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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)

ANNOUNCEMENT OF 2016 INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Kiu Hung International Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries and associated companies (the “**Group**”) for the six months ended 30 June 2016.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
	Note	HK\$'000	HK\$'000
Turnover	5	105,780	99,667
Cost of sales		(64,584)	(64,979)
Gross profit		41,196	34,688
Other income		594	825
Selling and distribution costs		(12,033)	(15,793)
Administrative expenses		(51,590)	(42,059)
Operating loss		(21,833)	(22,339)
Finance costs		(11,941)	(3,854)
		(33,774)	(26,193)
Provision for impairment of investment in an associate	7	(117,929)	—
Share of result of associates		5,930	1,388
Loss before income tax		(145,773)	(24,805)
Income tax expense	6	(416)	(777)
Loss for the period	7	(146,189)	(25,582)

		Six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Note			
(Loss)/profit attributable to:			
	— equity holders of the Company	(147,484)	(26,188)
	— non-controlling interests	<u>1,295</u>	<u>606</u>
		<u>(146,189)</u>	<u>(25,582)</u>
		HK cents	HK cents
Loss per share attributable to the equity holders of the Company			
	Basic and diluted loss per share	9 <u>(3.56)</u>	<u>(0.96)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period	(146,189)	(25,582)
Other comprehensive (loss)/income:		
<u>Items that will not be reclassified subsequently to profit or loss:</u>		
Surplus on revaluation of properties	1,469	1,389
Deferred income tax arising on revaluation of properties	—	444
<u>Items that may be reclassified to profit or loss:</u>		
Exchange difference arising from translation of foreign operations	(6,251)	40
Other comprehensive loss for the period, net of tax	(4,782)	1,873
Total comprehensive loss for the period	(150,971)	(23,709)
Total comprehensive (loss)/income attributable to:		
— equity holders of the Company	(152,266)	(24,315)
— non-controlling interests	1,295	606
	(150,971)	(23,709)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
	Note		
Non-current assets			
Property, plant and equipment	10	62,563	63,991
Prepaid land lease payments		4,011	4,149
Investment properties		10,764	10,950
Exploration and evaluation assets	11	136,426	139,178
Other intangible asset		1,041	1,047
Investment in associates		274,807	257,499
Available-for-sale financial asset		93,338	93,338
Deferred income tax assets		713	308
Rental deposits		2,222	2,222
		<u>585,885</u>	<u>572,682</u>
Current assets			
Inventories		64,050	51,487
Trade and bills receivables	12	34,211	42,686
Prepayments, deposits and other receivables		116,362	126,785
Income tax recoverable		—	38
Bank and cash balances		19,128	13,755
		<u>233,751</u>	<u>234,751</u>
Total assets		<u>819,636</u>	<u>807,433</u>
Current liabilities			
Trade payables	13	19,710	17,330
Accruals and other payables		73,441	51,899
Income tax payable		1,463	579
Promissory notes		155,731	144,930
Derivative financial liabilities		9,403	9,403
Obligation under finance leases		155	155
Borrowings		63,074	74,062
		<u>322,977</u>	<u>298,358</u>
Net current liabilities		<u>(89,226)</u>	<u>(63,607)</u>
Total assets less current liabilities		<u>496,659</u>	<u>509,075</u>

		As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
	Note		
Non-current liabilities			
Promissory notes		143,444	78,270
Deferred income tax liabilities		32,481	29,100
Obligation under finance leases		677	677
		<u>176,602</u>	<u>108,047</u>
Net assets		<u>320,057</u>	<u>401,028</u>
Equity			
Share capital	14	424,391	354,391
Reserves		<u>(117,059)</u>	<u>35,207</u>
Equity attributable to equity holders of the Company		<u>307,332</u>	<u>389,598</u>
Non-controlling interests		<u>12,725</u>	<u>11,430</u>
Total equity		<u>320,057</u>	<u>401,028</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 19/F, Dah Sing Financial Centre, 108 Gloucester Road, Wan Chai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

These unaudited condensed consolidated interim financial statements are presented in thousands of units of HK dollars (HK\$'000), unless otherwise stated. These unaudited condensed consolidated interim financial statements have been approved for issue by the Board on 31 August 2016.

2 BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2016 have been prepared in accordance with Hong Kong Accounting Standard 34, 'Interim financial reporting' issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

Going Concern

At 30 June 2016, the Group's current liabilities exceeded its current assets by approximately HK\$89,226,000 and the Group recorded a loss of approximately HK\$28,260,000 (excluding the provision for impairment of investment in an associate of approximately HK\$117,929,000) during the period ended 30 June 2016. 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 and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

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

- 1) The Group is in negotiation with financial institutions to obtain sufficient new borrowings and to extend existing borrowings upon their maturities;
- 2) The Group is in negotiation with its creditors to extend payment due dates; and
- 3) The Company proposed to implement a capital reorganisation and 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.

Taking into account the above-mentioned measures, the opinion of the directors of the Company with respect to sufficiency of the working capital of the Group remains as stated in the 2015 annual report dated 31 March 2016. Accordingly, the unaudited condensed consolidated interim financial statements have been prepared on a going concern basis.

The Group's ability to successfully implement the above-mentioned measures is subject to various factors, including but not limited to the Group's future operating performance, market conditions, the Group's ability to issue new shares to fund current and prospective operating and investing activities and other factors, many of which are beyond the Group's control and cannot be predicted with certainty. In the future, if sufficient funds are unavailable to meet the Group's needs or refinancing cannot be obtained on commercially acceptable terms, if at all, then the Group may not be able to repay the borrowings, particularly the short-term borrowings, upon maturity. 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. Should the Group be unable to operate as a going concern, adjustment would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide for financial liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The unaudited condensed consolidated interim financial statements do not include any of these adjustments.

3 ACCOUNTING POLICIES

The accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the financial year ended 31 December 2015, except for the adoption of new or revised standards, amendments and interpretations issued by the HKICPA mandatory for annual periods beginning 1 January 2016. The adoption of these new or revised standards, amendments and interpretations did not result in any substantial changes to the accounting policies of the Group and has no material impact on the Group. In addition, the Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4 ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

5 SEGMENT INFORMATION

The Group has five reportable segments as follows:

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

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business has 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, segment results, total assets and total liabilities:

	Exploration <i>HK\$'000</i>	Toys and gifts items <i>HK\$'000</i>	Fruit plantation <i>HK\$'000</i>	Leisure <i>HK\$'000</i>	Culture <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2016 (unaudited):						
Revenue from external customers	—	105,780	—	—	—	105,780
Segment (loss)/profit	<u>(426)</u>	<u>2,650</u>	<u>2,945</u>	<u>(114,943)</u>	<u>(3)</u>	<u>(109,777)</u>
Six months ended 30 June 2015 (unaudited):						
Revenue from external customers	—	99,667	—	—	—	99,667
Segment (loss)/profit	<u>(334)</u>	<u>(1,925)</u>	<u>2,969</u>	<u>(1,830)</u>	<u>(296)</u>	<u>(1,416)</u>
Total assets:						
30 June 2016 (unaudited)	<u>139,154</u>	<u>167,584</u>	<u>306,020</u>	<u>62,126</u>	<u>35,303</u>	<u>710,187</u>
31 December 2015 (audited)	<u>139,390</u>	<u>168,630</u>	<u>233,075</u>	<u>117,763</u>	<u>35,303</u>	<u>694,161</u>
Total liabilities:						
30 June 2016 (unaudited)	<u>(23,854)</u>	<u>(106,051)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(129,905)</u>
31 December 2015 (audited)	<u>(18,723)</u>	<u>(109,935)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(128,658)</u>

(b) Reconciliation of reportable segment results and total assets:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Reconciliation of segment results:		
Total loss of reportable segments	(109,777)	(1,416)
Unallocated amounts:		
Corporate finance costs	(7,852)	(2,996)
Other corporate income and expenses	(28,560)	(21,170)
Loss for the period	<u>(146,189)</u>	<u>(25,582)</u>

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Reconciliation of segment assets:		
Total assets of reportable segments	710,187	694,161
Unallocated corporate assets:		
Current assets	109,449	113,272
Total assets	<u>819,636</u>	<u>807,433</u>

6 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxations on overseas profits have been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June 2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Current tax:		
Hong Kong	—	66
Overseas	416	373
Total current tax	416	439
Deferred income tax	—	338
Income tax expense	<u>416</u>	<u>777</u>

7 LOSS FOR THE PERIOD

The Group's loss for the period is arrived after charging the following:

	Six months ended 30 June 2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	2,192	4,444
Amortisation of prepaid land lease payments	56	60
Amortisation of license rights	6	6
Provision for impairment of investment in an associate	117,929	—
Staff costs (including directors' remuneration):		
Salaries, bonus and allowance	27,275	28,418
Retirement benefits scheme contributions	561	896
Share-based payment expenses	—	634
Interest expenses on borrowings wholly repayable within 5 years	<u>11,941</u>	<u>2,656</u>

8 DIVIDEND

The Board has resolved not to pay any interim dividend for the period (2015: Nil).

9 LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to the equity holders of the Company for the period of approximately HK\$147,484,000 (2015: HK\$26,188,000) and the weighted average of 4,143,907,176 (2015: 2,725,847,479) ordinary shares in issue during the period.

For the six months ended 30 June 2016 and 30 June 2015, the average market price of the Company's ordinary shares was below the exercise price of the outstanding share options. Accordingly, the weighted average number of ordinary share was not adjusted to compute the diluted loss per share for the effect of the share options.

10 PROPERTY, PLANT AND EQUIPMENT

During the reporting period, the Group has acquired property, plant and equipment of approximately HK\$145,000 (2015: HK\$3,037,000).

11 EXPLORATION AND EVALUATION ASSETS

During the reporting period, exchange loss of approximately HK\$2,752,000 has been recognised as a result of the translation of foreign operations in the PRC (2015: exchange gain of HK\$56,000).

12 TRADE AND BILLS RECEIVABLES

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Trade receivables	23,276	29,342
Bills receivables	10,935	13,344
	<u>34,211</u>	<u>42,686</u>

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

At 30 June 2016 and 31 December 2015, the ageing analysis of trade receivables based on invoice date, net of provision, are as follows:

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Within 30 days	18,671	6,757
31 days to 90 days	3,689	11,687
91 days to 180 days	663	10,611
181 days to 360 days	190	208
Over 360 days	63	79
	<u>23,276</u>	<u>29,342</u>

13 TRADE PAYABLES

At 30 June 2016 and 31 December 2015, the ageing analysis of trade payables based on invoice date are as follows:

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Within 30 days	18,642	13,547
31 days to 90 days	267	1,133
91 days to 180 days	128	640
181 days to 360 days	580	86
Over 360 days	93	1,924
	<u>19,710</u>	<u>17,330</u>

14 SHARE CAPITAL

	Number of shares		Ordinary share capital	
	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited)	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
<i>Note</i>				
Authorised:				
Ordinary shares of HK\$0.10 each	<u>30,000,000,000</u>	<u>30,000,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>
Issued and fully paid:				
At beginning of period/year	3,543,907,176	2,578,377,599	354,391	257,838
Issue of shares				
— on placement	—	67,200,000	—	6,720
— upon conversion of convertible bonds	—	699,329,577	—	69,933
— upon completion of the acquisitions	(a) <u>700,000,000</u>	<u>199,000,000</u>	<u>70,000</u>	<u>19,900</u>
At end of period/year	<u>4,243,907,176</u>	<u>3,543,907,176</u>	<u>424,391</u>	<u>354,391</u>

Note:

- (a) On 27 January 2016, pursuant to the acquisition of further 12% equity interest of Multijoy Developments Limited, the Company issued 700,000,000 ordinary shares of HK\$0.10 each to Delight Grace Limited with an issue price of HK\$0.10 per share.
- (b) All new ordinary shares issued during the reporting period rank pari passu in all respects with the existing shares of the Company.

15 RELATED PARTY TRANSACTIONS

	<i>Note</i>	Six months ended 30 June	
		2016	2015
		(Unaudited) HK\$'000	(Unaudited) HK\$'000
Product development, sale and marketing services fee paid to a related company	(a)	<u>832</u>	<u>832</u>

Note:

- (a) The sole owner of the related company is also the director and beneficial owner of 49% (2015: 49%) equity interest in the Company's subsidiary paying for the services.

16 CAPITAL COMMITMENTS

The Group did not have any capital commitments at the end of the reporting period (2015: HK\$Nil).

17 LITIGATIONS

There are litigations being undertaken against the Group as at and after the end of the reporting period, details of which are summarized as follows:

(a) Wing Siu

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

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

As at the date of this announcement, the Company is liaising with Wing Siu to settle the above claim.

(b) Ultimate Dream

Pursuant to a tenancy agreement dated 7 November 2014 entered into between Ultimate Dream Enterprises Limited (“**Ultimate Dream**”) as landlord and Super Dragon, as tenant, Ultimate Dream agreed to let Super Dragon the premises located at 20th Floor, Hong Kong Diamond Exchange Building, 8-10 Duddell Street, Central, Hong Kong for a term of two years from 1 September 2014 to 31 August 2016.

On 5 August 2016, the Company received from Ultimate Dream a writ of summons issued in the District Court of the Hong Kong Special Administrative Region with an indorsement of claim against the Company for the outstanding total amount of rent, management fees and rates of approximately HK\$699,000.

As at the date of this announcement, the Company is liaising with Ultimate Dream to settle the above claim.

(c) Others

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

As at the date of this announcement, the Company is liaising with Mr. Guo Jingsheng to settle the above claim.

18 EVENTS AFTER THE REPORTING PERIOD

(i) (a) Proposed Change of Domicile; (b) Proposed Adoption of Memorandum of Continuance and New Bye-laws; (c) Proposed Reduction of Share Premium Account; and (d) Proposed Capital Organization

On 21 July 2016, the Board proposes:

- (a) to change the domicile of the Company from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda;
- (b) to adopt the memorandum of continuance and the new bye-laws in compliance with Bermuda laws to replace, respectively, the existing memorandum of association and articles of association of the Company;
- (c) to reduce the entire amount standing to the credit of the share premium account of the Company and to transfer the credits arising from such reduction to the contributed surplus account of the Company upon the change of domicile becoming effective. As at 21 July 2016, the Company has a credit balance of approximately HK\$1,574,603,000 standing in its share premium account; and
- (d) to implement the capital reorganisation upon the change of domicile becoming effective which involves the following:
 - (i) every four issued and unissued existing shares be consolidated into one consolidated share;
 - (ii) the issued share capital of the Company be reduced through a cancellation of the paid-up capital of the Company to the extent of HK\$0.39 on each of the issued consolidated shares such that the nominal value of each issued consolidated share will be reduced from HK\$0.40 to HK\$0.01;
 - (iii) immediately following the capital reduction, each of the authorised but unissued consolidated shares of HK\$0.40 each be sub-divided into 40 new shares of HK\$0.01 each;
 - (iv) the credit arising in the books of the Company from the reduction of the paid-up capital in the amount of HK\$413,780,949.66 be credited to the contributed surplus account of the Company within the meaning of the Companies Act 1981 of Bermuda; and
 - (v) the amount standing to the credit of the contributed surplus account be applied to set off the accumulated losses of the Company in full and be applied in any other manner as may be permitted under the new bye-laws and all applicable laws of Bermuda.

For details, please refers to the Company's announcement dated 21 July 2016.

(ii) Connected Transaction involving Disposal of the Entire Issued Share Capital in Jet Profit Enterprises Limited

On 22 July 2016, Legend Wealth Holdings Ltd., (the “**Vendor**”), being an indirect wholly-owned subsidiary of the Company, and Power Global Holdings Limited (the “**Purchaser**”) entered into the disposal agreement, pursuant to which the Vendor has agreed to sell and the Purchaser has agreed to acquire the entire issued share capital of Jet Profit Enterprises Limited (“**Jet Profit**”) at a total consideration of HK\$5,665,081 (or equivalent of RMB4,883,691).

The aggregate consideration was satisfied by the Purchaser as follows:

- (a) HK\$120,000 (or RMB equivalent of RMB103,448) was paid by the Purchaser to the Vendor in cash on completion; and
- (b) the balance of HK\$5,545,081 was satisfied by the Purchaser by offsetting against a debt on a dollar to dollar basis upon the assignment of the debt from Jet Profit to the Purchaser.

The consideration was arrived at after arm’s length negotiation between the Vendor and the Purchaser with reference to the combined net asset value of Jet Profit and its wholly owned subsidiary of approximately HK\$5,664,000 as at 30 April 2016.

The completion of this connected disposal transaction took place on 1 August 2016.

For details, please refer to the Company’s announcement dated 22 July 2016.

(iii) Litigations

Subsequent to the financial reporting period, the Group received a number of legal claims, details of which have been disclosed in Note 17.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2016 (the “**Period**”), the Group recorded turnover of approximately HK\$105.8 million (2015: HK\$99.7 million), representing an increase of approximately 6.1% as compared with the same period last year. The Group’s loss attributable to equity holders of the Company for the Period was approximately HK\$147.5 million (2015: HK\$26.2 million). The increase in loss attributable to equity holders of the Company for the Period was mainly attributable to the provision for impairment of investment in an associate of approximately HK\$117.9 million (2015: Nil) during the Period. Basic loss per share for the Period was 3.56 HK cents (2015: 0.96 HK cents). The Board has resolved not to pay any interim dividend for the Period (2015: Nil).

BUSINESS AND OPERATIONAL REVIEW

Segmental Information Analysis

During the Period, 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 Period was approximately HK\$105.8 million (2015: HK\$99.7 million). Gross profit ratio for the Period was 38.9% (2015: 34.8%). The increase in gross profit ratio is mainly due to the increase in the selling price of the products and the implementation of the cost control by the Group during the Period. The segment profit of the manufacturing and trading of toys and gifts items was approximately HK\$2.7 million (2015: segment loss of HK\$1.9 million). The increase in segment profit was mainly attributable to an increase in gross profit.

Exploration of Natural Resources

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

	Inferred Resources (<i>Million Tonnes</i>)
Bayanhushuo Coal Field (“ BCF ”)	394.05 [#]
Guerbanhada Coal Mine (“ GCM ”)	106.00
Total	<u>500.05</u>

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

BCF is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report issued by SRK Consulting China Ltd on 31 January 2008, BCF has estimated coal resources of approximately 394.05 million tonnes of high quality thermal coal. The master planning (總體規劃) of BCF was approved in December 2015. The licence period of the exploration right of BCF is from 4 July 2014 to 4 July 2016, which is in the process of renewal. The Group expects that the renewal of licence will be approved during the second half year of 2016.

GCM is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. on 30 March 2007, GCM has estimated coal resources of approximately 106 million tonnes of high quality thermal coal. The current licence period of the exploration right of GCM is from 21 August 2015 to 20 August 2017.

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

Fruit Plantation

Multijoy Developments Limited, 28% 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.

On 11 January 2016, Kiu Hung Properties Company Limited, an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with Delight Grace Limited, regarding the Group’s further acquisition of 12% equity interest of Multijoy Developments Limited. The total consideration of HK\$70 million was satisfied by issue of 700,000,000 new ordinary shares of the Company at HK\$0.10 per share on 27 January 2016 upon completion of this acquisition.

For details, please refer to the Company’s announcements dated 11 January 2016 and 27 January 2016.

On the other hand, on 5 October 2015, 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, regarding the Group’s acquisition of 19% equity interests of USO Management & Holding Co Ltd. (“**USO**”). USO entered into the Tenancy Agreement with AFS 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 total consideration of this acquisition of approximately HK\$120 million was satisfied by issue of the 49,000,000 consideration shares at HK\$0.144 per share and issue of the first promissory notes and the second promissory notes in the total principal amount of HK\$112.9 million. The consideration shares was issued on 20 October 2015. This acquisition was completed on 7 December 2015. Accordingly, the first promissory notes of HK\$100,766,562 had been issued by the Company to Green Luxuriant Group Investment Limited upon completion of the acquisition.

On 25 January 2016, the Company entered into the subscription agreement with the subscriber, pursuant to which the subscriber has conditionally agreed to subscribe or procure subscription by its nominee(s) for the convertible bonds in the principal amount of HK\$100,766,562 with the rights to convert into 877,757,508 conversion shares at an initial conversion price of HK\$0.1148 (subject to adjustments) per conversion share. The subscription monies payable by the subscriber or procured by the Subscriber to be payable by its nominee(s) will be satisfied by fully setting off against the first promissory notes of HK\$100,766,562.

For details, please refer to the Company's announcements dated 5 October 2015, 7 December 2015 and 25 January 2016.

The Company had written to Green Luxuriant Group Investment Limited and USO on 25 May 2016, 10 June 2016 and 20 August 2016 inquiring the status of the post-completion undertakings and to provide the Company information about the noni fruit plantation business, failing which the Company has indicated that it would consider to carry out appropriate legal actions on a timely basis.

Leisure

With reference to the sales and purchase agreements dated 18 December 2015 entered into between Fujian Qiaoxiong Jiuye Limited* (福建僑雄酒業有限公司) (“**Fujian Qiaoxiong**”), a wholly owned subsidiary of the Company, Ms. Lin Qunzhu (林群珠) and Mr. Li Qingsheng (李清生), both are independent third parties and the ultimate beneficial owners of Fujian Yuguo Chaye Limited* (福建鈺國茶業有限公司), regarding Fujian Qiaoxiong's acquisition of 33% equity interest of Fujian Yuguo Chaye Limited, the completion of this acquisition took place on 4 January 2016.

On 22 January 2016, the Company entered into the subscription agreement under which the promissory note 1 and promissory note 2 of HK\$57,264,480 and HK\$10,225,800 (issued upon the above-mentioned completion) would be used to fully set off the subscription monies for the convertible bonds in the principal amount of HK\$67,490,280 respectively with the rights to convert into 674,902,800 conversion shares at an initial conversion price of HK\$0.10 (subject to adjustments) per conversion share.

For details, please refer to the Company's announcement dated 18 December 2015, 5 January 2016 and 22 January 2016.

On the other hand, regarding the Group's 20% equity interest in the Eagle Praise Group, which is principally engaged in PRC outbound tourism related business, the business development of the Eagle Praise Group was slower than expected. Based on the information available to the Board up to the date of this announcement, the Eagle Praise Group has not yet arranged any outbound travel tours. As a result, the Board considers that full provision for impairment of investment of approximately HK\$117.9 million is made on 31 August 2016.

Culture

With reference to the acquisition of 19 pieces of ceramics that was completed on 27 March 2015, the Company entered into the subscription agreement on 11 March 2016 with the subscriber, pursuant to which the subscriber has conditionally agreed to subscribe the convertible bonds in the principal amount of HK\$31,500,000 with the rights to convert into 315,000,000 conversion shares at an initial conversion price of HK\$0.10 (subject to adjustments) per conversion share. The subscription monies payable by the subscriber will be satisfied by fully setting off against the promissory notes of HK\$31,500,000.

For details, please refer to the Company's announcements dated 27 March 2015, 12 June 2015 and 11 March 2016.

Other Business

With reference to the property sale business of the Group in the PRC, the developer of this project has obtained the Interim Property Developing Quality Certificate* (暫定房地產開發資質證書) on 2 August 2016. As at the date of this announcement, the Group is seeking a legal opinion from its PRC legal adviser to ensure that such Interim Property Developing Quality Certificate fulfills the condition as a pre-requisite for the obtaining of the Pre-sale Permit.

Selling and Distribution Costs

The amount of selling and distribution costs for the Period decreased by approximately 24% to approximately HK\$12.0 million as compared to approximately HK\$15.8 million in the same period last year. The decrease was mainly attributable to a decrease in advertising and transportation costs of approximately HK\$2.1 million during the Period.

Administrative Expenses

The amount of administrative expenses for the Period increased by approximately 22.6% to approximately HK\$51.6 million as compared to approximately HK\$42.1 million in the same period last year. The increase was mainly attributable to an increase in staff costs and legal and professional fee of approximately HK\$7.2 million during the Period.

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 the PRC. As at 30 June 2016, the Group had bank and cash balances of approximately HK\$19.1 million (31 December 2015: HK\$13.8 million). The Group's bank and cash balances were mostly held in Hong Kong dollars and Renminbi.

As at 30 June 2016, the Group's borrowings amounted to approximately HK\$63.0 million (31 December 2015: HK\$74.1 million). The Group's borrowings were mainly denominated in Hong Kong dollars and Renminbi, of which approximately 76.0% (31 December 2015: 70.0%) bore interest at fixed lending rate.

The gearing ratio of the Group calculated as the Group's borrowings (excluding promissory notes) less bank and cash balances over its total equity was approximately 13.7% as at 30 June 2016 (31 December 2015: 15.0%).

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 Period.

As at 30 June 2016, certain property, plant and equipment, prepaid land lease payments and investment properties held by the Group with aggregate carrying values of approximately HK\$49.6 million (31 December 2015: HK\$49.8 million), were pledged to secure general banking facilities granted to the Group.

As at 30 June 2016, the Group had no capital commitments (31 December 2015: Nil).

As at 30 June 2016, the Group had no contingent liabilities (31 December 2015: Nil).

BUSINESS PROSPECTS AND FUTURE PLAN FOR MATERIAL INVESTMENTS

The Group has been reviewing its operations 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. This is evidenced by (a) the further acquisition of the fruit plantation related business (completed on 27 January 2016); and (b) the acquisition of tea products and tea wares products related business (completed on 4 January 2016).

Going forward, the Group will review its current operations from time to time and will continue to explore other investment opportunities that have earning potentials, in order to expand its existing operations and to diversify its business to maximize the interests of the Group and our shareholders as a whole.

CAPITAL STRUCTURE

As at 30 June 2016, the capital structure of the Company was constituted of 4,243,907,176 ordinary shares of HK\$0.10 each. Apart from the ordinary shares in issue, the capital instruments in issue of the Company include the share options to subscribe for the Company's shares.

At 30 June 2016, 343,800,000 share options remained outstanding (31 December 2015: 380,346,000).

The Company proposed to implement a capital reorganisation on 21 July 2016. The Board is of the opinion that the capital reorganisation will provide the Company with greater flexibility in possible fund raisings in the future.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 30 June 2016, the Group had a total of 624 employees (31 December 2015: 500 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 periodical basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industrial practice.

CORPORATE GOVERNANCE PRACTICES

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

Code Provision A.6.7

Under code provision A.6.7 of the Corporate Governance Code, the independent non-executive Directors should attend the general meetings. However, the independent non-executive Directors, Mr. So Chun Pong, Ricky, Mr. Wang Xiao Ning and Mr. Xia Liming had other important engagements at the same time and did not attend the annual general meeting of the Company held on 1 June 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The audit committee assists the Board in meeting its responsibilities for ensuring effective 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. Au Yeung Po Fung, Mr. So Chun Pong, Ricky and Mr. Wang Xiao Ning, the independent non-executive directors of the Company. The audit committee members have reviewed the unaudited condensed consolidated interim financial statements and the interim report of the Group for the six months ended 30 June 2016.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the Period, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s securities.

NON-COMPLIANCE WITH RULE 3.28 OF THE LISTING RULES

Reference is made to the announcement of the Company dated 16 February 2016. On 16 February 2016, Ms. Lo Oi Ling (“**Ms. Lo**”) has tendered her resignation as the company secretary of the Company with the effect from 16 February 2016. The Company is in the process of identifying suitable candidate to fill in the vacancy of company secretary of the Company. Further announcement will be made once the new company secretary of the Company is appointed.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kh381.com). The 2016 interim report of the Company will be dispatched to the Company’s shareholders and published on the same websites 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.

* *For identification purposes only*

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

Hong Kong, 31 August 2016

As at the date of this announcement, the Board comprises seven executive Directors, Mr. Hui Kee Fung, Mr. Sao Cheung Fung, Aaron Mr. Yu Won Kong, Dennis, Mr. Zhang Yun, Mr. Nojiri Makoto, Mr. Yip Kong Nam and Mr. Zhang Qijun, and four independent non-executive Directors, Mr. Au Yeung Po Fung, Mr. So Chun Pong, Ricky, Mr. Wang Xiao Ning and Mr. Xia Liming.