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ORIENT SECURITIES INTERNATIONAL HOLDINGS LIMITED
東方滙財證券國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8001)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE FIFTEEN MONTHS ENDED 31 MARCH 2023

This announcement is made at the request of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**").

Reference is made to the annual report (the "**2022/23 Annual Report**") of Orient Securities International Holdings Limited (the "**Company**") for the fifteen months ended 31 March 2023 published by the Company on 29 June 2023. Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as those defined in the 2022/23 Annual Report.

This announcement provides supplemental information to the 2022/23 Annual Report and should be read in conjunction with the 2022/23 Annual Report.

THE MONEY LENDING BUSINESS

The business model

The Group has operated its money lending business through its wholly-owned subsidiary, Orient Securities Finance Limited ("**OSFL**"), with money lenders license issued under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

Based on the existing business model of OSFL, OSFL offers loan financing to private companies and/or individuals provided with collaterals or securities which are mainly real estate assets located in Hong Kong or the PRC. OSFL also offers unsecured personal loans which are not secured against any asset or properties.

As at 31 March 2023, OSFL had 42 individual customers, which 34 of them were property mortgage loan customers and 8 of them were term loan customers.

* *For identification purpose only*

All of the Group's customers are introduced to the directors of OSFL through business/personal networks or are referred to OSFL by its existing or former customers. There is no specific target loan size but each application would be dealt on its own merit. The Group finances this money lending business mainly by internal resources.

The internal control procedures in place

The internal control procedures of OSFL could be simply classified into (i) assessment and approval; and (ii) monitoring and recovery.

Assessment and approval

Prior to entering into of a loan agreement, the Group shall complete credit assessment for applicants for its money lending services. In assessing their creditworthiness, the Group primary focus on the collateral and security (if any) offered as well as the applicant's background. In respect of the secured loans, the size of loans offered to its customers is dependent upon the type of property to be secured (i.e. residential, commercial or other) with reference to the value of the underlying security, or the residual value of the underlying security once any prior securities have been valued and assessed. In majority of cases, the Group grants secured loans with a loan-to-value ratio of no more than 60% of the value in the valuation report of the property. When a loan agreement is signed and before the drawdown of the secured loan, OSFL is required to report to the State Administration of Foreign Exchange ("**SAFE**") of the PRC of the amount of the loan and the terms of the relevant loan agreement, and obtain the necessary approval from SAFE. In respect of the unsecured loans, the Group should conduct annual review on each unsecured loan which remains outstanding and if the Group notices that there is a material deterioration in the borrower's financial position, the Group may require repayment from its client after reporting to its management who monitor the risk level. The Group evaluates collateral according to various matrices, such as their liquidity, market value volatility and type. In addition to the collateral, the Group's credit assessment department takes into account the client's occupation, financial condition, reputation, investment purpose, securities concentration, asset proof and credit history, which facilitate the Group's assessment on the client's repayment ability. Where insufficient information is provided, the Group may conduct credit search with external agencies to obtain background information and credit history of its client.

The approval process for granting loans include the completion of account opening form (for new customer) and know-your-customer assessment. The finance department would verify the information obtained (including identity, business background information and collateral information), check against supporting documents (including identity documents, address proof, securities statements, documents by conducting public searches and financial statements (for corporate borrowers)) and initiate credit assessment form for further processing. The board of directors of OSFL would be responsible for approving the grant of the loan.

The approval process for extending the loans include (i) the borrower is required to sign an irrevocably undertaking in favour of OSFL that he/she will cooperate with OSFL to complete all rectification procedures, if any; (ii) appraise the value of the collateral and demonstrate the conditions of the collateral as if it is ready for disposal; (iii) during the extension period, the borrower is obliged to repay the outstanding interest during the term of extension, and the loans are repayable on demand; and (iv) OSFL reserves the right to take legal action against the borrower in the event of default. The board of directors of OSFL would be responsible for approving the extension of the loan.

The accounting and finance department maintains a record of customer's loan and the repayment dates. The accounts team will also work with the credit administration team to monitor repayment and issue reminders and alerts for overdue instalments, where necessary, and when the loan is near expiry.

Ongoing monitoring and loan recovery

During the monitoring stage, the Group's credit risk management department monitors the repayment status of each loan on a monthly basis and is required to report to those charged with governance.

The board of directors of OSFL meet once a month to review the status of all customers, discuss necessary actions required and serves as an input for loan classification in assessing the impairment loss on loan receivables for financial reporting purpose. The board of directors of OSFL would report to the Board the latest status of loan receivables monthly, and the Board will give necessary instruction to the board of directors of OSFL to enhance the efficiency in implementation of the necessary actions required.

The actions taken for recovering delinquent loans would include examination and evaluation of the relevant loan status, discussion with the customer and internal discussion about formulating possible action plan. Recovery strategy involve a wide range of actions including revision of repayment terms, addition of collaterals/guarantee, execution of settlement agreement, foreclosure of collaterals/enforcement of guarantees and commencement of legal proceedings.

The Group strives to strike a successful balance in its business operations and risk management by adhering to its credit policies in order to control the quality of its loan portfolio. The Group has also appointed an independent internal control advisor to conduct independent review on adequacy and effective of internal control systems of the Group's money lending business.

Major terms of the loans granted

As at 31 March 2023, there are 45 outstanding loan accounts maintained in the Group's loan portfolio, and the average principal amount of the loan ranges from approximately HK$38,000 to HK$14,000,000. The loan term of the said loan portfolio ranges from 12 months to 60 months.

Based on the outstanding Group's loan portfolio, approximately 92% of the total amount of the outstanding loans are secured by collaterals with annual interest rate ranging from 8% to 14.5% per annum. For those unsecured loans, which account for approximately 8% of the total amount of the outstanding loans, the annual interest rate charged ranging from 10% to 24% per annum.

The impairment assessment and recognition for the fifteen months ended 31 March 2023

The Group, based on the applicable accounting standards, applies the general approach, which is generally referred to as the "three-stage" model under the Hong Kong Financial Reporting Standards 9 "Financial Instrument", in with the expected credit losses ("**ECL**") of the loan and interest receivables are determined based on (i) the changes in credit quality of the loan and interest receivables since initial recognition; and (ii) the estimated expectation of an economic loss of the loan and interest receivables under consideration.

Under the general approach, there are two measurement bases for allowance of ECL: (a) 12-month ECL, which are the ECL that result from default events that are possible within 12 months after the reporting date and are calculated as the allowance for ECL on a loan receivable weighted by the probability of default accumulated over the 12 months after the reporting date; (b) lifetime ECL, which are the ECL that result from all possible default events over the expected life of a loan receivable and are calculated as the allowance for ECL on a loan receivable weighted by the probability of default accumulated over the entire life of the loan receivable.

The allowance for ECL on loan and interest receivables are derived from gross credit exposure, recovery rate and probability of default. The Group uses the following ECL formula to calculate the allowance for ECL on its loan and interest receivables.

Expected default rate x exposure at default x (1 – recovery rate) x discount factor

For ECL assessment, the Group's loan and interest receivables are classified as follows:

(i) Stage 1 (Performing) includes loan receivables that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these loan receivables, 12-month ECL are recognised.

(ii) Stage 2 (Underperforming) includes loan receivables that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these loan receivables, lifetime ECL are recognised.

(iii) Stage 3 (Non-performing) includes loan receivables that have objective evidence of impairment and are considered as credit-impaired financial assets at the reporting date. For these loan receivables, lifetime ECL are recognised.

As at 31 March 2023, an aggregate amount of impairment for the ECL of approximately HK$145,407,000 was recognised in stage 3 for the fifteen months ended 31 March 2023.

The Group engaged Norton Appraisals Holdings Limited ("**Norton Appraisals**"), as the independent professional valuer to carry out an assessment of the ECL.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, Norton Appraisals and its ultimate beneficial owners are independent third parties and not connected with the Company and its connected persons (as defined in the GEM Listing Rules).

Set out below are the value of inputs/assumptions adopted in the valuation.

Summary of Assessment Inputs

Assessment Parameters

Account receivables – margin client			
Classification	Stage 1	Stage 2	Stage 3
Outstanding amount *(HKD)*	21,242	–	44,670,164
Probability of Default *(%)*	2.3~16.4	n/a	5.8~100
Recovery ratio *(%)*	0	n/a	0
Recovery from collaterals *(%)*	100	n/a	0~100
Average loss ratio *(%)*	0	n/a	63.7
Account receivables – cash client			
Classification	Stage 1	Stage 2	Stage 3
Outstanding amount *(HKD)*	1,923,760	–	2,317,013
Probability of Default *(%)*	2.3~16.4	n/a	100
Recovery ratio *(%)*	0	n/a	0
Recovery from collaterals *(%)*	77~100	n/a	0~100
Average loss ratio *(%)*	0.1	n/a	95.8
Loan and interest receivables			
Classification	Stage 1	Stage 2	Stage 3
Outstanding amount *(HKD)*	–	–	368,031,005
Probability of Default *(%)*	n/a	n/a	5.8~100
Recovery ratio *(%)*	n/a	n/a	0~24.5
Recovery from collaterals *(%)*	n/a	n/a	0~56%
Average loss ratio *(%)*	n/a	n/a	39.5

It is submitted that the major difference in the value of inputs or assumptions adopted in the ECL assessment for the fifteen months ended 31 March 2023 as compared to that of the year ended 31 December 2021 is the assumptions adopted regarding the enforceability of realising the collateral in the PRC.

As disclosed in the 2022/23 Annual Report, the legal opinion obtained by the Company last year regarding the loan arrangements commented only on the enforceability of the loan agreement in Hong Kong and the PRC and omitted the necessary filing procedures that the Group required to undertake under the applicable rules and regulations before hand it to the court. Based on this, the valuer adopted and the Board concur that there was no material uncertainty for the enforcement of realising the collateral in the PRC. Therefore, no impairment allowances were recognised for the year ended 31 December 2021 as the value of the collaterals are sufficient to cover their outstanding loan balances.

However, Norton Appraisals had considered the legal opinions obtained by the new management, which include the legal opinion provided by Beijing Jincheng Tongda & Neal (Guangzhou) Law Firm* (北京金誠同達(廣州)律師事務所) ("**Beijing Jincheng**"), Beijing Kangda (Guangzhou) Law Firm* (北京市康達(廣州)律師事務所) ("**Beijing Kangda**") and an independent Hong Kong legal adviser engaged by the Company, and considered that the enforcement application for assets and liquidating or realising the value of such assets may be time consuming or ultimately unsuccessful. Also, Norton Appraisals had conducted assessment on the value of the collateral which indicated a significant decline due to a downturn in the PRC real estate market impacted by the COVID-19 pandemic. Based on this, Norton Appraisals was of the view that the Group are exposed to risk of losing a significant outstanding amount of such loans. Therefore, a significant loss ratio with a range of 34% to 44% were applied by the Norton Appraisals after considering the external credit rating, repayment history, past due and default status, financial position of the debtors, as well as the progress of legal actions taken by the Company for the recovery of the loan and interest receivables.

Events leading to the impairment

As disclosed in the 2022/23 Annual Report, the Board noticed, after obtaining legal opinions from two independent PRC legal advisers, that the procedures for liquidating or otherwise realising the value of collateral of borrowers in the PRC may be protracted or ultimately unsuccessful, and the enforcement process in the PRC may be difficult for legal and practical reasons. Moreover, there is no assurance that the Group will be able to realise the value of collateral in a timely manner.

In order to ensure the adequacy of allowance for ECL on loan and interest receivables for the fifteen months ended 31 March 2023, after considering the valuation basis adopted, value of inputs used and the key assumptions applied by the Norton Appraisals, the Board considered that the amount of impairment for the ECL allowances is consistent with updated legal view on the Group's loan recoverability and also the deteriorating market environment and expectation.

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Set out below is the table showing details of customers where material recognition on ECL allowances were noted during the fifteen months ended 31 March 2023.

Category	No. of loans	No. of customers	Relationship with the Company and its connected persons	Interest rate	Maturity period	Extended	Loan and interest receivables (before accumulated ECL allowance) as at 31 March 2023 *HK$ million*	Accumulated ECL allowance as at 1 January 2022 *HK$ million*	Recognition of ECL allowance for the fifteen months ended 31 March 2023 *HK$ million*	Accumulated ECL allowance as at 31 March 2023 *HK$ million*	Type of guarantee/ security	The Group's assessment on credit risk
Secured loans	37	34	Independent third parties	Ranging from 8% to 14.5% per annum	12 to 60 months	Yes	337.7	Nil	133.9	133.9	Secured by collateral which are real estate assets located in the PRC	Loan not yet due, considered manageable
Unsecured loans	8	8	Independent third parties	Ranging from 10% to 24% per annum	12 to 60 months	Yes	30.3	2.3	9.2	11.5	Personal guarantee	Loan not yet due, considered manageable
Total	**45**	**42**					**368.0**	**2.3**	**143.1**	**145.4**		

IMPAIRMENT FOR OTHER RECEIVABLES

As disclosed in the 2022/23 Annual Report, the Group recognised impairment loss on other receivables of approximately HK$3,563,000 which was assessed by the Group and concurred by the Auditor during the course of audit, it was mutually agreed that the underlying project of the said receivables had been terminated and the nature of such receivables was non-refundable in accordance with the relevant agreement, therefore, a full impairment was recognised to in line with the facts.

The information contained in this supplemental announcement does not affect the other information contained in the 2022/23 Annual Report. Save as disclosed in this announcement, all the other information and contents in the 2022/23 Annual Report remain unchanged.

By order of the Board
Orient Securities International Holdings Limited
Lee Nga Ching
Executive Director

Hong Kong, 26 October 2023

As at the date of this announcement, the Board comprises (i) Mr. Shiu Shu Ming, Ms. Lee Nga Ching and Ms. Suen Tin Yan as the executive Directors; and (ii) Mr. Siu Kin Wai and Ms. Chan Man Yi as the independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the "Latest Listed Company Information" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company's website at www.orientsec.com.hk.