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Royal Century Resources Holdings Limited

仁德資源控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 8125)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2022

Reference is made to the annual report (the “**Annual Report**”) of Royal Century Resources Holdings Limited (the “**Company**”, together with its subsidiaries as the “**Group**”) for the year ended 31 March 2022 (the “**Year**”) published on 30 June 2022. Unless the context otherwise requires, capitalized terms used in this announcement shall have the same meanings as those defined in the Annual Report.

The Board wishes to provide additional information in relation to the money lending business of the Group (the “**Money Lending Business**”) and the impairment loss on the loan receivable recognised by the Company for the Year.

MONEY LENDING BUSINESS

The Money Lending Business was carried out by a wholly owned subsidiary (the “**Subsidiary**”) of the Company under money lenders license granted by the licensing court in Hong Kong pursuant to the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

The Subsidiary focuses on potential corporate or personal borrowers including well-established business and wealthy and reputable individuals ranged from executives, businessmen and professionals. The potential borrower(s) are generally induced through (i) the management team of the Group; (ii) direct approaches from potential borrowers; and (iii) referral from existing borrower(s). The Group adopts a prudent approach to carry out the Money Lending Business with sourcing of its funds from internally generated cash resources.

Before granting loans to potential borrower(s), the Group uses an internal credit assessment process to assess the potential borrower’s credit quality and defines credit limits granted to borrowers. Limits attributed to borrowers are reviewed by the management regularly.

As at 31 March 2022, the loan portfolio consisted of two unsecured loans with principal amount of HK\$3 million each. The loans were granted with initial term of 1 year in 2017 and 2018, respectively, and were renewed and further extended for a term of 1 year in 2021. The loans have been due for repayment as at the end of the year. As at the date of grant, the respective loans did not exceed 5% of the highest applicable ratio percentage and thus, the loans did not constitute discloseable transactions under Chapter 19 of the GEM Listing Rules. The Group had also carried out the internal credit assessment process, based on the background information of the borrowers and to the best knowledge of the Directors, the borrowers are independent third parties to the Group and thus, the loans did not constitute connected transactions under Chapter 20 of the GEM Listing Rules.

Credit Risk Assessment and Internal Control Procedures

The Group had established its money lending policies/manuals of the Group (the “**Manuals**”), including the procedures in relation to the implementation of Anti Money Laundering and Counter-Terrorist Financing System and credit assessment procedure to regulate the Money Lending Business operation to ensure a comprehensive risk management so as to safeguard the Group’s and, most importantly, the Shareholders’ interest.

In general, each loan application must go through three stages before granting to the borrower, namely (i) document collection and verification; (ii) credit risk assessment; and (iii) approval. The Manuals had set out, among others, (i) a list of documents and information required for each loan application; (ii) the general framework of the credit assessment process including but not limited to the factors to be considered such as the applicant’s background, financial and repayment abilities, credit worthiness and intended use of the loan; and (iii) the approval authorisation for each type of loan application.

The following is a summary of the general guidelines of assessing loan applications by the management team (the “**Management Team**”) of the Subsidiary:

- (A) Identity proof – identity card and passport from individuals and business registration certificate, certificate of incorporation and the constitutional documents from corporate entities must be provided for verification;
- (B) Address proof – utility bills, bank/credit card statements or formal correspondence issued by either a governmental department or statutory body is required to be produced;
- (C) Repayment ability assessment – to assess the repayment ability of each borrower, in addition to the background search, the Management Team checks the availability of guarantor, where applicable, past payment record and any other available information to evaluate the repayment ability of the borrower(s); and
- (D) Credit worthiness assessment – Searches and background checks would be conducted upon potential clients such as bankruptcy or winding up search and litigation search; background search and media searches.

Based on the above procedures, the Company considers that the credit risk and the risk of breaching the relevant laws and regulations in connection with anti-money laundering or antiterrorist financing are relatively low. Nonetheless, the Company has in place all necessary measures to mitigate the risk of money laundering or terrorist financing risk of potential borrowers’ businesses, such as the nature and details of the business/occupation/employment of the potential borrower; the anticipated level and nature of the activity; location of potential borrower; the expected source and origin of the funds; and the initial and ongoing source(s) of wealth or income.

All loans being granted should be approved, on a case-by-case basis including a set of standardised know-your-customer procedures and due diligence process. During the process, the Management Team should obtain and verify the income proof/cash flow proof of the applicant, and if securities/collateral involved, the asset proof.

After credit assessment and review of the loan applications, with the loan terms determined (having taken into consideration factors such as the credit risks of the borrowers, their recoverability and the prevalent market interest rates), loan documents will be prepared by the Management Team and the loans will be recommended for the review of the director(s) of the Subsidiary prior to reporting to the Board or approval (as the case may be). The director(s) of the Subsidiary, will be responsible for the approval of loans in relatively smaller amount, and reporting the same to the Board.

The Management Team would report the potential loan(s) to the Company and the Board for the consideration by its members, if it is of larger amount (i.e. by assessment of size tests under chapter 19 of the GEM Listing Rules, may constitute a discloseable transaction or above), in which case, such potential loan(s) shall be reported by the Subsidiary's director(s) who will elaborate to the Board such potential loan(s) in contemplation and the recommendations therewith for discussion and approval, the Directors (including the independent non-executive Directors) shall then consider whether such loans are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole. Moreover, for any potential loan(s) which may involve connected person(s) as defined under chapter 20 of the GEM Listing Rules, such loan(s) will be reported to the Board immediately for assessment with respect to size tests and assessment by the Board as elaborated above.

The Manuals further provide the guideline for dealing with loan and interest repayment of default. Generally, the designated officer of the Group shall first remind the borrower prior to the due date of the loan. Should the borrower fail to repay the loan and interests promptly, the Manuals set out the loan collection procedure to monitor the recoverability of the loan on an ongoing basis.

The Impairment Loss

As included in notes 6(b) and 23 to the consolidated financial statements in the Annual Report, the Company recognised a provision for impairment loss of approximately HK\$819,000 on loan and interest receivable (the "**Impairment Loss**") as at 31 March 2022. Save as disclosed in the Annual Report, further information and update regarding the loan and interest receivable of the Group and the Impairment Loss is set out below:

The Group recognized the Impairment Loss under HKFRS 9 expected credit loss ("**ECL**") model on loans and interests receivables for the Year which has reviewed by the auditor of the Company. The ECL model is a probability-weighted estimate of credit losses, which are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flow due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at original effective interest rate, where the effect of discounting is material.

When estimating the ECL on loan and interest receivable, the Group has considered the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis by comparing the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. The Group has also taken into account forwarding-looking information including actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparties' ability to meet its obligations.

Under the general approach of the ECL model, the assumptions underpinning the Group's for the loans and interest receivables are set out below:

Category	Definition of category	Basis for recognition of ECL provision
Stage 1	Exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination.	Portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.
Stage 2	Exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired.	Lifetime expected losses (i.e. reflecting the remaining lifetime of the financial asset) is recognised.
Stage 3	Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.	Lifetime expected losses is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

Practically, in setting the stage for the loans and interest receivables, the Group will consider the characteristic of the loans and interest receivables and recognise the ECL provision according to the respective accounting practice of the Group. The loans have been assessed individually based on the probability of default and exposure of default. Since both loans have been due for repayment as at 31 March 2022, the probability of default would have increased. However, considering the credit worthiness and by reviewing the past repayment history of the borrowers where all accrued interests have been settled during the year and/or subsequent to the year, the Group considers the loans are not credit-impaired and are categorised as Stage 2 for ECL assessment.

The Board is of the view that the above-mentioned methodology and the basis applied were common and widely used in the market and such approach in measuring the ECL on loan and interest receivable is consistent with practice adopted by Group. The Board considers such methodology and the basis applied are fair and reasonable.

Last but not least, the Management Team would conduct regular review and carry out follow up actions (on a quarterly and continuing basis) in respect of overdue amounts to minimise the Group's exposure to credit risk and follow up closely with its borrowers as to the deadlines in payment of interest of the loans. An aging analysis of the debtors is prepared on a monthly basis and is closely monitored to minimise any credit risk associated with these debtors. The Management Team will in turn report the status of the Subsidiary's loan portfolio to the Board monthly, such that the Board may closely monitor the loan portfolio and continue to adopt risk control and management strategies while broadening the customer base.

The Subsidiary has standard procedures in dealing with default in payment. In case there are any minor defaults, its management will send reminder and/or demand letters to its borrowers. In case the default for loans persists (i.e. delay in repayment has exceeded for three months or above), the collection procedure will consider to commence and the Subsidiary will consider to engage lawyers in advising on the loan, its recovery and enforcement action.

GENERAL

The information contained in this supplemental announcement does not affect other information contained in the Annual Report and save as disclosed above, all other information in the Annual Report remains unchanged.

By order of the Board
Royal Century Resources Holdings Limited
Chan Chi Yuen
Chairman

Hong Kong, 16 November 2022

As at the date of this announcement, the executive Directors are Mr. Chan Chi Yuen (Chairman), Mr. Wang Jun and Mr. Zhang Weijie; the non-executive Director is Mr. Tsang Kei Cheong; and the independent non-executive Directors are Mr. Chan Chiu Hung Alex, Mr. Wu Zhao and Mr. Lam Cheok Va.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (“HKEx”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, 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 the “Latest Listed Company Information” page of the HKEx website at www.hkex.com.hk for at least 7 days from the date of its posting and on the website of the Company at www.royalcentury.hk.