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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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Revenue	4	199,952	214,605
Cost of sales		<u>(158,266)</u>	<u>(149,334)</u>
Gross profit		41,686	65,271
Other income	6	4,453	2,997
Selling and distribution costs		(28,312)	(32,262)
Administrative expenses		(89,325)	(113,754)
Other (losses)/gains, net	6	(4,893)	745
Finance costs	7	(34,923)	(25,808)
Impairment losses under expected credit loss model, net of reversal		(2,795)	(19,961)
Impairment of exploration and evaluation assets	12	–	(88,758)
Impairment of investment in associates	13	(40,142)	(16,360)
Gain on disposal of subsidiaries		27,087	–
Prepayments, deposits and other receivables written-off		(106,708)	–
Share of result of associates		<u>(68,315)</u>	<u>4,754</u>
Loss before income tax		(302,187)	(223,136)
Income tax (expense)/credit	8	<u>(138)</u>	<u>11,566</u>
Loss for the year	9	<u><u>(302,325)</u></u>	<u><u>(211,570)</u></u>

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Loss attributable to:			
— equity holders of the Company		(301,937)	(208,066)
— non-controlling interests		(388)	(3,504)
		<u>(302,325)</u>	<u>(211,570)</u>
Loss per share attributable to the equity holders of the Company		<i>HK cents</i>	<i>HK cents</i>
Basic and diluted loss per share	<i>11</i>	<u>(3.11)</u>	<u>(2.70)</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2019

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Restated)
Loss for the year	<u>(302,325)</u>	<u>(211,570)</u>
Other comprehensive income:		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Surplus on revaluation of properties	2,645	3,105
Deferred tax effect of on revaluation of properties	(432)	–
Surplus on revaluation of financial assets at fair value through other comprehensive income (“FVTOCI”)	–	58,818
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences reclassified upon disposal of subsidiaries	(26,802)	–
Exchange difference arising from translation of foreign operations	(2,458)	(22,094)
Share of exchange translation difference of associates	8,491	–
Other comprehensive (loss)/income for the year, net of tax	<u>(18,556)</u>	<u>39,829</u>
Total comprehensive loss for the year	<u>(320,881)</u>	<u>(171,741)</u>
Total comprehensive loss attributable to:		
— equity holders of the Company	(320,493)	(168,237)
— non-controlling interests	(388)	(3,504)
	<u>(320,881)</u>	<u>(171,741)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Restated)
Non-current assets			
Property, plant and equipment		69,272	78,660
Right-of-use assets		4,979	–
Investment properties		12,170	14,902
Other intangible asset		1,000	1,012
Investment in associates	<i>13</i>	576,060	346,106
Financial assets at fair value through other comprehensive income (“FVTOCI”)	<i>14</i>	3,435	133,000
Deferred income tax assets		182	198
Prepayments, deposits and other receivables	<i>16</i>	–	2,249
		667,098	576,127
Current assets			
Inventories		24,000	70,758
Trade and bills receivables	<i>15</i>	37,099	43,301
Prepayments, deposits and other receivables	<i>16</i>	81,157	181,029
Bank balances and cash		18,519	21,818
		160,775	316,906
Assets of a disposal group classified as held for sale	<i>17</i>	–	20,514
		160,775	337,420
Total assets		827,873	913,547
Current liabilities			
Trade payables	<i>18</i>	7,469	12,982
Accruals and other payables	<i>19</i>	141,785	172,853
Income tax payable		961	740
Promissory notes	<i>20</i>	270,538	153,607
Lease liabilities		1,533	–
Obligation under finance leases		–	324
Borrowings		55,503	95,333
		477,789	435,839
Net current liabilities		(317,014)	(98,419)
Total assets less current liabilities		350,084	477,708

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000 (Restated)
Non-current liabilities			
Deferred income tax liabilities		14,920	14,968
Borrowings		–	6,545
Lease liabilities		3,457	–
Obligation under finance leases		–	417
		<u>18,377</u>	<u>21,930</u>
Net assets		<u>331,707</u>	<u>455,778</u>
Equity			
Share capital	22	981,039	811,039
Reserves		(654,741)	(361,058)
Equity attributable to owners of the Company		326,298	449,981
Non-controlling interests		5,409	5,797
Total equity		<u>331,707</u>	<u>455,778</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 Flat E, 20/F., Lucky Plaza, 315–321 Lockhart Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacturing and trading of toys and gifts items and the investment in various businesses including fruit plantation, leisure and culture. As at 31 December 2019, the directors consider the ultimate controlling person of the Company to be Ms. Lin Meiling who wholly owns Green Luxuriant Group Investment Limited, a company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

Going concern basis

The Group incurred a loss of approximately HK\$302,325,000 for the year ended 31 December 2019 and as at 31 December 2019 the Group had net current liabilities of approximately HK\$317,014,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group 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;
- (2) After 31 December 2019, certain promissory note holders and creditors with an aggregate amount of approximately HK\$124,673,000 and HK\$50,326,000 included in promissory notes and accruals and other payable respectively, as set out in note 20 and note 19, have agreed not to demand for repayment for the amount due before 21 May 2021;
- (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;
- (4) The Group entered into conditional subscription agreement for the bond subscription with an aggregate principal amount of HK\$500 million, details of which are set out in the Company's announcement dated 14 October 2019, 26 November 2019 and 5 December 2019; and
- (5) Green Luxuriant Group Investment Limited, the ultimate controlling company 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 Green Luxuriant Group Investment Limited. The directors of the Group 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 2019. 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of approximately HK\$6,963,000 and right-of-use assets of approximately HK\$7,046,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The lessee's incremental borrowing rate applied is ranged from 2.61% to 5.88%.

	At 1 January 2019 HK\$'000
Total operating lease commitments disclosed at 31 December 2018	9,910
Recognition exemptions:	
— Leases with remaining lease term of less than 12 months	<u>(3,880)</u>
Operating leases liabilities before discounting	6,030
Adjustments relating to change in the index	947
Discounting using incremental borrowing rate	<u>(755)</u>
Operating leases liabilities	6,222
Finance leases obligation	<u>741</u>
Total lease liabilities recognised upon application of HKFRS 16	<u><u>6,963</u></u>
Current	2,027
Non-current	<u>4,936</u>
	<u><u>6,963</u></u>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	At 1 January 2019 HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	6,222
Reclassified from assets held under finance leases (<i>Note</i>)	<u>824</u>
	<u><u>7,046</u></u>
By class:	
Office premises	6,222
Motor vehicles	<u>824</u>
	<u><u>7,046</u></u>

Note: In relation to assets previously classified as held under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to HK\$824,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of HK\$324,000 and HK\$417,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021.

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

4. REVENUE

(a) Disaggregation of revenue from contracts with customers

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Sales of toys and gifts items	<u>199,952</u>	<u>214,605</u>
Timing of revenue recognition At point in time	<u><u>199,952</u></u>	<u><u>214,605</u></u>

(b) Performance obligations for contracts with customers

Revenue from sales of toys and gifts items is recognised when control of the goods has transferred, being when the goods have been shipped to the customer’s specific location (delivery). Following the delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. Invoices are usually payable within 60 days.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for toys and gifts items such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of toys and gifts items that had an original expected duration of one year or less.

5. OPERATING SEGMENT INFORMATION

The Group has five reportable and operating 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 associates or subsidiaries of the Group
Culture	—	Investment in cultural items

The Group's reportable and operating 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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	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	-	-	199,952	214,605	-	-	-	-	-	-	199,952	214,605
Segment profit/(loss)	24,685	(80,141)	(6,700)	(11,952)	(81,762)	4,124	(145,559)	(52,990)	(24,971)	-	(234,307)	(140,959)
Depreciation and amortisation	-	-	(6,838)	(5,418)	-	-	(1,350)	(1,408)	-	-	(8,188)	(6,826)
Impairment of investment in an associate	-	-	-	-	(38,642)	-	(1,500)	(16,360)	-	-	(40,142)	(16,360)
Impairment of exploration and evaluation assets	-	(88,758)	-	-	-	-	-	-	-	-	-	(88,758)
Provision for impairment of trade receivables	-	-	(2,795)	(3,915)	-	-	-	-	-	-	(2,795)	(3,915)
Provision for impairment of loan and other receivables	-	-	-	-	-	-	-	(16,535)	-	-	-	(16,535)
Prepayment, deposit and other receivables written-off	-	-	-	-	-	-	(106,708)	-	-	-	(106,708)	-
Write-down of inventory to its net realisable value	-	-	(1,298)	-	-	-	-	-	(24,971)	-	(26,269)	-
Gain on disposal of subsidiaries	25,002	-	-	-	-	-	2,085	-	-	-	27,087	-
Share of result of associates	-	-	-	-	(41,480)	4,719	(26,835)	35	-	-	(68,315)	4,754
Interest income	-	-	9	8	-	-	-	2,194	-	-	9	2,202
Interest expenses	-	-	(1,465)	(1,445)	-	-	(7)	(6,504)	-	-	(1,472)	(7,949)
Income tax credit/(expense)	-	(14,405)	(872)	1,782	1,010	1,057	-	-	-	-	138	(11,566)
At 31 December												
Segment assets	3,436	20,837	157,410	164,769	451,047	312,968	195,111	354,376	10,332	35,303	817,336	775,929
Segment liabilities	-	(702)	(56,859)	(71,349)	(3,073)	(2,063)	(1)	(72,434)	-	-	(59,933)	(146,548)
Additions to segment non-current assets	-	-	3,748	2,017	224,000	-	-	148,032	-	-	227,748	103,017
Investment in associates included in segment assets	-	-	-	-	400,951	179,968	135,109	166,138	-	-	576,060	346,106

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Restated)
Reconciliation of segment loss:		
Total loss of reportable segments	(234,307)	(140,959)
Unallocated amount:		
Corporate finance costs	(33,451)	(17,859)
Other corporate income and expenses	(34,567)	(52,752)
	<u>(302,325)</u>	<u>(211,570)</u>
Loss for the year	<u>(302,325)</u>	<u>(211,570)</u>
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Restated)
Reconciliation of segment assets:		
Total assets of reportable segments	817,336	775,929
Unallocated corporate assets		
Property, plant and equipment	–	–
Bank and cash balances	115	10,072
Prepayments, deposits and other receivables	10,422	127,546
	<u>10,537</u>	<u>137,618</u>
Total assets	<u>827,873</u>	<u>913,547</u>
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Reconciliation of segment liabilities:		
Total liabilities of reportable segments:	59,933	146,548
Unallocated corporate liabilities		
Borrowings	26,802	31,727
Accruals and other payables	138,893	125,887
Promissory notes	270,538	153,607
	<u>436,233</u>	<u>311,221</u>
Total liabilities	<u>496,166</u>	<u>457,769</u>

(c) Geographical information:

	Revenue		Non-current assets	
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Restated)
The PRC (including Hong Kong)	2,065	7,474	390,766	437,579
North America ¹	196,228	205,043	2,791	3,101
European Union ²	416	416	–	–
Others ³	1,243	1,672	269,924	–
	<u>199,952</u>	<u>214,605</u>	<u>663,481</u>	<u>440,680</u>

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, Southeast Asia and Samoa.

The geographical location of customer is based on the location at which the goods were delivered and information about the non-current assets including property, plant and equipment, investment properties, other intangible asset and investment in associates, classified in accordance with geographical location of the assets at the end of the reporting period.

Revenue from two (2018: two) customers, accounted for more than 10% of the Group’s total revenue for the year, represented approximately 65% of the total Group’s revenue for the year ended 31 December 2019 (2018: 62%), which are shown as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Customer A	107,361	111,410
Customer B	– ¹	22,494
Customer C	22,963	– ¹

¹ The corresponding revenue did not contribute 10% or more of the total revenue of the Group in the respective year.

6. OTHER INCOME/OTHER GAINS, NET

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Other income		
Bank interest income	8	8
Loan interest income	2	2,194
Other interest income	1,873	–
Rental income from investment properties	169	412
Other payables written off	1,574	–
Others	827	383
	<u>4,453</u>	<u>2,997</u>
Other (losses)/gains, net		
Fair value loss on investment properties	(2,562)	–
Net foreign exchange (loss)/gain	(2,331)	745
	<u>(4,893)</u>	<u>745</u>

7. FINANCE COSTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest expenses on:		
Bank borrowings and overdrafts	1,098	1,389
Other loans	11,585	14,968
Trust receipt loans	259	19
Interest on lease liabilities	304	37
Promissory notes	21,677	9,395
	<u>34,923</u>	<u>25,808</u>

8. INCOME TAX (EXPENSE)/CREDIT

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current tax — Hong Kong Profits Tax Provision for the year	<u>(115)</u>	<u>(475)</u>
Current tax — Overseas Provision for the year	<u>(1,374)</u>	<u>(1,273)</u>
Total current tax	(1,489)	(1,748)
Deferred income tax credit	<u>1,351</u>	<u>13,314</u>
Income tax (expense)/credit	<u>(138)</u>	<u>11,566</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) on the estimated assessable profits arising from Hong Kong during the year.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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.

9. LOSS FOR THE YEAR

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

	2019	2018
	HK\$'000	HK\$'000
Amortisation of other intangible asset	12	12
Auditor's remuneration	2,000	1,800
Cost of inventories recognised as expense (<i>note</i>)	158,266	149,334
Depreciation of property, plant and equipment	8,188	7,442
Depreciation of right-of-use assets	2,125	–
Write-off of other receivables	6,987	–
Expense relating to short-term lease and other leases with lease terms within 12 months/operating lease rentals on premises	4,041	8,020
Loss on write-off of property, plant and equipment	443	1,105
Staff costs (including directors' remuneration)		
Salaries, bonus and allowance	39,288	63,928
Retirement benefits scheme contributions	2,061	3,797
	41,349	67,725

Note: The cost of inventories recognised as an expense in cost of sales included approximately HK\$24,971,000 (2018: HK\$nil) and HK\$1,298,000 (2018: HK\$1,324,000) in respect of write-down of ceramic items and finished goods respectively to net realisable value.

10. DIVIDEND

The directors of the Company did not recommend the payment of any dividend for the years ended 31 December 2019 and 2018.

11. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of HK\$301,937,000 (2018: HK\$208,066,000) and the weighted average number of ordinary shares of 9,707,916,000 (2018: 7,695,313,000) in issue during the year.

(b) Diluted loss per share

There was no dilutive potential ordinary shares outstanding during the year as the Company's outstanding share options for the years ended 31 December 2019 and 2018 had anti-dilutive effects. Accordingly, the diluted loss per share is same as basic loss per share for both years.

12. EXPLORATION AND EVALUATION ASSETS

	<i>HK\$'000</i>
Cost	
At 1 January 2018	1,331,138
Exchange difference	(63,886)
Transferred to assets of a disposal group classified as held for sale	<u>(1,267,252)</u>
At 31 December 2018, 1 January 2019 and 31 December 2019	<u>–</u>
Accumulated impairment loss	
At 1 January 2018	1,216,467
Impairment loss recognised	88,758
Exchange difference	(58,383)
Transferred to assets of a disposal group classified as held for sale	<u>(1,246,842)</u>
At 31 December 2018, 1 January 2019 and 31 December 2019	<u>–</u>
Carrying amount	
At 31 December 2019	<u><u>–</u></u>
At 31 December 2018	<u><u>–</u></u>

The exploration and evaluation assets represent exploration rights of Bayanhushuo Coal Field (“**BCF**”) and Guerbanhada Coal Mine (“**GCM**”). During the year ended 31 December 2018, the management of the Company was being informed that the approval of the master planning of GCM from the National Development and Reform Commission of the PRC and the National Energy Commission of the PRC was very remote. On the consideration of the best interest of shareholders, and based on the valuation performed by the professional valuer on 1 November 2018, the management decided to dispose the Group’s 80% equity interest in Inner Mongolia Mingrunfeng Energy Co., Ltd. and Inner Mongolia Run Heng Mining Company Limited (the “**Disposal Group**”), which held BCF and GCM respectively. On 15 December 2018, the Disposal Group was bid at open market auction. The disposal was completed on 15 January 2019. The sales proceeds of the Disposal Group was RMB15,000,000. In accordance with HKFRS 5 the assets and liabilities of the Disposal Group have been written down to their fair value less cost of disposal and an impairment of approximately HK\$88,758,000 was recognised for the year ended 31 December 2018. The assets and liabilities of the Disposed Group are classified as assets of a disposal group classified at held for sale at 31 December 2018 (see note 17).

13. INVESTMENT IN ASSOCIATES

	2019 <i>HK\$’000</i>	2018 <i>HK\$’000</i> (Restated)
Unlisted investments:		
Share of net assets	403,304	346,106
Goodwill	698,144	603,007
	1,101,448	949,113
Impairment losses	(525,388)	(603,007)
	576,060	346,106

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	Fruit plantation		
		2019	2018
% of ownership interests		40%	40%
	<i>Note</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
At 31 December:			
Non-current assets		528,066	556,827
Current assets		37,705	38,409
Non-current liabilities		(131,160)	(138,272)
Current liabilities		(7,044)	(7,044)
Net assets		427,567	449,920
Group’s share of net assets		171,027	179,968
Goodwill		453,886	453,886
		624,913	633,854
Impairment losses		(453,886)	(453,886)
Carrying amount of Group’s interests		171,027	179,968
Year ended 31 December:			
Revenue		33,925	35,503
Profit before tax		15,081	15,772
Profit after tax		11,280	11,797
Other comprehensive loss		(8,389)	(23,153)
Total comprehensive income/(loss)		2,891	(11,356)
Dividends received from associates		10,098	11,040

(b) **Eagle Praise Group**

	Eagle Praise Limited (“the Eagle Praise Group”)	
Name	The PRC/British Virgin Islands	
Principal place of business/country of incorporation	Dormant	
Principal activities		
	2019	2018
	20%	20%
	HK\$'000	HK\$'000
At 31 December:		
Non-current assets	–	–
Current assets	–	–
Non-current liabilities	–	–
Current liabilities	–	–
Net assets	–	–
Group’s share of net assets	–	–
Goodwill	117,761	117,761
Written off	117,761	117,761
Impairment losses	(117,761)	–
Carrying amount of Group’s interests	–	–

On 23 April 2015, the Group completed the acquisition of 20% equity interest in 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 discovered by the Group that the representations made by the vendor in respect of the business of the Eagle Praise Group were false and misleading. As a result, full provision for impairment of investment in the Eagle Praise Group of approximately HK\$117,761,000 was made during the year ended 31 December 2016, and the investment was fully written off during the year ended 31 December 2019.

(c) **Fujian Yuguo Chaye Limited**

Name	Fujian Yuguo Chaye Limited (“ Fujian Yuguo ”)	
Principal place of business/country of incorporation	The PRC/the PRC	
Principal activities	Trading of tea products	
	2019	2018
% of ownership interests	33%	33%
	HK\$’000	HK\$’000
At 31 December:		
Non-current assets	6,355	66,791
Current assets	2,152	26,899
Non-current liabilities	–	(7,819)
Current liabilities	(711)	(2,221)
Net assets	7,796	83,650
Group’s share of net assets	2,572	27,605
Goodwill	31,360	31,360
	33,932	58,965
Impairment losses	(32,860)	(31,360)
Carrying amount of Group’s interests	1,072	27,605
Year ended 31 December:		
Revenue	1,338	14,693
Loss before tax	(83,177)	(1,739)
Loss after tax	(75,391)	(1,645)
Other comprehensive loss	(463)	(3,043)
Total comprehensive loss	(75,854)	(4,688)
Dividends received from associate	–	599

As the recoverable amount of Fujian Yuguo is lower than its carrying amount, an impairment of approximately HK\$1,500,000 (2018: HK\$16,360,000) was recognised for the year ended 31 December 2019.

(d) **Anhui Fu Lao Wine Development Company Limited**

Name	Anhui Fu Lao Wine Development Company Limited ("Anhui Fu Lao")	
Principal place of business/country of incorporation	The PRC/the PRC	
Principal activities	Trading of wine products	
	2019	2018
% of ownership interests	20%	20%
	HK\$'000	HK\$'000 (Restated)
At 31 December:		
Non-current assets	84,144	96,778
Current assets	641,253	655,546
Non-current liabilities	(13,410)	(13,663)
Current liabilities	(41,799)	(46,003)
Net assets	670,188	692,658
Group's share of net assets	134,037	138,533
Carrying amount of Group's interests	134,037	138,533
Year ended 31 December:		
Revenue	26,911	17,012
(Loss)/profit before tax	(8,201)	3,857
(Loss)/profit after tax	(9,776)	2,893
Other comprehensive loss	(12,695)	(50,394)
Total comprehensive loss	(22,471)	(47,501)
Dividend received from associate	–	–

During the year ended 31 December 2018, the Group acquired of 20% equity interest in Anhui Fu Lao, at a total consideration satisfied by the issue of 1,010,000,000 new ordinary shares of the Company of HK\$0.1 each at issue price of HK\$0.1 per share.

In the consolidated financial statements for the financial year ended 31 December 2018, the fair values of identifiable assets and liabilities of Anhui Fu Lao and of the Group's cost of acquisition have been determined on a provisional basis pending the finalization of their fair value measurements. The provisional fair values of identifiable assets and liabilities of the Anhui Fu Lao were based on the carrying amounts of the assets and liabilities in the accounts of Anhui Fu Lao, whilst the provisional fair value used for the cost of acquisition was determined based on market price of the quoted shares of the Company issued as consideration for the acquisition, rather than the fair value of the 20% equity interests of Anhui Fu Lao on completion day. As a result, the resulting goodwill attributable to the interests in Anhui Fu Lao has also been determined on a provisional basis.

During the measurement period of within twelve months following the acquisition, the Group recognised retrospective adjustments to the provisional amounts at the acquisition date, and the fair value for the cost of acquisition was determined based on fair value of the 20% equity interests of Anhui Fu Lao on completion day, as determined by external valuers engaged by the Company.

The effect of the adjustment arising from the acquisition under the equity method on acquisition is summarised as follows:

	At 31 December 2018		
	As previously stated <i>HK\$'000</i>	Restated <i>HK\$'000</i>	Increase/ (Decrease) <i>HK\$'000</i>
Carrying amount of Group's interest in the associate	28,347	138,533	110,186
Group's share of net assets	21,116	138,533	117,417
Goodwill included in interest in associate	7,231	–	(7,231)
Share of exchange translation difference of associate	(1,522)	(10,078)	(8,556)
Share premium	(71,710)	47,032	118,742
	<u> </u>	<u> </u>	<u> </u>

As stated in the Company's announcement dated 18 March 2020, the acquisition of 20% equity interest in Anhui Fu Lao was completed on 31 May 2018, but the transfer of the Group's ownership of 20% equity interest and registration procedures had yet to complete at 31 December 2019 due to limited services provided by the relevant government authority resulting from the effect of outbreak of the coronavirus in the PRC.

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

Name	USO Management & Holding Co. Ltd. (“USO”)
Principal place of business/country of incorporation	Samoa/Samoa
Principal activities	Trading of noni fruit
	2019
% of ownership interests	47%
	HK\$’000
At 31 December:	
Non-current assets	77,617
Current assets	140,379
Non-current liabilities	(7,954)
Current liabilities	(6,493)
Net assets	203,549
Group’s share of net assets	95,668
Goodwill	212,898
	308,566
Impairment losses	(38,642)
Carrying amount of Group’s interests	269,924
Year ended 31 December:	
Revenue	156,959
Loss before tax	(97,855)
Loss after tax	(97,855)
Other comprehensive loss	(1,707)
Total comprehensive loss	(99,562)
Dividend received from associate	–

In addition to 19% equity interest in USO, which was classified as financial assets at FVTOCI at 31 December 2018 (see note 14), the Group acquired further 28% equity interest in USO on 23 January 2019 at a total consideration satisfied by (i) the issue of 1,700,000,000 new ordinary shares of the Company and (ii) a promissory note in the principal amount of HK\$30,000,000 issued by the Company. The cost of acquisition of the further 28% equity interest in USO was determined by reference to the fair value of 28% equity interest of USO on completion day.

Upon completion of 28% equity interest in USO on 23 January 2019, the Group’s 19% equity interest of approximately HK\$133,000,000 previously held in USO was reclassified to investment in associates. As at 31 December 2019, the Group held a total of 47% equity interest in USO.

As the recoverable amount of USO is lower than its carrying amount, an impairment of approximately HK\$38,642,000 was recognised for the year ended 31 December 2019.

As stated in note 27(a), on 10 February 2020, the Group issued 300,000,000 new ordinary shares at the issue price of HK\$0.1 each to the vendor of USO for the settlement of the promissory note in the principal amount of HK\$30,000,000 issued as the partial settlement of the acquisition of 28% equity interest in USO as mentioned above.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Unlisted investments		
— Equity securities	<u>3,435</u>	<u>133,000</u>

At 31 December 2019, the unlisted equity investments represented the Group's remaining 20% equity interest in the Disposal Group (note 17) and note 26(a). The directors of the Company have elected to designate these investments in equity instruments at FVTOCI as the investments are held for long-term strategic purpose. The Disposal Group is not regarded as associates of the Group because the Group has less than one-fifth of the voting power of the Disposal Group and there is no director of the Disposal Group was appointed by the Group. In the opinion of directors of the Company, the fair value of the equity investments at fair value through other comprehensive income at 31 December 2019 approximated its fair value at initial recognition and no more recent information about the Disposed Group was made available to the Group which indicated otherwise.

At 31 December 2018, the unlisted equity investments represented the Group's 19% equity interest in USO. The investment was remeasured at its fair value and reclassified as investment in associates upon completion of the acquisition of further 28% equity interest in USO on 23 January 2019 (see note 13(e)).

15. TRADE AND BILLS RECEIVABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables — contract with customers	40,161	49,585
Less: Allowance for credit losses	<u>(3,062)</u>	<u>(8,156)</u>
Trade receivables, net	37,099	41,429
Bills receivables	<u>—</u>	<u>1,872</u>
	<u>37,099</u>	<u>43,301</u>

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 30 days	9,253	12,367
31 days to 90 days	25,387	11,032
91 days to 180 days	2,459	12,059
181 days to 360 days	—	5,902
Over 360 days	<u>—</u>	<u>69</u>
	<u>37,099</u>	<u>41,429</u>

As of 31 December 2019, trade receivables of approximately HK\$Nil (2018: approximately HK\$10,397,000) were past due but not credit-impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables based on invoice date, is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 90 days	–	7,200
91 days to 180 days	–	496
181 days to 360 days	–	2,693
Over 360 days	–	8
	<u>–</u>	<u>10,397</u>

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Non-current portion			
Prepayment		–	2,249
		<u>–</u>	<u>2,249</u>
Current portion			
Deposits for sales right of a property development	<i>(a)</i>	–	102,100
Deposits for the acquisition of partial interest in a company	<i>(b)</i>	–	10,000
Prepayment for corporation agreement		–	8,505
Trade deposits	<i>(c)</i>	62,434	14,105
Deposit and other receivables		14,519	41,281
Loan receivable	<i>(d)</i>	–	11,044
Prepayment		–	1,902
Amount due from a former director	<i>(e)</i>	4,204	8,407
		<u>81,157</u>	<u>197,344</u>
Less: Allowance for credit losses		–	(16,315)
		<u>81,157</u>	<u>181,029</u>
		<u>81,157</u>	<u>183,278</u>
			<i>HK\$'000</i>
(a) At 31 December 2017, 2018 and 1 January 2019			102,100
Exchange difference			<u>4,608</u>
At 31 December 2019			106,708
Less: Write-off			<u>(106,708)</u>
			<u>–</u>

Based on the legal opinion, the directors considered that the deposits for the sales right of a property development of approximately HK\$106,708,000 were not recoverable, and hence was written off during the year ended 31 December 2019.

- (b) During the year ended 31 December 2018, the Group issued a promissory note of HK\$10,000,000 as a refundable deposits or part of the consideration upon completion for further acquisition of 28% equity interest in USO. The deposit was refunded upon the completion of the acquisition during the year ended 31 December 2019.
- (c) Included in trade deposits at 31 December 2019 are amounts of approximately HK\$60,000,000 which were paid by issuance of the Company's promissory notes with principal amount of HK\$60,000,000 in aggregate during the year ended 31 December 2019 to the suppliers for purchasing wine and juice. The transactions are expected to complete during the second half of year 2020.
- (d) The loan receivable was unsecured, interest bearing at 24% per annum and derecognised upon disposal of a subsidiary during the year ended 31 December 2019.
- (e) Amount due from a former director

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	Maximum outstanding balance during the year <i>HK\$'000</i>
Zhang Yun	<u>4,204</u>	<u>8,407</u>	<u>8,407</u>

Mr. Zhang Yun retired as director of the Company on 28 June 2019. The amount is secured by a guarantee from a promissory note holder, interest free and will be repayable within one year.

17. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As disclosed in note 12, the Disposal Group was disposed to an independent third party on 15 January 2019. The Disposal Group is included in the Group's Exploration segment for segment reporting purposes (note 5). The following major classes of assets and liabilities relating to the Disposal Group have been classified as held for sale in the consolidated statement of financial position at 31 December 2018.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Property, plant and equipment	–	104
Exploration and evaluation assets	–	20,410
	<u>–</u>	<u>20,514</u>

In accordance with HKFRS 5, the assets and liabilities of the Disposal Group at 31 December 2018 have been written down to their fair value less costs to sell of HK\$20,514,000, which was determined based on the disposal price for the 80% equity interest to be sold by the Group. This is a non-recurring fair value measurement.

18. TRADE PAYABLES

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 30 days	5,454	11,405
31 days to 90 days	1,118	1,311
91 days to 180 days	223	165
181 days to 360 days	498	–
Over 360 days	176	101
	<u>7,469</u>	<u>12,982</u>

19. ACCRUALS AND OTHER PAYABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Other payables (<i>note (a)</i>)	27,522	31,015
Bill payables	1,077	–
Obligation under share re-purchase arrangement (<i>note 22(a)</i>)	8,000	–
Other accruals	45,304	66,081
Accrued salaries	18,766	16,533
Interest payables	39,817	28,910
Receipts in advance	233	19,720
Due to related parties (<i>note 23</i>)	1,066	10,594
	<u>141,785</u>	<u>172,853</u>

Note:

(a) Other payables are non-interest-bearing and generally have an average term of 30 days.

20. PROMISSORY NOTES

	<i>Notes</i>	Total <i>HK\$'000</i>
At 1 January 2018		137,900
Issuance of promissory notes	<i>(a), (b)</i>	44,677
Repayment of promissory notes		(18,970)
Cancellation of promissory note returned		(10,000)
		<u>153,607</u>
At 31 December 2018 and 1 January 2019		<u>153,607</u>
Issuance of promissory notes	<i>(a), (c)</i>	130,993
Repayment of promissory notes		(4,670)
Cancellation of promissory note returned		(10,000)
Imputed Interest		608
		<u>270,538</u>
At 31 December 2019		<u>270,538</u>
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
An analysis is shown as follows:		
Not yet overdue	50,743	22,398
Overdue	219,795	131,209
	<u>270,538</u>	<u>153,607</u>

Notes:

- (a) During the year ended 31 December 2019, the Group did not issue promissory notes (2018: HK\$10,590,000) for cash. Those promissory notes are unsecured and have a maturity period of less than one year. The fair value of the promissory note approximates their carrying amount.

The interest rate of the promissory notes are as follows:

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
15% to 24%	<u>–</u>	<u>10,590</u>
	<u>–</u>	<u>10,590</u>

- (b) During the year ended 31 December 2018, the Group issued promissory note of (i) HK\$10,000,000 as a refundable deposits for acquisition of 28% equity interest in USO. The promissory note was refunded and cancelled by the Group upon completion of the acquisition in 2019; (ii) HK\$2,119,000 to set off against trade payables. The promissory note is unsecured, interest bearing at 24% per annum and with maturity date on 30 August 2018, (iii) HK\$9,570,000 in total for settling consultancy fees. The promissory notes are unsecured, interest bearing at 12% per annum and with maturity dates of 31 July 2018 and 30 April 2018, and (iv) HK\$12,398,000 for settling of other borrowings. The promissory note is unsecured, interest bearing at 24% per annum and with maturity date of 20 January 2019.
- (c) During the year ended 31 December 2019, the Group issued promissory notes of (i) principal amount of HK\$60,000,000 in aggregate for trade deposits (see note 30(c)). The promissory notes with aggregate principal amount of HK\$20,000,000 are unsecured, interest-free and with maturity due on 3 September 2020. The promissory notes are measured at amortised cost using the effective interest rate method with effective interest rate at 10.33% per annum. The remaining promissory notes with aggregate principal amount of HK\$40,000,000 are unsecured, non-interest bearing and has a maturity period of three months after the date of issue. The fair value of the promissory notes approximate their carrying amount; (ii) principal amount of approximately HK\$28,744,000 to set off against other payables. The promissory notes are unsecured, interest bearing at 28% per annum and with maturity date after one year after the date of issue, and (iii) principal amount of HK\$30,000,000 as partial consideration for the acquisition of 28% equity interest in USO (see note 13(e)). The promissory note is unsecured, interest-free and has a maturity period after one year the date of issue. The promissory notes are measured at amortised cost using effective interest method with effective interest rate at 10.33% per annum.

As stated in note 27(a), on 10 February 2020, the promissory note in the principal amount of HK\$30,000,000 issued for the partial consideration of 28% equity interest as mentioned above was returned for cancellation, and in return, the Company issued 300,000,000 ordinary shares at the issue price of HK\$0.1 each as the full and final settlement of the promissory note in the principal amount of HK\$30,000,000 as per the deed of settlement dated 14 January 2020 entered into between the Group and the vendor of USO.

21. CONTINGENT LIABILITIES

As at 31 December 2018 and 31 December 2019, the Group had no material contingent liabilities.

22. SHARE CAPITAL

	Notes	Number of shares		Amount	
		2019	2018	2019	2018
				HK\$'000	HK\$'000
Ordinary shares of HK\$0.10 each					
Authorised:					
At 1 January and 31 December		<u>30,000,000,000</u>	<u>30,000,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>
		Number of shares		Amount	
		2019	2018	2019	2018
				HK\$'000	HK\$'000
Issued and fully paid:					
At the beginning of the year		8,110,381,596	7,100,381,596	811,039	710,039
Issue of shares					
— upon settlement of liabilities	(a)	80,000,000	—	8,000	—
— upon acquisition of an associate	(b), (c)	<u>1,700,000,000</u>	<u>1,010,000,000</u>	<u>170,000</u>	<u>101,000</u>
At the end of the year		<u>9,890,381,596</u>	<u>8,110,381,596</u>	<u>989,039</u>	<u>811,039</u>
Classified as:					
Share capital		9,810,381,596	8,110,381,596	981,039	811,039
Obligation under share repurchase arrangement	(a)	<u>80,000,000</u>	—	<u>8,000</u>	—
		<u>9,890,381,596</u>	<u>8,110,381,596</u>	<u>989,039</u>	<u>811,039</u>

Notes:

- (a) As stated in note 24(b), on 21 May 2019, the Company issued and allotted 80,000,000 ordinary shares of the Company at 0.10 per share (the “Shares”) as settlement sum for HK\$8,000,000 as partial settlement of Mr. Guo’s debt of HK\$17,600,000. As there is a buy-back clause for the Shares by the Company contained in the Settlement Deed, the Shares for HK\$8,000,000 are classified as financial liabilities and presented as obligation under share repurchase arrangement instead of equity under share capital.
- (b) As stated in note 13(e), during the year ended 31 December 2019, the Company issued 1,700,000,000 ordinary shares of HK\$0.10 each for the acquisition of further 28% equity in USO.
- (c) As stated in note 13(d) during the year ended 31 December 2018, the Company issued 1,010,000,000 ordinary shares of HK\$0.10 each for the acquisition of 20% equity interest in Anhui Fu Lao.

23. RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

	2019 HK\$'000	2018 HK\$'000
Product development, sale and marketing services fee paid to Miracles for Fun USA, Inc. (note)	—	3,496

Note:

The sole owner of Miracles for Fun USA, Inc. is the director and beneficial owner of 49% (2018: 49%) equity interest in the Company's subsidiary, Marketing Resource Group, Inc..

(b) Outstanding balance with related parties

(i) Included in prepayments, deposits and other receivables

	2019 HK\$'000	2018 HK\$'000
Amount due from a former director/a director, Zhang Yun (Note 1)	4,204	8,407
Amount due from a subsidiary of an associate, 江西雅欣果業有限公司*	—	5,453
Prepayment, deposits and other receivables — Amount due from Mad About Gardening LLC.* (Note 2)	448	232

Notes:

- The amount is secured by a guarantee from promissory note holder, interest free and will be repayable within one year.
- The sole owner of Mad About Gardening LLC. is director and beneficial owner of 49% equity interest in the Company's subsidiary, Marketing Resource Group, Inc..

(ii) Included in accruals and other payables

	2019 HK\$'000	2018 HK\$'000
Amount due to directors*	920	1,468
Amount due to a relative of a director, Li Pik Ha*	146	9,126
Amount due to an associate, Fujian Yuguo Chaye Limited*	—	42

* The amounts due are unsecured, interest free and repayable on demand.

(iii) *Included in promissory notes*

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Promissory note payable to Shu Zhong Wen, a former director of the Company	<u>949</u>	<u>2,119</u>
(c) Key management compensation		
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	12,432	17,555
Retirement benefits scheme contributions	<u>508</u>	<u>440</u>
	<u>12,940</u>	<u>17,995</u>

(d) Guarantee provided by related parties

As at 31 December 2019, the Group's borrowings of approximately HK\$Nil (2018: HK\$621,000) and HK\$Nil (2018: HK\$11,013,000) 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.

24. LITIGATIONS

(a) Chow Lai Wah Livia

Pursuant to a Loan Agreement dated 26 November 2018 entered into between Chow Lai Wah Livia ("Ms. Chow") as Lender and the Company as Borrower, Ms. Chow agreed to lend to the Company an amount of HK\$20,000,000 for a term until 1 December 2019.

On 12 September 2019 and 10 October 2019, the Company received from Ms. Chow a writ of summons and a statement of claim issued by the High Court, respectively, against the Company as borrower for the outstanding amount of borrowing of HK\$20,000,000 and interest rate of 1.25% per month from 27 May 2019 until payment. On 8 December 2019, the Company filed a defence and counterclaim to the High Court.

As of the date hereof, the Company is not aware of whether Ms. Chow will move the case any further.

(b) Guo Jingsheng

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 by 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.

A deed of settlement (the “**Settlement Deed**”) was made between the Company, the director of the Company and Mr. Guo on 29 April 2019. Pursuant to the Settlement Deed, the Company would issue 80,000,000 ordinary shares of the Company at HK\$0.10 per share (the “**Shares**”) for the settlement of HK\$8,000,000 as partial settlement of Mr. Guo’s debt of approximately HK\$17,600,000 as at 29 April 2019. The Settlement Deed contains a buy-back clause for the Shares by the Company should the quoted market price of the Company’s shares fail to reach at least HK\$0.10 per share within one year from the date of issue of the Shares. The Company issued and allotted the Shares to Mr. Guo on 21 May 2019. On 15 May 2020, the Company received a writ of summons from Mr. Guo demanding an order that the Company buy back the Shares from Mr. Guo.

As at the date of this announcement, the Company is liaising with Mr. Guo about the buy-back of the Shares and the outstanding amount of borrowings of approximately HK\$9,600,000, which is included in accruals and other payables as at 31 December 2019.

(c) Everbright Centre

Pursuant to a tenancy agreement dated 23 September 2014 entered into between Everbright Centre Company Limited (“**Everbright Centre**”) (formerly known as Wing Siu Company Limited) 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, for a lease of premises 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 Everbright Centre a writ of summons issued by the Court of First Instance of 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 premises; (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 premises in the third quarter of 2017 and has settled part of the amount claimed above. As at 31 December 2019, the accumulated interest, rent and administrative fees accrued for the postponement of payment is approximately HK\$4,503,000 which is included in accruals and other payables.

(d) Cheung Kai Fung

On 17 April 2019, a former employee of the Company commenced proceedings in the Labour Tribunal of Hong Kong against the Company for claiming a total amount of approximately HK\$2,354,000 on a number of grounds, including failure to pay salaries and annual leave etc.

Pursuant to the Orders of the Labour Tribunal dated 17 April 2019 and 17 January 2020, the Company was ordered to pay the former employee for all the claims stated above in full.

As at the date of this annual report, the Company is liaising with the former employee to settle the above claim of approximately HK\$2,354,000 which is included in accruals and other payables.

25. CONTINGENT GAIN

The Company had issued promissory note with a principal amount of HK\$92,000,000 (the “Promissory Note”) by the Company on 23 April 2015, as part of the consideration for the acquisition of 20% equity interests of the Eagle Praise Group (see note 13(b)). The promissory note was unsecured, non-interest bearing and had a maturity period of one year after the date of issue. On 16 December 2015, the promissory note was replaced by a new promissory note of the same principal amount with maturity date of 31 December 2016.

On 30 December 2016, the Company engaged its legal advisers to issue a legal letter (the “Letter”) to Unicorn Sino Limited (“Unicorn”), the vendor of the Eagle Praise Group. As set out in the Letter, the Company had relied on the representations of Ms. Wei, the ultimate sole beneficial owner of Unicorn, in particular, the business plan presented by Unicorn to the Company, when the Company and its subsidiaries entered into the sale and purchase agreement (as amended by the supplemental agreement dated 16 December 2015) and the Shareholders’ Agreement (as amended by the supplemental agreement dated 16 December 2015) (collectively, the “Agreements”) with Unicorn.

It was subsequently discovered that the representations made by Ms. Wei in respect of the business of the Eagle Praise Group were false and misleading. Based on the legal advice from a senior counsel, the Agreements were void or voidable by reason of fraudulent misrepresentation and the Promissory Note can be rescinded, and Unicorn cannot enforce the Promissory Note against the Company. In the opinion of the Directors, the financial effects of the rescission, will be recognised when the Promissory Note is legally extinguished.

26. GAIN ON DISPOSAL OF SUBSIDIARIES

- (a) As stated in note 17, during the year ended 31 December 2018, the management decided to dispose of the 80% equity interest in Inner Mongolia Mingrunfeng Energy Co., Ltd. and Inner Mongolia Run Heng Mining Company Limited (the “Disposal Group”). On 15 December 2018, the Disposal Group was bid at open market auction for RMB15,000,000. The disposal was completed on 15 January 2019. The net assets of the Disposal Group at the date of completion were as follows:

	<i>HK\$’000</i>
Net assets disposed of	
Bank and cash balances	5
Prepayments and other receivables	345
Accruals and other payables	(701)
Assets and liabilities of a disposal group classified as held for sale	20,514
	<hr/>
	20,163
Release of foreign currency translation reserve	(24,651)
Transfer to Financial assets of FVTOCI for 20% residual equity interest	(3,435)
Cash consideration received	(17,079)
	<hr/>
Gain on disposal of the Disposal Group	(25,002)
	<hr/> <hr/>

- (b) On 31 December 2019, the Company disposed of its 100% equity interest in a subsidiary, Kiu Hung Health Food (HK) Limited (“KH Health Food (HK)”) and its subsidiaries to an independent third party at a consideration of HK\$1,000,000. The principal activity of KH Health Food (HK) is manufacturing and trading of wine products. The subsidiary disposed had no significant impact on the turnover and results of the Group. The net assets of KH Health Food (HK) at the date of disposal were as follows:

	<i>HK\$'000</i>
Net assets disposed of	
Property, plant and equipment	6,223
Inventories	18,629
Prepayments and other receivables	56,770
Other borrowings	(57,369)
Accruals	(23,187)
	1,066
Release of foreign currency translation reserve	(2,151)
Cash consideration received	(1,000)
	(2,085)
Gain on disposal of a subsidiary	(2,085)
Gain on disposal of subsidiaries	(27,087)

27. EVENTS AFTER THE REPORTING PERIOD

(a) Second Batch Consideration Shares in relation to acquisition of 28% equity interest in USO

On 14 January 2020, the Group, Green Luxuriant Group Investment Limited, major shareholder of the Group and the vendor of USO and the guarantor entered into a deed of settlement (the “**Deed of Settlement**”), pursuant to which the vendor has agreed to subscribe for and the Company has agreed to allot and issue 300,000,000 ordinary shares of the Company (the “**Second Batch Consideration Shares**”, and each a “Second Batch Consideration Share”) at the issue price of HK\$0.1 per Second Batch Consideration Share as full and final settlement of the promissory note (“**Promissory Note**”) in the principal amount of HK\$30,000,000 as partial consideration for the acquisition of the further 28% equity interest in USO as stated in Note 13(e).

The approval from the Stock Exchange was granted on 6 February 2020 and the Second Batch Consideration Shares have been allotted and issued as fully paid to the vendor on 10 February 2020.

The vendor and the guarantor have returned the Second Promissory Note to the Company for cancellation.

Details of the above, please refer to the Company’s announcements dated 14 January 2020, 17 January 2020 and 10 February 2020.

(b) Change of domicile; Adoption of new memorandum of continuance and new bye-law; Reduction of share premium account; and Capital reorganization

Subsequent to the reporting period, the Company proposed to reduce the entire amount of the share premium account of the Company, and to implement the Capital Reorganisation upon the Change of Domicile becoming effective.

The ordinary resolutions for the Change of Domicile, the Adoption of Memorandum of Continuance and New Bye-laws, the Reduction of Share Premium Account and the Capital Reorganisation were approved by the shareholders of the Company in extraordinary general meeting on 9 April 2020.

Details of the above, please refer to the Company's announcements dated 17 February 2020, 18 March 2020, 1 April 2020, 9 April 2020 and 7 May 2020.

(c) The proposed acquisition of 51% equity interest in Hubei Jincaotang Pharmaceutical Co., Limited (the "Target Company")

On 11 September 2019, the Group as a purchaser entered into the Sale and Purchase Agreement with Sheen World International Holdings Limited (the "**Vendor**"), according to which, among other things, the Group has conditionally agreed to acquire from the Vendor, and the Vendor has conditionally agreed to sell the Sale Interests, representing 51% of the total equity interests in the Target Company. The principal activities of the Target Company are development of seeding cultivation and plantation technology of Chinese herbs as well as processing and sale of Chinese herbs products.

The Consideration of the Sale Interests is HK\$170 million, which shall be satisfied by the issue of the Convertible Bonds by the Company to the Vendor (or its nominee) upon completion. As at the reporting date, the proposed acquisition has still not yet completed.

For details, please refer to the Company's announcements date 11 September 2019, 21 October 2019, 23 October 2019, 15 November 2019 and 11 February 2020.

(d) Effect assessment of the Novel Coronavirus disease outbreak

Since early 2020, the epidemic of Coronavirus Disease 2019 (the "**COVID-19 outbreak**") has spread across China and other countries and it has affected the business and economic activities of the Group, especially on the demand of toys from North America and the PRC.

The Group's performance in 2020 could possibly be affected. The overall financial effect cannot be reliably estimated as of the date of this annual report. The Group will closely monitor the development of the COVID-19 outbreak and continue to evaluate its impact on the business, the financial position and operating results of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2019 (the “Year”), the Group recorded turnover of approximately HK\$200 million (2018: HK\$214.6 million), representing a decrease of approximately 6.8% as compared with last year.

The Group’s loss attributable to equity holders of the Company for the Year was approximately HK\$302.3 million (2018: HK\$208.1 million), representing an increase of approximately HK\$94.2 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 administrative expenses of the Group, amounting to approximately HK\$21.6 million; (ii) the increase in the provision for impairment of investment in associates of the Group, amounting to approximately HK\$40.1 million; (iii) the decrease in the provision for impairment of exploration and evaluation assets of the Group, amounting to approximately HK\$88.8 million; (iv) the gain on disposal of subsidiaries, amounting to approximately HK\$27.1 million; (v) the prepayment, deposit and other receivables written-off, amounting to approximately HK\$106.7 million; (vi) the share of result of associates, amounting to approximately HK\$63.3 million, during the Year. Basic loss per share for the Year was 3.10 HK cents (2018: 2.70 HK cents).

The Board has resolved not to pay any final dividend for the Year (2018: 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\$200 million (2018: HK\$214.6 million), representing a decrease of approximately 6.8% comparing to last year. The decrease in turnover was mainly attributable to the decrease in revenue generated from the North America and PRC regions. The gross profit margin was decrease, which was 20.8% (2018: 30.4%) during the Year, showing the loss of a major customer and the intense market competition while the Group has been keeping its high quality standard in the production and sales of toys and gifts items during the past years.

Exploration of Natural Resources

The Group owns the minor interest of 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.

During the year 2018, the Management was being informed that the approval of the master planning of GCM from the National Development and Reform Commission of the PRC and the National Energy Commission of The PRC was very remote. On the consideration of best interest of shareholders, and based on the valuation performed by the professional valuer on 1 November 2018, the Management decided to dispose the equity interest of two whole owned subsidiaries, the Inner Mongolia Mingrunfeng Energy Co., Limited (PRC) which owed the Exploration Right of Guerbanada Coal Mine and the Inner Mongolia Run Heng Mining Company Limited (PRC) which owed the Exploration Right of Bayanhushuo Coal Field through the open market in PRC.

On 15 December 2018, 80% equity interest of the Inner Mongolia Mingrunfeng Energy Co., Limited (PRC) and 80% equity interest of the Inner Mongolia Run Heng Mining Company Limited (PRC) (together referred to as the Disposal Group) was bid in open market auction via the agent “福建省廣業拍賣有限公司”. As the sales proceed from the assets and liabilities of the Disposal Group was lower than their carrying amount, an impairment of approximately HK\$88,758,000 was provided for the year ended 31 December 2018, and the Disposal Group as at 31 December 2018 is classified as assets of a disposal group classified as held for sale. The disposal was completed on 15 January 2019, see note 26(a).

The retained equity interest was regarded as financial assets at FVTOCI (note 14) since the Group has no significant influence to participate in the financial and operating policy decisions of the Disposal Group.

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.

The Group’s share of result of profits amounted to approximately HK\$4.5 million for the Year (2018: HK\$4.7 million). Details of Multijoy Group’s financial information are stated in note 13(a).

(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. The formal lease agreement with the Ministry of Natural Resources and Environment in Samoa was completed on 19 July 2017.

On 19 June 2018, Trinity Force Investments Limited entered into the sale and purchase agreement with the Vendor in relation to further acquisition of an effective 28% equity interest in Noni-fruit plantation related business in the Independent State of Samoa (“**Samoa**”). The acquisition had been completed on 23 January 2019 and the Group in total owned 47% equity interest of USO.

Due to the amortisation of intangible assets, the Group’s share of result of loss amounted to HK\$46 million for the Year. Details of USO’s financial information are stated in note 13(e).

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.

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.

Due to impairment loss on intangible assets, the Group’s share of result of loss amounted to HK\$24.9 million (2018: HK\$0.5 million) for the year. As the recoverable amount of Fujian Yuguo is lower than its carrying amount, an impairment of approximately HK\$1.5 million (2018: HK\$16.4 million) was recognised for the Year ended 31 December 2019. Details of Fujian Yuguo’s financial information are stated in note 13(c).

(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 about the future growth in the wine industry and has 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 look 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. 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 approximately 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 at issue price of HK\$0.10 each. On 31 May 2018, the acquisition was completed.

The Group's share of result of loss amounted to HK\$1.9 million for the Year (2018: HK\$0.6 million). Details of Anhui Fu Lao's financial information are stated in note 13 (d).

(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 and the promissory notes of approximately of HK\$92 million issued to the vendor of the Eagle Praise Group. The Group will make further announcement(s) to update the development of the Rescission of Agreements as and when appropriate.

As stated in note 25, there will be a contingent gain on the rescission of the promissory note of approximately HK\$92 million.

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. During the year, the Group recognized write-down of these ceramic item of approximately HK\$25 million for the Year. These ceramic items had carrying amounts of approximately HK\$10.3 million (net of allowance for written down of approximately HK\$25 million) as at 31 December 2019.

Geographical Information

During the Year, the Group recorded revenue in North America (includes the USA and Canada) of approximately HK\$196 million as compared to approximately HK\$205 million last year and represented approximately 98.1% (2018: approximately 95.5%) of the Group's total revenue. Revenue in the European Union (includes Spain, Italy, France and the United Kingdom) amounted to approximately HK\$0.4 million for the Year as compared to approximately HK\$0.4 million last year and represented approximately 0.2% (2018: approximately 0.2%) of the Group's total revenue of the Year.

Gain on disposal of subsidiaries

For details, please refer to the note 26.

Prepayment, deposits and other receivables written-off

For details, please refer to the note 16(a).

Selling and Distribution Costs

The amount of the selling and distribution costs for the Year was approximately HK\$28.3 million (2018: approximately HK\$32.3 million). The decrease was mainly attributable to the decrease of the staff costs of manufacturing and trading of toys and gifts items segment.

Administrative Expenses

Administrative expenses for the Year decreased by approximately 36.29% to approximately HK\$89.3 million as compared to approximately HK\$133.7 million in the previous year. The decrease in administrative expenses was mainly due to decrease of provision for impairment of trade and other receivables and the consultancy expenses during the Year.

Finance Costs

Finance costs for the Year increased by approximately HK\$9.1 million to approximately HK\$34.9 million as compared to approximately HK\$25.8 million in the previous year. The increase in finance costs was mainly due to the increase of approximately HK\$5 million for overdue interest on 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 2019, the Group had bank and cash balances of approximately HK\$18.5 million (2018: HK\$21.8 million). The Group's bank and cash balances were mostly denominated in Hong Kong dollars and Renminbi.

As at 31 December 2019, the Group's borrowings amounted to approximately HK\$55.5 million (2018: HK\$101.9 million). The Group's borrowings were mainly denominated in Hong Kong dollars and Renminbi.

As at 31 December 2019, the Group's promissory notes amounted to approximately HK\$270.5 million (2018: HK\$153.6 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 2019 was 138.0% (2018: 90.9%).

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.

CAPITAL COMMITMENT

As at 31 December 2019, the Group had no significant capital commitment.

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 2019.

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 2019, the capital structure of the Company was constituted of 9,890,381,596 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.

On 19 May 2019, the existing limit on the grant of share options under the share option scheme adopted by the Company on 31 May 2013, was refreshed by the resolution passed at the EGM held at that date, and shall not exceed 10% of the total number of Shares in issue of the Company as at the date of the passing of this resolution.

At 31 December 2019, no share option was remained outstanding (2018: 69,000,000). The share option scheme of the Company with a scheme life of ten years approved by the shareholders of the Company on 19 May 2019 will expire on 18 May 2029.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2019, the Group had a total of 379 employees (2018: 390 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 KTC PARTNERS CPA LIMITED

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, KTC Partners CPA Limited ("KTC"), to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2019. The work performed by KTC 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 KTC on the preliminary announcement.

EXTRACT OF THE AUDITOR'S REPORT

Basis for qualified opinion

Opening balances and corresponding figures

We expressed a qualified opinion on the consolidated financial statements of the Group for the year ended 31 December 2018 on 29 March 2019. The basis for the qualified opinion include the possible effects of the matters described in paragraphs 1 to 3 below on the consolidated financial performance and cash flows of the Group for the year ended 31 December 2018 and the consolidated financial position of the Group as at 31 December 2018, and the related disclosures thereof in the consolidated financial statements. Since opening balances of these assets as at 1 January 2019 enter into the determination of the financial performance and amounts presented in cash flows of the Group for the current year ended 31 December 2019, we were unable to determine whether adjustments might have been necessary in respect of the financial performance of the Group for the year ended 31 December 2019 reported in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income and the amounts presented in cash flows for the year ended 31 December 2019 reported in the consolidated statement of cash flows. In addition, as any adjustments that would be required may have consequential significant effects on those assets of the Group as at 31 December 2018 and its results and amounts presented in cash flows for the year ended 31 December 2018 presented as comparative figures in the consolidated financial statements, we were also unable to determine the possible effects of these matters on the comparability of the current year's figures and the comparative figures presented in the consolidated financial statements.

1. Inventories

Included in the inventories of the Group as at 31 December 2018 were inventories of ceramic items with carrying amounts of approximately HK\$35,303,000 in the consolidated statement of financial position. The Group recognised write-down of these ceramic item inventories of approximately HK\$24,971,000 for the year ended 31 December 2019.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves that the net realisable value of the ceramic items with carrying amount of approximately HK\$35,303,000 in the consolidated statement of financial position as at 31 December 2018 was free from material misstatements. There were no satisfactory alternative audit procedures that we could adopt to determine whether any write-down should be made in the consolidated financial statements for the year ended 31 December 2018 in respect of these ceramic item inventories.

Any adjustment found necessary might have a consequential significant effect on the consolidated financial performance and amounts presented in cash flows of the Group for the years ended 31 December 2019 and 2018 and the financial position of the Group as at 31 December 2018.

2. Prepayment, deposits and other receivables

Included in the prepayment, deposits and other receivables in the consolidated statement of financial position as at 31 December 2018 were deposits paid (the “**Deposits Paid**”) of approximately HK\$102,100,000. As stated in note 16(a) to the consolidated financial statements, during the year ended 31 December 2019, the Group wrote off the Deposits Paid of approximately HK\$106,708,000 and recognised the loss on the write-off of Deposit Paid of approximately HK\$106,708,000 in the consolidated statement of profit or loss for the year ended 31 December 2019.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the recoverability of the Deposits Paid as at 31 December 2018. There were no satisfactory alternative audit procedures that we could adopt to determine whether any provision for impairment of the Deposits Paid should be made in the consolidated financial statements for the year ended 31 December 2018. Any adjustment found necessary might have a consequential significant effect on the consolidated financial performance and amounts presented in cash flows of the Group for the years ended 31 December 2019 and 2018 and the financial position of the Group as at 31 December 2018.

3. *Investment in associates*

Fujian Yuguo Chaye Limited (“**Fujian Yuguo**”)

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditors (the “**Predecessor Auditors**”), who expressed a qualified opinion on those statements on 29 March 2018. The Predecessor Auditors were unable to satisfy themselves about (i) the recoverable amount of the Group’s investment in Fujian Yuguo, an associate of the Group, whose carrying amount as at 31 December 2017 was approximately HK\$46,110,000; (2) whether impairment loss of HK\$15,000,000 was 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 were properly recognised for the year ended 31 December 2017.

Any adjustment to the figures mentioned above might have had consequential effects on the impairment loss of approximately HK\$16,360,000 recognised on the investment in Fujian Yuguo for the year ended 31 December 2018.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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\$302,325,000 for the year ended 31 December 2019 and was in net current liability position of approximately HK\$317,014,000 as at 31 December 2019. 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 further modified in respect of this matter.

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. Cheung Man Loon, Michael, Mr. So Chun Pong, Ricky 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 28 June 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the Model Code contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have fully complied with the required standard set out in the Model Code throughout the year ended 31 December 2019.

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. Kong Chun Wing, Mr. Cheng Ho On and Mr. Wang Xiao Ning, 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 2019.

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 2019 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
Zhang Qijun
Chairman

Hong Kong, 29 May 2020

As at the date of this announcement, the Board comprises three executive Directors, Mr. Zhang Qijun, Mr. Chen Jian and Mr. Liu Mingqing and five independent non-executive Directors, Mr. Wang Xiao Ning, Mr. Cheng Ho On, Mr. Kong Chun Wing, Mr. Lai Chi Yini Samuel and Ms. Chen Yuxin.

* *For identification purposes only*