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ZHIDAO INTERNATIONAL (HOLDINGS) LIMITED

志道國際(控股)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 01220)

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

Reference is made to the Annual Report (the “**Annual Report**”) of Zhidao International (Holdings) Limited (the “**Company**”) dated 29 July 2022. Unless stated otherwise, capitalized terms used in this announcement have the same meaning as defined in the Annual Report.

The Board of the Company would like to provide the following supplemental information in relation to the Group’s money lending business which has commenced operation since November 2015:

1. BUSINESS MODEL

The Group’s money lending business derives its revenue primarily from interest income from loans to third parties. The Group’s Money Lending Subsidiary offers both secured and unsecured loans to individual and corporate customers. The key business processes are as follows:

- | | |
|---------------------------------|---|
| (i) Customer acquisition: | <ul style="list-style-type: none">● Verification of customer information and preliminary loan assessment |
| (ii) Loan approval: | <ul style="list-style-type: none">● Assessment of customers’ creditability and value of collateral● Approval of loan applications in accordance to internal guidelines |
| (iii) Loan repayment follow-up: | <ul style="list-style-type: none">● Monitoring of repayment status and update of internal records |

2. LOAN PORTFOLIO

As at the date of this Announcement, the Group's Money Lending Subsidiary has 12 outstanding loans, amongst which 10 are active. The 10 active loans can be categorised as follows:

Number of Loans

	Secured	Unsecured	Sub-Total
Corporate	1	3	4
Individual	4	2	6
Sub-Total	5	5	10

3. SOURCE OF CUSTOMERS AND TARGET MARKET

The customers of the money lending business are mainly referred by the management team of the Money-Lending Subsidiary and the Group General Manager. The Group targets borrowers in the construction business where the management may have access to the borrower's creditability in the industry so as to mitigate the credit risk of the loans.

4. INTERNAL CONTROLS

The Group's money lending business has established internal control policies and procedures to control the credit risks, including:

In order to mitigate the operation and credit risks of the money lending business, the Money Lending Subsidiary maintains a credit control team for processing loan application from potential customers by collecting and verifying the customers' information such as the identity, background and credit history. In addition, the credit control team also suggests the desired loan size and the term of the loans, and assess the value and quality of the relevant security or collateral, if any.

The interest rates offered to the borrowers are determined on a case-by-case basis with reference to the range of interest rate set by different approval threshold as well as other factors specific to each borrower. In general, the range of interest rates for the loans are determined upon analysing:

- (a) the cost associated with the provision of each loan product;
- (b) the respective risks (credit and business) relevant to each loan product;
- (c) the expected rates of return;
- (d) the general economic environment;

- (e) the regulatory requirements; and
- (f) the prevailing market interest rates.

Other borrower-specific factors taken into consideration include:

- (a) borrowers' credit records;
- (b) quality and value of the pledged collaterals (for secured loans);
- (c) quality and value of the borrower's assets (for unsecured loans); and
- (d) risk and return assessment on the borrowers' repayment abilities.

In conducting credit assessment, the credit control team will consider, among others, the applicant's background and past dealings, purpose of the loan, age of the applicant, encumbrances on the collateral, proof of income and repayment ability and credit history of the applicant, liquidity and marketability of the collateral etc. For corporations, the credit control team also conducts online searches from data available from on the Companies Registry. For loans secured by property, the loan officer conducts land search from data available from on the Hong Kong Land Registry and arranges for external surveyors' valuation and/or appraisal of the property collateral as appropriate.

The Group has a Credit Committee, which comprises two Directors of the Company, the Group General Manager and a director of the Money Lending Subsidiary. The Credit Committee assesses and approves loans application, after processed by the credit control team, in accordance to the internal guideline. The Board of the Company is required to assess and approve any loans with principal of HK\$20 million or above, or as required by the Listing Rules.

The credit control team also reviews the repayment of the active loans and report to the Credit Committee on a monthly basis. Depending on the circumstances, the Credit Committee may grant a grace period or take legal actions and dispose the securities/collaterals to recover the outstanding loans and interests in case of default by the customers.

5. FUTURE PROSPECT

The Company considers the risks of the money lending business is on an uptrend in this post-pandemic era, in particular with the potential global economic downturn. While the increasing interest rate environment may post an opportunity to the money lending business, the management is very selective in the customer selection process. It is expected that the loan portfolio will shift to more secured loan focused in the future with a lower loan to value ratio when considering new loan applications.

Save as disclosed above, all other information set out in the Annual Report remains unchanged.

By order of the Board
Zhidao International (Holdings) Limited
Tung Yee Shing
Chairman

Hong Kong, 27 October 2022

As at the date of this announcement, the board of Directors comprises 7 Directors. The executive Directors are Mr. Tung Yee Shing (Chairman), Mr. Zhong Can, Mr. Kwong Kin Fai, Eric and Mr. Lam Chun Bun. The independent non-executive Directors are Mr. Li Kam Chung, Mr. Kwok Lap Fung, Beeson and Mr. Wong Wing Cheung.

* *For identification purposes only*