DIFFER GROUP AUTO LIMITED
鼎豐集團汽車有限公司

(formerly known as Differ Group Holding Company Limited)
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 6878)

SUPPLEMENTAL ANNOUNCEMENT TO 2021 ANNUAL REPORT

This announcement is made by Differ Group Auto Limited (the "**Company**" and together with its subsidiaries, the "**Group**") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong).

Reference is made to the annual report of the Company for the year ended 31 December 2021 (the "**2021 Annual Report**"). This announcement is made to provide the following supplementary information to the 2021 Annual Report in relation to our engagement of the businesses of the express loan service, finance lease service and guarantee service.

(i) Finance lease service business

Business Model

We generally provide finance leases to corporate customers, which are mainly small and medium enterprises, incorporated and operating in Mainland China. Finance lease is an arrangement by which we purchase certain asset from our customer (or supplier designated by such customer) in cash and then lease it back to our customer immediately afterwards in return for a series of monthly rental payments payable by our customers to the Group over a pre-agreed lease period as well as an up-front one-off handling fee. Our customer will continue to have custody and the right to use the asset throughout the lease period. At the end of the lease period, the title of ownership of the asset will be transferred to our customer upon its exercise of option and payment of a nominal consideration. The Group mainly provide the finance lease services for machineries, properties and motor vehicles. Our finance lease customers are channelled through 1) our own business network and 2) referrals from our business partners, banks and chamber of commerce. We do not use or pay any intermediates during business solicitation. The lease amount is usually capped at the value of the leased asset deducting the initial deposit with us in range of 5% to 20%.

The Group manage the risks of our lease portfolio through:

- The overall diversification of our finance lease portfolio
- The monitoring over the repayment from customers
- The monitoring over the value of underlying assets
- The contractual right to claim and revert the ownership of the underlying assets in the event of default payment.

As for governance structure, we have established a management team in Mainland China, comprising of an executive director, responsible persons of finance lease business, financial department and legal department which is responsible to approve and review the finance lease. The management team has been carrying out a risk management practice with an aim to diversify our finance lease portfolio at its best effort. For the year ended 31 December 2021 we have limited individual lease to a level not larger than RMB100 million so as to ensure the relevant credit risk impact, even if realized, would be contained.

Credit Risk Assessment Policy

It is our Group's policy that all application from customers for finance lease are subject to credit risk assessment and background search by our management. Our procedures generally include the following key steps:

a) Application

An applicant is generally required to provide us with the following information:

(i) the identity and basic information of the applicant;

(ii) for corporate customer, the business background of its owners, the key statement of financial position and income statement figures, details of its directors and shareholders;

b) Preliminary assessment

After receiving the information, our business manager will verify the authenticity of the documents and conduct a preliminary assessment of the application. Our business manager will select applicants that meet our criteria of target customers, such as the company with legally compliant business operations, efficient production processes, good credit records, healthy cash flows and ownership of assets that are sufficient to repay all borrowings, as well as shareholders of good business reputation.

c) **Due diligence**

If our business manager is satisfied with the application after the preliminary assessment, we will perform an in-depth due diligence on the applicant. Due diligence on the applicant generally includes gaining a thorough understanding of the applicant's business, production process, assets and liabilities, cash flows, source of funds for payment or repayment and credit history.

d) **Valuation of underlying assets**

Our business manager also assesses the valuation of underlying assets at market level and estimates its recovery level. Our business manager also checks the pledging status of underlying assets to ensure the Group has the first or higher priority of recovering these assets in the events of default in payment.

e) **Approval of applications**

When all due diligence work is completed and the results were satisfactory, our management will meet to consider the application. In addition, before final approval, our legal and compliance department will cross-check the terms of the relevant agreements to ensure that 1) the terms are in full compliance with the relevant laws and regulations and 2) terms are legally justified for the Group to claim and recover ownership of underlying asset in the event of default in payment.

Key Internal Controls

Other than adoption of the above stated measures, the Company has also implemented several post-approval monitoring controls.

After the commencement of the lease period, we will conduct on-going monitoring of the lessee. Monitoring of the lessee includes visiting the borrower regularly in order to understand its actual business conditions, obtaining its financial statements, telephoning the borrower on a regular basis in order to remind the borrower of its repayment schedule and understand if there is any foreseeable difficulty in repayment, etc.

Monitoring of the value of the underlying assets

Our business managers are responsible for monitoring of the value of the underlying assets on an on-going basis. Our business managers also conduct a formal valuation assessment on a regular basis which will not be longer than at a yearly interval. The Company has an annually recurring practice to engage a professional valuation firm to assess the valuation of underlying assets and to issue related valuation reports. The Company is satisfied with 1) the valuation-related qualifications, experience and independence of the core valuation team members and 2) the valuation approach and methodology they have adopted for differently-attributed pledged assets.

Follow up measures

If, as a result of our post-approval monitoring, we become aware of any circumstances that would negatively affect the collectability of our outstanding lease receivables, we may (i) discuss with our customer regarding ways to improve and/or remedy the situation; (ii) request our customer to provide additional collateral and/or guarantees; and/or (iii) demand immediate payment or repayment of the full outstanding amount from our customer.

Renewal application

If a customer applies for a renewal, we will go through the same approval procedures as in a new application.

Enforcement of underlying assets

If a customer fails to repay the principal or interest by its due date, we will contact the lessee immediately to understand the situation. We may also consider instructing our lawyers to commence legal proceedings against the customer to recover any late payment charges and penalty interest and/or to enforce the underlying assets.

Monitoring and reporting of overall market situation

The management team also monitors the overall market and particularly industry in which our major customers are operating their business. The management team will report to our executive directors when any major and systematic market or industry risks come to their attention.

(ii) Guarantee service business

Business Model

We generally provide financing guarantee to corporate customers, including our associates, which are incorporated and operating in Mainland China for their debt financing arrangements with licensed banks in Mainland China. Our financing guarantee customers are channelled through 1) our own business network and 2) referrals from our business partners, such as banks and chamber of commerce. We do not use or pay any intermediates for solicitation of business.

The amount of financing guarantee fee chargeable is determined by our management in consideration of series of factors, including the guaranteed amount, the value of collaterals, the background, credit history and financial health of our financing guarantee customers and/or their counter guarantors, and/or the counter guaranteed amount provided by the counter guarantors to the Group. We charge our customers guarantee fee which is usually calculated in the region of 3.1% to 4.5% of the principal amount of the loan provided by the bank to our customer for the year ended 31 December 2021.

We manage the risks of our financing guarantee through:

- The stringent assessment of the credit status and financial health of our financing guarantee customers and/or their counter guarantors.

- The monitoring over the repayment status of our financing guarantee customers under the corresponding debt financing arrangements.

- The monitoring over the valuation and pledging status of collaterals.

- The contractual right to claim and revert the ownership of the collaterals or to recover from counter guarantors in the event of default payment.

As for governance structure, we have established a management team in China, comprising of an executive director, responsible persons of financing guarantee business, financial department and legal department to approve and review our financing guarantee. The management team has been carrying out a risk management practice to controlling the provision of financial guarantees to 1) a level commensurate with the scale, credit history and financial health of corporates customers and associates and 2) to a level at which contingent default loss, if any, would be within the tolerate and affordable level of the Group. In balanced consideration of the inherent credit risks and business opportunities in the PRC guarantee market, the Company has formulated its business strategy to extend our guarantee service to only limited number of customers, complimented with a risk tolerance measure by which the individual maximum credit risk exposure is cap at RMB240 million. As at 31 December 2021, the Group has 3 corporate customers and 3 associates, which are wholly-owned subsidiaries of Zhongcheng City Development Group Co., Limited* (中城城開集團有限公司), in which the Group holds 49% equity interest, with outstanding guarantee amounts ranging from RMB30,000,000 to RMB216,152,000.

Major terms of the guarantee contracts entered

For the guarantee service business, the Group gave financial guarantees to banks for banking facilities granted to corporate customers and associates in total amounts of RMB255,000,000 and RMB382,152,000 respectively as at 31 December 2021. The collateral coverage rate for the corporate customers and associates was 2.3 times and Nil respectively. The Group holds interests in such associates so it is able to obtain financial and other information of the associates. With such information, the Group can regularly review, assess and monitor the financial conditions of such associates. The Group believes it will be able to know any change of the financial conditions of such associates and the Group is able to take immediate action to protect the interest of the Group. The Group has considered its ability to monitor the financial conditions and credit history of the associate so the Group has not requested for collateral for associates. The Company is satisfied with the credit history and financial health of our associates and their controlling shareholder which has a stated-owned enterprise background. The default rate of the guarantee service business was Nil for the year ended 31 December 2021. The maturity due dates of the guarantee agreements with the corporate customers and associates will be 1 March 2023 and 21 January 2026 respectively.

Credit Risk Assessment Policy

It is our Group's policy that all application from customers for financing guarantee are subject to credit risk assessment and background search by our management. Our procedures generally include the following key steps:

a) **Application**

An applicant is generally required to provide us with the following information:

(i) the identity and basic information of the applicant;

(ii) for corporate customers, including our associates, the business background of its owners, the key statement of financial position and income statement figures, details of its directors and shareholders.

(iii) if applicable, the identity and basic information of the intended counter guarantor and descriptions of key assets and liabilities of the intended counter guarantor.

b) **Preliminary assessment**

After receiving the information, our business manager will verify the authenticity of the documents and conduct a preliminary assessment of the application. Our business manager will select applicants that meet our criteria of target customers, such as the company with legally compliant business operations, efficient production processes, good credit records, healthy cash flows, and ownership of assets that are sufficient to repay all borrowings, as well as shareholders of good business reputation.

c) **Due diligence**

If our business manager is satisfied with the application after the preliminary assessment, we will perform an in-depth due diligence on the applicant and, where applicable, the counter guarantor. At the commencement of contemplation of provision guarantee service, the due diligence team had 1) obtained and reviewed the financial statements of the customers, 2) performed on-site visits to the customers' headquarter and major production centers. The legal department has also obtained and reviewed the business registration and shareholding records of the customers to confirm the ownership of pledged assets and registered the pledged assets with the relevant government authority and maintained corresponding pledgee certificates to ensure the priority and validity in time of pledged assets recovery. Due diligence conducted on the applicant generally includes gaining a thorough understanding of the applicant's business, production process, assets and liabilities, cash flows, source of funds for payment or repayment and credit history.

d) Valuation of collaterals

Our business manager also assesses the valuation of collaterals at market level and estimates its recovery level. Our business manager also checks the pledging status of collaterals to ensure the Group has the first or higher priority of recovering these assets in the events of default in payment. At the commencement of the corresponding guarantee contracts and at each subsequent year end, the Company has engaged a professional valuation firm to assess the valuation of pledged assets and to issue related valuation reports. The Company is satisfied with 1) the valuation-related qualifications, experience and independence of the core valuation team members and 2) the valuation approach and methodology they have adopted for the pledged assets. If the assessed value of the collaterals does not meet the Company's expectation, the Company will request additional collaterals from the customers.

e) Approval of applications

When all due diligence work is completed and the results were satisfactory, our management will meet to consider the application. In addition, before final approval, our legal and compliance department will cross-check the terms of the relevant agreements to ensure that 1) the terms are in full compliance with the relevant laws and regulations and 2) terms are legally justified for the Group to claim and revert ownership of collaterals or to recover from counter guarantors in the event of default in payment.

Key Internal Controls

Other than using the above stated measures, the Company has also implemented several post-approval monitoring controls.

After the commencement of the guarantee period, we will conduct on-going monitoring of the financing guarantee customers. Monitoring of the financing guarantee customers includes ascertaining visiting key customers regularly in order to understand their actual business conditions, obtaining their latest financial statements, telephoning them on a regular basis in order to remind of its repayment schedule and understand if there is any foreseeable difficulty in repayment, etc.

Monitoring of the value of the collaterals

Our business managers are responsible for monitoring of the value of the collaterals on an on-going basis. Our business managers also conduct a formal valuation assessment on a regular basis which will not be longer than at a yearly interval.

Follow up measures

If, as a result of our post-approval monitoring, we become aware of any circumstances that would adversely affect the ability of customers in regards of their debt repayment to banks, we may (i) discuss with our customer regarding ways to improve and/or remedy the situation; and (ii) request our customer to provide additional collateral and/or guarantees.

Renewal application

If a customer applies for a renewal, we will go through the same approval procedures as in a new application.

Enforcement of collaterals or demand for recovery from counter guarantors

If a customer fails to repay the principal or interest to banks by its due date, we will contact the financing guarantee customers immediately to understand the situation. We may also consider 1) requesting the customers to provide its debt restructuring plan under negotiation with the banks or 2) at time of materialized default and the liability for indebtedness by guarantor is confirmed, instructing our lawyers to commence legal proceedings against the customer to enforce the execution of collateral recovery or to demand the execution of counter guarantee by the counter guarantors.

Monitoring and reporting of overall market situation

The management team also monitors the overall market and particularly industry in which our major customers are operating their business. The management team will report to our executive directors when any major and systematic market or industry risks come to their attention.

(iii) Finance lease receivables, loan and account receivables

Diversity

As at 31 December 2021, the Group has about 44 customers with total outstanding finance lease receivables, loan and account receivables in the sum of approximately RMB1,147,134,000. Our eight largest customers of the Group primarily include provider of supply chain management services and commercial complex management services, investor in primary, secondary and tertiary industries, wholesalers of electronic products, mechanical equipment and stationery, manufacturer and traders of knitted textiles and raw materials and provider of asset and business management. Out of the eight largest customers of the Group, six loan agreements were renewed during the year ended 31 December 2021. For the renewed six loan agreements, the Group has completed the renewal application procedure as specified. Out of the said six renewed loan agreements for the year ended 31 December 2021, the borrower (the "**Special Borrower**") of one of the loan agreement (the "**Special Loan**") has not yet repaid any portion of the principal and interest of the Special Loan to the Group prior to the renewal of the Special Loan for the special nature of the Special Loan. The Group has granted the Special Loan to the Special Borrower because the Group is considering to acquire the shares of a subsidiary (the "**Target Company**") of the Special Borrower, which holds certain land. If the Group eventually determined to acquire the shares of the Target Company, the principal and the relevant interests of the Special Loan will be used to set off with the consideration to be paid by the Group. On the contrary, if the Group eventually determined not to acquire the shares of the Target

Company, the principal and the relevant interests will be repaid by the Special Borrower at the then material time. The implementation of the investment decision is depending on the final decision of the Group. To secure the repayment of the Special Loan, the Special Borrower has charged its shareholding in the Target Company as collateral for the Special Loan. The Group has assessed the value of the collateral and corporate guarantee provided and considered the recoverability of the Special Loan is comparable to the other loan agreements currently renewed by the Group. The Group has not yet made the investment decision and such acquisition may or may not carried out eventually. For each renewed agreements, the Group has considered the repayment history and the current collateral provided to the Group before the Group agreed to renew such agreement. As at 31 December 2021, the loan-to-value ratio of receivables from the eight largest customers was in the region of 61.3% to 95.2%, which is calculated as applicable by dividing each outstanding receivable amount by the value of relevant collaterals. As at 31 December 2021, the amount of finance lease, loan and account receivables due from the largest customer and the largest five customers was RMB195,317,000 and RMB794,670,000 respectively. As at 31 December 2021, the loan-to-value ratio of total loan receivables, receivables from guarantee customers and certain account receivables was 90.6%, which is calculated by dividing the outstanding receivables (excluding finance lease receivables) amount by the value of collaterals. The finance lease receivables are effectively secured by the underlying assets as the rights to these assets would be reverted to the Group in the event of default payment.

We would like to clarify that the minimum effective interest rate of loan receivables charged by the Group in 2021 shown in the table of note 18, page 146, to the 2021 Annual Report, should be 1.0% instead of 1.1%.

The above information does not affect the information disclosed in the 2021 Annual Report and save as disclosed in this announcement, all other information in the 2021 Annual Report remains unchanged.

* *for identification purpose only*

By order of the Board of
Differ Group Auto Limited
NG Chi Chung
Chairman and Executive Director

Hong Kong, 18 November 2022

As at the date of this announcement, the executive Directors are Mr. NG Chi Chung and Dr. FENG Xiaogang; the non-executive Directors are Mr. KANG Fuming and Mr. XU Yiwei; and the independent non-executive Directors are Mr. CHAN Sing Nun, Mr. LAM Kit Lam and Mr. CHEN Naike.