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CHONG KIN GROUP HOLDINGS LIMITED
創建集團(控股)有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1609)

**SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31 MARCH 2022**

Reference is made to the annual report of Chong Kin Group Holdings Limited (the “**Company**”, together with its subsidiaries as the “**Group**”) for the year ended 31 March 2022 (the “**Annual Report**”) published on 22 July 2022, with respect to, amongst other things, the consolidated results of the Group. In the Annual Report, the following was mentioned:

IMPAIRMENT LOSS OF ACCOUNT RECEIVABLE

On page 123 of the Annual report, it is disclosed that:

“28. TRADE AND OTHER RECEIVABLES

...

(ii) On 26 November 2021, the sale and purchase agreement for the acquisition of land parcel in Grenada was terminated between the Government of Grenada and the Group, the Government of Grenada shall return the consideration in the sum of US\$20,000,000 to the Group. Based on the valuation report prepared by independent professional valuers, Vincorn Consulting and Appraisal Limited, as at 31 March 2022 the expected recoverable amount in respect of the abovementioned receivable is approximately HK\$132,135,000, and an impairment loss of approximately HK\$23,315,000 was recognised for the year.”

Valuation Methodology

According to the valuation report as of 31 March 2022 prepared by Vincorn Consulting and Appraisal Limited (“**Vincorn**”), the valuation of expected credit loss on other receivables in relation to the Deposit Paid (the “**Subject**”) has been prepared in accordance with the International Valuation Standards effective from 31 January 2022 published by the International Valuation Standards Council, where applicable.

The valuation of the Subject is conducted in accordance with Hong Kong Financial Reporting Standard 9 (the “**HKFRS 9**”) amended and published by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). HKFRS 9 sets out the requirements on an expected credit loss model to determine the fair value of a financial instrument. The expected credit loss model applies to debt instrument recorded at amortized cost or at fair value through other comprehensive income. All entities are required to recognise an allowance for either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

The measurement of expected credit losses reflects a probability-weighted outcome, the time value of money and the best available forward-looking information. The changes in macroeconomic factors will also affect expected credit losses.

Selection of Valuation Approach

This analysis is performed in accordance to HKFRS 9 to estimate the expected credit loss of the Financial Assets. Two approaches are recognised by HKFRS, being General Approach and Simplified Approach.

The General Approach is selected to estimate the Subject.

Expected Credit Loss Rate

Expected credit loss rates are computed in the following method:

- Assessed the credit standing of Grenada government with reference to the country rating conducted by Standard & Poor’s Financial Services LLC. The credit rating of Grenada government is selective default (“**SD**”).
- For the expected credit loss rate for Grenada government, we assigned a default rate of 100% for the credit rating SD. For recovery rate, reference has been made to market price of sovereign bonds of Grenada as at valuation date.
- The expected credit loss rate of Grenada government is derived by the formula below:

$$\text{Expected Credit Loss Rate} = \text{Probability of Default} \times (1 - \text{Recovery Rate})$$

- The forward-looking factor is not additionally considered because the bond price should reflect the market expectation on the future default probability.

Based on the above, the expected credit loss rate has been calculated as 15%, as such, the expected credit loss on other receivable in relation to refund from Grenada government as at 31 March 2022 is reasonably estimated at USD3,000,000.

Sources of Information

In conducting our valuation of the Subject, Vincorn considered, reviewed and relied upon the following key information which is available to the public or provided by the management of the Company:

- Background information of the Company and relevant corporate information;
- The sale agreement for Lot 1 of the Mount Hartman Properties in Grenada dated 14 January 2021;
- The termination letter of the sale agreement dated 25 November 2021; and
- Standard & Poor’s Capital IQ database and other reliable sources.

Assumption

The following are the list of assumption in connection with the valuation of the Subject:

- there will be no material change in the existing political, taxation, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Company;
- the conditions in which the Company is operated, and which are material to revenue and costs of the businesses of the Company will have no material change;
- the information has been prepared on a reasonable basis after due and careful consideration by the Company;
- competent management, key personnel and technical staff will be maintained to support the ongoing operation and development of the Company;
- all licenses and permits that is essential for the operation of the Company can be obtained and are renewable upon expiry;
- there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value; and
- no responsibility for changes in market conditions after the Valuation Dates.

BUSINESS MODEL OF THE GROUP'S MONEY LENDING

Provision of loans is one of the principal businesses of the Group. The Group's money lending business has been conducted through its wholly-owned subsidiary, China Golden Holdings Limited ("**China Golden**"), holding a money lender's license no. 2184/2021 and offering loan financing services to both corporate and individual customers as its target clients in full compliance with the requirements under the Money Lenders Ordinance (Cap. 162).

While China Golden competes with other licensed money lenders, authorised institutions such as banks, restricted licensed banks and deposit-taking companies in providing money lending services, China Golden may offer an advantage in providing loans with simpler approval procedures and greater flexibility. The money lending business has been established with the intention to generate revenue and profit by way of providing loans and earn interest income. The source of funding for this business segment is from the internal resources of the Group.

The Company has adopted a credit risk policy to manage its money lending business which includes compliance with all applicable laws and regulations, credit assessment on potential borrower and his/its assets, the credibility of the potential borrower, the necessity in obtaining collaterals, assessment of the use of proceeds and the source of repayment.

The scope of money lending services provided by the money lending business generally includes personal loans and business loans. The credit risk assessment was made in case-by-case basis by reviewing the financials of borrowers, considering the borrower's repayment history and evaluating whether the borrowers are in bankruptcy, receivership or liquidation. The determination of the loan terms reflects the risk level of the provision of loan and ensure the risk is at a controllable level.

CREDIT RISK ASSESSMENT POLICIES AND INTERNAL CONTROL PROCEDURES

The board of directors of China Golden comprises three directors including an executive Director of the Company who are responsible for the management and operations of China Golden (the "**Management**").

The Management and a designated loan officer of the Company employed since 2020 (the "**Loan Officer**"), form the management team in China Golden (the "**Management Team**"). China Golden has its internal control and work procedure manual in provision of the loan financing services.

China Golden has its internal work procedure in granting a loan facility. When clients approach China Golden for a request on loan financing, client identification procedures will take place with staff of China Golden would enquire the potential client's information.

The following is a summary of the general guidelines of assessing the loan applications by the Management Team:

- (A) Identity proof – such as identity card and passport (for individuals) and business registration certificate, certificate of incorporation and the constitutional documents (for corporate entities) must be provided for verification;
- (B) Address proof – such as utility bills, bank/credit card statements or formal correspondence issued by a government or statutory body is required to be produced;
- (C) Repayment ability assessment – to assess and justify the repayment ability of the customer, criteria such as availability of guarantor, the background of the customer, and where applicable, the past payment record and any other relevant information are to be considered. Further information from the customer may be requested including but not limited to the followings: tax demand note, tax return, bank statement, payroll slip, employer’s letter, employment contract, rental income receipt, tenancy agreement, financial statements, and auditor’s report (where applicable); and
- (D) Credit worthiness assessment – Searches and background checks will be conducted upon potential clients by obtaining credit assessment report by independent professional firm which mainly contains bankruptcy or winding up search and litigation search; background search and media searches would be subsequently conducted upon the potential clients. For all such potential clients, a credit report would be obtained prior to granting of any loans.

Based on the above procedures, the Company considers that the credit risk and the risk of breaching the relevant laws and regulations in connection with anti-money laundering or anti-terrorist financing is relatively low. Nonetheless, the Company has in place all policies to mitigate the risk of money laundering or terrorist financing risk of potential customers’ businesses, such as the nature and details of the business/occupation/employment of the potential customer; the anticipated level and nature of the activity that is to be undertaken through the relationship, location of potential customer; the expected source and origin of the funds to be used in the relationship; and the initial and ongoing source(s) of wealth or income.

Furthermore, guarantors who provide personal/corporate guarantee in favour of a loan, where applicable, are also required to meet the same basic eligibility and approval criteria as the borrower of loans, and will be required to go through the same verification and approval procedures.

After credit assessment and review of the loan applications, with the loan terms determined (having taken into consideration factors such as the credit risks of the customers, their recoverability and the prevalent market interest rates), loan documents will be prepared by the Loan Officer and the loans will be recommended to the Management for review and for approval. The Management, as the directors of China Golden, will be responsible for the approval of loans in the amount of less than HK\$5,000,000, and reporting to the board of directors (the “**Board**”) of the Company.

The Management Team would report any potential loan(s) to the Management for consideration and approval if it is in the amount of HK\$5,000,000 or above, such potential loan(s) shall be reported to the Board with the recommendations from the Management Team for discussion and approval, the Board shall then consider whether such loans are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Loan Officer is also responsible to closely monitor its loan portfolio, include regular communication with the borrowers of their financial position, through which the Management will be able to keep updated with the latest credit profile and risk associated with each individual borrower and could take appropriate actions for recovery of a loan at the earliest time. The Loan Officer will review the risk level of each of the loans on a bi-monthly basis and submit written report to the Management at least on a monthly basis on their recommendation. From time to time, the Loan Officer will alert the Management on certain events (e.g. failed repayment) and advise the Company to take appropriate actions. The Loan Officer will also keep track of the repayment schedule constantly and make alerts to the Management in case of failed or late repayment.

At each month end, the Loan Officer will check if there is overdue balances or late payment and will perform an independent review on the loans portfolio and closely monitor the status and report to the senior management.

Usually there would be internal discussions on a case-by-case basis on what recovery actions to be taken so that the Company could recover the most in a timely fashion which include phone calls, seizure of collaterals, issuance of statutory demand and taking of legal actions. Where appropriate, legal action will be initiated against the borrower for the recovery of the amount due and taking possession of the collateral pledged. Seizure of collaterals and realization of underlying collaterals would also be taken if necessary. The Company may also petition to the court for winding-up of the borrower and/or guarantor. Again, the recovery and collection decisions and processes are included in the monthly risk management report to the Management.

GENERAL

Save as disclosed above, the information contained in this supplemental announcement does not affect other information contained in the Annual Report and save as disclosed above, all other information in the Annual Report remains unchanged.

By order of the Board
Chong Kin Group Holdings Limited
Zhang Jinbing
Chairman

Hong Kong, 5 December 2022

As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Zhang Jinbing (Chairman) and Mr. Leung Chi Kwong Joe; and three independent non-executive Directors, namely Mr. Tam Ping Kuen Daniel, Ms. Chen Weijie and Mr. Zhao Hangen.