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中國通海國際金融有限公司

CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 952)

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

Reference is made to the annual report of China Tonghai International Financial Limited for the year ended 31 December 2021 published on 28 April 2022. Unless otherwise defined in this announcement or the context requires, capitalised terms used herein shall have the same meanings as those defined in the Annual Report.

The Company would like to provide the following supplemental information which should be read in conjunction with the Annual Report.

1. IMPAIRMENT LOSS

The Company recognised net charge of expected credit loss provisions of approximately HK\$2,583 million (the “Impairment”). It is stated in the Annual Report that the Impairment is mainly arisen from ECL charges of HK\$1,959.5 million to other loans, and ECL charges of HK\$587.4 million to unlisted debt securities.

(i)(a) Details of other loans with ECL charged of HK\$1,959.5 million in 2021

In regarding to the material asset impairment, the Company listed out the loans with net charge of ECL provisions over HK\$60 million being recognized in 2021. The materiality level of HK\$60 million is with reference to 1% of total asset value of HK\$6,841 million of the Company as at 31 December 2021. The Company has formed the view that such materiality level is appropriate for this purpose.

(1) Unsecured and unguaranteed other loans to connected parties

The borrowers below are the subsidiaries of Tohigh, Oceanwide Holdings and China Oceanwide which are connected parties of the Company. The definitions of connected parties of the above mentioned parties were set out in the Company's circulars dated 24 September 2019 and 28 January 2021.

Identities of borrowers	Principal amount	Carrying amount as at	Impairment loss for the	Interest rate	Loans granted date	Tenure	Ultimate beneficial owners	Latest status of repayment
	HK\$ million	31 Dec 2021 HK\$ million	year 2021 HK\$ million					
1 China Oceanwide International and Minyun	1,166	358	883	7.88% — 12%	5 Dec 2019 — 1 Jul 2021	Within 2 years	Mr. LU	overdue
2 Oceanwide Holdings International	691	204	523	11% — 12%	1 Jan 2021 — 1 Jul 2021	Within 1 year	Mr. LU	overdue
3 China Oceanwide	480	166	323	12%	22 Dec 2020 — 1 Apr 2021	Within 1 year	Mr. LU	overdue
	<u>2,337</u>	<u>728</u>	<u>1,729</u>					

Repayment schedule of each of the loans to connected parties and the actual repayment amount:

Loans	Principal amount <i>HK\$ million</i>	Carrying amount as at 31 Dec 2021 <i>HK\$ million</i>	Scheduled repayment amount of principal and interest <i>HK\$ million</i>	Scheduled repayment date	Actual repayment of principal in year 2021 <i>HK\$ million</i>	Actual repayment of interest in year 2021 <i>HK\$ million</i>
1. Loans to China Oceanwide International and Minyun						
Loan 1	678	210	749	28 Jan 2022	—	16
Loan 2	141	41	158	30 Jun 2022	—	17
Loan 3	12	3	13	30 Jun 2022	—	2
Loan 4	45	14	50	31 Dec 2021	—	—
Loan 5	12	4	14	31 Dec 2021	—	—
Loan 6	3	1	4	31 Mar 2022	—	—
Loan 7	10	3	11	31 Dec 2021	—	—
Loan 8	200	61	223	31 Mar 2022	—	—
Loan 9	65	21	5	4 Dec 2020	—	—
			5	4 Dec 2021	—	—
			65	31 Jan 2022	—	5
Subtotal of 1.	1,166	358			—	40
2. Loans to Oceanwide Holdings International						
Loan 10	28	8	31	30 Jun 2022	—	3
Loan 11	45	13	50	30 Jun 2022	—	5
Loan 12	27	8	31	31 Dec 2021	—	—
Loan 13	180	54	203	31 Mar 2022	—	—
Loan 14	20	6	22	31 Mar 2022	—	—
Loan 15	391	115	438	31 Mar 2022	—	25
Subtotal of 2	691	204			—	33
3. Loans to China Oceanwide						
Loan 16	280	97	315	31 Dec 2021	—	—
Loan 17	8	3	9	31 Mar 2022	—	1
Loan 18	5	2	6	31 Mar 2022	—	1
Loan 19	3	1	4	31 Mar 2022	—	—
Loan 20	156	54	175	31 Dec 2021	—	—
Loan 21	28	9	31	31 Mar 2022	—	3
Subtotal of 3.	480	166			—	5
Grand total	2,337	728			—	78

The Group started to grant loans to connected parties in December 2017. The movement of the loans to connected parties for the financial year ended 31 December 2019, 2020 and 2021 are as follows :

Year 2019

(A) Principal	Brought forward principal amount <i>HK\$ million</i> (a)	Additions of loans granted <i>HK\$ million</i> (b)	Amount of repayment made <i>HK\$ million</i> (c)	Carried forward principal amount <i>HK\$ million</i> (d) = (a) + (b) + (c)
China Oceanwide International and Minyun	585	486	(188)	883
Oceanwide Holdings International	40	428	(107)	361
China Oceanwide	288	15	(7)	296
	913	929	(302)	1,540
(B) Interest Receivable	Brought forward accrued interest amount <i>HK\$ million</i> (e)	Interest accrued in the year <i>HK\$ million</i> (f)	Amount of repayment made <i>HK\$ million</i> (g)	Carried forward accrued interest amount <i>HK\$ million</i> (h) = (e) + (f) + (g)
China Oceanwide International and Minyun	8	66	(60)	14
Oceanwide Holdings International	—	18	(14)	4
China Oceanwide	2	25	(26)	1
	10	109	(100)	19
(C) Accumulated provision	Brought forward accumulated provision <i>HK\$ million</i> (i)	Impairment made <i>HK\$ million</i> (j)	Accumulated provision made <i>HK\$ million</i> (k) = (i) + (j)	
China Oceanwide International and Minyun	1	5	6	
Oceanwide Holdings International	—	3	3	
China Oceanwide	2	5	7	
	3	13	16	

Year 2020

A) Principal	Brought forward principal amount <i>HK\$ million</i> (a)	Additions of loans granted <i>HK\$ million</i> (b)	Amount of repayment made <i>HK\$ million</i> (c)	Carried forward principal amount <i>HK\$ million</i> (d) = (a) + (b) + (c)
China Oceanwide International and Minyun	883	82	—	965
Oceanwide Holdings International	361	130	—	491
China Oceanwide	296	184	—	480
	1,540	396	—	1,936
B) Interest Receivable	Brought forward accrued interest amount <i>HK\$ million</i> (e)	Interest accrued in the year <i>HK\$ million</i> (f)	Amount of repayment made <i>HK\$ million</i> (g)	Carried forward accrued interest amount <i>HK\$ million</i> (h) = (e) + (f) + (g)
China Oceanwide International and Minyun	14	93	(81)	26
Oceanwide Holdings International	4	54	(43)	15
China Oceanwide	1	53	(50)	4
	19	200	(174)	45
C) Accumulated provision	Brought forward accumulated provision <i>HK\$ million</i> (i)	Impairment made <i>HK\$ million</i> (j)	Accumulated provision made <i>HK\$ million</i> (k) = (i) + (j)	
China Oceanwide International and Minyun	6	19	25	
Oceanwide Holdings International	3	19	22	
China Oceanwide	7	39	46	
	16	77	93	

Year 2021

(A) Principal	Brought forward principal amount <i>HK\$ million</i> (a)	Additions of loans granted <i>HK\$ million</i> (b)	Amount of repayment made <i>HK\$ million</i> (c)	Carried forward principal amount <i>HK\$ million</i> (d) = (a) + (b) + (c)
China Oceanwide International and Minyun	965	201	—	1,166
Oceanwide Holdings International	491	200	—	691
China Oceanwide	<u>480</u>	<u>—</u>	<u>—</u>	<u>480</u>
	<u>1,936</u>	<u>401</u>	<u>—</u>	<u>2,337</u>
(B) Interest Receivable	Brought forward accrued interest amount <i>HK\$ million</i> (e)	Interest accrued in the year <i>HK\$ million</i> (f)	Amount of repayment made <i>HK\$ million</i> (g)	Carried forward accrued interest amount <i>HK\$ million</i> (h) = (e) + (f) + (g)
China Oceanwide International and Minyun	26	119	(40)	105
Oceanwide Holdings International	15	76	(33)	58
China Oceanwide	<u>4</u>	<u>56</u>	<u>(5)</u>	<u>55</u>
	<u>45</u>	<u>251</u>	<u>(78)</u>	<u>218</u>
(C) Accumulated provision	Brought forward accumulated provision <i>HK\$ million</i> (i)	Impairment made <i>HK\$ million</i> (j)	Unwind of discount <i>HK\$ million</i> (k)	Accumulated provision made <i>HK\$ million</i> (l) = (i) + (j) + (k)
China Oceanwide International and Minyun	25	883	5	913
Oceanwide Holdings International	22	523	—	545
China Oceanwide	<u>46</u>	<u>323</u>	<u>—</u>	<u>369</u>
	<u>93</u>	<u>1,729</u>	<u>5</u>	<u>1,827</u>

Provision of loans is one of the principal business of the Group. Provision of loans to connected parties allows the Group to capture the financing needs of the connected parties and to generate additional income for the Group. The Group has provided loans to connected parties in accordance with the terms of the Framework Agreements. The Framework Agreements and the relevant annual caps of the continuing connected transactions were approved by the then independent Shareholders at the special general meetings of the Company held on 20 November 2017, 11 October 2019 and 26 February 2021. The provision of loans to connected parties falls within the limit of the respective maximum daily outstanding balances of financial assistance. The Board has considered, among other things, the following factors to assess the recoverability of the Group's loans from connected parties before extension of existing loan and granting a new loans to connected parties:

- due diligence on the financials of connected parties, such as the net asset value and gearing ratio;
- the credit and repayment history of the connected parties; and
- any litigation or bankruptcy record of the connected parties.

With reference to the Pages 67–69 of Annual Report, most of the loans granted to Tohigh Group, Oceanwide Holdings Group and China Oceanwide Group have been extended during the year ended 31 December 2021 as the Board consider that it was then beneficial to the Company as a whole having considered the above-mentioned reasons.

(2) Unsecured loans to independent third parties

Identities of borrowers	Principal amount	Carrying amount as at	Impairment loss for the	Interest rate	Loans granted date	Tenure	Details of personal guarantee	Their ultimate beneficial owners	Latest status of repayment
	HK\$ million	31 Dec 2021 HK\$ million	year 2021 HK\$ million						
Corporate Client 1	164	56	110	9.75%	28 Jun 2020	Within 1 year	by Mr. SHI Yuzhu (#)	Note 1	Overdue
Corporate Client 2	308	251	65	8% — 10.75%	1 Apr 2021 — 1 Aug 2021	Within 1 year	by Mr. HAN Lei (##)	Mr. HAN Lei	Active
	<u>472</u>	<u>307</u>	<u>175</u>						

Note 1 Corporate Client 1 was indirectly wholly-owned by an irrevocable discretionary trust which Mr. SHI Yuzhu and his family members are the beneficiaries and no individual beneficiary holds more than 10% vested interest in the trust and the trustee was Wickhams Cay Trust Company Limited.

The details of personal guarantee and ultimate beneficial owners of Corporate Client 1 were set out in the page 17 of the Company's respective circular dated 25 January 2021.

The ultimate beneficial owners and the personal guarantor of Corporate Client 2 were set out in the page 22 of the Company's respective circular dated 27 May 2022.

Repayment schedule of each of the loans to Corporate Client 1 and 2 and the actual repayment amount

Loans	Principal amount <i>HK\$ million</i>	Carrying amount as at 31 Dec 2021 <i>HK\$ million</i>	Scheduled repayment amount of principal and interest <i>HK\$ million</i>	Scheduled repayment date	Actual repayment of principal in year 2021 <i>HK\$ million</i>	Actual repayment of interest in year 2021 <i>HK\$ million</i>
Loan to Corporate Client 1						
Loan 1	164	56	174	27 Jun 2021	—	10
Loan to Corporate Client 2						
Loan 2	119	97	5	30 Sep 2021	6	12
			126	31 Mar 2022		
Loan 3	115	93	5	30 Sep 2021	5	12
			121	31 Mar 2022		
Loan 4	74	61	3	23 Feb 2022	—	1
			77	23 Aug 2022		
Subtotal for Corporate Client 2	<u>308</u>	<u>251</u>			<u>11</u>	<u>25</u>

(i)(b) Details of the unlisted debt securities with ECL charged of HK\$587.4 million in 2021

Identity of borrower	Principal amount		Carrying amount as at 31 Dec 2021	Impairment loss for the year 2021	Coupon rate	Date of subscription	Tenure	Ultimate beneficial owners	Latest status of repayment as at 31 December 2021
	<i>US\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>					
1 Oceanwide Holdings International	103	803	268	588	11.80%	13 Apr 2021– 2 Jun 2021	Within 1 year	Mr. LU	Overdue balance of HK\$42 million interest

Repayment schedule of unlisted debt security and the actual repayment amount

Unlisted debt securities	Principal amount		Carrying amount as at 31 Dec 2021	Scheduled repayment amount of principal and interest	Scheduled repayment date	Actual repayment of principal in year 2021	Actual repayment of interest in year 2021
	<i>US\$ million</i>	<i>HK\$ million equivalent</i>	<i>HK\$ million</i>	<i>US\$ million/HK\$ million</i>		<i>HK\$ million</i>	<i>HK\$ million</i>
Unlisted debt security 1	65	506	172	4 / 31	13 Oct 2021	—	29
				69 / 538	25 Apr 2022		
Unlisted debt security 2	26	203	69	1.6 / 13	13 Oct 2021	—	11
				27.5 / 215	25 Apr 2022		
Unlisted debt security 3	<u>12</u>	<u>94</u>	<u>27</u>	13.4 / 105	1 Jun 2022	<u>—</u>	<u>11</u>
	<u>103</u>	<u>803</u>	<u>268</u>			<u>—</u>	<u>51</u>

(ii) Reasons for the Impairment

The Group adopted the requirements in respect of ECL assessment set forth in HKFRS 9 issued by the HKICPA in determining the impairment loss allowance for its loan receivables. The details of the accounting policies in respect of the impairment assessment of financial assets are set out under note 2 to the consolidated financial statements of the Group in the Annual Report.

The Company has taken into account the following factors on the impairment assessment for the outstanding loans and unlisted debt securities due from the connected parties and independent third parties in accordance with the HKFRS 9:

- (i) the probability of default and the likelihood that the borrowers may fail to pay back the loans. The Company will perform due diligence on the financial statements and consider the macro-environment and the latest announcements of the borrowers. The repayment history of the borrowers will also be taken into account;
- (ii) the loss given default and the expected cash shortfall between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive. The Company will consider the value of the collaterals pledged for the loans, if any; and
- (iii) forward-looking market data such as gross domestic product will also impact to the recoverability of the loans.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(iii) Key assumptions and basis in determining the amount of the Impairment

For the purpose of impairment assessment, other loans and unlisted debt securities of the Company are classified as stage 1, 2 and 3. According to the prevailing accounting standard, Stage 1 are loans with no significant increase in credit risk of the financial instrument since their initial recognition. Stage 2 are loans with increase in credit risk of the financial instrument since their initial recognition. Stage 3 loans has significant increase in credit risk of the financial instrument since initial recognition and considered as credit-impaired. Impairment was assessed for each of the loans and the ECL model for internal impairment assessment has taken into account the following: 1) expected life and contractual terms of a financial instrument 2) market probability of default 3) market loss given default or discounted recovery rate and 4) forward-looking market data.

Details of accumulative provision rate for the above loans and unlisted debt securities are summarized below:

Identities of borrowers		Gross amount <i>HK\$ million</i>	Accumulated provision as at 31 Dec 2021 <i>HK\$ million</i>	Carrying amount as at 31 Dec 2021 <i>HK\$ million</i>	Accumulative ECL %	Stage
1	China Oceanwide International and Minyun	1,272	(914)	358	72%	3
2	Oceanwide Holdings International	1,622	(1,150)	472	71%	3
3	China Oceanwide	537	(371)	166	69%	3
4	Corporate Client 1	174	(118)	56	68%	3
5	Corporate Client 2	317	(66)	251	21%	2
		<u>3,922</u>	<u>(2,619)</u>	<u>1,303</u>		

For Corporate Client 2 which is classified as Stage 2 in ECL model

As mentioned above, the loans to Corporate Client 2 is still active with no overdue balance, but there were late repayment of principal and interest during the year of 2021. Therefore, the Company decided to classify it as stage 2 loan.

The loans to Corporate Client 2 were granted since 1 April 2021, but impaired shortly as at the end of 2021 because there was 3 times of late repayment of interest in the total amount of HK\$24 million for durations of 29, 64 and 102 days. In applying the respective accounting standard, such ECL (e.g. accumulated provision at year end) was derived from the below formula:

$$ECL = EAD \times PD \times FLF \times (1 - PV \text{ of Recovery Rate})$$

1. **Exposure at Default (the “EAD”)** is the principal and interest outstanding that are at risk of default.
2. **Probability of Default (the “PD”)** is calculated based on average cumulative issuer-weighted global default rates by alphanumeric rating, published by Moody’s, a reputation credit agency.
3. **Forward-looking factor (the “FLF”)** is served as adjustment to probability of default and is calculated using regression model by analyzing selected macro factor and PD of different years.
4. **PV of the Recovery Rate** = Recovery Rate/(1 + effective interest rate)^{Time to Recover}. Where **Recovery rate** is based on “Average debt recovery rates measured by ultimate recoveries” published by Moody’s and adjusted with subsequent repayment. And **Time to Recover** is expected to be 3 years from the reporting date, based on the management’s expected time on repayment pattern.

	EAD	PD	Recovery Rate	Interest Rate	Time to Recover	PV of Recovery Rate F = C / (1 + D) ^E	FLF	ECL H = A × B × G × (1 - F)	Accumulated ECL%
	A	B	C	D	E		G		I = H/A
	HK\$ million							HK\$ million	
Corporate Client 2	317	26.04%	44.66%	8.00%– 10.75%	3	35.5%– 32.9%	119.91%	66	20.15%– 20.96%

For the rest of the loans and unlisted debt securities other than Corporate Clients 2 classified as Stage 3 in ECL model

In regarding loan to Corporate Client 1, the loan was classified as stage 3 as the loan was overdue for more than 6 months as at year end 31 December 2021 and no settlement up to the date of annual result announcement. Statutory demand has been issued after overdue during the year of 2021, the loan is considered as default.

In regarding loans to connected parties, namely, China Oceanwide International, Minyun, Oceanwide Holdings International and China Oceanwide, with reference to the announcements of Oceanwide Holdings published on the website of the Shenzhen Stock Exchange, they experienced a series of credit default events such as debt defaults and lawsuit since the year of 2021, which indicated concerns about their liquidity and ability to refinance. Therefore, we have decided to classify them as Stage 3 in 2021.

The Company announced on 24 August 2021 that the Settlement Arrangements have been entered with Oceanwide Holdings and China Oceanwide which constituted a very substantial acquisition and connected transaction. For the purpose of assessing the ECL of those loans and unlisted debt securities under the Settlement Arrangements, the Company did not take the Settlement Arrangements into account because it has not yet been completed then.

The Settlement Arrangements enable the Company to fully recover the other loans and unlisted debts securities due from Oceanwide Holdings International and other loans due from China Oceanside with shares of a limited liability company incorporated in the PRC. The financial position of the Company will be improved after the Settlement Arrangements, as such recovery will reduce loan receivables from connected persons and eliminate the credit exposure of the debts.

Upon the completion of the Settlement Arrangements, it is expected that a gain will be recognised for Settlement Arrangements which amounts to the accumulative provision made on the other loans and unlisted debts securities. The amount of the other loans and unlisted debts securities will become the investment costs for the shares of the PRC company under the acquisition.

For the year of 2021 impairment, independent impairment assessment was performed for stage 3 loans by an independent valuer, Masterpiece. Masterpiece is a professional business consulting company established in Hong Kong with a branch office in the Greater China area. The consulting teams are formed by experienced professionals from accounting, finance and real estate with well-recognized qualifications including but not limited to HKICPA, Chartered Financial Analyst, The Hong Kong Institute of Chartered Secretaries (now known as The Hong Kong Chartered Governance Institute), member of the Hong Kong Institute of Surveyors, Registered Professional Surveyors, Financial Risk Manager and Certified Public Valuer.

In contrast with the loan of Corporate Client 2 being classified as Stage 2 in ECL model mentioned above, the loans to connected parties and Corporate Client 1 were treated as default loans and 100% was used as the probability of default in the ECL model. Hence, in applying the accounting standard, the below formula was used in assessing their respective ECL provisions:

$$ECL = EAD \times PD \times (1 - PV \text{ of } (Recovery \text{ Rate} \times FLF))$$

1. **Exposure at Default (the “EAD”)** is the principal and interest outstanding that are at risk of default.
2. **Probability of Default (the “PD”)** of 100% is used as the counterparties defaulted or very likely to default.
3. **Recovery Rate** sourced from “Average debt recovery rates measured by ultimate recoveries” published by Moody’s, a reputation credit agency.
4. **Forward-looking factor (the “FLF”)** is served as adjustment to recovery rate basing on the recent and forecasted data related to assets of the borrowers. GDP growth data were selected as the appropriate macro factor (“Z”) according to the assets location of the counterparties, and make relevant forward-looking adjustments to Recovery rate.
5. **PV of (Recovery Rate x FLF)** = (Recovery rate x FLF)/(1 + effective interest rate)^{Time to Recover}. And Time to Recover is expected to be 3 years from the reporting date, after considering the reasonable time for potential assets swap and unfreezing assets.

	EAD	PD	Recovery Rate	Interest Rate	Time to Recover	FLF	Recovery Rate × FLF	PV of (Recovery Rate × FLF) H = G / (1 + D) ^E	ECL I = A × B × (1 - H)	Accumulated ECL%
	A	B	C	D	E	F	G = C × F	(1 + D) ^E	(1 - H)	J = I / A
	HK\$ million								HK\$ million	
China Oceanwide										
International and Minyun	1,272	100%	44.66%	7.875%–12%	3 years	85.33%	38.11%	30.36%–27.12%	914	69.64%–72.87%
Oceanwide Holdings				11%–				27.86%–		68.76%–
International	1,622	100%	44.66%	12%	3 years	85.33%	38.11%	27.12%	1,150	72.87%
China Oceanwide	537	100%	44.66%	12%	3 years	97.33%	43.47%	30.94%	371	69%
Corporate Client 1	174	100%	44.66%	6%	3 years	85.33%	38.11%	32.00%	118	68%

For stage 1, 2 and 3 loans, there were no changes in valuation method and assumptions compared to previous year.

The Company's debtors were affected by the overall downturn of the economy and real estate industry and the recoverability of the corresponding loan receivables were undermined. The credit risk and default risks of loans would inevitably increase.

Key parameters input including probability of default and expected recovery rate from loss given default rate are adjusted to reflect the current and future conditions and attribute to the increase of the ECL as at 31 December 2021 by comparing previous year.

- Probability of default rate (PD):

The adopted probability of default for both years were derived from "Average cumulative issuer-weighted global default rates by Alphanumeric Rating", Corporate Default and Recovery Rates, published by Moody's. For defaulted counterparties, 100% was adopted as at 31 December 2021.

The increase in PD was mainly due to the deterioration of counterparties' credit rating from (B3 – Ca-C) to (Ca-C or defaulted) and certain counterparties defaulted for the year 2021.

- Expected recovery rate from loss given default rate:

The expected recovery rate for both years were derived from "Average debt recovery rates measured by ultimate recoveries" published by Moody's and further adjusted with the security status of the Loans (secured/unsecured) and the future assets recoverability of the counterparties, if any.

Given the deteriorating economy and the property market is vulnerable to the changes in general economic fundamental factors and asset prices would fluctuate and become more volatile as compared to previous periods, the expected recovery decreased compared to previous period.

(iv) Recovery Actions

Loans to connected Parties

For loans to connected parties, the Company sent payment reminders to connected parties before the maturity date, and further payment reminders were sent to connected parties every 2–3 months afterwards when they failed to repay on maturity date. The risk management department monitors the risk level of the loan portfolio regularly and provide updates to executive Directors on a monthly basis. The Company learnt the difficulties of connected parties' liquidity and discuss with connected parties on the terms for loan renewal and the extension on interest repayment.

For loans to Oceanwide Holdings International and China Oceanwide, as mentioned above, there was a plan to recover the debts by way of Settlement Arrangement announced on 24 August 2021. For loans to China Oceanwide International and Minyun, other than sending payment reminders, the Company negotiated with the borrowers with a view to reduce the credit risk through various means including credit enhancement through pledging of assets and/or reduction of amount of loans by way of cash repayment and/or asset transfer. No definitive agreement has eventually been entered. The Company is still in regular and frequent discussions with connected Parties on how to recover those loans.

Corporate Client 1 and Corporate Client 2

For loans to Corporate Client 1, the Company sent payment reminders to Corporate Client 1 before the maturity date. In August 2021 (nearly overdue for 2 months), demand letter was issued by the Group to Corporate Client 1 for repayment arrangement. By considering the long overdue period, two demand letters have been issued in September 2021 through the external lawyer to Corporate Client 1 and its guarantor. In December 2021, statutory demand under Section 178(1) (a) or 327 (4)(a) of the Companies (Winding Up and Miscellaneous Provision) Ordinance (Cap.32) has also been served by external lawyer to Corporate Client 1. No repayment has been received up to the date of this announcement. The Company is considering to take further legal action against Corporate Client 1.

For loans to Corporate Client 2, the Company sent payment reminder to Corporate Client 2 before maturity date and further payment reminders were sent following the one month overdue.

Similar to loans to connected parties, the risk management department monitors the risk level of the loan portfolio regularly and provide updates to executive Directors on a monthly basis. Senior management has frequently discussed, at least on monthly basis, with the Executive Committee on the recovery actions.

2. MONEY LENDING

(i) Company's money lending business and credit risk assessment policy

The Company's money lending business offers both secured and unsecured loans to borrowers comprising individuals and corporations. The money lending business generates revenue and profit by way of providing loans to earn interest income.

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, business loans and mezzanine loans. The Company try to diversify the loan portfolio by providing to different borrowers to lower the concentration risk. We do not have a pre-defined risk appetite and set of criteria for loan acceptance. 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. Within a loan category, the interest rates, the duration of the loan and repayment terms of the loan vary. The determination of the loan terms reflects the risk level of the provision of loan and ensure the risk is at a controllable level.

Provision of loans is one of the principal businesses of the Group. Management's discussion on the movements in material loans for renewal of existing loan or newly granting of the loans have been disclosed in the announcement or circular. For loans to connected parties, they have to fall within the Framework Agreements and the relevant annual caps of the continuing connected transactions were approved by the then independent Shareholders at the special general meetings of the Company held on 20

November 2017, 11 October 2019 and 26 February 2021. For material loans to independent third parties, the summary of relevant Company's announcement and circular made in the year of 2021 were set out below:

Identities of borrowers	Loan amounts disclosed in announcement or circular <i>HK\$ million</i>	Respective announcement or circular
Silver Eagle Limited	15	Pages 9–11 and Pages 15–19 of circular dated on 25 January 2021
Green Giant Energy Limited	164	Pages 11–19 of circular dated on 25 January 2021
YuLong International Capital Limited	50	Pages 1–3 of announcement dated on 9 February 2021
Tung Kee Development Limited	3	Pages 2–4 of announcement dated on 19 February 2021
Sunny Chance Investment Limited	151	Pages 2–4 of announcement dated on 7 April 2021
Grand Profit International Investment Limited	245	Pages 2–4 of announcement dated on 7 April 2021
Oceanic Vanguard Investments Limited	194	Pages 2–4 of announcement dated on 16 April 2021
Grand Profit International Investment Limited	74	Pages 2–6 of announcement dated on 24 September 2021

(ii) Major terms of loans granted (including details of the collaterals), size and diversity of clients and concentration of loans on major clients

To diversify the clients and lower the concentration of loans portfolio, our borrowers included individuals, listed companies and companies from different industries such as securities investment, real estate and consultation service. As at 31 December 2021, the Group has 20 borrowers, of which 16 unlisted corporate borrowers, 1 listed corporate borrower and 3 individual borrowers.

As at 31 December 2021, the Group has 43 loans with principal amounts ranged from HK\$3 million to HK\$678 million with interest rate ranged from 6% to 12%. The loans portfolio fell with the following bands:

Loan size of Principal	Number of loans fall into the band
Above HK\$500 million–HK\$1,000 million	1
Above HK\$100 million–HK\$500 million	12
Above HK\$50 million–HK\$100 million	4
Above HK\$10 million–HK\$50 million	19
Above HK\$5 million–HK\$10 million	3
HK\$0–HK\$5 million	<u>4</u>
	<u>43</u>

Out of the 43 loans, 3 loans were secured by shares and assets of private companies with personal guarantee (6% of the total principal amount of the Group's loan portfolio), 2 were secured by assets of private companies and unguaranteed (1% of the total principal amount of the Group's loan portfolio), 9 unsecured loans with personal guarantee (50% of the total principal amount of the Group's loan portfolio) and the remaining 29 loans are unsecured and unguaranteed (43% of the total principal amount of the Group's loan portfolio).

As at 31 December 2021, the top five borrowers constituted 75% of the total principal amount of the Group's loan portfolio.

(iii) Reasons for loan impairments (and write-offs)

Management's discussion and the underlying reasons for the movements in loan impairments are that the ECL recognized primarily represented the credit risk involved in collectability of certain loans determined under the Company's loan impairment policy, with reference to factors including the credit history, financial conditions of the borrowers and forward-looking information. In accordance with the Company's loan impairment policy, the Company will apply the prevailing accounting standard to make such impairment. Therefore, the amount of ECL is updated at each reporting date to reflect the changes in credit risk on loan receivables since initial recognition.

For year 2021, the gross amounts of other loans have increased by HK\$180.1 million from HK\$3,857.5 million to HK\$4,037.6 million. For year 2021, the ECL provision charged is HK\$1,920.9 million which raised the accumulated provision from HK\$518.6 million to HK\$2,439.5 million at 2021 year end. Therefore, the net amount of other loan has changed from HK\$3,338.9 million to HK\$1,598.1 million at 2021 year end.

(iv) Internal controls measures

Credit Approval

Before granting loans to potential borrowers, the Company performs credit assessment process to assess the potential borrowers' credit quality individually, such as their identity and background, assessment on their creditability, financial background of the borrowers, as well as the value and characteristics of the collaterals to be pledged.

The loan proposals will be prepared by the designated loan officer and review by risk management department. Risk management department will discuss each case back and forth with loan officer to fine tune its loan proposal and risk management department will make official comments on the submission draft. The loan proposal together with the comments from risk management department will then be sent to the approvers for approval through physical meeting or emails. Subject to the size of the loan, different approval authority will be applied. Approvers may also comment, add pre-conditions and improve the terms and conditions during this process. The relevant department heads and approvers will sign off the proposals once approval for proper record.

As a matter of better internal control, the higher the amount of loan, the higher hierarchy of approvers are required. The Company has long established such different level of loan approving authority based on loan amount. Details of which are stated below:

Loan size (HK\$)	Approval authority
Above HK\$1,000 million	Board of directors
Above HK\$500 million– HK\$1,000 million	Executive Committee
Above HK\$100 million– HK\$500 million	3 members in executive committee (must include chairmen of executive committee)
Above HK\$50 million– HK\$100 million	Money lending business assessment committee
Above HK\$10 million– HK\$50 million	3 members in money lending business assessment committee (must include Chief Executive Officer)
Above HK\$5 million– HK\$10 million	3 members in money lending business assessment committee (must include Chief Financial Officer or Chief Operating and Risk Officer)
HK\$0–HK\$5 million	2 members in money lending business assessment committee (must include Chief Financial Officer or Chief Operating and Risk Officer)

Note:

- 1) Money lending business assessment committee comprises of department head, head of risk management, Chief Financial Officer, Chief Investment Officer, Chief Operating and Risk Officer and Chief Executive Officer.

Continuous loan monitoring

The Company has the designated loan officer to closely monitor its loan portfolio, include regular communication with the borrowers of their financial position, through which the Company 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.

Also, risk management department of the Company will review the risk level of each of the loans on a daily basis and submit written report to the Executive Committee at least on a monthly basis on their recommendation. From time to time, risk management department will alert our senior management and/or the Executive Committee on certain events (e.g. failed repayment) and advise the Company to take appropriate actions. Our accounts department and treasury department will also keep track of the repayment schedule constantly and make alerts to senior management in case of failed or late repayment.

Recoverability and Collection

At each month end, the designated loan officer will check if there is overdue balances or late payment and risk management department 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. Means like phones calls, seizure of collaterals, statutory demand letter and further legal actions would be discussed. Reminder letter and statutory demand letter will be issued to the borrower when consider appropriately if there is overdue repayment. 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. Where appropriate, the Company will 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 Executive Committee.

DEFINITIONS

Unless the context otherwise requires, capitalised terms used in this announcement shall have the following meanings:

“Annual Report”	the annual report of the Company for the year ended 31 December 2021 published on 28 April 2022
“Board”	the board of Directors
“China Oceanwide”	China Oceanwide Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange (Stock code: 715)
“China Oceanwide Framework Agreements”	the framework agreements entered into between the Company and China Oceanwide on 21 September 2017 and 30 August 2019 in relation to, among other things, lending transactions between the parties
“China Oceanwide Group”	China Oceanwide and its subsidiaries
“China Oceanwide International”	China Oceanwide International Investment Company Limited* (中國泛海國際投資有限公司), a company incorporated in Hong Kong with limited liability and a subsidiary of Tohigh
“Company”	China Tonghai International Financial Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange (Stock code: 952)
“Directors”	the director(s) of the Company
“ECL”	the expected credit loss
“Executive Committee”	the executive committee of the Company
“Framework Agreements”	the China Oceanwide Framework Agreements, Oceanwide Holdings Framework Agreements and Tohigh Framework Agreements
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards
“HKICPA”	the Hong Kong Institute of Certified Public Accountants

“Masterpiece”	Materpiece Valuation Advisory Limited, an independent valuer
“Mr. LU”	Mr. Lu Zhiqiang, the ultimate controlling Shareholder
“Minyun”	Minyun Limited, a company incorporated in the British Virgin Islands with limited liability and a subsidiary of Tohigh
“Oceanwide Holdings”	Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000046)
“Oceanwide Holdings Framework Agreements”	the framework agreements entered into between the Company and Oceanwide Holdings on 21 September 2017 and 30 August 2019 in relation to, among other things, lending transactions between the parties
“Oceanwide Holdings Group”	Oceanwide Holdings and its subsidiaries, which for the purpose of the Oceanwide Holdings Framework Agreement, exclude China Oceanwide Group and the Group
“Oceanwide Holdings International”	Oceanwide Holdings International Development III Co., Ltd., a company incorporated in the British Virgin Islands with limited liability and a subsidiary of Oceanwide Holdings
“PRC”	the People’s Republic of China
“Settlement Arrangements”	the arrangement to settle the debts owned by Oceanwide Holdings Group and China Oceanwide Group by means of transfer of the issued shares of a target company from Oceanwide Holdings to the Company (or its nominee) and the settlement of all outstanding interest accrued on said debts up to the date of completion in cash, details of which are set out in the announcement of the Company dated 24 August 2021
“Share(s)”	ordinary share(s) of Hong Kong one third of one cent each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Tohigh”	Tohigh Holdings Co., Ltd.* (通海控股有限公司), a company incorporated in the PRC with limited liability

“Tohigh Framework Agreements”	the framework agreements entered into between the Company and Tohigh on 21 September 2017 and 30 August 2019 in relation to, among other things, lending transactions between the parties
“Tohigh Group”	Tohigh and its subsidiaries, which for the purpose of the Tohigh Framework Agreements, exclude the China Oceanwide Group, the Oceanwide Holdings Group and the Group

For the purpose of this announcement, unless otherwise specified or the context requires otherwise, “” denotes an English translation of a Chinese name and is for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.*

On behalf of the Board
China Tonghai International Financial Limited
HAN Xiaosheng
Chairman

Hong Kong, 29 August 2022

As at the date of this announcement, the Board of the Company comprises:

Executive Directors:

Mr. HAN Xiaosheng (*Chairman*)
Mr. FANG Zhou (*Deputy Chairman*)
Mr. LIU Hongwei
Mr. Kenneth LAM Kin Hing

Independent Non-executive Directors:

Mr. Roy LO Wa Kei
Mr. KONG Aiguo
Mr. LIU Jipeng
Mr. HE Xuehui
Mr. HUANG Yajun

Non-executive Directors:

Mr. LIU Bing
Mr. ZHAO Yingwei
Mr. ZHAO Xiaoxia