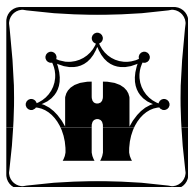


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**漢寶集團(龍蝦大王)有限公司**

**Hon Po Group (Lobster King) Limited**

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

**(Stock Code: 228)**

**VERY SUBSTANTIAL ACQUISITION  
AND  
RESUMPTION OF TRADING**

On 28th December, 2005, the Vendor, the Company, Newsummit and the Guarantor entered into the Agreement pursuant to which, inter alia, (i) the Company has agreed to acquire 60% interest in Newsummit, a company which through its subsidiaries in the PRC and Hong Kong holds certain rights to the Coal Mine (with a capacity of 800,000,000 tonnes of coal based on a preliminary valuation) and the Peat Moss Mine (giving the HKCo, inter alia, the ability to exploit up to 5,000,000 tonnes of peat moss); and (ii) the Company has been granted the Call Option to acquire the remaining 40% interest in Newsummit.

**The Acquisition**

The Acquisition comprises the following:–

- the purchase by the Company of the 6 Sale Shares (representing 60% of the existing issued share capital of Newsummit) at HK\$5,081,585,581, which is to be satisfied on Completion as to HK\$81,585,581 in cash and as to the balance by the issue of the First Convertible Note;
- each of the Company and the Vendor subscribing for the Subscription Shares (pro rata to their shareholding in Newsummit after taking into account the effect of the sale and purchase of the Sale Shares described above) at HK\$7.80 per Subscription Share, as a result of which the Company would be required to pay HK\$18,414,419 for its 2,360,823 Subscription Shares in cash on Completion.

Upon signing of the Agreement, the Company has paid to the Vendor the Sale Deposit of HK\$81,585,581 and to Newsummit the Subscription Deposit of HK\$18,414,419. The Sale Deposit and the Subscription Deposit are to be applied towards the settlement of the cash portion of the Consideration and the part of the Subscription Price payable by the Company,

respectively. On 28th December, 2005, the Vendor executed the Share Charge in favour of the Company to secure its obligations under the Agreement to refund the Sale Deposit in the event the conditions precedent to Completion are not satisfied by 30th June, 2006.

The principal terms of the HK\$5,000,000,000 First Convertible Note which falls to be issued on Completion are set out in the section headed “The Convertible Notes” below. No conversion will be permitted if as a result of the issue of the Shares pursuant to such conversion, any holder of the note and parties acting in concert with it (within the meaning of the Code) would hold 30% or more of the voting rights of the Company on the date of conversion based on the enlarged share capital of the Company after taking into account the issue of the Shares on conversion. Completion of the Acquisition is subject to the satisfaction of various conditions precedent hence the Acquisition may or may not proceed.

### **The Call Option**

The Vendor has granted to the Company the Call Option whereby the Company will have the right, subject to Completion taking place, to require the Vendor to sell the Call Option Shares to the Company or the Company may direct during the Option Period of 24 months from Completion. Upon exercise of the Call Option, the Call Option Shares are to be sold at the Call Option Price of HK\$4,000,000,000, which will be satisfied as to HK\$45,000,000 in cash and HK\$3,955,000,000 by the issue of the Second Convertible Note. The exercise and the Option Completion are subject to the satisfaction of the conditions precedent to the completion of exercise of Call Option which are described in the section headed “Call Option” below. In return for the grant of the Call Option, the Company has paid HK\$1 to the Vendor.

### **General**

The Transactions constitute a very substantial acquisition for the Company under Rule 14.06 of the Listing Rules. Completion of the transactions contemplated under the Agreement, including the issue of the First Convertible Note is subject to, amongst other things, the approval by shareholders of the Company at the EGM. A circular containing further details of the Agreement and certain financial information relating to the Group and the Newsummit Group respectively together with a notice convening the EGM to approve the Agreement will be despatched to Shareholders as soon as practicable.

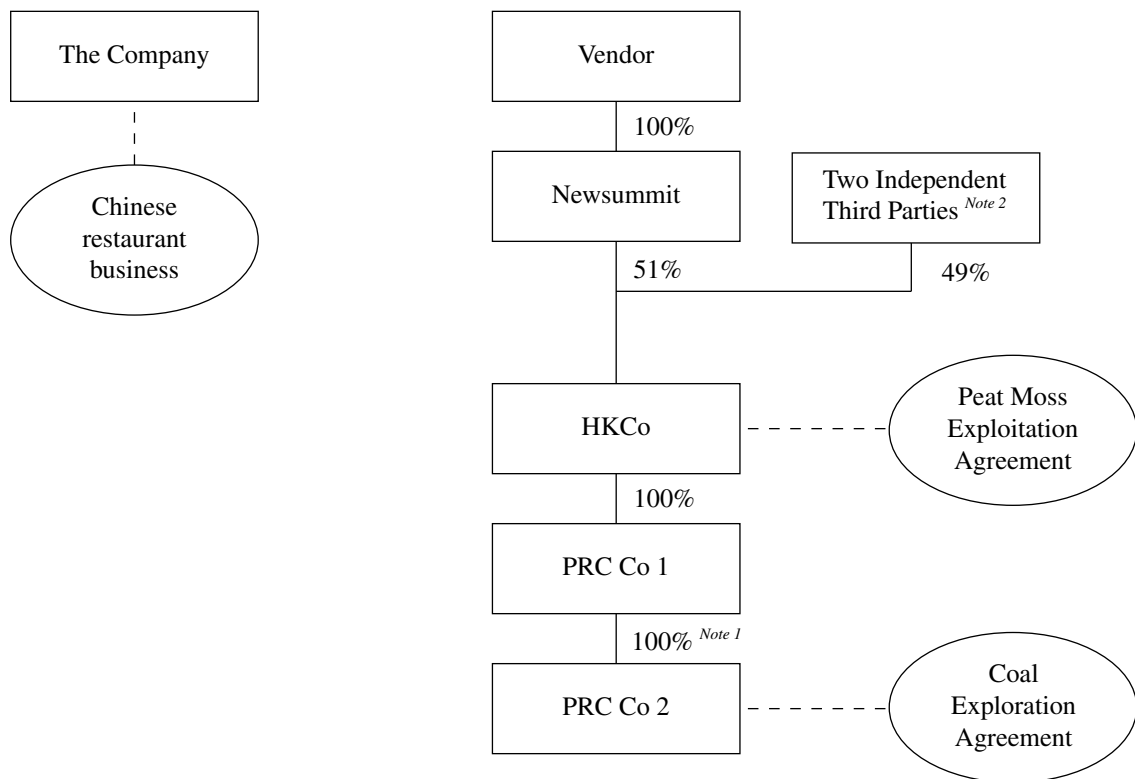
At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 2:30 p.m. on 29th August, 2005 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 10th April, 2006.

# 1. INTRODUCTION

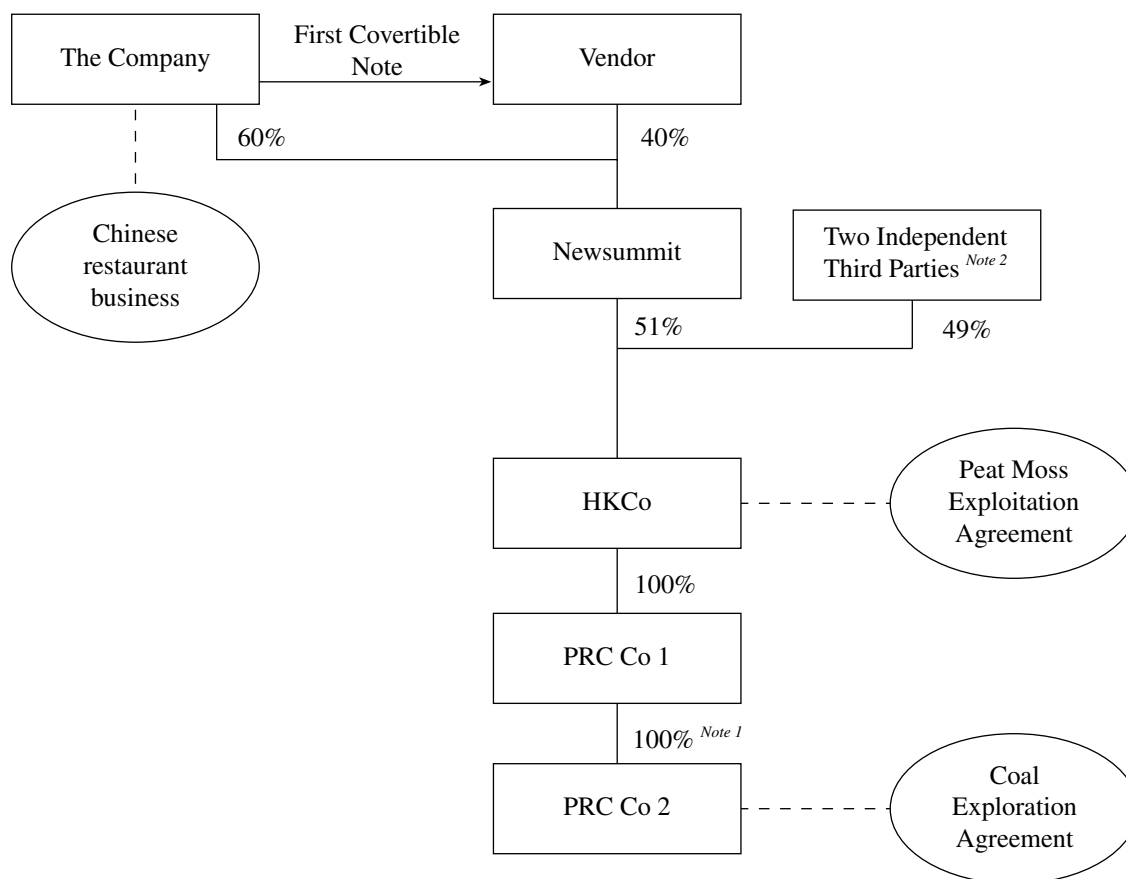
On 28th December, 2005, the Vendor (an individual and an Independent Third Party), the Company, Newsummit (an Independent Third Party wholly-owned by the Vendor) and the Guarantor (an individual and an Independent Third Party) entered into the Agreement pursuant to which, inter alia, (i) the Company has agreed to acquire from the Vendor a 60% interest in Newsummit, a company which through its subsidiaries in the PRC and Hong Kong hold certain rights to the Coal Mine (with a capacity of 800,000,000 tonnes of coal based on a preliminary valuation) and the Peat Moss Mine (giving the HKCo, inter alia, the ability to exploit up to 5,000,000 tonnes of peat moss); and (ii) the Company has been granted the Call Option to acquire the remaining 40% interest in Newsummit.

The following diagrams show the ownership structure of the Company and Newsummit Group as at the date of this announcement and immediately after Completion (assuming no changes to the shareholding and share capital structure of the Company in the meantime):-

## Present



## Immediately after Completion



*Note 1:* The registered capital of PRC Co 2 is registered as to 90% in the name of PRC Co 1 and 10% in the name of an Independent Third Party. This Independent Third Party has executed a confirmation that he holds the 10% registered capital as nominee for PRC Co 1.

*Note 2:* This shareholding is held as to 48.99% by the Guarantor and 0.01% by an Independent Third Party (the Guarantor's spouse).

## 2. THE ACQUISITION

### Sale and Purchase

**Subject matter of purchase:** The Vendor has agreed to sell and the Company has agreed to purchase the Sale Shares, which represent 60% of the existing issued share capital of Newsummit.

**Consideration:** The Consideration for the Sale Shares of HK\$5,081,585,581 was arrived at after arm's length negotiation between the Company and the Vendor by reference to the preliminary valuation (conducted by 117 Team) of the capacity of the coal mine at 800,000,000 tonnes, at the profit margin of a similar producer based on publicly available information.

On signing, the Sale Deposit of HK\$81,585,581 was paid by the Company to the Vendor, refundable if the Conditions are not satisfied by 30th June, 2006. The Sale Deposit was funded out of proceeds of the convertible notes in the aggregate principal amount of HK\$100 million issued by the Company in July and August 2005.

The Consideration is to be satisfied on Completion as follows:–

- HK\$81,585,581 in cash by application of the Sale Deposit; and
- the balance of the Consideration of HK\$5,000,000,000 will be satisfied by the issue of the First Convertible Note by the Company to the Vendor or as it may direct.

The principal terms of the First Convertible Note are set out in the section headed “The Convertible Notes” below.

## Subscription

Subject matter of Subscription: Subject to Completion taking place, the Company and the Vendor have each agreed on Completion to subscribe for the Subscription Shares, pro rata to their shareholding in Newsummit after taking into account the effect of the sale and purchase of the Sale Shares described above as follows:–

	<b>No. of Subscription Shares</b>	<b>% of issued share capital of Newsummit as enlarged by the Subscription Shares</b>
The Company	2,360,823	60%
The Vendor	1,573,882	40%

Subscription Price: The total Subscription Price is HK\$30,690,699 at HK\$7.80 per Subscription Share (being the Hong Kong dollar equivalent of the par value of US\$1.00 per Subscription Share at the exchange rate of US\$1.00 = HK\$7.80) payable by the Company as to HK\$18,414,419 and payable by the Vendor as to HK\$12,276,280.

The total Subscription Price has been determined on the same basis of the Consideration. The proceeds of the Subscription is intended to be used to cover investment costs of HKCo.

On signing of the Agreement, the Company paid to Newsummit the Subscription Deposit of HK\$18,414,419, refundable if the Conditions are not satisfied by 30th June, 2006. The Subscription Deposit was funded out of proceeds of the convertible notes in the aggregate principal amount of HK\$100 million issued by the Company in July and August 2005.

The aggregate Subscription Price is payable in cash to Newsummit on Completion. The Subscription Deposit will be applied against the amount payable by the Company, so that on Completion, the Company will not be required to make further payment for the Subscription Shares.

### **Other terms**

- Conditions precedent to Completion:
- Completion of the sale and purchase of the Sale Shares and subscription of the Subscription Shares is conditional upon the following conditions being fulfilled:–
- (i) the passing by the Shareholders a resolution to approve the Agreement, the grant of the Call Option, the issue of the First Convertible Note and the issue of Shares upon exercise of conversion rights thereunder at a general meeting of the Company in accordance with the Listing Rules;
  - (ii) the Stock Exchange not treating (a) the transactions contemplated under the Agreement as a “reverse takeover” under Rule 14.06(6) of the Listing Rules and/or (b) the Company as a new listing applicant under Rule 14.54 of the Listing Rules;
  - (iii) the Stock Exchange having approved (either unconditionally or subject only to conditions to which the Vendor and the Company do not reasonably object) the issue of the First Convertible Note, or the Company not having received any objection from the Stock Exchange to the issue of the First Convertible Note;

- (iv) PRC Co 2 having obtained the exploitation licence (採礦許可証) to exploit coal from the Coal Mine;
- (v) the due diligence investigation on the Newsummit Group having been completed to the satisfaction of the Company in its sole discretion including but not limited to the issue of a legal opinion in form and substance satisfactory to the Company by a PRC lawyer appointed by the Company confirming, inter alia, the following:–
  - (a) the due incorporation, valid and continued existence of PRC Co 1 (including payment of its registered capital in accordance with PRC laws and its articles of association, to the extent required) and PRC Co 2;
  - (b) the validity of the exploitation licence (採礦証) obtained for the Coal Mine and Peat Moss Mine;
  - (c) that the Coal Exploration Agreement and the Peat Moss Exploitation Agreement and Exploration Team Agreement give PRC Co 2 valid, unconditional, unrestricted and irrevocable rights to explore and exploit coal at the Coal Mine and peat moss at the Peat Moss Mine;
- (vi) a valuation on fair market value of equity interest of the HK Group issued by an independent professional valuer appointed by the Company in Hong Kong at not less than HK\$40,000,000,000;
- (vii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the First Conversion Shares; and
- (viii) the registration of PRC Co 1 as holder of the entire registered capital of PRC Co 2 by the State Administration of Industry and Commerce.

If all the Conditions have not been satisfied by the Company on or before 30th June, 2006 (or such later date as the Vendor, the Company and Newsummit may agree in writing), the Agreement shall terminate. On termination, the parties shall have no further

claims against the other under the Agreement save for antecedent breaches by the parties and save that the Vendor shall return the Sale Deposit and Newsummit shall return the Subscription Deposit to the Company within seven days upon written demand of the Company.

As mentioned above, the subscription of the Subscription Shares is conditional upon, and will take place on, Completion. Accordingly, if the sale and purchase of the Sale Shares does not take place, the subscription for the Subscription Shares will also not take place.

**Completion:** Completion will take place on the seventh business day after the day on which all of the Conditions have been satisfied.

**Board composition of Newsummit on Completion:** The Vendor has appointed 2 directors. The Company will have the right to appoint 3 new directors.

**Post Completion undertakings:** The Vendor and the Guarantor jointly and severally undertook to the Company that after Completion, they will use their respective best endeavours to assist PRC Co 2, the Coal Mine and the Peat Coal Mine to obtain all necessary licences and approvals for exploitation and sale of coal and exploitation of peat moss including but not limited to:–

- (i) issuance of a business licence for PRC Co 2 with the business scope covering exploitation, production and sale of coal and exploitation of peat moss;
- (ii) signing the land use rights contract relating to the Coal Mine and factory and obtaining the construction land planning permit (建設用地規劃許可証), construction project planning permit (建設工程規劃許可証), construction permit (施工許可証) for constructions on the Coal Mine and of the factory;
- (iii) obtaining approvals of environmental effect evaluation reports (環境影響評價報告) for the Coal Mine and passing the inspections from the Environmental Administrations Bureau (環境保護局) for the Coal Mine and Peat Moss Mine (or waiver for the Peat Moss Mine);
- (iv) obtaining a coal production licence (煤炭生產許可証) for the Coal Mine; and



- (v) obtaining production safety licences (安全生產許可証) for the Coal Mine and Peat Moss Mine (or waiver for the Peat Moss Mine).

Guarantee: The Guarantor agreed to guarantee the obligations of the Vendor under the Agreement and also to act as warrantor (jointly and severally with the Vendor) to give warranties under the Agreement.

### **3. SHARE CHARGE**

Chargor: The Vendor

Chargee: The Company

Charged Shares: 10 NS Shares, representing the entire issued share capital of Newsummit on the date of this announcement

Terms: The Vendor agreed to charge to the Company all of its right title and interest in his 10 NS Shares, to secure the obligations of the Vendor under the Agreement and in particular the obligation to refund the Sale Deposit if the Conditions are not satisfied by 30th June, 2006 (or such later date as the parties may agree).

### **4. CALL OPTION**

Call Option: Under the Agreement, the Vendor has, conditional upon Completion taking place, granted to the Company the option to require the Vendor to sell the Call Option Shares (which would represent the remaining 40% interest in Newsummit or the Vendor's entire shareholding in Newsummit at that time) to the Company or the Company may direct.

In consideration of the grant of the Call Option, the Company has paid HK\$1 to the Vendor upon the signing of the Agreement.

Call Option Price: HK\$4,000,000,000 to be satisfied as to HK\$45,000,000 in cash and HK\$3,955,000,000 by the issue of the Second Convertible Note. The Call Option Price was arrived at after arm's length negotiation between the Company and the Vendor with reference to the value of Consideration.

Call Option Deposit: On exercise of the Call Option by the Company by written notice, the Company shall pay HK\$45,000,000 in cash by way of a deposit to the Vendor which shall be refundable if the conditions precedent to completion of exercise of Call Option are not satisfied. The Call Option Deposit will be funded by internal resources of the Company at that time or by fund raising activities, if necessary. The Company does not at present have any plans for fund raising activities. The Call Option Deposit will be applied in settlement of the cash portion of Call Option Price on Option Completion.

Option Period: within 24 months from Completion.

Conditions precedent to completion of exercise of Call Option: The exercise of the Call Option and the obligation of the parties to effect the Option Completion of the sale and purchase of the Call Option Shares are conditional upon:–

- Call Option:
- (i) the approval of the exercise of the Call Option, the issue of the Second Convertible Note and the issue of shares upon exercise of conversion rights thereunder by the shareholders of the Company at a general meeting of the Company, if required by the Listing Rules;
  - (ii) the Stock Exchange having approved (either unconditionally or subject only to conditions to which the Vendor and the Company do not reasonably object) the issue of the Second Convertible Note, or the Company not having received any objection from the Stock Exchange to the issue of the Second Convertible Note; and
  - (iii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares in the Company to be issued upon exercise of conversion rights under the Second Convertible Note.

If the conditions set out above are not satisfied within a period of 90 days from the date of the Option Notice (or such other date as the parties may agree), the Vendor shall return the Call Option Deposit to the Company within seven days upon written demand of the Company and the obligation of the parties in relation to the Call Option shall cease and the parties shall have no claims against the other, save for antecedent breaches and claims for return of the Call Option Deposit.

If the Call Option is exercised, the Company will make an announcement and comply with the provisions of the Listing Rules then applicable.

## 5. THE CONVERTIBLE NOTES

### A. Terms of the Convertible Notes

As mentioned above, the First Convertible Note will fall to be issued upon Completion in partial satisfaction of the Consideration and the Second Convertible Note will fall to be issued on Option Completion, in partial satisfaction of the Call Option Price. The principal commercial terms of the First Convertible Note and the Second Convertible Note, which are set out below, are substantially the same, save as listed below.

Principal amount: The principal amount of the First Convertible Note is HK\$5,000,000,000.

The principal amount of the Second Convertible Note is HK\$3,955,000,000.

Authorised denomination  
for transfer and  
conversion: HK\$5,000,000 or integral multiples

Maturity: Each of the Convertible Notes will mature on the fifth anniversary from the date of issue.

Interest: The Convertible Notes are non-interest bearing

Early redemption: The outstanding principal amount of the Convertible Notes are redeemable at any time from the date of issue until a date falling seven days prior to (and excluding) the relevant maturity date at 105% of the principal amount to be redeemed.

Redemption on maturity: The outstanding principal amount of the relevant Convertible Note which has not been converted is redeemable at 100% of its face value.

Conversion: Each Convertible Note is convertible in whole or in part (in authorised denomination or integral multiples thereof) at any time from the date of issue until a date falling seven days prior to (and excluding) the relevant maturity date, subject to the following restriction:–

No conversion will be permitted if as a result of the issue of the Shares pursuant to such conversion any holder of the note and parties acting in concert with it

(within the meaning of the Code) would hold 30% (or such other amount as may be specified in the Code as being the level for triggering a mandatory general offer) or more of the voting rights of the Company on the date of conversion.

**Conversion on maturity:** The outstanding principal amount of the Convertible Notes will on the relevant maturity date automatically be converted to the extent that the aggregate holding of Shares by the holder of the note and parties acting in concert with it (within the meaning of the Code) would hold not more than 30% (or such other amount as may be specified in the Code as being the level for triggering a mandatory general offer) or more of the voting rights of the Company on the relevant maturity date. To the extent that they are not converted, the outstanding Convertible Notes will be redeemed at its face value.

**Initial conversion price:** The initial conversion price of the First Convertible Note is HK\$5.00 per Share subject to adjustments in certain events, including, among other things, share consolidations, share subdivisions, capitalisation issues, capital distributions and rights issues.

The initial conversion price of the Second Convertible Note is HK\$8.00 per Share subject to adjustments in certain events, including, among other things, share consolidations, share subdivisions, capitalisation issues, capital distributions and rights issues.

The following table compares the initial conversion price of each Convertible Note against the latest closing price and average closing price per Share:–

	<b>Percentage premium the initial conversion price of First Convertible Note represents over the relevant closing price/average closing price/ Proforma NTA</b>	<b>Percentage premium the initial conversion price of Second Convertible Note represents over the relevant closing price/average closing price/ Proforma NTA</b>
Closing price of HK\$1.19 per Share on 26th August, 2005 (the last full trading day of the Shares prior to suspension).	320.17	572.27
5-day average closing price of HK\$1.186 per Share	321.59	574.54
10-day average closing price of HK\$1.073 per Share	365.98	645.57
Proforma NTA per Share as at 31st August, 2005 is HK\$0.041	12,095.12	19,412.20

The conversion prices were agreed after arm's length negotiations between the Vendor and the Company by reference to the valuation of the equity interest of HKCo, its expected revenue to be generated in the future and the fair market value of the Company after completion of the Acquisition. The Board considers that the conversion price is fair and reasonable and is in the interests of the Shareholders and the Company as a whole.

Shares to be issued  
upon conversion:

The Shares to be issued upon conversion of the Convertible Notes when issued will rank equally in all respects amongst themselves and with the Shares in issue on the relevant date of conversion.

The following table shows the number of conversion shares which fall to be issued on conversion of the relevant Convertible Notes at the relevant initial conversion price, those shares as a percentage of the existing issued share capital of the Company and the share capital of the Company as enlarged by the issue of the relevant conversion shares (assuming no other changes to the share capital of the Company)

	Assuming only the First Convertible Note is issued and converted in full	Assuming only the Second Convertible Note is issued and converted in full	Assuming the First Convertible Note and the Second Convertible Note are issued and converted in full
No. of conversion shares	1,000,000,000 Shares	494,375,000 Shares	1,494,375,000 Shares
% of existing issued share capital	39.20%	19.38%	58.58%
% of issued share capital as enlarged by the Shares issued on conversion of the relevant Convertible Note only	28.16%	16.23%	36.94%

Voting rights:

The holders of the Convertible Notes will not have any right to attend or vote at any meetings of the Company by virtue of being the holders of the Convertible Notes.

Transferability:

The Convertible Notes are transferable in whole or in part (in the authorised denominations or integral multiples thereof) only with the prior written consent of the Company.

Consent will not be granted by the Company for transfer of the Convertible Notes to a Connected Person.

Application for listings:

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued upon conversion of the First Convertible Note.

The Company intends to apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued upon conversion of the Second Convertible Note after the exercise of the Call Option.

No listing of either Convertible Note will be sought on the Stock Exchange or any other stock exchanges.

## **B. Dilution effect on Shareholders**

In view of the potential dilution effect on existing Shareholders on exercise of conversion rights attaching to the First Convertible Note, for so long as the First Convertible Note is outstanding, the Company will keep shareholders informed of the level of dilution and details of conversion as follows:–

- (i) the Company will make a monthly announcement (the “Monthly Announcement”) on the website of the Stock Exchange. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:
  - (a) whether there is any conversion of the First Convertible Note during the relevant month. If yes, details of the conversion(s), including the conversion date, number of new Shares issued, conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
  - (b) the outstanding principal amount of the First Convertible Note after the conversion, if any;
  - (c) the total number of Shares issued pursuant to other transactions, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company;
  - (d) the total issued share capital of the Company as at the commencement and the last day of the relevant month; and
- (ii) in addition to the Monthly Announcement, if the cumulative amount of new Shares issued pursuant to the conversion of the First Convertible Note reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the First Convertible Note (and thereafter in a multiple of such 5% threshold), the Company will as soon as practicable but in any event not later than 5 business days thereafter make an

announcement on the website of the Stock Exchange including details as stated in (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement (as the case may be) made by the Company in respect of the First Convertible Note, up to the date on which the total amount of Shares issued pursuant to the conversion amounts to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement (as the case may be) made by the Company in respect of the First Convertible Note.

## 6. INFORMATION ON THE NEWSUMMIT GROUP

### A. Corporate information

As at the date of this announcement, the Vendor holds the entire issued share capital of Newsummit.

Newsummit is a sole purpose investment holding company set up by the Vendor for its investment in the Coal Mine and the Peat Moss Mine. As at the date of this announcement, Newsummit holds 51% of the issued share capital of HKCo. The Guarantor and an Independent Third Party (spouse of the Guarantor) holds 48.99% and 0.01% of HKCo respectively. HKCo is also a sole purpose investment holding company set up for investment in the Coal Mine and the Peat Moss Mine. HKCo holds the entire registered capital of PRC Co 1 which in turn holds the entire registered capital of PRC Co 2.

Brief particulars relating to PRC Co 1 and PRC Co 2 are as follows:–

	<b>PRC Co 1 – 內蒙古 大元投資有限公司 (Inner Mongolia Dayuan Investment Co., Ltd.) (Note 3)</b>	<b>PRC Co 2 – 烏審旗 大元能源有限公司 (Wushenqi Dayuan Gas and Oil Limited*)</b>
Holder of the entire registered share capital:	HKCo – 中國西部能源有限公司 China West Gas and Oil Limited	PRC Co 1 – 內蒙古大元投資有限公司 (Inner Mongolia Dayuan Investment Co., Ltd. (Note 3))
Date of establishment:	10th November, 2005	19th June, 2005
Duration of operation:	30 years from 10th November, 2005	19th June, 2005 to 23rd October, 2006



Registered capital:	RMB26,000,000 ( <i>Note 4</i> )	RMB10,000,000 (fully paid up)
Total investment capital:	RMB52,000,000	N/A ( <i>Note 2</i> )
Scope of business:	The consulting, service and management of investments in coal, peat moss and related products, natural gas and downstream products (production is prohibited before approval is obtained if governmental approval is required according to laws, regulations and State Council orders)	The production, processing and sales of ethene, humic acid, fulvic acid and gardening, plant and flower fertilizer (production is prohibited before approval is obtained if governmental approval is required according to laws, regulations and State Council orders) ( <i>Note 1</i> )
Term of business licence:	from 10th November, 2005 to 10th May, 2006	from 24th October, 2005 to 23rd October, 2006

*Notes:*

1. The scope of business under the business licence of PRC Co 2 does not include the exploitation, production and sale of coal and exploitation of peat moss. PRC Co 2 will procure that the scope of business under the business licence will be amended after the coal production licence has been issued (that is after Completion) to include such activities.
2. The PRC lawyer advised that PRC Co 2 is a domestic company and does not have restriction on investment capital hence PRC Co 2 only has registered capital.
3. Pursuant to a sale and purchase agreement dated 25th November 2005 between 內蒙古鄂爾多斯市西部能源有限公司, PRC Co 1 and Liu Sing Shing, an Independent Third Party, 內蒙古鄂爾多斯市西部能源有限公司 agreed to sell the entire registered capital of PRC Co 2 to PRC Co 1. The transfer of registered capital is required to be registered at the State Administration of Industry and Commerce, which the PRC lawyer has confirmed that this is a procedural matter. The registration is in progress.

4. According to PRC Co 1's existing articles, the registered capital of PRC Co 1 is required to be fully paid up in cash within 6 months from its date of incorporation (i.e. by 10th May 2006). PRC Co 1 intends to amend its articles to vary the method and timing of payment of its registered capital before 10th May, 2006. In the meantime, 15% of the registered capital of PRC Co 1 has been paid in cash within three months from its date of incorporation and the capital verification report has been issued.

## **B. Coal and peat moss exploitation**

Based on information provided by the Vendor, HKCo and PRC Co 2 hold certain rights to the Coal Mine and Peat Moss Mine, as described below.

### ***Coal exploitation***

At present, PRC Co. 2 has entered into a Coal Exploration Agreement with Party A dated 27th August, 2005 to acquire Party A's coal exploration licence over the Coal Mine. According to this agreement, PRC Co 2 has paid to Party A a fee of RMB20,040,000. Party A agrees to provide an area of not less than 40.08 square kilometres in the Coal Mine for PRC Co 2 to undertake coal exploration activities. The Company understands this fee has been fully paid. Such activities must be performed by a specialist team as specified in the coal exploration licence within a 6 months' period from 27th August, 2005 which has been varied by the Exploration Team Agreement as explained below. The Company understands that the exploration works are in progress and upon completion of exploration works by the specialist team according to the terms of the agreement, Party A will transfer the coal exploration licence to PRC Co 2. Relevant PRC laws state that the exploration rights cannot be transferred within two years from the date of issue unless, among other things, a minimum amount has been invested in the exploration works of the mine. Based on information given by the Vendor, RMB7.95 million has been paid by PRC Co 2 under the Exploration Team Agreement, which satisfies this minimum amount requirement.

In connection with the Coal Exploration Agreement, PRC Co 2, Party A and 117 Team entered into the Exploration Team Agreement whereby the parties agreed to appoint 117 Team to carry out coal exploration works at Coal Mine and PRC Co 2 is responsible for payment of all related fees estimated to be RMB15 million with payment of an initial instalment payment of 30% and the balance of payment to be made in stages by reference to the level of works completed. The Company understands that part of such fees in the amount of RMB7.95 million has been paid and exploration works have commenced under the Exploration Team Agreement. The parties agreed that the exploration report (精查地質報告) is to be completed by 20th June, 2006. The PRC lawyer has confirmed that this constitutes a valid variation and extension of the original 6 months' period for performing coal exploration activities as referred to in the Coal Exploration Agreement.

After Completion, PRC Co 2 needs to obtain the approval of its environmental effect evaluation reports (環境影響評價文件), to pass the inspection from the environmental administrations authorities (環境保護設施驗收合格), apply for a production safety licence (安全生產許可証) and coal production licence (煤炭生產許可証) and to enter into the land use rights contract (國有土地使用權出讓合同) with the local land bureau over the Coal Mine and factory before it can extract, produce and sell the coal obtained from the Coal Mine. Timing of payment of land premium and obtaining land use right certificate will depend on the terms on the grant of land use right contract. The expected land premium payable is approximately RMB1 million per 1 square kilometre. For the constructions on the Coal Mine and of the factory, PRC Co 2 needs to obtain the construction land planning permit (建設用地規劃許可証), construction project planning permit (建設工程規劃許可証), construction permit (施工許可証). There is no assurance that PRC Co 2 will pass the inspection, the production safety licence, the coal production licence, the construction permits will be obtained or that the grant of land use right contract will be entered into. It is expected that the time required for signing the contract, getting the approvals and passing the inspections is will be around 5 months.

PRC Co 2 has entered into a letter of intent (subject to entering into of binding agreements) with a partner experienced in the design, construction and management of coal mines to set up a joint venture company to be held by PRC Co 2 as to 55% and the partner as to 45% for the purpose of constructing a coal mine with expected annual capacity of 15 million to 20 million tonnes and the expected total investment cost of RMB1,500 million. The project is expected to receive bank financing of RMB900 million with the balance to be contributed by PRC Co 2 as to RMB330 million (55%) and by the partner as to RMB270 million (45%). PRC Co 2 is responsible for liaising with the PRC authorities and obtaining the necessary approvals and exploitation licence and the partner will provide technical know how and equipments for the project. The Company's share of PRC Co 2's contribution of RMB330 million will be funded by internal resources of the Company at that time or by fund raising activities, if necessary. The Company does not at present have any plans for fund raising activities.

Save as disclosed above, the Company's understanding is that the significant costs which need to be incurred before starting coal production is the land premium for the land use right, the balance of the coal exploration fees and the premium of the exploitation right (採礦權價款). Application can be made for part only of the land use rights of the Coal Mine and the land premium payable is approximately RMB1 million per 1 square kilometre. Timing of payment of the premium will depend on the terms on the grant of land use right contract. The Company understands that the first stage of application of the land use right will be for 1 square kilometre of the Coal Mine and the factory. The land premium and the balance of the coal exploration fees are expected to be settled by the internal working capital of PRC Co 2. The premium of the exploitation right (採

礦權價款) shall be determined based upon a valuation prepared by a qualified independent valuer and endorsed by the applicable PRC governmental authorities. Based on the expected capacity of the coal mine at 800,000,000 tonnes, the amount is estimated to be a minimum of RMB400 million but the actual amount payable is subject to negotiation with the relevant authorities and can be paid by instalments within a maximum of 6 years.

### ***Peat moss exploitation***

HKCo and Party B have entered into the Peat Moss Exploitation Agreement dated 25th April, 2005.

Pursuant to that agreement, Party B agreed to provide a total of 5 million tonnes of peat moss resources for HKCo to exploit on the condition that HKCo invests RMB6 million in the first phase of a peat moss mining project in Wushenqi. The amount to be contributed in the second phase will depend on the scope of the investment. For this purpose, HKCo has nominated PRC Co 2 to take up the project. The registered capital of RMB10 million was injected into PRC Co 2 out of which RMB6 million had been applied for the project. PRC Co 2 has obtained an exploitation licence for open cut mining of peat moss at the Peat Moss Mine covering an area of 2.4425 square kilometres with a capacity of 100,000 tonnes per year for two years commencing from June 2005. PRC Co 2 has obtained a further coal exploitation licence for the Peat Moss Mine covering an enlarged area of 3.8351 square kilometres with an annual capacity of 100,000 tonnes for one year from January 2006. The Company understands that the peat moss extracted from the peat moss mine is to be used for the production of flower fertilizer.

PRC Co 2 has obtained the approval of its environmental effect evaluation reports (環境影響評價文件), but needs to pass the inspection from the environmental administrations authorities (環境保護設施驗收合格) (or obtain a waiver) and apply for a production safety licence (安全生產許可証) (or obtain a waiver) before it can extract, produce and sell peat moss from the Peat Moss Mine. PRC Co 2 has obtained a temporary land use right permit to use 1 square kilometre of the Peat Moss Mine from 28th September, 2005 to 28th September, 2006 to exploit peat moss. PRC Co 2 has obtained the land use right certificate and real estate ownership certificate for the factory premises and the land premium has been paid. There is no assurance that PRC Co 2 will pass the inspection and the production safety licence will be obtained. It is expected that the time required for obtaining the approvals and passing the inspections will be around 3 months.

The Company understands ancillary works are in progress at the Peat Moss Mine like construction of the factory, marketing and setting up of representative office. However, the exploitation and production of peat moss has not commenced.

### C. Summary of the principal approvals etc. required after Completion

In summary, the following are the principal approvals, licences, tests or steps required to be obtained, passed or completed after Completion before coal and peat moss can be exploited from the Coal Mine and the Peat Moss Mine respectively under PRC laws:–

PRC Co 2 must:–

1. obtain the approval of the environmental effect evaluation reports (環境影響評價文件) for the Coal Mine and pass the inspection from the environmental administrations authorities (環境保護設施驗收合格) for the Coal Mine and the Peat Moss Mine (or obtain a waiver for the Peat Moss Mine) – PRC Co 2 needs to evaluate the effects of the operations of the Coal Mine on the environment and prepare the report in accordance with the relevant guidelines which report needs to be approved by the environment protection authorities of the Inner Mongolia Autonomous Region (內蒙古自治區環境保護主管部門). In addition, the environmental protection facilities needs to pass the inspection by the same relevant authorities. Conduct of operations without the approval of the environmental effect evaluation reports could result in the imposition of stop – working order on the operations and a penalty charge.
2. enter into the land use rights contract (國有土地使用權出讓合同) with the local land bureau over the Coal Mine and factory. PRC Co 2 needs to negotiate with the local land bureau regarding the terms of the grant of the land use rights (including the premium) after which the land use right contract can be signed. The timing of payment of the land premium and obtaining of the land use right certificate (國有土地使用証) will depend on the terms of the grant of land use rights contract. PRC Co 2 will need to obtain construction land planning permit (建設用地規劃許可証), construction project planning permit (建設工程規劃許可証), construction permit (施工許可証) before commencing any construction on the Coal Mine and of the factory.
3. apply for a production safety licence (安全生產許可証) for the Coal Mine and the Peat Moss Mine (or obtain a waiver for the Peat Moss Mine) – PRC Co 2 needs to make applications in accordance with the relevant legislations for the Production Safety Licence. Commencement of operations without the licence can lead to imposition of a stop work order plus a fine.

4. PRC Co 2 will need to apply for a coal production licence (煤炭生產許可証) for the Coal Mine – PRC Co 2 needs to make application to the relevant department for the coal production licence and to pass the annual inspections to maintain the licence. Commencement of work without the licence can lead to the imposition of stop – working order, confiscation of proceeds of the operations and a penalty charge.
5. amend the business scope of the business licence of PRC Co 2 to include exploitation, production and sale of coal – these can be amended after the coal production licence is issued. Failure to do so will result in imposition of a penalty charge.

The matters mentioned in paragraphs 1 to 5 above for the Coal Mine can only be done when the coal exploitation licence is issued. In relation to the Peat Moss Mine, the relevant applications and/or waivers (if applicable) are in progress. Failure to obtain or comply with the matters set out in paragraphs 1 to 5 above will lead to the Newsummit Group being unable to exploit, produce and sell coal from the Coal Mine and peat mine from the Peat Moss Mine. The Newsummit Group will however still be able to sell its rights under the coal exploration licence and peat mine exploitation licence, subject to government approval.

#### **D. Risks relating to the industry**

Set out below are risks relating to the industry:–

1. The profits generated from the Coal Mine are subject to the cyclical nature of the domestic and international coal market which are affected by numerous factors beyond the Company's control, for example, general economic conditions in the PRC and elsewhere in the world, milder or severer normal weather conditions, fluctuations in the development and growth of industries with a high demand of coal. The selling price of coal and the margin will depend on market supply and demand forces in the domestic and international coal markets.
2. The coal industry in the PRC is subject to extensive regulation by the PRC government. The operations under the Coal Mine may be materially and adversely affected by any future changes in the government regulations and policies.
3. Coal mine operations are subject to environmental protection laws and regulations in the PRC. The expenditure for environmental regulatory compliance will increase if the environmental protection laws become more stringent.

4. The operations of the mines are carried out in the PRC. Any adverse changes in economic policy and legal development will affect the revenue generated.

#### **E. Financial information on the Newsummit Group**

The accumulated loss of Newsummit Group as set out in its unaudited consolidated financial statements for the period from 30th March, 2005 (the date of incorporation of Newsummit) to 30th September, 2005 was HK\$325,751.

The net asset value of the Newsummit Group based on its unaudited consolidated financial statements as at 30th September, 2005 was HK\$7,451,254.

### **7. REASONS FOR THE TRANSACTIONS**

The principal activity of the Company is investment holding. The principal activity of the Company's subsidiaries involves the operation of a chain of Chinese restaurants in Hong Kong.

The Directors having considered the inherent volatility of the Chinese restaurant market which could adversely be affected by extraneous circumstances beyond the Company's control, such as the general economic climate and consumer spending patterns in Hong Kong and the outbreak or perceived risks of spread of infectious diseases, determined that the Company should consider alternative investments with a view to boosting its income base and spread its business risks over years. Having explored the possibility for investing in the food and beverage related industries or property investment amongst other things, the terms required by counterparties, the resources available to the Company and also the prospects of each possible investment, the Company has determined that the Transactions, if completed, represent an attractive investment which is less exposed to the risks faced by the Hong Kong restaurant sector due to factors beyond the Company's control (e.g. the current worldwide threat of the bird flu pandemic) (thereby enabling the Company to spread its business risks) but in the coal mining industry which is supported by the PRC government with an upside of being able to extract up to 800 million tonnes of coal over 30 years at an attractive profit margin which in turn could potentially generate steady returns to the Company. In order to manage this investment, the Company intends to recruit enough number of experts with relevant expertise and experience to manage the business.

The Acquisition is an alternative investment for the Company to boost its income base and spread its business risks over years. The Company will continue its existing business of operation of Chinese restaurants in Hong Kong. The Company does not at present intend to change the principal business of the Group.

In view of the above reasons, the Company has decided to use the net proceeds of HK\$98.2 million from its convertible notes issued by the Company in July and August of 2005 for its investment in Newsummit instead of for “future investment on food and beverage related industries (which may or may not include investments in further restaurants) and/or property investment when suitable opportunities arise” as referred to in the announcement of the Company dated 9th May, 2005 and circular of the Company dated 14th June, 2005 published in connection with the convertible note issue.

The Directors (including the independent non-executive director) are of the view that the terms of the Agreement, the grant of the Call Option and the terms of the First Convertible Note and Second Convertible Note are fair and reasonable and in the interest of Shareholders as a whole.

## 8. SHAREHOLDING STRUCTURE

Name of Shareholders	As at the date of this announcement		Assuming full conversion of the First Convertible Notes and no further shares are issued from the date of this announcement till the date of conversion		Assuming full conversion of the First Convertible Note and the Second Convertible Note and no further shares are issued from the date of this announcement till the date of conversion	
	Number of Shares	% of shareholding	Number of Shares	% of shareholding	Number of Shares	% of shareholding
Newsummit	NIL	NIL	1,000,000,000	28.16	1,494,375,000	36.94
Hon Po Investment Ltd.	76,000,000	2.98	76,000,000	2.14	76,000,000	1.88
Public Shareholders	2,475,200,000	97.02	2,475,200,000	69.70	2,475,200,000	61.18
Total	2,551,200,000	100.00	3,551,200,000	100.00	4,045,575,000	100.00



## RECENT FUND RAISING ACTIVITIES BY THE COMPANY

Description	Announcement Date	Net proceeds	Date of General Mandate granted	Intended Use of Proceeds as announced	Actual use of Proceeds
Issue of 126,000,000 new shares of HK\$0.01 each pursuant to a vendor-placing exercise at HK\$0.0624 per share	20th January, 2005	About HK\$7.6 million	27th May, 2004	General working capital	Used as intended
Issue of HK\$40 million of first convertible notes pursuant to a placing agreement	7th February, 2005	About HK\$39.4 million	30th June, 2005	Settle debts and liabilities other than accounts payable, other payables and accruals of Group, and balance of the proceeds may be applied towards repayment of working capital advances by Hon Po Investments Limited	Used as intended
Issue of HK\$100 million of second convertible notes pursuant to a placing agreement	9th May, 2005	About HK\$98.2 million	30th June, 2005	Used for future investment on food and beverage related industries and or property investment	Applied as deposit for acquisition of a certain amount of equity interest in Newsummit

### 9. GENERAL

The Transactions constitute a very substantial acquisition for the Company under Rule 14.06 of the Listing Rules.

A circular containing details of the Agreement, certain financial information on the Group and the Newsummit Group, including notice of the EGM will be despatched to Shareholders as soon as practicable.

**The Stock Exchange is concerned that the ultimate intention of the Company and the Vendor is to inject a business into a listed company which is under the Vendor's control. The Stock Exchange will closely monitor all future transactions, if any, between the Company and the Vendor and may aggregate such transactions and decide whether the reverse takeover rule should apply. The Stock Exchange may also revisit this matter in the event that there is evidence available to indicate that the Company is under the control of the Vendor. Shareholders and potential investors should also note that the Acquisition, which is subject to a number of conditions precedent, may or may not be completed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.**

## **10. RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 2:30 p.m. on 29th August, 2005 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 10th April, 2006.

## **DEFINITIONS**

The following terms are used in this announcement within the meanings set opposite them:–

“Acquisition”	the acquisition of the Sale Shares and the Subscription Shares by the Company under the Agreement;
“Agreement”	the agreement dated 28th December, 2005 entered into by the Vendor, the Company, Newsummit and the Guarantor relating to the sale and purchase and subscription of NS Shares and grant of the Call Option;
“Associates”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of directors of the Company;
“business day”	a day (other than Saturday) on which banks are open for business in Hong Kong;
“Call Option”	the option exercisable by the Company to require the Vendor to sell the Call Option Shares to the Company or as the Company may direct at the Call Option Price during the Option Period;

“Call Option Deposit”	HK\$45,000,000;
“Call Option Price”	HK\$4,000,000,000;
“Call Option Shares”	1,573,882 NS Shares or the Vendor’s entire shareholding in Newsummit at the date of the Option Notice, whichever is greater;
“Coal Exploration Agreement”	the contract dated 27th August, 2005 in Chinese entered into between PRC Co 2 and Party A;
“Coal Mine”	a mine with an area of 40.08 square kilometres in 內蒙古自治區鄂爾多斯市烏審旗東部 (Inner Mongolia Autonomous Region Erdos City, East of Wushenqi*);
“Code”	the Hong Kong Code on Takeovers and Mergers;
“Company”	Hon Po Group (Lobster King) Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“Completion”	completion of the sale and purchase of the Sale Shares and subscription of the Subscription Shares under the Agreement;
“Conditions”	the conditions for completion of the Agreement described in the paragraph headed “Conditions Precedent to Completion” in the section headed “The Acquisition”;
“Connected Person(s)”	has the meaning ascribed thereto in the Listing Rules;
“Convertible Notes”	the First Convertible Note and Second Convertible Note;
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be held to approve the Transactions;
“Exploration Team Agreement”	the contract dated 14th December, 2005 in Chinese entered among Party A, PRC Co 2 and 117 Team;
“First Convertible Note”	the convertible redeemable note to be issued by the Company to the Vendor to satisfy in part its obligation to pay the consideration;

“First Conversion Shares”	such number of new Shares to be issued upon exercise of conversion rights attaching to the First Convertible Note;
“Group”	the Company and its subsidiaries;
“Guarantor”	Mr. Tsui Man Sang;
“HK\$”	Hong Kong dollars;
“HKCo”	China West Gas and Oil Limited, a company incorporated in Hong Kong on 10th May, 2000;
“HK Group”	HKCo and its subsidiaries;
“Independent Third Party”	a party and the ultimate beneficial owner of which are third parties independent of the Company and of connected persons (as defined in the Listing Rules) of the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“NS Shares”	shares with a par value of US\$ 1.00 each in the capital of Newsummit;
“Newsummit”	Newsummit Investments Limited, a company incorporated in the British Virgin Islands on 30th March, 2005;
“Newsummit Group”	Newsummit and its subsidiaries;
“Option Completion”	completion of the sale and purchase of the Call Option Shares;
“Option Notice”	the notice of exercise of the Call Option to be given by the Company to the Vendor;
“Option Period”	a period of 24 months commencing from Completion of the Agreement;
“PRC”	the People’s Republic of China;
“PRC Co 1”	內蒙古大元投資有限公司 (Inner Mongolia Dayuan Investment Co., Ltd.), a company incorporated in the PRC;

“PRC Co 2”	烏審旗大元能源有限公司(Wushenqi Dayuan Gas and Oil Limited*), a company incorporated in the PRC;
“Party A”	烏審旗國有資產投資經營有限公司 (Wushenqi State Owned Assets Investment Company Limited*);
“Party B”	內蒙古自治區烏審旗人民政府 (the People’s Government of Wushenqi of the Inner Mongolia Autonomous Region*);
“Peat Moss Exploitation Agreement”	the contract dated 25th April, 2005 in Chinese entered into between HKCo and Party B;
“Peat Moss Mine”	a peat moss mine at 烏審旗呼吉爾特鄉 (Wushenqi Hujertexiang*);
“Sale Deposit”	an amount of HK\$81,585,581 which was paid on signing of this Agreement by the Company to the Vendor;
“Consideration”	HK\$5,081,585,581;
“Sale Shares”	6 NS Shares;
“Second Convertible Note”	a convertible redeemable note in the principal amount of HK\$3,955,000,000 to be issued by the Company to the Vendor to satisfy in part its obligations to pay the Call Option Price described in the section headed “The Convertible Notes”;
“Share Charge”	the charge over the Sale Shares to be executed entered into by the Vendor in favour of the Company on 28th December, 2005 as described in the section headed “Share Charge”;
“Shares”	shares with a par value of HK\$0.05 each in the capital of the Company;
“Shareholder(s)”	holder of (a) Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription”	the subscription by the Company of the Subscription Shares pursuant to the Agreement;
“Subscription Deposit”	an amount of HK\$18,414,419 paid on signing of this Agreement by the Company to Newsummit;

“Subscription Shares”	1,573,882 and 2,360,823 new NS Shares (3,934,705 new NS Shares in aggregate) to be issued by Newsummit to the Vendor and the Company respectively;
“Subscription Price”	HK\$30,690,699 in aggregate payable as to HK\$12,276,280 and HK\$18,414,419 by the Vendor and the Company respectively;
“Transactions”	the sale and purchase of the Sale Shares, the subscription of the Subscription Shares, the grant of the Call Option, the First Convertible Note and the issue of the Shares upon exercise of conversion rights thereunder;
“US\$”	U.S. dollars;
“Vendor”	an individual and an Independent Third Party;
“Wushenqi”	內蒙古自治區烏審旗鎮 (Wushenqi city of the Inner Mongolia Autonomous Region*); and
“117 Team”	內蒙古煤田地質局117勘探隊(No. 117 exploration team of Inner Mongolia Coalfield Geology Bureau*).

*As at the date of this announcement, Mr. Cheung To Sang, Mrs. Cheung Lim Mai Tak, Grace, Mr. She Hing Chiu, Mr. Chan Shi Yung and Mr. Chui Kwong Kau are executive directors, Mr. Chang Kin Man, Mr. Wu Tak Lung and Ms. Lee Pui Hang, Pieann are independent non-executive directors of the Company.*

By order of the board of directors of  
**Hon Po Group (Lobster King) Limited**  
**Chan Shi Yung**  
*Chief Executive Officer*

Hong Kong, 7th April, 2006

\* *for identification purposes only*

Please also refer to the published version of this announcement in China Daily.