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## **HUAJUN INTERNATIONAL GROUP LIMITED**

**華君國際集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 377)**

### **SUPPLEMENTAL ANNOUNCEMENT REGARDING ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2018**

Reference is made to the announcement (the “**Annual Results**”) of Huajun International Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 28 June 2018 in relation to the annual results of the Group for the year ended 31 March 2018 and three announcements of the Company dated 27 June 2018, 28 June 2018 and 16 July 2018 in respect of the statutory demands served on the Company by a creditor (the “**SD Announcements**”). Terms used herein shall have the same meanings as defined in the Annual Results and the SD Announcements unless the context requires otherwise.

The Company would like to provide following updates and supplementary information in relation to the Annual Results:

#### **PROVISION FOR FINANCIAL GUARANTEE CONTRACTS**

As disclosed in the Annual Results, the Group recorded a provision (the “**Provision**”) for financial guarantee contracts of approximately RMB496.79 million in profit or loss for the year ended 31 March 2018. The Provision was made in respect of two financial guarantee contracts:

- (a) provision of approximately RMB447.81 million relating to the Guarantee for Hareon Solar and a subsidiary of Hareon Solar (“**Hareon Subsidiary A**”) as disclosed in the SD Announcements and the announcement of the Company dated 19 October 2016, which represents the total outstanding principals in the sum of approximately RMB383.36 million and the total outstanding interests and compensations of approximately RMB64.45 million; and

- (b) provision of RMB48.98 million relating to the corporate guarantee (“**May 2016 Guarantee**”) of approximately RMB22.99 million in May 2016 for securing a banking facility for another subsidiary of Hareon Solar, which its maximum guaranteed amount had been subsequently increased to RMB77 million, which represents the total overdue amount of the said banking facilities of approximately RMB48.98 million.

### **Due diligence work performed by the Company**

Before entering into the Guarantee, the Company had conducted the following due diligence work:

1. obtaining the financial information of the relevant subsidiary of Hareon Solar and Hareon Solar (together with referred to as the “Debtors”) to assess their capability to perform their obligations and liabilities under the Restructuring Documents, as defined in the Announcements;
2. verifying the listing status of Hareon Solar;
3. verifying the legal status of the Debtors; and
4. checking and verifying whether the Creditor and the Debtors are connected parties of the Company.

The Board, at that material time, is of the view that the due diligence work above were sufficient and reasonable to justify the provision of the Guarantee based on the followings:-

1. as the repayment obligations of the Company would only arise when the Debtors default on the repayment obligations and liabilities, the financial information of the Debtors was essential for the Board to assess the financial soundness of the Debtors, thus in turn the capability of the Debtors to repay the relevant debt;
2. The shares of Hareon Solar were listed on the Shanghai Stock Exchange (“**SSE**”) (Stock Code: 600401) in the People’s Republic of China (the “**PRC**”). It would have severely damage the reputation and the listing status of Hareon Solar if Hareon Solar and its subsidiaries had defaulted their repayment obligation. No announcement relating to adverse information of Hareon Solar has been located in the website of the SSE. Therefore, together with the financial information of the Debtors presented to the Company, the Board, at that material time, had believed that the Debtors, as a listed group on the SSE, would perform their obligations to repay the relevant debt under the Restructuring Documents and the possibility of their default would be minimal.

3. Mr. Meng Guang Bao (“**Mr. Meng**”), the chairman, an executive Director and a substantial shareholder of the Company had entered into the personal guarantee (the “**Personal Guarantee**”) in favour of the Creditor. Furthermore, in case the relevant Debtors default, Mr. Meng would bear the same liabilities as a personal guarantor.
4. Prior to the entering into of the Guarantee, Hareon Solar had provided a corporate guarantee (“**Baohua Guarantee**”) in favour of a third party relating to a trusted loan in the sum of RMB1,600 million obtained by Shanghai Baohua Wanlong Real Estates Co., Ltd.\* (上海保華萬隆置業有限公司) (“**Baohua Wanlong**”), a subsidiary of the Company, free of charge or consideration. Although the provision of Guarantee by the Company was independent from, and was not conditional on, the provision of Baohua Guarantee by Hareon Solar, it is noteworthy that the amount guaranteed by Hareon Solar under Baohua Guarantee, i.e. RMB1,600 million, was way exceed the amount guaranteed by the Company under the Guarantee, i.e. approximately RMB440 million. At that material time, the Board had considered that in case of any default by Baohua Wanlong, the relevant creditor(s) might seek remedy from Hareon Solar as well. No security has been given by, or interest payment has made by the Company in favour of Hareon Solar in exchange of its provision of Baohua Guarantee.
5. In order to further secure the interest of the Company, the Board has requested Hareon Solar to execute the counter indemnity (the “**Counter Indemnity**”) in favour of the Company, pursuant to which Hareon Solar agreed to, among other matters, indemnify the Company for its liabilities and loss which may arise from the Guarantee.

### **Events leading to the provision of the Guarantee**

In order to prepare for its annual report for the financial year ended 31 March 2018, the Company had tried to obtain further financial information in respect of the relevant outstanding debts of Hareon Solar and its relevant subsidiaries but was unsuccessful. Therefore, the Company searched for the annual report for 31 December 2017 (“**Hareon Annual Report 2017**”) issued by Hareon Solar as published on the website of the Shanghai Stock Exchange in late April 2018. After review of the Hareon Annual Report 2017, the Company believed that the financial position of Hareon Solar and its subsidiaries (“**Hareon Group**”) had been significantly deteriorated and the repayments by the respective debtors to the respective creditors, which were guaranteed by the Group, might be defaulted. Furthermore, subsequently on 26 June 2018, the Statutory Demands were served on the Company by a creditor in respect of the outstanding debts incurred by Hareon Solar and Hareon Subsidiary A in the aggregate sum of approximately RMB278 million.

After discussing with the Company's auditor at that material time, the Directors were of the opinion that since (i) the financial condition of the Hareon Group had significantly deteriorated with certain parts of their debts having been default in payment; and (ii) it is probable the relevant creditors would demand the Group to settle the outstanding principal and interest of the subject debts under the said two financial guarantee contracts, it is proper to make the Provision against the potential uncovered exposures that might be borne by the Group under the said two financial guarantee contracts to the full extent, even though at the material time the Company had engaged legal advisors to review the Statutory Demands and would vigorously defend its position. As at the date of this announcement, the relevant creditor has already withdrawn all the Statutory Demands.

Such events or circumstances leading to the provision of Guarantee were not anticipated by the Company at the time of entering into the Guarantee.

### **IMPAIRMENT LOSS OF AVAILABLE-FOR-SALE (“AFS”) INVESTMENTS**

As disclosed in the Annual Results, the Group recorded an impairment loss of AFS investment of approximately RMB133.9 million for the year ended 31 March 2018 in respect of its subscribed shares of China Huacai, which is managed by Sheng Yuen Asset Management Limited (the “**Investment Manager**”), a subsidiary of Sheng Yuen Holdings Limited (stock code HK.851) (“**Sheng Yuan**”) and is licensed to conduct Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities under the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong) which was introduced to the Company by a former executive Director of the Company.

China Huacai was set up by Global High Growth Industries Fund Series SPC (“**GHGI**”) as its sub-fund in January 2016. The Company is purely an investor of China Huacai. Simply as one of the investors of China Huacai holding non-voting shares of China Huacai, the Company has not involved in any daily operations or investment decisions of China Huacai. In accordance with the relevant subscription agreement in respect of China Huacai executed by the Company, the Investment Manager can implement the investment strategies of GHGI on its discretion without the consent of the investors, including the Company. Furthermore, the Company only intended to hold the shares of China Huacai as a passive investor to enjoy the distribution of dividends or net proceeds derived from disposal of the said shares. As advised by the Investment Manager, the underlying assets of the Fund, which was mainly involving the prepayment for the potential acquisition of the power stations from Hareon Solar.

To the best knowledge of the Company, Sheng Yuen, the Investment Manager and its ultimate beneficial owner(s) are an Independent Third Party of the Company.

To the best knowledge of the Company, GHGI was a segregated portfolio company incorporated in the Cayman Islands with limited liability on 13 February 2014, which all of its management shares were held by Wisebrian Holdings Limited, a company incorporated in the British Virgin Islands with limited liabilities. As advised by the Investment Manager, Wisebrian Holdings Limited is ultimately owned by an individual, to the best knowledge of the Company, who is the Independent Third Party of the Company.

Although as an investor with non-voting shares and without any management power, the status and identity of underlying assets of the Fund was not very relevant to the Company at that material time, prior to the subscription of the Fund, the Company had tried to investigate the status of the underlying assets of the Fund, which was mainly involving the prepayment for the potential acquisition of the power stations from Hareon Solar, by carefully searching the relevant announcements made by Hareon Solar in respect of the said potential acquisition to check against the information as advised by the Investment Manager and understood that as at 8 January 2016, construction of several power stations under the said acquisition had been basically completed. Therefore, the Company believed that Hareon Solar had been making progress on the requisite power stations for delivering the same to the original purchaser.

### **Sequence of events leading to the subscription of China Huacai**

Sheng Yuan was first known to the Company in late 2014 because of the subscription of convertible bonds issued by Sheng Yuan. On 5 November 2014, the Company, through its wholly-owned subsidiary, had subscribed the 8% 3-year convertible bonds (“**SY 2014 CB**”) issued by Sheng Yuan in an aggregate principal amount of up to HK\$100 million. The said convertible bonds were subsequently disposed at a gain of approximately HK\$0.2 million and generated total interest income of HK\$2.2 million from the investment in SY 2014 CB. For details of the said subscription and disposal of SY 2014 CB, please refer to the announcements of the Company dated 5 November 2014 and 19 January 2015, respectively.

After that, Sheng Yuan introduced the investment opportunity of GHGI to the Company. On 22 December 2014, the Company, through its wholly-owned subsidiary, had subscribed another sub-fund of GHGI, namely Sheng Hua Financial Stable Growth Investment Fund SP (“**SY 2014 Fund**”), managed by the Investment Manager for a principal amount of HK\$542.87 million. The SY 2014 Fund was disposed by the Company for a gain of approximately HK\$21.2 million. For details of the said subscription and disposal of fund, please refer to the circulars of the Company dated 7 January 2015 and 18 February 2015, respectively.

The subscriptions of both SY 2014 CB and SY 2014 Fund had been a great success for the Company and brought a total gain of approximately HK\$23.6 million (inclusive of SY2014 CB interest income of HK\$2.2 million) to the Company within a short period of time. In January 2016, Sheng Yuan introduced to the Company a new sub-fund of GHGI, which is China Huacai in issue.

Immediately prior to the subscription of China Huacai in March 2016 at the subscription amount of HK\$150 million, the Company understood that (a) there was already a corporate subscriber, which is not a connected person (as defined under Listing Rules) of the Company; and (b) China Huajun Group Limited (formerly known as Huajun International Limited) (“**China Huajun**”), the substantial shareholder of the Company, was subscribing the non-voting shares of China Huacai on or around the same time. However, the two subscriptions of the Company and China Huajun were independent from, and not inter-conditional to, each other.

As informed by the Investment Manager, the total investment amount of the Company constituted approximately 28% of the total subscription of the China Huacai immediately after the subscription by the Company.

The Company also noted that Mr. Meng has personally subscribed the non-voting shares of China Huacai. To the best knowledge of the Company, such investment’s decision is made by Mr. Meng personally and the Company has not supplied any information or document to Mr. Meng or his associates in respect of its subscription of China Huacai.

To the best knowledge of the Company, as all of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) fall below 5% based on the information available at the material time, the Company’s investment in China Huajun does not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

To the best knowledge of the Company, as (i) the Company has not entered into any agreements, arrangement, understanding or undertaking with China Huajun or Mr. Meng in respect of the subscription of Fund; and (ii) none of China Huajun, Mr. Meng and the Company has any voting right in, or management control over, China Huacai or GHGI, therefore China Huacai is not an associate of China Huajun or Mr. Meng. Therefore, the mere fact that the Company, China Huajun and Mr. Meng all respectively holding the non-voting shares of China Huacai should not constitute a connected transaction of the Company.

Furthermore, pursuant to the offering memorandum of China Huacai, the Company has no control or significant influence over China Huacai because the shares subscribed by the Company do not confer the right to the Company to appoint either directors of China Huacai or Investment Manager. Also, the Investment Manager of China Huacai is not a connected person of the Company under the Listing Rules. Therefore, there is no implication under Chapter 14A of the Listing Rules from this aspect.

### **Board’s assessment on the subscription of China Huacai**

There was a track record of Company’s fund investment with Sheng Yuan as Investment Manager, namely subscription of SY 2014 Fund. Although China Huajun was newly established, it was not the Company’s first time to subscribe a fund managed by Sheng Yuan and the Company has indeed successfully gained approximately HK\$21.2 million through the disposal of SY 2014 Fund.

Furthermore, a premium value usually has to be paid for subscription of any mature and/or established fund. In order to avoid any premium to be paid in future and to reap the best return, it is usually a comparable optimal option to acquire a new fund instead of an established or mature fund. If the Company invests in a mature fund, the Company's return may be substantially reduced due to the premium value. Further, even if the Company is willing to pay the premium value, there is no guarantee that the investment in such fund will become a 100% successful investment as the historical record of return of a fund may not reckon or guarantee the future return will be the same as in the past.

Based on the 2015 interim report of Sheng Yuan, the Investment Manager had acted as fund manager or investment adviser for total of six funds with total assets under management exceeded HK\$2.2 billion as at 30 June 2015. During the six months ended 30 June 2015, Shen Yuan recorded a revenue from its asset management segment of approximately HK\$16.3 million, which likely was derived from the performance or management fee by acting as a fund manager or investment adviser for those funds. These figures, to certain extent, suggested that the performance of asset management service provided by the Investment Manager was prominent.

Prior to a fund subscription, it is a common commercial practice for an investor to assess the potential growth and profitability of a fund by taking into account of (i) the identity and qualification of the investment manager, (ii) the past track record of China Huacai; (iii) the past track record of dealing with the investment manager or the segregated portfolio company holding China Huacai, if the relevant fund was shortly established; and (iv) the objective of a fund. A passive investor with non-voting shares normally does not anticipate to, nor have any power to, involve in the investment decision of China Huacai. It only envisages to enjoy the fruit of its investment returns because a professional investment manager would have been engaged by the segregated portfolio company to handle the management of the specific fund. Therefore, it is irrelevant to the Company of whether the acquisition of the power stations by China Huacai from Hareon Solar has been finalized at the time of the subscription of China Huacai.

In view of the above, the Board considers that the subscription of China Huacai was in the interest of the Company and its shareholders as a whole at that material time.

### **Due diligence work on China Huacai and the Investment Manager**

Due to the short period of establishment of China Huacai, the Company has reviewed the corporate documents of GHGI, including its register of members, register of directors and officer.

The Company has obtained the corporate documents from the Investment Manager, including its register of members and register of directors, and conducted a licence search on the website of the Securities and Futures Commission to ensure that the Investment Manager holds the required licence(s) to carry on the necessary regulated activities in Hong Kong for managing China Huacai. As part of its due diligence procedures, the Board has assessed (i) the relevant experience and expertise of the Investment Manager in fund management by considering the asset management business segment of Sheng Yuan stated in the interim report 2015 of Sheng Yuan, which was the latest published financial statement of Sheng Yuan prior to the subscription of the Fund; and (ii) the track record of the Company's investment in SY 2014 Fund, which was also managed by the Investment Manager.

As all of the applicable ratios (as defined under the Listing Rules) in respect of the subscription of China Huacai were below 5%, China Huacai Subscription does not constitute a notifiable transaction at the material time. China Huacai Subscription, which is part of the principal business segment of the Group in financial services, was mainly handled by the then executive Directors at the material time.

Based on the information currently available to the Board (including the Audit Committee), the Board noted that:

- (i) China Huacai was a newly established sub-fund under GHGI, hence the verification of the identify and the ownership of management shares of GHGI were essential;
- (ii) the qualification of the Investment Manager to carry out Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities under the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong) (“SFO”) have been verified through public search to ensure that the Investment Manager has permitted to provide the relevant service under the SFO; and
- (iii) the investment objective of China Huacai as set out in the relevant offering memorandum was “to achieve capital appreciation through investing in funds, securities, bonds, ownership interests and private equity interests offered publicly or privately and in relation to energy and environmental protection (including contractual rights relating to such equity interests and other rights in equity interest)”, which was consistent with the solar photovoltaic business segment of the Company at the material time.

In view of the above, the Board (including the Audit Committee) believes that the due diligence work performed by the Company on China Huacai and the Investment Manager were sufficient and reasonable.

According to the statement of net asset values of China Huacai as of 31 December 2017 issued by the administrator of China Huacai in June 2018, it showed that the attributable value of the Company's investment in China Huacai was zero. As advised by the Investment Manager, the net asset value of the underlying investment of China Huacai decreased to zero due to the significant deterioration of the financial conditions of Hareon Solar as indicated in Hareon Annual Report 2017. In view of the above, the Directors considered that the fair value of the said investments in China Huacai is significantly decreased and determined to provide a full impairment of approximately RMB133.9 million in respect of such investment. At the time of subscription of China Huacai, the Company did not envisage that the completion of the acquisition of power stations by China Huacai from Hareon Solar would not take place.

As advised by the Investment Manager, the Fund has been in the negotiation with Hareon Solar on the settlement plan to recover the outstanding amount of the prepayment and relevant interest with total amount of approximately HK\$472.9 million, which is the major assets of the Fund, by acquiring all of the share capital of two subsidiaries of Hareon Solar. As advised by the Investment Manager, as at the date of this announcement, no written agreement has been entered into between Hareon Solar and China Huacai in respect of the said acquisitions.

The Company has closely followed up with the Investment Manager in respect of the said settlement plan and acquisitions. Once the acquisitions by Investment Manager have been completed, the Company will urge the Investment Manager to immediately realise the assets for cash of, or transfer, the assets held by two subsidiaries of Hareon Solar and distribute the proceeds to the Company in accordance with the relevant offering memorandum.

#### **IMPAIRMENT ON PROPERTY, PLANT AND EQUIPMENT (“PPE”)**

As disclosed in the Annual Results, the Group recorded an impairment loss on PPE of approximately RMB114.1 million for the year ended 31 March 2018.

The impairment loss on property, plant and equipment was due to the current suspension of operations of two subsidiaries of the Company, namely Changzhou City Jiantan Ruixin Optoelectronic Co., Ltd\* (“**Ruixin**”) and Jiangsu Zhong Xiang Energy Limited\* (“**Zhong Xiang**”), which were engaged in manufacturing and sale of solar photovoltaic products businesses. Both subsidiaries were acquired by the Company from independent third parties in December 2015. The acquisition of the entire equity interest in Ruixin constituted a major transaction of the Company under Chapter 14 of the Listing Rules at that material time. Please refer to the circular of the Company dated 30 November 2015 for the details of the acquisition of Ruixin. The acquisition of the entire equity interest in Zhongxiang does not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules at that material time.

Such suspension was due to the Company's strategic plan to re-develop the land owned by the said two subsidiaries, where the relevant machinery and equipment were situated at from industrial use to commercial and/or residential use, subject to the local government's approval, as the Company plans to build a commercial and/or technology development and/or residential development project on the said land.

In the recent years, due to the development and the change of urban planning of Jintan District, Changzhou City, Jiangsu Province, where the relevant land parcels are located, the residential area has been extended to the area near to where the plants held by the Subsidiaries is located. Such change was not envisaged by the Company at the time of the acquisition of the Subsidiaries because the economy of the Jintan District has changed a lot in these two years after the relevant acquisitions. The relevant plants created certain safety hazards and noises to the life of the residents in the area, hence the environment surrounding the relevant plants is no longer suitable for industrial production. The Company foresaw that the relevant authority and/or public might request the Company to implement substantial changes to the plants in order to upgrade the standard of environmental protection. If that happens, it will be costly for the Company to maintain the plants. Furthermore, there may be a chance that even with such upgrade the Company will still be requested to move the plants to other locations.

Furthermore, such development project will likely bring a greater return to the Company in long run because instead of just using the relevant land parcels for industrial purpose, which is usually comparatively at lower value than land for commercial and/or technology development and/or residential use in the market. Potentially, the Company may introduce strategic partner(s) to carry out the re-development together, although there is no concrete discussion or written agreement entered into by the Company with any party as at the date of this announcement. Furthermore, to the best knowledge of the Company, the asset value of the said land in commercial and/or technology development and/or residential use would be higher than the same in industrial use, the value of the land may be appreciated in a long run.

The Company first became aware of the suspension of operations of the two subsidiaries in February 2018 due to the change of urban planning of the land owned by the two subsidiaries as set out above. The Company has not envisaged such events at the time of the acquisition of the two subsidiaries.

In view of the above, the Group has a plan to transfer certain impaired machinery and equipment to another production bases located in the development zone to improve the land use efficiency without creating any health risk to the local residents living nearby the relevant plants for the benefit of the Company, its shareholders and the society as a whole.

Furthermore, if such re-location takes place, certain relevant machinery and equipment would be put into use for production and generate positive cash-flow to the Group, part of the impairment loss made on the relevant machinery and equipment may be reversed in profit or loss in future, subject to the view of the Company's auditors.

As the operations had been suspended, the machinery and equipment operated and owned by these subsidiaries were idle and subject to impairment under the Group's accounting policy. The Company assessed the recoverable amount of the PPE based on the fair value (taking into account of taken into account of the estimated second hand resalable value and/or scrap value of machinery and equipment) less the estimated cost of disposal. Therefore, the impairment loss of approximately RMB114.1 million is recognised in profit or loss for the year ended 31 March 2018. The relatively large depletion of the value is due to the specialty of the machinery and equipment which would be used for manufacturing of photovoltaic products and the PPE is also subject to technological obsolescence. The demand for such second hand machinery and equipment is relatively low in the market.

The Board is of the view that such recoverable amount is fair and reasonable because the second hand price in the market for the impaired machinery with similar years of usage, which was quoted on B2B website in the PRC, can reflect the estimated cashflow which can be received by the Company at disposal of the PPE. The second hand prices quoted on this website represent the market price of the impaired machinery, which is the price that the potential buyers are willing to pay for, and hence more accurate to reflect the actual amount recoverable of the impaired machinery.

The Group is currently negotiating with the local government in respect of the change of the framework of urban planning of the land owned by the Subsidiaries from industrial use to the commercial and/or residential use and expects that such change will take place before or during the first quarter of 2019.

The above additional information does not affect other information contained in the Annual Results and the content of the Annual Results remains unchanged.

**Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.**

By Order of the Board  
**Huajun International Group Limited**  
**Meng Guang Bao**  
*Chairman and Executive Director*

Hong Kong, 14 September 2018

*As at the date of this announcement, the Board comprises Mr. Meng Guang Bao, Ms. Zhang Ye, Mr. Guo Song, Mr. He Shufen and Mr. Zeng Hongbo as executive Directors; and Mr. Zheng Bailin, Mr. Shen Ruolei and Mr. Pun Chi Ping as independent non-executive Directors.*

*If there is any inconsistency in this announcement between the Chinese and English versions, the English version shall prevail.*

\* *For identification purposes only*