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China Beidahuang Industry Group Holdings Limited
中國北大荒產業集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00039)

(1) CLARIFICATION ON THE 2022 INTERIM RESULTS ANNOUNCEMENT AND THE 2022 INTERIM REPORT; (2) SUPPLEMENTAL INFORMATION RELATING TO THE 2021 ANNUAL REPORT; AND (3) DISCLOSEABLE TRANSACTIONS

Reference is made to: (a) the interim results announcement (the "**2022 Interim Results Announcement**") and the interim report (the "**2022 Interim Report**") of China Beidahuang Industry Group Holdings Limited (the "**Company**", together with its subsidiaries, collectively the "**Group**") for the six months ended 30 June 2022 ("**1H2022**"); (b) the profit warning announcement of the Company dated 26 August 2022; and (c) the annual report of the Company for the year ended 31 December 2021 (the "**2021 Annual Report**"). Unless the context otherwise requires, capitalized terms in this announcement shall have the same meanings as defined in the 2022 Interim Report and the 2021 Annual Report.

CLARIFICATION ON THE 2022 INTERIM RESULTS ANNOUNCEMENT AND THE 2022 INTERIM REPORT

On page 33 of the 2022 Interim Results Announcement and the Corporate Governance Report (the "**CG Report 2021**") contained on pages 58 to 59 of the 2022 Interim Report of the Company, it was stated that the Company has complied with all code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Part 2 of Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") throughout the period of 1H2022, except the stated deviations from Code Provisions C.2.1 and F.2.2 of the CG Code.

The Company would like to clarify the following additional deviation from the CG Code during the period of 1H2022.

Deviation from Code Provision D.1.2 of the CG Code

Under Code Provision D.1.2 of the CG Code, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

During 1H2022, the management of the Company provided the Directors with monthly updates on key business performance indicators such as revenue, purchase orders, budgets and forecasts on individual subsidiaries' levels. Due to limited human resources, group consolidation of management accounts was not conducted on monthly basis. During the first quarter of 2022, the operating results from individual subsidiaries of the Group did not show a clear overall downward trend. Due to the diversity of the different business sectors of the Group, the improvement in the operating results of some subsidiaries tended to offset the downtrend of other subsidiaries in the first quarter of 2022, and the projections at the relevant time tended to suggest that sales might pick up again in the second quarter of 2022.

The Group's operation centers are located in Hong Kong, Guangdong, Jiangsu, Beijing, Shanghai, Hunan and Liaoning which were affected by COVID-19 and related lockdown measures to varying extent and at different times in the second quarter of 2022, causing delays in the preparation and submission of management accounts and therefore the financial reporting cycles of individual subsidiaries and resulting in the financial performance of certain subsidiaries being unavailable for discussion by the management and the Directors at certain monthly updates in 1H2022. For the reasons above, the Directors only first became aware of the decrease in gross profit for 1H2022 shortly before the publication of the 2022 Interim Results Announcement. In any event, the gross profit during 1H2022 only showed a modest decrease from HK$74,672,000 for the six months ended 30 June 2021 to HK$53,112,000 for 1H2022.

The Directors recognized that it is important for monthly business to give a balanced and understandable assessment of the issuer's performance and to enable the Directors to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. Going forward, the Company intends to set aside an annual budget next year to upgrade the information technology systems of its subsidiaries in China, including a higher level of document digitalization, data storage with cloud and remote access and backup solutions. Through such IT system upgrades, it is hoped that the recurrence of financial reporting delays caused by COVID-19 related lockdown measures and/or other emergency/contingency situations could be minimized.

General

The Directors recognized the importance of the accurate and complete disclosure of the statement of compliance of the code provisions set out in Part 2 of the CG Code and the considered reasons and explanations for any deviations from the code provisions. Going forward, the Company intends to compile a checklist on CG Code compliance for completion on half-yearly basis to assist our internal financial reporting staff to walk through the CG Code requirements with our subsidiary level management.

The above clarification does not affect other information contained in the 2022 Interim Results Announcement and the 2022 Interim Report and save as disclosed in this announcement, the remaining contents of the 2022 Interim Results Announcement and the 2022 Interim Report remain unchanged.

SUPPLEMENTAL INFORMATION RELATING TO THE 2021 ANNUAL REPORT

In addition to the information disclosed in Notes 17 and 43 to the consolidated financial statements contained in the 2021 Annual Report, the Company wishes to provide shareholders and potential investors of the Company with the following supplemental information on the Company's financial leasing business, and its loan receivables as at 31 December 2021.

The Company's financial leasing business

The Company's financial leasing services business is principally conducted through its wholly-owned subsidiary in the PRC, 深圳市前海大荒緣融資租賃有限公司 (Shenzhen Qianhai Dahuangyuan Finance Lease Co., Ltd.) ("**Dahuangyuan**"). Its business model principally focuses on the grant of loans to personal and corporate borrowers whether by way of finance leasing on property, plant and equipment ("**PPE**"), trade financing or otherwise. Under the Group's business model of finance leasing, it either grants loans to its customers, charges them interest and takes PPE as collateral, or acquires PPE and leases them back to the customers. The Group's borrowers are normally sourced by the Group's staff and management, and/or from referrals by existing or potential customers or business acquaintances of the Group's staff and management.

The credit risk assessment policy of Dahuangyuan's lending business contemplates the performing of the following credit risk assessment procedures, namely: (a) the conducting of background searches (such as company and litigation searches) on the customers and their affiliated entities, the security providers (if any) and their assets; (b) the request for and the reviewing of documents and financial information to demonstrate the financial position of the customers or the security providers (if any); (c) the checking and reviewing of documents in respect of the collaterals (if any); and (d) for loan renewal applications, the past repayment behaviour of the customers. The credit risk assessment procedures were performed by the loan approval team of Dahuangyuan who are experienced in financial and accounting. It is through the conducting of credit assessment (including an assessment on the asset collateral) at the time of granting the loan and the request for asset collateral that the Board endeavours to safeguard the Company's assets to the best we can. The Company will only consider making a loan offer to the loan applying customer if the Company is satisfied with the credit assessment outcome.

After the background checking, the loan officer will prepare a credit assessment report on the customer and submit the proposed terms of the loan application (including the loan amount, loan period, interest rate, repayment schedule and the provision of collaterals) for the approval of the directors of Dahuangyuan. The loan terms are decided following arm's length negotiations with the customers after taking into account factors such as the terms requested by the loan applicants, the Group's assessment on the financial means of the applicants, the macro-economy including the latest trend of interest rate and the availability of guarantees and/or collaterals. In order to maintain competitiveness as compared to banks, Dahuangyuan adopts a pragmatic approach and is prepared to offer more flexible terms of loan to customers.

After the grant of loans, regular updates on the credit status of borrowers, valuation of collaterals and loan repayment status will be provided by the loan officer of Dahuangyuan to the Company's management, who will in turn report the situation to the Directors of the Company from time to time. Under the credit policy of the Group, the loan officer will prepare half-yearly reports on the update status of the borrowers and the collaterals, normally after face-to-face meetings with the borrowers and conducting physical visits at the premises at which the PPE collaterals are situated. However, as a result of the COVID-19 outbreak, alternative procedures such as video meetings and video site visits were encouraged to minimize inter-city traveling and to protect staff health and safety. If any loan is overdue or the credit status of a borrower is found to have deteriorated, Dahuangyuan would normally contact the customers to understand the reason and if the customers can come up with credible explanations and can offer feasible solution in positive attitude, Dahuangyuan would normally be more prepared to accommodate an amicable solution, including the extension of the repayment schedule. If the Company is unsatisfied with the safety margin between the value of the collateral and the outstanding loan, it will normally demand additional asset collateral from the customer. If an overdue customer takes an evasive attitude or if his financial deterioration is drastic and irreversible, Dahuangyuan would consider the taking of legal action by way of last resort.

Loan receivables as at 31 December 2021

The major terms of our top ten Stage 1 loan receivable customers (including the dates of initial grant, renewal and maturity, interest rate and principal amount), the value of asset collateral, and the outstanding loan amounts and accumulated loss allowance of expected credit losses ("**ECL**") are summarized as follows:

		Date of loan initial grant	Date of loan renewal	Date of loan maturity	Interest rate	Loan principal amount *(RMB)*	Loan receivables as at 2020.12.31, net of accumulated loss allowance of ECL *(HK$)*	Loan receivables as at 2021.12.31 *(HK$)*	Impairment loss recognised for FY2021 *(HK$)*	Loan receivables as at 2021.12.31, net of accumulated loss allowance of ECL *(HK$)*	Value of asset collateral *(HK$)*
	Stage 1 (initial recognition)										
1.1	Customer C	2018.03.09	2021.03.09	2022.03.08	10%	23,000	27,964	30,545	(1,644)	28,901	55,844
1.2	Customer D	2017.04.16	2021.04.16	2022.04.15	10%	22,000	26,748	29,217	(1,573)	27,645	52,008
1.3	Customer E	2018.03.02	2021.03.02	2022.03.01	10%	22,000	26,748	29,217	(1,573)	27,645	53,235
1.4	Customer F	2020.09.07	2021.07.07	2022.07.06	12%	16,000	18,828	20,854	(1,122)	19,731	38,401
1.5	Customer G	2020.07.19	2021.07.19	2022.07.18	12%	16,000	18,739	20,755	(1,117)	19,638	34,706
1.6	Customer H	2017.09.13	2021.09.13	2022.09.12	12%	16,000	18,204	20,359	(1,096)	19,264	36,758
1.7	Customer I	2017.07.22	2021.07.22	2022.07.21	12%	16,000	18,739	20,755	(1,117)	19,638	45,576
1.8	Customer J	2017.10.20	2021.10.20	2022.10.19	12%	15,000	17,066	18,902	(1,017)	17,884	34,636
1.9	Customer K	2019.10.05	2021.10.05	2022.10.04	12%	15,000	17,066	18,902	(1,017)	17,884	41,446
1.10	Customer L	2018.11.09	2021.11.09	2022.11.08	12%	15,000	16,899	18,716	(1,007)	17,709	39,104
1.11	11 other customers	various	various	various	1%-12%	n/a	42,152	78,455	(4,223)	74,232	151,755
	Stage 3 (credit-impaired)										
3.1	Customer A	2017.05.18	2019.05.18	2021.05.17	18%	14,250	16,814	18,661	(18,661)	–	24,052
3.2	Customer A	2017.06.01	2019.06.01	2021.05.31	12%	19,500	23,008	25,536	(25,536)	–	33,650
3.3	Customer A	2017.06.01	2019.06.01	2021.05.31	12%	7,000	8,260	9,167	(9,167)	–	12,271
3.4	Customer A	2017.11.10	2019.11.10	2021.11.09	18%	13,400	15,811	17,548	(17,548)	–	57,640
3.5	Customer B	2019.02.21	2020.02.21	2021.12.31	12%	26,000	26,209	29,088	(29,088)	–	64,329
				TOTAL:	**n/a**	**n/a**	**354,125**	**406,677**	**(116,506)**	**290,171**	

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, each of the borrowers and security providers and their respective ultimate beneficial owners is an third party independent of and not connected with the Company, its connected persons or associates. All the loans were made under finance leasing arrangements, with PPE valued at above the principal amount of the loan provided by the borrowers as collateral to fortify the repayment obligations of the loans. The PPE used as collaterals are normally machineries or production lines, the exact types of which would normally depend on the nature of operating activities of the collateral providers, ranging from mining equipment, crane, plastic molding machines or metallic wiring machines. As the Group is contractually entitled to enforce on the collaterals if the loans default, the Board considers that the availability of PPE collaterals should provide higher certainty on the recoverability of the loans.

Amongst the 11 other customers of loan receivables, 7 loans with aggregate outstanding balance of RMB26,304,000 as at 31 December 2021 were charged at the interest rate of 1% per annum, which is substantially lower than the 10-12% range normally charged to other customers, because the Company has entered into non-legally binding memoranda of understanding with the relevant operating business entities under which the Company enjoys the exclusive right of negotiation with the view to exploring possible acquisition and/or investment opportunities in these businesses. Under the terms of the loan agreements with these 7 customers, the interest rate would revert to the normal range of 10-12% if and when the Company discharges the borrowers and the relevant business entities from the exclusive negotiation clause.

Impairment losses on the loan receivables

As disclosed in the 2021 Annual Report, for the year ended 31 December 2021, the Group's financial leasing business recorded revenue of approximately HK$20.47 million and gross profit of approximately HK$17.69 million. However, this segment incurred other operating expenses of approximately HK$91.90 million, principally due to the making of additional allowance for ECL of loan receivables in the amount of approximately HK$93.38 million during the year, causing the allowance for ECL on loan receivables to increase from HK$23.12 million as at 31 December 2020 to HK$116.51 million as at 31 December 2021.

In determining the ECL of the Group's loan receivables, the management assessed the expected losses individually by estimation based on general economic conditions of the relevant industry in which the debtors operate, value of any pledged assets, financial position of the debtors and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The movements in allowance for ECL that has been recognised for loan receivables in accordance with general approach set out in Hong Kong Financial Reporting Standard 9 *Financial Instruments* ("**HKFRS 9**") for the year ended 31 December 2021 are set out in Note 17 to the consolidated financial statements contained in the 2021 Annual Report.

The three-stage categorisation of the Group's receivables is explained in Note 43 to the consolidated financial statements. During the year ended 31 December 2021, loan receivables in the amount of HK$100 million were re-classified from Stage 1 (initial recognition) to Stage 3 (credit impaired) and for which full allowance on ECL was made during the year because the loans were treated as defaulted.

Loan A owed by Customer A

Dahuangyuan granted loans in the total principal amount of RMB54.15 million ("**Loan A**") to an independent third party borrower ("**Customer A**") pursuant to four financial leasing agreements (the "**Loan A Agreements**"). According to the Company's records, Customer A was principally engaged in the business of electricity and communication cables and wiring, construction and metallic materials. As stated in the table above, PPE, being machineries of cables and wiring, in the total assessed value of RMB103.30 million were pledged in favour of the Group to fortify the loan.

Dahuangyuan treated Loan A as defaulted since around September 2021 and reclassified it from Stage 1 (initial recognition) to Stage 3 (credit impaired) in assessing the ECL under HKFRS 9. During the year ended 31 December 2021, a full impairment loss of HK$71 million was recognized in respect of Loan A. While the assessed value of the machineries collateral was higher than the outstanding sum of Loan A, Customer A did not deliver the collateral to the Group in accordance with the contract terms and the Group had to resort to litigation to enforce on the asset collateral.

Dahuangyuan has commenced legal action against Customer A since April 2022. As the Court litigation is expected to last for a period of time, full allowance was made in respect of Loan A pending the outcome of the litigation. The first Court hearing is expected to be held in the fourth quarter of 2022. Depending on the outcome of the Court judgment, the Company will take further advice from its PRC legal adviser to uphold the Company's legitimate interest.

Loan B owed by Customer B

Dahuangyuan granted a loan in the principal amount of RMB26 million ("**Loan B**") to an independent third party borrower ("**Customer B**") pursuant to financial leasing agreement (the "**Loan B Agreement**"). According to the Company's records, Customer B was principally engaged in the business of entrusted asset management, investment management, business advisory and private equity investment. As stated in the table above, PPE, being electronic equipments and machineries, in the total assessed value of RMB52.07 million were pledged in favour of the Group to fortify the loan.

Dahuangyuan treated Loan B as defaulted since around December 2021 and reclassified it from Stage 1 (initial recognition) to Stage 3 (credit impaired) in assessing the ECL under HKFRS 9. During the year ended 31 December 2021, a full impairment loss of HK$29 million was recognized in respect of Loan B. While the assessed value of the machineries collateral was higher than the outstanding sum of Loan B, Customer B did not deliver the collateral to the Group in accordance with the contract terms and the Group had to resort to litigation to enforce on the asset collateral.

Dahuangyuan has commenced legal action against Customer B since April 2022. As the Court litigation is expected to last for a period of time, full allowance was made in respect of Loan B pending the outcome of the litigation. The parties are currently conducting pre-trial mediation under the guidance of the Court. Depending on the outcome of the mediation and/or judgment, the Company will take further advice from its PRC legal adviser to uphold the Company's legitimate interest.

General

The above additional information does not affect other information contained in the 2021 Annual Report and save as disclosed in this announcement, the remaining contents of the 2021 Annual Report remain unchanged.

DISCLOSEABLE TRANSACTIONS

During the preparation of this announcement, the Board discovers that the management of Dahuangyuan has erroneously calculated the size tests when conducting Loan A, resulting in the Company not having disclosed the details of the transaction at the relevant times by way of announcements.

The principal terms of Loan A are summarized as follows:

Dates : For the dates of grant and renewals of Loan A, please refer to Items 3.1 to 3.4 of the tabular form above in this announcement.

Parties : (a) Dahuangyuan (as lender), an indirect wholly-owned subsidiary of the Company; and

(b) Guangdong Weili Electric Equipment Co., Ltd.（廣東威立電力器材有限公司）(Customer A) (as borrower), a company established in the PRC with limited liability which was principally engaged in the business of electricity and communication cables and wiring, construction and metallic materials. According to the information available to the Company, Customer A is owned as to 96% of its registered capital by Guangdong Wuchuan Power Devices & Materials Co., Ltd.（廣東省吳川市電力線路器材廠有限公司）, which is in turn owned as to 83.49% by Shenzhen Rongyingwei Investment Development Co., Ltd.（深圳市榮盈威投資發展有限公司）, which is in turn owned as to 90% by the legal representative and sole director of Customer A, Mr. Chen Zemin（陳澤民）. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, each of Customer A and its ultimate beneficial owners (including Mr. Chen Zemin) is a third party independent of and not connected with the Company, its connected persons or associates.

Principal amounts : Loan A was granted to Customer A in four tranches, in the respective principal amounts of RMB14,250,000 ("**Loan A1**"), RMB19,500,000 ("**Loan A2**"), RMB7,000,000 ("**Loan A3**") and RMB13,400,000 ("**Loan A4**"), respectively, under four separate Loan A Agreements. Please also refer to Items 3.1 to 3.4 of the tabular form above in this announcement.

Interest rates : 18% per annum, in respect of Loans A1 and A4; and 12% per annum, in respect of Loans A2 and A3.

Security	:	Loan A was made under finance leasing arrangements, with machineries provided as collateral to fortify the repayment obligations of the loan. The machineries used as collaterals to Loan A were machineries used in the cables and wiring industry of Customer A, in the total assessed value of RMB103.30 million (the "**Loan A Collaterals**") at the time of latest renewals.
Loan periods	:	For the loan periods of Loan A as originally granted and subsequently renewed, please refer to Items 3.1 to 3.4 of the tabular form above in this announcement.

Reasons for and benefits of the transactions

The Company is an investment holding company and its subsidiaries are principally engaged in the sale and distribution of wine and liquor, the trading of food products, construction and land development, the leasing of logistics and office facilities, the provision of financial leasing services and the selection and sales of mineral products. Dahuangyuan is a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company principally engaged in financial leasing in China. As financial leasing is one of the principal activities of the Group, the provision of Loan A and the extension of repayment dates were in the ordinary and usual course of business of the Group. The making of Loan A was financed by the internal resources of the Company.

The terms of Loan A were arrived at after arm's length negotiation between Dahuangyuan and Customer A, taking into account the credit assessment performed by the management of Dahuangyuan over Customer A and the Loan A Collaterals at the grant and renewal of Loan A. The Directors noted that the terms of the Loan A Agreements are on normal commercial terms. Based on the understanding of the Directors from the management of Dahuangyuan, the Loan A Agreements were originally entered into, and subsequently renewed, with the view to generating interest income for the interests of the Company and its shareholders as a whole and were originally considered to be fair and reasonable. It only transpired after the grant and renewal of Loan A that Customer A subsequently defaulted the loan, resulting in the Group having to resort to litigation.

Non-compliance of the Listing Rules

As one or more of the applicable percentage ratios in respect of the grant and renewal of Loan A as calculated under the Listing Rules, on an aggregated basis, were more than 5% but less than 25%, Loan A would have constituted a discloseable transaction for the Company at the time of grant and renewal, and would have been subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

During the preparation of this announcement, the Board discovers that the management of Dahuangyuan has erroneously calculated the size tests when conducting Loan A, resulting in the Company not having disclosed the details of the transaction at the relevant times by way of announcement. The non-compliance was an inadvertent oversight. To avoid any recurrence of similar events, the Company has reminded the directors and management of the Group of the importance of Listing Rules compliance and demanded them to report to the Board if they have any doubts on the correct interpretation of the applicable rules and regulations. The Directors will consult external advisers if they are in doubt as to the appropriate compliance actions needed. In addition, the Directors intend to review its internal control policy as regards contract management, notifiable and connected transactions and conduct training sessions for its Directors, senior management and financial staff by the first quarter of 2023 to enhance their knowledge on Listing Rules compliance. With the implementation of such measures, the Company targets to enhance its internal awareness of the importance of rule compliance, including the making of appropriate disclosure in a timely manner as required by the rules.

By Order of the Board
China Beidahuang Industry Group Holdings Limited
Jiang Jianjun
Chairman

Hong Kong, 15 December 2022

As at the date of this announcement, the Executive Directors of the Company are Mr. Jiang Jianjun (Chairman), Mr. Ke Xionghan and Mr. Chen Chen; the Non-executive Directors of the Company are Mr. Zhao Wanjiang (Vice-chairman), Ms. Ho Wing Yan and Mr. Li Dawei; and the Independent Non-executive Directors of the Company are Mr. Chong Cha Hwa, Mr. Yang Yunguang and Mr. Chen Zhifeng.