# 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)**

## FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The Board (the "**Board**") of Directors (the "**Directors**") of Kiu Hung International Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017 as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS
*For the year ended 31 December 2017*

| | *Notes* | **2017** *HK$'000* | 2016 *HK$'000* |
|---|---|---|---|
| **Revenue** | *4* | **219,628** | 235,384 |
| Cost of sales | | **(141,959)** | (151,478) |
| **Gross profit** | | **77,669** | 83,906 |
| Other income | *5* | **4,927** | 1,550 |
| Selling and distribution costs | | **(37,863)** | (34,480) |
| Administrative expenses | | **(108,585)** | (97,545) |
| Other gains, net | *8* | **26,155** | 6,298 |
| **Operating loss** | | **(37,697)** | (40,271) |
| Finance costs | *6* | **(18,600)** | (32,169) |
| | | **(56,297)** | (72,440) |
| Gain on disposal of subsidiaries | | **–** | 18,810 |
| Impairment of investment in an associate | *12(b)&(c)* | **(15,000)** | (117,761) |
| Impairment of investment in available-for-sale financial asset | | **–** | (19,156) |
| (Impairment)/reversal of impairment of exploration and evaluation assets | *11* | **(34,804)** | 11,016 |
| Share of result of associates | *12* | **5,366** | 37,158 |
| **Loss before income tax** | | **(100,735)** | (142,373) |
| Income tax credit/(expenses) | *7* | **5,641** | (5,603) |
| **Loss for the year** | *8* | **(95,094)** | (147,976) |

| | Notes | **2017** *HK$'000* | 2016 *HK$'000* |
|---|---|---|---|
| **(Loss)/profit attributable to:** | | | |
| — equity holders of the Company | | **(91,289)** | (149,652) |
| — non-controlling interests | | **(3,805)** | 1,676 |
| | | **(95,094)** | (147,976) |
| | | ***HK cents*** | *HK cents* |
| **Loss per share attributable to the equity holders of the Company** | | | |
| Basic and diluted loss per share | *9* | **(1.46)** | (3.43) |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the year ended 31 December 2017*

| | 2017 | 2016 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Loss for the year** | **(95,094)** | (147,976) |
| **Other comprehensive (loss)/income:** | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | |
| Surplus on revaluation of properties | **20,685** | 5,600 |
| Deferred income tax expense arising on revaluation of properties | **(3,413)** | (693) |
| *Items that may be reclassified to profit or loss:* | | |
| Exchange difference arising from translation of foreign operations | **17,558** | (14,360) |
| Share of exchange translation difference of associates | **15,132** | (21,067) |
| Foreign currency translation reserve reclassified to profit or loss upon disposal of subsidiaries | **–** | (2,560) |
| **Other comprehensive income/(loss) for the year, net of tax** | **49,962** | (33,080) |
| **Total comprehensive loss for the year** | **(45,132)** | (181,056) |
| **Total comprehensive (loss)/income attributable to:** | | |
| — equity holders of the Company | **(41,327)** | (182,732) |
| — non-controlling interests | **(3,805)** | 1,676 |
| | **(45,132)** | (181,056) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2017*

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **82,582** | 53,122 |
| Investment properties | | **15,500** | 10,954 |
| Exploration and evaluation assets | *11* | **114,671** | 140,883 |
| Other intangible asset | | **1,024** | 1,035 |
| Investment in associates | *12* | **241,198** | 248,036 |
| Available-for-sale financial asset | *13* | **74,182** | 74,182 |
| Deferred income tax assets | | **188** | 188 |
| Prepayments, deposits and other receivables | *15* | **21,203** | – |
| | | **550,548** | 528,400 |
| **Current assets** | | | |
| Inventories | | **68,601** | 75,869 |
| Trade and bills receivables | *14* | **29,628** | 29,985 |
| Prepayments, deposits and other receivables | *15* | **141,773** | 114,322 |
| Income tax recoverable | | **1,760** | 437 |
| Bank and cash balances | | **31,581** | 36,920 |
| | | **273,343** | 257,533 |
| **Total assets** | | **823,891** | 785,933 |
| **Current liabilities** | | | |
| Trade payables | *16* | **8,340** | 14,021 |
| Accruals and other payables | | **89,929** | 62,210 |
| Income tax payable | | **240** | 242 |
| Promissory notes | *17* | **137,900** | 106,901 |
| Obligation under finance leases | | **311** | 167 |
| Borrowings | | **78,441** | 30,793 |
| | | **315,161** | 214,334 |
| **Net current (liabilities)/assets** | | **(41,818)** | 43,199 |
| **Total assets less current liabilities** | | **508,730** | 571,599 |

| | Notes | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Promissory notes | *17* | **–** | 85,313 |
| Deferred income tax liabilities | | **28,502** | 30,741 |
| Obligation under finance leases | | **741** | 455 |
| | | **29,243** | 116,509 |
| **Net assets** | | **479,487** | 455,090 |
| **Equity** | | | |
| Share capital | *20* | **710,039** | 609,272 |
| Reserves | | **(239,853)** | (167,288) |
| **Equity attributable to equity holders of the Company** | | **470,186** | 441,984 |
| Non-controlling interests | | **9,301** | 13,106 |
| **Total equity** | | **479,487** | 455,090 |

*NOTES:*

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is changed from 19th Floor, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong to 25/F, Fortis Tower, 77–79 Gloucester Road, Wan Chai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Group is principally engaged in the manufacturing and trading of toys and gifts items, exploration of natural resources and the investment in various potential businesses including fruit plantation, leisure and culture.

## 2. BASIS OF PREPARATION

### 2.1 Going concern basis

The Company incurred a loss of HK$95,094,000 for the year ended 31 December 2017 and net operating cash outflow of approximately HK$66,462,000 and as at 31 December 2017 the Group had net current liabilities of approximately HK$41,818,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

In order to improve the Group's financial position, the directors of the Company have been implementing various measures as follows:

(1) The Group is in negotiation with financial institutions to obtain sufficient new borrowings and to extend existing borrowings upon their maturities;

(2) The Group is in negotiation with its creditors to extend payment due dates; and

(3) The Group is actively considering to raise new capital by carrying out fund raising activities including but not limited to rights issue, open offer, placing of new shares and issuance of convertible bonds.

Delight Grace Limited, a shareholder of the Company, has agreed to provide adequate funds for the Group to meet its liabilities as they fall due.

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation and outcome of the above measures to be undertaken by the Group and the financial support from Delight Grace Limited. The directors of the Company are of the opinion that, taking into account the above measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2017. The directors are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2017. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

## 4. OPERATING SEGMENT INFORMATION

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue | | |
| Sales of goods | **219,628** | 235,384 |

**Segment information**

The Group has five reportable segments as follows:

| | | |
|---|---|---|
| Exploration | — | Exploration of natural resources |
| Toys and gifts items | — | Manufacturing and trading of toys and gifts items |
| Fruit plantation | — | Investment in business related to fruit plantation through associates of the Group |
| Leisure | — | Investment in the PRC outbound tourism and tea and wine products related business through either associates or subsidiaries of the Group |
| Culture | — | Investment in cultural items |

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different economic characteristics.

Segment results do not include corporate finance costs and other corporate income and expenses. Segment assets do not include assets at corporate level. Segment liabilities do not include liabilities at corporate level.

## (a) Information about reportable segment revenue, results, assets and liabilities are as follows:

| | Exploration | | Toys and gifts items | | Fruit plantation | | Leisure | | Culture | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Year ended 31 December** | | | | | | | | | | | | |
| Revenue from external customers | **–** | – | **219,628** | 235,384 | **–** | – | **–** | – | **–** | – | **219,628** | 235,384 |
| **Segment (loss)/profit** | **(27,612)** | (5,094) | **(3,216)** | 27,582 | **3,579** | 12,488 | **(27,885)** | (118,620) | **–** | (3) | **(55,134)** | (83,647) |
| Depreciation and amortisation | **(2)** | (3) | **(4,131)** | (4,156) | **–** | – | **(1,122)** | – | **–** | – | **(5,255)** | (4,159) |
| Impairment of investment in an associate | **–** | – | **–** | – | **–** | – | **(15,000)** | (117,761) | **–** | – | **(15,000)** | (117,761) |
| (Impairment)/reversal of impairment of exploitation and evaluation assets | **(34,804)** | 11,016 | **–** | – | **–** | – | **–** | – | **–** | – | **(34,804)** | 11,016 |
| Impairment of investment in available-for-sale financial asset | **–** | – | **–** | – | **–** | (19,156) | **–** | – | **–** | – | **–** | (19,156) |
| Provision for impairment of trade receivables | **–** | – | **(4,490)** | – | **–** | – | **–** | – | **–** | – | **(4,490)** | – |
| Interest income | **–** | – | **11** | 6 | **–** | – | **1,339** | – | **–** | – | **1,350** | 6 |
| Interest expenses | **(130)** | – | **(1,374)** | (4,579) | **–** | – | **(2,771)** | – | **–** | – | **(4,275)** | (4,579) |
| Income tax credit/(expenses) | **7,812** | (3,976) | **(2,171)** | (1,627) | **–** | – | **–** | – | **–** | – | **5,641** | (5,603) |
| **At 31 December** | | | | | | | | | | | | |
| Segment assets | **115,101** | 141,489 | **171,309** | 160,362 | **269,270** | 261,590 | **115,413** | 83,971 | **35,303** | 35,303 | **706,396** | 682,715 |
| Segment liabilities | **(15,225)** | (22,445) | **(69,240)** | (74,763) | **(1,005)** | – | **(46,534)** | (722) | **–** | – | **(132,004)** | (97,930) |
| Additions to segment non-current assets | **–** | – | **2,414** | 2,601 | **–** | 41,300 | **30,687** | 57,993 | **–** | – | **33,101** | 101,894 |

(b) **Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:**

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Reconciliation of segment loss:** | | |
| Total loss of reportable segments | **(55,134)** | (83,647) |
| Unallocated amount | | |
| Corporate finance costs | **(14,325)** | (27,590) |
| Other corporate income and expenses | **(25,635)** | (36,739) |
| Loss for the year | **(95,094)** | (147,976) |

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Reconciliation of segment assets:** | | |
| Total assets of reportable segments | **706,396** | 682,715 |
| Unallocated corporate assets | | |
| Property, plant and equipment | **1,531** | 903 |
| Bank and cash balances | **199** | 620 |
| Prepayments, deposits and other receivables | **115,765** | 101,695 |
| | **117,495** | 103,218 |
| Total assets | **823,891** | 785,933 |

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Reconciliation of segment liabilities:** | | |
| Total liabilities of reportable segments | **132,004** | 97,930 |
| Unallocated corporate liabilities | | |
| Borrowings | **11,727** | 6,577 |
| Accruals and other payables | **62,773** | 34,122 |
| Promissory notes | **137,900** | 192,214 |
| | **212,400** | 232,913 |
| Total liabilities | **344,404** | 330,843 |

**(c) Analysis of revenue by geographical location of customers:**

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The PRC (including Hong Kong) | **1,296** | 2,912 |
| North America[1] | **215,951** | 224,505 |
| European Union[2] | **608** | 5,050 |
| Others[3] | **1,773** | 2,917 |
| | **219,628** | 235,384 |

1 North America includes the United States of America (the "**USA**") and Canada.

2 European Union includes Spain, Italy, France and the United Kingdom.

3 Others include Middle East, South America and Southeast Asia.

Revenue from one (2016: one) customer accounted for more than 10% of the Group's total revenue for the year, represented approximately 60% of the total Group's revenue for the year ended 31 December 2017 (2016: 52%).

The geographical location of customer is based on the location at which the goods delivered.

**(d) Analysis of revenue by category:**

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sales of toys and gifts items | **219,628** | 235,384 |

## 5. OTHER INCOME

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Moulds income | **22** | 92 |
| Bank interest income | **11** | 6 |
| Loan interest income | **1,339** | – |
| Rental income | **75** | 615 |
| Waiver of other payable | **2,715** | – |
| Others | **765** | 837 |
| | **4,927** | 1,550 |

## 6. FINANCE COSTS

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest expenses on: | | |
| Bank borrowings and overdrafts | **1,270** | 4,356 |
| Other loans | **6,398** | 4,492 |
| Trust receipt loans | **59** | 222 |
| Finance leases charges | **45** | 31 |
| Imputed interest on promissory notes | **6,521** | 15,744 |
| Overdue interest on promissory notes | **4,307** | 7,324 |
| | **18,600** | 32,169 |

## 7. INCOME TAX (CREDIT)/EXPENSES

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax — Hong Kong Profits Tax | | |
| Provision for the year | **315** | 643 |
| | **315** | 643 |
| Current tax — Overseas | | |
| Provision for the year | **981** | 818 |
| Total current tax | **1,296** | 1,461 |
| Deferred income tax (credit)/expenses | **(6,937)** | 4,142 |
| Income tax (credit)/expenses | **(5,641)** | 5,603 |

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxations on overseas profits have been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

## 8. LOSS FOR THE YEAR

The Group's loss for the year is arrived after charging/(crediting) the following:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amortisation of other intangible asset | **11** | 12 |
| Amortisation of prepaid land lease payments | **–** | 56 |
| Auditor's remuneration | **1,800** | 1,600 |
| Cost of inventories sold | **108,388** | 112,749 |
| Depreciation of property, plant and equipment | **5,785** | 4,659 |
| Fair value gain on investment properties* | **(3,823)** | (600) |
| Gain on disposal of subsidiaries | **–** | (18,810) |
| Impairment/(reversal of impairment) of exploration and evaluation assets | **34,804** | (11,016) |
| Change in fair value of derivative financial assets* | **–** | 537 |
| Change in fair value of derivative financial liabilities* | **–** | (9,403) |
| (Gain)/loss on settlement of promissory notes using convertible bonds* | **(22,306)** | 3,794 |
| Net foreign exchange gain* | **(26)** | (1,015) |
| Provision for impairment of other receivables | **–** | 976 |
| Provision for impairment of trade receivables | **4,490** | – |
| Reversal of impairment of trade receivables | **(100)** | (42) |
| Minimum lease payments under operating leases in respect of leasehold land and buildings | **13,115** | 14,034 |
| Write back of provision for inventories obsolescence | **(428)** | (1,300) |
| Write-off and loss on disposals of property, plant and equipment* | **–** | 516 |
| Staff costs (including directors' remuneration) | | |
| Salaries, bonus and allowance | **62,051** | 63,606 |
| Retirement benefits scheme contributions | **1,995** | 1,857 |
| | **64,046** | 65,463 |

* Included in other gains, net

## 9. LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share attributable to equity holders of the Company is based on the loss for the year attributable to equity holders of the Company of HK$91,289,000 (2016: HK$149,652,000) and the weighted average number of ordinary shares of 6,244,556,000 (2016: 4,360,280,000) in issue during the year.

### (b) Diluted loss per share

There was no dilutive potential ordinary shares for the Company's outstanding share options and convertible bonds for the years ended 31 December 2017 and 2016. Accordingly, the diluted loss per share is same as basic loss per share for both years.

## 10. FINAL DIVIDEND

The directors of the Company did not recommend the payment of any final dividend for the years ended 31 December 2017 and 2016.

## 11. EXPLORATION AND EVALUATION ASSETS

| | *HK$'000* |
|---|---|
| **Cost** | |
| At 1 January 2016 | 1,328,118 |
| Exchange difference | (84,185) |
| At 31 December 2016 and 1 January 2017 | 1,243,933 |
| Exchange difference | 87,205 |
| At 31 December 2017 | 1,331,138 |
| **Accumulated impairment loss** | |
| At 1 January 2016 | 1,188,940 |
| Reversal of impairment | (11,016) |
| Exchange difference | (74,874) |
| At 31 December 2016 and 1 January 2017 | 1,103,050 |
| Impairment loss recognised | 34,804 |
| Exchange difference | 78,613 |
| At 31 December 2017 | 1,216,467 |
| **Carrying amount** | |
| At 31 December 2017 | 114,671 |
| At 31 December 2016 | 140,883 |

The exploration and evaluation assets represent exploration rights of Bayanhushuo Coal Field ("**BCF**") and Guerbanhada Coal Mine ("**GCM**"). At 31 December 2017, the carrying amount is attributable to BCF of approximately HK$86,202,000 (2016: approximately HK$110,836,000) and GCM of approximately HK$28,469,000 (2016: approximately HK$30,047,000).

The current licence period of the exploration right of BCF and GCM is from 4 July 2016 to 3 July 2018 and from 21 July 2017 to 20 July 2019, respectively. The licences were renewed for few times in prior years and the Group has assessed the possibility that the licences can be renewed successfully in the coming year.

The carrying values of the exploration and evaluation assets were tested for impairment as at 31 December 2017 using the fair value less costs of disposal model (2016: fair value less cost of disposal model). The recoverable amounts of the exploration and evaluation assets were valued by Roma Appraisals Limited.

## 12. INVESTMENT IN ASSOCIATES

| | 2017 | 2016 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Unlisted investments: | | |
| Share of net assets | **224,838** | 216,676 |
| Goodwill | **603,007** | 603,007 |
| | **827,845** | 819,683 |
| Impairment losses | **(586,647)** | (571,647) |
| | **241,198** | 248,036 |

The following table shows information of associates that are material to the Group. These associates are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associates.

### (a) Multijoy Group

| | | |
|---|---|---|
| Name | Multijoy Developments Limited ("**Multijoy**") | |
| Principal place of business/country of incorporation | The PRC/British Virgin Islands | |
| Principal activities | Plantation | |
| % of ownership interests | **40%** | 40% |

| | 2017 | 2016 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| At 31 December: | | |
| Non-current assets | **604,535** | 583,259 |
| Current assets | **49,267** | 45,289 |
| Non-current liabilities | **(150,152)** | (144,867) |
| Current liabilities | **(15,930)** | (15,160) |
| Net assets | **487,720** | 468,521 |
| Group's share of net assets | **195,088** | 187,409 |
| Goodwill | **453,886** | 453,886 |
| | **648,974** | 641,295 |
| Impairment losses | **(453,886)** | (453,886) |
| Group's share of carrying amount of interests | **195,088** | 187,409 |
| Year ended 31 December: | | |
| Revenue | **34,520** | 34,207 |
| Profit before tax | **15,366** | 51,652 |
| Profit after tax | **11,493** | 50,305 |
| Other comprehensive income/(loss) | **32,836** | (53,797) |
| Total comprehensive income/(loss) | **44,329** | (3,492) |
| Dividends received from associates | **10,052** | 7,071 |

On 27 January 2016, the Group further acquired 12% equity interest in Multijoy at a consideration of HK$70,000,000 which is satisfied by issuing 700,000,000 ordinary shares with fair value of HK$0.059 per share. 12% of the carrying value of net assets of Multijoy was HK$53,798,000 as at 27 January 2016. Included in the Group's share of result of associates is an amount of HK$12,498,000 which represent excess of 12% of the carrying value of net assets of HK$53,798,000 over the fair value of consideration of HK$41,300,000.

**(b) Eagle Praise Group**

| | | |
|---|---|---|
| Name | Eagle Praise Limited | |
| Principal place of business/country of incorporation | The PRC/British Virgin Islands | |
| Principal activities | Tourism related business | |
| % of ownership interests | **20%** | 20% |
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| At 31 December: | | |
| Non-current assets | **–** | – |
| Current assets | **–** | 703 |
| Non-current liabilities | **–** | – |
| Current liabilities | **–** | (1,773) |
| Net liabilities | **–** | (1,070) |
| Group's share of net assets | **–** | – |
| Goodwill | **117,761** | 117,761 |
| | **117,761** | 117,761 |
| Impairment losses | **(117,761)** | (117,761) |
| Group's share of carrying amount of interests | **–** | – |
| Year ended 31 December: | | |
| Revenue | **–** | – |
| Loss before tax | **–** | (334) |
| Loss after tax | **–** | (334) |
| Other comprehensive loss | **–** | – |
| Total comprehensive loss | **–** | (334) |
| Dividends received from associates | **–** | – |

On 23 April 2015, the Group completed the acquisition of 20% equity interest in Eagle Praise Limited (the "**Eagle Praise Group**"), a company incorporated in the BVI with limited liability, at a total consideration satisfied by (i) the issue of 150,000,000 new ordinary shares of the Company in two equal tranches of 75,000,000 ordinary shares each; and (ii) a promissory note of HK$92,000,000 issued by the Company.

It was subsequently revealed that the representations made by the vendor in respect of the business of Eagle Praise Group were false and misleading. As a result, full provision for impairment of investment in Eagle Praise Group of approximately HK$117,761,000 was made during the year ended 31 December 2016.

**(c) Fujian Yuguo**

| | | |
|---|---|---|
| Name | Fujian Yuguo Chaye Limited | |
| Principal place of business/country of incorporation | The PRC/the PRC | |
| Principal activities | Tea products related | |
| % of ownership interests | **33%** | 33% |
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| At 31 December: | | |
| Non-current assets | **47,598** | 47,887 |
| Current assets | **68,453** | 66,595 |
| Non-current liabilities | **(16,922)** | (9,100) |
| Current liabilities | **(8,977)** | (16,693) |
| Net assets | **90,152** | 88,689 |
| Group's share of net assets | **29,750** | 29,267 |
| Goodwill | **31,360** | 31,360 |
| | **61,110** | 60,627 |
| Impairment losses | **(15,000)** | – |
| Group's share of carrying amount of interests | **46,110** | 60,627 |
| Year ended 31 December: | | |
| Revenue | **51,574** | 77,410 |
| Profit before tax | **2,807** | 18,336 |
| Profit after tax | **2,334** | 13,752 |
| Other comprehensive income/(loss) | **6,052** | (5,727) |
| Total comprehensive income | **8,386** | 8,025 |
| Dividends received from associates | **2,284** | – |

On 4 January 2016, the Group completed the acquisition of 33% equity interest in Fujian Yuguo Chaye Limited ("**Fujian Yuguo**"), a company incorporated in the PRC with limited liability, at a total consideration of HK$67,490,000 which is satisfied by promissory notes with the principal amount and fair value of approximately HK$67,490,000 and HK$30,687,000 respectively.

As at 31 December 2017, the bank and cash balances of the Group's associates in the PRC denominated in Renminbi ("**RMB**") amounted to HK$1,743,000 (2016: HK$20,753,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

## 13. AVAILABLE-FOR-SALE FINANCIAL ASSET

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unlisted equity securities, at fair value | **74,182** | 74,182 |

## 14. TRADE AND BILLS RECEIVABLES

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **33,982** | 27,134 |
| Less: provision for impairment | **(4,510)** | (120) |
| Trade receivables, net | **29,472** | 27,014 |
| Bills receivables | **156** | 2,971 |
| | **29,628** | 29,985 |

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally for a period of 1 month, extending up to 3 months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **18,245** | 15,192 |
| 31 days to 90 days | **6,296** | 10,746 |
| 91 days to 180 days | **4,890** | 1,058 |
| 181 days to 360 days | **24** | – |
| Over 360 days | **17** | 18 |
| | **29,472** | 27,014 |

## 15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | | **2017** | 2016 |
|---|---|---|---|
| | *Note* | ***HK$'000*** | *HK$'000* |
| **Non-current portion** | | | |
| Prepayments | *(a)* | **11,202** | – |
| Loan receivable | *(b)* | **9,212** | – |
| Rental deposits | | **789** | – |
| | | **21,203** | – |
| **Current portion** | | | |
| Deposits for sales right of a property development | | **102,100** | 95,411 |
| Deposits for the acquisition of partial interest in a company | *(c)* | **10,000** | – |
| Trade deposits | | **3,674** | 2,962 |
| Deposit and other receivables | | **22,861** | 12,623 |
| Prepayment | | **3,138** | 3,326 |
| | | **141,773** | 114,322 |
| | | **162,976** | 114,322 |

Reconciliation of allowance for other receivables:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 January | **–** | 2,589 |
| Provision for impairment | **–** | 976 |
| Written off of impairment | **–** | (3,565) |
| At 31 December | **–** | – |

(a) During the year ended 31 December 2017, the Group signed a contract with a company for co-operation of production of wine. The Group paid approximately of HK$11,200,000 to the company as prepayment. As at 31 December 2017, the directors estimate that the wine will be delivered to the Group from 2019.

(b) During the year ended 31 December 2017, the Group signed a loan agreement with a company for lending money with maximum amount of approximately HK$12,000,000. As at 31 December 2017, approximately of HK$9,212,000 was paid to the company. The loan receivable is unsecured, interest bearing at 24% per annum and repayable on 31 March 2019.

(c) During the year ended 31 December 2017, the Group issued promissory notes of HK$10,000,000 as a refundable deposit or part of the consideration for acquisition of 65% equity interest in Silver Metro Holdings Limited.

## 16. TRADE PAYABLES

The aging analysis of the Group's trade payables as at the end of reporting period, based the on invoice date, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **7,376** | 12,880 |
| 31 days to 90 days | **444** | 840 |
| 91 days to 180 days | **302** | 184 |
| 181 days to 360 days | **115** | 6 |
| Over 360 days | **103** | 111 |
| | **8,340** | 14,021 |

## 17. PROMISSORY NOTES

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **192,214** | 223,200 |
| Issuance of promissory notes | **33,500** | 69,480 |
| Imputed interest | **6,521** | 15,744 |
| Repayment of promissory notes | **(2,500)** | (21,014) |
| Off set against convertible bonds | **(91,835)** | (95,196) |
| At 31 December | **137,900** | 192,214 |
| Analysed as: | | |
| Current liabilities | **137,900** | 106,901 |
| Non-current liabilities | **–** | 85,313 |
| | **137,900** | 192,214 |

## 18. CONTINGENT LIABILITIES

As at 31 December 2017 and 31 December 2016, the Group had no material contingent liability.

## 19. CAPITAL COMMITMENT

The Group's capital commitment at the end of the reporting period is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Proposed acquisition of equity interest in a company *(Note)* | **390,000** | – |

*Note:*

On 12 June 2017, the Group signed a sale and purchase agreement (the "**S&P**") with an independent third party in relation to acquisition of 65% equity interest in Silver Metro Holdings Limited at a consideration of HK$400 million. The consideration is to be satisfied by (i) HK$80 million by cash as refundable deposit; upon completion of the acquisition; (ii) HK$120 million by cash; (iii) HK$100 million by way of allotment and issue of the shares of the Company at the issue price of HK$0.10 per share; and (iv) HK$100 million by way of issue of convertible bonds with conversion price of HK$0.12 per share.

In 2017, the Company issued promissory notes of HK$10 million as a refundable deposit or part of the consideration.

## 20. SHARE CAPITAL

| | **Number of shares** | | **Amount** | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | | | ***HK$'000*** | *HK$'000* |
| **Authorised:** | | | | |
| Ordinary shares of HK$0.10 each | **30,000,000,000** | 30,000,000,000 | **3,000,000** | 3,000,000 |
| **Issued and fully paid:** | | | | |
| At beginning of the year | **6,092,715,976** | 3,543,907,176 | **609,272** | 354,391 |
| Issue of shares | | | | |
| — on placement | **–** | 840,000,000 | **–** | 84,000 |
| — upon conversion of convertible bonds | **1,007,665,620** | 989,902,800 | **100,767** | 98,990 |
| — upon acquisitions | **–** | 700,000,000 | **–** | 70,000 |
| — settlement of remuneration | **–** | 18,906,000 | **–** | 1,891 |
| At end of year | **7,100,381,596** | 6,092,715,976 | **710,039** | 609,272 |

## 21. RELATED PARTY TRANSACTIONS

| | | **2017** | 2016 |
|---|---|---|---|
| | *Note* | ***HK$'000*** | *HK$'000* |
| Product development, sale and marketing services fee paid to a related company | *(a)* | **3,708** | 3,518 |

*Note:*

**(a)** The sole owner of the related company is also the director and beneficial owner of 49% (2016: 49%) equity interest in the Company's subsidiary paying for the services.

**(b) Outstanding balance with related parties**

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Promissory note payable to a director of the Company | **–** | 2,500 |
| Prepayment, deposits and other receivables | | |
| — Amount due from a related company *(note a)* | **312** | 513 |

The amounts due from related parties are unsecured, interest free and repayment on demand.

*Note:*

(a) The sole owner of the related company is also the director and beneficial owner of 49% (2016: 49%) equity interest in the Company's subsidiary paying for the services.

**(c) Other payable to directors of the Company**

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| As at 31 December | **14,989** | 2,006 |

**(d) Key management compensation**

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries, allowances and benefits in kind | **18,175** | 20,284 |
| Retirement benefits scheme contributions | **226** | 221 |
| | **18,401** | 20,505 |

**(e) Guarantee provided by related parties**

At 31 December 2017, the Group's borrowings of approximately HK$6,214,000 (2016: HK$7,453,000) and HK$22,559,000 (2016: HK$21,761,000) were secured by a personal guarantee by the Company's directors and a director or senior management of the Company's indirect non-wholly owned subsidiary, respectively.

## 22. LITIGATIONS

### (a) Wing Siu

Pursuant to a tenancy agreement dated 23 September 2014 entered into between Wing Siu Company Limited ("Wing Siu") as landlord and Super Dragon Management Limited ("Super Dragon"), a wholly-owned subsidiary of the Company, as tenant, and the Company as guarantor to Super Dragon, Wing Siu agreed to let Super Dragon the premises located at the 19th Floor, Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong (the "Wanchai Property") for a term of three years from 15 December 2014 to 14 December 2017.

On 8 August 2016, Super Dragon and the Company received from Wing Siu a writ of summons issued in the Court of First Instance in the High Court of the Hong Kong Special Administrative Region (the "High Court") with an indorsement of claim against Super Dragon and the Company jointly for (i) vacant possession of the Wanchai Property; (ii) the outstanding total amount of rent, management fees, interests and other charges of approximately HK$3,886,000 as at 1 August 2016; (iii) rent, management fees and rates to the date of delivery of vacant possession of the Wanchai Property; (iv) damage for breach of the tenancy agreement to be assessed; (v) interest; (vi) costs; and (vii) further or other relief.

The Company vacated from the Wanchai Property in the third quarter of 2017 and has settled part of the amount claimed above. As at 31 December 2017, the accumulated interest, payment and administrative fees accrued for the postponement of payment is approximately HK$4,743,000, the Company is liasing with Wing Siu and expects to settle the outstanding amount during the second quarter of 2018.

### (b) Stevenson, Wong

On 23 October 2017, the Company received from Stevenson, Wong & Co ("Stevenson, Wong & Co.") a writ of summons issued in the District Court of the Hong Kong Special Administrative Region (the "District Court") for the outstanding amount of approximately HK$186,000.

The Company engaged Stevenson, Wong in the fourth quarter of 2016 to carry out professional services regarding the placing of new shares of the Company under specific mandate (as announced by the Company on 28 October 2016).

The Company has entered into a consent order with Stevenson, Wong on 29 January 2018. As at the date of this announcement, the Company has settled part of the outstanding amount and expects to settle the remaining amount during the second quarter of 2018.

### (c) Cheng & Cheng

On 13 December 2017, the Company received from Cheng & Cheng Limited ("Cheng & Cheng") a writ of summons with a statement of claim issued in the District Court for the outstanding amount of approximately HK$411,000.

The Company engaged Cheng & Cheng on 30 Dec 2015 to carry out audit services for the year ended 31 December 2015.

As at the date of this announcement, the Company has settled part of the outstanding amount, and expects to settle the remaining amount during the second quarter of 2018.

(d) **Gain Harvest**

Pursuant to a tenancy agreement dated 20 October 2017 entered into between Gain Harvest Enterprises Limited ("Gain Harvest") as landlord and Kiu Hung Leasing (HK) Limited ("Kiu Hung Leasing"), a wholly-owned subsidiary of the Company, as tenant, Gain Harvest agreed to let Kiu Hung Leasing the premises located at the 25th floor, Fortis Bank Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong for a term of 3 years from 1 October 2017 to 30 September 2020.

On 7 March 2018, Kiu Hung Leasing and the Company received from Gain Harvest a writ of summons issued in the High Court for the outstanding amount of rent, management fee, rates and other charges of approximately HK$270,000.

As at the date of this announcement, the Company is liasing with Gain Harvest and expects to settle the outstanding amount during the first quarter of 2018.

(e) **Others**

On 8 June 2016 and 19 July 2016, the Company and a director of the Company received from Mr. Guo Jingsheng ("Mr. Guo") a writ of summons and an indorsement of claim issued in the High Court, respectively, against the Company as borrower and the director of the Company as guarantor for the outstanding amount of borrowing including interests of approximately HK$13,921,000.

The Company and the director entered into two sets of Settlement Deed with Mr. Guo dated 27 February 2018 respectively. As at the date of this announcement, the Company is liasing with Mr. Guo and expects to settle the outstanding amount of such borrowing including interests of HK$14,000,000 by installments within one year.

## 23. EVENTS AFTER THE REPORTING PERIOD

(a) **Acquisition of 20% equity interest in the Target Company**

On 15 January 2018, the Company announced that Fujian Kiu Hung Wine Company Limited, an indirect wholly-owned subsidiary of the Company (the "Purchaser") and Mr. Chen Zongji (the "Vendor") entered into the sale and purchase agreement whereby the Purchaser has agreed to acquire from the Vendor 20% equity interests of Anhui Fu Lao Wine Development Company Limited, for the consideration of RMB84,000,000 (equivalent to approximately HK$101,000,000), which shall be satisfied by issue of consideration shares at the price of HK$0.10 per consideration share from the Company to the Vendor upon completion.

As additional time is required to fulfill the conditions precedent of the sale and purchase agreement, the Company announced on 28 February 2018 regarding the extension of long stop date to a date on or before 16 April 2018 (or such later date that may be agreed by the Purchaser and the Vendor in writing).

For details, please refer to the Company's announcements dated 15 January 2018 and 28 February 2018.

(b) **Memorandum of Understanding with China Commerce Huaxia Products Co., Ltd**

On 14 February 2018, the Company announced that it had entered into a non-legally binding memorandum of understanding with China Commerce Huaxia Products Co., Ltd, a company incorporated in PRC (the "JV Partner") in relation to the formation of a new joint venture company (the "JV Company") in PRC by the Company and the JV Partner. The JV Partner was initiated and established by the Commercial Network Construction and Development Center, which is a national institution at departmental or bureau level established under the approval of the State Commission Office for Public Sector Reform in 1993, and is under the administration and management of the State-owned Assets Supervision and Administration Commission of the State Council.

The amount of contribution and the respective shareholding of the parties and other terms in relation to the formation of the JV Company will be subject to further negotiation between the parties upon completion of the due diligence review to be performed by the Company.

For details, please refer to the Company's announcement dated 14 February 2018.

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL HIGHLIGHTS

For the year ended 31 December 2017 (the "**Year**"), the Group recorded turnover of approximately HK$219.6 million (2016: HK$235.4 million), representing a decrease of approximately 6.7% as compared with last year. The Group's loss attributable to equity holders of the Company for the Year was approximately HK$91.3 million (2016: HK$149.7 million), representing a decrease of approximately HK$58.4 million comparing to last year. The decrease in loss attributable to equity holders of the Company for the Year was mainly attributable to (i) the decrease in the provision for impairment of investment in associates of the Group, amounting to approximately HK$102.8 million; and (ii) the provision of impairment of exploration and evaluation assets of approximately HK$34.8 million during the Year, whereas, reversal of impairment on the exploration and evaluation assets of approximately HK$11.0 million was recorded last year. Basic loss per share for the Year was 1.46 HK cents (2016: 3.43 HK cents). The Board has resolved not to pay any final dividend for the Year (2016: Nil).

## BUSINESS AND OPERATIONAL REVIEW

### Segmental Information Analysis

During the Year, the Group has five reportable segments, namely "Manufacturing and trading of toys and gifts items", "Exploration of natural resources", "Fruit plantation", "Leisure" and "Culture".

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business has different economic characteristics.

### Manufacturing and Trading of Toys and Gifts Items

Turnover from toys and gifts business for the Year was approximately HK$219.6 million (2016: HK$235.4 million), representing a decrease of approximately 6.7% comparing to last year. The decrease in turnover was mainly attributable to the decrease in revenue generated from the North America and European Union regions, which recorded a decrease of approximately 3.8% and 88.0% respectively. However, the Group still maintained a stable gross profit margin, which was 35.4% (2016: 35.6%) during the Year, showing the Group has been keeping its high quality standard in the production and sales of toys and gifts items during the past years. The segment recorded a loss of approximately HK$3.2 million during the Year (2016: segment profit of HK$27.6 million). The segment loss was mainly due to the provision for impairment of trade receivables arising from one customer, amounting to approximately HK$4.5 million during the Year, whereas, the high segment profit in last year was mainly due to a gain from disposal of certain subsidiaries of the segment.

**Exploration of Natural Resources**

The Group owns the exploration rights of Bayanhushuo Coal Field and Guerbanhada Coal Mine, all located in Inner Mongolia Autonomous Region (the "**Inner Mongolia**"), the PRC with total estimated coal resources of approximately 500.05 million tonnes under the JORC Code as follows:

| | **Inferred Resources** *(Million Tonnes)* |
|---|---|
| Bayanhushuo Coal Field ("**BCF**") | 394.05# |
| Guerbanhada Coal Mine ("**GCM**") | 106.00 |
| Total | 500.05 |

# In order to fulfill the requirement of the PRC government before submitting the master planning of BCF, the Group submitted a resources report of BCF to the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部) during 2011. The resources report was prepared by Inner Mongolia Long Wang Geographic Exploration Co. Ltd.* (內蒙古龍旺地質勘探有限責任公司), which Indicates that BCF has an estimated coal resources of approximately 384.69 million tonnes of coal under the Chinese resources standard promulgated by the Ministry of Land and Resources of the PRC.

BCF is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report issued by SRK Consulting China Ltd on 31 January 2008, BCF has estimated coal resources of approximately 394.05 million tonnes of high quality thermal coal. The current licence period of the exploration right of BCF is from 4 July 2016 to 3 July 2018. The master planning* (總體規劃) of BCF was approved in December 2015.

GCM is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. on 30 March 2007, GCM has estimated coal resources of approximately 106 million tonnes of high quality thermal coal. The current licence period of the exploration right of GCM is from 21 July 2017 to 20 July 2019.

As at the date of this announcement, the Group is still waiting for the approval of the master planning of GCM from the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and the National Energy Commission of The PRC (中華人民共和國國家能源局), which is one of the preconditions for the application of the mining licence of GCM.

**Fruit Plantation**

*(a) Multijoy Group*

Multijoy Developments Limited, 40% equity interest of which was acquired by the Group, together with its subsidiaries (the "**Multijoy Group**") is principally engaged in the business of holding of forestry concession rights in relation to a parcel of forest land situated in Nanfeng County, Fuzhou City, Jiangxi Province, the PRC with an aggregate site area of approximately 1,765.53 Chinese mu (the "**Forest Land**"). The Multijoy Group has appointed an independent third party under a cooperation agreement for a term of five years from 1 April 2013 to 31 March 2018, in relation to the operations of tangerine plantation business on the Forest Land for a fixed royalty income. A new cooperation agreement has been signed in early 2018 for another term of three years from 1 April 2018 to 31 March 2021. Multijoy Group's revenue for the Year amounted to approximately HK$34.5 million (2016: HK$34.2 million). The Group has generated a stable dividend income from Multijoy Group annually since the date of its acquisition. Dividend income received by the Group during the Year amounted to approximately HK$10.1 million (2016: HK$7.1 million).

*(b) USO Management & Holding Co. Ltd*

Trinity Force Investments Limited, an indirect wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with Green Luxuriant Group Investment Limited (the "**Vendor**"), regarding the Group's acquisition of 19% equity interest of USO Management & Holding Co. Ltd. ("**USO**") on 5 October 2015. USO entered into a tenancy agreement with the Alii and Faipule of the Village of Sasina, Savaii ("**AFS**"), owners of a parcel of approximately 500 acres of prime agricultural property located at Sasina, Savaii in Samoa (the "**Leased Properties**") pursuant to which AFS granted to USO the legal right to use its Leased Properties for a term of 90 plus 30 years (120 years in total) at an annual lease payment of US$120,000 (equivalent to approximately HK$936,000) for the development of USO's noni fruit plantation business.

During the Year, USO eventually completed the post completion undertakings pursuant to the sales and purchase agreement as follows: (i) on 3 July 2017, USO and AFS entered into the formal lease agreement and AFS has filed corresponding registration application with the Ministry of Natural Resources and Environment in Samoa on the same day; (ii) an acknowledgement receipt dated 12 July 2017 duly executed by AFS confirming that they have received the total amount of USD1,561,210 from USO in full, which covered site development, survey and roading and other costs associated in developing and planting the Leased Properties; and (iii) the registration procedures regarding the formal lease agreement with the Ministry of Natural Resources and Environment in Samoa was completed on 19 July 2017. In view of the above, on 2 August 2017, the Company entered into a subscription agreement with the Vendor, pursuant to which the Vendor has conditionally agreed to subscribe or procure subscription by its nominee(s) for the convertible bonds of the Company in the aggregate principal amount of HK$100,766,562 with the rights to convert into 1,007,665,620 conversion shares at initial conversion price of HK$0.10 (subject to adjustments) per conversion share. The subscription monies payable by the Vendor or procured by the Vendor to be payable by its nominee(s) would be satisfied by fully setting off against the promissory notes held under the name of the Vendor in the aggregate amount of HK$100,766,562. The subscription of the convertible bonds of the Company by the Vendor was completed on 7 November 2017 after the passing of the ordinary resolution by the shareholders of the Company in the extraordinary general meeting held on 26 October 2017. On 27 November 2017, the holders of the convertible bonds exercised all the rights attaching to the convertible bonds and the Company issued a total of 1,007,665,620 new shares of HK$0.10 each.

As at 31 December 2017, the carrying value of the investment in USO amounted to approximately HK$74.2 million (2016: HK$74.2 million).

**Leisure**

*(a) Tea related business*

Since the Group's acquisition of 33% equity interest in Fujian Yuguo Tea Chaye Limited* (福建鈺國茶業有限公司) ("**Fujian Yuguo**") (a limited company incorporated in Fujian Province, the PRC, engaging mainly in the distribution of tea related products in PRC) in January 2016 , Fujian Yuguo has been generating profits from its operations. Yuguo's total revenue amounted to approximately HK$51.6 million (2016: HK$77.4 million) during the Year. In the recent years, the competition in tea industries becomes more fierce because the traditional sales model is facing a keen competition from those online business platform. During the Year, Fujian Yuguo began to fine-tune its operation model to meet its customers' needs, including but not limited to provide more attractive terms to its selected customers to increase its competitiveness in the markets. Fujian Yuguo's revenue is expected to increase steadily in the coming years. Dividend received from Fujian Yuguo during the Year amounted to approximately HK$2.3 million (2016: Nil).

*(b) Wine related business*

Wine culture forms an important part and has a long history in the Chinese culture. In view of the increase in the living standard of the Chinese people in the recent years, the Group is optimistic of the future growth in the wine industry and has the intention to invest in the wine business, especially for the yellow wine products. Since the end of 2016, the Group has invested in the yellow base wine. In view of the Group's existing insufficient working capital, the Group has adopted a strategy to looking for potential cooperators to manufacture and distribute the yellow wine products. On 15 January 2018, the Group entered into a sales and purchase agreement with the vendor of Anhui Fu Lao Wine Development Company Limited* (安徽省福老酒業發展有限公司) ("**Anhui Fu**

**Lao**"), a company established in PRC with limited liability and is owned as to 80% by the vendor. Pursuant to the sales and purchase agreement, the Group had agreed to acquire and the vendor of Anhui Fu Lao had agreed to sell 20% equity interest of Anhui Fu Lao held by the vendor, at the consideration of RMB84 million (equivalent to approximately HK$101 million), subject to the fulfillment of certain conditions. The consideration will be settled by the Company by way of issuing a total of 1,010,000,000 consideration shares of HK$0.10 each. As at the date of this announcement, the acquisition is not yet completed. For more details of the acquisition, please refer to the Company's announcements dated 15 January 2018 and 28 February 2018.

(c) *Outbound tourism*

Regarding the Group's 20% equity interest in the Eagle Praise Group, which is principally engaged in outbound tourism related business in PRC, the business development of the Eagle Praise Group was slower than expected. Based on the information available to the Board, the Eagle Praise Group has not yet arranged any outbound travel tours in accordance with the business plan as scheduled in the supplemental shareholders' agreement dated 16 December 2015, entered into between the Group and the vendor of the Eagle Praise Group. The Group gave notice to the vendor on 30 December 2016, to rescind the various agreements entered into with the vendor (the "**Rescission of Agreements**") on the ground of fraudulent misrepresentations made by the vendor and its representative. As a result, the Board considered that full provision for impairment in the investment of approximately HK$117.8 million was required to be made during the year ended 31 December 2016. The Group has discussed with and instructed its legal adviser to take further legal action against the vendor of Eagle Praise Group regarding the Rescission of Agreements. The Group will make further announcement(s) to update the development of the Rescission of Agreements as and when appropriate.

## Culture

On 27 March 2015, the Group acquired certain pieces of Jingdezhen contemporary ceramics including ceramic vases and plates, at a total consideration of HK$38.0 million. These ceramic items had carrying amounts of approximately HK$35.3 million as at 31 December 2017.

## Geographical Information

During the Year, the Group recorded revenue in North America (includes the USA and Canada) of approximately HK$216.0 million as compared to approximately HK$224.5 million last year and represented approximately 98.3% (2016: approximately 95.4%) of the Group's total revenue. Revenue in the European Union (includes Spain, Italy, France and the United Kingdom) amounted to approximately HK$0.6 million for the Year as compared to approximately HK$5.1 million last year and represented approximately 0.3% (2016: approximately 2.1%) of the Group's total revenue of the Year.

## Selling and Distribution Costs

The amount of the selling and distribution costs for the Year was approximately HK$37.9 million (2016: approximately HK$34.5 million). The increase was mainly attributable to the increase of the staff costs of manufacturing and trading of toys and gifts items segment.

## Administrative Expenses

Administrative expenses for the Year increased by approximately 11.3% to approximately HK$108.6 million as compared to approximately HK$97.5 million in the previous year. The increase in administrative expenses was mainly due to increase of provision for impairment of trade receivables, entertainment expenses and consultancy fee during the Year.

## Finance Costs

Finance costs for the Year decreased by approximately HK$13.6 million to approximately HK$18.6 million as compared to approximately HK$32.2 million in the previous year. The decrease in finance costs was mainly due to the significant decrease of approximately HK$12.2 million in the imputed and overdue interest expenses of promissory notes during the Year.

## Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by its bankers in Hong Kong and in PRC. As at 31 December 2017, the Group had bank and cash balances of approximately HK$31.6 million (31 December 2016: HK$36.9 million). The Group's bank and cash balances were mostly denominated in Hong Kong dollars and Renminbi.

As at 31 December 2017, the Group's borrowings amounted to approximately HK$78.4 million (31 December 2016: HK$30.8 million). The Group's borrowings were mainly denominated in Hong Kong dollars and Renminbi.

As at 31 December 2017, the Group's promissory notes amounted to approximately HK$137.9 million (31 December 2016: HK$192.2 million) in aggregate. The Group's promissory notes were denominated in Hong Kong dollars.

The Group monitors its capital using a gearing ratio, which is the Group's net debt (comprising trade payables, accruals and other payables, income tax payable, promissory notes, obligation under finance lease and borrowings less bank and cash balances) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2017 was 59.3% (31 December 2016: 57.8%).

As the majority of the Group's transactions and borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi, the Group's exposure to exchange rate fluctuation was relatively insignificant, and the Group had not used any financial instruments for hedging during the Year.

As at 31 December 2017, certain property, plant and equipment and investment properties held by the Group with aggregate carrying values of approximately HK$74.5 million (31 December 2016: HK$52.5 million), were pledged to secure general banking facilities granted to the Group.

As at 31 December 2017, the Group had a capital commitment of approximately HK$390 million in the proposed acquisition of equity interest in a company (31 December 2016: Nil). As at 31 December 2017, the Group had no material contingent liabilities (31 December 2016: Nil).

**MAJOR ACQUISITION**

On 12 June 2017, New Harbour Global Limited, a wholly-owned subsidiary of the Company (the "**Purchaser**") and Stunning Honour Enterprises Limited (the "**Vendor**") entered into a sale and purchase agreement (as supplemented on 11 August 2017), pursuant to which the Purchaser has conditionally agreed to purchase from the Vendor and the Vendor has conditionally agreed to sell to the Purchaser the entire issued share capital of Silver Metro Holdings Limited (the "**Target Company**") at the consideration of HK$400 million.

The consideration shall be satisfied as to (i) HK$80 million by cash as refundable deposit; upon completion, (ii) HK$120 million by cash; (iii) HK$100 million by way of allotment and issue of the shares of the Company at the issue price of HK$0.10 per share; and (iv) HK$100 million by way of issue of the convertible notes of the Company with the initial conversion price of HK$0.12 per conversion share (subject to adjustments according to the term and conditions of the instrument constituting the convertible notes).

Shanghai Liming Intelligent Technology Limited* (上海立名智能科技有限公司), a company established in PRC with limited liability ("**Shanghai Liming Technology**") will become a subsidiary of the Target Company, which is incorporated in the British Virgin Islands with limited liability and is wholly-owned by the Vendor, upon the completion of its reorganisation.

Shanghai Liming Technology is principally engaged in hotel intelligent technology, robotic hotel operation and intelligent security and the research and development and operation of building data interactive platform. The management and scientific research team of Shanghai Liming Technology mainly comprise renowned and experienced scientific personnel of the computing profession. The core product currently developed by Shanghai Liming Technology is the front desk robot.

Upon completion, the Target Company will become a wholly-owned subsidiary of the Company and accordingly, the consolidated results of the Target Company (including Shanghai Liming Technology) will be consolidated into the financial statements of the Group.

For details, please refer to the Company's announcement dated 12 June 2017.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries have purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2017.

## PROSPECTS

The Group has been reviewing its existing operations from time to time and exploring other investment opportunities that have earning potentials in order to expand its existing operations and diversify its businesses and income base to maximize the interests of the Group and the shareholders as a whole.

## CAPITAL STRUCTURE

As at 31 December 2017, the capital structure of the Company was constituted of 7,100,381,596 ordinary shares of HK$0.10 each. Apart from the ordinary shares in issue, the capital instruments in issue of the Company include the share options to subscribe for the Company's shares.

At 31 December 2017, 237,800,000 share options remained outstanding (31 December 2016: 324,800,000). The share option scheme of the Company with a scheme life of ten years approved by the shareholders of the Company on 31 May 2013 will expire on 30 May 2023.

## EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2017, the Group had a total of 443 employees (31 December 2016: 483 employees). The Group maintains good working relations with its employees and has committed itself to staff training and development. Remuneration packages are maintained at a competitive level and are being reviewed on a yearly basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industrial practice.

## SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditor, ZHONGHUI ANDA CPA Limited ("**Zhonghui Anda**"), to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2017. The work performed by Zhonghui Anda in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the HKICPA and consequently no assurance has been expressed by Zhonghui Anda on the preliminary announcement.

## EXTRACT OF THE AUDITOR'S REPORT

### Basis for Qualified Opinion

1. ***Investment in associates***

   (a) *Eagle Praise Limited ("Eagle Praise")*

   An impairment of approximately HK$117,761,000 on investment in Eagle Praise was recognised for the year ended 31 December 2016. We have not been provided with sufficient audit evidence as to whether the impairment loss of approximately HK$117,761,000 on investment in Eagle Praise should be recorded in the year ended 31 December 2016 or 31 December 2015 and whether any change in the fair value of the derivative financial asset should be recognised in the year ended 31 December 2016. However, we are satisfied that the investment in Eagle Praise and the derivative financial asset are fairly stated as at 31 December 2016 and 31 December 2017.

   (b) *Fujian Yuguo Chaye Limited ("Fujian Yuguo")*

   Included in the investment in associates was an investment in Fujian Yuguo of approximately HK$46,110,000 as at 31 December 2017. The Group recognised share of results from Fujian Yuguo of HK$770,000, share of exchange translation difference of associate HK$1,997,000 and impairment loss of investment in Fujian Yuguo of HK$15,000,000 for the year ended 31 December 2017. No sufficient evidence has been provided to satisfy ourselves as to (i) the recoverable amount of the investment in Fujian Yuguo with carrying value of approximately HK$46,110,000 as at 31 December 2017; (2) whether impairment loss of HK$15,000,000 is properly recognised for the year ended 31 December 2017; and (3) whether share of results of HK$770,000 and share of exchange translation difference of associate HK$1,997,000 are properly recognised for the year ended 31 December 2017.

2. ***Available-for-sale financial asset***

   An impairment loss of approximately HK$19,156,000 on the available-for-sale financial asset was recognised for the year ended 31 December 2016. We have not been provided with sufficient audit evidence as to whether the impairment loss of approximately HK$19,156,000 on the available-for-sale financial asset should be recorded in the year ended 31 December 2016 or 31 December 2015. However, we are satisfied that the available-for-sale financial asset is fairly stated as at 31 December 2016 and 31 December 2017.

### *3. Inventories*

No sufficient evidence has been provided to satisfy ourselves as to the net realisable value of ceramic items with carrying amount of approximately HK$35,303,000 in the consolidated statement of financial positions as at 31 December 2017 and 31 December 2016. There are no other satisfactory audit procedures that we could adopt to determine whether any provision for impairment loss should be made in the consolidated financial statements. Any adjustment to this figure might have a consequential effect on the financial performances for the years ended 31 December 2016 and 31 December 2017 and the financial positions as at 31 December 2016 and 31 December 2017.

### *4. Prepayment, deposits and other receivables*

Included in the prepayment, deposits and other receivables in the consolidated statement of financial position as at 31 December 2016 and 31 December 2017 are deposits paid (the "**Deposits Paid**") of approximately HK$95,411,000 and HK$102,100,000 respectively. We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the recoverability of the Deposits Paid of approximately HK$95,411,000 and HK$102,100,000 as at 31 December 2016 and 31 December 2017 respectively. There are no other satisfactory audit procedures that we could adopt to determine whether any provision of impairment should be made in the consolidated financial statements. Any adjustment to this figure might have a consequential effect on the financial performances for the years ended 31 December 2016 and 31 December 2017 and the financial positions as at 31 December 2016 and 31 December 2017.

Any adjustments to the figures as described from points 1 to 4 above might have consequential effects on the consolidated financial performances and consolidated cash flows for the two years ended 31 December 2016 and 31 December 2017 and the consolidated financial positions of the Group as at 31 December 2016 and 2017, and the related disclosures thereof in the consolidated financial statements.

## Material Uncertainty Related to Going Concern

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred a loss of approximately HK$95,094,000 and net operating cash outflow of approximately HK$66,462,000 for the year ended 31 December 2017 and as at 31 December 2017 the Group had net current liabilities of approximately HK$41,818,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion section and the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### *1. Exploration and evaluation assets*

The Group tested the amount of exploration and evaluation assets for impairment. This impairment test is significant to our audit because the balance of exploration and evaluation assets of approximately HK$114,671,000 as at 31 December 2017 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

— Assessing the competence, independence and integrity of the external valuer engaged by client;

— Obtaining the external valuation reports and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;

— Checking key assumptions and input data in the valuation model to supporting evidence;

— Assessing the arithmetical accuracy of fair value less costs of disposal calculations;

— Assessing the reasonableness of the key assumptions (including amount of reserve of mine, quality of coal and amount of government reimbursement on invested exploration expenses);

— Checking input data to supporting evidence.

We consider that the Group's impairment test for exploration and evaluation assets are supported by the available evidence.

### *2. Investment in associates*

Included in investment in associates in the consolidated statement of financial position as at 31 December 2017 are investment in Multijoy Development Limited ("**Multijoy**") of approximately HK$195,088,000.

The Group tested the amount of investment in Multijoy for impairment. This impairment test is significant to our audit because the balance of investment in Multijoy of approximately HK$195,088,000 as at 31 December 2017 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

— Assessing the competence, independence and integrity of the external valuers engaged by client;

— Obtaining the external valuation reports and meeting with the external valuers to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;

— Assessing the arithmetical accuracy of value-in-use and fair value less costs of disposal calculations;

— Assessing the reasonableness of the key assumptions (including revenue growth, profit margins, terminal growth rates and discount rates);

— Checking input data to supporting evidence.

We consider that the Group's impairment test for investment in Multijoy are supported by the available evidence.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to ensuring high standards of corporate governance. During the Year, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 "Corporate Governance Code and Corporate Governance Report" to the Listing Rules, except for the deviation from code provisions A.6.7 of the Corporate Governance Code as described below.

### Code Provision A.6.7

Under code provision A.6.7 of the Corporate Governance Code, the independent non-executive Directors should attend the general meetings. However, the independent non-executive Directors, Mr. So Chun Pong, Ricky, Mr. Suen Chun Hung, Benjamin, Mr. Chan Wai Keung and Mr. Wang Xiao Ning had other important engagements at the same time and did not attend the annual general meeting of the Company held on 30 June 2017.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 "Model Code for Securities Transactions by Directors of Listed Issuers" to the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company. Having made specific enquiry of the Directors of the Company, all Directors confirmed that they had compiled with the required standards as set out in the Model Code during the Year.

## AUDIT COMMITTEE

The audit committee assists the Board in meeting its responsibilities for ensuring effect systems of financial reporting process, risk management, internal control and compliance, and in meeting its external financial reporting objectives. The audit committee of the Company comprises Mr. So Chun Pong, Ricky, Mr. Wang Xiao Ning and Mr. Cheung Man Loon, Michael, all independent non-executive Directors of the Company. The audit committee members have reviewed the final results announcement of the Group for the year ended 31 December 2017.

## PUBLICATION OF RESULTS

This announcement of results of the Company has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kh381.com). The annual report of the Company for the year ended 31 December 2017 containing all the information required by Appendix 16 "Disclosure of Financial Information" to the Listing Rules will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

## APPRECIATION

The Board would like to take this opportunity to express its gratitude to all shareholders, customers, suppliers, business partners, banks, professional parties and employees of the Group for their continuous support.

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

Hong Kong, 29 March 2018

*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 purposes only*