Kiu Hung International Holdings Limited
僑 雄 國 際 控 股 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00381)

CLARIFICATION ANNOUNCEMENT ON FINAL RESULTS ANNOUNCEMENTS FOR THE YEARS ENDED 31 DECEMBER 2018

References are made to the final results announcement of Kiu Hung International Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 29 March 2019 for the year ended 31 December 2018 (the "**Results Announcement**"). Unless the context herein otherwise requires, capitalised terms in this announcement shall have the same meanings as defined in the Results Announcement.

The board (the "**Board**") of the directors (the "**Directors**") of the Company would like to provide additional information in relation to the Results Announcement as follow:

A. INVENTORIES (CERAMIC ITEMS)

As set out on pages 37 to 38 under the section headed "Extract of the auditor's report" in the Results Announcement, it was disclosed that inventories (ceramic items) are one of the items the Company's auditors have not been able to obtain sufficient audit evidence on and it is one of the basis for Qualified Opinion.

Reasons and details of the repeated Qualified Opinion

Ceramic items held by the Group (the "**Ceramics**") were classified as inventories as at 31 December 2017 and 31 December 2018. Inventories should be stated at the lower of cost and net realisable value in accordance with Hong Kong Accounting Standard 2 "Inventories". Since each of the Ceramics is unique, the selling of the Ceramics cannot make reference to recent similar ceramic sold in the market. The Auditor requested subsequent selling price of the Ceramics as evidence on net realisable value. However, the Company has not sold any Ceramics since acquiring the Ceramics in 2015 and up to the date of the Result Announcement. Hence, the Company was not able to provide information on the subsequent selling price of the Ceramics. Due to the above, no sufficient evidence has been provided to satisfy the Auditor as to the net realisable value of the Ceramics with carrying amount of approximately HK$35,303,000 as at 31 December 2018 and 31 December 2017.

The Board had been aware of the qualified opinion on Inventories since the 2016 Results Announcement. As mentioned in the 2016 Annual Report, the Company intended to look for potential buyers for the Ceramics as well as to participate in the related auctions so as to realise certain number of the Ceramics in the coming future. The Company has approached several agencies (including auction companies and agencies in the PRC and Hong Kong) to solicit potential buyers for the Ceramics since the second half of 2018 either by way of auction or direct sales to interested collectors. Unfortunately, up to the date of the Results Announcement, no agreements have been reached with any potential buyers, and the Company failed to participate in any public auction events due to a variety of scheduling, arrangements and commission issues with the agencies. However, as the Company failed to solicit and conclude any transactions for disposing of the Ceramics from 31 December 2018 and up to the date of the Results Announcement, the Auditor was not able to obtain audit evidence for the net realisable value of the Ceramics.

The Qualified Opinion will have an impact on the Company's financial statements. As at 31 December 2018, the carrying amount of the Ceramics was approximately HK$35,303,000. The Qualified Opinion would mean that there is no assurance from the Auditor that the figures under the consolidated financial position and performance of the Company in relation to the net realisable value of the Ceramics would be true and fair.

The Directors' position

As the management of the Company failed to sell the Ceramics subsequent to 31 December 2018, the Auditor was not provided with sufficient audit evidence in relation to the net realisable value to determine (1) the carrying amount of the Ceramics and (2) whether provision for impairment loss is required and issued a qualified opinion on the carrying amount of the Ceramics. The Board understood this situation and concurred with the basis of qualified opinion on each of (a) the net realisable value; and (b) provision for impairment loss.

Audit Committee's view

The Audit Committee confirmed that they understood the basis of the Qualified Opinion. They have also reviewed and agreed with the Board's position as set out above.

Results of previous action plan

Up to the date of this announcement, the Company is yet to have a defined plan with timetable to address the qualified opinion because the plan of selling the Ceramics has not yet finalised.

The Company's proposed plan to address the Qualified Opinion

As at the date of this Reply, the Company is currently in discussions with an auction company, which will arrange for an auction of the similar ceramic items of Mr. Zhang Song Mao (張松茂) ("**Mr. Zhang**") and other artists in the third quarter of year 2019.

It is the intention of the Company to sell the Ceramics through private tender or public auction. The Company observes the potential impact of the qualified opinion and has decided to make full provision of impairment if the Ceramics could not be sold at the year ended 31 December 2019.

However, as mentioned above, if the Company could not successfully dispose the Ceramics in the year 2019, the Directors have decided to make full provision of impairment on the Ceramics held by the Group, the full impairment loss would be provided, and the qualified opinion would be uplifted in the 2019 results announcement.

B. PREPAYMENT, DEPOSIT AND OTHER RECEIVABLE (THE DEPOSIT PAID)

As set out on pages 37 to 38 under the section headed "Extract of the auditor's report" in the Results Announcement, the Deposits Paid under Prepayment, deposits and other receivables are one of the items the Company's auditors have not been able to obtain sufficient appropriate audit evidence on and it is one of the basis for the Qualified Opinion.

Reasons and details of the Qualified Opinion

In 2015, the Group acquired 100% equity interest of Shun Jun Ventures Limited ("**Shun Jun**"). Shun Jun entered into the investment sale agreement and the supplemental agreement ("**Investment Sale Agreement**") with a property developer (the "**Developer**") on 7 November 2014 and 19 July 2015 respectively, pursuant to which the Developer appoints Shun Jun as the exclusive agent to sell the Properties located at Nanjing. Shun Jun had paid deposit of approximately RMB 85,345,000 (the "**Deposit**") to the Developer in accordance with the terms of the Investment Sale Agreement.

In January 2016, the Directors became aware that, one of the required certificates, Property Developing Quality Certificate* (房地產開發資質證書), had expired while the Developer was applying for the Pre-sale Permits. As such, the Developer was in the progress of renewing the Property Developing Quality Certificate. Meanwhile, the Developer has obtained the Interim Property Developing Qualification Certificate* (暫定房地產開發資質證書) on 2 August 2016. Subsequently, the Developer was found to be involved in a number of litigations. In the absence of sufficient appropriate audit evidence to verify the financial ability of the Developer, the Auditor was unable to ascertain the recoverability of such Deposit.

The Board had been aware of the qualified opinion on the Deposit since the 2015 results announcement. As mentioned in the 2016 Annual Report, the Company noted some progress in relation to obtaining of the Pre-sale Permits as well as considered some alternatives to recover the prepayment. During the year ended 31 December 2018 and up to the date of the Results Announcement, however, the Company still failed to provide sufficient evidence regarding the recoverability of the Deposit. As a result, the Auditor issued a qualified opinion on the Deposit.

The Auditor requested the current status of the Nanjing project and subsequent settlement of the Deposit to justify the recoverability of the Deposit. Since there was no progress in the Nanjing project and the Company had not received the refund of the Deposit, the Company was not able to provide the requested information.

The Qualified Opinion will have an impact on the Company's financial statements. As at 31 December 2018, the carrying amount of the Deposit was approximately HK$102,100,000 (2017: approximately HK$102,100,000). The Qualified Opinion would mean that there is no assurance from the Auditor that the figures under the consolidated financial position and performance of the Company in relation to the Deposit would be true and fair.

The Directors' position

The Company had been communicating with the Developer regarding the latest situation of obtaining the Pre-sale Permits as well as its financial viability. As disclosed in the section under "Management Discussion and Analysis" on page 10 of 2016 Annual Report of the Company, the existing major obstacle of obtaining the Pre-sale Permits is the pending litigation of the Developer, which amounts to approximately RMB51.2 million. If the Developer could successfully enter into co-operation agreement with other interested property developer as mentioned below, the Company is optimistic to the recoverability of the Deposit Paid in view of the blooming property market in Nanjing City. However, due to the slow permit-application process and response from the Developer, the Auditor was not provided with sufficient audit evidence regarding recoverability of the Deposit and issued the qualified opinion. The Board understood this situation and concurred with the basis of qualified opinion on each of (a) the recoverability of the balances; and (b) the provision for impairment loss.

Audit Committee's view

The Audit Committee confirmed that they understood the basis of the Qualified Opinion. They have also reviewed and agreed with the Board's position as set out above.

Results of previous action plan

Up to the date of this announcement, the Company is yet to have a defined plan with timetable to address the qualified opinion because the discussion of alternative plans is in preliminary stage and still ongoing. If the co-operation agreement could be successfully entered into between the relevant parties in 2019 and the new property developer is able to demonstrate financial ability to develop the property, the Company will be able to provide the necessary audit evidence to the auditor for the audits of 2019 and the related qualified opinion in the Results Announcement will be uplifted in the 2019 results announcement. It is expected that the co-operation agreement could be entered into between the relevant parties in the fourth quarter of 2018.

As set out on page 31 of the 2016 Results Announcement, it was disclosed that the Group may consider to (i) transfer its rights on the Deposits to potential buyers; (ii) identify another developer; or (iii) take legal actions to recover the amounts of the Deposits such that the Company could address the relevant 2016 Qualified Opinion.

The Company cannot provide the Auditor with sufficient audit evidence in relation to the recoverability of the Deposit. As the application of Pre-sale Permit is still in progress and the Developer was unable to prove its financial viability and ability to repay the Deposit, the Auditor issued a qualified opinion on the Deposit in the Results Announcement.

The Company's proposed plan to address the 2018 Qualified Opinion

It is the intention of the Company to continue working with the Developer to recover the paid deposit. Nevertheless, the Company also observes the potential impact of the 2018 Qualified Opinion and communicates with the Developer to ensure the full cooperation with the Auditor in the future. For instance, the Developer may provide further information about its financial viability and business continuity to demonstrate its ability to repay the Deposit. Meanwhile, the Company is in discussion with other PRC property developers to transfer the exclusive right. If the developer make no repayment of deposit before 31 August 2019, the Company has decided to enforce its rights under the Investment Sale Agreement and to initiate legal proceedings against the Developer. The Company has decided that if the deposit could not be recovered in year 2019, the Company will make sufficient impairment to address the audit modification.

C. INVESTMENT IN ASSOCIATES (FUJIAN YUGUO)

As set out on pages 37 to 38 under the section headed "Extract of the auditor's report" in the Results Announcement, it was disclosed that the consolidated financial statements of the Group for the year ended 31 December 2017 were audited by the Company's Predecessor auditors who expressed a qualified opinion about having not been able to obtain sufficient appropriate audit evidence for the investment in associates i.e. Fujian Yuguo and other items (the "**Qualified Opinion**"), such that any adjustments that would be required may have consequential significant effects on those assets of the Group as at 31 December 2017 presents as comparative figures. It was also disclosed on page 38 of the Results Announcement that the Company recognised impairment losses of approximately HK$16.36 million (2017: HK$15 million) on its investment in Fujian Yuguo (the "**Impairment Loss**").

Reasons and details of the Qualified Opinion

The Auditor issued Qualified Opinion on opening balances as at 1 January 2018 of investment in associates ("**Fujian Yuguo**" or the "**Associate**") that the carrying amount, the share of results, the share of exchange translation difference and the impairment loss of the Associate was approximately HK$46,110,000, HK$770,000, HK$1,997,000 and HK$15,000,000 respectively, because the Company's Predecessor auditors who expressed a qualified opinion about the management of Fujian Yuguo was not able to provide certain information that the Predecessor auditors considered necessary to perform its audit. It was explained in the Clarification announcement made on 14 July 2018, due to the fact that the Company had no effective control over the Associate and had no board seat in the Associate. The Auditor had not mentioned any major audit evidence/documents that the Auditor required but could not be obtained for the year ended 31 December 2018.

The Qualified Opinion will have an impact on the Company's financial statements, as any adjustments to figures mentioned above might have consequential effects on the impairment loss of approximately HK$16.36 million on investment in Fujian Yuguo for the year ended 31 December 2018. However, the Auditor was satisfied that the investment in Fujian Yuguo is fairly stated at 31 December 2018.

The Directors' position

The management of the Company had put their best endeavours to manage the Associate to provide necessary information to the Auditor. The Board understood this situation and concurred with the basis of the Qualified Opinion on the opening balances and comparative figure of the investment in the associate.

Audit Committee's view

The audit committee of the Company (the "**Audit Committee**") confirmed that they understood the basis of the Qualified Opinion. They have also reviewed and agreed with the Board's position as set out above.

The Company's proposed plan to address the Qualified Opinion

Subsequent to the Results Announcements, the management of the Company had several communications with the Associate. It is the intention of the Company to retain such investment in view of its fair value of the Fujian Yuguo and the stable return on investment through annual dividend declaration and payout to the Company. Nevertheless, the Company also observes the potential impact of the Qualified Opinion and communicates with the Associate to ensure the full cooperation with the Auditor in the future.

Thus, the Company expected that there would be no qualified opinion to be given by the Auditor on the investment in the associate in the forthcoming year.

Background of the Associate

The Company acquired the investment in Associate in 2015. On 18 December 2015, an indirect wholly-owned subsidiary of the Company (the "**Purchaser**"), entered into the sale and purchase agreements with Lin Qunzhu and Li Qingsheng, the vendors of Fujian Yuguo (the "**Vendors**"), pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell 33% equity interest of Fujian Yuguo at a consideration of RMB47,880,000 and RMB8,550,000 respectively, resulting in a total consideration of RMB56,430,000.

The consideration of RMB56,430,000 (equivalent to HK$67,490,280), was satisfied by the issue of promissory notes in the aggregate principal amount of HK$67,490,280 by the Company to the Vendors (or their respective nominees) in proportion to their respective selling interest in Fujian Yuguo at the date of completion. On 5 January 2016, the acquisition of Fujian Yuguo was completed and promissory notes were issued to the Vendors.

Details of the Impairment Loss

With regards to the method and basis used in determining the amount of Impairment Loss, the management of Fujian Yuguo provided the audited report issued by the PRC Auditor to the Company. Based on the said audited report, the management of the Company had engaged Weisi Limited ("**Weisi**" or the "**Valuer**") to prepare a valuation on the fair value of Fujian Yuguo.

The amount of Impairment Losses was calculated as follows:

	HK$'000
Group's share of net assets	27,605
Goodwill	31,360
	58,965
Fair value of Fujian Yuguo	46,110
Impairment Loss b/f	(15,000)
Impairment Loss	15,000

For the underlying business reasons and events leading to the Impairment Loss, Fujian Yuguo has been experiencing keen competition in the tea industries along with the changing business model and customer needs recently. As mentioned in the section headed "Management Discussion and Analysis" of Results Announcement, most of the traditional businesses are facing fierce competition from the online sales platform in the recent years, including the tea distribution business of the Associate. Since the Associate has been established for years and selling its tea products under its own brand names, the unit selling prices of most of its tea products remained more or less the same compared with the previous years. As a result, the revenue and profit/(loss) after tax of Fujian Yuguo decreased from approximately HK$51,574,000 to HK$14,693,000 and from approximately HK$2,334,000 to (HK$1,645,000) respectively for the year ended 31 December 2018. The management of the Company and the Associate prepared the 5-years forecast based on the latest financial performance of Fujian Yuguo and resulted in the Impairment Loss.

To tackle the keen competition faced by the Associate and its customers, the Associate kept its sales terms with the customers by using a combination of consignment sales and mandatory sales model, whereby the sales of tea products to its major customers are under consignment sales terms and the tea products will be deemed to be sold to its major customers only upon the expiry of a period of three to five months and provided that such tea products are not returned to the Associate unsold. Under such terms, the working capital of its major customers are improved significantly and the relationship between the Associate and its major customers are also strengthened, which in turn may increase the competitiveness of the Associate in the tea distribution business.

The estimate of fair value of Fujian Yuguo as at 31 December 2017 was performed by Roma Appraisals Limited ("**Roma**") using income approach ("**DCF Approach**"). Fair value of 100% equity interest of Fujian Yuguo using income approach was approximately HK$46,110,000.

The details of valuation performed by Roma are as follows:

Inputs	**Range**
Profit after tax (next 5 years)	Approximately RMB10,000,000 to RMB24,000,000
Marketability discount	14.8%
Discount rate	14.48%
Long term growth rate	2.6%

The management of the Company concluded that Fujian Yuguo had impairment loss of approximately HK$15,000,000 base on the above valuation. In addition to the above valuation, the management of the Company reviewed the financial performance of Fujian Yuguo for the year ended 31 December 2017. Fujian Yuguo had revenue and profit after tax of approximately HK$51,574,000 and HK$2,334,000 respectively for the year ended 31 December 2017 and paid dividend of approximately HK$2,284,000 in March 2018.

As the revenue of Fujian Yuguo had further decreased during the year 2018 and loss after tax of Fujian Yuguo also resulted for the year 2018 which was an indication of impairment. The management engaged Weisi to estimate the fair value of Fujian Yuguo as at 31 December 2018.

The estimate of fair value of Fujian Yuguo as at 31 December 2018 was performed by Weisi using market approach.

The details of valuation performed by Weisi are as follows:

Inputs	**Range**
Profit after tax (next 5 years)	Approximately RMB10,000,000 to RMB24,000,000
Marketability discount	15%
Discount rate	15%
Long term growth rate	2.6%

Market approach was adopted with reference to recent market comparables. By adopting this approach, valuation multiples are derived from market prices and financial data of listed companies having the business and business model similar to those of the company being valued. The valuation multiples derived from the adopted listed companies are then applied to the financial data of the company, with appropriate adjustments wherever necessary, to arrive at its fair value. Commonly used multiples are Price-to-Earnings (P/E) ratio, Price-to-Revenues (P/R) ratio and Price-to-Book (P/B) ratio. Since sufficient market data on public companies with similar business and business model are available for the analysis and estimation of an appropriate valuation multiple for the company being valued, we believe it is appropriate to use this method in this valuation exercise.. After discussion with the Valuer, the directors were of the view that the market approach was more suitable for assessing the value of the Associate taking into account the above factors. Therefore, the valuation approach changed to the market approach.

As for the year 2018, both the Auditor and the Audit Committee agreed with the Directors' view on the use of the market approach to assess the value of the Associate for reason mentioned above.

Save for the above clarification, the content of the Results Announcement remains unchanged.

By Order of the Board
Kiu Hung International Holdings Limited
Zhang Qijun
Chairman

Hong Kong, 29 July 2019

As at the date of this announcement, the Board comprises two executive Directors, Mr. Chen Jian and Mr. Zhang Qijun and three independent non-executive Directors, Mr. Cheng Ho On, Mr. Kong Chun Wing and Mr. Wang Xiao Ning.