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## **NEW CITY DEVELOPMENT GROUP LIMITED**

**新城市建設發展集團有限公司**

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

**(Stock Code: 0456)**

### **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020**

Reference is made to the annual report of New City Development Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2020 (the “**2020 Annual Report**”). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the 2020 Annual Report.

In addition to the information provided in the 2020 Annual Report, the Board would like to provide further information regarding the impairment losses for deposits and other receivables as disclosed in the consolidated financial statements of the Group for the year ended 31 December 2020.

#### **IMPAIRMENT LOSS ON BEIJING ZHONG ZHENG**

As disclosed in the 2020 Annual Report, the Group recorded impairment losses for deposits and other receivables of approximately HK\$21,629,000 for the year ended 31 December 2020, in which HK\$21,482,000 of impairment loss (the “**Impairment Loss**”) was attributable to the Group’s major receivable, Beijing Zhong Zheng Real Estate Development Company Limited\* (北京中証房地產開發有限公司) (“**Beijing Zhong Zheng**”). The aforesaid amount of Impairment Loss was assessed by an independent professional valuer engaged by the Group. Please refer to the section headed “Valuation of Impairment Loss” below for details of the valuation.

## BACKGROUND OF THE IMPAIRMENT LOSS

The Impairment Loss relates to the provision made for the debts owed by Beijing Zhong Zheng to the Company under an agreement (the “**Debt Recovery Agreement**”) made between the Company, Beijing Zhong Zheng and Beijing Sang Pu New Energy Technology Company Limited\* (北京桑普新源技術有限公司) (“**Beijing Sang Pu**”) (collectively, the “**Parties**”) on 7 March 2016 regarding the recovery of judgment debt of approximately RMB27,000,000 (equivalent to approximately HK\$32,181,000) (the “**Judgment Debt**”) arising from a lawsuit involving Beijing Zhong Zheng and the Company in the Higher People’s Court of Beijing City of the People’s Republic of China during 2014 to 2015. Details of the background of the receivables from Beijing Zhong Zheng can be found in note 26 to the consolidated financial statements on pages 108 and 109 in the Company’s annual report 2020.

Pursuant to the Debt Recovery Agreement, Beijing Zhong Zheng agreed to fully repay the Judgment Debt to the Company together with (i) an interest at 15% per annum; and (ii) a fixed fee of RMB5,000,000 (equivalent to approximately HK\$5,960,000) as compensation (collectively, the “**Recoverable Debt**”).

The Recoverable Debt was previously guaranteed by Mr. Han Junran (“**Mr. JR Han**”), an executive director and the chairman of the Company who together with Junyi Investments Limited (a company wholly owned by him) owned a total of 2,277,662,752 shares of the Company (equivalent to approximately 52.64% issued share capital of the Company) as at 31 March 2020. However, as the market price of the shares of the Company dropped significantly during the financial year ended 31 March 2020, the Company considered that it would be to the Company’s benefit for the Recoverable Debt to be guaranteed by Mr. Han Kairan (“**Mr. KR Han**”) (who is the brother of Mr. JR Han and has a high personal net worth) instead of Mr. JR Han.

The Recoverable Debt was guaranteed by Mr. KR Han pursuant to a guarantee agreement dated 30 March 2020 which expired on 30 March 2021. Mr. KR Han ceased to continue to guarantee the Recoverable Debt when the guarantee agreement was expired, as he could not foresee the economic outlook from year 2021 ahead due to the outbreak of COVID-19.

As at 31 December 2020, the Recoverable Debt owed by Beijing Zhong Zheng to the Company amounted to RMB52,294,000 (equivalent to approximately HK\$62,330,000), which consisted of (i) the Judgment Debt of approximately RMB27,000,000 (equivalent to approximately HK\$32,181,000); (ii) the accrued interest of approximately RMB20,294,000 (equivalent to approximately HK\$23,401,000); and (iii) the fixed fee of RMB5,000,000 (equivalent to approximately HK\$5,960,000).

## VALUATION OF THE IMPAIRMENT LOSS

The Group has engaged an independent professional valuer (the “**Valuer**”) to evaluate the amount of Impairment Loss. To ensure the objectiveness and accuracy of such evaluation, the Directors believed that it would be in the best interests of the Group to engage the Valuer to conduct such appraisal after considering (i) the technical complexity involved; and (ii) the professional expertise, qualifications and competence possessed by the Valuer.

The valuation of the Impairment Loss was prepared in accordance with HKFRS 9. In conducting such valuation, the Valuer adopted the probability-weighted loss default (“**PLD**”) model and took into account, amongst other things, (i) the discontinuation of the guarantee provided by the guarantor; and (ii) the deteriorating and uncertain economic outlook after the outbreak of COVID-19.

The PLD model is adopted in the Expected Credit Loss (“**ECL**”) ECL valuation and the PLD model involves the following key parameters:

- (1) Probability of Default; and
- (2) Discount Factor.

### (i) **Probability of Default**

Considering the receivable amount has been overdue by Beijing Zhong Zheng since early FY2016, the Valuer applied Ca-C rating in assessing the ECL for Beijing Zhong Zheng. The corresponding default rate (probability of default) and recovery rate for five-year-overdue, in reference to Moody’s annual default study issued in January 2021, are 69.13% and 37.90% respectively.

### *Discount Factor*

The discount rate of 5.00% is in reference to the Hong Kong dollars prime rate of Hang Seng Bank. The receivable amount is assumed to be default within one year, therefore the discount factor is derived as  $1/(1+5.00\%)^1 = 0.95$ .

- (ii) In the ECL valuation of for year 2020, the Valuer is advised by the Company that no financial guarantee would be applied for the ECL assessment of the financial year ended 31 December 2020 (“**FY2020**”) in contrast to that of the financial year ended 31 December 2019 (“**FY2019**”). Therefore, considering the receivable amount (i) has been extended for a private company such as Beijing Zhong Zheng with no published financial information; and (ii) is recognized without any financial guarantee, the Valuer applied Ca-C rating (in contrast to B1 rating in FY2019) in assessing the ECL for Beijing Zhong Zheng. And the

corresponding default rate applied is consequentially higher than that applied in FY2019, resulting in the significant amount of expected credit loss recognized in FY2020. In sum, the higher expected credit loss for Beijing Zhong Zheng in FY2020 is mainly due to the absence of financial guarantee in compared with ECL assessment in FY2019.

- (iii) As advised by the Valuer, the PLD model is adopted in the ECL valuation, where a credit rating and corresponding base default rate as well as recovery rate (in reference to Moody's latest annual default study) are assigned based on settlement status and ageing of the overdue amount. ECL is then calculated based on exposure at default (the overdue amount), base default rate, as well as recovery rate; and is discounted by the prime rate in Hong Kong, assuming the debtor may become default within one year. The PLD model is adopted as it suits the Company's accounting procedure, and the same model has been adopted in ECL valuation of previous financial years.

The above additional information does not affect other information contained in the 2020 Annual Report. Save as disclosed in this announcement, all other information contained in the 2020 Annual Report remains unchanged.

By order of the Board  
**New City Development Group Limited**  
**Han Junran**  
*Chairman*

Hong Kong, 22 June 2021

*As at the date of this announcement, the Company has (i) two executive directors, namely Mr. Han Junran (Chairman) and Mr. Luo Min; and (ii) six independent non-executive directors, namely Mr. Chan Yiu Tung, Anthony, Dr. Ouyang Qingru, Mr. Leung Kwai Wah, Alex, Mr. Zhang Jing, Mr. Wong Pak Wing and Mr. Luo Zhen.*

*In this announcement, amounts in RMB are translated into HK\$ on the basis of RMB1 = HK\$1.1919. The conversion rate is for illustration purpose only and should not be taken as a representation that RMB could actually be converted into HK\$ at such rate or at other rates or at all.*

\* *For identification purpose only*