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YUE DA INTERNATIONAL HOLDINGS LIMITED

悅達國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 629)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO 2022 ANNUAL REPORT

Reference is made to the annual report of Yue Da International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31st December, 2022 (the “**2022 Annual Report**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the 2022 Annual Report.

The Company has disclosed on page 5 of the 2022 Annual Report that, as of 31st December, 2022, it had gross financing receivables for Factoring Operations of approximately RMB784,459,000.

The Company would like to provide further information in respect of its gross financing receivables for Factoring Operations as at 31st December, 2022.

TRADITIONAL FACTORING BUSINESS

For Traditional Factoring business, the total principal financing receivables under traditional factoring business, in an aggregate amount of approximately RMB380,801,000 as at 31st December, 2022, were not past due. All of the Traditional Factoring receivables are secured by receivables from the customers amounting to approximately RMB507,435,000. Save as the receivables from the customers, the Traditional Factoring receivables are not secured by any other collaterals. The following table sets forth the gross financing receivables amount of Traditional Factoring business categorised by industry and the relevant number of customers as of 31st December, 2022:

	<i>RMB'000</i>	<i>%</i>	<i>Number of customers</i>
Properties development	170,801	44.9	5
Food processing	50,000	13.1	1
Trading of metal materials	100,000	26.3	2
Trading of photovoltaic accessories	50,000	13.1	1
Engineering construction	10,000	2.6	1
	<hr/>	<hr/>	<hr/>
Gross financing receivables amount	<u>380,801</u>	<u>100.0</u>	<u>10</u>

In order to minimize the credit risk in relation to Traditional Factoring receivables, credit limits and credit terms granted to customers are approved by delegated officers.

The Group seeks to maintain strict control over its outstanding Traditional Factoring receivables on an individual basis to minimise its credit risk. The management has a credit policy in place and the exposures to the credit risk are monitored on an ongoing basis. The policy includes evaluation of collectability and aging analysis of the factoring receivables based on management's judgement on creditworthiness of the borrowers and the guarantors, collaterals and past collection history.

COMMUNICATIONS FACTORING BUSINESS

For Communications Factoring business, the Group cooperates with leading communications service providers in the PRC to provide factoring services to a large number of End Customers with small amount of receivables per End Customer. As at 31st December, 2022, there were approximately 969,000 End Customers with outstanding financing receivables with the Group in an aggregate amount of approximately RMB403,658,000, of which approximately RMB19,501,000 is fully secured by bank deposits from individual customers and approximately RMB262,194,000 is guaranteed by guarantors. With the small amount of receivables (of approximately RMB8 to RMB9,533) per End Customer, no analysis of the five largest End Customers is presented.

Taking into consideration of the special nature of Communications Factoring business (i.e. a large number of End Customers with small amount of receivables per End Customer), the management reviewed the breakdown of the financing receivables and considered the significance of the aggregate outstanding amount in the financial statements of the Group, and identified that the most significant risk to the Communications Factoring business is default in payment by End Customers. The Group believes that such risk is mainly driven by two sources, namely malicious fraud by End Customers and termination of communications services by such End Customers. The Group minimises such risks by implementing the following control procedures during the inception of new End Customers.

Suppliers verify the identity of new End Customers and establish payment channel with End Customers' bank accounts. Such information is provided to the professional technology service companies for credit assessment that is operated by both artificial Intelligence ("A.I.") and manual resources.

The A.I. system assess the historical default percentage of End Customers for each Supplier to screen out any unusual transactions. Besides, on the End Customers side, the A.I. system checks whether there is any overdue payment history, whether there are several outstanding balances owed by the same End Customer, whether they are blacklisted by other institutions, and other anomalies in the potential customer's credit history. The A.I. system then generates a default possibility in respect of each End Customer and those with high default possibility will be rejected.

The professional technology service companies also contact the emergency contact persons of End Customers manually to verify the other information of End Customers. Further, the professional technology service companies contact the End Customers manually after provision of factoring services to confirm whether the End Customers have been notified with the contractual relationship with the Group and notify them of their rights and obligations. A mobile text message will be sent to End Customers to remind them of the payment due date. Finally, the professional technology service companies will appoint professional and legal debt collectors to collect overdue payments and take legal action when necessary.

In order to ensure the professional technology service companies' quality control in adhering to the Group's policy, the Group keeps a back-up copy of all the data of the End Customers. The Group would verify such data before provision of services. Credit limits are set for each of the Suppliers to minimise the risk of malicious fraud by End Customers. In addition, the Group performs on-site inspection of professional technology service companies from time to time to ensure the credit assessment procedures are properly followed.

AGEING ANALYSIS AND IMPAIRMENT FOR TRADITIONAL FACTORING AND COMMUNICATION FACTORING BUSINESSES

The ageing analysis of the outstanding principal financing receivables from the date of granting the relevant factoring services as at 31st December, 2022 were as follows:

	Traditional Factoring business <i>RMB'000</i>	Communications Factoring business <i>RMB'000</i>	Total <i>RMB'000</i>
Aged with one year	347,654	226,153	573,807
Aged over one year but within two years	–	177,505	177,505
Aged over two years	33,147	–	33,147
	<u>380,801</u>	<u>403,658</u>	<u>784,459</u>

Note: The outstanding balance as at 31st December, 2022 was not due.

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets including factoring receivables. Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of Lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

The movements in the allowance for impairment in respect of factoring receivables during the Current Year were as follows:

	12m ECL (not-credit impaired)		
	Traditional Factoring business <i>RMB'000</i>	Communications Factoring business <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1st January, 2022	678	12,275	12,953
Changes due to financial instruments recognised as at 1st January, 2022:			
– Impairment losses reversed	(589)	(8,081)	(8,670)
– Impairment losses recognised	–	2,417	2,417
New financial assets originated or purchased	918	8,323	9,241
	<u>1,007</u>	<u>14,934</u>	<u>15,941</u>
As at 31st December, 2022	<u>1,007</u>	<u>14,934</u>	<u>15,941</u>

The basis of impairment assessment of Traditional Factoring business

The Group adopts individual assessment in estimating ECL factoring receivables for Traditional Factoring business. The credit losses expectations are based on the Group's historical loss experience, collaterals and guarantees that are integral to the contractual terms, financial condition of borrowers for the probability of default and loss given default, as well as forward-looking information.

Management performs ongoing credit evaluations of individual customers' financial condition. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment. The Group has policies to limit the credit exposure on receivables by taking into account the availability of guarantee from third parties and getting payment guarantee. The settlement patterns of customers are regularly monitored by the Group. As at 31st December, 2022, the expected loss rate for Traditional Factoring receivables of approximately RMB380,801,000 is 0.26%.

The basis of impairment assessment of Communications Factoring business

The Group adopts collective assessment in estimating ECL on factoring receivables for Communications Factoring business. The Group takes into consideration of internal credit rating of various debtors, which are grouped based on historical collection records, collaterals and forward-looking information that is reasonable, supportable and available without undue costs or effort. At the end of each reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered. The default rates would be adjusted according to the actual loss rate incurred regarding the Communication Factoring receivables and the change of the global default rate published by the international credit-rating agency updated each year, both of which are affected by the change in the macroeconomic environment. With limited supportable data available on Communication Factoring business as at 31st December, 2021, a lower credit-rating was applied by the management to determine the default rate at 31st December, 2021 in accordance with the market practices for the impairment assessment. Taking into account the increase in amount of the Communications Factoring gross financing receivables at 31st December, 2022 and the relatively low actual loss rate of the End Customers throughout the year ended 31st December, 2022, the default rate as applied in estimating ECL on factoring receivables for Communications Factoring business at 31st December, 2022 was adjusted downwards accordingly.

The following table provides information on the exposure to credit risk for Communications Factoring receivables which are assessed on a collective basis with 12m ECL. End Customers with gross financing receivables under 12m ECL are in an aggregate amount of approximately RMB403,658,000 as at 31st December, 2022.

Internal credit rating	Average loss rate	31st December, 2022
		Communications Factoring receivables RMB'000
Low risk	3.64%	387,880
Watch List	5.10%	15,778
		<hr/> <hr/> 403,658

The estimated loss rates are estimated based on historical observed default rates of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

The additional information above does not affect other information contained in the 2022 Annual Report, and the contents of the 2022 Annual Report remain unchanged.

By order of the Board
Yue Da International Holdings Limited
Pan Mingfeng
Executive Director

Hong Kong, 22nd September, 2023

As at the date of this announcement, the Board comprises the following members: (a) as non-executive Directors, Mr. Liu Debing, Mr. Li Biao, Mr. Hu Huaimin and Mr. Yu Guangshan; (b) as executive Directors, Mr. Pan Mingfeng and Mr. Wu Shengquan; and (c) as independent non-executive Directors, Dr. Liu Yongping, Mr. Cheung Ting Kee and Ms. Zhang Yan.

If there is any inconsistency in this announcement between the Chinese and English versions, the English version shall prevail.