

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



CEFC Hong Kong Financial Investment Company Limited

香港華信金融投資有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1520)

SUPPLEMENTAL ANNOUNCEMENT TO ANNUAL REPORT

Reference is made to the annual report of CEFC Hong Kong Financial Investment Company Limited (the “**Company**”) for the year ended 31 December 2019 (the “**2019 AR**”) published by the Company on 17 April 2020. The directors of the Company (the “**Directors**”) wish to provide the following supplemental information to the 2019 AR to the shareholders of the Company.

As mentioned on page 22 of the 2019 AR, impairment loss on goodwill arising on the acquisition of money lending operation (the “**Money Lending Business**”) of approximately HK\$30,290,000 was incurred in 2019 (2018: nil). This arose from the downward update on future revenue growth assumptions based on (i) negative outlook of Hong Kong economy, and (ii) the Group lost one major customer (the “**Customer**”) in 2019. Goodwill was valued at approximately HK\$57,366,000 at 31 December 2019 (2018: HK\$87,656,000). The Directors wish to provide supplemental information on the factors which have been considered in assessing the impairment loss on goodwill relating to the Money Lending Business as follows:

- (i) as the Group’s customers for the Money Lending Business are mainly in Hong Kong, the Money Lending Business is heavily influenced by the Hong Kong economy. The social unrest in Hong Kong during the second half of 2019 had unavoidably posed negative impact on the outlook of the Money Lending Business; and

- (ii) the loans granted under the Money Lending Business are mostly short term with tenure of up to one year, subject to renewal upon satisfactory credit assessments. Due to the short term nature of the loans, the customer mix and loan profile of the Money Lending Business change from year to year in its ordinary course of business. The Customer relates to a one-year loan (the “**Loan**”) in the principal amount of HK\$43 million granted by the Group in September 2017 (details of which were disclosed in an announcement of the Company dated 11 September 2017). Upon expiry of its initial tenure in September 2018, the Loan was not renewed after the Group re-assessed the quality of the underlying securities and the credit risk involved. To maintain the growth of the Money Lending Business, the Group had sought to secure new customers and renew the tenure of the loans granted to other customers with satisfactory credit assessments. As at 31 December 2019, the size of the loan portfolio amounted to approximately HK\$112.5 million, versus that of approximately HK\$105.3 million as at 31 December 2018. Despite the Group managed to increase its loan portfolio size in 2019, the size of the new loans granted during 2019 and the interest rate thereof were not expected to generate revenue contribution to sufficiently compensate the effect of change in customer mix and loan profile including the non-renewal of the Loan which effectively resulted in the loss of the Customer from the loan portfolio.

It was further mentioned in note 17 to the financial statements on page 180 of the 2019 AR that for the purpose of impairment testing, goodwill is allocated to the cash generating unit in relation to the Money Lending Business (the “**Money Lending CGU**”). The Directors would also like to provide supplemental information on the basis of the valuation of the Money Lending CGU as follows:

- (i) in accordance with HKAS 36, the recoverable amount of the Money Lending CGU (the “**Recoverable Amount**”) is the higher of its fair value less costs of disposal and its value in use. The impairment loss of approximately HK\$30,290,000 recognised during the financial year ended 31 December 2019 represented the amount by which the carrying amount of the Money Lending CGU exceeds the Recoverable Amount (which is the value in use in this case). The value in use was determined using discounted cash flow approach based on cash flow projections from formally approved budgets covering a five-year period. This valuation approach was adopted in accordance with HKAS 36 and consistently for the two financial years ended 31 December 2018 and 2019;

- (ii) the discount rate applied to the cash flow projections in 2019 was 11.4% (2018: 13.4%). The drop in discount rate used in 2019 was mainly due to the decline in the cost of equity derived using CAPM model caused by the decrease in equity risk premium, which was in turn attributable to the observed decrease in overall market return in Hong Kong in 2019; and
- (iii) revenue growth rate for the five-year period in the cash flow projections in 2019 was 3% (2018: 5%), which was adopted based on the 10-year average inflation rate in Hong Kong. The drop in growth rate as compared to that adopted in the previous financial year was assumed due to the difficult market outlook of the Money Lending Business in Hong Kong as explained above. The Directors considered that such growth rate was appropriate and expected the political and economic environment would resume to normal in the following years despite the drop in revenue from the Money Lending Business due to the exceptional difficult market in 2019.

The information contained in this supplemental announcement does not affect other information contained in the 2019 AR and save as disclosed above, all other information in the 2019 AR remains unchanged.

By order of the board of Directors
CEFC Hong Kong Financial Investment Company Limited
Guo Lin
Chairman

Hong Kong, 23 September 2020

As at the date of this announcement, the executive Directors are Mr. Guo Lin, Mr. Jiang Mingsheng, Mr. Jiang Tianqing, Ms. Tin Yat Yu Carol and Mr. Cheung Ka Lung; and the independent non-executive Directors are Mr. Tang Shu Pui Simon, Mr. Hon Ming Sang and Professor Wu Fei.