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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)

SUPPLEMENTAL INFORMATION
RELATING TO 2022 ANNUAL REPORT

Reference is made to the annual report of China Beidahuang Industry Group Holdings Limited (the “**Company**”, together with its subsidiaries, collectively the “**Group**”) for the year ended 31 December 2022 (the “**2022 Annual Report**”). Unless the context otherwise requires, capitalized terms in this announcement shall have the same meanings as defined in the 2022 Annual Report.

This announcement is to provide following additional information in relation to the 2022 Annual Report.

The Omitted Information

(i) Business model

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.

(ii) Loan portfolio

Loan portfolio was already disclosed in notes to the consolidated financial statements on pages 198-199 in the annual report of the Company for the year ended 31 December 2022.

Latest status in relation to recovery of the loans due from Customer A and Customer B

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 note 43 to the financial statements in the 2022 Annual Report, 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.

The Company has taken legal actions against Customer A and court hearings were held in April 2019, March, August and September 2020, May 2021, and April and November 2022. The Company finally won in these court actions against Customer A and Customer A was ordered by the court to repay RMB600,000, RMB6,950,000 and RMB67,040,000 to the Company respectively. As at the date of this announcement, Customer A still has not repaid the aforesaid amounts to the Company. The Company applied to the court to liquidate Customer A and on 23 July 2023, the court ruled to liquidate Customer A. The Company has been waiting for the Court’s ruling orders to enable Dahuangyuan to liquidate Customer A and dispose its assets so to settle the Loan A.

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 equipment 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 first Court hearing is expected to be held in the second half of 2023. 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.

As at the date of this announcement, Customer B has started positive response and proposed repayment plan to settle the Loan B for the Company’s consideration. However, the repayment plan has not yet been accepted by the Company. While it would still require additional time to fix the feasible repayment plan to be agreed by both parties, the Company has determined to proceed with legal action against Customer B if the repayment plan cannot be fixed by the end of December 2023.

The Company will disclose the about information regarding money lending business in the future periodic financial reports.

The measures to be taken by the Company in ensuring that it would observe the guidance to issuers on the annual report disclosure regarding money lending business in its future periodic financial reports

The Directors and the management have taken note of the subject disclosure requirements seriously after the Company has received the relevant enquiry from The Stock Exchange of Hong Kong Limited regarding the subject disclosure requirements, understanding the importance for the continuation of such disclosure for shareholders' and public investors' information. The Company will enhance its compliance with the disclosure regarding money lending business by presenting yearly standalone reports (with relevant information (“**Information**”) about business model, breakdown of the loan portfolios, and movements of impairments or write-offs of loan receivables and the basis of impairment assessments) to the relevant board meetings to be held to approve annual reports such that the Information shall be discussed at the meetings and correspondingly disclosed in the annual reports for proper disclosure purpose.

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

Hong Kong, 30 August 2023

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