Minglun
明倫集團
MINGLUN GROUP

MINGLUN GROUP (HONG KONG) LIMITED
明倫集團（香港）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 346)

CONNECTED TRANSACTION
PROPOSED ISSUE OF A CONVERTIBLE BOND TO THE CONTROLLING SHAREHOLDER
AND
RESUMPTION OF TRADING

Financial Adviser to Minglun Group (Hong Kong) Limited

VINCO Grand Vinco Capital Limited

On 13 November 2004, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company has agreed to issue and the Subscriber has agreed to subscribe for the Convertible Bond in the principal amount of HK$26,812,800.

Assuming the exercise in full of the conversion rights attaching to the Convertible Bond at the conversion price of HK$0.112 per Share, a total number of 239,400,000 new Shares will be issued. The conversion price of HK$0.112 per Share represented a discount of approximately 18.84% to the closing price of HK$0.138 per Share quoted on the Stock Exchange on the Last Trading Day.

The interest of the Subscriber in the issued share capital of the Company will increase from its existing approximately 62.66% to approximately 68.89% if the Subscriber exercises in full the conversion rights attaching to the Convertible Bond at the aforesaid conversion price.

The net proceeds from the issue of the Convertible Bond of approximately HK$26 million will be used as the general working capital of the Group.

Given that Dr. Hui and Mr. Chen are the Chairman and Vice Chairman of the Group respectively, both of them are the executive Directors and the Subscriber is beneficially owned as to 55% by Dr. Hui and as to 45% by Mr. Chen, the entering into of the Subscription Agreement by the Subscriber constitutes a connected transaction for the Company under the Listing Rules. The SGM will be convened to approve (i) the entering into the Subscription Agreement; (ii) the issue of the Convertible Bond and the allotment and issue of the Conversion Shares; and (iii) all transactions as may be contemplated under the Subscription Agreement. By virtue of the Listing Rules, the resolution for the connected transaction is required to be passed by the Independent Shareholders and voted by way of a poll.

A circular containing, among other things, further details of the Subscription Agreement and the Convertible Bond, a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the recommendation from the Independent Board Committee to the Independent Shareholders and a notice of the SGM will be despatched to the Shareholders as soon as practicable.

At the request of the Company, the Shares have been suspended from trading on the Stock Exchange on 15 November 2004 pending the release of this announcement. Application has been made by the Company for resumption of trading in the Shares from 9:30 a.m. on 18 November 2004.

SUBSCRIPTION AGREEMENT

1. Parties

Issuer: The Company, which is principally engaged in (i) the sale and distribution of polyurethane ("PU") materials, PU foam and PU foam products (molded and unmolded); and (ii) the manufacture and sale business of petrochemical fuel products in the PRC.

Subscriber: Wisdom On Holdings Limited, a company incorporated in the British Virgin Islands. The Subscriber is beneficially owned as to 55% by Dr. Hui and as to 45% by Mr. Chen. Dr. Hui and Mr. Chen are the Chairman and Vice Chairman of the Group respectively and both of them are the executive Directors. The Subscriber's sole business is holding interest in the Shares from time to time.

2. The Convertible Bond

Pursuant to the Subscription Agreement dated 13 November 2004, the Company has agreed to issue and the Subscriber has agreed to subscribe for the Convertible Bond of HK$26,812,800 in cash.

Subject to the Conditions Precedent, the Convertible Bond shall be issued on the third Business Day following the date on which the Conditions Precedent are fulfilled or such other date as the Company and the Subscriber may agree.

3. Principal terms of the Convertible Bond

(a) The terms of the Convertible Bond were negotiated between the Company and the Subscriber on an arm's length basis and the principal terms of which are summarized below:

Principal amount: HK$26,812,800

Interest: 1% per annum accrued from the date of issue on a day to day basis on the principal amount of the Convertible Bond outstanding, payable semi-annually in arrears.

Maturity: The Company shall repay principal amount outstanding under the Convertible Bond to the Bondholder together with all interest accrued on the second anniversary of the date of the issue of the Convertible Bond.

* *For identification purpose only.*

Completion date:	The third Business Day following the date on which the Conditions Precedent are fulfilled or such other date as the Company and the Subscriber may agree for the issued of the Convertible Bond.
Conditions precedent:	The conditions precedent set out in section 4 headed "Conditions Precedent" of this announcement.
Conversion price:	HK$0.112 per Share. The conversion price is subject to adjustment for, among other matters, subdivision or consolidation of Shares, bonus issues, capital reduction, rights issues and other events which have diluting effects on the issued share capital of the Company.
Conversion period:	The Bondholder will have the right to convert the whole or part of the principal amount of the Convertible Bond into Shares at any time and from time to time, after the expiry of a period of six months following the date of issue of the Convertible Bond up to the second anniversary of the issue of the Convertible Bond in amounts of not less than HK$100,000 on each conversion, save that if at any time, the principal outstanding amount of the Convertible Bond is less than HK$100,000, the whole (but not part only) of the principal amount of the Convertible Bond may be converted.
Redemption:	The Bondholder may by written notice to the Company, give at any time after the period of six months from the date of issue of the Convertible Bond and while the Convertible Bond is still outstanding require the Company to redeem the principal amount outstanding under the Convertible Bond or any part thereof in amounts of not less than HK$100,000 and in integral multiples thereof within 5 Business Days of the giving of such notice.
Conversion restriction:	The Bondholder shall only convert such amount of the Convertible Bond into Shares so long as the public float of at least 25% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares can be maintained.
Ranking of the Conversion Shares:	Shares to be issued upon conversion shall rank pari passu in all respects with all other existing Shares outstanding at the date of the conversion notice and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of the conversion notice.
Transferability:	The Convertible Bond may be assigned or transferred to any third party in whole or in part of its principal amount outstanding and the Company shall facilitate any such assignment or transfer of the Convertible Bond.
Voting:	The Bondholder will not be entitled to attend or vote at any meeting of the Company by reason of being the Bondholder.
Listing:	No application will be made for the listing of the Convertible Bond on the Stock Exchange. An application will be made to the Stock Exchange for the listing of the Shares to be issued on exercise of the conversion rights attaching to the Convertible Bond.

There is no security or guarantee given in respect of the issue of the Convertible Bond.

(b) The conversion price of HK$0.112 per Share was arrived at after arm's length negotiation between the Company and the Subscriber and represents:

(i) a discount of approximately 18.84% to the closing price of HK$0.138 per Share quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 16.42% to the average closing price of HK$0.134 per Share quoted on the Stock Exchange for the five consecutive trading date up to and including the Last Trading Day; and

(iii) a discount of approximately 17.04% to the average closing price of HK$0.135 per Share quoted on the Stock Exchange for the ten consecutive trading date up to and including the Last Trading Day.

4. Conditions Precedent

The subscription of the Convertible Bond is conditional upon the fulfillment of the following conditions precedent:

(a) the Listing Committee of the Stock Exchange shall have granted listing of and permission to deal in the Conversion Shares; and

(b) the Independent Shareholders shall have approved by way of a poll at the SGM:

(i) the entering into the Subscription Agreement;

(ii) the issue of the Convertible Bond and the allotment and issue of the Conversion Shares; and

(iii) all transactions as may be contemplated under the Subscription Agreement.

If the Conditions Precedent are not fulfilled on or before 30 January 2004 or such later date as may be agreed between the Subscriber and the Company, the Subscription Agreement will lapse and become null and void and the parties to the Subscription Agreement will be released from all obligations thereunder.

5. Use of proceeds

The net proceeds from the issue of the Convertible Bond of approximately HK$26 million will be used as the general working capital of the Group. As stated in the annual report of the Group, cash and bank balances of the Group as at 31 March 2004 was approximately HK$40 million. As at 31 August 2004, the Group was obliged to pay cash of approximately HK$31 million, being part of the consideration for the acquisition of the entire interest in Shenyang Xinmin Chemical Factory as announced by the Company on 28 May 2004. Accordingly, the Group has a need for general working capital and the principal amount of the Convertible Bond was raised having taken into account of such need.

6. Reasons for the issue of the Convertible Bond

Besides the proposed issue of the Convertible Bond, the Directors have explored other methods of fundraising such as placing of new Shares and rights issue. Given that the trading volume of the Shares has not been generally heavy (the average daily trading volume for a month up to and including the Last Trading Day was approximately 0.4% of the total issued Shares), the Directors consider that the issue of the Convertible Bond represents a good opportunity to raise funds for the development of the Group. The Directors believe that the terms of the Subscription Agreement and the Convertible Bond are fair and reasonable and are on commercial terms and in the interests of the Company and the Shareholders as a whole. In particular, the interest rate of 1% per annum to be accrued under the Convertible Bond is comparatively lower than the rates offered by the bank credit facilities of the Group, which range from Hong Kong Interbank Rate plus 2% to Prime Rate. Although the conversion price of HK$0.112 per Share represents a discount of approximately 18.84% to the closing price of the Shares on the Last Trading Day, the Directors have compared the price earnings multiple represented by such conversion price of approximately 9.41 times (the "Conversion PE") with those of six Hong Kong Main Board listed comparable companies which are principally engaged in trading and manufacturing of petrochemical material business and which market capitalizations are similar to that of the Company and found that the Conversion PE is above the mean of the price earnings multiples of the six comparables of approximately 7.33 times. On such basis and from the perspective of price earnings multiples with reference to the six comparables, the Directors consider that the conversion price of HK$0.112 per Share is fair and reasonable so far as the Independent Shareholders and the Company are concerned.

7. Connected transaction

Given that Dr. Hui and Mr. Chen are the Chairman and Vice Chairman of the Group respectively, both of them are the executive Directors and the Subscriber is beneficially owned as to 55% by Dr. Hui and as to 45% by Mr. Chen, the entering into of the Subscription Agreement by the Subscriber constitutes a connected transaction for the Company under the Listing Rules.

The SGM will be convened to approve:

(i) the entering into the Subscription Agreement;

(ii) the issue of the Convertible Bond and the allotment and issue of the Conversion Shares; and

(iii) all transactions as may be contemplated under the Subscription Agreement.

the Subscriber and its associates will abstain from voting on the resolution(s) regarding the Subscription Agreement and the transaction contemplated thereunder at the SGM.

A circular containing, among other things, further details of the Subscription Agreement and the Convertible Bond, a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the recommendations from the Independent Board Committee to the Independent Shareholders and the notice of the SGM will be despatched to the Shareholders as soon as practicable. By virtue of the Listing Rules, the resolution for the connected transaction is required to be passed by the Independent Shareholders and voted by way of a poll.

SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming the exercise in full of the conversion rights attaching to the Convertible Bond at the conversion price of HK$0.112 per Share, a total of 239,400,000 new Shares will be issued, representing 20% of the Company's existing issued share capital of 1,197,000,000 Shares and approximately 16.67% of the Company's issued share capital of 1,436,400,000 Shares as enlarged by the issue and allotment of such new Shares.

The interest of the Subscriber in the issued share capital of the Company will increase from its existing approximately 62.66% to approximately 68.89% if the Subscriber exercises in full the conversion rights attaching to the Convertible Bond at the aforesaid conversion price.

The following table sets out the shareholding structure of the Company immediately before and after full conversion of the Convertible Bond:

	Issued Shares as at the date hereof		**Upon full exercise of the conversion rights attached to the Convertible Bond**	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*
Subscriber	750,080,000	62.66	750,080,000	52.22
Bondholder	–	–	239,400,000	16.67
Public	446,920,000	37.34	446,920,000	31.11
Total	1,197,000,000	100.00	1,436,400,000	100.00

Upon full conversion of the Convertible Bond, the aggregate shareholding of the existing public Shareholders will decrease from approximately 37.34% to approximately 31.11%, a potential dilution of approximately 6.23%. Taking into account that the issuance of the Convertible Bond will satisfy the current working capital need of the Company and the fact that the Convertible Bond is not redeemable and non-convertible until the expiry of a period of six months following the date of issue of the Convertible Bond, the Directors consider the potential dilution to the shareholding of the Independent Shareholders acceptable.

FUNDRAISING IN PAST TWELVE MONTHS

The Company has not carried out any fundraising activities within the last twelve months prior to the date of this announcement.

SUSPENSION AND RESUMPTION OF TRADING IN SHARES

Trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 15 November 2004 at the request of the Company 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 18 November 2004.

DIRECTORS OF THE COMPANY

As at the date hereof, the executive Directors are Dr. Hui, Mr. Chen, Mr. Chui Say Hoe and Mr. Cheung Wai Yin Wilson, the non-executive Director is Mr. Chow Charn Ki, Kenneth and the independent non-executive Directors are Mr. Chan Wai Dune, Mr. Wong Hing Tat and Mr. Kwong Chi Ho.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

"associates"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Bondholder"	the person(s) who is/are for the time being the holder(s) of the Convertible Bond
"Business Day"	a day (excluding Saturday) on which banks in Hong Kong are generally open for business
"Company"	Minglun Group (Hong Kong) Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange
"Conditions Precedent"	the conditions precedent set out in section 4 headed "Conditions Precedent" of this announcement
"Conversion Shares"	the Shares to be issued by the Company upon exercise by the Subscriber of the conversion rights attached to the Convertible Bond
"Convertible Bond"	the convertible bond of HK$26,812,800 to be issued by the Company to the Subscriber
"Directors"	the directors of the Company
"Dr. Hui"	Dr. Hui Chi Ming, G.B.S., PhD, J.P., the Chairman and executive Director of the Company and is interested in as to 55% of the Subscriber
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administration Region of the People's Republic of China

“Independent Board Committee”	an independent committee of the Board to be appointed by the Directors to advise the Independent Shareholders in respect of the Subscription Agreement and all transactions contemplated thereunder
“Independent Shareholders”	the shareholders of the Company, other than the Subscriber and its associates
“Last Trading Day”	12 November 2004, the last trading of the Shares before the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chen”	Mr. Chen Hua, the Vice Chairman and executive Director of the Company and is interested in as to 45% of the Subscriber
“SGM”	the special general meeting of the Company to be convened to approve the matters set out in section 4 headed “Conditions Precedent” of this announcement
“Share(s)”	share(s) of HK$0.02 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the conditional subscription agreement dated 13 November 2004 entered into between the Company and the Subscriber in relation to the Convertible Bond
“Subscriber”	Wisdom On Holdings Limited, an investment holding company incorporated in the British Virgin Islands with limited liability
“%”	per cent.

By order of the board of
Minglun Group (Hong Kong) Limited
Chui Say Hoe
Executive Director

Hong Kong, 17 November 2004

“Please also refer to the published version of this announcement in The Standard.”