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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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31st DECEMBER 2017

Reference is made to the announcement of Hua Lien International (Holding) Company Limited (the "**Company**") dated 29th March 2018 in relation to the audited annual results of the Company and its subsidiaries for the year ended 31st December 2017 (the "**Announcement**"). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

Further to the information disclosed in the Announcement, the Company wishes to provide to the shareholders of the Company and the potential investors with the following supplementary information:

IMPAIRMENT LOSSES OF INTANGIBLE ASSETS FOR THE YEAR ENDED 31ST DECEMBER 2017

(A) Details and movement of the value of the intangible assets

Initially, the intangible asset represented customer relationship purchased as part of a business combination of Sino-Africa Technology & Trading Limited ("**SATT**") in February 2009. As detailed in the valuation report at the time of acquisition in February 2009, the customer relationship of the SATT at date of acquisition was only consisted of four customers, namely, the La Sucrerie de COMPLANT de Madagascar ("**African Company 1**") , COMPLANT Magbass Sugar Complex Company Limited ("**African Company 2**"), La Sucrerie de COMPLANT du Benin ("**African Company 3**"), Sucrerie Cote Ouest de COMPLANT de Madagascar (Ouest Sucre) ("**African Company 4**"). African Company

1, 2, 3 and 4 are all indirect subsidiaries of COMPLANT International Sugar Industry Co., Ltd., which is a substantial shareholder holding 13.69% shares of the Company. Due to subsequent business development of SATT, two fellow subsidiaries of SATT, namely Compagnie Beninoise De Bioenergie SA ("**CBB**") and Pan Caribbean Sugar Company Limited ("**PCSC**") were added as new customers in 2012 and 2013 respectively after the independent shareholders approved their annual caps for the continuing connected transactions. The addition of these two customers was considered as part of customer relationship for the purpose SATT CGU valuation even though no restatement of cost of the intangible assets for these internally generated intangible assets.

The customer relationship represents the present value of the future cash flow attributed to established customer base and other business relationships built up by SATT in African and other nations and has a definite useful life and is amortised on straight-line basis over the estimated useful life of 20 years. Set out below was the movement of value of the intangible assets for 2017:

INTANGIBLE ASSETS

	Customer Relationship *HK$'000*
COST	
As 1st January 2016, 31st December 2016 and 31st December 2017	423,000
ACCUMULATED AMORTISATION AND IMPAIRMENT	
As at 1st January 2016	144,525
Provided for the year	21,150
Impairment loss for the year	185,112
As at 31st December 2016 and 1st January 2017	350,787
Provided for the year	5,935
Impairment loss for the year	66,278
At 31st December 2017	423,000
CARRYING VALUES	
At 31st December 2017	—
At 31st December 2016	72,213

(B) Reasons and details of events and circumstances that led to impairment losses of intangible assets in 2017

The impairment loss of intangible asset in 2017 was mainly for reason that the operating results of two of its customers, namely PCSC and CBB, who owe a total of approximately HK$129.1 million to SATT did not show much improvement even PCSC suspended two of its sugar estates and one of its sugar factory in 2016. The length of time it will take by these two customers to repay its debts to SATT has reassessed in 2017. The projected working capital requirement was higher than that expected in 2016 for the next five years resulting from the expected lengthening of the repayment time by PCSC and CBB. The increase in net working capital requirement will reduce the free cash flow and this has the effect of lowering the value-in-use ("**VIU**") valuation of SATT CGU (as defied below in part C) in 2017.

In contrast, the reason of impairment loss of intangible asset in 2016 was mainly owing to the fact that the business unit under SATT CGU has been affected by, inter alia, the deterioration of business and economic environment in the African countries in which SATT operates, the expected significant decline in long-term profitability of SATT resulting from the slow recovery of world raw sugar price making customers cautious in placing orders for materials and services as well as the continuation of the suspension of operation of two of its customers, African Company 1 and African Company 2.

Save as disclosed hereinabove, the Company is not aware of any other significant reason or change in circumstances during the financial year ended 31st December 2017 and 2016 leading to impairment loss of the intangible assets.

(C) The methodology and key assumptions and adopted in assessing the impairment amounts by BMIA

In accordance with the Group's accounting policies and Hong Kong Accounting Standard 36 - Impairment of Assets issued by the Hong Kong Institute of Certified Public Accountants, each asset or cash-generating unit ("**CGU**") is evaluated annually at 31st December, to determine whether there are any indications of impairment. If any such indications of impairment exist, a formal estimate of the recoverable amount is performed. Given the fact that the Group's loss-making position for the year ended 31st December 2017 and 2016, the Company has engaged the independent valuer BMI Appraisals Limited ("**BMIA**") to conduct impairment review of the intangible assets related to SATT for the year ended 31st December 2017 and 2016.

In assessing whether an impairment is required, the carrying value of the asset or CGU is compared with its recoverable amount. The recoverable amount is the higher of the CGU's fair value less costs of disposal and VIU. For the impairment assessment of intangible asset, the assets and liabilities under the business segment of supporting services to sugar business is treated as separate CGU ("**SATT CGU**'). The recoverable amounts of SATT CGU are estimated based on its VIU, determined by discounting the future cash flows to be generated from the continuing use of the intangible assets and other assets. Set out below are the methodology and key assumptions adopted in such valuation:

	31st December 2017	31st December 2016
Methodology	**Income Approach *(i.e. discounted free cash flow method)***	Income Approach *(i.e. discounted free cash flow method)*
Forecast period	**For the five years ending 31st December 2022**	For the five years ending 31st December 2021
Growth Rate within the five-year period	**3.00%**	3.02%
Growth rates of Cash flows beyond the five-year period	**3.0%**	3.0%
Discount Rate	**14.31%**	13.91%

Other assumptions applicable to valuation of SATT CGU for 2017 and 2016 that adopted by BMIA are as follows:

- All licenses issued by any authorized entity that will materially affect the operation of SATT have been obtained or can be obtained upon request;

- There will be no material change in the political, legal, fiscal, technological, market and economic conditions in the jurisdiction where SATT operates;

- The market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;

- The core operation of SATT will not differ materially from those of present or expected;

- The information in respect of SATT have been prepared after due and careful consideration by the senior management of the Company; and

- There will be no human disruptions or natural disasters that will materially affect the operation of SATT.

Remarks

1. The discounted free cash flow method requires estimates concerning future cash flows and associated discount rate and growth rate assumptions which are based on the management's expectation of future business performance and prospects of SATT; and

2. Except the change in estimate of the amount of working capital required, the same valuation method and basis was used in determining the SATT VIU valuation in 2017 and 2016.

(D) The calculation of impairment loss on intangible assets for 2017 and 2016

On the basis of the above methodology and key assumptions, the assessed VIU valuation of the SATT CGU in 2017 and 2016 by BMIA was approximately HK$135 million as compared to approximately HK$253 million in 2016.

The way by which the impairment loss in 2017 and 2016 was calculated were the same in 2017 and 2016 by comparing the recoverable amount of SATT with the carrying value of assets. The calculation impairment loss is supported by a VIU valuation of SATT by BMIA. The assessed VIU valuation of the SATT CGU in 2017 was approximately HK$135 million as compared to approximately HK$253 million in 2016 and the calculation will further consider the recoverable amount of assets under the SATT CGU in term of 'fair value less costs to sell', the trade and other receivables and property plant and equipment have fair value less cost to sell equal to carrying value of those assets and no impairment on these assets. Therefore, the decrease in VIU valuation of SATT CGU was only triggered an additional impairment loss of approximately HK$66.3 million (2016: approximately HK$185.1 million) in respect of the carrying amount of the intangible assets attributable to the customer relationship of SATT in 2017 and 2016.

(E) Factors, events and circumstances of the impairment of intangible assets cannot be anticipated at the time of acquisition of the intangible assets in February 2009

The above shown clearly that the impairment loss was due to the subsequent abrupt market and operation changes in 2016 and 2017 and the new changes in customer relationship of the SATT CGU years after the acquisition in 2012 and 2013. Those changes were happened years after the acquisition and were therefore impossible to forecast at time of acquisition in February 2009.

Save as disclosed above, all other information in the Announcement shall remain unchanged.

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

Hong Kong, 11th April 2018

As at the date of this announcement, the Board 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.

* *For identification purpose only*