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Kiu Hung International Holdings Limited

僑雄國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00381)

SUPPLEMENTAL ANNOUNCEMENT SIGNING OF FORESTRY-PULP INTEGRATION PROJECT CONTRACT WITH POLARIS

Reference is made to the announcement of Kiu Hung International Holdings Limited (the “**Company**”) on 23 May 2019 in relation to the signing of forestry-pulp integration project contract with polaris (the “**Announcement**”). Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the Circular.

SUPPLEMENTAL INFORMATION

The Company would like to provide supplemental information in relation to the Announcement as follows:

INTRODUCTION

Based on the “Forestry-Pulp Integration” Project (the “**Project**”) in Amazar, Russia, Polaris Paper Pulp Industrial Consortium Limited* (北極星紙漿工業聯合體有限責任公司) (“**Polaris**”), as the subject entity to carry out the Project, aims to build a national-level overseas industrial park of China, and the products will be mainly sold back to China, international market and Russia. With the nature of scarcity, the Project possesses various advantages in terms of resources for locating in the forest hinterland, logistics cost for adjacent to port, comprehensive technologies in forestry-pulp integration project, and policies as a priority development project.

1. Resource advantage — the Project has nearly 3 million hectares (“**300 million acres**”) of forest land.
2. Logistics Advantage — the Project is adjacent to the port with exclusive logistics advantage, and is only 87 kilometers away from the Sino-Russian border, making it become the only pulp enterprise in China with the advantage of port logistics cost to implement “overseas production for domestic sales”.

3. Comprehensive cost advantage of “Forestry-Pulp Integration” — the Project integrates forestry harvesting, wood processing and paper pulp production. In addition, the Project will use advanced processes to minimize production costs such as raw material consumption, energy consumption and transportation, and to improve product quality, so as to ensure that its products have strong price competitiveness in the international market.
4. Policy advantage — the Project, being the fruit of the forestry cooperation between the Chinese and Russian governments according to Chinese “Belt & Road” policy, has been included in the “Priority Development Projects” of the Russian Federal Government and the Zabaikalsky Krai Government.

An industrial chain focusing on harvesting, wood processing and paper pulp production has been formed, and has developed its own market system.

BUSINESS MODEL

The Company has contracted for the entire forestry-pulp integration project from Polaris, including the three major aspects of forestry harvesting, wood pulping process and papermaking and printing. Polaris shall provide existing plants, machinery and forest resources, and the Company shall be responsible for coordinating and supervising the Project from forest planting to pulp sales (including but not limited to seedling, harvesting, transportation, cutting, bleaching, chemical processes). The Company will subcontract different portions or individual processes to other specialized companies or other agencies, and will employ experts to supervise the work progress, quality and results of subcontractors through establishing a branch in Russia. Furthermore, apart from subcontracting to other sales companies, the Company is also responsible for securing customers to buy wood, wood pulp and paper because the production of wood, wood pulp and paper will be greater than the overall internal supply demand of the Project.

EXPERTISE IN OPERATING AND MANAGING THE PROJECT

The Company will establish a wholly-owned subsidiary in Russia to re-employ the original relevant professionals of Polaris. Only a small number of original professionals will be needed to remain in office since the Company contemplates to operate in the way of project general contracting and subcontracting. The Russian subsidiary shall employ marketing and sales personnel for the operating model of subcontracting.

BACKGROUND AND PRINCIPAL BUSINESS ACTIVITIES

Principal activities of Polaris: by integrating the three separate sections of forest, pulp and paper, solve the problem of wood raw materials by itself and develop ecological papermaking, forming an industrial pattern of mutual promotion between papermaking and forest planting, so as to drive the perpetual operation of papermaking enterprises and the sustainable development of papermaking industry.

Shareholders of Polaris: Heilongjiang Xingbang International Resources Investment Co., Ltd.* (黑龍江興邦國際資源投資股份有限公司) (95%); Heilongjiang Provincial Investment Group* (黑龍江省投資集團公司) (5%).

Director of Investment (China) of the Company, became acquainted with the substantial shareholder of Polaris through a friend's referral.

DETAILS OF MATERIAL TERMS OF THE CONTRACT

(i) General

Polaris has reached an agreement with the Company and obtained approval at the shareholders' meeting of Polaris to enter into the Contract to grant the rights of Polaris to the Company to coordinate and supervise the Project during the term of the Contract. The Company will subcontract different portions to other specialized companies or agencies. Besides, the Company is responsible to source potential customers to secure the sales of wood, wood pulp and paper.

(ii) Rights and obligations of the Company and the Polaris

Rights of the Company

- During the period of contractual operation, the management assigned by the Company will act as the legal representative of the Company and exercise the functions and powers of the general manager of the Project.
- The right to coordinate and supervise the Project of Polaris during the contractual period.
- The right to source new equipment and assets on behalf of Polaris based on actual needs.
- The right to receive its legitimate income entitled in accordance with the provisions of the Contract.

Obligations of the Company

- All kinds of taxes and charges payable must be fully paid on time in accordance with relevant local regulations.
- During the contractual period, the assets of Polaris should be kept in good condition.
- Fully perform all the provisions of the Contract that should be performed by the Company.

Rights of Polaris

- The right to protect the interests of Polaris and to maintain the integrity of the assets of Polaris.
- The right to supervise the business scope of Polaris.
- The right to review the financial affairs of Polaris.

Obligations of Polaris

- The legal rights of the Company shall be guaranteed in accordance with the provisions of the Contract.
- Fully perform all the provisions of the Contract that should be performed by Polaris.

(iii) Main products: sawn timber, unbleached sulphate commercial wood pulp board

The stock volume of harvestable production wood with different diameters: the total stock volume of harvestable production wood on forest lands during the lease period is 143.985 million m³, of which the stock volume of large-diameter wood is 17.5721 million m³, accounting for 12.2% of the total stock volume of harvestable production wood; the stock volume of medium-diameter wood is 77.6667 million m³, accounting for 53.9%; the stock volume of small-diameter wood is 22.5878 million m³, accounting for 15.7%; the stock volume of raw materials for processing is 26.1584 million m³, accounting for 18.2%.

Sawn timber production lines: 600,000 m³ log sawing timber production line, log sawing timber production line with an annual processing capacity of 400,000 m³ and unbleached sulphate wood pulp board production line with an annual production capacity of 400,000 tonnes; ancillary facilities including finished product warehouse, boiler room, storage yard, hydropower infrastructure, office and living facilities to form a forestry-pulp integration project integrating forest harvesting, sawn timber processing and unbleached sulphate wood pulp board.

List of major equipment

Serial number	Name of equipment	Unit	Quantity	Remark
I	Process of wood conversion			
1	Cross conveyor	piece	5	
2	Longitudinal conveyor	piece	4	
3	Peeling machine	piece	2	
4	Feeder system	set	1	
5	Feeding and alignment system	set	1	
6	Chipping unit	set	1	
7	Sawing unit	set	1	
8	Discharging system	set	1	
9	Board separator and conveyor	piece	1	
10	Electric roller conveyor	piece	3	
11	Hydraulic alignment system	set	1	
12	Auxiliary equipment	set	2	
13	Automatic edge-trimming machine	piece	1	
14	Automatic board-stacking machine	piece	1	
15	QFMAN-operated cross conveyor	piece	1	
16	Remote-controlled 0-line sawing unit	set	1	
17	VOM2 automatic feed table	piece	1	

Serial number	Name of equipment	Unit	Quantity	Remark
18	VOMM linear sweep system	set	1	
19	VOMZ intermediate linker	piece	1	
20	Electric power control system	set	1	
21	Control system	set	1	
22	Computer system	set	1	
II	Process of board classification			
1	Chain conveyor		1	
2	Automatic board separator		1	
3	Trimmed roller table		1	
4	Automatic planker		1	
5	Laser scanner		1	
6	Trimmed roller		1	
7	Inclined hoisting chain for sorter		1	
8	Sorter		32	
9	Ground chain		3	
10	Inclined hoisting chain for stacker		1	
11	Automatic board separator for stacker		1	
12	Automatic stacker		1	
13	Automatic strip setting device		1	
14	Discharging conveyor		1	
15	Automatic computer sorting system		1 set	
16	Forklift	5t	1	
III	Waste disposal system			
1	Bark conveyor		2	
2	Wood chip conveyor		1	
3	Saw-dust conveyor		1	
4	plate edges conveyor		1	
5	Chip screen		1	
6	Shaker conveyer		1	
7	Chipping machine		1	

(iv) The revenue is reflected in the distribution of the Company's net profit from the Polaris's business activities. Excluding 5% of net profit distributed to Heilongjiang Provincial Investment Group as agreed and 20% of net profit of Heilongjiang Xingbang International Resources Investment Co., Ltd., 75% of net profit is completely at the disposal of the Company.

(v) Conditions precedent — (1) a written legal opinion on the ownership of Polaris's assets issued by a legal advisor in the form satisfactory to the Company.

(vi) There is no capital commitment/investment amount required in the contract.

- (vii) The commencement dates would be the date of fulfillment of conditions precedent (30 June 2019 or before), and the expiry date of the contracting period would be the date at the end of a period of 20 years since the commencement date.
- (viii) During the contractual period, the Company is obliged to ensure the integrity of the various assets of Polaris. In this regard, both parties have agreed that the Company shall pay a five-year promissory note of HK\$100 million as a refundable deposit on contract. The promissory notes will be entrusted to the law firm. Both parties agreed to review the assets of the Polaris every five years, that is, the maturity date of the promissory notes. If there is any damage or compensation, the equal compensation will be paid out of the promissory notes. If the balance of the promissory note after compensation is less than HK\$100 million, the promissory note will be cancelled. However, the new 5-year promissory note with a total amount of HK\$100 million issued by the Company will be entrusted to the law firm as a refundable deposit on contract.
- (ix) No other consideration is required to pay in addition to the refundable deposit.
- (x) The distribution of net profit to the original shareholder is considered as the contracting fee.
- (xi) The contents of the Contract do not involve the acquisition or sale of any assets of both parties.
- (xii) The Contract does not constitute acquisition of any businesses or asset.
- (xiii) The Company shall pay a 5-year promissory note as the refundable deposit on contract of HK\$100 million for the Contract.

REASONS FOR ENTERING INTO THE CONTRACT

The Group is principally engaged in the (i) manufacturing and trading of toys and gifts items; (ii) exploration of natural resources; and (iii) investment in various potential businesses including fruit plantation, yellow wine, leisure and culture.

The Board considers that the Project is in line with the Group's investment strategy for seeking business opportunities and has a good potential to expand the business of the Group. The Project will provide an opportunity for the Company to diversify the revenue sources of the Group and enhance shareholder value.

In view of the Project's advantages, the Directors believe that the entering into of the Contract will be a good opportunity for the Group to continue to grow the Company's revenue, thereby providing greater potential returns to shareholders.

The Directors further believe that the entering into of the Contract will not change the principal business nature of the Group and may increase the Group's business portfolio. In the light of this, the Board considers that the Project is in the usual course of business of the Group, and the terms of the Contract are fair and reasonable and are in the interests of the Company and shareholders as a whole.

ANALYSIS OF LISTING RULE IMPLICATIONS ON THE CONTRACT

According to Chapter 14 of the Listing Rules, as the highest applicable percentage ratio of the issue of the refundable promissory note is higher than 5% but lower than 25%, such issue of the refundable promissory note constitutes a discloseable transaction of the Company and is subject to the announcement requirement under Chapter 14 of the Listing Rules, but exempt from the shareholders' approval requirement.

To the best knowledge, information and belief of the Directors after making all reasonable enquiries, Polaris and its ultimate beneficial owner are independent third parties of and not connected with the Company and its connected persons (with the meanings ascribed in the Listing Rules).

The above information is supplemental to the information in the Announcement.

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

Hong Kong, 30 May 2019

As at the date of this announcement, the Board comprises seven executive Directors, Mr. Hui Kee Fung, Mr. Yu Won Kong, Dennis, Mr. Zhang Yun, Mr. Zhang Qijun, Mr. Shu Zhong Wen, Mr. Pun Yat Kan and Ms. Cui Yu (suspended) and four independent non-executive Directors, Mr. So Chun Pong, Ricky, Mr. Wang Xiao Ning, Mr. Cheung Man Loon, Michael and Mr. Cheng Ho On.