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)

# Leading the Way Towards *a Bright Future*

**Interim Report 2018**

# CONTENTS

# CORPORATE **INFORMATION**

## EXECUTIVE DIRECTORS

Mr. Hui Kee Fung *(Chairman)*
Mr. Yu Won Kong, Dennis *(Chief Executive Officer)*
Mr. Zhang Yun *(Deputy Chief Executive Officer)*
Mr. Zhang Qijun
Ms. Yi Meixuan

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. So Chun Pong, Ricky
Mr. Wang Xiao Ning
Mr. Cheung Man Loon, Michael

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

25th Floor
Fortis Tower
77–79 Gloucester Road
Wan Chai
Hong Kong

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House — 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman
KY1-1110
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

## COMPANY'S WEBSITE

www.kh381.com

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road Central
Hong Kong

OCBC Wing Hang Bank Limited
Head office
161 Queen's Road Central
Hong Kong

## AUDITOR

ZHONGHUI ANDA CPA Limited
Unit 701-3 & 8
Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

# MANAGEMENT
# DISCUSSION AND ANALYSIS

The board of directors (the "**Board**") 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 2018.

## FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2018 (the "**Period**"), the Group recorded turnover of approximately HK$72.2 million (2017: HK$104.0 million), representing a decrease of approximately 30.7% 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$37.8 million (2017: HK$29.9 million). The increase in loss attributable to equity holders of the Company for the Period was mainly attributable to (i) a decrease in the share of the results of associates of approximately HK$2.2 million; and (ii) a drop of sales revenue of approximately HK31.9 million. Whereas, such reduction of revenue was offset by (i) a decrease in cost of sales of approximately HK$12.3 million; and (ii) a decrease of selling and administrative expenses of approximately HK$13.0 million. Basic loss per share for the Period was 0.52 HK cents (2017: 0.49 HK cents). The Board has resolved not to pay any interim dividend for the Period (2017: 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$72.2 million (2017: HK$104.0 million). Gross profit ratio for the Period was 31.8% (2017: 40.9%). The decrease in gross profit ratio was mainly due to an increase in the material costs during the Period. The segment loss of the manufacturing and trading of toys and gifts items was approximately HK$11.6 million (2017: segment profit of HK$5.9 million). The segment loss was mainly due to a major customer filed for bankruptcy after the second quarter of last year and a decrease in sales orders from external customers during the Period.

### Exploration of Natural Resources

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

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

# In order to fulfill the requirement of the PRC government before submitting the master planning of BCF, the Group submitted a resources report of BCF to the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部) during 2011. The resources report was prepared by Inner Mongolia Long Wang Geographic Exploration Co. Ltd.* (內蒙古龍旺地質勘探有限責任公司), which Indicates 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 current licence period of the exploration right of BCF is from 4 July 2016 to 4 July 2018. The master planning* (總體規劃) of BCF was approved in December 2015. As at the date of this report, the Group has applied to extend the licence of the exploration right of BCF.

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 2017 to 20 August 2019.

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

## Fruit Plantation

### *(a) Multijoy Group*

Multijoy Developments Limited, 40% equity interest of which was acquired by the Group, together with its subsidiaries (the "**Multijoy Group**") is principally engaged in the business of holding of forestry concession rights in relation to a parcel of forest land situated in Nanfeng County, Fuzhou City, Jiangxi Province, the PRC with an aggregate site area of approximately 1,700 Chinese mu (the "**Forest Land**"). The Multijoy Group has appointed an independent third party under a cooperation agreement for a term of five years from 1 April 2013 to 31 March 2018 in relation to the operations of tangerine plantation business on the Forest Land for a fixed royalty income. A new cooperation agreement has been signed in the early of 2018 for another term of three years from 1 April 2018 to 31 March 2021 at an annual royalty income of RMB29,920,000 (equivalent to approximately HK$36,800,000).

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

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

## Leisure

### (a) *Tea related business*

Since the Group's acquisition of 33% equity interest in Fujian Yuguo Tea Chaye Limited* (福建鈺國茶業有限公司) ("**Fujian Yuguo**") (a limited company incorporated in Fujian Province, the PRC, engaging mainly in the distribution of tea related products in PRC) in January 2016 , Fujian Yuguo has been generating profits from its operations. For the six months ended 30 June 2018, Fujian Yuguo's total revenue amounted to approximately HK$19.3 million (2017: HK$35.1 million). In the recent years, competition in the tea industry becomes more fierce as the traditional sales model is facing a keen competition from those online business platform. During the Period, Fujian Yuguo has begun to fine-tune its operation model to meet its customers' needs, including but not limited to provide more attractive terms to its selected customers to increase its competitiveness in the markets. Fujian Yuguo's revenue is expected to increase steadily in the coming years.

### (b) *Wine related business*

Since the end of 2016, the Group has invested in the yellow base wine. In view of the insufficient working capital recently, the Group has adopted a strategy to look for potential cooperators in producing and distributing the yellow wine products. On 15 January 2018, the Group entered into a sale and purchase agreement with the vendor of Anhui Fu Lao Wine Development Company Limited* (安徽省福老酒業發展有限公司) ("**Anhui Fu Lao**"), a company established in PRC with limited liability and is owned as to 80% by the vendor. Pursuant to the sale and purchase agreement, the Group had agreed to acquire and the vendor of Anhui Fu Lao had agreed to sell 20% equity interest of Anhui Fu Lao held by the vendor, at the consideration of RMB84 million (equivalent to approximately HK$101 million). The completion of acquisition took place on 31 May 2018. As such, 1,010,000,000 consideration shares at the price of HK$0.10 per consideration share (approximately HK$101 million) have been allotted and issued to the vendor in accordance with the terms and conditions of the sale and purchase agreement. For details, please refer to the Company's announcements dated 15 January 2018, 28 February 2018, 17 April 2018, 18 May 2018 and 31 May 2018, respectively.

### (c) *Outbound tourism*

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

## Culture

On 27 March 2015, the Group acquired certain pieces of Jingdezhen contemporary ceramics including ceramic vases and plates, at a total consideration of HK$38.0 million. These ceramic items had carrying amounts of approximately HK$35.3 million as at 30 June 2018.

### Selling and Distribution Costs

The amount of selling and distribution costs for the Period decreased by approximately 28.6% to approximately HK$13.5 million as compared to approximately HK$18.9 million in the same period last year. The decrease was mainly attributable to the decrease in sales commissions and staff costs of approximately HK$5.0 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 2018, the Group had bank and cash balances of approximately HK$7.3 million (31 December 2017: approximately HK$31.6 million). The Group's bank and cash balances were mostly held in Hong Kong dollars and Renminbi.

As at 30 June 2018, the Group's borrowings amounted to approximately HK$65.2 million (31 December 2017: approximately HK$78.4 million). The Group's borrowings were mainly denominated in Hong Kong dollars and Renminbi.

As at 30 June 2018, the Group's promissory notes amounted to approximately HK$150.6 million (31 December 2017: approximately HK$137.9 million) in aggregate. The Group's promissory notes were denominated in Hong Kong dollars.

The Group monitors capital using a gearing ratio, which is the Group's net debt (comprising trade payables, accruals and other payables, income tax payable, promissory notes, obligation under finance lease and borrowings less bank and cash balances) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 30 June 2018 was 61.6% (31 December 2017: 59.3%).

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 Period.

As at 30 June 2018, certain property, plant and equipment and investment properties held by the Group with aggregate carrying values of approximately HK$74.4 million (31 December 2017: approximately HK$74.5 million), were pledged to secure general banking facilities granted to the Group.

As at 30 June 2018, the Group had no material capital commitments (31 December 2017: Nil).

As at 30 June 2018, the Group had no material contingent liabilities (31 December 2017: 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 entering into a memorandum of understanding in relation to the possible acquisition of real estate development business in the PRC; and (b) the entering into a sale and purchase agreement in relation to the further acquisition of plantation business in Samoa.

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 2018, the capital structure of the Company was constituted of 8,110,381,596 ordinary shares of HK$0.10 each. Apart from the ordinary shares in issue, the capital instruments in issue of the Company include the share options to subscribe for the Company's shares.

At 30 June 2018, 237,800,000 share options remained outstanding (31 December 2017: 237,800,000). The share option scheme of the Company with a scheme life of ten years and approved by the shareholders of the Company on 31 May 2013, will expire on 30 May 2023.

## EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 30 June 2018, the Group had a total of 526 employees (31 December 2017: 443 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
# AND OTHER INFORMATION

## 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 and Mr. Wang Xiao Ning had other important engagements at the same time and did not attend the annual general meeting of the Company held on 30 June 2018.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

## AUDIT COMMITTEE

The audit committee assists the Board in meeting its responsibilities for ensuring effect systems of financial reporting process, risk management, internal control and compliance, and in meeting its external financial reporting objectives. The audit committee of the Company comprises Mr. So Chun Pong, Ricky, Mr. Wang Xiao Ning and Mr. Cheung Man Loon, Michael, 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 2018.

## DIRECTORS' INTERESTS IN SHARES

As at 30 June 2018, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

### Long position in the shares of the Company

| Names of Directors | Number of shares or underlying shares held | Capacity | | | Approximate percentage of shareholding |
|---|---|---|---|---|---|
| | | Interest of controlled corporation | Interest of child under 18 or spouse | Beneficial owner | |
| Hui Kee Fung *(Note 1)* | 178,500,000 | 153,500,000 | – | 25,000,000 | 2.20% |
| Yu Won Kong, Dennis | 89,907,364 | – | 2,900,000 | 87,007,364 | 1.11% |
| Zhang Qijun | 670,000 | – | – | 670,000 | 0.01% |
| Yi Meixuan *(Note 2)* | 300,000 | – | – | 300,000 | 0.01% |

*Notes:*

1. The shares are held by Legend Win Profits Limited. Legend Win Profits Limited is a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung and Hui's K.K. Foundation Limited as to 38.95% and 5.26%, respectively. Hui's K. K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung is a registered member and director of Hui's K. K. Foundation Limited.

2. On 31 July 2018, Ms. Yi Meixuan was appointed as an executive director, with effect from 2 August 2018.

Save as disclosed above, as at 30 June 2018, none of the directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' Interests in Shares" above and "Share Option Scheme" below, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 30 June 2018, the persons or companies (other than a director or chief executive of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

### Long position in the shares of the Company

| Names of shareholders | Number of shares or underlying shares held | Capacity: Beneficial owner | Capacity: Interest of child under 18 or spouse | Capacity: Interest of controlled corporation | Approximate percentage of shareholding |
|---|---|---|---|---|---|
| Green Luxuriant Group Investment Limited | 427,665,620 | 427,665,620 | – | – | 5.27% |
| Chen Zongji | 760,000,000 | 760,000,000 | – | – | 9.37% |

*Note:* Green Luxuriant Group Investment Limited is a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is wholly-owned by Ms. Lin Meiling. The number of shares held by Green Luxuriant Group Investment Limited and Mr. Chen Zongji were agreed to that as shown in the list of shareholders of the Company as at 30 June 2018, respectively.

Save as disclosed above, no other person was recorded in the register kept pursuant to Section 336 of the SFO as having interests in 5% or more of the issued share capital of the Company as at 30 June 2018.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the "**Share Option Scheme**") which became effective on 31 May 2013.

Eligible participants, including executive directors, non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group are invited to take up options to subscribe for the shares. The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the shares on the date of the offer; (ii) the average closing price of the shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the share on the date of offer.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not, in aggregate, exceed 10% of the total number of shares in issue as at the date of approval of the Share Option Scheme. For the avoidance of doubt, options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed or exercised) would not be counted for the purpose of calculating such 10% limit. The Company may seek approval of the Company's shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme under the limit as refreshed shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Where any further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

The following table discloses movements in the outstanding share options granted under the Shares Option Schemes during the Period:

| | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|
| **Grantee** | **Date of grant** | **Outstanding at 1 January 2018** | **Cancelled during the Period** | **Lapsed during the Period** | **Outstanding at 30 June 2018** | **Exercise price HK$** | **Exercise period** |
| **Executive Directors** | | | | | | | |
| Yu Won Kong, Dennis | 1 September 2014 | 2,200,000 | – | – | 2,200,000 | 0.4000 | 1 September 2014 to 31 August 2019 |
| | 14 July 2015 | 20,000,000 | – | – | 20,000,000 | 0.2320 | 14 July 2015 to 13 July 2018 |
| Hui Kee Fung | 1 September 2014 | 5,000,000 | – | – | 5,000,000 | 0.4000 | 1 September 2014 to 31 August 2019 |
| | 14 July 2015 | 20,000,000 | – | – | 20,000,000 | 0.2320 | 14 July 2015 to 13 July 2018 |
| **Employees** | 1 September 2014 | 61,800,000 | – | – | 61,800,000 | 0.4000 | 1 September 2014 to 31 August 2019 |
| | 14 July 2015 | 120,000,000 | – | – | 120,000,000 | 0.2320 | 14 July 2015 to 13 July 2018 |
| | 20 July 2015 | 4,000,000 | – | – | 4,000,000 | 0.2250 | 20 July 2015 to 19 July 2018 |
| **Non-employees** | 1 September 2015 | 4,800,000 | – | – | 4,800,000 | 0.1308 | 1 September 2015 to 31 August 2018 |
| | | 237,800,000 | – | – | 237,800,000 | | |

## 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.

## APPRECIATION

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

By Order of the Board
**Kiu Hung International Holdings Limited**
**Hui Kee Fung**
*Chairman*
Hong Kong, 31 August 2018

# CONDENSED CONSOLIDATED STATEMENT OF **PROFIT OR LOSS**

For the six months ended 30 June 2018

| | Notes | Six months ended 30 June 2018 (Unaudited) HK$'000 | 2017 (Unaudited) HK$'000 |
|---|---|---|---|
| **Turnover** | 5 | **72,157** | 104,045 |
| Cost of sales | | **(49,210)** | (61,476) |
| **Gross profit** | | **22,947** | 42,569 |
| Other income | | **932** | 412 |
| Selling and distribution costs | | **(13,499)** | (18,897) |
| Administrative expenses | | **(44,454)** | (52,047) |
| **Operating loss** | | **(34,074)** | (27,963) |
| Finance costs | | **(6,700)** | (8,175) |
| | | **(40,774)** | (36,138) |
| Share of results of associates | | **2,767** | 4,919 |
| **Loss before income tax** | | **(38,007)** | (31,219) |
| Income tax expense | 6 | **(477)** | (416) |
| **Loss for the period** | 7 | **(38,484)** | (31,635) |
| **Loss attributable to:** | | | |
| — equity holders of the Company | | **(37,791)** | (29,861) |
| — non-controlling interests | | **(693)** | (1,774) |
| | | **(38,484)** | (31,635) |
| | | **HK cents** | HK cents |
| **Loss per share attributable to the equity holders of the Company** | | | |
| Basic and diluted loss per share | 9 | **(0.52)** | (0.49) |

# CONDENSED CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

For the six months ended 30 June 2018

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| **Loss for the period** | **(38,484)** | (31,635) |
| **Other comprehensive income/(loss):** | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | |
| Fair value changes on equity investment at fair value through other comprehensive income | **53,818** | – |
| *Items that may be reclassified to profit or loss:* | | |
| Exchange difference arising from translation of foreign operations | **(2,931)** | 7,843 |
| Share of exchange translation difference of associates | **(1,670)** | 6,939 |
| **Other comprehensive income for the period, net of tax** | **49,217** | 14,782 |
| **Total comprehensive income/(loss) for the period** | **10,733** | (16,853) |
| **Total comprehensive income/(loss) attributable to:** | | |
| — equity holders of the Company | **11,426** | (15,079) |
| — non-controlling interests | **(693)** | (1,774) |
| | **10,733** | (16,853) |

# CONDENSED CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

As at 30 June 2018

| | Notes | As at 30 June 2018 (Unaudited) HK$'000 | As at 31 December 2017 (Audited) HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **81,264** | 82,582 |
| Investment properties | | **15,394** | 15,500 |
| Exploration and evaluation assets | 11 | **113,692** | 114,671 |
| Other intangible asset | | **1,024** | 1,024 |
| Investment in associates | | **343,295** | 241,198 |
| Equity investment at fair value through other comprehensive income | 12 | **128,000** | – |
| Available-for-sale financial asset | | **–** | 74,182 |
| Deferred income tax assets | | **–** | 188 |
| Prepayments, deposits and other receivables | | **20,238** | 21,203 |
| | | **702,907** | 550,548 |
| **Current assets** | | | |
| Inventories | | **83,411** | 68,601 |
| Trade and bills receivables | 13 | **30,887** | 29,628 |
| Prepayments, deposits and other receivables | | **154,543** | 141,773 |
| Income tax recoverable | | **2,585** | 1,760 |
| Bank and cash balances | | **7,275** | 31,581 |
| | | **278,701** | 273,343 |
| **Total assets** | | **981,608** | 823,891 |
| **Current liabilities** | | | |
| Trade payables | 14 | **17,864** | 8,340 |
| Accruals and other payables | | **108,170** | 89,929 |
| Income tax payable | | **427** | 240 |
| Promissory notes | | **150,609** | 137,900 |
| Obligation under finance leases | | **157** | 311 |
| Borrowings | | **65,200** | 78,441 |
| | | **342,427** | 315,161 |
| **Net current liabilities** | | **(63,726)** | (41,818) |
| **Total assets less current liabilities** | | **639,181** | 508,730 |

# CONDENSED CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

As at 30 June 2018

| | Notes | As at 30 June 2018 (Unaudited) HK$'000 | As at 31 December 2017 (Audited) HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | | 28,238 | 28,502 |
| Obligation under finance leases | | 741 | 741 |
| | | 28,979 | 29,243 |
| **Net assets** | | 610,202 | 479,487 |
| **Equity** | | | |
| Share capital | 15 | 811,038 | 710,039 |
| Reserves | | (209,444) | (239,853) |
| **Equity attributable to owners of the Company** | | 601,594 | 470,186 |
| Non-controlling interests | | 8,608 | 9,301 |
| **Total equity** | | 610,202 | 479,487 |

# CONDENSED CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

For the six months ended 30 June 2018

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Statutory reserve HK$'000 | Contributed surplus HK$'000 | Foreign currency translation reserve HK$'000 | Share-based payment reserve HK$'000 | Property revaluation reserve HK$'000 | Investment revaluation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **At 1 January 2017 (Audited)** | 609,272 | 1,554,840 | 4,375 | 303 | 53,036 | 38,904 | 41,911 | – | (1,860,657) | 441,984 | 13,106 | 455,090 |
| Total comprehensive income/(loss) for the period | – | – | – | – | 14,782 | – | – | – | (29,861) | (15,079) | (1,774) | (16,853) |
| **At 30 June 2017 (Unaudited)** | 609,272 | 1,554,840 | 4,375 | 303 | 67,818 | 38,904 | 41,911 | – | (1,890,518) | 426,905 | 11,332 | 438,237 |
| **At 1 January 2018 (Audited)** | 710,039 | 1,523,602 | 4,375 | 303 | 85,726 | 28,364 | 59,183 | – | (1,941,406) | 470,186 | 9,301 | 479,487 |
| Total comprehensive income for the period | – | – | – | – | 14,381 | – | – | 53,818 | (37,791) | 30,408 | (693) | 29,715 |
| Issue of consideration shares | 101,000 | – | – | – | – | – | – | – | – | 101,000 | – | 101,000 |
| **At 30 June 2018 (Unaudited)** | 811,039 | 1,523,602 | 4,375 | 303 | 100,107 | 28,364 | 59,183 | 53,818 | (1,979,197) | 601,594 | 8,608 | 610,202 |

# CONDENSED CONSOLIDATED STATEMENT OF **CASH FLOWS**

For the six months ended 30 June 2018

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Net cash outflow from operating activities | **(49,479)** | (43,209) |
| Net cash inflow from investing activities | **10,373** | 1,983 |
| Net cash inflow from financing activities | **15,887** | 33,961 |
| Net decrease in cash and cash equivalents | **(23,219)** | (7,265) |
| Cash and cash equivalents at 1 January | **31,581** | 36,920 |
| Effect of foreign exchange rate changes | **(1,087)** | 145 |
| Cash and cash equivalents at 30 June | **7,275** | 29,800 |

## 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 25/F., Fortis Tower, 77–79 Gloucester Road, Wan Chai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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

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 2018.

## 2 BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018 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 2017 ("**2017 Annual Report**"), which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA.

### Going Concern

At 30 June 2018, the Group's current liabilities exceeded its current assets by approximately HK$63,726,000 and the Group recorded a loss of approximately HK$38,484,000 for the six months ended 30 June 2018. 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 Group is actively considering to raise new capital by carrying out fund raising activities including but not limited to rights issue, open offer, placing of new shares and issuance of convertible bonds.

Taking into account of 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 2017 Annual Report dated 29 March 2018. Accordingly, the unaudited condensed consolidated interim financial statements have been prepared on a going concern basis.

## 2 BASIS OF PREPARATION *(continued)*

### Going Concern *(continued)*

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 2017 Annual Report, except for the adoption of new or revised standards, amendments and interpretations issued by the HKICPA mandatory for annual periods beginning from 1 January 2018 as follows:

### (a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| HKFRS 1 (Amendment) | First Time Adoption of HKFRS 1 |
| HKFRS 2 (Amendment) | Classification and Measurement of Share-based Payment Transactions |
| HKFRS 4 (Amendment) | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| HKAS 28 (Amendment) | Investments in Associates and Joint Ventures |
| HKFRS 40 (Amendment) | Investments in Investment property |
| HK (IFRIC) 22 | Foreign Currency Transactions and Advance Consideration |

The adoption of the new and amended standards did not have significant impact on the condensed consolidated interim financial statements except for HKFRS 9 and HKFRS 15. Please refer to note 3(b) and 3(c) below:

### (b) HKFRS 9

The Group has adopted HKFRS 9 since 1 January 2018, which resulted in a change in accounting policies and adjustments to the amounts recognised in the consolidated financial information. In accordance with the transitional provision under HKFRS 9, comparative figures are not required to be restated.

## 3 ACCOUNTING POLICIES *(continued)*

### (b) HKFRS 9 *(continued)*

Financial assets of the Group are classified under the following categories:

- Financial assets at amortised cost;
- Debt investments at fair value through other comprehensive income;
- Equity investments at fair value through other comprehensive income; and
- Investments at fair value through profit or loss.

Management has assessed the classification and measurement of the financial assets held by the Group at the date of initial application of HKFRS 9 and has classified its financial instruments into the appropriate HKFRS 9 categories, which are those to be measured subsequently at fair value through other comprehensive income. The main effects resulting from this reclassification are as follows:

| | **Before the adoption of HKFRS 9** | **Effect of the adoption of HKFRS 9** | **After the adoption of HKFRS 9** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| **As at 1 January 2018** | | | |
| Available-for-sale financial asset | 74,182 | (74,182) | – |
| **As at 30 June 2018** | | | |
| Equity investment at fair value through other comprehensive income | – | 128,000 | 128,000 |
| Investment revaluation reserve | – | 53,818 | 53,818 |

Note:

Equity investments at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Equity investments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the equity investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the equity investment revaluation reserve are not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

## 3 ACCOUNTING POLICIES *(continued)*

### (c) HKFRS 15

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

— the customer simultaneously receives and consumes the benefits provided by the Group's performance;

— the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

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 2017.

## 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 |
| 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, results, assets and liabilities:

| | Exploration HK$'000 | Toys and gifts items HK$'000 | Fruit plantation HK$'000 | Leisure HK$'000 | Culture HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Six months ended 30 June 2018 (unaudited): | | | | | | |
| Revenue from external customers | – | 72,157 | – | – | – | 72,157 |
| Segment (loss)/profit | (187) | (11,552) | 2,470 | (3,308) | (3) | (12,580) |
| Six months ended 30 June 2017 (unaudited): | | | | | | |
| Revenue from external customers | – | 104,045 | – | – | – | 104,045 |
| Segment(loss)/profit | (688) | 5,935 | 2,017 | (8,867) | (355) | (1,958) |
| Total assets: | | | | | | |
| 30 June 2018 (unaudited) | 114,419 | 179,570 | 324,166 | 110,887 | 35,303 | 764,345 |
| 31 December 2017 (audited) | 115,101 | 171,309 | 269,270 | 115,413 | 35,303 | 706,396 |
| Total liabilities: | | | | | | |
| 30 June 2018 (unaudited) | (15,699) | (68,788) | (1,005) | (49,084) | (3) | (134,579) |
| 31 December 2017 (audited) | (15,225) | (69,240) | (1,005) | (46,534) | – | (132,004) |

## 5 SEGMENT INFORMATION *(continued)*

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018 (Unaudited) HK$'000** | 2017 (Unaudited) HK$'000 |
| **Reconciliation of segment results:** | | |
| Total loss of reportable segments | **(12,580)** | (1,958) |
| Unallocated amounts: | | |
| Corporate finance costs | **(6,073)** | (6,553) |
| Other corporate income and expenses | **(19,831)** | (23,124) |
| Loss for the period | **(38,484)** | (31,635) |

| | **As at 30 June 2018 (Unaudited) HK$'000** | As at 31 December 2017 (Audited) HK$'000 |
|---|---|---|
| **Reconciliation of segment assets:** | | |
| Total assets of reportable segments | **764,345** | 706,396 |
| Unallocated corporate assets | **217,263** | 117,495 |
| Total assets | **981,608** | 823,891 |

## 6 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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 | |
|---|---|---|
| | **2018 (Unaudited) HK$'000** | 2017 (Unaudited) HK$'000 |
| Current tax: | | |
| Overseas | **477** | 416 |
| Deferred income tax | **–** | – |
| Income tax expense | **477** | 416 |

## 7 LOSS FOR THE PERIOD

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Depreciation of property, plant and equipment | **3,769** | 2,836 |
| Staff costs (including directors' remuneration): | | |
| Salaries, bonus and allowance | **23,338** | 30,808 |
| Retirement benefits scheme contributions | **1,170** | 621 |
| Legal and professional fees | **4,299** | 4,237 |
| Interest expenses on borrowings wholly repayable within 5 years | **6,700** | 8,175 |

## 8 DIVIDEND

The Board has revolved not to pay any interim dividend for the period (2017: 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$37,791,000 (2017: HK$29,861,000) and the weighted average of 7,273,365,021 (2017: 6,092,715,976) ordinary shares in issue during the period.

For the six months ended 30 June 2018 and 30 June 2017, 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$800,000 (2017: HK$10,462,000).

## 11 EXPLORATION AND EVALUATION ASSETS

During the reporting period, exchange loss of approximately HK$979,000 has been recognised as a result of the translation of foreign operations in the PRC (2017: exchange gain of HK$4,318,000).

## 12 EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group has adopted HKFRS 9 since 1 January 2018, which resulted in a fair value gain of approximately HK$53,818,000 recognized in the other comprehensive income and available-for-sale financial asset is classified as equity investment at fair value through other comprehensive income of approximately HK$128,000,000 during the Period ended 30 June 2018 (2017: available-for-sale financial asset of HK$74,182,000).

## 13 TRADE AND BILLS RECEIVABLES

| | **As at 30 June 2018 (Unaudited) HK$'000** | As at 31 December 2017 (Audited) HK$'000 |
|---|---|---|
| Trade receivables | **30,887** | 29,472 |
| Bills receivables | **–** | 156 |
| | **30,887** | 29,628 |

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 2018 and 31 December 2017, the aging analysis of trade receivables, based on invoice date, net of allowance, are as follows:

| | **As at 30 June 2018 (Unaudited) HK$'000** | As at 31 December 2017 (Audited) HK$'000 |
|---|---|---|
| Within 30 days | **17,181** | 18,245 |
| 31 days to 90 days | **6,012** | 6,296 |
| 91 days to 180 days | **7,657** | 4,890 |
| 181 days to 360 days | **–** | 24 |
| Over 360 days | **37** | 17 |
| | **30,887** | 29,472 |

## 14 TRADE PAYABLES

At 30 June 2018 and 31 December 2017, the aging analysis of trade payables, based on invoice date, are as follows:

| | **As at 30 June 2018 (Unaudited) HK$'000** | As at 31 December 2017 (Audited) HK$'000 |
|---|---|---|
| Within 30 days | **16,737** | 7,376 |
| 31 days to 90 days | **851** | 444 |
| 91 days to 180 days | **58** | 302 |
| 181 days to 360 days | **3** | 115 |
| Over 360 days | **215** | 103 |
| | **17,864** | 8,340 |

## 15 SHARE CAPITAL

| | Number of shares | | Ordinary share capital | |
|---|---|---|---|---|
| | **As at 30 June 2018 (Unaudited)** | As at 31 December 2017 (Audited) | **As at 30 June 2018 (Unaudited) HK$'000** | As at 31 December 2017 (Audited) HK$'000 |
| **Authorised:** | | | | |
| Ordinary shares of HK$0.10 each | **30,000,000,000** | 30,000,000,000 | **3,000,000** | 3,000,000 |
| **Issued and fully paid:** | | | | |
| At beginning of period/year | **7,100,381,596** | 6,092,715,976 | **710,039** | 609,272 |
| Issue of shares | | | | |
| — upon conversion of convertible bonds | **–** | 1,007,665,620 | **–** | 100,767 |
| — upon acquisition | **1,010,000,000** | – | **101,000** | – |
| At end of period/year | **8,110,381,596** | 7,100,381,596 | **811,039** | 710,039 |

## 16 RELATED PARTY TRANSACTIONS

| | | Six months ended 30 June | |
|---|---|---|---|
| | Note | **2018 (Unaudited) HK$'000** | 2017 (Unaudited) HK$'000 |
| Product development, sales & marketing, and other services fee paid to a related company | (a) | **1,780** | 1,853 |

Note:

(a) The sole owner of the related company is also the director and beneficial owner of 49% (2017: 49%) equity interest in the Company's subsidiary paying for the services.

## 17 CAPITAL COMMITMENTS

The Group had no material capital commitments at the end of the reporting period (2017: HK$Nil).

## 18 CONTINGENT LIABILITIES

The Group had no material contingent liability at the end of the reporting period (2017: HK$Nil).

## 19 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) Everbright Centre

Pursuant to a tenancy agreement dated 23 September 2014 entered into between Everbright Centre Company Limited ("**Everbright Centre**") (changed its name from Wing Siu Company Limited to Everbright Centre Company Limited effective from 8 March 2018) 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, Everbright Centre agreed to let Super Dragon the premises located at 19th Floor, Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong (the "**Wanchai Property**") for a term of three years from 15 December 2014 to 14 December 2017.

On 8 August 2016, Super Dragon and the Company received from 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 Wanchai Property; (ii) the outstanding total amount of rent, management fees, interests and other charges of approximately HK$3,886,000 as at 1 August 2016; (iii) rent, management fees and rates to the date of delivery of vacant possession of the Wanchai Property;(iv) damage for breach of the tenancy agreement to be assessed; (v) interest; (vi) costs; and (vii) further or other relief.

The Company vacated from the Wanchai Property in the third quarter of 2017 and has settled part of the amount claimed above. As at 30 June 2018, the accumulated interest, rent and administrative fees accrued for the postponement of payment is approximately HK$4,743,000. The Company is liasing with Everbright Centre and expects to settle the outstanding amount during the third quarter of 2018.

As at the date of this report, the Company is liaising with Everbright Centre to settle the above claim.

### (b) Cheng & Cheng

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

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

As at the date of this report, the Company has settled most of the outstanding amount and expects to settle the remaining amount of HK$100,000 during the third quarter of 2018.

## 19 LITIGATIONS *(continued)*

### (c) Gain Harvest

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

On 30 August 2018, Kiu Hung Leasing and the Company received from Gain Harvest a writ of possession and fieri facias combined issued by the High Court for (i) vacant possession of the Fortis Property; and (ii) the outstanding amount of rent, management fee, rates and other charges of approximately HK$250,000 calculated up to 31 August 2018.

As at the date of this report, the Company has liaised with Gain Harvest and expects to settle the outstanding amount in the early of September 2018. In addition, the Company sought legal advices and has applied to the High Court for relief from forfeiture against Gain Harvest to take possession of the Fortis Property.

### (d) 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 is made between the Company, the director of the Company and Mr. Guo on 19 April 2018. As at the date of this report, the Company is liasing with Mr. Guo and expects to settle the outstanding amount of such borrowing including interests ended 30 June 2018 of approximately HK$14,612,000 by installments within one year.

### (e) Mr. Ma

On 21 June 2018, the Company received a winding-up petition (the "**Petition**") issued by the High Court and filed by Mr. Ma. The hearing of the Petition was scheduled on 29 August 2018 and then adjourned to 12 September 2018.

The Company and Mr. Ma had agreed upon a consent summons on 15 August 2018. The Petition filed to the High Court against the Company would be withdrawn upon the approval of the High Court after the hearing on 12 September 2018.

For details, please refer to the Company's announcements dated 25 June 2018, 27 June 2018, 16 August 2018 and 29 August 2018, respectively.

## 20 EVENTS AFTER THE REPORTING PERIOD

### (a) Memorandum of Understanding with Ms. Zhang Qian

On 23 May 2018, the Company entered into a non-legally binding memorandum of understanding (the "**MOU**") with 張倩 (transliterated as Ms. Zhang Qian) (the "**Vendor**") in the relation to the possible acquisition (the "**Possible Acquisition**") of certain equity interests of 綿陽合力實業有限公司 (transliterated as Mianyang Heli Industrial Co., Ltd.) (the "**Target Company**") by the Company (or its designated affiliate).

The Target Company is beneficially owned as to 83.3% by the Vendor. The Target Company is a company incorporated in the People's Republic of China and is principally engaged in, among others, real estate development, elevator installation projects, building waterproofing projects and municipal engineering works.

The Vendor and the Company (the "**Parties**") entered into a supplemental memorandum of understanding (the "**Supplementary MOU**") on 30 August 2018. As the Parties require more time to discuss the terms and conditions of the formal agreement (the "**Formal Agreement**"), as at the date of this report, the Formal Agreement is still under negotiation.

For details, please refer to the Company's announcements dated 23 May 2018 and 30 August 2018, respectively.

### (b) Acquisition of further 28% equity interest in the Target Company

On 19 June 2018, an indirect wholly-owned subsidiary of the Company, Trinity Force Investments Limited (the "**Purchaser**"), entered into a sale and purchase agreement with Green Luxuriant Group Investment Limited (the "**Vendor**") and Ms. Lin Meiling (the "**Guarantor**"), pursuant to which, among other things, the Company conditionally agreed to acquire from the Vendor, and the Vendor has conditionally agreed to sell the sale shares (the "**Sale Shares**"), which shall represent 28% of the entire issued capital of the target company (the "**Acquisition**").

The consideration of the Sale Shares is HK$200,000,000, which shall be satisfied by allotment and issue of (i) the second promissory note; and (ii) 1,700,000,000 consideration shares by the Company to the Vendor (or its nominee) credited as fully paid, at the issue price on completion.

As at the date of this report, the Group holds 19% of shareholding interests in the target company. Upon completion of the Acquisition, the Company will hold a total of 47% of shareholding interests in the target company.

For details, please refer to the Company's announcements dated 19 June 2018, 10 July 2018 and 15 August 2018, respectively.