EGIC 中國恒嘉融資租賃集團有限公司

CHINA EVER GRAND FINANCIAL LEASING GROUP CO., LTD.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 379)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2020 AND UPDATES ON THE RESULT OF PROFIT GUARANTEE OF TRIPLER

SUPPLEMENTAL INFORMATION TO THE ANNUAL REPORT

Reference is made to the annual report for the year ended 31 December 2020 (the "**Annual Report**") of China Ever Grand Financial Leasing Group Co., Ltd. (the "**Company**", together with its subsidiaries, the "**Group**") which was published on 28 April 2021. Unless otherwise stated, capitalised terms used in this announcement have the same meanings as defined in the Annual Report.

The Company would like to supplement the Annual Report with additional information pursuant to the Listing Rules in the following paragraphs headed in the Annual Report:

(1) Referring to Page 21 of the Annual Report, the Company would like to supplement the following information at the paragraph headed "UPDATE ON USE OF PROCEED IN RELATION TO FUND RAISING ACTIVITIES"

The unused proceeds of HK$4.7 million (the "**Unused Proceeds**") is expected to be utilised to improve and enhance the existing production lines for the Food Additives Business. It is also expected that the Unused Proceeds will be fully utilised by 31 December 2021.

(2) Referring to Page 17 of the Annual Report, the Company would like to supplement the following information at the paragraph headed "SIGNIFICANT INVESTMENTS AND MATERIAL DISPOSALS"

The Group recorded equity investments at FVOCI and financial assets at FVTPL of HK$279.8 million, representing 23.6% of the total assets as at 31 December 2020. Among the equity investments in these categories, there is an equity investment of 55,500,000 shares of Imagi Brokerage, or approximately 9.99% of the total issued shares of it, whose fair value and cost amounted to approximately HK$74.3 million or 6.3% of the Group's total asset as at 31 December 2020. Imagi Brokerage mainly engages in the business of Type 1, 2, 4, 5 and 9 regulated activities licensed by the SFC in Hong Kong.

The strategies of the investment in Imagi Brokerage are mainly (i) bringing financial returns to the Group by receiving dividends, and (ii) capital growth of the shares in Imagi Brokerage. There was no realised or unrealised gain or loss on its fair value during the year ended 31 December 2020.

Although the financial performance of Imagi Brokerage remained profitable in 2020, there was no dividend declared by Imagi Brokerage for the year ended 31 December 2020. Save and except the equity investment mentioned above, there was no other single significant investment with a value of 5% or more of the Group's total assets held by the Group as at 31 December 2020 (including any investment in an investee company with a value of 5% or more of the total assets of the Group as at 31 December 2020).

(3) Referring to Page 5, Page 13 and Page 204 of the Annual Report, the Company would like to supplement the following information at the paragraphs headed "RESULTS OF OPERATIONS", "CREDIT EXPOSURE" AND "CREDIT RISK" UNDER "FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES" RESPECTIVELY

The impairment losses on the receivables of approximately HK$199.4 million were mainly derived from two projects, namely Qinghai Pingan High-precision Aluminum Industry Co., Ltd. ("**Qinghai**") project and Sanya Phoenix International Airport Co., Ltd. ("**Sanya**") project. Both projects are the ordinary money channel business of the finance lease business conducted by BJ Ever Grand. Qinghai is regarded as one of the largest Chinese state-owned aluminum product manufacturers. The average ratio of cumulative impairment losses over the gross outstanding balance of these two projects in aggregate was approximately 62% of the total gross outstanding balance. The remaining amount of HK$3.3 million was related to other ongoing projects which were assessed under the minimum credit exposure at the stage 1.

Considering the circumstances of the Qinghai and Sanya projects in the year end of 2019 and its less significant financial effect at that time, they were not disclosed in detailed in the previous annual report. However, the circumstances and business environment changed dramatically following the continued global outbreak of COVID-19 pandemic as at 31 December 2020. The basis of the impairment assessments of the two projects were as below:

Impairment-loss driven events about Qinghai project

Given the facts that (i) a partial interest of an instalment had been overdue from Qinghai for more than 3 months as at 31 December 2019, and (ii) there were default records on some USD-denominated bonds issued by the guarantor of the Qinghai project, being the ultimate holding company of Qinghai as at 31 December 2019. In light of above, the Group considered that the credit of Qinghai was severely impaired (i.e. stage 3, being the most severe credit exposure out of the three categories) as at 31 December 2019 and impairment loss for this receivable was recognised under an expected credit losses ("**ECL**") assessment in "lifetime credit-impaired" (i.e. the most stringent assessment) in accordance with Hong Kong Financial Reporting Standard 9 – "Financial Instruments" ("**HKFRS 9**") accordingly.

The liquidity problems of Qinghai even worsened in 2020 and so the credit exposure remained at the highest level. Accordingly, impairment loss of approximately HK$99.2 million for this receivable was recognised, but with a greater extent, under the same assessment.

Impairment-loss driven events about Sanya project

Although the receivable from Sanya project was yet to be overdue as at 31 December 2019 (until January 2020 when the whole project sum was overdue), there were some recent default histories on some onshore bonds by the controlling shareholder of Sanya at that time. It indicated that the credit risk of Sanya's group including Sanya increased. In light of above, it was considered that there was a significant increase in credit risk (i.e. stage 2) as at 31 December 2019, being the intermediary credit exposure out of three categories, and impairment loss for this receivable was recognised under an ECL assessment in "lifetime not credit-impaired" in accordance with HKFRS9 accordingly.

As at 31 December 2020, the entire receivable had been overdue for more than 3 months. Worst still, a reorganisation order was made by a PRC court against Sanya and its guarantor in February 2021. In light of these, the credit exposure was upgraded from stage 2 to stage 3 as at 31 December 2020, and thus an impairment loss of approximately HK$96.9 million for this receivable was recognised under an ECL assessment in "lifetime credit-impaired" in accordance with HKFRS 9 accordingly.

A valuation report (the "**Valuation Report**") was prepared by an independent valuer, namely Access Partner Professional Services Limited (the "**Valuer**"), in relation to the valuation of the impairment losses arising from the Qinghai project and the Sanya project. The key inputs of the model comprise of exposure at default ("**EAD**"), probability of default ("**PD**"), loss given default ("**LGD**") or recovery rate upon default ("**Recovery Rate**"), and discount rate. Their values and the considerations behind them are as follows:

Receivable from Qinghai project

1) Exposure at default: RMB187,000,000 (RMB200,000,000 – RMB13,000,000)

   It is based on the outstanding balance/principal of RMB200,000,000 minus the value of risk-minimising security measures such as secured assets and guarantee. The reorganisation order in June 2020 prevented the legal owner from exercising its right to realise the secured machineries and equipment on the market in the near future. Without a reliable timeline to restore the right to sell coupled with difficulty in obtaining the second market information about the assets in the similar kind, only 5% scrap value of the total value of the secured asset (i.e. RMB13,000,000) was adopted in the calculation of the ECL assessment. Although the reorganisation order was made to restrict the legal owner from exercising its right to realise the secured machineries and equipment, such an order is not permanent in nature. The Valuer takes the view that 5% scrap value is reasonable by benchmarking residual values of the assets in kind and also recoverable because the legal owner will be able to realise the secured machineries and equipment, in case that (i) Qinghai proceeds to the winding-up proceeding once the reorganisation plan fails, or (ii) the reorganisation order is uplifted following the successful implementation of the reorganisation plan. In addition, given the guarantor of the Qinghai project was subject to the same reorganisation order, the recoverability through enforcement of repayment obligation against the guarantor was slim, no extra value of the corporate guarantee was considered.

2) Probability of Default: 100%

   Given the fact that part of the principal had been in default as at 31 December 2020 as mentioned above and the grant of the reorganisation order against Qinghai (and its guarantor) caused the remaining principal repayment to become overdue immediately under the PRC law, it was considered the entire sum was already defaulted.

3) Loss Given Default: 61.03%

It is based on two relevant references to derive a recovery rate of 38.97%, namely (i) tender offer price of two defaulted USD-denominated bonds issued by Qinghai Provincial Investment Group Co., Ltd., the guarantor of Qinghai, and (ii) a recovery rate of the industry, to which Qinghai's operations relate, with reference to the latest Moody's report titled "Default Trends – Global" published by Moody's Investors Service, Inc., being an internationally recognised credit rating agency (the "**Moody Report**"). It was derived from empirical studies of analysing the recoveries of defaulted corporate bonds of issuers incurred in 1983 to 2020. Loss given default is inversely related to the recovery rate by a formula of "100% minus the recovery rate".

4) Discount Rate: 5.46%

It is based on the contractual interest rate in accordance with the finance lease agreement with Qinghai that is 4.75% (i.e. the then long-term loan prime rate in the PRC) with 15% premium of it.

Receivable from Sanya project

1) Exposure at default: RMB135,000,000

It is based on the outstanding balance/principal RMB135,000,000 minus the value of risk-minimising security measures such as secured assets and guarantee. Given the facts that (i) the medium and long term prosperity of aviation industry looked severely grim because of the ongoing COVID-19 pandemic, (ii) the material liquidity issues of the reorganisation order against Sanya (and its guarantor) in February 2021 loomed over its future operation scale and even the threat of closure, and (iii) the stringent demand for aviation facilities in the most difficult times of aviation industry's history, the Valuer cautiously assigned a minimal market value of the secured aviation facilities which was further adjusted downward to nil by the Company's management for the sake of prudence. Similarly, given the adverse situation of the guarantor as mentioned above, no extra value of the corporate guarantee from the guarantor is adopted.

2) Probability of Default: 100%

Given the fact that the entire principal had been in default as mentioned above as at 31 December 2020, it was considered the entire sum was already defaulted.

3) Loss Given Default: 57.74%

It is based on a recovery rate of the industry of approximately 42.26%, to which Sanya's operation relate, with reference to the Moody Report.

4) Discount Rate: 9.00%

It is based on the fixed contractual interest rate in accordance with the finance lease agreement with Sanya.

VALUATION REPORT

The valuation in the Valuation Report was performed in accordance with HKFRS 9 which was to estimate the total ECL of the long-term receivable. The Valuer has adopted general approach to perform the valuation. In valuing the total ECL under HKFRS 9, probability-weighted expected credit losses of multiple possible events ("**PWECL**") model was adopted. The PWECL model involves the following four key parameters:

(i) EAD;

(ii) PD;

(iii) LGD or 100% minus Recovery Rate; and

(iv) Discount factor.

In this model, the total ECL is derived from summing the ECL of all the expected default events within a specific period. Other than the assessment under stage 1 where the specific period is only limited to possible default events within 12-months after the end of a reporting period, the assessments under stage 2 and 3 cover the period even beyond 12-months and thus a life-time period. The total ECL for each possible event is calculated as a combination of the above four key parameters. The model is commonly adopted by the prevailing accounting and valuation professionals.

There are three significant changes in the key parameters, namely possibility of default, value of risk-mitigating measures embedded in exposure at default and value of Recovery Rate, caused by the change in facts and circumstances relating to the receivables from Qinghai and Sanya projects. As a result of these adverse changes, the amount of impairment loss significantly increased in 2020.

Receivable from Qinghai project

The possibility of default increased from 52% in 2019 to 100% in 2020. The increase was mainly due to the fact that the entire principal had been in default as at 31 December 2020 as a result of the events in 2020 set out in above while it had not as at 31 December 2019.

In addition, the value of risk mitigating measures were dropped. Given that only a minimal residual value of the secured machineries and equipment could be ascertained and no extra value from the guarantee as a result of the adverse changes in facts and circumstances around Qinghai in 2020 as mentioned above. Therefore, the Valuer had adopted a recovery rate taken into account both two defaulted USD-denominated bonds issued by the guarantor of Qinghai project and the recovery rate of the industry, to which Qinghai's operations relate, with reference to the latest Moody Report as mentioned above.

Receivable from Sanya project

The possibility of default increased from 32% in 2019 to 100% in 2020. The increase was mainly due to the fact that the entire outstanding amount was overdue as at 31 December 2020 while it was not as at 31 December 2019.

In addition, the value of risk mitigating measures dropped as a result of the adverse changes in facts and circumstances around Sanya in 2020 as mentioned above. Therefore, the Valuer adopted a recovery rate referenced to recovery rate of the industry, to which relevant to Sanya, with reference to the latest Moody Report as mentioned above.

It is assessed by the Board that the Company has sufficient and adequate internal control procedures in place over the granting, monitoring and collecting loans and there is always proper credit assessment conducted before granting the loans, including the loans advanced at the Qinghai project and the Sanya project. Apart from the operating procedures in place, the Company also conducts annual internal control review over their finance lease business.

In November 2015, the Company indirectly acquired and obtained 51.39% of the total registered capital of BJ Ever Grand through the acquisition (the "**Acquisition**") of 100% issued share capital of China Ever Grand Capital Group Limited (the "**Target Company**" and the Target Company together with its subsidiaries the "**Target Group**"), and BJ Ever Grand and its subsidiaries are mainly engaged in the finance lease and related consultancy service in the PRC. For further details of the Acquisition, shareholders of the Company may refer to the circular of the Company dated 30 October 2015 (the "**Circular**"). At the time of the Acquisition, the Company had conducted a comprehensive internal control review over the finance lease business.

Due to the change of business environment, there are some major changes to the operating procedures of the finance lease business, and the major changes of which are set out as follows: –

1. The Marketing Division, the Financial Market Division and the Risk Management Division were merged as Operation Division, while the Account and Finance Division was renamed as Finance and Treasury Division;

2. Some roles and responsibilities of the former division, such as calculating the preliminary ratios in relation to the returns of the projects, were transferred to Operation Division;

3. The role and responsibilities of former Risk Review Division were taken over by Mr. Qiao Weibing, the general manager, chairman of the board and legal representative of BJ Ever Grand and Mr. Qiao Weibing is also an executive Director of the Company; and

4. In relation to the assessment of credit risk, Mr. Qiao Weibing may also seek opinions from external legal advisers especially in the course of preparation and execution of legal documents when necessary.

Following the above changes since the Acquisition, there are some minor updates on the current operating procedures, which were disclosed at Page 19 of the Circular after the paragraphs headed "Stage 1: Identification of potential lessees".

Stage 1: Identification of potential lessees

The Operation Division of the Target Group keeps close contacts with potential customers and financial institutions from time to time to explore any potential business opportunities.

Stage 2: Application and credit assessment

The Operation Division of the Target Group evaluate the background and the credit worthiness of any new customers by considering its financial position, market share, background of shareholders and business reputation. The Target Group also take into consideration their business strategies in future and their expansion plan. After assessment, the Operation Division will make application and the management of the Target Group will decide whether to make quotation and the proposed terms of the finance lease based on the application, source of funding, preliminary risk of the application and assessment of costs by Finance and Treasury Division.

Stage 3: Due diligence and quotation

After preliminary approval by the management, the Operation Division will carry out due diligence. The Target Group studies and analyses the background of the customer including its operating history and shareholders and other financial information. Specific needs in respect of the type and specification requirements of the assets will also be studied and compared with the Group's historical and market records. After due diligence, the Operation Division will provide preliminary quotation for client's consideration based on the estimated cost of capital, return assessment and approval by the management.

The Target Group will also evaluate different transaction structures and the relevant leasing and financing options. Lease terms including time frame, the amount of the lease payment, the payment schedule, and financing terms including interest rate, duration and the amount of financing will also be considered for the purpose of making an overall assessment of the legal and operational risks of a particular transaction. Interest rate risk, counterparty and credit risk, the level of debt, and the residual value risk of the subject assets will also be assessed at this stage. Cash flow analysis will also be performed to assess the financial impact of the transaction.

In evaluating a finance lease transaction, the Target Group will assess the profitability and the return on investment, the counter-party risk, leverage risk, and the residual value risk.

The Target Group will proceed to obtain preliminary indications from the financial institutions for the financing arrangements. The Target Group will generally require indications from at least two financial institutions on the proposed financing arrangements.

Stage 4: Approval

After confirmation of principal terms with the customers, the Operation Division will make a final application and notify Finance and Treasury Division. With reference to the opinion from external legal adviser, the general manager will conduct the final assessment of the risk of the finance lease application and consider recommending it or not to the board of BJ Ever Grand to approve it accordingly.

Stage 5: Entering into the contract and grant of financing under the finance lease

After the approval by the board of BJ Ever Grand, the Operation Division will then proceed to prepare the agreement and relevant document on the basis of the negotiated and approved terms of the asset acquisition, lease and the financing of the finance lease. The relevant documents will be reviewed by Finance and Treasury Division and external legal adviser for comments.

Following the determination of the specifications and the detailed terms of the financing arrangements, the Target Group will proceed to coordinate with different parties for the finance lease and the financing. The process represents the collaborative efforts of different departments to ensure that all the related arrangements will be completed according to the planned schedule.

The Finance and Treasury Division of the Target Group grants the financing according to the financing conditions and timetable of the signed finance lease agreement and the financing of the finance lease agreement.

Stage 6: Post-lease monitoring and compliance with the payment obligations of lessees

The Operation Division and Finance and Treasury Division of the Target Group monitors the receipt of the lease payment from the customers, and closely monitors if there is any delay in the lease payment by the customers and follow-up actions to be taken promptly in case of such delay. The Target Group will monitor any breach of covenant and any consequential impact thereof.

Stage 7: Monitoring of the leased assets and the lessees, and evaluating leased assets management alternatives

The Operation Division of the Target Group will closely monitor the financial condition of the lessee and guarantor (if any), requesting financial statements of the lessee and guarantor (if any) semi-annually and keeping track of the lessee and guarantor (if any) in public domain for analysis, in order to monitor the financial position and the operating condition of the lessee and guarantor (if any). If and when there are some adverse changes in credit risk in the lessee and guarantor (if any) based on internal risk evaluation and/or occurrence of delayed payments, on-site checks at the lessee's premise will be carried out to check the operating condition of the lessee, project progress and condition of the leased assets, all of which will be documented accordingly. The Target Group will obtain the relevant information on the operating and credit condition of the lessee and condition of the leased assets through ongoing monitoring, industry analysis, online information, newspaper and research report, in order to evaluate the creditability of the lessees and identify any potential default risk and based on the result of such evaluations, to timely implement measures such as on-site checks (if and when necessary), replenishment of leased assets, amendments to the terms of the lease agreement, seizure of the leased assets or termination of the lease agreement.

In addition, the Target Group also closely monitors the operating and credit condition of the customers in order to assess the creditworthiness of the customer and to identify any potential risk of default.

As part of the on-going monitoring process, the Target Group also explores opportunities to realise their investments in finance lease receivable through different financing strategies.

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

UPDATES ON THE RESULT OF PROFIT GUARANTEE AFTER ACQUISITION

Reference is made to the Company's announcements on 29 July 2020 and 21 August 2020 and page 22 of the Annual Report in relation to acquisition of the entire issued shares in Tripler Holdings Limited (the "**Tripler**") involving issue of consideration shares under general mandate.

The Company received the audited accounts of Tripler for the year ended 31 December 2020 and the Board is pleased to confirm that the profit guarantee of not less than HK$6 million for the same period is met.

By order of the Board
China Ever Grand Financial Leasing Group Co., Ltd.
Lai Ka Fai
Executive Director

Hong Kong, 3 September 2021

As at the date of this announcement, the Board comprises (1) Mr. Wong Lik Ping, Mr. Lai Ka Fai, Mr. Tao Ke, Mr. Qiao Weibing and Mr. Ng Tin Shui as Executive Directors; (2) Ms. Yip Man Yi as Non-Executive Director; and (3) Mr. Goh Choo Hwee, Mr. Ho Hin Yip, Mr. U Keng Tin and Mr. Leung Yiu Ming, David as Independent Non-Executive Directors.