大中華金融控股有限公司
GREATER CHINA FINANCIAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)
(Stock Code: 431)
website: http://www.irasia.com/listco/hk/greaterchina/index.htm

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE 2021 ANNUAL REPORT

Reference is made to the annual report of Greater China Financial Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2021 (the "**2021 Annual Report**") in relation to the disclosure in the impairment in other receivables and goodwill. Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the 2021 Annual Report.

Further information on the impairment allowance on other receivables and goodwill:

As at FY2021, the Company recorded an impairment allowance on other receivables of approximately HK$100 million (2020: HK$9 million) (the "**OR Impairment**"). The OR Impairment is resulted as the Group engaged in provision of financial referral and guarantee services to the tobacco retailers subsequent to the acquisition of Xin Yunlian Group in July 2020. In FY2021, the operation of financial referral and guarantee services increased as more financial institutions are interested in providing funding to the approved tobacco retailers through the Group's financial referral services. Default payment receivables resulted throughout FY2021 as the Group made repayments on behalf of the referred borrowers once default events were occurred, the Group then follow up to recover the amounts from the borrowers subsequently. The balance of default payment receivables, before impairment, increased to approximately HK$144.1 million at 31 December 2021 (2020: HK$16.6 million).

Before approving the financial referral and offering guarantee services by the Group, all tobacco retailers will undergo a detailed credit assessment process. The major assessment criteria a tobacco retailer must fulfill are as follows:

– A tobacco retailer should obtain the Tobacco License granted by China National Tobacco Corporation and has in active tobacco retail operation for over 1 year;

– A tobacco retailer should maintain a monthly turnover in the tobacco retail operation of not less than RMB10,000 on a regular basis; and

– The age of the license owner of the tobacco retailer should be ranged from 22 to 55 years old.

Upon fulfillment of the major assessment criteria and based on the financial data provided by the tobacco retailer, a credit ranking ranging from A to E will be assigned to each tobacco retailer. Tobacco retailer with a credit ranking of E will be rejected directly while the others from A to D will be forwarded to the funding banks for further assessment including but not limited to the personal credit report assessment and/or other financial related big data assessment within their respective banking systems. Upon approval of this final credit assessment performed by the bank, a loan will be granted to the tobacco retailer.

The management of the Company are responsible in developing and maintaining the processes for measuring expected credit loss under the impairment requirements of HKFRS 9, the Group assessed these default payment receivables to be credit-impaired since default history had already existed. At 31 December 2021 and 2020, the loss rate of default payment receivables were approximately 80% (i.e. probability of default 100% and recovery rate 20%) with reference to the valuation performed by an independent professional valuer. The major provision of other receivables was increased to HK$100 million due to the significant increase in the gross amount of the default payment receivables.

With the gradual opening up of mobility in various cities in the PRC, the Company has assigned staffs to contact the default debtors directly in the areas with less lockdown measures. Also, the Company has arranged with legal advisors and will consider legal action on a case by case approach to make sure the receivables can be recovered.

Other than that, the Company also attempts to improve the recovery rate through the funding end of the operation. Instead of providing full guarantee for the fund providers which may expose the risk of default payment to the Company, the Company started negotiating with existing fund providers as well as new fund providers to adjust the business co-operation. In the new proposal, the Company will only provide credit monitoring and debtor referral service to the fund providers and thus the proportion of loans with full guarantee service will be reduced. In the long term, the Company aimed at maintaining the proportion of loan referral portfolio of debtors with guarantee service to less than half of the overall loan referral portfolio and hence significantly reduce the risk of default payment.

Before the acquisition of the Tobacco Financing CGU, the Company had performed comprehensive due diligence works on Xin Yunlian Group including a financial due diligence to cover the unaudited consolidated financial statements of Xin Yunlian Group for the year ended 31 December 2016, 2017 and 2018 as well as the most latest management accounts of Xin Yunlian Group by a professional financial advisor and a professional legal advisor was also engaged to cover the legality of the relevant legal documents as well as the capital structure of Xin Yunlian Group. In addition to the financial and legal due diligence, the Company had also conducted thorough discussions with the key management team and shareholders of Xin Yunlian Group to understand the operations, the relevant license and the systems and the capital structure in a number of site visits and satisfactory results were obtained.

During the review at the end of FY2021, the financial performance of Tobacco Financing CGU was unable to achieve the forecast of FY2021 (the "**Original Forecast**") prepared in last year. The management of the Company revised the forecast projection in coming four years in accordance with the historical performance. As there is a trend in increasing credit-impaired default payments, the status in recovering those receivables did not improve and the Company considered there is an increase in future cash outflow on the operation by adjusting the loss rate from 3% to 4% on each transaction as those credit-impaired default payments may not recovered eventually.

In the Original Forecast, the Company did not project such a high default payments. However, due to the unexpected high default payments in 2021, the CGUs failed to achieve the Original Forecast. As a conservative approach, a revised forecast for the coming four years was revised downward in accordance with the high default payment rate, which has resulted in a significant decrease in the value of the CGUs and thus an impairment loss on goodwill of HK$98.5 million was recorded for FY2021 (2020: HK$32.7 million).

The major change of circumstance that led to the high default payments is attributable to the continuous COVID preventive measures in various cities in the PRC in 2021 which greatly affected the retail operation of the tobacco retailers. Many of them were forced to close temporarily as commercial activities needed to be suspended in various districts with identified COVID cases. As a consequence, a higher than normal number of tobacco retailers failed to repay the loan granted on a timely basis which triggered the guaranteed repayment arrangement to the banks by the Group automatically, resulting in an increase in the default payments. At the same time, the preventative arrangement increased the difficulty for the debt collection follow-up procedures. As the challenge of the COVID preventive measures were unforeseeable when the Original Forecast was contemplated, the financial performance of the Tobacco Financing CGU was greatly affected and a revised forecast is necessary.

The below table is extracted from the valuation reports of the Tobacco Financing CGU conducted at the acquisition of the operation, in December 2021 and 2022 respectively:

	July 2020 *HK$ in million*	**December 2020** *HK$ in million*	**December 2021** *HK$ in million*
Average revenue	199	213	287
Average EBIT	69	73	68
EBIT margin (EBIT/Revenue)	35%	35%	24%
Terminal cashflow after 4th year projection	604	634	428
Discount rate applied	16%	17%	18%
Loss rate applied	3%	3%	4%

The loss rate and EBIT margin applied at acquisition and FY2020 have no difference. Changes were identified when there is a trend in increasing credit-impaired default payments and the status in recovering them did not improve in FY2021, the loss rate was adjusted from 3% to 4% on each transaction, representing a 33% increase in loss rate. The increase in loss rate resulting the EBIT margin of the loan financing II operation to decrease from 35% to 24%, representing a 31% decrease in EBIT margin. An impairment loss on goodwill was recognised after compared the carrying amount and recoverable amount of CGUs.

The Group has engaged an independent professional valuer to conduct a valuation to support the impairment loss of goodwill calculation.

The valuation method of discounted cash flow was adopted for the calculation of the value-in-use ("**VIU**") of the CGUs. In accordance with HKAS 36 *Impairment of Assets*, the recoverable amount should be the higher of (i) the fair value less costs of disposal, and (ii) the VIU. After assessing both the VIU and the fair value, the valuation opted for the VIU because it was the higher between the two figures. VIU is based on the estimated future cash flows expected to be derived from the CGU discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

By order of the Board of
Greater China Financial Holdings Limited
Liu Kequan
Chairman

Hong Kong, 28 June 2022

As at the date of this announcement, the Board comprises Mr. Liu Kequan, Mr. Chen Zheng and Mr. Yang Dayong as executive Directors; Mr. Zhang Peidong as non-executive Director; Mr. Kwan Kei Chor, Dr. Lyu Ziang and Mr. Zhou Liangyu as independent non-executive Directors.