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FURTHER SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2020

References are made to the annual report of Yin He Holdings Limited (the “**Company**”) for the year ended 31 March 2020 (the “**2020 Annual Report**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the 2020 Annual Report.

The Company would like to provide the following supplementary information in relation to the 2020 Annual Report.

ADDITIONAL INFORMATION IN RELATION TO THE QUALIFIED OPINION

As disclosed in the “Independent Auditor’s Report” of the 2020 Annual Report, the Company’s auditors issued a qualified opinion (the “**Qualified Opinion**”) in relation to the Company’s consolidated financial statements for the year ended 31 March 2020.

The following is a breakdown showing the outstanding loan principal and interest receivable from each category of borrowers and the impairments provided for the year ended 31 March 2020 and the subsequent settlements during the year ended 31 March 2021:

Outstanding loan principal and interest receivable as at 31 March 2020

Client label	as at 31/3/2020				Subsequent settlements for the year ended 31/3/2021			
	Principal HK\$'000	Interest HK\$'000	Outstanding balance HK\$'000	ECL HK\$'000	Net (per audit) HK\$'000	Principal HK\$'000	Interest HK\$'000	Total HK\$'000
A. Good borrowers, general provision of impairment made								
(A) Sub-total	239,993	8,319	248,312	(8,617)	239,695	50,159	14,033	64,191
B. Borrowers that have been facing some financial problems, specific provision of impairment made								
B1. Borrowers who have been facing some financial problems	124,000	11,262	135,262	(51,221)	84,041	10,600	6,265	16,865
B2. Borrowers who originally were classified as non-performing borrowers as at y/e 31/3/2020, but have made subsequent partial settlements during y/e 31/3/2021	142,190	7,382	149,572	(146,399)	3,174	4,464	1,000	5,464
(B) Sub-total	266,190	18,644	284,834	(197,620)	87,215	15,064	7,265	22,329
Minor adjustments	-	(7)	(7)	-	(7)	-	-	-
(A) + (B) Sub-total	506,183	26,956	533,140	(206,237)	326,903	65,223	21,298	86,521
C. Borrowers who were facing serious financial problems, specific impairment provision was made								
(C) Sub-total	107,042	9,231	116,273	(114,730)	1,543	5,000	-	5,000
(A) + (B) + (C) Sub-total	613,225	36,187	649,413	(320,967)	328,446	70,223	21,298	91,521
D. Loan receivables in relation to associate company	38,196	957	39,154	-	39,154	31,739	1,587	33,326
(A) + (B) + (C) + (D) Sub-total	651,421	37,145	688,567	(320,967)	367,600	101,962	22,885	124,847
Trade receivables, other receivables and audit adjustments	9,577	-	(128)	3,232	3,104	8,756	-	8,755
	660,999	37,145	688,439	(317,735)	370,704	110,718	22,885	133,602

The management of the Company (“**Management**”) has assessed the expected credit loss (“**ECL**”) of the outstanding loan and interest receivables based on the aging analysis, the status of the historical payment records including subsequent settlements, credit information of the borrowers, including information of the borrowers’ wealth, business operations and financial situations and forward-looking information.

As a result of the assessment, the Management classified borrowers into three categories, being:

- (A) 15 good borrowers that were in good financial condition and the Company adopted the practice of the generally accepted accounting principles in providing general provision according to the aging of the receivables in the approximate amount of HK\$8,617,000;
- (B1) 9 borrowers that have been facing some financial problems and the Company has taken prudent approach to provide specific impairment provision in the approximate amount of HK\$51,221,000;
- (B2) 6 borrowers that were formerly regarded as non-performing and have been facing serious financial problems that, in the opinion of the Company, the chance of recoverability was very low and specific impairment provision in the approximate amount of HK\$146,399,000 was also made; however, these borrowers have made partial subsequent settlements to the Company during the year ended 31 March 2021 has showed signs of slow settlements;
- (C) 7 non-performing borrowers that have been facing serious financial problems that, in the opinion of the Company, the chance of recoverability was very low and specific impairment provision in the approximate amount of HK\$114,730,000 was also made; since then save and except 1 of the non-performing borrowers who has made partial settlement of HK\$5,000,000, none of these borrowers have made and shown very little chance of subsequent settlement to the Company during the year ended 31 March 2021;
- (D) loan receivables in relation to associate companies that was in good financial condition and the subsequent settlements have been made at the time of audit, and there were no provision of impairment;
- (E) trade and other receivables owed by different parties that were in good financial condition and the Company adopted the practice of the generally accepted accounting principles in providing general provision according to the aging of the receivables in the approximate amount of HK\$126,000;
- (F) an opening balance adjustment of HK\$3,359,000 of ECL has been deducted.

In aggregate of the above, a total ECL on loan and interest receivables of approximately HK\$317,734,000 had to be recognized for the year ended 31 March 2020. While an ECL on loan and interest receivables of approximately HK\$20,630,000 has been provided for the year ended 31 March 2019; therefore, the incremental difference of HK\$297,102,000 has been provided for the year ended 31 March 2020.

Subsequent settlements during the year ended 31 March 2021

During the year ended 31 March 2021, the subsequent settlements made by borrowers (refer to Category A) were in an aggregate of approximately HK\$64.2 million including loan principal of approximately HK\$50.2 million and interests of approximately HK\$14.0 million.

Subsequent settlements made by borrowers who had been facing some financial problems (refer to Category B1) were in an aggregate of approximately HK\$16.9 million including loan principal of approximately HK\$10.6 million and interests of approximately HK\$6.3 million.

For the year ended 31 March 2020, the Management has identified 13 borrowers (refer to Category B2 and C above) from which the aggregate of the loan amount, including loan principal and interests, was approximately HK\$266 million, comprising of approximately HK\$149.6 million from Category B2 borrowers and approximately HK\$116.3 million from Category C borrowers, and in their view were non-performing.

The Management has endeavoured to recover the outstanding loan from these borrowers including issuing demand letters and applying for arbitration. During the year ended 31 March 2021, 6 borrowers (refer to Category B2 above) among those 13 borrowers has made progress of partial subsequent settlement of loan principal and interest. The aggregate of loan amount, including loan principal and interest, from these 6 borrowers was approximately HK\$150 million as at 31 March 2020, and the partial subsequent settlements made were in an aggregate amount of approximately HK\$5.5 million including loan principal of approximately HK\$4.5 million and interests of approximately HK\$1.0 million.

Excluding the 6 borrowers that has made subsequent settlement, the Management has revised their classification that only 7 borrowers with an aggregate loan amount of approximately HK\$116 million are non-performing and the Management believed that the likelihood of recovering the outstanding loan receivables is remote.

In aggregate, the Company has received subsequent settlement in the amount of approximately HK\$91.5 million including loan principal of approximately HK\$70.2 million and interest of approximately HK\$21.3 million for the outstanding loans brought forward during the year ended 31 March 2021. Including the subsequent settlement with respect to the loan receivable in relation to the associate companies of the Company (refer to Category D above) in the amount of approximately HK\$33.3 million including loan principals of approximately HK\$31.7 million and interests of approximately

HK\$1.6 million, the aggregate subsequent settlements received during the year ending 31 March 2021 was in the amount of approximately HK\$124.8 million including loan principal of approximately HK\$102.0 million and interest of approximately HK\$22.9 million.

AUDIT QUALIFICATION IN RELATION TO THE IMPAIRMENTS

As disclosed in the 2020 Annual Report, the basis of the Qualified Opinion was because (i) the Company's auditor was unable to obtain sufficient appropriate audit evidence regarding the impairment assessments of the outstanding loan and interest receivables, including sufficiently documented credit risk assessments and bases of impairment assessment on the loan and interest receivables; and (ii) there were no alternate audit procedures the auditors could perform to satisfy themselves as to the recoverability of the net carrying amounts of the loan and interest receivables and the adequacy of the allowance for credit loss of the loan and interest receivables, thus, the auditor was unable to form an opinion as to whether the carrying amount of the loan and interest receivables balances as at 31 March 2020 and the amount reported as impairment loss on loan and interest receivables for the year ended 31 March 2020 were free from material misstatements.

Action plan to address the Qualified Opinion

To address the Qualified Opinion, the Company has engaged an independent consulting company ("**Internal Control Consultant**") on 15 April 2021 to review and advise on the loan financing business cycle, internal and external documents and loan agreements ("**Internal Control Review**") with an aim to evaluate the control mechanism identified and assess if they are adequate for the business and make recommendations to the Company for any weakness in internal control identified.

The Company had been providing information to the Internal Control Consultant for review and fieldwork is expected to commence in mid-May 2021. The Company will make further announcement(s) as appropriate for further update with regards to the Internal Control Review.

In addition, in order to address the auditors' concern and with a view to removing the audit qualifications for the consolidated financial statements of the Group for the year ended 31 March 2021, the Company has allocated more resources to do the following measures:

1. To ensure adequate access to and retention of information about the borrower's reputation and risk assessment, the Company
 - has organized training on business process, risk control awareness to strengthen the sense of responsibility of risk control staff and the legal department has provided legal knowledge training about the relevant laws of contract and guarantee practice for the operating team and risk control committee to point out the legal matters where they need to pay attention to during the loan process;

- has emphasized further the standards and procedures for pre-loan, in-loan and post loan management to the operating team and required the post-loan return visits to the borrowers should be accompanied by the supervisor; and
 - has imposed on the salesman that the recoverability of the loan principal and interest should be used as one of the evaluation criteria for rank evaluation and bonus distribution to mobilize the enthusiasm of the sales to collect debts.
2. To monitor the financial condition of the borrowers, the operating team should continuously:
- seek to obtain update financial information about the borrowers;
 - make more frequent check of the borrowers' business operating data in order to identify in advance if there's any sign of the borrower were experiencing financial difficulty; and
 - sort out the borrower's litigation and assess whether it has assets that can be disposed of for repayment for borrowers who were in insolvency situation.
3. To follow up on the outstanding loans and interest receivables:
- a special person from the business department shall be delegated to collect the outstanding loans and interest and should visit door-to-door for debt collections continuously; and
 - the operating team should engage lawyers to take all necessary actions including sending demand letters and instituting legal proceedings against the borrowers with long overdue loans and interest if that is the best strategy to pursue debt collection.

The audit committee of the Company agreed with the above measures proposed for addressing the Qualified Opinion.

The auditor is in the process of carrying out the necessary audit work for the year ended 31 March 2021 for the Company. As the auditor needs time to review the outstanding loans of the Company for the year ended 31 March 2021, the Company will make further announcement(s) as appropriate for further update with regards to the removal of the Qualified Opinion.

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

By Order of the Board
Yin He Holdings Limited
Li Ang
Chairman

Hong Kong, 26 May 2021

As at the date of this announcement, the executive Directors are Mr. Li Ang and Mr. Zheng Zhong Qiang, the non-executive Director are Mr. Chang Tin Duk Victor and Mr. Lam Tsz Chung, and the independent non-executive Directors are Mr. Lam Raymond Shiu Cheung, Mr. Wang En Ping and Dr. Cheung Wai Bun Charles, JP.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company.

The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on GEM website on the “Latest Listed Company Information” page for at least seven days from the day of its posting and on the Company’s website at www.yinhe.com.hk.