VC Group
滙盈集團

Value Convergence Holdings Limited

(Incorporated in Hong Kong with limited liability)
Website: http://www.vcgroup.com.hk
(Stock Code: 821)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Reference is made to the annual report of Value Convergence Holdings Limited (the "**Company**") for the year ended 31 December 2023 published on 29 April 2024 (the "**Annual Report**"). Unless otherwise stated, capitalized terms used herein shall have the same meanings as defined in the Annual Report.

In addition to the information provided in the subsection "Brokerage and Financing" under the "Management Discussion and Analysis" section and Note 25 "Accounts Receivable" to the consolidated financial statements in the Annual Report, the Board would like to provide the following supplemental information to the shareholders of the Company regarding the loan portfolio of money lending business:

Business strategy of the Money Lending Financing Business

The role of the directors of the Company from time to time are responsible for establishing the Group's business strategy, including the money lending business as well as setting up the principal of determining the interest rate. They are also responsible for designation of capable personnel to support and have continuous oversight of the operations. If the money lending business involves Listing Rules implications (i.e. triggering of notifiable transaction), the Directors will review the necessary documentations as required to be disclosed or filed.

The money lending licence has been obtained by VC Finance Limited ("**VC Finance**"), a wholly-owned subsidiary of the Company, since 2003. The business strategy of VC Finance focuses on providing larger loan amounts to high-net-worth clients, allowing the Company to charge higher interest rates. These clients are usually being financially well-established, typically seek loans to enhance their investment opportunities. They possess strong investment strategies and a high level of financial acumen, which contributes to the protection of their wealth and the management of substantial assets, thereby presenting a relatively lower risk for the Company.

As at 31 December 2023, out of the 25 active clients, 1 is delisted company, 16 are businessmen and 8 are private companies. The interest rate are in the range from 8% to 18% per annum. The terms of loan are from 5.5 to 12 months. Most of them are secured by shares of certain listed companies, except of 8 of those are unsecured and the remaining 3 are secured by landed properties in Hong Kong and loans due from a Hong Kong listed company. The rollover times of the 25 active clients are from nil to 5 times.

The above clients of VC Finance primarily fit this profile and all are independent third party to the Company. They are reputable or famous in the investment field and/or possess the expertise to manage and grow their financial portfolios effectively. By targeting this specific client segment, VC Finance is able to leverage the financial stability and strategic foresight of its clients to mitigate risks and secure returns for the Group. This strategy not only supports the growth of the money lending business but also aligns with the Company's broader goals of achieving sustainability in long term.

In light of the significant changes in economic conditions following the pandemic and the market sentiment in Hong Kong as at the date of the Annual Report, marked by a stagnant stock market and the downturn in the property market, the Directors have conducted a thorough review of the money lending business strategy. It is also noted that many previously successful investors (including individuals, families and/or companies), who are the target clients of the Group, are now encountering financial difficulties such as bankruptcy and liquidation, the Company has decided to adopt a more cautious approach in the money lending business. As a result, the Company will be highly selective in approving new loans until there is a clear improvement in the economic environment. Concurrently, the Company will focus on enhancing the management of existing loan receivables and strengthening its cash position. This prudent strategy will ensure that the Company remains well-positioned to capitalise on future business opportunities as they arise.

Principal of determining the interest rate

In alignment with the business strategy as set out above, the basic interest rate charged to clients generally starts from a standard rate fixed by VC Finance. Additionally, collateral may be required following negotiations with the clients. However, providing collateral does not automatically result in a lower interest rate, nor does the absence of collateral guarantee a higher rate. In certain cases, a lower interest rate may be accepted due to strong client requests and background of the borrowers, with the Group assessing the risk associated with lending, as well as considering its cash position, finance costs, and the opportunity cost of the funds involved. The loan interest rate charged to the clients are ranging from 8% to 18% per annum.

The interest rate extended to one of the clients was set at 8%, which is in the lower range of the interest rate charged among the clients. This was primarily due to the expectation of prolonged cooperation between the Group and the respective client and its subsidiaries in areas such as investor/public relations and asset management.

Procedures in granting of loans and compliance with Listing Rules

In additional to the procedures of assessment and approval as disclosed on page 23 of the Annual Report, the financial controller of the Group is responsible for conducting the size test to determine if a proposed loan would trigger any disclosure requirement under the Listing Rules. The financial controller will also review for any shareholding/directorship relation between the borrower and the Group to ascertain if a proposed loan may constitute a connected transaction under the Listing Rules. If the proposed loan triggers any disclosure requirements under the Listing Rules, the financial controller will arrange the board meeting for the Directors to resolve the resolution in relation to the approval of the proposed loan and make necessary disclosure as required by the Listing Rules.

Factors considered in loan rollover

Repayment Situation

If the borrower has demonstrated the ability and commitment to meet repayment obligations and/or has made partial repayments of the loan, indicating ongoing cash flow and partial fulfillment of loan terms, the rollover will be considered.

Collateral or Security

Based on a basket of factors which included but not limit to: background of borrower and whether guarantees are provided, nature and value of collateral (properties or securities), past repayment history and latest negotiation development with the respective borrower in relation to upcoming repayments. The above factors will be considered collectively on a case by case basis and there is no pre-specific requirement guideline or ratio on particular factor before loan rollover was considered.

Terms of Loan Rollover

The Group carefully reviews the terms of the loan rollover when approving it. The rollover period is generally assessed to provide flexibility, enabling the Company to pursue repayment at any time.

Market Conditions

It is important to emphasize that most of the loan rollovers occurred between 2020 and 2023, during the COVID-19 pandemic. The Group has also taken the then prevailing market conditions, including economic trends, interest rate movements, and market prospects as well as the specific government policy when considering a loan rollover.

The impairment loss in 2023

In preparing the 2023 interim result and 2023 annual result, the Company has engaged independent valuer to prepare the valuation in relation to the receivables to ascertain the impairment on estimated credit loss. The loan receivables were classified into 3 different stages. For the stage 1, it refers to the financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired. For stage 2, it refers to the financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired. For stage 3, it refers to the financial assets are assessed as credit impaired when one or more events that have detrimental impact on the estimated future cash flows of that assets have occurred.

As mentioned previously, the full lifting of pandemic-related measures in Hong Kong occurred in April 2023. There was general optimism about economic recovery after COVID-19. In preparing the 2023 interim result, the classification of the loan receivables was assessed based on the situation of the clients and the then macro-economic environment and relevant impairment had been made accordingly.

However, as time passed, it became clear that the economic recovery was not as rapid or robust as initially expected which adversely affected the potential repayment progress of certain clients. In addition to the downturn of the stock market, the slump in the property market severely impaired the value of the collaterals. The Directors and the finance department of the Group have then communicated with the auditors and independent valuers to work out the model of estimated credit loss on a more prudent approach. Consequently, certain loan receivables were then substantially reclassified which led to the impairment loss for the year ended 2023.

Actions taken for Recovery of the Loans

As disclose on page 24 of the Annual Report, the Group has its monitoring and recovery procedures of the loans. Below set out the major recovery actions of the loans.

Keen Communication and Negotiation with Clients

The Group maintains active monitoring of the repayment situation for each loan. Regular demand letters are issued to clients as reminders of outstanding payments. Additionally, the Group maintains communication with clients through phone calls and arranges face-to-face meetings to emphasize the importance of repaying the loans. This approach fosters an open channel for continuous negotiation and allows the Group to evaluate the financial situation of the clients on an ongoing basis.

Issuance of Legal Demand Letters

When clients fail to respond to initial communication attempts, the Group engages legal advisers to issue formal legal demand letters. These letters clearly outline the client's outstanding obligations and highlight potential legal consequences, such as initiating legal actions, if repayment is not made.

Follow up of Bankruptcy Proceedings

For clients who have declared bankruptcy, the Group promptly completes the necessary documentation to file claims with the Official Receiver's Office and remains in communication with the respective official receivers to monitor the progress of asset liquidation. This ensures the Group's position as a creditor is maintained throughout the bankruptcy process.

Settlement Negotiations

In cases where clients face genuine financial difficulties, the Group remains open to settlement negotiations for extending the loan repayment period or adjusting the terms. Continuous dialogue with clients often results in partial repayments or ongoing negotiations. These negotiations aim to recover as much of the loan as possible while taking into account the client's financial situation and the cost of legal actions.

Litigations or Legal Actions

If a client's repayment remains unsatisfactory despite the above applicable actions have been taken, the Group may, after consulting legal advisers, proceed with litigation or other legal actions. Legal actions can include filing writs of summons with the High Court of Hong Kong. In some cases, legal actions also involve seeking court orders to enforce the sale of collateral properties.

Certain clients of the Company secured a basket of securities to the Company to secure their loan. Proceedings by money lender are regulated by the Rules of the Court. Every money lender's action should be begun by writ with the statement of claim with full particulars of the loan. No disposal of secured securities is allowed after all the legal procedures are complied with. Conduct of civil proceedings is extremely time consuming. In the enforcement of securities collateral in each case, the Group will balance the legal cost, constituents securities of the portfolio secured, liquidity of each of the secured securities and timing involved before legal actions are undertaken.

However, the Group regards litigation as a last resort due to the complexity, costs and time involved. High Court cases are particularly lengthy, often taking months and years to resolve. This prolonged process results in significant legal costs before any potential recovery of the loans.

Moreover, initiating legal actions can lead to adverse consequences for borrowers, such as freezing of bank accounts and triggering cross-default provisions that make other debts immediately due. This can push borrowers closer to insolvency, which may not be in the Group's best interest.

In light of these considerations, the Group carefully evaluates whether litigation is worth pursuing case by case, renewing the time, cost, and the client's financial situation. Legal proceedings are initiated only when other recovery methods have been exhausted.

Currently, the Company will focus on enhancing the management of existing loan receivables. The Company will take all necessary actions to recover the loan receivables and will record the relevant figures (including the respective reversal) in accordance with the applicable accounting standards. Since the date as of 1 January 2024, the Group has successfully recovered approximately HK$11.9 million in loan repayments, demonstrating its ongoing recovery actions are performing.

By order of the Board of
Value Convergence Holdings Limited
Fu Yiu Man, Peter
Chairman & Executive Director

Hong Kong. 23 October 2024

As at the date of this announcement, the Board comprises four executive Directors, namely, Mr. Fu Yiu Man, Peter (Chairman), Mr. Wong Kam Fat, Tony (Vice Chairman), Mr. Lin Hoi Kwong, Aristo, and Ms. Li Cindy Chen; and three independent non-executive Directors, namely, Mr. Wong Chung Kin, Quentin, Mr. Siu Miu Man, Simon, MH and Mr. Au Tin Fung, Edmund.