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CHINLINK INTERNATIONAL HOLDINGS LIMITED

普匯中金國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 0997)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE 2024 ANNUAL REPORT

Reference is made to the annual report of Chinlink International Holdings Limited (the “**Company**”, together with its subsidiaries, collectively referred to as the “**Group**”) for the year ended 31 March 2024 published on 30 July 2024 (the “**2024 Annual Report**”). Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as those defined in the 2024 Annual Report.

The Company would like to provide the following supplemental information to the shareholders and potential investors of the Company which should be read in conjunction with the 2024 Annual Report.

IMPAIRMENT LOSS

As disclosed in the 2024 Annual Report, the Company recognized impairment loss on (i) loan receivables of approximately HK\$38.3 million; and (ii) factoring receivables of approximately HK\$27.1 million under expected credit loss (“**ECL**”) model during the year ended 31 March 2024.

Additional information on the impairment loss on loan receivables

The impairment loss on loan receivables amounted to HK\$38.3 million for the year ended 31 March 2024. Details of relevant loans regarding the impairment losses made for the borrowers for the year ended 31 March 2024 are as follows:

| No. | The Name of Borrowers | Loss allowance (reversal of loss allowance) made for the year ended 31 March 2024 <i>HK\$'000</i> | Latest maturity date | Gross carrying amount of loan receivables as 31 March 2024 <i>HK\$'000</i> | Net carrying amount of loan receivables as 31 March 2024 <i>HK\$'000</i> |
|-----|--|--|----------------------|---|---|
| 1 | Shaanxi Gun Shi Xin Tian Di Cultural Investment Company Limited# | 25,940 | 2022-09-07 | 31,866 | - |
| 2 | Shaanxi Long Yuan Landscaping Engineering Company Limited# | 15,009 | 2022-09-28 | 18,438 | - |
| 3 | Individual A | (1,353) | 2025-10-28 | 6,887 | 6,737 |
| 4 | Individual B | (1,259) | 2025-10-28 | 5,290 | 5,085 |
| | Sub-total | <u>38,337</u> | | <u>62,481</u> | <u>11,822</u> |
| | Other borrowers | - | | 22,403 | - |
| | Total | <u>38,337</u> | | <u>84,884</u> | <u>11,822</u> |

The impairment loss on loan receivables for the year ended 31 March 2024 mainly includes the allowance for ECL of the loan receivables of the Group due from Shaanxi Gun Shi Xin Tian Di Cultural Investment Company Limited# (“**Gun Shi**”) in an amount of approximately HK\$ 25.9 million and Shaanxi Long Yuan Landscaping Engineering Company Limited# (“**Long Yuan**”) in an amount of approximately HK\$ 15.0 million.

Gun Shi, a company principally engaged in the food & beverage and entertainment business in the People's Republic of China ("**PRC**"), was granted a loan of RMB26,000,000 on 7 September 2020, with an initial loan period of one year, later extended to 7 September 2022. Initially, it was expected that the COVID-19 pandemic would be under control by the end of 2021, enabling Gun Shi's revenue to rebound to pre-pandemic level in 2022. However, the COVID-19 pandemic continued spread at the end of 2021 in Xi'an with lockdowns started in late December 2021. Continued intermittent lockdowns caused a significant disruption to Gun Shi's food & beverage and entertainment business, with extended lockdowns and social distancing measures leading to a sharp decline in customer visits to entertainment venues and a corresponding decline in revenue and profitability. Consequently, Gun Shi experienced constrained cash flow from its operations, making it unable to settle its outstanding loan receivables at the maturity date.

Long Yuan, a company principally engaged in the provision of landscaping engineering services in PRC, was granted a loan of RMB15,000,000 on 28 September 2020, with an initial loan period of one year, later extended to 28 September 2022. Initially, it was expected that Long Yuan's revenue and profit would be stable in 2022, assuming the COVID-19 pandemic would be under control by the end of 2021. However, as the COVID-19 pandemic continued to spread at the end of 2021, the cash flow of its customers was severely affected, with landscaping projects delayed or cancelled as a result of the lockdowns that began in late December 2021 in Xi'an and continued intermittently. The spread of the COVID-19 pandemic, along with a downturn in the real estate market in PRC adversely affected profitability, leading to a decrease in Long Yuan's revenue, net profit, and the recoverability of trade receivables from its customers. Consequently, Long Yuan experienced constrained cash flow from its operations, making it unable to settle its outstanding loan receivables at the maturity date.

As of 31 March 2024, the loan receivables due from Gun Shi and Long Yuan were overdue for more than 15 months and, accordingly, the loans were classified as "Loss" and ultimately assigned to stage 3 (2023: Stage 2) with a C credit rating. The loans assigned with C credit rating was considered default with 100% probability of default adopted, and the recovery rate was made reference to Moody's Corporation's credit rating scheme. Based on the credit risk and the impairment assessment under ECL model, the loan receivables due from Gun Shi and Long Yuan were fully impaired for the year ended 31 March 2024.

Additional information on the impairment loss on factoring receivables

The impairment loss on factoring receivables amounted HK\$27.1 million for the year ended 31 March 2024. Details of relevant loans regarding the impairment losses made for the borrowers for the year ended 31 March 2024 are as follows:

| No. | The Name of Borrowers | Loss allowance (reversal of loss allowance) made for the year ended 31 March 2024 <i>HK\$'000</i> | Latest maturity date | Gross carrying amount of factoring receivables as 31 March 2024 <i>HK\$'000</i> | Net carrying amount of factoring receivables as 31 March 2024 <i>HK\$'000</i> |
|-----|--|--|----------------------|--|--|
| 1 | Xi'an Dewantong Commercial Operation and Management Company Limited# | 28,161 | 2022-10-29 | 34,631 | - |
| 2 | Company A | 4,233 | 2023-06-24 | 17,050 | 12,742 |
| 3 | Company B | 2,576 | 2024-03-06 | 10,750 | 8,034 |
| 4 | Company C | 1,262 | 2024-03-06 | 10,120 | 8,802 |
| 5 | Company D | 166 | 2024-06-15 | 9,286 | 9,122 |
| 6 | Company E | 155 | 2024-06-14 | 9,286 | 9,133 |
| 7 | Company F | (3,730) | 2022-10-20 | - | - |
| 8 | Company G | (3,076) | 2022-06-15 | 1,513 | - |
| 9 | Company H | (2,337) | 2022-10-29 | 4,538 | 3,504 |
| 10 | Company I | (229) | 2023-06-27 | - | - |
| | Sub-total | 27,181 | | 97,174 | 51,337 |
| | Other borrowers | (84) | | 891 | 665 |
| | Total | 27,097 | | 98,065 | 52,002 |

The impairment loss on factoring receivables for the year ended 31 March 2024 mainly includes the allowance for ECL of the factoring receivable of the Group due from Xi'an Dewantong Commercial Operation and Management Company Limited (“**Dewantong**”) in an amount of approximately HK\$ 28.2 million.

Dewantong, a company principally engaged in property development, leasing and management, and operation of warehouse and logistics centers in PRC, was granted a factoring loan of RMB30,550,000 on 29 October 2021, with a loan period of one year. Initially, it was expected that Dewantong's revenue and profit would remain stable in 2022. However, the unexpected continuation of the COVID-19 pandemic and a sudden downturn in China's property market significantly undermined consumer confidence and severely impacted Dewantong's financial performance. The high vacancy rate of property leasing, poor rental income, and delays and cancellations in decoration and renovation projects, resulted in a substantial amount of overdue trade receivables and further exacerbated Dewantong's cash flow challenges. As Dewantong was unable to collect its outstanding trade receivables in a timely manner, it experienced constrained cash flow from its operations, ultimately leading to its inability to settle its outstanding factoring receivables at the maturity date.

As of 31 March 2024, the factoring receivable due from Dewantong was overdue for more than 15 months and accordingly, the factoring loan was classified as "Loss" and ultimately assigned to stage 3 (2023: Stage 2) with a C credit rating. The loan assigned with C credit rating was considered default with 100% probability of default adopted, and the recovery rate is made reference to Moody's Corporation's credit rating scheme. Based on the credit risk and the impairment assessment under ECL model, the factoring receivable due from Dewantong was been fully impaired for the year ended 31 March 2024.

For events and circumstances that led to the Group in recognizing impairment of its loans, factors would normally include (a) delay or default in settlement of loan interest or loan principal amounts by the borrower on due date; and (b) existing or forecasted adverse changes in business, financial or economic conditions that was expected to cause a significant decrease in the borrower's ability to meet its debt obligations.

By the end of March 2024, the Company was aware of the abovementioned events and circumstances when the impairment was reviewed by Vincorn Consulting and Appraisal Limited (the "**Independent Valuer**") and agreed by the Company's auditor. The abovementioned events and circumstances were not anticipated by the Company at the time when the loans were granted.

THE VALUATION METHOD

In respect of the determination of the ECL of loan receivables and factoring receivables, the Group engaged the Independent Valuer to carry out a valuation as at 31 March 2024. In determining the valuation method, the Independent Valuer has considered the following valuation approaches, which are the appropriate methodologies in accordance with the HKFRS 9:

1. Simplified Approach

Applied to trade receivables (including goods and services, operating lease and financial guarantee contracts), taking into account historical provision rates.

2. General Approach

Adopted for financial assets not eligible for other approaches, comprising 3 stages based on credit risk.

Stage 1: Assets without significant credit risk increase since initial recognition are measured with 12-month ECL.

Stage 2: Assets with significant credit risk increase since initial recognition are measured on a lifetime ECL.

Stage 3: Credit impaired assets are measured using lifetime ECL.

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. Assessments are based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Independent Valuer adopted general approach for loan and factoring receivables to calculate the ECL. The Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Due to the significant amounts and different risk characteristics of the loan and factoring receivables, the ECL of the loan and factoring receivables will be assessed on a individual basis.

The ECL rate of each risk level was derived by the formula below:

$$\text{ECL Rate} = \text{Probability of Default} \times (1 - \text{Recovery Rate}) \times (1 + \text{Forward-Looking Adjustment})$$

The major inputs applied in the valuation include the probability of default (the “**PD**”), recovery rate (the “**Recovery Rate**”) and forward-looking adjustment (the “**FLA**”). Key inputs of the valuation are shown below:

| For Stage 1 | For the year ended 31 March 2024 | For the year ended 31 March 2023 |
|--------------------|---|---|
| 1. PD | 2.27% - 5.33% | 1.20% - 5.53% |
| 2. Recovery Rate | 36.40% | 36.40% |
| 3. FLA | 14.29% | -8.86% |
| 4. ECL Rate | 1.65% - 3.87% | 0.70% - 3.21% |

| For Stage 2 | For the year ended 31 March 2024 | For the year ended 31 March 2023 |
|--------------------|---|---|
| 1. PD | 35.95% | 35.37% |
| 2. Recovery Rate | 38.50% | 38.70% |
| 3. FLA | 14.29% | -8.86% |
| 4. ECL Rate | 25.27% | 19.76% |

| For Stage 3 | For the year ended 31 March 2024 | For the year ended 31 March 2023 |
|--------------------|---|---|
| 1. PD | 100.00% | 100.00% |
| 2. Recovery Rate | 0.00% | 0.00% |
| 3. FLA | N/A | N/A |
| 4. ECL Rate | 100.00% | 100.00% |

For stage 1, the industry PDs are sourced from “2023 Annual Global Corporate Default Study And Rating Transition Study” issued by Standard & Poor’s Financial Services LLC. With the PD of each industry, a respective credit rating is assigned to the industry by referencing to Standard & Poor’s Financial Services LLC again, and we referenced to Moody’s Corporation for the Recovery Rate. The Recovery Rate is referenced to the “Annual default study: After a sharp decline in 2022, defaults will rise modestly this year” issued by Moody’s Corporation.

For stage 2, as most of the debtors are overdue more than 1 year, a 2-year CCC credit rating is assigned to reflect their higher credit risk, the PD and the Recovery Rate are matched with the credit rating and sourced from Standard & Poor’s Financial Services LLC and Moody’s Corporation respectively.

For stage 3, the debtors are assigned with a C credit rating and considered default, 100% ECL rate is adopted.

The FLA was derived based on the difference between average actual default rate in 2023 and the 2024 forecast default rate by considering different scenarios and adopted probability-weighting with 3 scenarios by making reference to Moody's Corporation. The average actual default rate was 4.2%, whilst the forecasted default rates in baseline, moderately pessimistic and severely pessimistic scenarios are 3.6%, 7.4% and 11.8% respectively. The FLA is 14.29%.

Every year, Standard & Poor's Financial Services LLC and Moody's Corporation release their default studies, updating default data like PD and Recovery Rate based on the number of defaults and global economic changes. These updates result in small, insignificant changes to the data as of 31 March 2024 compared to the data as of 31 March 2023. However, the FLA has undergone significant changes, primarily due to Moody's Corporation considering a variety of macro and microeconomic indicators and worst-case scenarios when deriving forecasted PD, making their predictions more accurate. These indicators may include adjustments to economic growth rates, the impact of inflation, shifts in interest rate policies, and other factors that directly affect the forecast of PD. Unlike the FLA as of 31 March 2023, since the pessimistic scenarios appear significant rise in forecasted PD as of 31 March 2024, the FLA has been significantly increased.

The Independent Valuer has obtained information prepared by the management of the Group and considered all relevant factors during the valuation period, including but not limited to the following factors: (i) the asset information list as of the valuation date; (ii) the overall economic outlook and market factors that affect the ECL of the assets; (iii) other reliable sources of market information; and (iv) other factors that have a significant impact on the ECL of the assets.

The Independent Valuer is a professional valuation firm in valuation advisory services. The Independent Valuer is registered as a firm regulated by the Royal Institution of Chartered Surveyors and is a third party independent of the Company and its connected persons (as defined in the Listing Rules).

THE ACTIONS TAKEN BY THE COMPANY TO RECOVER THOSE OVERDUE LOAN AND FACTORING RECEIVABLES

At the end of each month, overdue loan receivables and factoring receivables are reviewed leading to internal discussions on a case-by-case basis regarding appropriate recovery actions. This approach ensures that the Company can maximize recovery in the most timely manner possible.

Subsequent to the publication of the 2024 Annual Report, the Group has actively implemented actions to collect the overdue loan and factoring receivables. As at 15 January 2025, approximately HK\$9.3 million and approximately HK\$34.0 million have been subsequently recovered from the overdue loan receivables and factoring receivables, respectively.

The Group will continue to pursue recovery actions to facilitate timely collection of outstanding loans and factoring receivables. Recovery actions may include, but are not limited to issuing reminders and warning letters, obtaining additional collateral, closely monitoring cash inflows from receivables, and if necessary, the Company will initiate legal proceedings against borrowers to recover loan and factoring receivables.

The Company has been in discussions with Gun Shi, Long Yuan, and Dewantong (the "**Borrowers**") regarding proposed repayment plans, and as of the end of 2024, the Borrowers had tentatively agreed to the following proposed repayment plans:

Gun Shi

As of 13 December 2024, the outstanding principal for the loan receivable from Gun Shi was RMB 23,850,000 (the "**Outstanding Principal 1**"). Gun Shi is required to repay at least 20% of the Outstanding Principal 1 by 30 June 2025 and the total repayment of which should reach at least 65% by 31 December 2025. The Outstanding Principal 1 should be fully settled by 31 March 2026.

Long Yuan

As of 13 December 2024, the outstanding principal for the loan receivable from Long Yuan was RMB 12,900,000 (the "**Outstanding Principal 2**"). Long Yuan was required to repay at least 30% of the Outstanding Principal 2 by 30 June 2025. The Outstanding Principal 2 should be fully settled by 31 December 2025.

Dewantong

As of 13 December 2024, the outstanding principal for the factoring receivable from Dewantong was RMB 24,250,000 (the "**Outstanding Principal 3**"). Dewantong is required to repay at least 20% of the Outstanding Principal 3 by 30 June 2025 and the total repayment of which should reach at least 65% by 31 December 2025. The Outstanding Principal 3 should be fully settled by 31 March 2026.

The proposed repayment plans were developed based on a thorough assessment of the Borrowers' financial circumstances, including their recent financial conditions, profit forecasts, cash flow projections and business contracts. This analysis enabled the Company to structure repayment schedules that align with the Borrowers' financial capabilities and expected cash flows, ensuring the Borrowers to meet their financial obligations.

If the Borrowers are unable to repay the loans as agreed, the Company will institute the legal action requesting for immediate payment. Our objective is to find a solution that is mutually beneficial for both the Company and the Borrowers whilst, at the same time, protect the best interests of the Company on loan recovery.

ASSESSMENT AND VIEW OF THE BOARD

The Board had considered, among other things, the methodology and basis adopted in determining the impairment provisions in relation to the Group's loan receivables and factoring receivables in accordance with Hong Kong Financial Reporting Standards 9. There was no material change in the valuation method or basis adopted in the impairment assessment and valuation of its assets, and the significant impairment loss recorded by the Group as at 31 March 2024 was mainly due to the change in circumstances of the relevant assets which in turn affects the value of inputs used in the valuation.

Having considered the current market situation and on the basis that the methodology and basis of impairment assessment adopted are commonly used in the market and are generally consistent with the practice adopted by the Group in previous financial years and/or supported by valuation conducted by Independent Valuer, the Directors are of the view that such methodology and basis are fair and reasonable.

GENERAL

The above supplemental information provided in this announcement does not affect other information contained in the 2024 Annual Report and, save as disclosed above, the content of the 2024 Annual Report remain unchanged.

The English translation of Chinese names marked with “#” in this announcement, where indicated, is included for identification purpose only, and should not be regarded as the official English translation of such Chinese names.

By order of the Board
Chinlink International Holdings Limited
Mr. Li Weibin
Chairman

Hong Kong, 22 January 2025

As at the date of this announcement, the Board comprises of two executive Directors, namely Mr. Li Weibin and Mr. Siu Wai Yip; a non-executive Director, namely Mr. Lam Wing Yiu; and three independent non-executive Directors, namely Dr. Ho Chung Tai, Raymond, Ms. Lai Ka Fung, May and Ms. Chan Sim Ling, Irene.