Huasheng International Holding Limited
華盛國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1323)

SUPPLEMENTAL ANNOUNCEMENT IN RESPECT OF THE DISCLOSEABLE TRANSACTION IN RELATION TO THE SUBSCRIPTION OF CONVERTIBLE BONDS OF THE TARGET COMPANY

Reference is made to the announcement (the "**Announcement**") of Huasheng International Holding Limited (the "**Company**") dated 13 December 2024, in relation to, amongst others, the Subscription. Unless otherwise defined, capitalised terms used herein shall bear the same meanings as ascribed to them in the Announcement.

The Board would like to supplement the Announcement with the following information in relation to the Subscription.

Subscription

The total amount of Convertible Bonds issued by the Target Company is HK$40 million, which is fully subscribed by the Subscriber.

As disclosed in the Announcement, when determining the principal amount of the Convertible Bonds, being HK$40 million, subscribed by the Subscriber, the prevailing market conditions, the financial conditions and performance of the Target Company, the business need and prospect of the Target Company and the personal guarantee and security provided have been taken into account. Under the Debenture, a floating charge was created over the inventory, cash, receivables and bank accounts of the Target Company. The inventory, receivables and bank balances of the Target Company amounted to approximately HK$59 million as at 30 September 2024. As disclosed in the Announcement, the proceeds from the Subscription, being HK$40 million, shall only be used for procurement of new inventory by the Target Company and the proceeds from the sales of such new inventory shall only be used for satisfying the payment obligations of the Target Company under the Convertible Bonds or procurement of new inventory. The aforementioned restriction on the use of proceeds shall apply to all new inventory or subsequent inventory procured by the Target Company accordingly. Such new inventory and subsequent inventory procured by the Target Company as well as the proceeds from the sales of such inventory are also subject to the floating charge created under the Debenture. As such, the subscription amount of the Convertible Bonds is not more than 50% of the total value of the collaterals under the Debenture by way of floating charge.

Furthermore, Mr. Yip holds two residential properties in Hong Kong valued at over HK$85 million collectively. Whilst such properties are subject to mortgage loans, the remaining value of the properties after deducting the mortgage loans is over HK$40 million. The Company is therefore of the view that the subscription amount of the Convertible Bonds, being HK$40 million was fair and reasonable.

In respect of the interest rate of the Convertible Bonds, the Group took into account the financial performance of the Target Company, in particular the Target Company being profitable for the two years ended 31 March 2024, the value of the collaterals under the Debenture as well as the Personal Guarantee from Mr. Yip, and considered that the 8% interest rate, which is higher than the prevailing best lending rate, is fair and reasonable.

The Group had also taken into account the following factors when making its decision to subscribe for the Convertible Bonds:

(i) the interest income, being 8% per annum payable semi-annually, from the Target Company in respect of the Convertible Bonds;

(ii) the repayment capabilities of the Target Company and Mr. Yip based on the factors set out in the section headed "Credit risk assessment procedures" below; and

(iii) the development potential and growth opportunities of the Target Company in the wine, whisky, tea and luxury collectibles market in the event that the Group converts its Convertible Bonds into equity interest of the Target Company in the future.

In particular, based on the reasons set out in the Announcement, the Target Company is in a prime position to expand its business reach in Hong Kong and the conversion of the Convertible Bonds by the Group into equity interest in the Target Company in the future will allow the Group to tap into such a lucrative industry in such an event. The Group is of the view that given the growth potential of the Target Company, the Group will be able to participate in the growth and success of the Target Company should the Group decide to exercise its conversion rights to convert the Convertible Bonds.

As at the date of the Announcement and this supplemental announcement, the Group is still monitoring the business performance and growth of the Target Company under the recent reduction of duty on liquor with alcoholic strength of more than 30% and has no intention to exercise its conversion rights to convert its Convertible Bonds into equity interest of the Target Company at this moment. The Group will continue to monitor the business and financial performance of the Target Company before deciding whether it should exercise the conversion rights under the Convertible Bonds.

As disclosed in the Announcement, the number of Conversion Shares to be issued on conversion of the Convertible Bonds will depend on the valuation of the Target Company with a valuation date within 3 months prior to the date of conversion as shown in the valuation report prepared by a professional valuer as designated by the holder of the Convertible Bonds. The Group will engage a professional valuer to prepare the valuation of the Target Company when the Group considers that it is an appropriate time to decide whether to exercise the conversion rights under the Convertible Bonds in light of the business and financial performance of the Target Company.

Accounting treatment of the Company's subscription of the Convertible Bonds before and after the full conversion

According to the accounting policies of the Company, the receivables of the Convertible Bonds would be classified under following categories:

(i) Financial assets at amortised cost;

(ii) Financial assets at fair value through profit or loss ("**FVTPL**"); and

(iii) Financial assets at fair value through other comprehensive income ("**FVTOCI**").

Convertible bond investments are classified under the FVTPL category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at FVTOCI unless the Company designates an equity investment that is not held for trading as FVTOCI on initial recognition.

The Convertible Bonds at FVTPL are subsequently measured at fair value with any gains or losses arising from changes in fair value recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

If the Company converts the Convertible Bonds into the Target Company's shares, the Convertible Bonds at FVTPL would be derecognised and the aggregate principal amount of the Convertible Bonds would be recognised as one of the following categories at the date of share conversion, i.e. equity investment as FVTOCI, interest in associate or interest in subsidiaries since the number of conversion shares will depend on the valuation of the Target Company at the time of share conversion according to the formula as disclosed in the Announcement.

Credit risk assessment procedures

The Group had conducted credit risk assessment procedures on the Target Company and/or Mr. Yip.

In relation to Mr. Yip, the Group had obtained and reviewed his identity card and the utility bills, bank/credit card/securities account statements. In relation to the Target Company, the Group had obtained and reviewed the business registration certificate and corporate documents and filings of the Target Company and had conducted a site visit to the Target Company, engaged in discussions with the management of the Target Company and inspected the inventory of the Target Company.

To assess the repayment ability of the Target Company and Mr. Yip as the guarantor, the Group obtained the financial statements and auditor's report of the Target Company and also considered, amongst others, (i) the banking facilities, mortgage loans and related documents offered to the Target Company and Mr. Yip; (ii) the management accounts of the Target Company which has approximately HK$59 million in inventory, cash, receivables and bank accounts as at 30 September 2024; (iii) that the proceeds from the Subscription shall only be used for procurement of new inventory by the Target Company and in turn the proceeds from such sale of new inventory shall only be used for satisfying the payment obligations of the Target Company under the Convertible Bonds or procurement of new inventory; and (iv) that Mr. Yip holds two residential properties in Hong Kong valued at over HK$85 million collectively and the remaining value of the properties after deducting the mortgage loans is over HK$40 million.

As at the date of the Announcement, the Group has also further obtained a commercial credit reference agency report from Dun & Bradstreet (HK) Ltd on the Target Company which did not reveal any significant credit risk issues.

Save as disclosed above, all other information and content as set out in the Announcement remain unchanged.

By Order of the Board
Huasheng International Holding Limited
Wong Jeffrey
Executive Director

Hong Kong, 9 January 2025

As at the date of this announcement, the executive Directors are Mr. Wong Jeffrey and Mr. Kong Chi Keung; the non-executive Director is Mr. Li Renjie; and the independent non-executive Directors are Mr. Kwok Kam Tim, Mr. Tso Ping Cheong, Brian and Ms. Zhu Xiaojia.