VC GROUP
滙盈集團

Value Convergence Holdings Limited

(Incorporated in Hong Kong with limited liability)
Website: http://www.vcgroup.com.hk
(Stock Code: 821)

SUPPLEMENTAL ANNOUNCEMENT
ANNUAL REPORT 2021

Reference is made to the annual report of the Company for the year ended 31 December 2021 published on 3 May 2022 (the "**Annual Report**"). Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report.

SIGNIFICANT INVESTMENTS

Included in the financial assets held-for-trading as at 31 December 2021 was the Group's investment in 50,398,000 shares or approximately 9.15% of IBO Technology Company Limited (Stock Code: 2708) ("**IBO Technology**") with fair value of approximately HK$125.5 million, which amounts to approximately 13% of the Group's total assets. IBO Technology and its subsidiaries are principally engaged in sale of Radio Frequency Identification ("**RFID**") equipment and electronic products (collectively the "**intelligent terminal products**"), provision of system maintenance services, development of customised softwares and provision of coordination, management and installation services of smart cities. The investment cost was approximately HK$83.0 million. During the year ended 31 December 2021, its share price has increased by approximately 13% and the Group recorded unrealized gain of approximately HK$42.5 million, and no dividend was received from it. The Group was optimistic about the future prospect of IBO Technology's RFID equipment and smart terminal products under the gradual development of 5G environment, and intends to hold the investment with an aim for long term capital growth.

Also included in the financial assets held-for-trading as at 31 December 2021 was the Group's investment in 99,314,000 shares or approximately 7.56% of China Nuclear Energy Technology Corporation Limited (Stock Code: 611) ("**China Nuclear**") with fair value of approximately HK$86.4 million, which amounts to approximately 9% of the Group's total assets. China Nuclear and its subsidiaries are principally engaged in engineering, procurement and construction ("**EPC**") and consultancy and general construction, power generation and financing. The investment cost was approximately HK$83.8 million. During the year ended 31 December 2021, its share price has increased by approximately 32% and the Group recorded unrealized gain of approximately HK$20.7 million, and no dividend was received from it. China Nuclear group is a full scale service provider of the investment, construction and operation of new energy engineering. It provides consulting services, design, comprehensive equipment and supply, installation, EPC and project development, investment and operation for various types of photovoltaic power plants and biomass power generation plants. Its leasing arm focuses on developing the financial leasing business in the clean energy and energy-saving sectors. With the proposed achievement of "Carbon Neutrality" and greenhouse gas emission reduction by various countries, the new energy business will certainly gain support from sustainable policy. In this regard, The Group intends to hold its investment in China Nuclear for long term capital growth.

Also included in the financial assets held-for-trading as at 31 December 2021 was the Group's investment in 8,565,000 shares or approximately 1.52% of HG Semiconductor Limited (Stock Code: 6908) ("**HG Semiconductor**") with fair value of approximately HK$62.4 million, which amounts to approximately 7% of the Group's total assets. HG Semiconductor and its subsidiaries are principally engaged in the design, development, manufacturing, subcontracting service and sales of light-emitting diode ("**LED**") beads and LED lighting products in the PRC. The investment cost was approximately HK$62.7 million. During the period from 25 February 2021 (the date immediately preceding the Group's first purchase) to 31 December 2021, its share price has increased shapely by approximately 573% and the Group recorded unrealized gain of approximately HK$226,000, and no dividend was received from it. As disclosed in HG Semiconductor's announcements dated 25 February 2021, 29 April 2021 and 7 May 2021, it completed the acquisition of a target group engaging in the research and development of fast charging solutions for battery system mainly for use by electric vehicles. The Group is fully aware of the development and widespread adoption of electric vehicles as one of the solutions for environment protection and intends to hold its investment in HG Semiconductor for long term capital growth.

MONEY LENDING BUSINESS

Business model

The Group's money lending business is managed through our wholly owned subsidiary, VC Finance Limited ("**VC Finance**"), with money lenders license issued under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). The Group's customers principally include high net worth individuals, private companies or listed companies introduced to the directors of the Company through business/personal networks or are referred to the Group by its existing or former customers. There is no specific target loan size but each application would be dealt on its own merit. The Group finances this money lending business mainly by internal resources.

The following internal control procedures are put in place:

Assessment and approval

Prior to granting of a loan, the Group carries out credit risk assessment on the customer, taking into account, inter alias, background of the customer or customer's shareholders (as the case maybe), purpose of the loan, source of repayment, value of collateral and guarantee(s), if any, and the financial strength of the customer/shareholders/guarantors.

The approval process for granting loans include the completion of account opening form (for new customer) and know-your-customer assessment. The finance department would verify the information obtained (including identity, business background information and collateral information), check against supporting documents (including identity documents, address proof, securities statements, documents by conducting public searches and financial statements (for corporate borrowers)) and initiate credit assessment form for further processing. The board of directors of VC Finance would be responsible for approving the grant of the loan. The legal and compliance department would prepare the loan documentation for signing.

Monitoring and recovery

If a customer does not repay the loan principal or interest in accordance with the loan agreement, the finance department would promptly report to the credit committee of VC Finance including all directors of VC Finance. The credit committee members of VC Finance meet once a month to review the status of all customers, discuss necessary actions required and serves as an input for loan classification in calculating impairment loss on loan receivables for financial reporting purpose.

The actions taken for recovering delinquent loans would include examination and evaluation of the relevant loan status, discussion with the customer and internal discussion about formulating possible action plan. Recovery strategy involve a wide range of actions including revision of repayment terms, addition of collaterals/guarantee, execution of settlement agreement, foreclosure of collaterals/enforcement of guarantees and commencement of legal proceedings.

The Group strives to strike a successful balance in its business operations and risk management by adhering to its credit policies in order to control the quality of its loan portfolio. The Group has also appointed an independent internal control advisor to conduct independent review on adequacy and effective of internal control systems of the Group's money lending business.

Major terms of the loans granted

As at 31 December 2021, the Group had 24 active loan accounts, and the average loan amount of these loan accounts was approximately HK$11.4 million. The loan duration ranges from 3.5 months to 12 months with average approximately 6.4 months.

The percentage of amount of total loans and interest receivables from the largest and the 5 largest customers to total loans and interest receivables are 9% and 39% respectively. Approximately 34% of the loans are secured by collaterals including listed and unlisted equity securities and legal charge on properties, with interest rate ranging from 12% to 18% per annum. In addition, approximately 8% of the loans (among which approximately 3% are also secured by collaterals as included above) are secured by personal or corporate guarantor(s) with interest rate at 18% per annum. Interest rates charged to overall portfolio of customers range from 8% to 18% per annum as at 31 December 2021.

For those unsecured loans which account for approximately 61% of the amount of total loans and interest receivables, interest rate charged range from 8% to 18% per annum. There was only 1 loan with aggregate principal and interest of approximately HK$20 million (or 7.3% of the whole portfolio) paying 8% interest per annum, with the rest being 12% to 18% per annum. The borrower is the controlling shareholder of a famous financial group whose principal activities include securities and futures brokerage, provision of financial communication service, advisory services on corporate finance and digital media. With reference to the consolidated financial statements of the financial group, synergy in business collaboration was anticipated with the borrower's entities and the borrower's repayable capability was considered reliable. The loan duration ranges from 6 months to 12 months with average duration approximately 6.7 months. When determining the terms of unsecured loans, the Group paid further attention on business background, financial position, repayment ability and reputation (including but not limited to their disclosed shareholdings and directorship in various listed companies) of respective borrowers and the Group's potential business opportunities with them. The Group will take appropriate legal actions against the unsecured borrowers with an aim of recovery from their other assets in the event of prolonged defaults.

Impairment recognition as at 31 December 2021

The Group applies the general approach, which is often referred to as "three-stage model", under HKFRS 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 are 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)

For ECL assessment, the Group's loan receivables are classified as follows:

(i) Stage 1 (Performing) includes loan receivables that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these loan receivables, 12-month ECL are recognised.

(ii) Stage 2 (Underperforming) includes loan receivables that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these loan receivables, lifetime ECL are recognised.

(iii) Stage 3 (Non-performing) includes loan receivables that have objective evidence of impairment and are considered as credit-impaired financial assets at the reporting date. For these loan receivables, lifetime ECL are recognised.

As at 31 December 2021, Stage 1, Stage 2 and Stage 3 ECL amounted to approximately HK$0.1 million, approximately HK$43.2 million and approximately HK$27.2 million respectively.

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.

Additional impairment loss for the year ended 31 December 2021

During the year ended 31 December 2021, there was a ECL reversal of approximately HK$5.1 million due to four loans fully repaid. For existing fifteen loans under Stage 2, eleven loans recognised additional ECL impairment of approximately HK$24.3 million which was arrived at after considering historical late repayment, increase in loan balances and decrease in collaterals' value of respective customers, three loans recognised ECL reversal of approximately HK$1.2 million, and the remaining one loan had no ECL movement. For existing two loans under Stage 3, full impairment was made already and hence no ECL movement was noted. For seven loans newly granted during the year, only one loan was classified under Stage 2 which recognised ECL impairment of approximately HK$1.3 million which was arrived at after considering its clean loan in nature and historical late repayment, two loans were classified under Stage 1 which recognised ECL impairment of approximately HK$0.1 million which was arrived at after considering its clean loan in nature, and the remaining four new loans under Stage 1 did not recognise any ECL impairment.

In summary, aggregate ECL impairment was approximately HK$25.7 million while aggregate ECL reversal was approximately HK$6.3 million, resulting in net ECL impairment of approximately HK$19.4 million during the year ended 31 December 2021.

The following table sets out further details and circumstances of the customers where material recognition on ECL allowances were noted during the year ended 31 December 2021:

	Name of customer	Relationship with the Company and its connected persons	Interest rate	Loan and interest receivables (before accumulated ECL allowance) as at 31 December 2021 *HK$ million*	Accumulated ECL allowance as at 1 January 2021 *HK$ million*	Recognition (reversal) of ECL allowance for the year ended 31 December 2021 *HK$ million*	Accumulated ECL allowance as at 31 December 2021 *HK$ million*	Type of guarantee/ security and net realisable value	Event leading to the impairments	The Group's assessment on credit risk
1	Customer A	Independent third party	18% per annum	9.1	0.8	2.0	2.8	Secured by listed securities with market value of approximately HK$2.8 million as at 31 December 2021	Upon discussion with the Group's auditor during the audit process having adopted the ECL model indicating the customer is maintained at Stage 2	Negotiation ongoing, considered manageable
2	Customer B	Independent third party	18% per annum	24.4	5.5	2.2	7.7	Nil	Upon discussion with the Group's auditor during the audit process having adopted the ECL model indicating the customer is maintained at Stage 2	Negotiation ongoing, considered manageable

	Name of customer	Relationship with the Company and its connected persons	Interest rate	Loan and interest receivables (before accumulated ECL allowance) as at 31 December 2021 *HK$ million*	Accumulated ECL allowance as at 1 January 2021 *HK$ million*	Recognition (reversal) of ECL allowance for the year ended 31 December 2021 *HK$ million*	Accumulated ECL allowance as at 31 December 2021 *HK$ million*	Type of guarantee/ security and net realisable value	Event leading to the impairments	The Group's assessment on credit risk
3	Customer C	Independent third party	15% per annum	16.3	0.6	3.1	3.7	Nil	Upon discussion with the Group's auditor during the audit process having adopted the ECL model indicating the customer is maintained at Stage 2	Negotiation ongoing, considered manageable
4	Customer D	Independent third party	18% per annum	18.3	4.1	1.7	5.8	Legal charge on property interests with net asset value of approximately HK$54 million as at 31 December 2021	Upon discussion with the Group's auditor during the audit process having adopted the ECL model indicating the customer is maintained at Stage 2	Negotiation ongoing, considered manageable
5	Customer E	Independent third party	18% per annum	15.1	0.6	3.8	4.4	Nil	Upon discussion with the Group's auditor during the audit process having adopted the ECL model indicating the customer is maintained at Stage 2	Negotiation ongoing, considered manageable
6	Customer F	Independent third party	18% per annum	18.0	0.7	0.7	1.4	Secured by listed securities with market value of approximately HK$14.7 million as at 31 December 2021	Upon discussion with the Group's auditor during the audit process having adopted the ECL model indicating the customer is maintained at Stage 2	Loan not yet due, considered manageable
7	Customer G	Independent third party	16% per annum	24.3	0.0	4.1	4.1	Secured by listed securities with market value of approximately HK$8.0 million as at 31 December 2021	Upon discussion with the Group's auditor during the audit process having adopted the ECL model indicating the customer is maintained at Stage 2	Loan not yet due, considered manageable
8	Customer H	Independent third party	18% per annum	13.3	0.4	3.4	3.8	Nil	Upon discussion with the Group's auditor during the audit process having adopted the ECL model indicating the customer is maintained at Stage 2	Negotiation ongoing, considered manageable

	Name of customer	Relationship with the Company and its connected persons	Interest rate	Loan and interest receivables (before accumulated ECL allowance) as at 31 December 2021 *HK$ million*	Accumulated ECL allowance as at 1 January 2021 *HK$ million*	Recognition (reversal) of ECL allowance for the year ended 31 December 2021 *HK$ million*	Accumulated ECL allowance as at 31 December 2021 *HK$ million*	Type of guarantee/ security and net realisable value	Event leading to the impairments	The Group's assessment on credit risk
9	Customer I	Independent third party	18% per annum	14.1	0.7	2.5	3.2	Personal guarantee provided by the sole shareholder	Upon discussion with the Group's auditor during the audit process having adopted the ECL model indicating the customer is maintained at Stage 2	Negotiation ongoing, considered manageable
10	Customer J	Independent third party	18% per annum	4.5	0.0	1.3	1.3	Nil	Upon discussion with the Group's auditor during the audit process having adopted the ECL model indicating the customer is at Stage 2	Loan not yet due, considered manageable
	Four customers with additional ECL allowance under HK$0.5 million			47.5	4.2	0.9	5.1			
	Seven customers with nil ECL movement			49.8	27.2	0.0	27.2			
	Three customers with ECL reversal			18.6	1.2	(1.2)	0.0			
	Four ex-customers			0.0	5.1	(5.1)	0.0			
				273.3	**51.1**	**19.4**	**70.5**			

The above clarifications do not affect other information contained in the Annual Report and, save as disclosed in this announcement, the remaining contents of the Annual Report remain unchanged.

By order of the Board of
Value Convergence Holdings Limited
Fu Yiu Man, Peter
Chairman & Executive Director

Hong Kong, 15 September 2022

As at the date of this announcement, the Board comprises five executive Directors, namely, Mr. Fu Yiu Man, Peter (Chairman), Mr. Wong Kam Fat, Tony (Vice Chairman), Mr. Lin Hoi Kwong, Aristo, Ms. Li Cindy Chen and Mr. Zhang Nu; and three independent non-executive Directors, namely, Mr. Wong Chung Kin, Quentin, Mr. Siu Miu Man, Simon, MH and Au Tin Fung, Edmund.