Issuer                              | The Company   |
| Principal amount                    | HK\$100 million   |
| Issue Price                         | 100% of the principal amount of the Convertible Note  |
| Issue date                          | Completion Date   |
| Interest                            | 1% per annum on the principal amount of the Convertible Note outstanding from time to time, which will be payable by the Company annually in arrears on the last day of each year commencing on the issue date of the Convertible Note  |
| Maturity date                       | The fifth anniversary of the issue date of the Convertible Note   |
| Conversion Price                    | HK\$0.5 per Share, subject to adjustments   |
| Adjustments to the Conversion Price | The Conversion Price is subject to customary anti-dilution adjustment provisions for convertible securities of similar type. The adjustment events will arise as a result of certain change in the Shares, including, among others, consolidation or sub-division of Shares, capitalization of profits or reserves, capital distributions in cash or specie, subscription by rights, options or warrants, or subsequent issue of securities in the Company pursuant to the terms and conditions of the Convertible Note |
| Conversion Shares                   | A total of 200,000,000 Shares to be issued upon conversion of the Convertible Note, subject to adjustments to the Conversion Price  |
| Conversion period                   | The period commencing on the issue date of the Convertible Note and expiring on the date which is 5 Business Days preceding the maturity date of the Convertible Note   |

## Conversion Rights

The Noteholder shall have the right to convert on any Business Day during the conversion period of the Convertible Note, the whole or any part(s) of the principal amount of the Convertible Note into Shares at any time and from time to time at the Conversion Price provided that:

- (a) such part of the principal amount of the Convertible Note has not previously been converted or redeemed or purchased or cancelled; and
- (b) such part of the principal amount of the Convertible Note to be converted shall not be less than HK\$1,000,000 and in integral multiples of HK\$1,000,000 at any one time, save that if at any time the outstanding principal amount of the Convertible Note is less than HK\$1,000,000, the whole (but not part only) of such outstanding principal amount of the Convertible Note may be converted.

Conversion of the Convertible Note by the Noteholder is subject to the compliance with the requirements under the Listing Rules and the Takeovers Code.

## Early repayment

Unless a Noteholder has delivered a notice to exercise its Conversion Rights, the Company shall have the right to redeem the whole or any part(s) of the principal amount of the Convertible Note at any time on any Business Day prior to the maturity date of the Convertible Note

## Redemption

Unless previously converted, redeemed, purchased or cancelled, the Convertible Note will be redeemed by the Company on the maturity date of the Convertible Note at its principal amount outstanding in Hong Kong dollars

## Transferability

The Convertible Note may be assigned or transferred (in whole or in part) to any third party, subject to compliance with the Listing Rules, the Takeovers Code and all applicable laws and regulations



|                         |  |
|-------------------------|--|
| Voting rights           | The Noteholder will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being the Noteholder   |
| Application for listing | No application will be made by the Company for a listing of the Convertible Note in any jurisdiction. The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be issued upon the exercise of the Conversion Rights attached to the Convertible Note   |
| Ranking                 | <p>The Convertible Note will rank equally among themselves and <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law</p> <p>The Conversion Shares shall rank <i>pari passu</i> in all respects with all other existing Shares outstanding at the date of issue of the Conversion Shares and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of issue</p> |
| Events of default       | If the events of default listed in the terms and conditions of the Convertible Note occurs and no rectification (to the extent that such event can be rectified) has been made within 20 Business Days thereafter, the Noteholder may give notice to the Company that the Convertible Note, on the giving of such notice, is immediately due and payable at its principal amount then outstanding  |

Assuming there will be no issue or repurchase of Shares by the Company from the date of this announcement, upon the exercise in full of the Conversion Rights attaching to the Convertible Note at the Conversion Price, the Company will allot and issue an aggregate of 200,000,000 Conversion Shares, representing (i) approximately 13.12% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 11.60% of the total issued share capital of the Company as enlarged by allotment and issue of the Conversion Shares. The Conversion Shares will be allotted and issued under the specific mandate to be sought from the Shareholders at the EGM.

## Conversion Price

The Conversion Price of HK\$0.5 per Conversion Share is determined after arm's length negotiations between the Company and the Vendor with reference to the prevailing market price of the Shares since the signing of the Letter of Intent dated 11th October, 2012 up to the date on which all major terms of the Share Purchase Agreement were determined as compared to the closing price of the Share at HK\$0.435 per Share on 11th October, 2012. The Share price reached HK\$0.66 per Share as at the Last Trading Date, representing an increase of approximately 51.72%. The Conversion Price represents:

- (i) a premium of approximately 14.94% over the closing price of HK\$0.435 per Share as quoted on the Stock Exchange on 11th October, 2012, being the date of the Letter of Intent;
- (ii) the average closing price of HK\$0.5 per Share as quoted on the Stock Exchange for the period from 11th October, 2012 up to 8th January, 2013, being the date on which all major terms of the Share Purchase Agreement were determined;
- (iii) a discount of approximately 24.24% to the closing price of HK\$0.66 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (iv) a discount of approximately 24.24% to the average closing price of approximately HK\$0.66 per Share for the 5 trading days immediately prior to and including the Last Trading Date;
- (v) a discount of approximately 24.24% to the average closing price of approximately HK\$0.66 per Share for the 10 trading days immediately prior to and including the Last Trading Date;
- (vi) a discount of approximately 15.25% to the average closing price of approximately HK\$0.59 per Share for the 30 trading days immediately prior to and including the Last Trading Date; and
- (vii) a premium of approximately 284.62% over the Group's audited consolidated net assets of approximately HK\$0.13 per Share calculated based on the Group's audited consolidated net assets of RMB154,132,000 (approximately HK\$191,833,000) as at 30th June, 2012 and 1,523,896,500 Shares in issue as at the Last Trading Date.

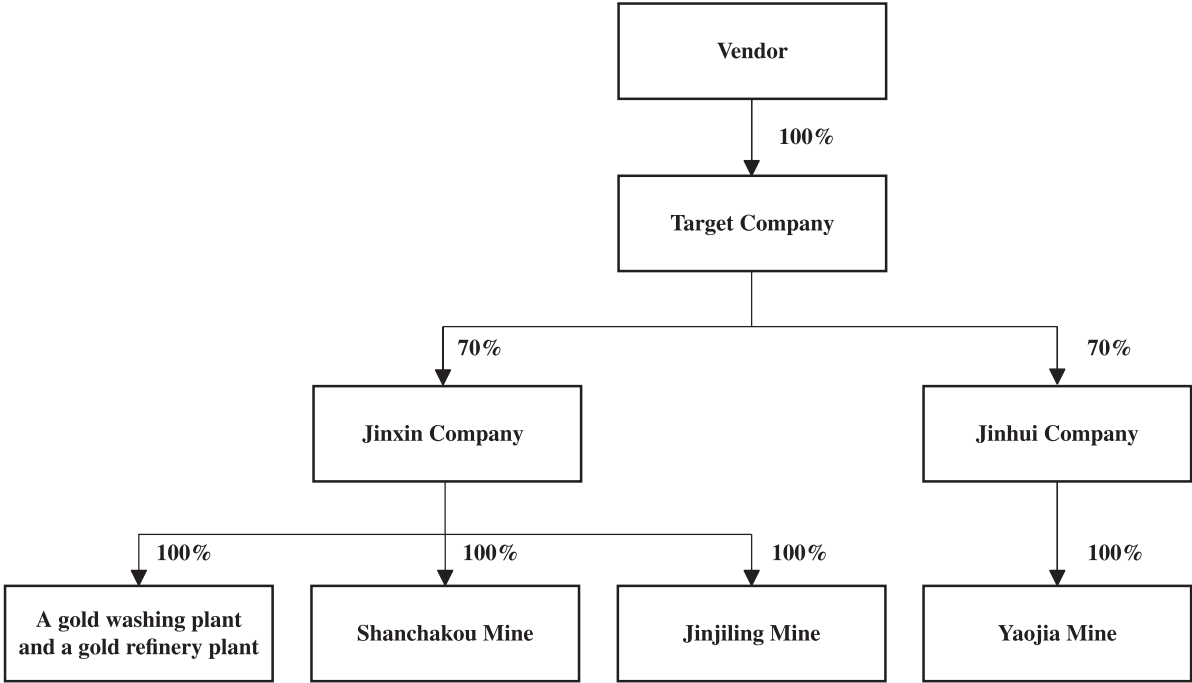
## PROMISSORY NOTE

The Company will issue a ten-year Promissory Note in the aggregate principal amount of RMB290 million (approximately HK\$360 million) to the Vendor or his nominee(s) on the Completion Date as part of the Consideration. The principal terms of the Promissory Note is summarized as follows:

|                         |   |
|-------------------------|---|
| Issuer                  | The Company   |
| Issue price             | 100% of the principal amount  |
| Maturity date           | The tenth anniversary from the date of initial issue of the Promissory Note   |
| Interest                | The interest of the Promissory Note will be 1% per annum for the first three years commencing from the date of issue of the Promissory Note and 5% per annum for the fourth year and thereafter with an incremental of 0.5% per annum for each subsequent year and calculated on a 365-day/year basis |
| Early redemption        | The Company shall have absolute discretion as to redemption of any Promissory Note(s) outstanding at the relevant time and in any amount as it considers appropriate by giving written notice of at least 7 days in advance   |
| Redemption              | Unless previously redeemed, or purchased and cancelled, the Promissory Note will be redeemed at their principal amount on the maturity date of the Promissory Note  |
| Application for listing | No application will be made by the Company to any other stock exchange for the listing of or permission to deal in the Promissory Note  |
| Transferability         | The Promissory Note may be assigned or transferred to any transferee with a written notice 7 days in advance of such assignment to the Company. No assignment shall be valid unless it is acknowledged by the Company   |

**INFORMATION ON THE TARGET GROUP**

Set out below is the shareholding structure of the Target Group as at the date of this announcement:



**The Target Company**

The Target Company was incorporated in the British Virgin Islands on 16th September, 2009 with limited liability and wholly-owned by the Vendor. Its principal business is investment holding. The Target Company holds 70% equity interest in each of Jinxin Company and Jinhui Company. Save for the equity interest in Jinxin Company and Jinhui Company, the Target Company has no other assets or business. It has not recorded any turnover and has only incurred some insignificant incorporation fees since its incorporation.

**Jinxin Company**

Jinxin Company was incorporated in the PRC on 28th June, 2005 with limited liability. As at the date of this announcement, Jinxin Company is owned as to 70% by the Target Company, 16% by Mr. Meng Jie, 7% by Mr. Zhuang Heng Yang and 7% by Mr. Wang Shou Xing. To the best of the Directors’ knowledge, information and belief, and having made all reasonable enquiries, each of Mr. Meng Jie, Mr. Zhuang Heng Yang and Mr. Wang Shou Xing is an Independent Third Party. Jinxin Company owns the beneficial interests in and holds the legally valid mine exploitation license and mine exploration license of the Shanchakou Mine; and the mine exploitation license of the Jinjiling Mine. It also owns a gold washing plant with an annual capacity of

approximately 400,000 tonnes of gold ore and a gold refinery plant with an annual processing capacity of approximately 80,000 tonnes of gold ore. Gold production capacity of Jinxin Company is not less than 4 tonnes of gold per annum.

Jinxin Company has not prepared any audited financial statement since incorporation. Pursuant to the unaudited management account, financials of Jinxin Company for the past two years ended 31st December, 2011 and 2012 are as follows:

|  | <b>For the year ended<br/>31st December,<br/>2011<br/>RMB'000</b> | <b>For the year ended<br/>31st December,<br/>2012<br/>RMB'000</b> |
|--|---|---|
| Revenue  | 37,006  | 38,005  |
| Net profits before taxation and<br>extraordinary items | 3,368   | 1,726   |
| Net profits after taxation and<br>extraordinary items  | 2,573   | 1,008   |
| Net assets   | 8,740   | 23,860  |

### **Jinhui Company**

Jinhui Company was incorporated in the PRC on 20th September, 1999 with limited liability. As at the date of this announcement, Jinhui Company is owned as to 70% by the Target Company, 15% by Mr. Qu Xin and 15% by Mr. Li Xiao Dong. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, each of Mr. Qu Xin and Mr. Li Xiao Dong is an Independent Third Party. Jinhui Company owns the beneficial interest in and holds the legally valid mine exploitation license and mine exploration license of the Yaojia Mine. Save as disclosed above, Jinhui Company has no other material assets as at the date of this announcement and it has not prepared any financial statement since incorporation.

An accountant's report containing all audited financial information on the Target Group will be included in the circular to be despatched by the Company to the Shareholders in relation to the Acquisition.

## The Gold Mines

Shanchakou Mine, Jinjiling Mine and Yaojia Mine are located at Longkou City, Shandong Province of the PRC with an aggregate mining area of approximately 2.8693 km<sup>2</sup>. Details of the mine exploitation license and mine exploration license of the Gold Mines are summarized below:

| License holder | Mining location            | Mining area<br>(km <sup>2</sup> ) | Effective and expiry<br>date of mine<br>exploitation license | Effective and expiry<br>date of mine<br>exploration license |
|----------------|----------------------------|-----------------------------------|--|---|
| Jinxin Company | Shanchakou Mine<br>(山岔口礦區) | 0.7292 km <sup>2</sup>            | From 12th January, 2011<br>to 12th January, 2016             | From 1st October, 2012<br>to 30th September, 2014           |
| Jinxin Company | Jinjiling Mine<br>(金雞嶺礦區)  | 0.0401 km <sup>2</sup>            | From 29th August, 2011<br>to 29th August, 2014               | n.a.  |
| Jinhui Company | Yaojia Mine<br>(姚家礦區)      | 2.1 km <sup>2</sup>               | From 12th January, 2011<br>to 12th January, 2015             | From 17th July, 2012<br>to 30th June, 2014                  |

The Technical Report to be prepared by SRK Consulting will be included in the circular to be despatched by the Company to the Shareholders.

## Management of the Target Group

As at the date of this announcement, the Vendor is the sole director of the Target Company. Upon Completion, the Vendor will resign as director of the Target Company and will be replaced by such persons to be nominated by the Company.

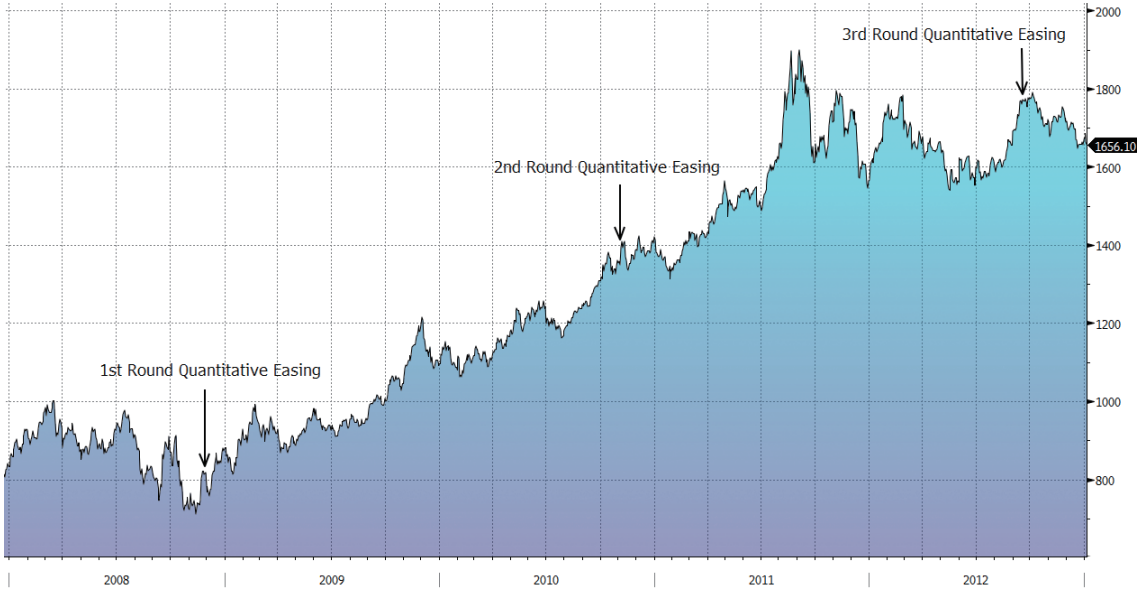
In addition, the board of directors of each of Jinxin Company and Jinhui Company will comprise three directors upon Completion. The Company shall be entitled to nominate two directors to each of Jinxin Company and Jinhui Company. The existing Jinxin Shareholders and Jinhui Shareholders shall be entitled to appoint one director in each of Jinxin Company and Jinhui Company respectively.

## REASONS FOR AND BENEFITS OF THE ACQUISITION

As at the date of this announcement, the Group is engaged principally in the (i) manufacture and sales of rigid printed circuit boards and flexible printed circuit boards (the “Electronic Business”); (ii) provision for surface mounting technology processing services; (iii) property development; and (iv) exploitation and exploration of gold mines in the Russia Federation.

The Electronic Business is highly competitive. Due to the uncertainties in the global economy and unfavorable operating environment, the Electronic Business has been deteriorating both in terms of sales and net profit after tax. As a result, in the announcement of the Company on 27th June, 2011, the Board announced its diversification strategy to allocate resources to investigate and identify investment opportunities in natural resources and mining projects. On 22nd May, 2012, the Company reached a letter of intent with an independent third party to acquire 51% equity interest in a gold mining company in the Russian Federation (the “Russian Project”). On 15th August, 2012, the acquisition of the Russian Project was completed. The Russian Project provided the Group with a unique opportunity to expand and diversify its business with the exposure of the gold mining industry. With the current economic downturn and the deterioration of the Electronic Business, the Board intends to continue its diversification strategy to explore gold mining business for its long-term development.

The chart below illustrates the change in the gold spot prices for the past five years ended 31st December, 2012:



Source: Bloomberg

It is observed that gold price is in a rising trend after the announcement of the first round quantitative easing policy by the Federal Reserve of the United States of America (the “Federal Reserve”) on 25th November, 2008. Gold price continued to soar and reached its historical high of US\$1,900.20 per ounce after the announcement of the second round quantitative easing policy by the Federal Reserve on 3rd November, 2010. On 13th September, 2012, the Federal Reserve announced the third round quantitative easing policy with no specific end day. Based on the closing spot

price per ounce on 31st December, 2007 and 31st December, 2012 at US\$833.70 and US\$1,675.35 respectively, gold price has increased by 100.95% during the past five-year period since 2008, representing an annualized increase of 20.19%.

In light of the trend of gold spot prices in the past five years and the prevailing monetary policy adopted by the Federal Reserve, the Directors are optimistic about the future prospects of the gold mining industry.

Taking into account (i) the prospects of the gold industry as precious metal; (ii) the terms and conditions of Share Purchase Agreement (including the Consideration, the Convertible Note and the Promissory Note) are determined after arms' length negotiations and are fair and reasonable; and (iii) the Acquisition is in line with the Group's diversification strategy with an aim to broaden the income base of the Group, the Board is of the view that the Share Purchase Agreement is in the interests of the Company and its Shareholders as a whole.

### CHANGE IN SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the shareholding structure of the Company (i) as at the date of this announcement; and (ii) upon Completion and full conversion of the Convertible Note into the Conversion Shares:

| Shareholders                        | As at the date of this announcement |                | Upon Completion and full conversion of the Convertible Note into the Conversion Shares |                |
|-------------------------------------|-------------------------------------|----------------|--|----------------|
|                                     | No. of Shares                       | Approximate %  | No. of Shares  | Approximate %  |
| Mr. Sze Ming Yee<br>(Notes 1 and 2) | 345,778,539                         | 22.69%         | 345,778,539  | 20.06%         |
| Mr. Hui Lung Hing<br>(Note 2)       | 250,000,000                         | 16.41%         | 250,000,000  | 14.50%         |
| Mr. Zhang Jian                      | 82,142,857                          | 5.39%          | 82,142,857   | 4.77%          |
| Mr. Du Hua Wei                      | 82,142,857                          | 5.39%          | 82,142,857   | 4.77%          |
| The Vendor                          | —                                   | —              | 200,000,000  | 11.60%         |
| Public Shareholders                 | <u>763,832,247</u>                  | <u>50.12%</u>  | <u>763,832,247</u>   | <u>44.30%</u>  |
| Total                               | <u>1,523,896,500</u>                | <u>100.00%</u> | <u>1,723,896,500</u>   | <u>100.00%</u> |

*Note 1:* As at the date of this announcement, 345,778,539 Shares are held by Union Day Group Limited, a company incorporated in the British Virgin Islands with limited liability, which is 72% beneficially owned by Mr. Sze Ming Yee. Mr. Sze Ming Yee is also interested in 2,000,000 share options which, upon exercise in full, will be convertible into 2,000,000 Shares.

*Note 2:* Mr. Sze Ming Yee and Mr. Hui Lung Hing are Directors. Mr. Hui Lung Hing is also interested in 13,000,000 share options which, upon exercise in full, will be convertible into 13,000,000 Shares.



## **LISTING RULES IMPLICATIONS**

As the relevant applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to, among other things, Shareholders' approval at the EGM. Given no Shareholder has any material interest in the Acquisition, no Shareholder is required to abstain from voting at the EGM on the resolution(s) to approve the Share Purchase Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details of the Acquisition and the Share Purchase Agreement; (ii) the accountant's report of the Target Group; (iii) the Technical Report; (iv) the Valuation Report; and (v) a notice convening the EGM, will be despatched to the Shareholders as soon as possible in accordance with the relevant requirements of the Listing Rules. As the Technical Report is estimated to be completed in March 2013, the Board anticipates that the circular will be despatched to the Shareholders on or before 31st March, 2013.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

|                   |   |
|-------------------|---|
| “Acquisition”     | the purchase of the Sale Shares by the Company from the Vendor as contemplated under the Share Purchase Agreement   |
| “Board”           | board of Directors of the Company   |
| “Business Day(s)” | a day other than a Saturday or a Sunday on which banks in Hong Kong are open to the general public for business   |
| “Company”         | Kingwell Group Limited (Stock Code: 1195), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange |
| “Completion”      | completion of the Acquisition in accordance with the terms and conditions of the Share Purchase Agreement   |

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| “Completion Date”     | the fifth (5th) Business Day following the date on which the last of the conditions precedent set out in the paragraph headed “Conditions precedent” above has been fulfilled (or otherwise waived) or such other date as the parties may agree in writing |
| “Consideration”       | the total consideration payable by the Company for the Sale Shares amounted to RMB370 million (approximately HK\$460 million)  |
| “Convertible Note”    | the five-year convertible note in a principal amount of HK\$100 million (approximately RMB80 million) to be issued to the Vendor or his nominee(s) by the Company to satisfy part of the Consideration   |
| “Conversion Price”    | the conversion price of HK\$0.5 per Conversion Share upon the exercise of the Conversion Rights attaching to the Convertible Note  |
| “Conversion Rights”   | the rights attached to the Convertible Note to convert the whole or any part(s) of the principal amount into Shares  |
| “Conversion Share(s)” | the Share(s) falling to be issued by the Company upon conversion of the Convertible Note   |
| “Director(s)”         | the director(s) of the Company   |
| “EGM”                 | an extraordinary general meeting of the Company to be convened and held to approve the Share Purchase Agreement and the transactions contemplated thereunder   |
| “Gold Mines”          | the three gold mines located at Longkou City, Shandong Province of the PRC, namely Shanchakou Mine, Jinjiling Mine and Yaojia Mine   |
| “Group”               | the Company and its subsidiaries   |
| “HK\$”                | Hong Kong dollars, the lawful currency of Hong Kong  |
| “Hong Kong”           | the Hong Kong Special Administrative Region of the PRC   |

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| “Independent Third Partie(s)” | such person(s) who is(are) independent of and not connected nor acting in concert with the Directors, chief executive or substantial shareholders of the Company or its subsidiaries, or any of their respective associates, or parties acting in concert with any of them  |
| “Jinhui Company”              | Longkou Jinhui Gold Co., Ltd. (龍口市金匯黃金有限責任公司), a company established in the PRC with limited liability which owns the beneficial interest and holds the mine exploitation license and mine exploration license of the Yaojia Mine   |
| “Jinhui Shareholders”         | Mr. Qu Xin (曲欣) and Mr. Li Xiao Dong (李曉棟), each of them hold 15% of the equity interest in Jinhui Company as at the date of this announcement  |
| “Jinjiling Mine”              | 龍口市金鑫黃金有限公司金雞嶺礦區 (Longkou Jinhui Gold Co., Ltd. Jinjiling Mining Area*), a gold mine located in the Houdi Village, Xiadingjia Town, Longkou City, Shandong Province, the PRC  |
| “Jinxin Company”              | Longkou Jinxin Gold Co., Ltd. (龍口市金鑫黃金有限公司), a company established in the PRC with limited liability which owns the beneficial interest and holds the mine exploitation license and mine exploration license of the Shanchakou Mine; and the mine exploitation license of the Jinjiling Mine. It also owns a gold washing plant and a gold refinery plant |
| “Jinxin Shareholders”         | Mr. Meng Jie (孟傑), Mr. Zhuang Heng Yang (莊恒陽) and Mr. Wang Shou Xing (王守星), each of them hold 16%, 7% and 7% of the equity interest in Jinxin Company as at the date of this announcement   |
| “Last Trading Date”           | 11th January, 2013, being the last trading date prior to the release of this announcement   |
| “Letter of Intent”            | the non-binding letter of intent dated 11th October, 2012 entered into between the Company and the Vendor   |
| “Listing Committee”           | the Listing Committee of the Stock Exchange   |

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| “Listing Rules”            | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “Listing Rules Valuation”  | a valuation on the Gold Mines in compliance with Chapter 18 of the Listing Rules  |
| “Material Adverse Effect”  | any event, circumstance, occurrence, fact, condition, change or effect that is materially adverse to (a) the business, operations, results of operations, financial condition, management, properties, assets or liabilities of the Target Group, taken as a whole or otherwise and the markets in which the Target Group operates; or (b) the ability of the Vendor and/or the Target Company to perform fully their respective obligations hereunder and to consummate the transactions contemplated hereby |
| “Noteholder”               | the person(s) who is named as the holder in the certificate for the Convertible Note  |
| “PRC”                      | the People’s Republic of China  |
| “Promissory Note”          | the ten-year promissory note in a principal amount of RMB290 million (approximately HK\$360 million) to be issued by the Company to the Vendor or his nominee(s) to satisfy part of the Consideration   |
| “RMB”                      | Renminbi, the lawful currency of the PRC  |
| “Sale Shares”              | 50,000 shares with a par value of US\$1.0 each in the issued share capital of the Target Company, representing the entire issued share capital of the Target Company  |
| “SFC”                      | Securities and Futures Commission of Hong Kong  |
| “Shanchakou Mine”          | 龍口市金鑫黃金有限公司山岔口礦區 (Longkou Jinhui Gold Co., Ltd. Shanchakou Mining Area*), a gold mine located in the Dazhuangzi Village, Xiadingjia Town, Longkou City, Shandong Province, the PRC  |
| “Share Purchase Agreement” | the share purchase agreement dated 11th January, 2013 and entered into between the Company and the Vendor in respect of the Acquisition   |

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| “Shareholder(s)”   | Shareholder(s) of the Company   |
| “Share(s)”         | ordinary share(s) of HK\$0.10 each in the issued share capital of the Company   |
| “SRK Consulting”   | SRK Consulting (Australasia) Pty Ltd appointed by the Company as competent person to produce the Technical Report   |
| “Stock Exchange”   | The Stock Exchange of Hong Kong Limited   |
| “Takeovers Code”   | The Hong Kong Code on Takeovers and Mergers issued by SFC   |
| “Target Assets”    | all assets owned by Jinxin Company and Jinhui Company, including but not limited to the Gold Mines, the gold washing plant and the gold refinery plant  |
| “Target Company”   | Port First Limited, a company incorporated in the British Virgin Islands with limited liability and legally and beneficially owned by the Vendor. It holds 70% equity interest in each of Jinxin Company and Jinhui Company |
| “Target Group”     | the Target Company and its subsidiaries, including Jinxin Company and Jinhui Company  |
| “Technical Report” | a public report prepared by a competent person that satisfies the Listing Rules on resources and reserves of the Gold Mines in compliance with Chapter 18 of the Listing Rules  |
| “US\$”             | United States dollars, the lawful currency of the United States of America  |
| “Valuer”           | Greater China Appraisal Limited appointed by the Company as independent professional valuer to produce the Valuation Report   |
| “Valuation Report” | the valuation report prepared by the Valuer regarding the valuation of the 100% equity interest in the Target Company in compliance with the Chapter 18 of the Listing Rules  |

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| “Vendor”      | Mr. Wu Fong Shing, an Independent Third Party, who owns 100% interest in the Target Company  |
| “Yaojia Mine” | 龍口市金匯黃金有限責任公司姚家礦區 (Longkou Jinhui Gold Co., Ltd. Yaojia Mining Area*) a gold mine located in the Huangshangguan Town, Longkou City, Shandong Province, PRC |
| “%”           | per cent   |

*(The exchange rate used for the purpose of this announcement is at RMB1 = HK\$1.2446)*

By Order of the Board  
**KINGWELL GROUP LIMITED**  
**Hui Lung Hing**  
*Executive Director*

Hong Kong, 11th January, 2013

*As at the date of this announcement, the Board comprises Mr. Hui Lung Hing, Mr. Xiang Song, Mr. Sze Ming Yee, Mr. Lin Wan Xin, Ms. Xu Yue Yue and Mr. Yang Xue Jun as executive Directors, and Mr. Huang Jian Zi, Mr. Cheung Chuen and Ms. Wong Lai Wing as independent non-executive Directors.*

*\* For identification purpose only*