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)

SUPPLEMENTAL ANNOUNCEMENT TO 2021 ANNUAL REPORT

References are made to the annual report of Kiu Hung International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") the Company for the year ended 31 December 2021 (the "**2021 Annual Report**"). Unless otherwise stated, terms used in this announcement shall have the same meanings as those defined in the 2021 Annual Report. This announcement is made to provide supplementary information to the 2021 Annual Report.

RECONCILIATION OF CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME BY LINE ITEMS AND EXPLANATIONS FOR EACH OF THE ADJUSTMENTS SHOWN IN THE RECONCILIATION:

	2021 audited *HK$'000*	**2021 unaudited** *HK$'000*	**Difference** *HK$'000*	*Notes*
Revenue	323,718	323,718	—	
Cost of sales	(231,796)	(213,041)	(18,755)	*1*
Gross Profit	91,922	110,677	(18,755)	*1*
Other income	6,304	6,119	185	
Other gains, net	2,061	2,143	(82)	
Selling and distribution costs	(34,365)	(34,365)	—	
Administrative expenses	(78,496)	(78,666)	170	
Finance costs	(44,146)	(41,204)	(2,942)	*2*
Impairment losses under expected credit loss model, net of reversal	1,104	66	1,038	
Impairment losses of investment in associates	(139,098)	—	(139,098)	*3*
Gain on extinguishment of financial liabilities by issue of ordinary shares	69,889	69,889	—	
Prepayments and other receivables written-off	(3,726)	—	(3,726)	*4*
Fair value change on contingent consideration payables	(2,354)	—	(2,354)	*5*
Share of result of associates	(88,558)	(65,854)	(22,704)	*6*
Loss before income tax	(219,463)	(31,195)		
Income tax expenses	(1,033)	(3,846)	2,813	*7*
Loss for the year	**(220,496)**	**(35,041)**	**(185,455)**	
Loss attributable to:				
— equity holders of the Company	(226,754)	(48,563)	(178,191)	
— non-controlling interests	6,258	13,522	(7,264)	
	(220,496)	(35,041)		
Loss per share attributable to the equity holders of the Company	*HK cents*	*HK cents*		
Basic and diluted loss per share	(22.76)	(4.87)	(18)	

	2021 audited HK$'000	2021 unaudited HK$'000	Difference HK$'000	*Notes*
Loss for the year	(220,496)	(35,041)	(185,455)	
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss:				
Surplus on revaluation of properties	6,001	5,151	850	
Deferred tax effect on revaluation of properties	(850)	—	(850)	
Fair value loss of financial assets at fair value through other comprehensive income ("**FVTOCI**")	—	—	—	
Items that may be reclassified to profit or loss:				
Exchange difference arising from translation of foreign operations	(2,909)	(4,394)	1,485	
Share of exchange translation difference of associates	8,324	1,710	6,614	
Other comprehensive income for the year, net of tax	10,566	2,467	8,099	
Total comprehensive loss for the year	(209,930)	(32,574)	(177,356)	
Total comprehensive (loss)/income attributable to:				
— equity holders of the Company	(216,139)	(46,096)	(170,043)	
— non-controlling interests	6,209	13,522	(7,313)	
	(209,930)	(32,574)	(177,356)	

Notes:

1 The difference is mainly due to the increase of amortisation on other intangible assets of approximately HK$19 million. Based on the updated valuation of purchase price allocation for the acquisition of a subsidiary as at 27 May 2021, the Group recognised intangible assets — customer contracts of approximately HK$48 million at the acquisition date in the Audited Results. The additional intangible assets lead to the increase in amortisation of the other intangible assets of approximately HK$19 million.

2 The difference is mainly due to increase in effective interest expense on convertible bonds. The additional effective interest expense on convertible bonds in the Audited Results is based on the updated valuation of convertible bonds issued by the Company during the year ended 31 December 2021.

3 The difference is due to impairment loss recognised on the investment in associate — USO in the Audited Results, which is based on the updated value-in-use valuation of USO as at 31 December 2021.

4 The difference is due to the updated information that some of the prepayments and other receivables which found to be default after the issuance of Unaudited Results.

5 The difference is due to the updated valuation of the contingent consideration payables at 27 May 2021 (i.e. the acquisition date of the subsidiary) and as at 31 December 2021.

6 The difference is mainly due to recognition of impairment losses on trade and other receivables of the associates — USO and Multijoy Group in the Audited Results. The impairment losses recognised is based on the updated past due status of the trade and other receivables of the associates.

7 The difference is mainly due to deferred income tax credit recognised in the Audited Results. The deferred income tax credit recognised is arose from the additional intangible assets as mentioned in note 1 above, which is based on the updated valuation of purchase price allocation for the acquisition of a subsidiary as at 27 May 2021.

The aggregate fair value of contingent consideration payables arising from each tranche of convertible bonds was estimated by an independent valuer LCH (Asia-Pacific) Surveyors Limited. The fair value was estimated by using Monte Carlo simulation analysis, which is based on discounted probability-adjusted profit or loss projection. The key input and assumptions used by LCH included simulated revenue of Hubei Jincaotang throughout the Relevant Period and the fair value of the 1st to 4th Tranche Convertible Bonds.

The increase in contingent consideration payables by HK$85 million (2021: HK$0) was due to the acquisition of Hubei Jincaotang being completed during the year 2021. Since the fair value of the identifiable assets acquired and liabilities assumed of the acquiree as at the date of acquisition were separately disclosed in the Company's 2021 annual report note 36, the fair value change in contingent consideration payables amounting to approximately HK$2 million disclosed in the Company's 2021 annual report note 33 representing the difference of the fair value of contingent consideration payables between the acquisition completion date (27 May 2021) and year ended date 31 December 2021.

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	2021 audited *HK$'000*	**2021 unaudited** *HK$'000*	**Difference** *HK$'000*	*Notes*
Revenue	323,718	323,718	—	
Cost of sales	(231,796)	(213,041)	(18,755)	*1*
Gross Profit	91,922	110,677	(18,755)	*1*
Other income	6,304	6,119	185	
Other gains, net	2,061	2,143	(82)	
Selling and distribution costs	(34,365)	(34,365)	—	
Administrative expenses	(78,496)	(78,666)	170	
Finance costs	(44,146)	(41,204)	(2,942)	*2*
Impairment losses under expected credit loss model, net of reversal	1,104	66	1,038	
Impairment losses of investment in associates	(139,098)	—	(139,098)	*3*
Gain on extinguishment of financial liabilities by issue of ordinary shares	69,889	69,889	—	
Prepayments and other receivables written-off	(3,726)	—	(3,726)	*4*
Fair value change on contingent consideration payables	(2,354)	—	(2,354)	*5*
Share of result of associates	(88,558)	(65,854)	(22,704)	*6*
Loss before income tax	(219,463)	(31,195)		
Income tax expenses	(1,033)	(3,846)	2,813	*7*
Loss for the year	**(220,496)**	**(35,041)**	**(185,455)**	
Loss attributable to:				
— equity holders of the Company	(226,754)	(48,563)	(178,191)	
— non-controlling interests	6,258	13,522	(7,264)	
	(220,496)	(35,041)		
Loss per share attributable to the equity holders of the Company	*HK cents*	*HK cents*		
Basic and diluted loss per share	(22.76)	(4.87)	(18)	

	2021 audited HK$'000	2021 unaudited HK$'000	Difference HK$'000	Notes
Loss for the year	(220,496)	(35,041)	(185,455)	
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss:				
Surplus on revaluation of properties	6,001	5,151	850	
Deferred tax effect on revaluation of properties	(850)	—	(850)	
Fair value loss of financial assets at fair value through other comprehensive income ("**FVTOCI**")	—	—	—	
Items that may be reclassified to profit or loss:				
Exchange difference arising from translation of foreign operations	(2,909)	(4,394)	1,485	
Share of exchange translation difference of associates	8,324	1,710	6,614	
Other comprehensive income for the year, net of tax	10,566	2,467	8,099	
Total comprehensive loss for the year	(209,930)	(32,574)	(177,356)	
Total comprehensive (loss)/income attributable to:				
— equity holders of the Company	(216,139)	(46,096)	(170,043)	
— non-controlling interests	6,209	13,522	(7,313)	
	(209,930)	(32,574)	(177,356)	

Notes:

1 The difference is mainly due to the increase of amortisation on other intangible assets of approximately HK$19 million. Based on the updated valuation of purchase price allocation for the acquisition of a subsidiary as at 27 May 2021, the Group recognised intangible assets — customer contracts of approximately HK$48 million at the acquisition date in the Audited Results. The additional intangible assets lead to the increase in amortisation of the other intangible assets of approximately HK$19 million.

2 The difference is mainly due to increase in effective interest expense on convertible bonds. The additional effective interest expense on convertible bonds in the Audited Results is based on the updated valuation of convertible bonds issued by the Company during the year ended 31 December 2021.

3 The difference is due to impairment loss recognised on the investment in associate — USO in the Audited Results, which is based on the updated value-in-use valuation of USO as at 31 December 2021.

4 The difference is due to the updated information that some of the prepayments and other receivables which found to be default after the issuance of Unaudited Results.

5 The difference is due to the updated valuation of the contingent consideration payables at 27 May 2021 (i.e. the acquisition date of the subsidiary) and as at 31 December 2021.

6 The difference is mainly due to recognition of impairment losses on trade and other receivables of the associates — USO and Multijoy Group in the Audited Results. The impairment losses recognised is based on the updated past due status of the trade and other receivables of the associates.

7 difference is mainly due to deferred income tax credit recognised in the Audited Results. The deferred income tax credit recognised is arose from the additional intangible assets as mentioned in note 1 above, which is based on the updated valuation of purchase price allocation for the acquisition of a subsidiary as at 27 May 2021.

The reason leading to the impairment of HK$139 million during the year was due to significant decrease in value-in-use of USO at 31 December 2021 compare with that of 31 December 2020. The reasons for the significant decrease in the value-in-use of USO at 31 December 2021 are as follows:

Decrease in projected revenue of USO

The initial projected revenue of USO were based on the sales contracts which indicated the quantities purchased and the unit selling prices. For the valuation as at 31 December 2020, due to COVID-19, sales volume was declined in 2020, the management considered it was an exceptional circumstance and assumed that it would only last one more year, given that the existing sales contracts were still valid, the management estimated the sales volume would return to contracted volume in 2022.

For the valuation as at 31 December 2021, due to more severe and prolonged impact of COVID-19 than expected, sales revenue was further declined in 2021. Thus, the management has lowered the estimate by assuming that it would recover gradually and take 4–5 years for full recovery. Given that the existing sales contracts were still valid throughout the whole forecasted period, the estimation for sales volume for the 1st year of the forecasted period, i.e. year 2022, was projected by the latest monthly sales volume, i.e. December 2021, and the sales volume for the remaining years, i.e. year 2023–2026, were estimated as 30%, 50%, 70% and 90% of the contracted sales volume respectively.

The table below sets out the date of the source of each of the parameters:

Parameter	Input	Source	Date of the Source
Beta	0.76	Bloomberg	From 31/12/2011 to 31/12/2021
Risk free rate	1.51%	Bloomberg	31/12/2021
Market premium	13.15%	Bloomberg, damodaran.com	31/12/2021, 1/1/2022
Size premium	4.80%	Kroll Cost of Capital Navigator	31/12/2021

According to the representations made by Kroll, the CRSP Deciles Size Premia include 10 portfolios (i.e., deciles) sorted from largest to smallest by market capitalization for which size premia are calculated. Decile 1 is comprised of the largest companies, and decile 10 is comprised of the smallest companies. The CRSP Deciles Size Study provides a single way to match the subject company's market capitalization with the appropriate size premium. The CRSP Deciles Size Study provides the traditional "risk premia over CAPM", commonly referred to as "size premia". Size premia represent the difference between historical (observed) excess return and the excess return predicted by the Capital Asset Pricing Model (CAPM). Size premia can be added to cost of capital estimation models as an adjustment for the additional risk of smaller companies relative to large companies.

The projected cash flow for the forecasted period of USO is listed as follows:

US$'000	2022	2023	2024	2025	2026
Total Revenue	4,334	5,558	9,449	13,493	17,695
Net Profit	3,909	5,064	8,719	10,714	11,134
Projected cash flow	(1,457)	1,894	(1,435)	158	164

Giving that the valuation of USO is in value-in-use basis and only the Income Approach, discounted cash flow method can be used for such particular purpose, the other approaches to value were ignored.

Impairment losses on trade and other receivables of USO

For the valuation as at 31 December 2021, a significant amount of impairment losses on trade and other receivables have been booked for the year ended 31 December 2021, leading to a significant decrease in the initial amount of working capital and a significantly lower working capital turnover. Although the management did not expect any going concern impact for USO, the lower recoverability of historical receivables for the year ended 31 December 2021 has resulted in deterioration in projected net cash flows compared to the valuation as at 31 December 2020.

In view of the prolonged impact of COVID-19 pandemic and USO incurred significant loss during the year, the directors of the Company considered that the impairment on investment in USO has been properly made and supported by the valuation report prepared by LCH.

Business industry of USO

As relied on "中國果汁行業現狀研究分析及市場前景預測報告(2022年) (Research, Analysis and Market Prospect Report of China's Juice Industry (2022))" issued by 產業調研網 (China Industry Research, CIR; www.cir.cn), the directors of the Company considered that such assessment shows the fragile position of Samoa's noni industry.

The Board also believed that a recession of global economic activity caused by COVID-19 is likely to impact every industry, but particularly those viewed as a luxury. Although noni is a valuable component of Samoa's economy today supporting thousands of households, future growth is threatened by increased competition by other noni producers and other substitute products.

In a position as a wholesale supplier, USO's noni business has limited market power and will be subservient to buyers with unequal market power. In order to secure a future position in noni production, USO must change its business model from supplier of bulk commodities to brand name of niche specialty.

In addition to the information disclosed in page 9 in the 2021 Annual Report, the Board of Directors (the "Board") of the Company would like to provide additional information pursuant to paragraph 11(8) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to the use of proceeds follows:

Intended use of net proceeds	Planned use	Utilised up to 31 December 2021	Unutilised up to 31 December 2021
	HK$'000	*HK$'000*	*HK$'000*
Repayment of the outstanding promissory notes and other payables	29,570	29,570	—
Total	29,570	29,570	—

Details of performance guarantee under Rule 14.36B

Reference is made to the announcement and the circular of the Company dated 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 in relation to the acquisition of shares in Hubei Jincaotang Pharmaceutical Co., Ltd. (湖北金草堂藥業有限公司) (the "**Target Company**"). According to the terms of the Sale and Purchase Agreement of the Target Company. The Vendor and the Guarantor unconditionally and irrevocably guaranteed the Purchaser that the aggregate Actual Profits (the "**Aggregate Guaranteed Profits**") throughout the Relevant Periods shall be no less than RMB82,000,000 (equivalent to approximately HK$90,200,000). The Aggregate Guaranteed Profits shall be split into four tranches for settlement throughout the Relevant Periods. In the event the Actual Profits for the First Relevant Period is less than

RMB20,000,000 (equivalent to approximately HK$22,000,000) but more than HK$0, then the Company shall issue such portion of principal amount of the 1st Tranche Convertible Bonds to the Vendor (or its nominee) based on the follow formula:

$$\text{First Consideration Payable} \quad \text{x} \quad \frac{\text{Actual Profits for the First Relevant Period}}{\text{First Guaranteed Profits}}$$

Based on the Auditor's Certificate of Hubei Jincaotang for the First Relevant Period issued subsequently to the end of the reporting period, the Actual Profits of Hubei Jincaotang during the First Relevant Period is approximately RMB20,558,000. The Actual Profits of Hubei Jincaotang for the First Relevant Period is attained, therefore the Company has issued the 2nd Tranche Convertible Bonds in the principal amount of HK$34,000,000 to the Vendor.

Based on the Auditor's Certificate of Hubei Jincaotang for the Second Relevant Period issued subsequently to the end of the reporting period, the Actual Profits of Hubei Jincaotang during the Second Relevant Period is approximately RMB21,948,000. The Actual Profits of Hubei Jincaotang for the Second Relevant Period is attained, therefore the Company has issued the 3rd Tranche Convertible Bonds in the principal amount of HK$34,000,000 to the Vendor.

The Board confirmed that the supplemental information provided in this announcement does not affect any other information contained in the 2021 Annual Report and, save as disclosed above, the content of the 2021 Annual Report remains unchanged.

By order of the Board
Kiu Hung International Holdings Limited
Zhang Qijun
Chairman and Executive Director

Hong Kong, 24 February 2023

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 three independent non-executive Directors, Mr. Kong Chun Wing, Mr. Wang Xiao Ning and Ms. Chen Yuxin.