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Kiu Hung International Holdings Limited

僑雄國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00381)

CLARIFICATION ANNOUNCEMENT IN RELATION TO ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Reference is made to the annual report of Kiu Hung International Holdings Limited (the “**Company**”, together with its subsidiaries, collectively the “**Group**”) for the year ended 31 December 2016 (the “**Annual Report**”) published by the Company on 30 May 2017. Unless defined otherwise, capitalized terms used in this announcement shall have the same meanings as those defined in the Annual Report.

The board (the “**Board**”) of the directors (the “**Directors**”) of the Company would like to provide certain additional information in relation to the Annual Report.

A. REVERSAL OF IMPAIRMENT OF EXPLORATION AND EVALUATION ASSETS

In respect of the exploration rights of Bayanhushuo Coal Field and Guerbanhada Coal Mine (the “**Exploration Rights**”) as disclosed in Note 18 under the section headed “Notes to the Consolidated Financial Statements” in the Annual Report, the Company appointed Roma Appraisals Limited (“**Roma Appraisals**”), an independent professional valuer, to perform the valuation of the fair value of the Exploration Rights. Based on the valuation reports of the recoverable amounts of Exploration Rights, the Directors made a reversal of impairment of approximately HK\$11,016,000 on the carrying amount of the Group’s exploration and evaluation assets for the year ended 31 December 2016.

I. Valuation methodology

The guideline comparable transaction method under the market-based approach was adopted in arriving at the fair value of the Exploration Rights. The asset-based approach was not adopted because this approach could not take into account the operations, performance and financial information of the mining companies and the coal mines but not limited to the mine plan, geological information and resource

estimates of the coal mines. The income-based approach was also not adopted as a lot of assumptions have to be made and the valuation could be largely influenced by any inappropriate assumptions made.

II. Valuation inputs and basis and/or assumptions

The major basis and/or assumptions and valuation inputs applied in the valuations of the Exploration Rights for the year ended 31 December 2016 are set out as follows:

Valuation Inputs	Assumptions/Basis
Price-to-area multiple of RMB476,167.68/km ² and price-to resources multiple of RMB0.37/tonne	Reference was made to the data extracted from the guideline comparable transactions of coal exploration right in the PRC completed within two years prior to the date of valuation
Adjustment on coal quality with respect to the coal type	Reference was made to “the Lowest Price for Selling the Coal Mining Rights* (煤炭礦業權有償出讓最低價)” announced by the Government of Inner Mongolia Autonomous Region (“ Inner Mongolia Government ”) and published in coal.in-en.com
Marketability discount of 30%	Due to unavailability of transaction for exploration right of brown coal, marketability discount were applied to the transaction price of the guideline comparable transactions
Adjustment on time difference of guideline comparable transactions in 2015	Due to the time difference between year 2015 and 2016 of the guideline comparable transactions adopted, adjustments were made on the valuation multiples

Outcome of 3 scenarios on treatment of exploration right

According to the “Consultation Paper on the Notice from the Government of Inner Mongolia Autonomous Region with an Objective to Enhance the Management in the Coal Resources* (《內蒙古自治區人民政府關於完善煤炭資源管理的通知 — 徵求意見稿》)”, released by the Development and Reform Commission* (發展及改革委員會) of Inner Mongolia Autonomous Region on 18 April 2012, if a company was unable to convert its exploration right into exploitation right of a coal mine, the company would be given three options for the exploration right of the coal mine, (i) sell the exploration right to a third party; (ii) forfeit the exploration right and return it back to the Inner Mongolia Government; and (iii) fulfill the requirement of resources allocation process, approved by the Inner Mongolia Government, where 70% of the equity will be allocated to the company and the remaining 30% to the Inner Mongolia Government. The probabilities of the three options were based on best estimate and past experience of the management of the Group

The major difference between the valuations of the Exploration Rights prepared for the years ended 31 December 2015 and 2016 was the number of guideline comparable transactions adopted to estimate the valuation multiple. For the valuations of the Exploration Rights prepared for the financial year 2015, only transactions of coal exploration right completed in 2015 in the PRC were adopted to estimate the valuation multiples. For that of the financial year 2016, due to the limited number of completed transactions of coal exploration right in the PRC in 2016, the valuer has adopted the guideline comparable transactions completed in both years of 2015 and 2016 for the valuation in 2016. The valuation multiples obtained from the guideline comparable transactions completed in 2015 were adjusted with respect to the time difference, details as depicted below.

The time difference adjustment was based on the ratio between the ask price of exploration right in the PRC in 2015 and that in 2016. The adjustment was determined as follows:

$$VM_a = VM_{GT}/AP_{2015} * AP_{2016}$$

In which

VM_a = Adjusted valuation multiples on time difference;

VM_{GT} = Valuation multiples from guideline comparable transaction;

AP₂₀₁₅ = Average of valuation multiples based on ask price in 2015; and

AP₂₀₁₆ = Average of valuation multiples based on ask price in 2016.

Save as disclosed above, the valuation methodology and basis adopted in the valuations of the Exploration Rights for the financial year 2016 have no significant changes compared with prior year.

B. IMPAIRMENT OF INVESTMENT IN AVAILABLE-FOR-SALE FINANCIAL ASSET

In respect of the impairment on available-for-sale financial asset, as disclosed in Note 21 under the section headed “Notes to the Consolidated Financial Statements” in the Annual Report, in view of the actual performance achieved by USO Management & Holding Co. Ltd. (“USO”), the Directors made an impairment of approximately HK\$19,156,000 on the carrying amount of the Group’s investment in USO, based on the valuation report of the fair value of USO as at 31 December 2016 prepared by Roma Appraisals.

I. Valuation methodology

Income-based approach was adopted in the valuation of the fair value of USO. Market-based approach was not adopted because most of the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations, were not readily available. Meanwhile, the asset-based approach was also not adopted because it could not capture the future earning potential of the business enterprise. Since the available-for-sale financial asset was newly acquired in the financial year 2015, and there is no impairment indication in the financial year 2015, so no valuation for impairment assessment was performed. In addition, since there is no independent valuation for the available-for-sale financial asset performed by independent valuer for the financial year 2015 for impairment assessment purpose, no comparison can be made for the change in the valuation method adopted.

II. Valuation inputs and basis and/or assumptions

The major basis and/or assumptions and valuation inputs applied in the valuation of the fair value of USO for the year ended 31 December 2016 are set out as follows:

Valuation Inputs	Assumptions/Basis
Discount rate of 16.13%	Reference was made to the Capital Asset Pricing Model with Bloomberg’s data as input
Marketability discount of 16.11%	Reference was made to the 2016 edition of the Companion Guide to the FMV Restricted Stock Study
Minority discount of 26.79%	Reference was made to the Mergerstat Control Premium Study (4th Quarter 2015)

Revenue growth rate of 3% to 209%

The revenue was projected with reference to the expected output of raw fruit of a noni tree per year (in kg), number of noni trees that can be planted on 1 acre of land, size of the farm (in acre), output rate and unit selling price with reference to a consultancy letter and estimation by the management of USO. The revenue growth in the early stage was mainly due to the increase in output rate as estimated by the management of USO

Terminal growth rate of 3%

Reference was made to China's long term projected inflation rate as sourced from International Monetary Fund as at 31 December 2016

Since the available-for-sale financial asset was newly acquired in the financial year 2015, and there is no impairment indication in 2015, so no valuation for impairment assessment was performed. Since there is no independent valuation for the available-for-sale financial asset performed by independent valuer for the financial year 2015 for impairment assessment purpose, no comparison can be made for the change in the assumptions and inputs of the valuation method adopted.

Save for the aforesaid, all information and contents set out in the Annual Report remain unchanged.

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

Hong Kong, 4 July 2017

As at the date of this announcement, the Board comprises four executive Directors, Mr. Hui Kee Fung, Mr. Yu Won Kong, Dennis, Mr. Zhang Yun and Mr. Zhang Qijun and three independent non-executive Directors, Mr. So Chun Pong, Ricky, Mr. Wang Xiao Ning and Mr. Cheung Man Loon, Michael.

* *For identification purpose only*