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CHINA WOOD
中木國際

CHINA WOOD INTERNATIONAL HOLDING CO., LIMITED
中木國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

**SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO INSIDE INFORMATION**

This announcement is made by China Wood International Holding Co., Limited (the “**Company**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcement of the Company dated 4 September 2020 (the “**Main Announcement**”). Unless defined otherwise, capitalized terms in this supplemental announcement shall have the same meaning as the Main Announcement. The Board wishes to provide shareholders of the Company (the “**Shareholders**”) and potential investors of the Company with further information with respect to (i) the background; (ii) deviation from the Note terms; and (iii) implication of Rule 13.19 of the Listing Rules.

(i) **The Background – The Mercury Union Share Mortgage**

Mercury Union is an investment holding company incorporated in the British Virgin Islands with limited liability. Having made all reasonable enquiries, and to the best of knowledge of the directors of the Company (the “**Directors**”), Mercury Union owns 100% equity interest in a company incorporated in the State of Delaware of the USA which is principally engaged in property investment and the principal assets of which include four parcels of land and buildings thereon in New York, the USA (the “**Property**”) to be used towards educational purpose.

Genuine Elite, a wholly-owned subsidiary of the Company, acquired in late 2017 25,500 shares of Mercury Union (being 51% of its entire issued share capital) (the “**MU Shares**”). Genuine Elite created a share mortgage dated 30 November 2017 over the MU Shares (the “**Share Mortgage**”) in favour of Jade Coronet with respect to the subscription of a US\$30,000,000 senior guaranteed and secured fixed rate note (the “**Note**”) issued by Mercury Union pursuant to a note subscription agreement dated 21 November 2017 (the “**Note Subscription Agreement**”). On 2 September 2020, the Company received evidence showing that the Purported Share Transfer was made by Jade Coronet due to its enforcement over the Share Mortgage, reasons for which to be elaborated hereinbelow.

Having made all reasonable enquiries, and to the best of knowledge of the Directors, Jade Coronet has also taken possession of the rest of the shares in Mercury Union pursuant to enforcement over certain share mortgages in relation to shares in Mercury Union.

(ii) **Deviation from the Note terms**

Purpose of the Note

Upon the acquisition of interest in Mercury Union and its subsidiaries (the “**Acquired Group**”), the Company intended to obtain commercial loans through pledging the underlying assets of the Acquired Group. In addition to the Company’s intention above, Genuine Elite intended to repay a promissory note resulted from the acquisition of the Acquired Group (the “**Promissory Note**”). The repayment of the Promissory Note was to be made partially by internal resources and partially by collecting repayments from Mercury Union’s shareholders’ loan. Accordingly, Mercury Union issued the Note to re-finance the Promissory Note. Subsequent to the issuance of the Note, Genuine Elite has managed to repay the Promissory Note in 2019. Besides for the repayment of the shareholders’ loans, Mercury Union has intended to apply the proceeds of the Note towards expenses in relation to the repair and maintenance of the Property and general working capital of Mercury Union.

Failure to Pay Interest and Redemption Amount of the Note

Pursuant to the Note Subscription Agreement, the Group is required to pay the interest accrued on the Note quarterly and the redemption amount of the Note upon its maturity. However, as the Acquired Group's financial position has been affected by (i) the United States and China trade war taken place since 2019 and the outbreak of coronavirus in 2020; and (ii) the substantial costs, taxes and expenses incurred by the Acquired Group for repairing and maintaining the Property, Mercury Union has deviated from the terms of the Note as it has failed to pay the quarterly interest accrued on the Note and the redemption amount of the Note on the respective due dates.

Consequences of the Deviation

During May 2020, the Group has negotiated with Jade Coronet for a grace period for paying the interest accrued or other options to resolve the problem, and there has been discussion with Jade Coronet to sell the Property in order to settle the amount owed under the Note. The Group has attempted to seek consent from Jade Coronet to release the charge on the Property and has appointed a real estate broker in the USA to locate potential buyers for the Property. A third party has expressed interest to purchase the Property at a consideration of US\$30,000,000 during such time, which should be sufficient to cover the principal amount of the Note. However, Jade Coronet has subsequently enforced the Share Mortgage and made the Purported Share Transfer by using an undated pre-signed share transfer form, which has been signed and delivered as part of the security documents executed together with the Share Mortgage. The Company has questioned the validity of the Purported Share Transfer and has sought legal advice from the Company's legal advisors on possible actions to safeguard the interest of the Company and its shareholders.

Given that quarterly payments for interest accrued have been in arrears, and the redemption amount was not paid on the due date of the Note according to a letter from Jade Coronet's representative lawyer dated 6 July 2020, Mercury Union still perceive that the continuing negotiations with Jade Coronet after 6 July 2020 could remedy the deviation from the Note terms and convince Jade Coronet to accept such deviation without further actions.

The Company has used its reasonable endeavors to make necessary disclosures and take such necessary actions according to the Listing Rules as soon as practicable. However, since 7 July 2020, the registered agent of Mercury Union has been specifically told not to inform Genuine Elite about the occurrence of the Purported Share Transfer. This kept the Group in the dark until 2 September 2020. Up to late July 2020, the Company has been in close talk with Jade Coronet for possible solutions for the Note and its settlement arrangements, including the potential disposal of the Property with a view to properly settle the outstanding redemption amount and interest in relation to the Note. The Company was only fully aware of the situation when the Purported Share Transfer was evidenced on 2 September 2020, which then became mindful of the necessary disclosures and actions under the Listing Rules.

(iii) Implication of Rule 13.19 of the Listing Rules

With regard to the disclosure requirements under Rule 13.19 of the Listing Rules, the Company is of the view that the Note was not significant to the Company's operations for the following reasons:

- a) Mercury Union is a non-core investment to the Company and the Group. The Company is an investment holding company. The principal activities of the Group include car rental services, trading of materials, provision of financing services etc. On the other hand, Mercury Union and the investments made in the USA relate to asset management business in the education sector. Mercury Union has not contributed any revenue to the Group since the acquisition of the Acquired Group.

Also, the Note itself is basically backed by the mortgage of various assets of the Acquired Group, including land and building mortgages and share mortgages. The Company is of the view that the Group would not suffer from claims of substantial amount from Jade Coronet.

- b) Furthermore, as shown in the interim report in 2019, from the consolidated statement of financial position as at 30 June 2019, compared to the total asset at the material time of about HK\$1,761,363,000.00, the loan in relation to the Note, was not significant.

Even at the present time, in view of the interim report in 2020, the loan in relation to the Note is still not significant because, as mentioned, no revenue has been generated by Mercury Union, and thus, any change concerning the Note will have no effect to cash flow or revenue to the Group, neither would the daily operations of the Group be affected.

Nonetheless, as the interest of the Company and its shareholders is of paramount importance, the Group has issued a demand letter to Mercury Union and Mercury International LLC to demand for the repayment of amounts due to the Company of approximately US\$10.9 million to ensure such interest is safeguarded.

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

By order of the Board
China Wood International Holding Co., Limited
Qiu Bin
Chairman and Executive Director

Hong Kong, 20 November 2020

As at the date of this announcement, the board of directors of the Company comprises Mr. Qiu Bin (Chairman and CEO) as executive director; and Mr. Zhao Xianming, Mr. An Dong and Mr. Fung Tze Wa as independent non-executive directors.