HAO WEN HOLDINGS LIMITED
皓文控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 8019)**

# SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the annual report of Hao Wen Holdings Limited (the "**Company**" and, together with its subsidiaries, the "**Group**") for the year ended 31 December 2021 (the "**Annual Report 2021**"). Unless otherwise defined, capitalised terms used herein shall have same meanings as those defined in the Annual Report 2021.

Further to the information as set out in the Annual Report 2021, the Company would like to provide additional information on the allowance for expected credit losses and money lending business.

**Allowance for expected credit losses**

In addition to the information disclosed under the note 4(x) and note 6(c) to the consolidated financial statements in the Annual Report 2021, the Company would like to provide additional information on the expected credit loss of loan receivables as follows:

The Group applies the general approach, which is often referred to as "three-stage model", under IFRS 9, in which ECL of loan receivable are determined based on (a) the changes in credit quality of the loan receivable since initial recognition, and (b) the estimated expectation of an economic loss of the loan receivable under consideration. Under the general approach, there are two measurement bases for allowance of ECL: (a) 12-month ECL, which are the ECL that result from default events that are possible within 12 months after the reporting date and are calculated as the allowance for ECL on a loan receivable weighted by the probability of default accumulated over the 12 months after the reporting date; (b) lifetime ECL, which are the ECL that result from all possible default events over the expected life of a loan receivable and are calculated as the allowance for ECL on a loan receivable weighted by the probability of default accumulated over the entire life of the loan receivable.

The allowance for ECL on loan receivables is derived from gross credit exposure, recovery rate and probability of default. The Group uses the following ECL formula to calculate the allowance for ECL on its loan receivables:

Allowance for ECL = gross credit exposure x adjusted probability of default x (1 – recovery rate)

To ensure the adequacy of allowance for ECL on loan receivables, the Group engaged an independent firm of professional valuers to conduct a valuation on the allowance for ECL on loan receivables recognised for each reporting period.

As at 31 December 2021, the provision for impairment of loan receivables was approximately RMB57,618,000 (2020: approximately RMB41,843,000) based on ECL applied to different stages. The increase was due to the allowance for ECL on loan receivables under stage 3 of approximately RMB21,999,000 offset by the reversal of allowance for ECL on loan receivables under stage 1 of approximately RMB4,748,000. The increase in the allowance for ECL was mainly attributable to the prolonged pandemic and economic recession in 2021 which had an adverse impact on the financial condition of the borrowers and caused a significant decrease in their ability to meet debt obligations. After assessments based on the borrowers' repayment and financial status and communication with the borrowers, certain loan receivables have been transferred to stage 3 where lifetime ECL are recognised. The following table sets forth details of the loan receivables which categorized under stage 3:

| | **The date when the loan was granted** | **Principal amount** *RMB'000* | **Tenure and repayment schedule** | **Interest rate per annum** | **Outstanding balance as at 31 December 2021** *RMB'000* | **Events leading to impairment and latest status as at the date of this announcement** |
|---|---|---|---|---|---|---|
| Customer A | 4 September 2019 | 2,735 | 2 years, Bi-annually | 8% | 2,882 | i |
| Customer B | 8 April 2020 | 3,315 | 1.5 years, Bi-annually | 8% | 1,584 | ii |
| Customer C | 2 January 2020 | 2,486 | 2 years, Bi-annually | 10% | 2,486 | iii |
| Customer D | 14 April 2020 | 2,486 | 1.5 years, Bi-annually | 8% | 609 | iv |
| Customer E | 29 November 2019 | 2,818 | 2 years, Bi-annually | 8% | 2,961 | v |
| Customer F | 12 June 2020 | 2,072 | 2 years, Bi-annually | 13% | 2,230 | vi |
| Customer G | 6 January 2021 | 2,486 | 1 year, Bi-annually | 8% | 2,597 | vii |
| Customer H | 2 July 2021 | 2,403 | 6 months | 10% | 2,501 | viii |
| Customer I | 4 January 2021 | 1,243 | 1 year, Bi-annually | 8% | 1,325 | ix |
| Customer J | 5 July 2021 | 2,734 | 6 months | 10% | 2,824 | x |

*Notes:*

(i) The interests were settled as scheduled since the loan was granted, yet the principal and last instalment of interests were not fully settled by the due date in 2021. Upon review by the management and discussion with the auditors, the outstanding balance was transferred to stage 3. The loan has been settled as at the date of this announcement.

(ii) All interests and part of the principal were settled after the loan was granted, yet the remaining principal was not fully settled by the due date in 2021. Upon review by the management and discussion with the auditors, the outstanding balance was transferred to stage 3. The Group has agreed with the customer on new repayment arrangements.

(iii) The interests were settled as scheduled since the loan was granted, yet the principal was not settled by the due date in 2022. Upon review by the management and discussion with the auditors, the outstanding balance was transferred to stage 3. The Group is negotiating with the customer on new repayment arrangements, legal actions may be taken if no positive results arises by this year end.

(iv) All interests and part of the principal were settled after the loan was granted, yet the remaining principal was not fully settled by the due date in 2021. Upon review by the management and discussion with the auditors, the outstanding balance was transferred to stage 3. The loan has been settled as at the date of this announcement.

(v) The interests were settled as scheduled since the loan was granted, yet the principal and last instalment of interests were not settled by the due date in 2021. Upon review by the management and discussion with the auditors, the outstanding balance was transferred to stage 3. The Group has agreed with the customer on new repayment arrangements.

(vi) The interests were settled as scheduled since the loan was granted, yet the principal and interests was not fully settled by the due date in 2022. Upon review by the management and discussion with the auditors, the outstanding balance was transferred to stage 3. Part of the loan has been settled during 2022 and the Group has agreed with the customer on new repayment arrangements.

(vii) The interests were settled as scheduled since the loan was granted, yet the principal and last instalment of interests was not settled by the due date in 2022. Upon review by the management and discussion with the auditors, the outstanding balance was transferred to stage 3. The Group has agreed with the customer on new repayment arrangements.

(viii) The principal and interests was not fully settled by the due date in 2022. Upon review by the management and discussion with the auditors, the outstanding balance was transferred to stage 3. Part of the loan has been settled during 2022 and the Group has agreed with the customer on new repayment arrangements.

(ix) The interests were settled as scheduled since the loan was granted, yet the principal and interests was not fully settled by the due date in 2022. Upon review by the management and discussion with the auditors, the outstanding balance was transferred to stage 3. The loan has been settled as at the date of this announcement.

(x) The principal and interests was not fully settled by the due date in 2022. Upon review by the management and discussion with the auditors, the outstanding balance was transferred to stage 3. Part of the loan has been settled during 2022 and the Group has agreed with the customer on new repayment arrangements.

All loans as set out above are unsecured and are granted in accordance with the Group's internal control procedures as described below. All borrowers and its ultimate beneficial owners are independent third parties of the Company and its connected person.

As at 31 December 2021, the Group has 143 customers under its money lending business.

The Group has persistently implemented internal control measures in relation to the money lending business and remains sensitive in minimizing the credit risk it is exposed to. The internal controls are designed to meet the Group's needs and to minimize the credit risks to which the Group is exposed to, and provide reasonable but not absolute assurance against losses. The impairment was recognised due to the unpredictable and uncontrollable factors which included the prolonged pandemic and its economic impact. The Directors consider that internal control procedures of the Group significantly reduced the credit risk and were sound and effective.

**Money Lending Business**

***Business model***

The Group's money lending business is managed through a wholly-owned subsidiary with money lenders license issued under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). The Group provides both secured and unsecured personal loans, mortgage loans and corporate loans to individuals and corporate customers.

The following internal control procedures are put in place:

***Assessment and approval***

The Group has developed a credit policy and procedures manual for its money lending business. The credit policy and procedures manual specifies, among others, the loan application, credit approval and monitoring ongoing credit risk procedures. Prior to grant of a loan to a borrower, the Group carries out credit risk assessment on the borrower, taking into account, among other things, the background and character of the borrowers, shareholders' background, character, and management capability (if any), purpose of the loan, value of collateral and guarantee (if any), where applicable, relevant public searches and the financial strength of the borrower, shareholder and guarantor.

***Monitoring of loan recoverability***

The Group closely reviews and monitors the loan repayment status subsequent to the drawdown of loans on a regular basis to ensure that loan repayments are punctual and past due accounts are handled efficiently. When there is past due accounts, the Group would take actions including discuss the repayment terms or settlement proposals with the borrower and if unsuccessful, legal action would be taken against the borrower.

**Major terms of the loans granted**

The terms of a loan are determined on a case-by-case basis following arm's length negotiation between the Group and the borrowers, taking into account the factors such as the borrowers' requirements, the credit risks and prevailing market conditions. As at 31 December 2021, the loan receivables balance was approximately RMB291,482,000. The interest rate ranged from 8% to 15% and loan tenure ranged between 6 months to 2 years. During the year ended 31 December 2021, the amounts of loan receivables from the largest borrower and the five largest borrowers in aggregate amounted to approximately RMB5,078,000 and RMB24,855,000, respectively. They accounted for approximately 1.7% and 8.5% respectively of the loan receivables of the Company as at 31 December 2021.

**Loan Impairments**

The Group applies the general approach under IFRS 9, in which ECL of loan receivable are determined based on the changes in credit quality of the loan receivable since initial recognition and the estimated expectation of an economic loss of the loan receivable under consideration. In calculating the ECL rates, the Group considers historical loss rates for each category, the prevailing economic conditions, value of collateral and adjusts for forward looking data. The Group monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk on a regular basis and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due. Due to financial uncertainty triggered by multiple waves of COVID-19 outbreak, the credit default risk was higher for the year ended 31 December 2021.

By Order of the Board
**HAO WEN HOLDINGS LIMITED**
**TSUI Annie**
*Chairperson*

Hong Kong, 10 October 2022

*As at the date hereof, the Board comprises Ms. TSUI Annie and Mr. FENG Keming as executive Directors, and Mr. CHAN Kwan Yiu, Ms. MA Sijing and Ms. HO Yuen Ki as independent non-executive Directors.*