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## **China Fortune Financial Group Limited**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 290)**

Website: <http://www.290.com.hk>

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

Reference is made to the annual report of the Company for the year ended 31 March 2022 published on 28 July 2022 (the “**Annual Report**”). Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report.

The Board would like to provide the following additional information in relation to the Company’s significant investment in Starlight Financial Holdings Limited (“**Starlight**”), the Company’s money lending business and the use of proceeds of the Tranche 1 Convertible Bonds in relation to the establishment of the JV Company.

#### **A. SIGNIFICANT INVESTMENT**

##### **Overview**

As disclosed in the Annual Report, the Company has a significant investment in Starlight, an associate of the Company.

Starlight and its subsidiaries (collectively, the “**Starlight Group**”) are principally engaged in the provision of loan financing and advisory services in Hong Kong and Mainland China. In particular, the Starlight Group is able to operate business relating to small and micro enterprise loans and personal consumption loans in Chongqing.

The fair value of the investment as at 31 March 2022 was HK\$105,046,000, representing approximately 17% of the Company’s total assets as at 31 March 2022. The performance of the Company’s investment in Starlight Group for the year ended 31 March 2022 is disclosed on page 219 of the Annual Report.

## **Future Prospects**

The economies of Hong Kong and Mainland China have been severely impacted by the COVID-19 pandemic over the past year, with continued anti-epidemic restrictions and policies contributing to their slow recoveries. The loan financing and advisory services provided by the Starlight Group have also been affected by the COVID-19 pandemic. However, based on performance figures of the Starlight Group for the year ended 31 March 2022, the revenue and profit of the Starlight Group have improved compared to that of the year ended 31 March 2021.

Looking ahead, variants of COVID-19 and uncertain prospects continue to pose a risk to business of the Starlight Group. Nevertheless, the management of the Starlight Group expects to mitigate related impacts in order to bring returns to the shareholders of the Starlight Group by continuing to operate the business with focus and prudence.

The Company's investment in the Starlight Group represents a passive and low to mid risk level investment for the Company. As at the date of this announcement the Company has no plans to alter the level of its investment in the Starlight Group.

## **B. MONEY LENDING BUSINESS**

### **Overview**

The Group's money lending business is conducted through Fortune Finance Limited ("**Fortune Finance**"), a licensed money lender under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) and a wholly-owned subsidiary of the Company.

With funding supported by the Group, Fortune Finance provides money lending services including property mortgages, share mortgages and personal loans. The loan periods are normally around 6 to 60 months. The source of clients of Fortune Finance are mainly from referrals and such referrals are sourced from existing clients and the management of the Group. As of 31 March 2022, the clients of Fortune Finance comprises (i) companies engaged in retail and information technology; and (ii) individuals engaged in finance, trading and telecommunications sectors.

### **Internal control procedures and credit risk assessment policy**

Fortune Finance always takes measures to assess and to control risks according to Fortune Finance's credit and operation policy. The credit policy applies to all types of lending businesses, including secured-based lending and unsecured lending. Assessment will be conducted from several aspects including market value of the pledged assets, due diligence of collateral ownership, the loan-to-value ratio, legal background checking on the borrowers, creditability and repayment ability of the borrower (including income sources and existing outstanding debts), and the feasibility of legal execution on the charged assets and/or legal action against the borrower in case there is default.

All loan applications submitted to Fortune Finance are required to go through the assessment and approval procedures by three levels of personnel. A loan application will firstly be assessed and approved by a director of Fortune Finance before being passed to the Risk and Compliance Committee's representative(s) from the Group for comments (if any). Finally, the loan application is subject to final approval from a designated director of the Group.

### **Determination of loan terms**

The loan terms are determined based on factors such as:

- purpose of fund usage claimed by the borrower;
- capital liquidity of the borrower;
- current loan terms offered by borrower's existing financing company;
- credibility and repayment history of borrower;
- loan size of the application versus the Group's internal capital resources allocation and planning; and
- other risk factors, if any.

Before granting unsecured loans to borrowers, the management of Fortune Finance will primarily consider the asset level of the borrower prior to commencement of internal assessment and approval procedures. Where the borrower is able to demonstrate that its assets are of a sufficient level, the management of Fortune Finance will consider recommending that an unsecured loan be granted. In order to determine whether the assets of a borrower are of a sufficient level, Fortune Finance will primarily take into account, among others, (i) the value of all the assets of the borrower reported by the borrower to Fortune Finance; and (ii) the intended size of the relevant loan. In general, the reported value of the borrower's assets must be sufficient to cover the intended loan. The borrower's ability to repay the loan is also taken into account after considering factors such as the borrower's income source and cash flow. The management of Fortune Finance will consider the assets of the borrower to be at a sufficient level once such requirements are deemed to be satisfied.

The terms of unsecured loans are determined on the same basis as those of secured loans, the factors of which are set out above. Although the terms of unsecured loans are determined on the same basis as those of secured loans, due to the higher risk associated with granting unsecured loans as compared to secured loans (even after taking into account that the borrower of the unsecured loan must have sufficient level of assets), the interest rates of unsecured loans will accordingly be higher than that of secured loans, assuming all other factors being equal. The management of Fortune Finance considers that it is reasonable to determine the terms of unsecured loans and secured loans on the same basis provided that, assuming all other factors being equal, unsecured loans (with the relevant borrower's assets at a sufficient level) are subject to higher interest rates commensurate with their level of risk.

Depending on the asset level of the borrower, a personal guarantee may also be required before an unsecured loan may be granted.

The renewal of loans are subject to the same internal control and assessment procedures (including the provision of relevant documents and assessment and approval by a director of Fortune Finance, the representatives of the Risk and Compliance Committee and a designated director of the Group) as for the grant of new loans.

### **Information on loans**

As at 31 March 2022, there were a total of five outstanding loans with an aggregate outstanding principal amount of HK\$50,500,000 and interest rates which ranged from 12% to 15% per annum.

As at the date of this announcement, (i) two of the loans which were outstanding as at 31 March 2022 with an aggregate outstanding principal amount of HK\$32,500,000 with interest rates of 12% and 15% per annum have been settled in full; and (ii) there are a total of three outstanding loans with an aggregate outstanding principal amount of HK\$17,000,000 and interest rates ranging from 12% to 13% per annum.

The three loans which remain outstanding as at the date of this announcement were renewed during the year ended 31 March 2022. When considering whether to renew such loans, Fortune Finance took into account factors including (i) the value of the security provided in respect of the loan (where applicable); (ii) the income levels of the borrower, the corporate guarantor (where applicable) and the personal guarantor (where applicable); and (iii) the past repayment performance of the borrower (i.e. whether the borrower had repaid interest on the loan in a timely manner). These loans were renewed according to the internal control and assessment procedures of Fortune Finance set out above.

### **Collection of loan receivables**

Fortune Finance regularly submits status update reports to the Group's management on a weekly basis for the review of Fortune Finance's total outstanding loan balance, loan due, and collection status of the repayments.

Fortune Finance also has a collection guideline which applies to delinquent accounts. If there is bank transfer failure or an uncleared cheque, Fortune Finance's representative will contact the borrower as soon as possible. If the repayment is in default for 30 days, Fortune Finance will check and confirm the latest outstanding amount of the borrower and appoint legal advisors to issue an official demand letter to the borrower. A copy of the demand letter will also be sent to the guarantor, if applicable. Should the repayment be in default for 90 days, Fortune Finance will further issue a final warning where Fortune Finance will take legal action against the borrower if such defaulted repayment could not be settled within 14 days. All records will be documented and the most updated status will be reported regularly to director(s) of the Group. Any arrangements deviating from the collection guideline are required to be reviewed and approved by the directors of Fortune Finance.

**C. UPDATE ON THE USE OF PROCEEDS OF THE TRANCHE 1 CONVERTIBLE BONDS IN RELATION TO THE ESTABLISHMENT OF THE JV COMPANY**

As disclosed on page 17 of the Annual Report, HK\$120,000,000 of the proceeds from the subscription of the Tranche 1 Convertible Bonds are intended to be used for establishment of the JV Company to be formed in the PRC under the Closer Economic Partnership Arrangement.

The documents to supplement the application (the “**Application**”) made to China Securities Regulatory Commission (the “**CSRC**”) for establishment of the JV Company was last made on 27 July 2018 while the timeframe is subject to the said regulator’s approval.

As at the date of this announcement, the Application is still pending the approval of the CSRC. No timeframe in respect of the Application or its approval by the CSRC has been provided by the CSRC. According to the intended partner of the Group for the formation of the JV Company, CSRC has not actively responded to the Application. Although there has been no response from CSRC, the Company has no plans to change the intended use of proceeds.

The information contained in this supplemental announcement does not affect any 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  
**China Fortune Financial Group Limited**  
**LIU Zhiwei**  
*Chairman and Executive Director*

Hong Kong, 22 November 2022

*As at the date of this announcement, the Board consists of two executive Directors, namely Dr. LIU Zhiwei (Chairman) and Ms. SUN Qing; two non-executive Directors, namely Mr. HAN Hanting and Mr. LIU Haoyuan; and four independent non-executive Directors, namely Mr. CHAN Kin Sang, Mr. CHIU Kung Chik, Mr. LI Gaofeng and Mr. ZHAO Gen.*