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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 IN RELATION TO THE ANNUAL RESULTS AND THE ANNUAL REPORT FOR THE NINE MONTHS ENDED 31 DECEMBER 2018**

Reference is made to the announcements of the Company (i) dated 12 April 2019 in relation to the update on recent development of suspension (the “**Update Announcement**”); (ii) 14 May 2019 in relation to the annual results for the nine months ended 31 December 2018 and resumption of trading (the “**Annual Results Announcement**”) (collectively, the “**Announcements**”); and (iii) the annual report of the Company for the nine months ended 31 December 2018 published on 27 May 2019 (the “**2018 Annual Report**”). Unless otherwise defined herein, all capitalised terms used herein shall have the same meanings as those defined in the Announcements.

The Company would like to provide the following supplementary information in relation to the Announcements.

#### **IMPAIRMENT LOSS IN RESPECT OF PROPERTY, PLANT AND EQUIPMENT**

As disclosed in the Annual Results Announcement and the 2018 Annual Report, the Company recorded an impairment loss (the “**Impairment**”) in the sum of RMB68,699,000 in respect of property, plant and equipment. The Company wishes to elaborate that such impairment loss

was due to the suspension of a solar product manufacturing plant located in Changzhou, the People's Republic of China (the "PRC"), caused by (i) potential redevelopment of the lands of the Changzhou plant; (ii) technological change of the solar production facilities; and (iii) tightening of the PRC government photovoltaic ("PV") policy, all of which shall be further explained in this announcement.

The solar product manufacturing plant was acquired by the Company in December 2015 through the acquisition of the entire equity interest in Jiangsu Zhong Ke Guo Neng Photovoltaic Technology Co., Ltd. (江蘇中科國能光伏科技有限公司) ("Zhong Ke"). The acquisition of Zhong Ke was a major transaction and a circular dated 30 November 2015 was published by the Company.

As at the date of this announcement, the Company owns a total of four solar product manufacturing plants. One of the plants, which is located in Jurong City, Jiangsu Province (江蘇省句容市), the PRC (the "Jurong Plant"), is currently in operation. The Jurong Plant has commenced commercial production in or around November 2018. Prior to that, the Company began trial production in June 2018 and gradually applied testing and tuning of machineries since then. Three of the said plants were located in Changzhou City, Jiangsu Province (江蘇省常州市), the PRC which are currently in suspension of production (two are suspended from February 2018 and one is suspended from July 2018).

**(i) Reasons for suspension and the status**

*(a) Potential redevelopment of the lands of the Changzhou plant*

At or around January 2018, the Board initially planned to redevelop the lands of the Changzhou plants as research and development and real estate (科研地產) complexes which the Board believes will bring along potential growth to the Group. After several times of communication with the Management Committee of Jintan Economic Development Zone, (i) the overall redevelopment plan in relation to the areas for industrial and commercial use of Changzhou Ruixin and Zhongxiang Energy has been in principal agreed; and (ii) the development plan for two out of the three factories in Changzhou plants have been basically determined. Details and amounts of compensation to be received by the Company for the expropriation of land and property by Jintan Economic Development Zone for the construction of roads and tree planting are expected to be around RMB50 million; and the

amount of levy to be paid by the Group for change of usage of land from industrial to commercial use are expected to be around RMB63 million. These sums are the Company's rough estimates as at the date of this announcement and are subject to further confirmations and negotiation with the local government. The potential redevelopment of the land at Changzhou plants is expected to take place in 2020, however this may be subject to further changes.

The Board is of the view that changing the usage of lands in Changzhou would generate more value to the Company and shareholders as a whole because the expected revenue to be generated from leasing income and/or sale of properties (with a combination of industrial and commercial properties after the redevelopment of the lands in Changzhou) would outweigh those under the original usage of lands in Changzhou.

*(b) Technological change of the solar production facilities*

The two production lines at the Changzhou plant which were impaired during the nine months ended 31 December 2018 was because the component product compatibility of the Changzhou plants was comparatively low since April 2018. The two production lines could only produce conventional and double glass components. The said two production lines were not able to produce half-chip, film, multi-main grid and other component products which are market currently demanded products. In addition, the market share of the conventional components was limited.

Furthermore, the Changzhou plants adopted manual welding, and therefore the entire assembly line was less automated, with an annual capacity of 375MW only. When the assembly line of Changzhou plants is compared with similar automatic assembly line with higher annual production capacity of 500MW, the efficiency of the assembly line at the Changzhou plants was therefore comparatively low with higher energy consumption; and the unit processing cost was higher than the market price of similar products which will be produced at the Jurong Plant.

Due to the change in market demand for high-efficiency PV products, the Group would incur further loss if the Group continued the production of PV products at the Changzhou plants which were impaired during the nine months ended 31 December 2018.

(c) *Tightening of the PRC government PV policy*

Further the PRC Government indicated the tightening of the PV policy which is evidenced by the release of the notification jointly issued by the National Development and Reform Commission, the Ministry of Finance and the Energy Bureau on 31 May 2018 in relation to new regulations for the PV industry in China, which is usually referred to as the 531 New Policy (the “**531 New Policy**”). The 531 New Policy promulgate the following measures:

1. Restrict the construction scale of the general household distributed photovoltaic (普通光伏電站建設) to 10GW in the year of 2018.
2. Reducing the current subsidies for photovoltaic poverty alleviation (光伏扶貧), except for the village-level photovoltaic poverty alleviation power station of which is 0.5MW and below. The grid-connected electricity price of the photovoltaic power station in the first, second and third types of resource zones which are newly put into operation after the implementation of the 531 New Policy is reduced by RMB0.05, and the new operation will adopt the mode of “spontaneous use and surplus electricity (自發自用、餘電上網)”.

It was estimated that in light of the 531 New Policy, the demand for the products which were previously produced by Changzhou plants, will substantially drop. In fact, the uncertainties brought by the 531 New Policy and future policies has caused the demand in the domestic market to fall drastically in the short term as major photovoltaic companies, including the Group’s Changzhou plants, have to adopt a tightened policy and compress the production capacity. The continuation of operation of Changzhou plants may only increase costs for the Group which in turn might not generate profit to the Group.

The abovementioned factors leading to the suspension and impairment were not anticipated by the Board at the time of the acquisition of Zhong Ke.

Before deciding to suspend the operation of the Changzhou plant, the Company had considered alternative approaches, including:

(a) Relocation

The Board had considered relocating the production facilities from the Changzhou plants to the Jurong Plant (the “**Proposed Relocation**”) because currently there is one management team for solar segment business in Jiangsu province and the production base in Jurong City, Jiangsu province in the PRC has more advanced technology and production capacity with larger scale when compared to the Changzhou plants. In view of the above, the Company originally intended to centralise the production of solar products in Jiangsu Province to the production plant at Jurong for better management and utilisation of resources.

However, the Proposed Relocation has not been implemented because the Jurong Plant was not yet ready to accommodate the production facilities of the Changzhou plants. In addition the Company is considering other alternative usages of the production facilities of the Changzhou plants, including leasing out the existing plant and machineries to generate rental income as the relocation of production facilities might incur heavy costs and the Company would also need to spend additional cost to upgrade the machineries (due to technological obsolescence and the latest change in production technology) of the Changzhou plants after relocation, in order to fit into the existing production facilities at Jurong.

In assessing the costs of the Proposed Relocation, the Board has taken into consideration the costs of upgrading of machinery to continue the operation of the Changzhou plants and to meet the market demand of approximately RMB12 million whereas the cost of relocation of machinery to the Jurong Plant is approximately RMB4 million.

(b) Leasing

Further or alternatively, the Board also considered leasing out of the entire plants and the opportunity to approach a potential tenant in June 2018. The Group has negotiated with certain parties on the lease of the land on which the Changzhou plant was located in order to obtain benefit for the Company and Shareholders as a whole. Unfortunately, the lease proposal did not materialise.

Due to the infeasibility of the abovementioned alternative approaches considered by the Company, the Board considers that the suspension of the operation of the Changzhou plants at that material time is in the best interest of the Company and its shareholders as a whole albeit of the Impairment and the latest plan of the Company is to sell the machines in Changzhou. The Company has approached an independent potential buyer, which is a PV product machinery manufacturer. The expected sum to be received by the Company from this sale is approximately RMB3 million.

With the speedy technological developments and the latest assessment on the cost and benefit, the Board considers that the one-off disposal of the machinery and equipment at the Changzhou plants would be most prudent since there would be no need to invest further on upgrading and transportation costs and such disposal would be able to generate immediate cashflow to the Company in short period of time.

In addition to the disclosure above, the Company would like to reiterate that while the annual production capacity of the 2 production lines at the Changzhou plant is 375MW, the 7 production lines at the Jurong Plant is 1.7GW. Hence, the annual production capacity of the Jurong Plant is approximately 4.5 times over the annual production capacity of the Changzhou plant. It does therefore prove that the said suspension and the Proposed Relocation did not have any material adverse impact on the operation of the Company's solar photovoltaic business. The reason for the significant decrease in revenue of the solar photovoltaic business for the nine months

ended 31 December 2018 is due to: (1) the new manufacturing plant in Jurong was in pre-commercial production testing and only contributed revenue since November 2018; and (2) the change in business model from sales of products to provision of processing services to customers, which led to the decrease in gross revenue.

**(ii) Basis of the impairment**

The recoverable amount of the property subject to impairment was determined by valuation conducted by LCH (Asia-Pacific) Surveyors Limited (the “**Valuer**”) based on the depreciated replacement cost (“**DRC**”) approach (the “**Valuation**”). Under such approach, the market value of the valued property should, at least, be equivalent to the replacement cost of the remaining service potential of the valued property i.e. the DRC of the valued property. The valuations of the properties are on the assumption that the properties are subject to the adequate potential profitability of the business having due regard to the value of the total assets employed and the nature of the operation.

The use of the DRC approach requires an estimate of the market value of the land use rights for its existing use, and an estimate of the new replacement cost of the buildings and other site works or improvement works from which deductions are then made to allow for age, condition, and functional obsolescence taken into account of the site formation cost and those public utilities connection charges to the properties.

In assessing the land use rights of the property, the Valuer has made reference to market sale transaction of land with same industrial usage as the property. In assessing the new replacement cost of the buildings and other site works or improvement works of the property, the Valuer has made reference to (i) the historical cost of constructions, (ii) various market research reports in respect of the construction industry in the PRC, including a series of PRC construction procurement and cost intelligence reports issued quarterly by an international firm of construction cost consultancies and strategic advisors; and (iii) the units costs stated in other construction tenders of similar properties, e.g. factory complex.

The Board understands that the Valuer had considered the general and inherent characteristics of the relevant properties before deciding to adopt the DRC approach. The Board recognises that this approach was chosen as it is particularly appropriate for valuing specialised properties where there is no readily identifiable market sale comparable and the buildings cannot be valued by comparable market transactions. As such, the Board has duly assessed the said methodology adopted by the Valuer in the Valuation and is of the view that it is fair and reasonable.

In relation to the assumptions adopted by the Valuer, the Board had discussed with the Valuer the key assumptions adopted in the Valuation and were advised by the Valuer that it is consistent with market practice and the Valuation had been prepared under generally accepted valuation procedures. Further, the Board had reviewed certain publicly available valuation reports prepared by professional valuers in relation to specialised properties in the PRC and noted that the assumptions and parameters adopted by the Valuer are generally adopted by other professional valuers as well. As such, the Board is of the view that the assumptions adopted by the Valuer are fair and reasonable.

The carrying value of the other two designated properties which were not impaired as at 31 December 2018 are RMB32.6 million and RMB61.6 million and their fair value are RMB46.7 million and RMB90.5 million based on the valuation report prepared by LCH (Asia-Pacific) Surveyors Limited respectively. Although the operations of the other two designated properties were also suspended, they were not impaired because the carrying value of each of the two designated properties were below the fair value of the properties as at 31 December 2018 based on the said valuation report. The reason that the fair values of the two designated properties which were not impaired were higher than their carrying values as at 31 December 2018 was because the per square meter carrying value of the two designated properties which were not impaired are lower than the impaired property (mainly due to the higher historical construction cost of the impaired property when compared to the other two properties which not impaired) while the per square meter fair value of the lands are similar.

Furthermore, the carrying value of the machinery and equipment (before impairment loss) as at 31 December 2018 was approximately RMB55.2 million. The Company determined the recoverable amount of the machinery and equipment with reference to the second-hand market and residual value. The Company has obtained quotations of disposal of the impaired machinery and equipment in the second hand market and such quotations were in total of RMB4.1 million. The Board is of the view that these quotations form a fair and reasonable basis in determining the recoverable amount of the machinery and equipment because the second hand market quotations are the best information which is provided by an independent third party and is available to the Board to assess the recoverable amount.

## *Obligations under Financing Arrangements*

### **(A) Background**

On 17 May 2018, 6 June 2018 and 22 June 2018, two subsidiaries of the Company, namely (i) Yangzhou Bao Hua Properties Limited (揚州保華置業有限公司) (“**Yangzhou Bao Hua**”); and (ii) Bao Hua Properties Management (China) Limited (保華置業管理(中國)有限公司) (“**B&H Properties China**”) (collectively the “**Guarantors**”) provided financial guarantees in the aggregate amount of approximately RMB2,978 million in favour of Yingkou Coastal Bank Co., Ltd.\* (營口沿海銀行股份有限公司) (the “**Bank**”) for credit facilities in aggregate amount of approximately RMB2,978 million (the “**Credit Facilities**”) obtained by six companies, namely (i) Yingkou Hengxin Industrial Co., Ltd\* (營口恒信實業有限公司); (ii) Yingkou Huaxin Industrial Co., Ltd\* (營口華信實業有限公司); (iii) Dalian Hua Shuan Jie Logistics Co., Ltd\* (大連華順捷物流有限公司); (iv) Dalian Hua Shun Xin Logistics Ltd\* (大連華順鑫物流有限公司); (v) Dalian Hua Tai An Logistics Co., Ltd\* (大連華泰安物流有限公司) and (vi) Yingkou Huake Photovoltaic Technology Co., Ltd\* (營口華科光伏科技有限公司) (collectively, the “**Purported Related Companies**”) (the “**Financing Arrangements**”). The Company intended for such Credit Facilities obtained by the Purported Related Companies to be ultimately transferred to the Group to supplement the Group’s working capital.

In or around April 2019, during the course of audit, the Company classified the Financing Arrangements as “obligations under financing arrangements” under current liabilities in the Company’s financial statements as suggested by the Company’s auditor.

As the Purported Related Companies obtained the Credit Facilities from the Bank at the request of Mr. Meng Guang Bao (Chairman and Executive Director of the Company) (“**Mr. Meng**”) and ultimately transferred the Credit Facilities to the Group for its sole use at Mr. Meng’s request, the Company’s auditor considered Mr. Meng to have significant influence over the Purported Related Companies.

## (B) Relationship between the Purported Related Companies and the Company

Based on the information provided by the Purported Related Companies, the identity of the Purported Related Companies, their respective ultimate beneficial owners and their relationship with the Company and its connected persons are set out as follows:

Purported Related Companies	Ultimate Beneficial Owner of the Purported Related Companies (at the time when the relevant Financing Arrangements were entered into)	Relationship of the Purported Related Companies with the Company and its connected persons and their respective associates
Yingkou Hengxin Industrial Co., Ltd* (營口恒信實業有限公司)	Wang Yeyi* (王椰屹), businessman in the PRC	Supplier of private company personally owned by Mr. Meng
Yingkou Huaxin Industrial Co., Ltd* (營口華信實業有限公司)	Wang Wei* (王偉), businessman in the PRC	Yingkou Huaxin Industrial Co., Ltd* (營口華信實業有限公司) was considered as a related company of the Group for the year ended 31 March 2018 as it is a shareholder of Changzhou Zhongrong Energy Technology Co., Ltd* (常州中融能源科技有限公司) (“ <b>Changzhou Zhongrong</b> ”), a company controlled by business partners of Mr. Meng and conducts sales and procurement activities with the Company (Please refer to the Company’s Annual Report 2017/18). In November 2018, the ultimate beneficial shareholder of Changzhou Zhongrong was changed to an independent third party of the Company. As such, Yingkou Huaxin Industrial Co., Ltd was no longer considered a related company of the Group in the Company’s 2018 Annual Report.
Dalian Hua Shuan Jie Logistics Co., Ltd* (大連華順捷物流有限公司)	Tong Lei* (仝磊), businessman in the PRC Li Hui* (李慧), businesswoman in the PRC	(1) Supplier of private company personally owned by Mr. Meng (2) Former subsidiary of the Company (disposed on 5 June 2018)

Purported Related Companies	Ultimate Beneficial Owner of the Purported Related Companies (at the time when the relevant Financing Arrangements were entered into)	Relationship of the Purported Related Companies with the Company and its connected persons and their respective associates
Dalian Hua Shun Xin Logistics Ltd* (大連華順鑫物流有限公司)	Tong Lei* (仝磊), businessman in the PRC Li Chao* (李超), businessman in the PRC	(1) Supplier of private company personally owned by Mr. Meng (2) Former subsidiary of the Company (disposed on 5 June 2018)
Dalian Hua Tai An Logistics Co., Ltd* (大連華泰安物流有限公司)	Li Chao* (李超), businessman in the PRC Li Hui* (李慧), businesswoman in the PRC	(1) Supplier of private company personally owned by Mr. Meng (2) Former subsidiary of the Company (disposed on 5 June 2018)
Yingkou Huake Photovoltaic Technology Co., Ltd* (營口華科光伏科技有限公司)	Liu Gefei* (劉閣飛), businessman in the PRC Ruan Ye* (阮野), businessman in the PRC	Supplier of private company personally owned by Mr. Meng

As disclosed above, although it is considered by the Company’s auditor that Mr. Meng has significant influence over the Purported Related Companies, the Board wishes to state that the Purported Related Companies and their ultimate beneficial shareholders are not connected persons of the Company as defined in the Listing Rules as Mr. Meng has no shareholding in any of the Purported Related Companies, therefore the Company is of the view that there are no implications under Chapter 14A of the Listing Rules.

Further, even if the Purported Related Companies are deemed to be associates, as defined in the Listing Rules, of Mr. Meng, who is a connected person of the Company, the Board is of the view that the Credit Facilities will only constitute as “financial assistance received by the listed issuer’s group”, which shall be fully exempt from shareholders’ approval, annual review and all disclosure requirements pursuant to Rule 14A.90 of the Listing Rules since (i) the financial assistance received by the Group was conducted on normal commercial terms or better because no interest was borne by the Group in connection with the Credit Facilities; and (ii) no assets of the Group were provided as security in connection with the Credit Facilities.

The Company now recognises that the Financing Arrangements have implications under Chapter 14 of the Listing Rules as they constitute provision of financial assistance by the Company under Rule 14.04(1)(e). For further details, please refer to the section headed “(J) Listing Rules Implications” in this announcement.

**(C) Written agreements entered into pursuant to the Financing Arrangements**

The Credit Facilities obtained by the Purported Related Companies from the Bank comprises of (i) Credit Facilities A, which are secured by guarantees provided by the Guarantors to the Bank; and (ii) Credit Facilities B, which are secured by deposit pledges given by the Purported Related Companies to the Bank.

Credit Facilities A are obtained by three sets of agreements:

- (1) the maximum credit agreement\* 《最高額授信合同》 (the “**Maximum Credit Agreement**”), which is the master framework agreement secured by the guarantees given to the Bank by the Guarantors, governing the maximum credit facility granted to the Purported Related Companies;
- (2) the guarantee agreement 《保證合同》 signed by the Guarantors in favour of the Bank (the “**Guarantee Agreement**”); and
- (3) the corresponding bank acceptance agreement\* 《銀行承兌協議》 (the “**Bank Acceptance Agreement A**”), which is the specific agreement to be entered into pursuant to the Maximum Credit Agreement, when each loan facility is drawn by the Purported Related Companies.

Credit Facilities B are obtained by two sets of agreements:

- (1) the deposit pledge agreement\* 《保證金質押合同》 (the “**Deposit Pledge Agreement**”), under which the Purported Related Companies provided deposit pledges to the Bank in order to secure Credit Facilities B; and
- (2) the corresponding bank acceptance agreement\* 《銀行承兌協議》 (the “**Bank Acceptance Agreement B**”), which is the specific agreement to be entered into pursuant to the Deposit Pledge Agreement, when each loan facility is drawn by the Purported Related Companies.

In respect of Credit Facilities A, please refer to the below table for details of the Maximum Credit Agreements and each Bank Acceptance Agreement A entered into between the Bank and the Purported Related Companies:

Parties	Credit Facilities A					
	Maximum Credit Agreement (最高額授信合同)			Bank Acceptance Agreement A (銀行承兌協議)		
	Term	Date of Signing	Amount (RMB)	Term	Date of Signing	Amount (RMB)
1. Yingkou Hengxin Industrial Co., Ltd* (營口恒信實業有限公司)	2018.5.17- 2020.5.16	2018.5.17	490 million	2018.6.22 – 2019.6.22	2018.6.22	490 million
2. Bank						
1. Yingkou Huaxin Industrial Co., Ltd* (營口華信實業有限公司)	2018.5.17- 2020.5.16	2018.5.17	488 million	2018.6.22 – 2019.6.22	2018.6.22	288 million
2. Bank						
1. Dalian Hua Shuan Jie Logistics Co., Ltd* (大連華順捷物流有限公司)	2018.6.4- 2019.6.3	2018.6.6	550 million	2018.6.6- 2019.6.6	2018.6.6	548 million
2. Bank						
1. Dalian Hua Shun Xin Logistics Ltd* (大連華順鑫物流有限公司)	2018.6.4- 2019.6.3	2018.6.6	550 million	2018.6.7- 2019.6.7	2018.6.7	548 million
2. Bank						
1. Dalian Hua Tai An Logistics Co., Ltd* (大連華泰安物流有限公司)	2018.6.4- 2019.6.3	2018.6.6	550 million	2018.6.6- 2019.6.6	2018.6.6	548 million
2. Bank						
1. Yingkou Huake Photovoltaic Technology Co., Ltd* (營口華科光伏科技有限公司)	2018.6.4- 2019.6.3	2018.6.6	550 million	2018.6.6- 2019.6.6	2018.6.6	548 million
2. Bank						

Please refer to the below table for details in relation to the Guarantee Agreements entered into between the Bank and the Guarantors as security for obtaining Credit Facilities A:

Parties	Guarantee Agreement		Date of Signing
	Term	Amount (RMB)	
1. Yangzhou Bao Hua Properties Limited (揚州保華置業有限公司); 2. Bank	Term of 2 years commencing from the date on which the Credit Facility from the Bank Acceptance Agreement is granted (2018.6.22-2020.6.21)	490 million	2018.5.17
1. Yangzhou Bao Hua Properties Limited (揚州保華置業有限公司); 2. Bank	Term of 2 years commencing from the date on which the Credit Facility from the Bank Acceptance Agreement is granted (2018.6.22-2020.6.21)	288 million	2018.6.22
1. Bao Hua Properties Management (China) Limited (保華置業管理(中國)有限公司); 2. Bank	Term of 2 years commencing from the date on which the Credit Facility from the Bank Acceptance Agreement is granted (2018.6.22-2020.6.21)	550 million	2018.6.6
1. Bao Hua Properties Management (China) Limited (保華置業管理(中國)有限公司); 2. Bank	Term of 2 years commencing from the date on which the Credit Facility from the Bank Acceptance Agreement is granted (2018.6.7-2020.6.6)	550 million	2018.6.6
1. Bao Hua Properties Management (China) Limited (保華置業管理(中國)有限公司); 2. Bank	Term of 2 years commencing from the date on which the Credit Facility from the Bank Acceptance Agreement is granted (2018.6.6-2020.6.5)	550 million	2018.6.6
1. Bao Hua Properties Management (China) Limited (保華置業管理(中國)有限公司); 2. Bank	Term of 2 years commencing from the date on which the Credit Facility from the Bank Acceptance Agreement is granted (2018.6.6-2020.6.5)	550 million	2018.6.6

For the purpose of obtaining the Credit Facilities B, please refer to the below table for details in relation to the Deposit Pledge Agreements and each Bank Acceptance Agreement B entered into between the Bank and the Purported Related Companies:

Parties	Credit Facilities B					
	Deposit Pledge Agreement (保證金質押合同)			Bank Acceptance Agreement B (銀行承兌協議)		
	Term	Date of Signing	Amount (RMB)	Term	Date of Signing	Amount (RMB)
1. Yingkou Hengxin Industrial Co., Ltd* (營口恒信實業有限公司)	2018.6.22- 2019.6.22	2018.6.22	210 million	2018.6.22- 2019.6.22	2018.6.22	210 million
2. Bank						
1. Yingkou Huaxin Industrial Co., Ltd* (營口華信實業有限公司)	2018.6.22- 2019.6.22	2018.6.22	123 million	2018.6.22- 2019.6.22	2018.6.22	123 million
2. Bank						
1. Dalian Hua Shuan Jie Logistics Co., Ltd* (大連華順捷物流有限公司)	2018.6.6- 2019.6.6	2018.6.6	548 million	2018.6.6- 2019.6.6	2018.6.6	235 million
2. Bank						
1. Dalian Hua Shun Xin Logistics Ltd* (大連華順鑫物流有限公司)	2018.6.7- 2019.6.7	2018.6.7	548 million	2018.6.7- 2019.6.7	2018.6.7	235 million
2. Bank						
1. Dalian Hua Tai An Logistics Co., Ltd* (大連華泰安物流有限公司)	2018.6.6- 2019.6.6	2018.6.6	548 million	2018.6.6- 2019.6.6	2018.6.6	235 million
2. Bank						
1. Yingkou Huake Photovoltaic Technology Co., Ltd* (營口華科光伏科技有限公司)	2018.6.6- 2019.6.6	2018.6.6	548 million	2018.6.6- 2019.6.6	2018.6.6	235 million
2. Bank						

#### **(D) Fund flow in relation to the Financing Arrangements**

As disclosed above, the Group intended for the Credit Facilities obtained by the Purported Related Arrangements to be ultimately transferred to the Group to supplement its working capital. There was a mutual oral understanding between the Purported Related Companies and the Group (the “**Mutual Oral Understanding**”) that the proceeds from the Credit Facilities obtained by the Purported Related Companies from the Bank would be ultimately transferred back to the Group. No written documentation was made to record the Mutual Oral Understanding at the material time when the Credit Facilities were obtained.

Due to the Mutual Oral Understanding, the Credit Facility obtained by the Purported Related Companies from the Financing Arrangements was indeed ultimately transferred back to the Group. The relevant fund flow is as follows:

*(i) Credit Facility obtained from the Financing Arrangements between the Bank and Yangzhou Bao Hua*

On 17 May 2018, Yangzhou Bao Hua, a wholly owned subsidiary of the Company, provided guarantees of RMB778 million as the Financing Arrangement in favour of the Bank for Credit Facilities to be granted to two of the Purported Related Parties, namely (1) Yingkou Hengxin Industrial Co., Ltd\* (營口恒信實業有限公司); and (2) Yingkou Huaxin Industrial Co., Ltd\* (營口華信實業有限公司).

The Bank granted (i) Credit Facilities A in the sum of approximately RMB778 million to the two abovementioned Purported Related Parties, which was secured by the guarantees provided to the Bank by the Guarantors and (ii) Credit Facilities B in the sum of approximately RMB333 million to the two abovementioned Purported Related Companies, which was secured by deposit pledges given by such Purported Related Companies to the Bank.

Through a series of bills financing arrangements, the two abovementioned Purported Related Companies were issued approximately RMB1,111 million bills, which were subsequently transferred to independent discount companies, where a discounting charge of approximately RMB64 million was deducted. A sum of approximately RMB1,047 million was then transferred from the said independent discount companies to Yingkou Baohuatong Trading Co., Ltd\* (營口保華通貿易有限公司), the ultimate beneficial owner of which is the supplier of a private company personally owned by Mr. Meng. This sum was in turn transferred to Huajun Real Estate Co., Ltd\* (華君置業有限公司) (ultimately owned as to 97% by Mr. Meng and 3% by his spouse, Madam Bao), where the deposit pledges of approximately RMB333 million placed by the two Purported Related Companies in the Bank for the purpose of securing the Credit Facilities were deducted and further discounting charges of RMB14 million were also deducted. As such, a balance of approximately RMB700 million was ultimately transferred to Shenzhen Baohuaxing Holdings Co., Ltd\* (深圳保華興控股有限公司) (subsidiary of the Company) to supplement the Group's working capital.

(ii) *Credit Facility obtained from the Financing Arrangements between the Bank and B&H Properties China*

On 6 June 2018, B&H Properties China, a wholly owned subsidiary of the Company, provided guarantees of RMB2,200 million as the Financing Arrangement in favour of the Bank for Credit Facilities to be granted to four of the Purported Related Parties, namely (1) Dalian Hua Shuan Jie Logistics Co., Ltd\* (大連華順捷物流有限公司); (2) Dalian Hua Shun Xin Logistics Ltd\* (大連華順鑫物流有限公司); (3) Dalian Hua Tai An Logistics Co., Ltd\* (大連華泰安物流有限公司) and (4) Yingkou Huake Photovoltaic Technology Co., Ltd\* (營口華科光伏科技有限公司).

The Bank granted (i) Credit Facilities A in the total of approximately RMB2,200 million to the four Purported Related Parties, which was secured by the guarantees provided by the Guarantors to the Bank; (ii) Credit Facilities B in the total of approximately RMB940 million to the four abovementioned Purported Related Parties, which was secured by deposit pledges of RMB940 million given by such Purported Related Parties to the Bank.

Through a series of bills financing arrangements, the Purported Related Companies were issued approximately RMB3,132 million bills, which were transferred to independent discount companies, where a total discounting charge of approximately RMB193 million was deducted and deposit pledges of approximately RMB940 million placed by the four Purported Related Companies in the Bank for the purpose of securing the Credit Facilities were also deducted. Subsequently, a total sum of approximately RMB2,000 million was then transferred to Shenyang Taijing Xinrong Industrial Co., Ltd\* (瀋陽泰晶信榮實業有限公司), out of which RMB1,594 million was further transferred to settle the remaining balance of the consideration of a transaction entered into by the Company (please refer to completion announcement dated 6 July 2018) and the remaining RMB406 million was ultimately transferred back to the Group to supplement the Group's working capital. As disclosed in the Company's circular dated 24 September 2018, this said transaction was originally intended to be financed by unsecured and interest-free borrowings from the Company's immediate holding company, China Huajun Group Limited (ultimately wholly-owned by Mr. Meng). As the Company's obligations under the Financing Arrangements were recognised as an amount due to the immediate holding company, the Directors consider that the financing method of the said transaction was consistent with the disclosures made in the relevant circular.

**(E) Reason for entering into the Financing Arrangements**

The parties at that material time considered that it might be more commercially viable for the Group to obtain the Credit Facilities, under the Financing Arrangements, to supplement its working capital through the Purported Related Companies, who would then transfer the funds back to the Group, rather than for the Group itself to directly obtain the Credit Facilities from the Bank.

**(F) Settlement of the Credit Facilities obtained through the Financing Arrangements from the Bank**

As disclosed above, there was only a Mutual Oral Understanding that the Credit Facility obtained by the Purported Related Companies from the said Financing Arrangements would be ultimately transferred to the Group and no written documentation has been made to record the Mutual Oral Understanding at the material time. As such, at the request of the auditor of the Company, written agreements were entered to record the Mutual Oral Understanding in or around May 2019. The Group entered into the said written agreements with the Purported Related Companies and the immediate holding company, China Huajun Group Limited (ultimately wholly-owned by Mr. Meng), whereby it was agreed that in case these Purported Related Parties fail to settle their obligations under the Credit Facilities with the Bank and the Group needs to repay to the Bank under the Financing Arrangements, the Group's corresponding amount due to its immediate holding company, China Huajun Group Limited, will be reduced by the amount of repayment made by the Group to the bank (if any). The financial liabilities were classified as current as the corresponding bills issued through these Financial Arrangements will be matured within one year at end of the reporting period.

On 29 March 2019, Huajun Holdings Group Limited (a private company wholly owned by Mr. Meng and his spouse) replaced the Guarantors as guarantor of the Credit Facilities, thus the obligations of the Guarantors under the Financing Arrangements were subsequently released. Upon such release, the immediate holding company of the Company, China Huajun Group Limited, agreed in writing to not demand the Group for repayment before May 2021. Therefore, such obligations under the Financing Arrangements were reclassified as non-current liabilities of the Group on 29 March 2019. As at 30 September 2019, certain repayments have been made to the immediate holding company and the outstanding balance is RMB3,212,709,000.

In June 2019, the Credit Facilities obtained by the Purported Related Companies from the Bank were repaid by the Purported Related Companies through refinancing from the Bank, such refinanced credit facility was guaranteed by a private company wholly owned by Mr. Meng.

## **(G) Investigation**

As disclosed in the Update Announcement, the Audit Committee appointed Ernst & Young (China) Advisory Limited to conduct an independent investigation (the “**Investigation**”) in relation to the Financing Arrangements. The scope of the Investigation comprises determining the nature and fund flow of the Financing Arrangements, the relationship between the Company and the Purported Related Companies and identifying internal control deficiencies.

The results of the Investigation in respect of the nature and fund flow of the Financing Arrangements and the relationship between the Company and the Purported Related Companies are in line with the Company’s above disclosures in this announcement. From the results of the Investigation, there was (1) no evidence was found to suggest that the Purported Related Companies are connected persons of the Company under the Listing Rules; and (2) the Credit Facility obtained through the Financing Arrangements was indeed ultimately transferred to the Group. The results of the Investigation in respect of the Company’s internal control deficiencies are set out in the paragraph below.

## **(H) Internal Control**

The Investigation identified an internal control weakness in relation to the lack of consistent use of the Office Automation (“**OA**”) system which resulted from the use of the company chop on the Financing Arrangement documents without strict adherence to the approval procedures stipulated in the Company’s internal policy which requires that all guarantee transactions or agreements need to obtain approvals by different management through the OA system as well as by the Board of the Company. To remedy this, it was proposed to tighten the internal control procedures by re-educating staff members where the Company has communicated with the staff of the subsidiaries and also the information technology department of the Company has conducted regular checks in the OA system to identify whether all documents executed with the company chop have been uploaded to the OA system for retention. The Company adopted the proposed remedial measures in May 2019 and the internal control of the Company is currently effective as the Company has not identified any non-compliance with the newly implemented measures since then.

**(I) View of the Board and the Audit Committee**

The Board and the audit committee agree with the key findings of the Investigation, including the nature and fund flow of the Credit Facility obtained through the Financing Arrangements, the relationship between the Company and the Purported Related Companies and the details of the internal control deficiencies as disclosed in this supplemental announcement.

Further, the Board and the audit committee are of the view that the Company's obligations under the Financing Arrangements have been properly accounted for and disclosed in the audited financial statements of the Company for the nine months ended 31 December 2018. The findings of the Investigation, had no impact on the financial statements of the Company for the year ended 31 December 2018.

Further, to the best of the Company's knowledge as at the date of this announcement, the Company is of the view that there is no indication of any issues arising from the Financing Arrangements that would adversely affect the Company's auditor in providing an unqualified audit opinion on the Group's financial statements for the upcoming financial year.

**(J) Listing Rules Implications**

Based on the size tests calculation, the Board now acknowledges that the Financing Arrangements constituted provision of financial assistance by the Company under Rule 14.04(1)(e). The Financing Arrangements in fact constituted two major transactions of the Company, which should have been subject to the announcement, circular and shareholders' approval requirements under Rules 14.34, 14.38A and 14.40 (collectively, the "**Relevant Rules**"). The Company hereby admits the breach of the Relevant Rules (the "**Breach**"). The reason for the Breach was because the Board believed that the Financing Arrangements did not constitute a "transaction" of the Group as defined under Chapter 14 of the Listing Rules, as the Board was of the view that the Group was in fact and in substance providing financial assistance by way of guarantee to its subsidiaries under Rule 14.04(1)(e)(ii), which has no implications under Chapter 14 of the Listing Rules. Therefore, the Board was in fact not aware of any possible Breach at the material time.

The Board shall make its best efforts to prevent a similar breach from occurring in the future by (a) providing more training on regulatory compliance matters to the directors and senior management of the Group on a regular basis to increase their awareness and knowledge of the Listing Rules implications; (b) informing staff about the importance of putting oral agreements/understandings into writing for the avoidance of future ambiguity; and (c) working more closely with its legal advisers on Listing Rules compliance issues.

### ***Financial guarantee contracts provision***

As disclosed in the Annual Results Announcement, as at 31 December 2018, the Group recognised a provision of RMB34.47 million in profit or loss in respect of its obligations under the Guarantee due to the default of such banking facilities. The RMB34.47 million provision comprised of the provisions of RMB14.25 million and RMB20.22 million for the Liaoning Guarantee and the Yixing Guarantee respectively. The provision for Liaoning Guarantee of RMB14.25 million was made according to the overdue and outstanding amount of the loan as at 31 December 2018. The RMB20.22 million provision for Yixing Guarantee was based on the carrying value of a piece of land owned by Huajun Power as at 31 December 2018 which had been pledged to secure the Yixing Guarantee.

As disclosed in note 15(b) of the Annual Results, the Group had previously provided financial guarantees in favour of the Bank for banking facilities granted to independent third parties (the “**Guarantee**”). The two independent third parties that received the Guarantee are namely Liaoning Zhongneng Industrial Co., Ltd\* (遼寧中能實業發展有限公司) (“**Liaoning**”) and Yixing Yongneng New Energy Investment Co., Ltd (宜興永能新能源投資有限公司) (“**Yixing**”).

The Liaoning Guarantee was entered into by the Company in October 2015, with principal of RMB50 million loan granted by the Bank to Liaoning and with Huajun Energy Co., Ltd\* (華君能源有限公司) (“**Huajun Energy**”) (formerly known as 華君物流(營口)有限公司), a subsidiary of the Company, as the guarantor. The Liaoning Guarantee was entered into by Huajun Energy, with a view to facilitate Liaoning to obtain banking facilities so as to repay the amount due by Liaoning to Huajun Energy. This was intended to minimize the risk of non-repayment from Liaoning and in turn increase the liquidity of the Group. The loan proceeds of RMB50 million were paid directly to Huajun Energy for repayment of the trade receivables and prepayment for goods due by Liaoning to Huajun Energy. The said RMB50 million was originally due in October 2016 and Liaoning repaid RMB35,750,000 during June to August 2018 and the remaining principal of RMB14,250,000 has been overdue and outstanding. As at 31 December 2018, all of the Group’s trade receivables due from Liaoning had been recovered.

The Yixing Guarantee was entered into by Huajun Power (Yingkou) Co., Ltd.\* (華君電力(營口)有限公司) (now known as Yingkou Furun Industrial Co., Ltd.\* (營口富潤實業有限公司) at the time) (“**Huajun Power**”) in November 2016 for a loan (the “**Yixing Loan**”) with principal of RMB140 million loan granted by the Bank to Yixing and with original maturity date in November 2017. At the time Huajun Power entered into the Yixing Guarantee in November 2016, Huajun Power was not yet a subsidiary of the Company. Huajun Power was subsequently acquired by the Company in April 2018 at the consideration of RMB8.06 million, which did not constitute a notifiable transaction under Chapter 14 of the Listing Rules at that material time. As at 31 December 2018, the outstanding principal amount of the Yixing Loan is RMB138.8 million and outstanding interest is approximately RMB28.4 million. Pursuant to Yixing Guarantee, Huajun Power has charged a piece of land (the “**Land**”) owned by Huajun Power as part of the security to guarantee the repayment of the Yixing Loan. If Yixing failed to repay the Yixing Loan, Huajun Power does not have any obligations to repay the Yixing Loan, however, the lender might take over the Land.

In order to mitigate the risk for potential loss of the Group in respect of the Guarantee, on 29 March 2019, Mr. Meng had arranged for his wholly-owned private company, Huajun Holdings Group Limited, to replace Huajun Power and Huajun Energy as the guarantors of the Guarantee, therefore the Company has since been released from the Guarantee and the Company therefore has no information on the current repayment progress of the Yixing Loan.

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

Hong Kong, 3 January 2020

\* *For identification purposes only*

*As at the date of this announcement, the Board comprises Mr. Meng Guang Bao, Ms. Zhang Ye, Mr. Guo Song 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.*