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## **HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED**

**華聯國際（控股）有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 969)**

### **INSIDE INFORMATION – RECENT DEVELOPMENT REGARDING THE OUTSTANDING CONVERTIBLE NOTE – SECOND EXTENSION OF LONG STOP DATE IN RELATION TO SECOND SUPPLEMENTAL UNDERTAKING**

This announcement is made by Hua Lien International (Holding) Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2) and Rule 13.19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions of Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements dated 18 October 2019 and 2 January 2020 in respect of the non-irrevocable and unconditional undertaking dated 18 October 2019 (the “**Undertaking**”) which was amended by way of first supplemental undertaking dated 31 December 2019 (the “**First Supplemental Undertaking**”) issued by COMPLANT International Sugar Industry Co., Ltd. (中成國際糖業股份有限公司) (“**Complant Sugar**”) in favour of the Company (the “**Announcements**”). Terms used in this announcement shall have the same meanings as those defined in the Announcements unless otherwise defined herein.

The Board would like to provide an update regarding the Undertaking and the First Supplemental Undertaking.

#### **The Undertaking**

As disclosed in the Announcements, Complant Sugar covenanted in the Undertaking that conditional upon the entering into of an agreement for a formal repayment plan in relation to the Outstanding Convertible Note, Complant Sugar agreed and undertook that, before 31 December 2019 (or such other date as agreed by the parties in writing) (the “**Long Stop Date**”), (i) the failure of the Company to repay the Outstanding Convertible Note on and since the due date (being 27 February 2019) will not constitute an event of default under the Convertible Note; and (ii) Complant Sugar will not demand repayment of or performance of obligations under the Outstanding Convertible Note.

*\* For identification purpose only*

## **The First Supplemental Undertaking**

The First Supplemental Undertaking amended the Undertaking by extending the Long Stop Date for two years to 31 December 2021 (or such other date as agreed by the parties in writing) (the “**First Extended Period**”). Complant Sugar covenanted in the First Supplemental Undertaking that conditional upon the entering into of an agreement for a formal repayment plan in relation to the Outstanding Convertible Note, Complant Sugar agreed and undertook that, before 31 December 2021 (or such other date as agreed by the parties in writing), (i) the failure of the Company to repay the Outstanding Convertible Note on and since the due date (being 27 February 2019) will not constitute an event of default under the Convertible Note; and (ii) Complant Sugar will not demand repayment of or performance of obligations under the Outstanding Convertible Note.

## **Updates on the Undertaking and the First Supplemental Undertaking**

The First Extended Period was granted by Complant Sugar to enable the Group to carry out plans to improve its operation and financial performance. It was expected that Complant Sugar would be benefited from it as a creditor as the improvement of the Group’s performance would provide greater flexibility to the Group for more debt restructuring options to restructure the indebtedness under the Outstanding Convertible Note. Also, Complant Sugar, as a substantial Shareholder, will also be benefited from the First Supplemental Undertaking if the performance of the Company improved under the First Extended Period.

However, the outbreak of the COVID-19 Pandemic since late 2019 created obstacles to achieving the desired results from the business improvement plan of the Group within the First Extended Period. There was only few improvements in cash flows, the cash and cash equivalents in year 2020 was slightly increased to approximately HK\$63.2 million (2019: approximately HK\$62.5 million) and the net cash generated from operating activities for year 2020 of approximately HK\$3.8 million (2019: the net cash used in operating activities of approximately HK\$0.5 million). However, the improvement in operation and financial performance fell short of expectation and the Group needs more time to improve these. The production output for year 2020 of the sugar business segment was approximately 11,200 tonnes (2019: approximately 18,700 tonnes) of raw sugar and approximately 11,200 tonnes (2019: approximately 15,200 tonnes) of molasses in year 2020 by crushing input of sugar cane of approximately 192,000 tonnes (2019: approximately 288,000 tonnes). The net loss for year 2020 was approximately HK\$121.2 million (2019: approximately HK\$120.2 million).

## The Second Supplemental Undertaking

In view of the above, the Directors are of the view that the Group needs more time to carry out plans to improve the financial and business performance. Having considered the economic environment during the First Extended Period and the financial position of the Company, Complant Sugar issued on 27 December 2021 the second supplemental undertaking (the “**Second Supplemental Undertaking**”) to supplement the Undertaking and the First Supplemental Undertaking in favour of the Company. Pursuant to the Second Supplemental Undertaking, Complant Sugar agreed to extend and postpone the First Extended Period for another two years to 31 December 2023 (or such other date as agreed by the parties in writing) (the “**Second Extended Period**”). In other words, under the Second Supplemental Undertaking, conditional upon the entering into of an agreement for a formal repayment plan in relation to the Outstanding Convertible Note, Complant Sugar agrees and undertakes that, before 31 December 2023 (or such other date as agreed by the parties in writing), (i) the failure of the Company to repay the Outstanding Convertible Note on and since the due date (being 27 February 2019) will not constitute an event of default under the Convertible Note; and (ii) Complant Sugar will not demand repayment of or performance of obligations under the Outstanding Convertible Note.

The Second Extended Period was arrived at arm’s length negotiation between the Company and Complant Sugar and the Second Supplemental Undertaking is under normal commercial terms. The Board considers the Second Supplemental Undertaking and the further extension of the Long Stop Date to the Second Extended Period is in the best interest of the Company and its Shareholders as a whole, and is the most appropriate and cost-effective interim measure to restructure the Outstanding Convertible Note for the following reasons:

1. At the date of the announcement, the Company would not have sufficient internal resources to repay all the indebtedness due under the Outstanding Convertible Note that matured on 27 February 2019. The Board also still considers it impracticable to secure third-party financing on the favourable terms to the Company to settle the indebtedness due under the Outstanding Convertible Note at the current market situation. The Board has considered third-party financing alternatives, including but not limited to, bank borrowing and equity financing. However, due to the financial performance of the Group, it is still difficult for the Group to obtain bank borrowings with favourable terms and conditions. Also, unlike the indebtedness under Outstanding Convertible Note which is interest free, bank borrowing would create interest burden to the Group. In addition, due to the financial performance of the Group, the recently low liquidity of the Shares and the volatile market condition, the Board still considers that it would be difficult for the Company to execute any plans for equity financing such as placement of Shares or rights issue.
2. The Board is of the view that it is in the better interests of the Company and the Shareholders if the Company can utilise its internal resources to develop its existing business and capture other new business opportunities (should such opportunities arise) so to improve the returns to its Shareholders rather than restructuring the Convertible Note at this stage in less favourable terms due to the current operation performance of the Group.

3. The Second Supplemental Undertaking allows the Company to have more financial flexibility to improve its business and enables the Group to postpone a substantial cash outflow by extending the Long Stop Date to the Second Extended Period. Further, since the indebtedness due under the Outstanding Convertible Note is non-interest bearing, it will not create any interest burden to the Group during the Second Extended Period. All these are beneficial in maintaining the Group's financial results.
4. The Second Supplemental Undertaking also provides the Group with reasonable time to improve its business performance and financial position. The Group will take the Second Extended Period to develop its existing business and capture other new business opportunities (should such opportunities arise) to broaden its income stream and improve the overall performance and profits of the Group. It is the Company's intention that if the performance of the Group improves, it will look for loan restructuring plans that are in more favourable terms to the Company. With better performance, the Company will also try to find new investor(s) to improve the existing equity structure of the Group and to obtain new funds or financing to repay part of the indebtedness under the Outstanding Convertible Note.
5. To Complant Sugar, as a substantial Shareholder it will be benefited from the Second Supplemental Undertaking if the performance of the Company improves during the Second Extended Period. It will also be benefited from the Second Supplemental Undertaking as a creditor as the improvement of the Group's performance will provide greater flexibility to the Group and Complant Sugar to restructure the indebtedness under the Outstanding Convertible Note.

Having considered the above, the Board takes the view that the Second Supplemental Undertaking with the extension of the Long Stop Date to the Second Extended Period, which in effect freezes the indebtedness due under Outstanding Convertible Note for another two years, is a win-win interim measure for both the Company and Complant Sugar and is beneficial to the respective shareholders of the Company and Complant Sugar as it provides the Group with a reasonable time to improve its existing business operation and share price performance which will in turn give more flexibility to the Group to restructure the indebtedness under the Outstanding Convertible Note.

The Company will continue to negotiate with Complant Sugar during the Second Extended Period to reach an agreement for a formal repayment plan for the indebtedness due under the Outstanding Convertible Note. The Company will publish further announcement(s) to provide update on the repayment plan as and when appropriate.

By order of the Board  
**Hua Lien International (Holding) Company Limited**  
**Liu Yan**  
*Chairman*

Hong Kong, 28 December 2021

*As at the date of this announcement, the board of directors comprises eight directors, of which three are executive directors, namely Mr. Liu Xueyi, Mr. Han Hong, and Mr. Wang Zhaohui, two are non-executive directors, namely Ms. Liu Yan and Mr. Zhang Jian, and three are independent non-executive directors, namely Mr. Cheng Tai Kwan Sunny, Mr. Shi Zhu and Dr. Lu Heng Henry.*