PineStone 鼎石

Pinestone Capital Limited
鼎石資本有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 804)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

Reference is made to the results announcement for the year ended 31 December 2020 ("**FY2020**") of Pinestone Capital Limited (the "**Company**" and together with its subsidiaries, the "**Group**") dated 19 March 2021 (the "**Results Announcement**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Results Announcement.

The Board would like to supplement the following additional information in relation to the impairment losses on trade and loan receivables of approximately HK$31.3 million (the "**Impairments**") in aggregate for FY2020 as disclosed in the Results Announcement.

With reference to the Results Announcement, the Impairments (which were calculated based on an expected credit loss ("**ECL**") model) in the aggregate amount of approximately HK$31.3 million were recognised during FY2020 comprising approximately HK$12.2 million attributable to trade receivables from margin clients and approximately HK$19.1 million attributable to loans receivables. Such Impairments were made in respect of 6 individual clients, including margin clients and customers in money lending business, (the "**Relevant Client(s)**") of the Group based on the impairment assessment.

The Group's credit risk is mainly arising from its trade receivables from margin clients and loans receivable from customers. To monitor credit risk, the Group set out the following credit policies for the securities dealing and margin financing business as well as money lending business:

(i) The Group's credit policy in respect of securities dealing and margin financing business

In respect of the Group's securities dealing and margin financing business, the Group has set up a Credit Committee consisting of senior management, responsible officers and senior officers which is responsible for formulating credit policies and guidelines to ensure the Group's business risks are contained within calculated levels.

The representative staff is responsible for applying a credit line, which is the maximum loan facility granted to the non-termed loan client which is set after taking into account of both current and potential credit risks, from the Credit Committee for individual non-termed loan client. The representative staff must submit relevant documents such as proof of financial standing, proof of income, proof of asset, tax return, etc. to the Credit Committee for proper evaluation of the client's creditworthiness. The Credit Committee is then responsible for approval of the credit line based on the client's occupation, his/her track record, his/her trading pattern, proof of income, financial standing, repayment ability and credit history of the client with the Group.

In addition, the Group's responsible officers are responsible for reviewing the daily margin call report generated by the trading system and initiate the margin call requesting follow up action, as appropriate, to a margin client whose level of securities collateral in proportion to the outstanding balance ("**collateral ratio**") has reached alarming level. Margin clients with collateral ratio reached alarming level are not allowed to execute further securities purchases unless they have deposited additional funds or securities collateral or sold their securities collateral to reduce their collateral ratio to acceptable level. After having considered factor such as the client's profile, track record, credit and repayment history or value and liquidity of the collateral, the Group's responsible officer may grant approval for extending mandatory liquidation, the repayment arrangement and/or special monitoring and handling procedures for such client.

(ii) The Group's credit policy in respect of money lending business

The Group has set up a Credit Committee for money lending business which has full authority to handle all credit related matters of the Group. The primary duties of the Credit Committee are, among other things, to approve and oversee the Group's credit policy and to monitor its loan portfolio.

All decisions made on loan applications are handled by the Credit Department and are subject to independent reviews of the Group's management. All new customers have to pass the Group's financial background and credit checks before a loan, which must be approved by the Credit Committee, can be granted.

In terms of credit monitoring, the Credit Committee will check for irregularities and report to the directors as necessary. The directors will perform sample check on the loan files to ascertain that loan approval procedures and documentations are properly performed. For loans with collateral, the Credit Committee will identify possible irregularities in the credit quality of the loan portfolio. If the collateral ratio, if applicable, increased to or above a pre-determined accepted level, the borrower may be required to deposit additional collateral or partially repay the outstanding loan balance in order to bring the collateral ratio below the accepted level.

In cases where the borrower requests a restructuring of the repayment schedule, approval has to be obtained from the Credit Committee on a case-by-case basis. The approved restructured loans will be monitored on an on-going basis and reviewed by the Credit Committee to ensure timely repayment.

The aforementioned credit policies have been strictly followed with no enhancement during the year ended 31 December 2020.

Impairment review has been performed by management to assess impairment loss on trade receivables from margin clients as well as loans receivable from customers. The following set out details of assessment model adopted by the Group:

Management would assess the following variables when performing impairment review:

(1) Probability of Default;

(2) Loss Given Default ("**LGD**") i.e. the magnitude of the loss if there is a default; and

(3) Exposure at Default.

The assessment of the probability of default and LGD is based on historical data adjusted by forward-looking information.

(i) Trade receivables due from margin clients

The Group applies general approach in measuring loss allowance for ECL on trade receivables due from margin clients. Firstly, the Group has to assess whether the risk of default has increased significantly since initial recognition. The Group considers both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Management classify the margin client into 3 stages based on their default risk. In assessing the default risk, management has considered collateral ratio, loan to margin ratio, concentration ratio and amount of actual shortfall. In addition, management has also considered the following factors in the assessment of default risk:

- an actual or expected downgrade of the external or internal credit rating of the borrower;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligation;
- significant changes in the expected performance and behavior of the borrower, in particular the responsiveness of the margin clients in response to the margin call or similar request made by the Group;
- significant changes in external market indicators of credit risk for a particular financial asset or similar financial assets with similar characteristics; and
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancement, if applicable.

Stage 1: For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination.

Stage 2: For exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired. Below are indicators of significant increase in credit risks:

- Concentration ratio, collateral ratio or loan to margin ratio has reached alarming level;

- The Group maintains close contact with the margin clients and the margin clients is responsive to the Group's request; and

- Negotiation with client for credit enhancement measures, e.g. entering into repayment agreement with the Group and fulfilling their obligation according to the agreed terms.

Stage 3: Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. Below are events indicating that the balance is credit-impaired:

- The Group makes liquidation call to margin clients to liquidate their securities collateral to settle the outstanding balances;

- The margin client is not responsive to the Group's request; and

- The Group loses contact with the margin clients.

In determining the probability of default, the Group makes reference to the default rates studies conducted by certain external credit rating agency. In addition, the Group incorporates forward-looking economic information through the use of industry trend and experienced credit judgment to reflect qualitative factors.

In determining the LGD, the Group estimate (i) the probability of price changes based on observed historical price movements of the underlying securities collateral, adjusted for forward-looking information through the use of the stock market analysis and taking into account of the latest stock market condition; (ii) the estimated cash recoverable from the margin clients without resorting to liquidation of securities collateral; (iii) sale proceeds based on the latest discussion with the third parties in selling the debts; and (iv) time value of money, if applicable.

(ii) Loans receivable

The Group applies general approach in measuring loss allowance for ECL on loans receivable.

In assessing default risk of loan receivables, the following factors have been taken into consideration:

- collateral ratio (if any);

- amount of actual shortfall;

– delay in repayment;

– responsive to the Group's request in repayment after maturity of loan;

– an actual or expected downgrade of the external or internal credit rating of the borrower;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligation;

– significant changes in external market indicators of credit risk for a particular financial asset or similar financial assets with similar characteristics; and

– significant changes in the value of the collateral supporting the obligation or credit enhancement, if applicable.

Management classify loan receivables based on the following:

Stage 1: For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination.

Stage 2: For exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired. Below are indicators of significant increase in credit risks:

(a) Repayment of loan is delayed by borrower;

(b) Collateral ratio (if any) have reached alarming level; and

(c) Responsive to the Group's request.

Stage 3: Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. Below are events indicating that the balance is credit-impaired:

(a) The Group makes liquidation call to borrowers to liquidate their securities collateral (if any) to settle the outstanding balances;

(b) The borrower is not responsive to the Group's request; and

(c) The Group loses contact with the borrowers.

The Group applied same assessment in determining default risk and LGD on loans receivable from customers as trade receivables from margin client as aforementioned.

Based on the above impairment assessment, the Impairments were made in respect of the Relevant Clients. The following tables set out further details and circumstances of the Relevant Clients and the evidence of the Impairments:

	Name of Relevant Client	**Relationship (either existing or prior) with the Company and its connected person**	**Means of introduction to the Group**	**Relationship among the Relevant Clients**	**Type of loan**	**Term of the loan**	**Maturity date**	**Principal amount**	**Interest rate**
1.	Relevant Client A	Independent third party	By referral	Relative to Relevant Clients B and D	Termed loan	5 months from date of agreement	9 August 2020	HK$13.0 million	15.0% p.a.
2.	Relevant Client B	Independent third party	By referral	Relative to Relevant Clients A and D	Termed loan	6 months from date of agreement	19 September 2020	HK$11.0 million	15.0% p.a.
3.	Relevant Client C	Independent third party	By referral	None	Termed loan	5 months from date of agreement	3 August 2020	HK$14.0 million	15.0% p.a.
4.	Relevant Client D	Independent third party	By referral	Relative to Relevant Clients A and B	Termed loan	5 months from date of agreement	16 August 2020	HK$13.0 million	15.0% p.a.
5.	Relevant Client E	Independent third party	By referral	None	Non-termed loan	N/A	N/A	HK$15.2 million *Note 1*	12.5% p.a.
6.	Relevant Client F	Independent third party	By referral	None	Non-termed loan	N/A	N/A	HK$8.8 million *Note 1*	12.5% p.a.

Note 1: Outstanding balance as at 31 December 2020, inclusive of principal and accrued interest.

	Name of Relevant Client	Outstanding amount (principal together with accrued interests) as at 31 December 2020	Amount of Impairments during the year ended 31 December 2020	Classification in the Group's accounts (including both principal and interest)	Guarantee/ security	Due diligence performed by the Group	Event leading to the Impairments
1.	Relevant Client A	HK$14.6 million	HK$6.6 million	Loan receivable	None	Full know your client ("**KYC**") procedures including obtaining information as to source and amount of income, proof of other net assets, ID copy, address proof, etc.	When Relevant Client A failed to repay the loan upon maturity in August 2020
2.	Relevant Client B	HK$12.3 million	HK$5.5 million	Loan receivable	None	Full KYC procedures including obtaining information as to source and amount of income, proof of other net assets, ID copy, address proof, etc.	When Relevant Client B failed to repay the loan upon maturity in September 2020
3.	Relevant Client C	HK$15.7 million	HK$1.3 million	Loan receivable	Secured by listed securities with market value of approximately HK$12.7 million as at 31 December 2020	Full KYC procedures including obtaining information as to source and amount of income, proof of other net assets, ID copy, address proof, etc.	When Relevant Client C failed to repay the loan upon maturity in August 2020 and collateral ratio has reached alarming level
4.	Relevant Client D	HK$14.6 million	HK$6.6 million	Loan receivable	None	Full KYC procedures including obtaining information as to source and amount of income, proof of other net assets, ID copy, address proof, etc.	When Relevant Client D failed to repay the loan upon maturity in August 2020
5.	Relevant Client E	HK$15.2 million	HK$11.3 million *Note 2*	Trade receivable	Secured by listed securities which was subsequently delisted from the Stock Exchange	Full KYC procedures including obtaining information as to source and amount of income, ID copy, address proof, etc.	When the Group received letter to attend creditors' meeting in relation to bankruptcy of Relevant Client E in September 2020
6.	Relevant Client F	HK$8.8 million	HK$2.8 million	Trade receivable	Secured by listed securities with market value of approximately HK$2.0 million as at 31 December 2020	Full KYC procedures including obtaining information as to source and amount of income, ID copy, address proof, etc.	When Relevant Client F's collateral ratio has reached alarming level and failed to settle margin calls initially made by the Group in September 2020 with subsequent follow ups

Note 2: Together with the amount of approximately HK$3.9 million impaired during the year ended 31 December 2019, the amount due from Relevant Client E has been fully impaired.

	Name of Relevant Client	The Group's assessment on credit risk
1.	Relevant Client A	Having considered that pursuant to an undertaking given by Relevant Client A, the Group is given to understand that Relevant Client A has other assets which the Group believes can possibly be liquidated if and when necessary, and the Group has already engaged legal adviser to handle this matter including issuing demand letters so recovery process is still ongoing – manageable
2.	Relevant Client B	Having considered that pursuant to an undertaking given by Relevant Client B, the Group is given to understand that Relevant Client B has other assets which the Group believes can possibly be liquidated if and when necessary and the Group has already engaged legal adviser to handle this matter including issuing demand letters so recovery process is still ongoing – manageable
3.	Relevant Client C	Having considered the loan to Relevant Client C is secured by listed securities and the Group has already engaged legal adviser to handle this matter including issuing demand letter so recovery process is still ongoing – manageable
4.	Relevant Client D	Having considered that pursuant to an undertaking given by Relevant Client D, the Group is given to understand that Relevant Client D has other assets which the Group believes can possibly be liquidated if and when necessary, and the Group has already engaged legal adviser to handle this matter including issuing demand letters so recovery process is still ongoing – manageable
5.	Relevant Client E	Having considered Relevant Client E has been declared bankrupt on 16 June 2020 – high
6.	Relevant Client F	Having considered the loan to Relevant Client F is secured by listed securities with negotiations still ongoing – manageable

Although the Impairments were made during FY2020, the Group reserves its rights to take all necessary measures to recover such outstanding amounts due from the Relevant Clients to protect the interests of the Group and the shareholders of the Company.

Save as disclosed above, all other information and contents set out in the Results Announcement remain unchanged.

By Order of the Board
Pinestone Capital Limited
Cheung Yan Leung Henry
Chairman

Hong Kong, 7 May 2021

As at the date of this announcement, the Board comprises Mr. Cheung Yan Leung Henry, Mr. Cheung Jonathan as executive Directors and Mr. Yeung King Wah, Mr. Lai Tze Leung George and Mr. So Stephen Hon Cheung as independent non-executive Directors.