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CHINA WOOD
中木國際

CHINA WOOD INTERNATIONAL HOLDING CO., LIMITED

中木國際控股有限公司

(Joint Provisional Liquidators appointed)

(For restructuring purposes only)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

SUPPLEMENTAL ANNOUNCEMENT TO 2020 ANNUAL REPORT

The board of directors (the “**Board**”) of China Wood International Holding Co., Limited (the “**Company**”) hereby provide further information in respect of the 2020 annual report of the Company published on 28 April 2021 (the “**2020 Annual Report**”). Capitalised terms used herein shall have the same meanings as those defined in the 2020 Annual Report unless the context requires otherwise.

ALLOWANCES FOR ECLS ON TRADE, LOAN AND OTHER RECEIVABLES

A. Factors, events and circumstances leading to the allowance loss

As disclosed in page 6 of the 2020 Annual Report of the Company, in year 2020, the macroeconomy around the world continued to fill with uncertainties and economic upheaval, a number of participants in the bulk stock materials trading market including the major customers of the Group in the past few years have either suspended operations or ceased business.

The Company has taken more stringent measure in its credit policies which in turns has led to suspension of accepting new sale orders of materials from those customers. Consequently, the Group has only received HK\$400,000 repayment from those customers in early 2020 and the outstanding amount of accounts receivables accrued remained overdue and unpaid.

For the year ended 31 December 2020, the Group had recorded allowances for “Expected Credit Losses” (“**ECLs**”) of trade, loan and other receivables of approximately HK\$348,304,000 in total (“**Total ECL**”) which is comprising of allowances for ECL on trade receivables of approximately HK\$347,104,000, reversal of allowance for ECL on trade receivable of approximately HK\$400,000 and allowances for ECL on other receivables of HK\$1,600,000.

B. Methods and basis of impairments loss provided

To properly account for the risk adhered to those long outstanding trade, loan and other receivables as disclosed in the 2020 Annual Report, the management of the Company has engaged an independent valuer RAVIA Global Appraisal Advisory Limited (“**RAVIA**”) to assess the risk of potential losses based on the management’s estimate of the lifetime ECLs, which are estimated by taking into account the credit loss experience, ageing of the trade receivables, debtors’ settlement records and financial status, expected timing and amount of realisation of outstanding balances and ongoing business relationship with debtors. The management also considered forward-looking information that may impact the debtors’ abilities to repay the outstanding balances in order to estimate the allowances for ECLs on trade receivables.

C. Details of independent valuation

For the purpose of the valuation, the management of the Group worked closely with RAVIA to establish and determine the appropriate valuation techniques and inputs for fair value measurements. The valuation is performed in accordance to HKFRS 9 to estimate the Total ECL of the trade, loan and other receivables. In valuing the Total ECL under HKFRS 9, probability-weighted loss default (“**PLD**”) model is adopted.

The PLD model involves the following four key parameters:

- (i) Probability of default (“**PD**”);
- (ii) Loss given default (“**LGD**”);
- (iii) Exposure at default (“**EAD**”); and
- (iv) Discount factor (“**DF**”).

In this model, the Total ECL is derived by summing the ECL of all the expected default events within a specific period. The ECL for each possible event is calculated as the product of the four parameters above, through the formula shown below:

$$\text{ECL} = \text{DF} \times \text{PD} \times \text{LGD} \times \text{EAD}$$

In conducting valuation work, certain major assumptions have to be adopted. Our key assumptions are as below:

- There will be no material change in the political, legal, fiscal, technological, market and economic conditions that will materially affect the operation of the Company and the debtors of the receivables;
- The interest rates and exchange rates will not differ materially from those of present or expected;
- The relevant information regarding the receivables provided by the Management is true and accurate; and
- The long outstanding balances of receivables are assumed to be in default by Management.

There has been no significant changes in inputs and assumption applied in 2020 as compared with those applied in 2019.

D. Breakdown of trade receivables and allowance for ECLs made

To further clarify the information disclosed in pages 107 to 110 of the 2020 Annual Report, below is the breakdown of the balance of top customers classified as trade receivables and the corresponding accumulated allowance for ECLs made.

Top customers	Gross carrying amount of trade receivables as of 31 December 2020 <i>HK\$'000</i>	Accumulated loss allowance made as of 31 December 2019 <i>HK\$'000</i>	Accumulated loss allowance made as of 31 December 2020 <i>HK\$'000</i>	Reasons for allowance for ECLs made	Action taken by the Group in recovering the outstanding balance and the latest status
Customer A	284,858.3	96,708.3	284,858.3	<p>At the end of year 2019, allowance for ECLs was provided to the unpaid balance overdue for over 90 days.</p> <p>Customer A subsequently made payment of HK\$400,000 in early 2020 and becomes out of contact after the Group withheld their new orders.</p> <p>At the end of year 2020, still no feedback was heard and full allowance for ECLs was provided to the unpaid balance overdue for over 365 days.</p>	<p>First reminder letter was sent to Customer A on 15 July 2019.</p> <p>Second reminder letter was sent to Customer A on 15 September 2019.</p> <p>Third and final reminder letter was sent to Customer A on 20 January 2020.</p> <p>Statutory demand was issued to Customer A in April 2020 through the then legal advisor of the Company. No response was received. The Group is still considering to recover those outstanding receivable through all feasible means.</p>
Customer B	238,189.8	80,751.1	238,189.8	<p>Customer B becomes out of contact after the Group withheld their new orders in 2019.</p> <p>At the end of year 2019, allowance for ECLs was provided to the unpaid balance overdue for over 90 days.</p> <p>At the end of year 2020, still no feedback was heard and full allowance for ECLs was provided to the unpaid balance overdue for over 365 days.</p>	<p>First reminder letter was sent to Customer B on 15 July 2019.</p> <p>Second reminder letter was sent to Customer B on 15 September 2019.</p> <p>Third and final reminder letter was sent to Customer B on 20 January 2020.</p> <p>Statutory demand was issued to Customer B in April 2020 through the then legal advisor of the Company. No response was received. The Group is still considering to recover those outstanding receivable through all feasible means.</p>
Customer C	183,824.8	183,824.8	183,824.8	<p>At the end of year 2019, full allowance for ECLs was provided to the unpaid balance as Customer C becomes inaccessible in 2019 and was found to have delivered to the Registrar of Companies for registration in Hong Kong a special resolution declaring that Customer C will become dormant.</p>	<p>First reminder letter was sent to Customer C on 15 July 2019.</p> <p>Second reminder letter was sent to Customer C on 15 September 2019.</p> <p>Third and final reminder letter was sent to Customer C on 20 January 2020.</p> <p>Statutory demand was issued to Customer C in April 2020 through the then legal advisor of the Company. No response was received. The Group is still considering to recover those outstanding receivable through all feasible means.</p>

Top customers	Gross carrying amount of trade receivables as of 31 December 2020 <i>HK\$'000</i>	Accumulated loss allowance made as of 31 December 2019 <i>HK\$'000</i>	Accumulated loss allowance made as of 31 December 2020 <i>HK\$'000</i>	Reasons for allowance for ECLs made	Action taken by the Group in recovering the outstanding balance and the latest status
Customer D	120,958.1	120,958.1	120,958.1	At the end of year 2019, full allowance for ECLs was provided to the unpaid balance as Customer D becomes inaccessible in 2019 and was found to have delivered to the Registrar of Companies for registration in Hong Kong a special resolution declaring that Customer D will become dormant. Customer D later filed for deregistration in year 2020.	First reminder letter was sent to Customer D on 15 July 2019. Second reminder letter was sent to Customer D on 15 September 2019. Third and final reminder letter was sent to Customer D on 20 January 2020. Statutory demand was issued to Customer D in April 2020 through the then legal advisor of the Company. No response was received. The Group is still considering to recover those outstanding receivable through all feasible means, including to apply for restoring Customer D from deregistration.
Other customers	5,998.4	3,673.0	5,042.1	The allowance for ECLs of other receivables mainly concerning with the long outstanding receivables related to car rental business and the public relations business segment of the Group. The Group has ceased public relations business segment operations since early 2020.	The Group is still chasing those long outstanding other customers in the PRC, Hong Kong and Macau for repayment.
Total	<u>833,829.4</u>	<u>485,915.3</u>	<u>832,873.1</u>		

INFORMATION ABOUT CUSTOMERS A, B, C AND D

The Company's subsidiaries were acquainted with each of Customer A, B, C and D through the business connections of Ms. Liu Jiang Yuan ("**Ms. Liu**"), who was the chief operating officer from July 2014 to April 2020 and a director of the Company from July 2014 to September 2017. With the assistance of the finance department of the Group, Ms. Liu was responsible for conducting the materials trading business of the Group including negotiating transactions with all customers including each of those four customers mentioned above.

To the best of the Directors' knowledge and based on information currently available to the Directors, other than the business relationship with the Group, none of Customer A, B, C and D nor any of their respective ultimate beneficial owners had any relationship with any connected persons (including the then directors of the Company) at the material time of entering business transactions with the Company. To the best of the Directors' knowledge and based on information currently available to the Directors, none of Customer A, B, C and D has any relationship with any supplier of the Group's trading business.

Customer A

Customer A was introduced by Ms. Liu to the Group and the Group, through China E-Rental Hong Kong Limited, which was renamed as HongDa Financial Hong Kong Limited (“**HongDa Financial**”) in May 2016, entered into the first sales agreement with Customer A in December 2016. On 15 April 2019, HongDa Financial entered into a sales agreement with Customer A for the sales of HK\$94.4 million worth of materials to Customer A, which was the last sales agreement between the Group and Customer A.

The Company conducted the following due diligence and risk assessments against Customer A:

- | | |
|---|---|
| (i) At the time of first conducting business with the Group | HongDa Financial went through its contract pre-approval procedure with the finance department, the operating department and the board of directors of HongDa Financial to approve the first sales contract with Customer A in December 2016 |
| (ii) In each financial year | No relevant record was found |
| (iii) In or around May 2018 | HongDa Financial has established sales contract pre-approval procedures whereby each sales contract was required to be approved by the head of sales department, the financial controller or chief financial officer and a member of the board of directors prior to execution. |
| (iv) From May 2018 to the time of last sales agreement with the Group | Trading with this customer was suspended in April 2019 when the outstanding accounts receivable amount due from this customer began to increase again and the market sentiments becomes more unfavourable. |

Customer B

Customer B was introduced by Ms. Liu to the Group and the Group, through HongDa Financial entered into the first sales agreement with Customer B in April 2018. On 9 April 2019, HongDa Financial entered into a sales agreement with Customer B for the sales of HK\$66.22 million worth of materials to Customer B, which was the last sales agreement between the Group and Customer B.

The Company conducted the following due diligence and risk assessments against Customer B:

- | | |
|---|---|
| (i) At the time of first conducting business with the Group | HongDa Financial went through its contract pre-approval procedure with the finance department, the operating department and the board of directors of HongDa Financial to approve the first sales contract with Customer B in April 2018 |
| (ii) In each financial year | No relevant record was found |
| (iii) In or around May 2018 | HongDa Financial has established sales contract pre-approval procedures whereby each sales contract was required to be approved by the head of sales department, the financial controller or chief financial officer and a member of the board of directors prior to execution. |
| (iv) From May 2018 to the time of last sales agreement with the Group | Trading with this customer was suspended in April 2019 when the outstanding accounts receivable amount due from this customer began to increase again and the market sentiments becomes more unfavourable. |

Customer C

Customer C was introduced by Ms. Liu to the Group in February 2016 and China E-Rental Hong Kong Limited entered into the first sales agreement with Customer C in February 2016. On 4 March 2019, HongDa Financial entered into a sales agreement with Customer C for the sales of HK\$94.4 million worth of materials to Customer C, which was the last sales agreement between the Group and Customer C.

The Company conducted the following due diligence and risk assessments against Customer C:

- | | |
|---|--|
| (i) At the time of first conducting business with the Group | China E-Rental Hong Kong Company Limited (later renamed as HongDa Financial Hong Kong Limited) went through its contract pre-approval procedure with the finance department, the operating department and the board of directors of China E-Rental Hong Kong Company Limited to approve the first sales contract with Customer C in February 2016. The Group was provided with the management accounts of Customer C for the year ended 31 December 2016 as part of its risk assessment process. |
| (ii) In each financial year | No relevant record was found |
| (iii) In or around May 2018 | HongDa Financial has established sales contract pre-approval procedures where each sales contract was required to be approved by the head of sales department, the financial controller or chief financial officer and a member of the board of directors prior to execution. |
| (iv) From May 2018 to the time of last sales agreement with the Group | Trading with this customer was suspended in early March 2019 when the outstanding accounts receivable amount due from this customer began to increase again and the market sentiments becomes more unfavourable. |

Customer D

Ms. Liu introduced Customer D to the Group in November 2014 and at that time the material trading business of the Group was being conducted through E-Rental International Trading Limited, entered into the first sales contract with Customer D in November 2014. On 26 February 2019, HongDa Financial entered into a sales agreement with Customer D for the sales of HK\$66.22 million worth of materials to Customer D, which was the last sales agreement between the Group and Customer D.

The Company conducted the following due diligence and risk assessments against Customer D:

- | | |
|---|--|
| (i) At the time of first conducting business with the Group | E-Rental International Trading Limited went through its contract pre-approval procedure with the finance department, the operating department and the board of directors of E-Rental International Trading Limited to approve the first sales contract with Customer D in November 2014. Trading with customers including Customer D was continued through China E-Rental Hong Kong Company Limited (later renamed as HongDa Financial Hong Kong Limited) since year 2015. |
| (ii) In each financial year | No relevant record was found |
| (iii) In or around May 2018 | HongDa Financial has established sales contract pre-approval procedures where each sales contract was required to be approved by the head of sales department, the financial controller or chief financial officer and a member of the board of directors prior to execution. |
| (iv) From May 2018 to the time of last sales agreement with the Group | Trading with this customer was suspended in February 2019 when the outstanding accounts receivable amount due from this customer began to increase again and the market sentiments becomes more unfavourable. |

With effect from 9 September 2020, HongDa Financial was renamed as China Wood Financial Hong Kong Company Limited. E-Rental International Trading Limited was first renamed as HongDa International Finance Limited in 2016 and later renamed as China Wood International Resources Co., Limited in 2020.

CREDIT POLICY

Credit terms offered by the Group to Customers A, B, C and D have been amended according to arm's length discussion between the Group and these customers throughout the relevant years. In 2014 when the Group first started business with these customers, the credit term offered was 90 days after delivery and the term was amended to 150 days in 2018 and to 180 days in 2019. Throughout the relevant years, there were occasions when the customer has not settled its payments on time and paid late settlement charges to the Group. Such incidents happened since early 2015 while the customer involved settled payment of the invoiced amount and the late settlement charges and the trading relationship with the Group then resumed.

In May 2018, several of the Group's material trading customers, including Customers A, B, C and D had been delaying payment of their outstanding invoices and the Group began imposing overdue penalty interests on these customers.

As the outstanding accounts receivable amount due from Customers A, B, C and D began to increase in early 2019, the previous management of the Company tighten the Company's credit policies which led to suspension of accepting new sale orders from these customers since mid-2019. During the finalisation of the annual audit of the Group in March 2019, the Group decided to make full provision for the ECL loss in relation to Customer C and D and also to withhold any further shipments to the Customer C and D as they still did not effect payment and become inaccessible. All shipments to Customers A and B were later withheld from May 2019. Upon conducting searches on the Company Registry, the Company discovered that Customers C and D had respectively filed a special resolution declaring that they will become dormant in late 2019. To avoid further exposure to default risk, the Group had since taken a more conservative posture in order to avoid any potential risk and significant loss from this business segment.

Further, the internal control adviser of the Company at the time identified in its internal control report to the Company for the year ended 31 December 2017, that certain subsidiary of the Company failed to review customer credit limit regularly, and the relevant business unit has failed to prepare written records of debt collection from its customers. The report recommended that relevant operating unit should set a credit limit for its customers and conduct regular checks on the credit limit of its customers which the management of the Company at the relevant time have agreed to implement. However, the Board is unable to locate any documentary record of setting such credit limit.

Based on documents and records currently available to the Directors, the Board is unable to conclude whether any credit risk assessment was made by the previous management of the Group in respect of Customers A, B, C and D during the relevant time.

As explained above, the previous management of the Company have suspended trading with Customers A, B, C and D when delay in settlement of payment has occurred and trading was resumed after all outstanding payment and late charges have been settled. The previous management of the Company have no reason nor would it be commercially justifiable to discontinue business with their long-term customers after the relevant customers have settled all outstanding payment and late charges. Given the lack of records and documentations regarding credit risk assessment available to the Board, the Board is unable to formulate its view on whether the continuation of transaction with each of Customers A, B, C and D since May 2018 until February 2019 and April 2019 was, at the material time, in the interest of the Company and its shareholders.

The above-mentioned supplemental information does not affect any other information contained in the 2020 Annual Report, and save as disclosed above, all other information in the Annual Report remain unchanged.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 22 October 2021 and will remain suspended until further notice. Further announcement(s) will be made by the Company as and when appropriate and in compliance with the requirements under the Listing Rules.

By order of the Board
China Wood International Holding Co., Limited
中木國際控股有限公司
(Joint Provisional Liquidators appointed)
(For restructuring purposes only)
Lyu NingJiang
Chairman and Executive Director

Hong Kong, 28 December 2021

As at the date of this announcement, the Board comprises Mr. Lyu NingJiang (Chairman and CEO) as executive director, Mr. Hu YongGang as non-executive director; and Mr. Zhao XianMing, Mr. An Dong and Mr. So Yin Wai as independent non-executive directors.