Renco Holdings Group Limited
融科控股集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 2323)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

References are made to the announcement of Renco Holdings Group Limited (the "**Company**", together with its subsidiaries as the "**Group**") dated 31 May 2022 in relation to the audited annual results (the "**2021 Audited Annual Results**") for the year ended 31 December 2021 (the "**FY2021**") and the Company's annual report (the "**2021 Annual Report**") for the FY2021 published on 10 June 2022. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the 2021 Annual Report.

In addition to the information provided in the 2021 Audited Annual Results and the 2021 Annual Report, the Company would like to provide further information in relation to the qualified opinion (the "**Qualification**") issued by the auditor of the Company (the "**Auditor**") in relation to (i) the consolidated financial statements of the Group for the FY2021 and (ii) the provision of financial assistance and the asset and shareholding restructuring business.

QUALIFIED OPINION

As disclosed in the 2021 Audited Annual Results and the 2021 Annual Report, the Auditor expressed the Qualification in relation to the following:

(i) the recoverability of a loan to an associate, certain trade receivables, loan receivables, note receivables and certain other receivables of approximately HK$89.45 million, HK$5.46 million, HK$1.07 billion, HK$138.10 million and HK$84.81 million as at 31 December 2021 respectively, and the respective balances as at 31 December 2020 (collectively, the "**Receivables**"), and whether their respective loss allowance provisions for the years ended 31 December 2021 and 2020 respectively were appropriately recorded;

(ii) the nature and recoverability of other receivables and other assets of approximately HK$30.82 million as at FY2021 and the balance as at 31 December 2020 (collectively, the "**Prepayments**");

(iii) the nature and obligation of other payables and accruals of approximately HK$143.43 million during FY2021 and the balance as at 31 December 2020 (collectively, the "**Other Payables**");

(iv) the future utilization of deferred tax assets of HK$nil during FY2021 and the balance as at 31 December 2020 and whether the income tax expense and credit for the years ended 31 December 2021 and 2020 respectively were appropriately recorded (the "**Deferred Tax Assets**"); and

(v) the obligation of tax payables of approximately HK$270.02 million during FY2021 and the balance as at 31 December 2020 and whether the income tax expense and credit for the years ended 31 December 2021 and 2020 respectively were appropriately recorded (the "**Tax Payables**").

(a) Reasons for the Qualification

Recoverability of the Receivables and Prepayments

To confirm the recoverability of the Receivables and Prepayments, the Auditor requested, among other things, the audit evidence of subsequent settlements of the Receivables and Prepayments that may be received by the Group. However, as at the date of the publication of the 2021 Audited Annual Results and 2021 Annual Report, the Group did not receive any subsequent settlements of any of the Receivables and Prepayments and hence none of the documents or materials in relation to subsequent settlements were presented to the Auditor. The Auditor was, therefore, unable to obtain sufficient appropriate audit evidence to satisfy the recoverability of the Receivables and Prepayments.

Nature of the Prepayments and Other Payables

To verify and confirm the nature of the Prepayments and Other Payables, the Auditor mainly requested for the related contracts and/or agreements, payment advices or slips, statements and calculation basis. The Company has provided to the Auditor all details of the identified transactions in relation to the Prepayments and Other Payables. However, as some of the supporting documents for those entries of the opening adjustments suggested by the Company's former auditor could not be located, such as the balancing amounts of adjustments, under-provided adjustments or over-provided adjustments, these relevant documents were not available to be provided by the Company to the Auditor.

Tax assessment of the Tax Payables and the Deferred Tax Assets

To verify and confirm the obligation of Tax Payables and the future utilisation of the Deferred Tax Assets, the Auditor mainly requested for the final tax assessment of each subsidiary of the Company from Hong Kong Inland Revenue Department ("**IRD**"). The Company has notified the chargeability of Hong Kong profits tax to IRD and provided to the Auditor all details of the profits tax computation in relation to the Tax Payables. However, as at the date of the publication of the 2021 Audited Annual Results and 2021 Annual Report, the final tax assessment from IRD had not been issued and presented to the Auditor up to the date of the 2021 Audited Annual Results. Accordingly, the Auditor could only verify and confirm the future utilisation of the Deferred Tax Assets when the obligation of the Tax Payables has been verified and confirmed.

(b) Impact on the Company's Financial Position

Receivables

Given that the Receivables in the aggregate sum of approximately HK$1,388.04 million has been long overdue and remained outstanding as at 31 December 2021, the Company has continued to negotiate with the counterparties for settlement proposal and/or commenced or considering to commence legal actions and/or litigation proceedings against the relevant counterparties with a view to recover the Receivables.

As the recoverability of the Receivables is subject to the outcome of any effective or successful negotiations or litigations which have not yet to be materialised as at the date of the publication of the 2021 Audited Annual Results and 2021 Annual Report, the Auditor was not satisfied on the recoverability of the Receivables.

In the event that the entire aggregate amount of the Receivables could not be recovered by the Group, the Group may have to write off the Receivables and record a potential impairment loss/ written off of approximately HK$1,388.04 million.

Prepayments

As the recoverability of the Prepayments is subject to the outcome of any effective or successful negotiations or litigations which have not yet to be materialised as at the date of the publication of the 2021 Audited Annual Results and 2021 Annual Report, the Auditor was not satisfied on the recoverability of the Prepayments.

In the event that the entire aggregate amount of the outstanding Prepayments could not be recovered, the Group may have to write off the outstanding Prepayments and record a potential impairment loss/written off of approximately HK$30.82 million.

Other Payables

In the event that the outstanding Other Payables were overstated, the Group may have to record an income in its consolidated statement of profit or loss of the financial statements (the "**Financial Statements**").

In the event that the outstanding Other Payables were understated, the Group may have to record an expense in its consolidated statement of profit or loss of the Financial Statements.

Deferred tax assets and tax payables (collectively as the "Deferred and Income Tax")

The deferred tax asset of HK$nil as at 31 December 2021 mainly represented a temporary difference in relation to income tax loss under Hong Kong Profits Tax. The income tax payables of approximately HK$270.02 million as at 31 December 2021 represented income tax payables of certain subsidiaries and funds under Hong Kong Profits Tax.

In the event that the final assessment for the abovementioned income tax payables from IRD indicates that such income tax payables are understated or overstated, the Group may have to record more expenses or income subsequently.

(c) Management's View, Position and Assessment on the Qualification

Receivables

In relation to the recoverability of the balancing amounts of the Receivables in the aggregate amount of approximately HK$1,388.04 million, the management of the Company has initiated actions including but not limited to legal action against the relevant borrowers and debtors and also conducted debt restructuring. The Company believed that the abovementioned balances can be collected in the coming three to five years, therefore further provision for impairment losses of the abovementioned balances have been provided after having considered the increasing risk of recoverability.

However, as disclosed in the paragraph headed "Reasons for the Qualification – Recoverability of the Receivables and Prepayments" in this announcement, due to the lack of the audit evidence of subsequent settlement(s) of the abovementioned balances, the Auditor was unable to ascertain the recoverability of the abovementioned balances.

Prepayments

Same as the reasons explained above, the Company believed that the balances of the Prepayments in the aggregate amount of approximately HK$30.82 million can be collected in the coming three to five years. Thus further provision for impairment losses of the abovementioned balances have been provided after having considered the increasing risk of recoverability.

However, as disclosed in the paragraph headed "Reasons for the Qualification – Recoverability of the Receivables and Prepayments" in this announcement, due to the lack of the audit evidence of subsequent settlement(s) of the abovementioned balances, the Auditor was unable to ascertain the recoverability of the abovementioned balances.

For the Qualification in relation to the nature of the Prepayments, the management of the Company provided details of the transactions other than the evidences in relation to the late adjustments. The nature of the aggregate amount of the Prepayment were related to administrative and general corporate expenses. Due to the lack of the sufficient supporting evidence (i.e. written contract and/or agreements), the Auditor was unable to determine the nature of the Prepayment, such as the balancing amounts of adjustments, under-provided adjustments or over-provided adjustments, these relevant documents were not available to be provided by the Company to the Auditor.

The management of the Company had tried its best effort but could not identify all details of the aggregate amounts of the Prepayments. Thus, the management of the Company agreed to the view of Auditor.

Other Payables

The management of the Company could not provide sufficient supporting evidences to verify some opening balances of the Other Payables in the aggregate amount of approximately HK$143.4 million. Those amounts were mainly provided by the Company's former auditor for late adjustments but not from the transactions created. The nature of the adjustments were the balancing amount adjustments, under-provided adjustments or over-provided adjustments.

The management of the Company had tried its best endeavour but still could not fully identify all details of the opening amounts of the Other Payables, therefore the management of the Company agreed to the Auditor's opinion.

Deferred and Income Tax

The Company has provided sufficient amounts of the tax payables in the consolidated Financial Statements, but the tax payables can only be confirmed by the relevant tax authority after having reviewed and assessed the submitted tax returns. Some subsidiaries of the Company were still in the discussion of tax assessment as offshore tax may be claimed. The subsidiaries of the Company have submitted their tax returns to IRD but have not yet received any final tax assessment as at the date of the publication of the 2021 Audited Annual Results.

The utilization of the deferred tax assets may be adjusted after having received the final tax assessment of the tax payables from IRD and the management of the Company agreed with the Auditor's opinion.

While the Company is pending the final tax assessment from IRD, the amount of tax payables may be over-provided and further adjusted. Thus, the management of the Company agreed to the view of the Auditor.

(d) Audit Committee's View on the Qualification

The audit committee of the Board (the "**Audit Committee**") has reviewed and agreed to the Qualification and does not have any disagreement with the Board's view. The Audit Committee had held several meetings with the Auditor to discuss about the Qualification and expressed their agreement with the management of the Company about their position, view and assessment during the meetings as stated in the section headed "(c) Management's View, Position and Assessment on the Qualification" above.

(e) The Company's Action Plans to Address the Qualification

Receivables

In order to lower the investment risks and reduce the losses, the Group had put all reasonable efforts to maximise the recovery of the relevant financial assistance by debt restructuring or conducting lawsuits against several debtors. The Company will keep on assessing and ascertaining the recoverability of the aforesaid Receivables and further increase the provisions for impairment loss for the coming years to lower the amount of such items under the Qualification.

In order to collect the outstanding Receivables, the Group commenced legal proceedings against four borrowers and the aggregate amounts of the Receivables represented HK$425.97 million as at 31 December 2021. As at the date of this announcement, all the legal actions are still on-going. Based on the information currently available, the Directors estimated that the litigations will be concluded in two years. In addition, the Group is also involved in the debt restructurings process on three borrowers' collaterals during the FY2021 and the aggregate amounts of the Receivables represented HK$215.33 million as at 31 December 2021.

As at the date of this announcement, no formal agreement on debt restructuring was concluded due to the continuing adverse impacts of the COVID-19 outbreak. The management of the Company is still in the process of assessing and ascertaining the recoverability of the Receivables. However, subject to approval to be obtained from the Board for the publication of annual results announcement of the Group for the year ended 31 December 2022 (the "**2022 Annual Results**") by the end of March 2023, further provisions for impairment or written off of Receivables or commencement of the litigation against the borrowers would be considered to recover the Receivables.

Prepayments

The Company will keep on assessing and ascertaining the recoverability of the aforesaid Prepayments and will further increase the provisions for impairment loss to decrease the amount of such assets under the Qualification for the coming years.

In order to recover the Prepayments, the management of the Company has been negotiating with the counterparties to receive the Prepayments at the discounted amounts or on installment basis. In addition, the Group is also consulting with its legal advisors to explore the possibility of legal actions and may commence the litigation against those counterparties to recover the Prepayments if and when appropriate.

Regarding the nature of the Prepayments under the Qualification, the management of the Company is seeking further clarification from the former auditor to understand those opening balances and late adjustments of the Prepayments and has negotiated with the debtors to reach the final settlement, and may further engage the financial advisors to resolve and remove the Qualification.

As at the date of this announcement, the management of the Company is still in the process of reviewing the clarifications from former auditor to consider the possible audit adjustments and/or to write off or provide further provisions for impairment on those Prepayment. Subject to the approval to be obtained from the Board for approving the 2022 Annual Results, the Group may consider to commence the litigation to recover the Prepayment.

Other Payables

The management of the Company plans to seek further clarification from its former auditor to understand those late adjustments provided by the former auditor and continue to negotiate with the Company's creditors for reaching the final settlement. The Company may further consult with the appropriate advisors for the purpose of assessing whether those uncertain payables and accruals should be written off.

As at the date of this announcement, the management of the Company is still in the process of reviewing the clarifications from former auditor to consider the possible audit adjustments and/or to write off or provide further provisions for impairment on those uncertain Other Payables, but subject to approval to be obtained from Board for approving the 2022 Annual Results.

Deferred and Income Tax

Although the Group does not aware of the reason leading to the delay in receiving the final assessment from the IRD, the management of the Company will proactively follow up with IRD to provide the outstanding audit evidence to the Auditor in order to remove the Qualification for the Tax Payables and the Deferred Tax Assets.

Upon receipt of the final assessment of tax payables from IRD, the appropriate adjustments will be provided by the Company for the amount of tax payables. It is expected that certain appropriate adjustments will be made to lower the amount of tax payables during the year of 2022, and the Qualification will be removed accordingly.

As at the date of this announcement, the Company has not yet received the final assessment of the tax payables from IRD. Meanwhile, the Group is in the process of engaging the tax experts to obtain the tax opinion in relation to tax payables of all subsidiaries of the Company and to engage a tax representative to submit the tax returns and consult with IRD for determining the final assessment of the tax payables in order to remove the qualification of the Deferred and Income Tax.

(f) Expected Removal of the Qualification

The management of the Company expects that the Qualification for the Deferred and Income Tax will be removed by next financial year of the Company (i.e. for the year ending 31 December 2023) after taking into account of the Company's action plan as stated in the section headed "(e) The Company's Action Plans to Address the Qualification" above.

For the Qualification for the Other Payables, the management of the Company believes that the qualified amount can be lowered following the settlement agreements may be entered into with several creditors, and the Qualification may be removed by the next financial year of the Company (i.e. for the year ending 31 December 2023).

The Company expects that the Qualification for the Receivables and Prepayments may be removed in stages within the coming two years (i.e. by the year ending 31 December 2024) after having taken into account of the development and outcomes of the debt restructuring and lawsuits.

To improve the recoverability of the Receivables and lower the credit risk of the Group, the management of the Company is negotiating with the creditors to reach final settlement by way of full settlement at the discounted amount, settlement by installment basis and/or additional collaterals. Having considered the details of the amount of each Qualification, the management of the Company considers that the Company's action plan with certain borrowers and creditors may result in different completion schedules, which will have impact on the expected time to remove the relevant Qualification.

After having discussed with the Auditor, the management of the Company understands and expects that all Qualification may be removed by the year ending 31 December 2024 if the proposed action plans as disclosed in the section headed "(e) The Company's Action Plans to Address the Qualification" above should have been fully implemented whereas sufficient appropriate audit evidence can be provided to the Auditor.

PROVISION OF FINANCIAL ASSISTANCE AND ASSET AND SHAREHOLDING RESTRUCTURING BUSINESS

(a) Description of the Business Model

The Company engages in, among others, (a) the provision of financial assistance; and (b) the asset and shareholding restructuring business during the FY2021.

The provision of financial assistance is one of the business activities under the treasury investments segment. The treasury investments team has been continuing to make effective use of its available financial resources in monitoring and making investment/disposal on a wide variety of financial assets including investments in listed equity securities, investments in funds and the provision of financial assistance to independent third parties. The Group did not target on a specific group of customers but only accept the corporate customers. The customers of the Group, as at the date of this announcement, are mainly the Group's business partners or companies referred by the former and existing substantial shareholders and/or former executive Directors of the Company. For details of the provision of financial assistance, please also refer to the paragraphs headed “Provision of Financial Assistance” under the section headed “Management Discussion and Analysis” of the 2021 Annual Report on pages 41 to 48.

The asset and shareholding restructuring business is a kind of business activities in the financial services segment. The Group has been actively participating in asset management, consultancy services, corporate solution services and debt, asset and shareholding restructuring business in Hong Kong and China through the subscription and/or holding of interest in investment funds. Having considered the nature of the restructuring business, most of the customers have difficulty in their business operation and therefore were not able to settle their liabilities. The Group and funds provided the short-term fund to meet the customers’ urgent need for debt to secure a certain period for carrying on the restructuring business. For details of the asset and shareholding restructuring business, please also refer to the paragraphs headed “(e) Hong Kong Bridge One Belt One Road M&A Fund LP”, “(f) Hong Kong Bridge High-Tech Investment Fund LP” and “(g) Hong Kong Bridge Landmark Investment Fund LP” under the section headed “Management Discussion and Analysis” of the 2021 Annual Report on pages 25 to 29.

During the FY2021 and as at the date of this announcement, to the best knowledge of Directors, no license is required to be obtained in relation to the provision of financial assistance and the asset and shareholding restructuring business. Since 1 January 2021 and up to the date of this announcement, the Group has not granted any new loan to any independent third parties.

The sources of fund for operating the provision of financial assistance and the asset and shareholding restructuring were mainly through conducting the fundraising activities, external borrowings and internally generated general working capital. The Company had completed two fundraising activities by placing new shares under general mandate and raised (i) an aggregate of net proceeds of approximately HK$665 million during the year of 2016 and (ii) an aggregate of net proceeds of approximately HK$1,599 million in November 2017. Details of fundraising activities of the Company were set out in the announcements dated 9 March 2016 and 6 December 2016 and the paragraphs headed “Fund Raising Activities” under the section headed “Management Discussion and Analysis” of the annual report 2017 on page 42 to 43 respectively.

(b) The Amount of Loan Receivables Due from the Top Five Borrowers

The total loan receivables of the Group as at FY2021 and 31 December 2020 were HK$1,070,223,421 and HK$1,261,210,233, respectively. The carrying amount of loan receivables due from the top five borrowers together with the percentage to the total loan receivables of the Group are set out below:

	As at 31 December 2021		As at 31 December 2020	
Borrower	**Amount**	**% to total loan receivables**	**Amount**	**% to total loan receivables**
Strait Capital Service Limited (the "**Strait Borrower**")	HK$221,222,054	21%	HK$272,812,150	22%
Zhanjiang Dingsheng Real Estate Development Co., Ltd.* (湛江市鼎盛房地產開發有限公司) (the "**Zhanjiang Borrower**")	HK$197,884,643	18%	HK$214,415,701	17%
Zhonghong Holding Co., Ltd* (中弘控股股份有限公司) (the "**Zhonghong Borrower**")	HK$112,224,217	10%	HK$120,717,238	10%
Shenzhen Zehua International Trade Co., Ltd.* (深圳市澤華國際貿易有限公司) (the "**Zehua Borrower**")	HK$89,448,380	8%	HK$101,901,048	8%
Weifang Hengqi Changsheng Co., Ltd.* (濰坊恆祺昌盛有限公司) (the "**Weifang Borrower**")	HK$71,960,548	7%	HK$77,406,452	6%

(c) Reasons for the Significant Loan and Notes Impairments Made

Under the circumstances of the worldwide capital market fluctuations and the adverse impact brought by the outbreak of the COVID-19 (the "**COVID-19 Outbreak**"), the Group's customers, in particular those located in China (such as the Zhanjiang Borrower, the China Gem Jiangsu Borrower and the Zehua Borrower), had suffered from the decrease in their revenue and the long-term difficulty in obtaining funds from local banks in China in the past three years. The significant loans and notes impairments made during the Year were mainly caused by the borrowers failing to repay the principal amounts of the loans and note receivables on time as agreed due to the shortfall in their operating cash flow.

The progress for conducting certain activities for the asset and shareholding restructuring of the borrowers (such as the restructuring of certain assets of Strait Borrower, Zhonghong Borrower, Weifang Borrower, Grandcheer Limited and/or certain collaterals provided by their guarantors) had been significantly delayed due to a series of precautionary and control measures that had been implemented across China and Hong Kong since January 2020 caused by the COVID-19 Outbreak. As a result, the Group could not provide sufficient evidences in writing to satisfy the recoverability of certain loans and note receivables because no written formal agreements on debt restructuring had been entered into.

(d) Business Prospect for the Provision of Financial Assistance and the Asset and Shareholding Restructuring Business

The Group acknowledged that the COVID-19 Outbreak may continue to hinder the repayment of the debts by the borrowers of the loans and issuers of the bonds to the Group in the coming years, resulting in additional provision for impairment loss for the loan receivables and note receivables and material impact on the financial results of the Group. The Group will actively place the utmost importance on pandemic prevention and control, and closely monitor the day-to-day operations and management of its principal businesses to reduce the adverse impacts on the Group's operations and financial performance caused by the COVID-19 Outbreak. Considering the provision for impairment losses of the provision of financial assistance and the asset and shareholding restructuring business, the Group will continue to use its best endeavour to recover the investments in the provision of financial assistance and the asset and shareholding restructuring business in the next three years and has decided to gradually cease to engage in the significant amounts of the transactions in respect of the Provision of Financial Assistance and the Asset and Shareholding Restructuring Business.

In the opinions of the Board and the management of the Company, the Group is currently reforming its business of the treasury investments and financial services to make effective use of its available financial resources. The Company intended to gradually transform its business from debt investment to the portfolio investment and equity investment to gain the short-term return. Once the funds from the Provision of Financial Assistance and the Asset and Shareholding Restructuring Business has been collected by way of conducting the debt restructuring, the Company intends to obtain the money lending license in Hong Kong to further improve the treasury investments segment and the financial services segment in future.

(e) Internal Control Systems in Connection with Provision of Financial Services and Shareholding Restructuring Business

(1) Credit Risk Assessment

The Group has been providing the provision of financial assistance and shareholdings restructuring business for the corporate customers (but not for individual customers) in Hong Kong and China and not targeted into any specific industry.

Prior to the provision of financial assistance and shareholdings restructuring business, the management of the Group would conduct due diligence on the potential customers although no fixed and specific financial benchmarks was being set up to determine the loan application. The due diligence procedures included conducting research on the customers' background, evaluating its current business operations and financial conditions, market reputation and creditability, and conducting financial analysis and recoverability analysis. To minimise credit or investment risks, the Group will typically require guarantees, including personal guarantees and corporate guarantees, and/or collaterals with expected realised value exceeding the loan or investment amount. Furthermore, for the existing customers, the Group will evaluate its past business relationships with them and their track records as factors to extend loan duration or otherwise continue to maintain business relationship.

During the subsistence of the provision of financial assistance and shareholdings restructuring business, the Group has implemented various on-going monitoring and risk management procedures which include conducting regular visits and interviews with the customers, requesting the customers to furnish periodic financial information, conducting public searches and obtaining information on any legal disputes, negative news and media reports on the business or affairs of the customers to understand its latest business development and management condition, in order to conduct continuous assessment on the customers' repayment ability.

(2) Mechanism in Determining Loan Term

The Group generally provides short-term loans with a repayment term of less than three years which carry higher interest rate than the market rate usually charged by financial institutions. The repayment terms and conditions are determined from the factors including the liquidity needs of the customers and the Group's funding and cash flows management strategies. The Group will also make reference to the terms and conditions of loan arrangements provided by the financial institutions in the Mainland China and Hong Kong to companies in the same industry of the customers to ensure that the loan or investment agreements made between the Group and its customers are on normal commercial terms and are fair and reasonable.

(3) Monitoring Loan Repayment and Recovery

The management of the Group will regularly communicate with and monitor and manage the recoverability of loans and conditions of the customers. If a customer fails to repay the loan or interest on time or fails to comply with material term of the investment agreement on payment or settlement of investment return, the management of the Group will first take steps to understand the reasons for its default (for instance, whether the customer's business had experienced any operational difficulties, any other major debt cross-defaults, any windingup petitions filed against the customer, etc.) and will take appropriate steps in light of the situation and urgency of the matter. Generally, the following procedures for debt recovery will be taken:

Stage 1: Assess the possibility for the customer to repay the loan or receivables within one year for the purpose of determining whether a time extension for such repayment will be granted or business relationship be otherwise maintained.

Stage 2: Assess the possibility of realising the collaterals provided and methods for disposal to recoup the loss.

Stage 3: Engage its legal adviser to commence necessary legal actions against the customer and/or the guarantor(s) including the obtaining of court or arbitrary order for seizure, private sale or public auction of assets of the borrowers.

(4) Impairment Loss and Write-off Treatment

In general, where the management of the Group has noticed the following circumstances, there may be possible defaults in the loans or receivables concerned and provision for impairment loss under the ECL model (as defined below) may be necessary:

(i) the customers experienced operational difficulties;

(ii) worsened macroeconomic and industrial conditions, leading to further deterioration of the financial conditions of the customers; and

(iii) the customers have been involved in lawsuits for debt collection.

The Group uses "expected credit losses (the "**ECL**") model" as an impairment model according to HKFRS 9 which requires the Group to estimate the weighted possibility of default events and recognise ECLs for trade and other receivables and other financial assets at amortised cost accordingly.

Under HKFRS 9, the loss allowances are measured on either of the following bases: (i) 12-month ECLs that result from possible default events within the 12 months after the reporting date; and (ii) life-time ECLs that result from all possible default events over the expected life-time of a financial instrument.

The Group considers a financial asset to be in default when: (i) the borrower is unlikely to fulfill its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is more than 90 days past due.

For financial assets at amortised cost of investment segments (i.e. trade and other receivables, loan and note receivables and loans to associates), the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the life-time ECLs. For determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group would consider reasonable and supporting information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group has considered the probability of default and the loss given default with reference to (i) the value of collateral/other contractual arrangements, (ii) financial ability of the debtors and (iii) other forward-looking factors, if any. Time value of money is also considered if the receivable is expected to be received more than one year after the reporting date.

The above supplemental information does not affect other information contained in the 2021 Audited Annual Results and the 2021 Annual Report. Save as disclosed above, all other information in the 2021 Audited Annual Results and the 2021 Annual Report remains unchanged.

By order of the Board
Renco Holdings Group Limited
Su Zhiyang
Company Secretary

Hong Kong, 18 January 2023

As at the date of this announcement, the Board comprises Mr. Cheok Ho Fung, Mr. Hung Yeung Alvin and Ms. Xing Mengwei being executive Directors; Mr. Li Yongjun being non-executive Director; and Mr. Lau Fai Lawrence, Mr. Mak Kwok Kei and Mr. Xu Xinwei being independent non-executive Directors.

* *English translation or transliteration of Chinese name is for identification purpose only*