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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 and continued in Bermuda with limited liability)*

**(Stock Code: 00381)**

### **UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021**

For the reasons explained below under “Review of Unaudited Annual Results”, the auditing process for the annual results of Kiu Hung International Holdings Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) has not been completed. The unaudited consolidated results of the Company have not yet been agreed with the auditor of the Company and have therefore been reviewed by the Company’s audit committee (the “**Audit Committee**”) without disagreement. The Board will use its reasonable endeavours to publish its preliminary announcement of the audited results for the year ended 31 December 2021 (the “**Audited Final Results**”), which will be agreed with the auditor of the Company as soon as possible and in any event after travel restrictions imposed due to the COVID-19 coronavirus are lifted in Hong Kong and Mainland China.

In the meantime, the board of directors (the “**Board**”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2021 together with the comparative figures for the corresponding period in 2020 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2021*

	<i>Notes</i>	<b>2021</b> <i>HK\$’000</i> <b>(Unaudited)</b>	2020 <i>HK\$’000</i> <b>(Audited)</b>
<b>Revenue</b>	4	<b>323,718</b>	203,351
Cost of sales		<u><b>(213,041)</b></u>	<u>(137,571)</u>
Gross profit		<b>110,677</b>	65,780
Other income	5	<b>6,119</b>	5,864
Other gains/(losses), net	5	<b>2,143</b>	4,372
Selling and distribution costs		<b>(34,365)</b>	(27,306)
Administrative expenses		<b>(78,666)</b>	(71,943)
Finance costs		<b>(41,204)</b>	(55,746)
Impairment losses under expected credit loss model, net of reversal		<b>66</b>	(9,055)
Gain on extinguishment of financial liabilities by issue of ordinary shares		<b>69,889</b>	25,500
Share of result of associates		<u><b>(65,854)</b></u>	<u>(6,541)</u>
Loss before income tax		<b>(31,195)</b>	(69,075)
Income tax expense	6	<u><b>(3,846)</b></u>	<u>(1,027)</u>
<b>Loss for the year</b>	7	<u><b>(35,041)</b></u>	<u>(70,102)</u>
<b>Loss attributable to:</b>			
— equity holders of the Company		<b>(48,563)</b>	(71,776)
— non-controlling interests		<u><b>13,522</b></u>	<u>1,674</u>
		<u><b>(35,041)</b></u>	<u>(70,102)</u>
<b>Loss per share attributable to the equity holders of the Company</b>		<i>HK cents</i>	<i>HK cents</i>
Basic and diluted loss per share	9	<u><b>(4.87)</b></u>	<u>(13.48)</u>

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

*For the year ended 31 December 2021*

	<b>2021</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2020 <i>HK\$'000</i> (Audited)
Loss for the year	<u><b>(35,041)</b></u>	<u>(70,102)</u>
<b>Other comprehensive income:</b>		
Items that will not be reclassified subsequently to profit or loss:		
Surplus on revaluation of properties	<b>5,151</b>	1,067
Deferred tax effect on revaluation of properties	–	(176)
Fair value loss of financial assets at fair value through other comprehensive income (“FVTOCI”)	–	(3,435)
<i>Items that may be reclassified to profit or loss:</i>		
Exchange difference arising from translation of foreign operations	<b>(4,394)</b>	(993)
Share of exchange translation difference of associates	<u><b>1,710</b></u>	<u>11,043</u>
Other comprehensive income for the year, net of tax	<u><b>2,467</b></u>	<u>7,506</u>
Total comprehensive loss for the year	<u><u><b>(32,574)</b></u></u>	<u><u>(62,596)</u></u>
<b>Total comprehensive (loss)/income attributable to:</b>		
— equity holders of the Company	<b>(46,096)</b>	(64,270)
— non-controlling interests	<u><b>13,522</b></u>	<u>1,674</u>
	<u><u><b>(32,574)</b></u></u>	<u><u>(62,596)</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2021*

	<i>Notes</i>	<b>2021</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2020 <i>HK\$'000</i> <b>(Audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>90,323</b>	64,721
Right-of-use assets		<b>5,042</b>	4,348
Investment properties		<b>12,472</b>	12,243
Goodwill		<b>79,963</b>	–
Other intangible asset		<b>977</b>	989
Investment in associates		<b>503,121</b>	569,945
Prepayments, deposits and other receivables	<i>11</i>	<b>3,904</b>	3,932
Contingent consideration receivables		<b>7,523</b>	–
Deferred income tax assets		<b>635</b>	180
		<b>703,960</b>	656,358
<b>Current assets</b>			
Inventories		<b>35,355</b>	13,040
Trade and bills receivables	<i>10</i>	<b>34,108</b>	54,744
Prepayments, deposits and other receivables	<i>11</i>	<b>148,917</b>	107,102
Bank balances and cash		<b>201,113</b>	21,645
		<b>419,493</b>	196,531
<b>Total assets</b>		<b>1,123,453</b>	852,889
<b>Current liabilities</b>			
Trade payables	<i>12</i>	<b>17,467</b>	11,672
Accruals and other payables		<b>236,904</b>	148,842
Income tax payable		<b>229</b>	518
Promissory notes	<i>13</i>	<b>250,621</b>	256,320
Lease liabilities		<b>2,067</b>	1,586
Borrowings		<b>88,399</b>	55,732
		<b>595,687</b>	474,670
<b>Net current liabilities</b>		<b>(176,194)</b>	(278,139)
<b>Total assets less current liabilities</b>		<b>527,766</b>	378,219

	<i>Notes</i>	<b>2021</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2020 <i>HK\$'000</i> (Audited)
<b>Non-current liabilities</b>			
Borrowings		<b>8,680</b>	66,028
Convertible bonds		<b>129,364</b>	–
Deferred income tax liabilities		<b>15,622</b>	15,371
Lease liabilities		<b>2,731</b>	2,829
		<u><b>156,397</b></u>	<u>84,228</u>
<b>Net assets</b>		<u><b>371,369</b></u>	<u>293,991</u>
<b>Equity</b>			
Share capital	<i>14</i>	<b>11,478</b>	6,074
Reserves		<b>296,319</b>	280,834
		<u><b>307,797</b></u>	<u>286,908</u>
<b>Equity attributable to owners of the Company</b>		<u><b>307,797</b></u>	<u>286,908</u>
Non-controlling interests		<b>63,572</b>	7,083
		<u><b>371,369</b></u>	<u>293,991</u>
<b>Total equity</b>		<u><b>371,369</b></u>	<u>293,991</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2021*

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company and continued in Bermuda with limited liability under the Companies Act 1981 of the Bermuda. The address of its registered office is Continental Buildings, 25 Church Street, Hamilton HM12, Bermuda. 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.

## 2. BASIS OF PREPARATION

The consolidated financial statements are presented in Hong Kong dollars ("**HK\$**"), which is also the functional currency of the Company. The directors of the Company ("**Directors**") consider HK\$ is the appropriate presentation currency for the users of the Group's financial statements. The functional currency of the Company's major subsidiaries in the People's Republic of China ("**PRC**") and the United States of America ("**USA**") is Renminbi ("**RMB**") and United States dollars ("**US\$**") respectively.

## 3. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("**HKFRSs**")

### **Amendments to HKFRSs that are mandatorily effective for the current year**

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
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In addition, the Group has early applied the Amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021, and the agenda decision of the IFRS Interpretations Committee (the "**Committee**") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

Except as described below, the application of the 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.

### ***3.1 Impacts on application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021***

The Group has early applied the amendment in the current year. The amendment extends the availability of the practical expedient in paragraph 46A of HKFRS 16 Leases (“**HKFRS 16**”) by one year so that the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The application has had no impact to the opening accumulated losses at 1 January 2021.

### ***3.2 Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform — Phase 2***

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 Financial Instruments: Disclosures (“**HKFRS 7**”).

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year.

### ***3.3 Impacts on application of the agenda decision of the Committee — Cost necessary to sell inventories (HKAS 2 Inventories)***

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

The Group’s accounting policy prior to the Committee’s agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the Committee’s agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories taking into consideration both incremental costs and other cost necessary to sell inventories. The new accounting policy has been applied retrospectively.

The application of the Committee’s agenda decision has had no material impact on the Group’s financial positions and performance.

## **New and amendments to HKFRSs in issue 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 and the related Amendments <sup>2</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) <sup>2</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>2</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>2</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>2</sup>
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use <sup>1</sup>
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2022.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

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 HKFRS 3 Reference to the Conceptual Framework**

The amendments:

- update a reference in HKFRS 3 Business Combinations so that it refers to the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the “**Conceptual Framework**”) instead of Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting 2010 issued in October 2010);
- add a requirement that, for transactions and other events within the scope of HKAS 37 Provisions, Contingent Liabilities and Contingent Assets or HK(IFRIC)-Int 21 Levies, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.



## **Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

## **Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)**

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
  - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 Financial Instruments: Presentation.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2021, the application of the amendments will not result in reclassification of the Group's liabilities as at 31 December 2021.

## **Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies**

HKAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 Making Materiality Judgements (the “**Practice Statement**”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group’s significant accounting policies.

## **Amendments to HKAS 8 Definition of Accounting Estimates**

The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group’s consolidated financial statements.

### **Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction**

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 4 to the consolidated financial statements, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. As at 31 December 2021, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to HK\$5,042,000 and HK\$4,798,000 respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

### **Amendments to HKAS 16 Property, Plant and Equipment — Proceeds before Intended Use**

The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with HKAS 2 Inventories.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

### **Amendments to HKAS 37 Onerous Contracts — Cost of Fulfilling a Contract**

The amendments specify that, when an entity assesses whether a contract is onerous in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, the unavoidable costs under the contract should reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Costs of fulfilling the contract include incremental costs and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments are applicable to contracts for which the Group has not yet fulfilled all its obligations as at the date of initial application.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

## **Amendments to HKFRSs Annual Improvements to HKFRSs 2018–2020**

The annual improvements make amendments to the following standards.

### ***HKFRS 9 Financial Instruments***

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the “10 per cent” test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other’s behalf.

### ***HKFRS 16 Leases***

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

### ***HKAS 41 Agriculture***

The amendment ensures consistency with the requirements in HKFRS 13 Fair Value Measurement by removing the requirement in paragraph 22 of HKAS 41 to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

#### 4. REVENUE

##### (a) Disaggregation of revenue from contracts with customers

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
Sales of toys and gifts items	264,282	192,265
Sales of ceramic items	31	11,086
Sales of Chinese herbs products	59,405	–
	<u>323,718</u>	<u>203,351</u>
By revenue source		
— Manufacturing of goods	171,469	84,414
— Trading of goods	152,249	118,937
	<u>323,718</u>	<u>203,351</u>
Timing of revenue recognition		
At point in time	<u>323,718</u>	<u>203,351</u>

##### (b) Performance obligations for contracts with customers

Revenue from (1) sales of toys and gifts items, (2) sales of ceramic items and (3) sales of Chinese herbs products are 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 90 days, 15 days and 120 days for sales of toys and gifts items, sales of ceramic items and sales of Chinese herbs products respectively.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for toys and gifts items, ceramic items and Chinese herbs products 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 ceramic items that had an original expected duration of one year or less.

## 5. OTHER INCOME/OTHER GAINS/(LOSSES), NET

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
<b>Other income</b>		
Bank interest income	116	13
Rental income from investment properties	87	111
Government grants ( <i>Note</i> )	980	3,184
Accruals and other payables written off	–	1,580
Commission income	4,500	–
Gain on disposal of property, plant and equipment	100	–
Others	336	976
	<u>6,119</u>	<u>5,864</u>
<b>Other gains/(losses), net</b>		
Fair value loss on investment properties	(900)	(477)
Net foreign exchange gain	3,043	4,849
	<u>2,143</u>	<u>4,372</u>

*Note:*

During the current year, the Group recognised government grants of approximately HK\$nil (2020: HK\$1,529,000) in respect of COVID-19-related subsidies which were granted to the Group under the Employment Support Scheme provided by the Hong Kong government. The remaining grants mainly related to subsidies in respect of operating from governments which are either unconditional grants or grants with conditions having been satisfied.

## 6. INCOME TAX EXPENSE

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
Current tax — Hong Kong Profits Tax		
Provision for the year	65	–
Over-provision for prior years	–	(142)
	<u>65</u>	<u>(142)</u>
Current tax — Overseas		
Provision for the year	4,452	982
	<u>4,452</u>	<u>982</u>
Total current tax	4,517	840
Deferred income tax (credit)/expense	(671)	187
	<u>(671)</u>	<u>187</u>
Income tax expense	<u><u>3,846</u></u>	<u><u>1,027</u></u>

Under the two-tiered profits tax rates regime, one of the subsidiaries of the Company is subject to Hong Kong Profits Tax at the rate of 8.25% for the first HK\$2 million of estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million. Other subsidiaries of the Company are subject to Hong Kong Profits Tax at the rate of 16.5% for both years.

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.

## 7. LOSS FOR THE YEAR

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

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
Amortisation of other intangible asset	12	11
Auditor's remuneration	3,087	2,510
Cost of inventories recognised as expense ( <i>note</i> )	213,041	137,571
Depreciation of property, plant and equipment	6,770	6,561
Depreciation of right-of-use assets	1,626	1,708
Expense relating to short-term lease and other leases with lease terms within 12 months	3,684	3,588
Loss on write-off of property, plant and equipment	–	16
Legal and professional fees	6,650	6,734
Staff costs (including directors' remuneration)		
Salaries, bonus and allowance	51,103	45,250
Retirement benefits scheme contributions	2,405	1,654
	<u>53,508</u>	<u>46,904</u>

*Note:* The cost of inventories recognised as an expense in cost of sales included approximately HK\$Nil (2020: HK\$2,614,000) in respect of write-down of finished goods to net realisable value.

## 8. DIVIDEND

The directors of the Company did not recommend the payment of any dividend for the years ended 31 December 2021 and 2020.



## 9. 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\$48,563,000 (2020: HK\$71,776,000) and the weighted average number of ordinary shares in issue during the year of 996,427,000 shares (2020: 532,380,000 shares).

### (b) Diluted loss per share

For the year ended 31 December 2021, the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds since their assumed exercise would result in a decrease in loss per share.

There was no dilutive potential ordinary shares outstanding during the year ended 31 December 2020 as the Company did not have potential ordinary shares outstanding during the year. Accordingly, the diluted loss per share is same as basic loss per share for both years.

## 10. TRADE AND BILLS RECEIVABLES

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
Trade receivables — contracts with customers	38,168	61,010
Less: Allowance for credit losses	<u>(12,325)</u>	<u>(12,115)</u>
Trade receivables, net	25,843	48,895
Bills receivables	<u>8,265</u>	<u>5,849</u>
	<u><u>34,108</u></u>	<u><u>54,744</u></u>

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

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
Within 30 days	17,064	9,696
31 days to 90 days	8,584	33,585
91 days to 180 days	195	5,540
181 days to 360 days	—	26
Over 360 days	<u>—</u>	<u>48</u>
	<u><u>25,843</u></u>	<u><u>48,895</u></u>

## 11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<i>Notes</i>	<b>2021</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2020 <i>HK\$'000</i> (Audited)
Non-current portion			
Trade deposits		<u>3,904</u>	<u>3,932</u>
Current portion			
Trade deposits	(a)	80,561	77,562
Deposit and other receivables		59,547	24,186
Prepayment		4,605	1,150
Amount due from a former director	(b)	<u>4,204</u>	<u>4,204</u>
		<u><b>148,917</b></u>	<u>107,102</u>

(a) Included in trade deposits at 31 December 2021 and 31 December 2020 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. Due to the COVID-19 outbreak, the purchase contracts were extended to 2 June 2022.

(b) Amount due from a former director

	<b>2021</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2020 <i>HK\$'000</i> (Audited)	Maximum outstanding balance during the year <i>HK\$'000</i>
Zhang Yun	<u>4,204</u>	<u>4,204</u>	<u>4,204</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.

## 12. 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:

	<b>2021</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2020 <i>HK\$'000</i> (Audited)
Within 30 days	<b>11,720</b>	8,707
31 days to 90 days	<b>2,160</b>	1,469
91 days to 180 days	<b>1,657</b>	694
181 days to 360 days	<b>803</b>	138
Over 360 days	<b>1,127</b>	664
	<b>17,467</b>	11,672

## 13. PROMISSORY NOTES

	<b>Total</b> <i>HK\$'000</i>
At 1 January 2020	270,538
Issuance of promissory notes	98,062
Repayment of promissory notes	(30,050)
Cancellation of promissory notes	(83,672)
Imputed Interest	1,442
	<u>256,320</u>
At 31 December 2020 and 1 January 2021 (Audited)	
Issuance of promissory notes	<b>52,336</b>
Repayment of promissory notes	<b>(58,035)</b>
	<u>250,621</u>
At 31 December 2021 (Unaudited)	

## 14. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
<b>Authorised:</b>		
At 1 January 2020	30,000,000,000	3,000,000
Capital reorganisation	168,605,703,709	(1,013,944)
At 31 December 2020 and 2021	<u>198,605,703,709</u>	<u>1,986,056</u>

	Number of shares	Amount HK\$'000
<b>Issued and fully paid</b>		
At 1 January 2020	9,890,381,596	989,039
Issue of shares		
— upon settlement of promissory notes	300,000,000	30,000
— capital reorganisation	(9,680,862,517)	(1,013,944)
— shares issued in placing arrangement	101,900,000	1,019
At 31 December 2020 (Audited)	611,419,079	6,114
Issue of shares		
— shares issued in placing arrangement	150,000,000	1,500
— debt capitalisation	390,440,579	3,904
At 31 December 2021 (Unaudited)	<u>1,151,859,658</u>	<u>11,518</u>

	Number of shares		Amount HK\$	
	2021 (Unaudited)	2020 (Audited)	2021 (Unaudited)	2020 (Audited)
Classified as:				
Share capital	1,147,859,658	607,419,079	11,478	6,074
Obligation under share repurchase arrangement	<u>4,000,000</u>	<u>4,000,000</u>	<u>40</u>	<u>40</u>
	<u>1,151,859,658</u>	<u>611,419,079</u>	<u>11,518</u>	<u>6,114</u>

## 15. LITIGATIONS

### (a) Chow Lai Wah Livia

The Company received the judgement dated 25 January 2021 from the Court. According to the judgement, the Company has to pay a sum of approximately HK\$25,255,000 including accrued interest of approximately HK\$5,255,000 up to 26 March 2021 to Chow Lai Wah Livia (“**Ms. Chow**”).

On 28 July 2021, all liabilities owed by the Company to Ms. Chow under the judgement dated 25 January 2021 are repaid and therefore discharged.

### (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 and 8 June 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 2021.

(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 2021, the accumulated interest, rent and administrative fees accrued for the postponement of payment is approximately HK\$3,295,000 which is included in accruals and other payables.

(d) **Eternal Galaxy Group Limited**

A winding-up petition (Companies Winding-up No. 266/2020) (the “**Petition**”) was presented on 20 August 2020 against the Company by Eternal Galaxy Group Limited (the “**Petitioner**”) for the claim of HK\$10,000,000 in a debt owed to the Petitioner by way of an assignment of a promissory note with a principal amount of HK\$10,000,000 (the “**Promissory Note**”), originally owed to a supplier of the Group (the “**Assignor**”).

The Petition has been dismissed by way of consent summons filed to the registrar of High Court on 4 June 2021.

(e) **Veda Capital Limited**

On 17 July 2020, the Company received a writ of summons from Veda Capital Limited issued by the District Court of the Hong Kong Special Administrative Region for a claim of HK\$803,000 for the provision of consultancy service fee against the Company.

As at the date of this announcement, the Company is liaising with Veda Capital Limited to settle the above claim which is included in accruals and other payables as at 31 December 2021 and 2020.

## 16. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the directors of the Company proposed to implement the Capital Reorganisation which would involve the following:

- (i) the Share Consolidation whereby every five (5) issued and unissued Existing Shares of par value of HK\$0.01 each will be consolidated into one (1) Consolidated Share of par value of HK\$0.05 each (any fraction in the issued share capital of the Company which may arise from the Share Consolidation will be cancelled);
- (ii) the Capital Reduction whereby the issued share capital of the Company will be reduced by (a) rounding down the number of Consolidated Shares in the issued share capital of the Company to the nearest whole number by cancelling any fraction of a Consolidated Share in the issued share capital of the Company; and (b) cancelling the paid-up share capital to the extent of HK\$0.04 on each issued Consolidated Share such that the par value of each issued Consolidated Share will be reduced from HK\$0.05 to HK\$0.01;
- (iii) immediately following the Capital Reduction becoming effective, the Share Subdivision whereby each of the authorised but unissued Consolidated Shares of par value of HK\$0.05 each in the authorised share capital of the Company shall be subdivided into five (5) authorised but unissued Adjusted Shares of par value of HK\$0.01 each;
- (iv) the credit transfer whereby the credit arising from the Capital Reduction in the amount equal to the total number of the then issued Consolidated Shares upon the Share Consolidation becoming effective multiplied by HK\$0.04 shall be credited to the contributed surplus account of the Company within the meaning of the Companies Act; and
- (v) the amount standing to the credit of the contributed surplus account be applied in full to set off the accumulated losses of the Company or be applied in any other manner as may be permitted under the Bye-Laws and all applicable laws of Bermuda.

Subject to the Capital Reorganisation having become effective, the directors of the Company also proposed to conduct the Rights Issue on the basis of three (3) Rights Shares for every one (1) Adjusted Share held on the Record Date at a subscription price of HK\$0.205 per Rights Share. The expected gross proceeds to be raised from the Rights Issue is approximately HK\$141 million.

Details of the above proposed Capital Reorganisation and proposed Right Issues are set out in the Company's announcement dated 23 March 2022.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS OVERVIEW

The Group has gone through a challenging year amid the worsening business environment as a result of the global outbreak of Coronavirus and the strict social distancing measures imposed by the government since the first quarter of 2020 which has frozen many industries.

### FINANCIAL HIGHLIGHTS

For the year ended 31 December 2021 (the “**Year**”), the Group recorded turnover of approximately HK\$323.7 million (2020: HK\$203.4 million), representing an increase of approximately 59.2% as compared with last year.

The Group’s loss attributable to equity holders of the Company for the Year was approximately HK\$48.6 million (2020: HK\$71.8 million), representing a decrease of approximately HK\$23.2 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 increase in revenue attributable by the newly acquired Chinese herbs related business, amounting to approximately HK\$59.4 million; (ii) the gain on extinguishment of financial liabilities by issue of ordinary shares of the Group, amounting to approximately HK\$69.9 million; and (iii) the decrease in share of result of associates of the Group, amounting to approximately HK\$65.9 million, during the Year. Basic loss per share for the Year was 4.87 HK cents (2020: 13.48 HK cents).



## **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\$264.3 million (2020: HK\$192.3 million), representing an increase of approximately 37.5% comparing to last year. The increase in turnover was mainly attributable to the increase in revenue generated from the North America. The gross profit margin was decreased, which was 29.3% (2020: 33.8%) during the Year, showing the production and logistic cost was increased while the market of North America has recovered since the global outbreak of Coronavirus.

### **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.

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

In the opinion of the directors of the Company as at 31 December 2021, the Investment Group is still unable to generate cash flows to the Group due to the absence of the mining rights of coal mines concerned. Fair value of approximately HK\$3,435,000 was recognised for the year ended 31 December 2020 to fully write down the carry amount of the investment.

## **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 cooperation agreement with an independent third party has expired during the Year. The Multijoy Group is changing the use of land and developing a diversified ecological sightseeing farm business on the Forest Land.

The Group’s share of result of profit amounted to approximately HK\$4.6 million for the Year (2020: loss of HK\$5.6 million).

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

USO entered into a development cooperation agreement with Plantation Construction & Development Co Ltd. (the “**Development Company**”), pursuant to which USO and the Development Company will jointly develop the leased properties. The management expected that the leased properties will be mainly developed for commercial purposes such as residential properties and hotels, residential villas, high-end hotel and casino, and ancillary public amenities. Under the impact of COVID-19 pandemic, the begin construction date of the luxury hotel and casino, as well as the first 100 residential villas is delayed, and expected to be taken place in January 2023. The management of the Group is assessing the operational and financial impacts of the proposed arrangements to the Group.

The Group’s share of result of loss amounted to approximately HK\$60 million for the Year (2020: loss of HK\$2.9 million).

## Leisure

### (a) *Tea related business*

In the recent years, the competition in tea industries becomes more fierce as the traditional sales model is facing a keen competition from those online business platform. During the Year, Fujian Yuguo has continued 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\$0.2 million (2020: HK\$0.1 million) for the year.

### (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.

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. However, due to the lack of cooperation from the administrator of the deceased vendor of Anhui Fu Lao (the "**Administrator**"), the transfer procedures of 20% equity to the Group remains incomplete. Based on the legal opinion, the directors of the Company believe that the Group could obtain a court order to enforce the transfer of 20% equity from the Administrator to the Group.

The Group's share of result of loss amounted to HK\$10.2 million for the Year (2020: HK\$3.8 million).

**(c) *Outbound tourism***

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.

There will be a contingent gain on the rescission of the promissory note of approximately HK\$92 million.

**(d) *Chinese herbs related business***

Hubei Jincaotang Pharmaceutical Co., Ltd. (湖北金草堂藥業有限公司), 51% equity interest of which was acquired by the Group, is principally engaged in the business of Chinese herbs and the decoction business in Mainland China. Turnover from the Chinese herbs related business for the Year was approximately HK\$59.4 million (2020: Nil).

**Culture**

Turnover from culture business for the Year was approximately HK\$31,000 (2020: HK\$11 million), representing a decrease of 99.7% comparing to last year. The turnover was mainly attributable to the sales of ceramics during the year.

**Geographical Information**

During the Year, the Group recorded revenue in North America (includes the USA and Canada) of approximately HK\$264 million as compared to approximately HK\$190 million last year and represented approximately 81.6% (2020: approximately 93.7%) of the Group's total revenue. Revenue in the PRC amounted to approximately HK\$59.4 million for the Year as compared to approximately HK\$Nil million last year and represented approximately 18.4% (2020: approximately Nil%) of the Group's total revenue of the Year.

**Selling and Distribution Costs**

The amount of the selling and distribution costs for the Year was approximately HK\$34.4 million (2020: approximately HK\$27.3 million). The increase was mainly attributable by the newly acquired Chinese herbs related business during the Year.

## **Administrative Expenses**

Administrative expenses for the Year increased by approximately 9.3% to approximately HK\$78.7 million as compared to approximately HK\$71.9 million in the previous year. The increase in administrative expenses was mainly attributable by the newly acquired Chinese herbs related business during the Year.

## **Finance Costs**

Finance costs for the Year decreased by approximately HK\$14.5 million to approximately HK\$41.2 million as compared to approximately HK\$55.7 million in the previous year. The decrease in finance costs was mainly due to the debt repayment and debt capitalisation for promissory notes and other borrowings during the Year.

## **LIQUIDITY, FINANCIAL RESOURCES AND FUNDING**

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 2021, the Group had bank and cash balances of approximately HK\$201.1 million (2020: HK\$21.6 million). The Group's bank and cash balances were mostly denominated in Hong Kong dollars, United States Dollars and Renminbi.

As at 31 December 2021, the Group's borrowings amounted to approximately HK\$97.1 million (2020: HK\$121.8 million). The Group's borrowings were mainly denominated in Hong Kong dollars, United States Dollars and Renminbi.

As at 31 December 2021, the Group's promissory notes amounted to approximately HK\$250.6 million (2020: HK\$256.3 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, promissory notes, lease liabilities, borrowings and convertible bonds less bank balances and cash) 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 2021 was 144.1% (2020: 177.3%).

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.

## **PLACING OF NEW SHARES UNDER SPECIFIC MANDATE**

On 22 October 2020, the Company entered into the placing agreement with the CNI Securities Group Limited, pursuant to which the Company appointed CNI Securities Group Limited as its placing agent to procure not less than six placees who are independent third parties to subscribe for up to 150,000,000 placing shares at the placing price of HK\$0.2 per placing share on a best effort basis in accordance with the terms and conditions of the placing agreement. The Company carried out the placing offers since it offered a good opportunity to raise further capital for broaden the shareholders base of the Company thereby increasing the liquidity of the Shares as well as strengthening the financial position of the Group.

The placing was completed on 7 January 2021. An aggregate of 150,000,000 placing shares have been successfully placed to not less than six placees. The net proceeds from the placing were approximately HK\$29.5 million.

Details of the placing have been set out in the announcements of the Company dated 22 October 2020 and 7 January 2021, respectively.

As at 31 December 2021, all the net proceeds raised have been utilised as intended for the year ended 31 December 2021. There was no unutilized proceeds as at 31 December 2021. There is no material change between the intended use of proceeds and the actual use of proceeds.

## **SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS OF ASSETS**

On 8 March 2021, Trinity Force Investments Limited (“**Party B**”), a subsidiary of the Company, entered into a shareholder’s memorandum with Green Luxuriant Group Investment Limited (“**Party A**”) and Lanselota Polu (“**Party C**”), both being shareholders of USO.

Pursuant to the shareholders memorandum, Party A and Party C agreed and will exercise all voting rights attached to the remaining shares held by them in line with the instructions given by Party B, except for resolutions of the shareholders of USO (i) which by law or according to the articles of association of USO require only a simple majority of cast votes or a simple majority of the total issued share capital, and (ii) on a capital increase without subscriptions rights for the shareholders, and (iii) which do not comply with, or would result in a violation of, the agreements set forth in the Shareholders Agreement. Unless otherwise agreed by all shareholders in writing, the board of directors shall have no more than five directors and the appointment and removal of all directors will be made by written notice to USO upon request of Party B.

As no single shareholder of USO have control over the company, there were restrictions on the implementation of operational decisions. The purpose of entering into the shareholders memorandum is to give the Company the right to control the operation and business of USO and the right to enjoy the economic benefits of such business.

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 Hubei Jincatong Pharmaceutical Co., Limited (the “**Target Company**”). On 20 July 2020 and 25 March 2021, supplemental agreements to the Sale and Purchase Agreement were signed pursuant to which the parties thereto agreed to amend and supplement certain terms of the Sale and Purchase Agreement.

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 five tranche Convertible Bonds by the Company to the Vendor (or its nominee) upon completion.

Upon the completion on 27 May 2021, the Target Company became a non-wholly owned subsidiary of the Company and accordingly, the consolidated results of the Target Company were consolidated into the financial statements of the Group.

For details, please refer to the Company’s announcements date 11 September 2019, 21 October 2019, 23 October 2019, 15 November 2019, 11 February 2020, 20 July 2020, 23 March 2021, 25 March 2021, 30 March 2021, 19 April 2021 and 27 May 2021.

## **IMPORTANT EVENTS AFTER THE END OF THE YEAR**

Subsequent to the end of the reporting period, the directors of the Company proposed to implement the Capital Reorganisation which would involve the following:

- (i) the Share Consolidation whereby every five (5) issued and unissued Existing Shares of par value of HK\$0.01 each will be consolidated into one (1) Consolidated Share of par value of HK\$0.05 each (any fraction in the issued share capital of the Company which may arise from the Share Consolidation will be cancelled);

- (ii) the Capital Reduction whereby the issued share capital of the Company will be reduced by (a) rounding down the number of Consolidated Shares in the issued share capital of the Company to the nearest whole number by cancelling any fraction of a Consolidated Share in the issued share capital of the Company; and (b) cancelling the paid-up share capital to the extent of HK\$0.04 on each issued Consolidated Share such that the par value of each issued Consolidated Share will be reduced from HK\$0.05 to HK\$0.01;
- (iii) immediately following the Capital Reduction becoming effective, the Share Subdivision whereby each of the authorised but unissued Consolidated Shares of par value of HK\$0.05 each in the authorised share capital of the Company shall be subdivided into five (5) authorised but unissued Adjusted Shares of par value of HK\$0.01 each;
- (iv) the credit transfer whereby the credit arising from the Capital Reduction in the amount equal to the total number of the then issued Consolidated Shares upon the Share Consolidation becoming effective multiplied by HK\$0.04 shall be credited to the contributed surplus account of the Company within the meaning of the Companies Act; and
- (v) the amount standing to the credit of the contributed surplus account be applied in full to set off the accumulated losses of the Company or be applied in any other manner as may be permitted under the Bye-Laws and all applicable laws of Bermuda.

Subject to the Capital Reorganisation having become effective, the directors of the Company also proposed to conduct the Rights Issue on the basis of three (3) Rights Shares for every one (1) Adjusted Share held on the Record Date at a subscription price of HK\$0.205 per Rights Share. The expected gross proceeds to be raised from the Rights Issue is approximately HK\$141 million.

Details of the above proposed Capital Reorganisation and proposed Right Issues are set out in the Company's announcement dated 23 March 2022.

## **CONTINGENT LIABILITIES**

The Group had no significant contingent liabilities as at 31 December 2021 and 2020.

## **CAPITAL COMMITMENT**

As at 31 December 2021 and 2020, the Group had no significant capital commitment.



## **DIVIDEND**

The Directors do not recommend any payment of final dividend for the years ended 31 December 2021 and 2020.

## **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 years ended 31 December 2021 and 2020.

## **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**

On 24 May 2021, 390,440,579 Subscription Shares were allotted and issued to the Creditors at the Subscription Price of HK\$0.267 per Subscription Share pursuant to the terms of the Subscription Agreement and the Supplemental Subscription Agreement.

On 27 May 2021, the 1st Tranche Convertible Bonds in principal amount of HK\$51 million were issued to the Vendor with the conversion price at HK\$2.00 due on 27 May 2024.

All these ordinary shares issued by the Company during the years rank pari passu with the existing ordinary shares in all respects.

As at 31 December 2021, the capital structure of the Company was constituted of 1,151,859,658 ordinary shares of HK\$0.01 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 2021, no share option was remained outstanding (2020: Nil). 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 2021, the Group had a total of 386 employees (2020: 356 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.

## **REVIEW OF UNAUDITED ANNUAL RESULTS**

The audit procedures for the annual results for the year ended 31 December 2021 has not been completed due to restrictions in force in China by relevant PRC authorities in the attempt to contain the COVID-19 Outbreak. In view of the traffic restrictions due to the epidemic and quarantine measures occasioned by the Covid-19 pandemic, some of the essential audit supporting documents, such as the audit confirmations from the bank, debtors and creditors cannot be received before 31 March 2022. Besides, the difficulties in implementing the valuation process and the time required to obtain the basis for the valuation will increase significantly. Based on the above, the valuer cannot complete all valuations for the associates, convertible bonds, investment properties, goodwill and contingent consideration receivables before 31 March 2022. The unaudited annual results contained herein have not been agreed with the Group's auditors. An announcement relating to the audited results will be made when the audit procedures has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

## **FURTHER ANNOUNCEMENT(S)**

Following the completion of the auditing process, the Company is expected to issue further announcement(s) and/or annual report in April 2022 in relation to (i) the audited annual results for the year ended 31 December 2021 as agreed by the Company's auditors and the material variances (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting (and the proposed arrangements relating to dividend payment, if any). In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

## **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. Cheng Ho On, Mr. Kong Chun Wing, Mr. Lai Chi Yin Samuel, Ms. Chen Yuxin 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 4 June 2021.

## **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 2021.

## **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 2021.

## **PUBLICATION OF RESULTS**

This announcement of results of the Company has been published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.kh381.com](http://www.kh381.com)). The annual report of the Company for the year ended 31 December 2021 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, 31 March 2022

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

\* *For identification purposes only*