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 THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Reference is made to the annual report for the year ended 31 December 2022 ("**FY2022**") of Pinestone Capital Limited (the "**Company**" and together with its subsidiaries, the "**Group**") dated 24 March 2023 (the "**Annual Report**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report.

The Board would like to supplement the following additional information in relation to (i) the use of proceeds of a placing of shares (the "**Placing**") on 8 November 2022; and (ii) money lending business ("**Money Lending Business**").

PLACING

On 8 November 2022, the Company successfully placed 45,118,900 new shares, representing approximately 16.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares immediately upon completion of the Placing, at the placing price of HK$0.32 per share. The gross and net proceeds from the Placing, after deduction of the placing commission and other related expenses, were approximately HK$14.44 million and HK$14.22 million, respectively. For further details of the Placing, please refer to the announcements dated 25 October 2022 and 8 November 2022. Set out below is the actual use of net proceeds up to the date of the Annual Report.

Use of net proceeds	**Net proceeds**	**Net proceeds utilised during the year ended 31 December 2022**	**Unutilised net proceeds as at 31 December 2022**	**Expected timeline on utilisation of unutilised net proceeds**
	HK$ million	*HK$ million*	*HK$ million*	
Expansion of existing business	14.22	14.22	–	N/A
Total	14.22	14.22	–	N/A

There is no material change between the intended use of the net proceeds of the Placing, and the actual use of the net proceeds of the Placing.

MONEY LENDING BUSINESS

Business model

The Group holds a money lender license in Hong Kong pursuant to the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) and provides loan facilities including (i) securities-backed lending services and (ii) other secured lending services to clients. The Group gains interest income from provision of such loan facilities through a wholly owned subsidiary of the Company, Pinestone Capital Group Limited ("**PCGL**").

1. Loan Outstanding under Money Lending Business of the Group

The following table shows the Group's loan receivables as at 31 December 2022 in the book of PCGL categorized by natures of relevant loans:

Loan by Natures	Loan principal as at 31 December 2022	Term	Interest rate per annum	% of total loan principal as at 31 December 2022
	HK$'000		%	%
Secured loans, with collaterals	38,185	12 months	15	34.26
Loans, with personal guarantee	73,262	Overdue	12-15	65.74
Total loan receivables	111,447			100.00
Less: Impairment losses under ECL model	(42,499)			
Net loan receivables	68,948			

The Group have not provided any unsecured loans initially. The outstanding amount of overdue loans with personal guarantee as disclosed are supposed to be the outstanding amount of certain secured loans, the nature of these loans inevitably changed after the enforcement of corresponding collaterals. The approval procedure of these secured loans were strictly followed the Group's risk management policies.

2. Ageing Analysis of the Outstanding Loans

Net loan receivables with ageing analysis presented below per maturity dates:

	As at 31 December 2022 *HK$'000*
Not due yet	38,185
Overdue	30,763
	68,948

The loans, which are not due yet, will be matured within 3-12 months. There is no outstanding loan being rolled over as at 24 March 2023.

3. Customer Profiles

The customers of the Money Lending Business are corporate and individual and referred by member companies of the Group, Directors, employees or clients. The following table shows the customers of PCGL as at 31 December 2022:

Type of customers	**Number of customers**
Corporate	2
Individual	6
Total	8

In relation to the customers of PCGL as aforesaid, further information as to the breakdown and client type under its Money Lending Business is set out in the table below:

Number	Client	Type	Background	Relationship among the borrowers *(note 1)*	Source of client	Interest rate % p.a.	Term	Date of loan agreement	Principal Amount *HK$'million (approximately)*	Value of collateral as at 31-Dec 2022 *(note 2) HK$'million (approximately)*	Original book value of loan receivable as at 31-Dec 2022 *(note 2) HK$'million (approximately)*	Accumulated impairment losses as at 31-Dec 2022 *(note 2) HK$'million (approximately)*	Accumulated impairment losses as at 31-Dec 2022 *(note 2) % (approximately)*	Net amount of loan receivable as at 31-Dec 2022 *(note 2) HK$'million (approximately)*	Proportion out of Group's total loan receivable as at 31-Dec 2022 *(note 2) % (approximately)*
1	1st largest client	Corporate	Culture diffusion	None	By client referral	15%	12 months	21-Sep-22	20	share charge of $92.80 *(note 3)*	20.0	–	n/a	20.0	29%
2	2nd largest client	Corporate	Investment	None	By client referral	15%	12 months	18-Oct-22	18	share charge of $56.50 *(note 4)*	18.1	–	n/a	18.1	26%
3	3rd largest client	Individual	Manager of Trading Company	None	By client referral	15% and 12%	8 months & 12 months	13-Mar-20 & 23 June 21	9 & 4.4	None *(note 5)*	17.6	12.3	70%	5.3	8%
4	4th largest client	Individual	Self-employed	None	By client referral	15%	5 months	3-Mar-20	14	None *(note 6)*	14.7	8.8	60%	5.9	9%
5	5th largest client	Individual	Director of marketing company	None	By client referral	15% and 12%	9 months & 12 months	20-Dec-18 & 23 June 21	7 & 8.8	None *(note 5)*	13.9	9.7	70%	4.2	6%
6	6th largest client	Individual	Director of trading company	None	By client referral	12%	12 months	23-Jun-21	8.8	None *(note 6)*	10.3	4.1	40%	6.2	9%
7	7th largest client	Individual	Director of investment company	None	By client referral	12%	12 months	23-Jun-21	8.8	None *(note 6)*	10.3	4.1	40%	6.2	9%
8	8th largest client	Individual	Sale of trading company	None	By client referral	12%	12 months	23-Jun-21	4.4	None *(note 6)*	5.2	2.1	40%	3.1	4%
										Total:	110.0	41.1		68.9	100%

Notes:

1. Based on the best information and knowledge of the Group as at the date of the Annual Report hereof.

2. Such collaterals are comprised of unlisted securities.

3. The 1st largest client had a share charge as collaterals of approximately HK$92.8 million for the client's termed loan.

4. The 2nd largest client had a share charge as collaterals of approximately HK$56.5 million for the client's termed loan.

5. The 3rd, 5th, 6th and 8th largest clients had no collaterals in the margin account (non-termed) for those clients' termed and non-termed loan.

6. The 4th and 7th largest clients had no collaterals in the margin account (non-termed) for the client's termed loan.

4. Movement of impairments of loan receivables

The loans were respectively pledged with the shares of companies listed on the Stock Exchange. The approval procedure of these secured loans were strictly followed the Group's risk management policies. The market values of the securities collateral for those six clients of money lending fell dramatically in early Jan 2022 in which their Loans to Securities ratios had reached unacceptable levels. These clients were not able to fulfill the margin calls respectively. According to the Group credit policy, PCGL enforced the collaterals on 6 Jan 2022 and 10 Jan 2022. The amount collected from the enforcement were insufficient to repay the outstanding amounts of the loans respectively. As the result, the nature of the loans has inevitably changed to unsecured loan. The credit committee has also been paying close attention to the status of the loans.

During the period, the Group has started to: (1). contact these 6 clients to request the liquidation of their securities collateral in order to repay or settle the outstanding sum. (2). keep in touch with these clients. Nevertheless, these clients are not responsive when it comes to repaying the loans or depositing more cash or collateral to meet the loan requirement. As a result, these clients were added to our "3-stage" expected credit loss ("ECL") measurement impairment model. The default rates for the loan receivables of these 6 clients have increased along with the risk on default, which is what led to the increase in loss allowance. The new loan obtained during the year did not contribute to the ECL as it not due yet.

In relation to aforesaid movement, summary of the overdue loan receivables under Money Lending Businesses is set out in the Table below:

Client	Reason of enforcement	Recovering action	Status
3rd largest client	the total value of collateral dropped significantly below the outstanding amount on the date of enforcement	1) Company issued Demand letter on 2nd Mar 2022 and 3rd May 2022 2) Instructed a solicitor to issue demand letter on 2nd Sep 2022 3) Instructed a solicitor to issue demand letter on 6th Sep 2023	unable to reach the borrower
4th largest client	the total value of collateral dropped significantly below the outstanding amount on the date of enforcement	1) Instructed a solicitor to issue demand letter on 2nd Sep 2022 2) Instructed a solicitor to issue demand letter on 6th Sep 2023	unable to reach the borrower
5th largest client	the total value of collateral dropped significantly below the outstanding amount on the date of enforcement	1) Instructed a solicitor to issue demand letter on 2nd Sep 2022 2) Instructed a solicitor to issue demand letter on 6th Sep 2023	unable to reach the borrower

Client	Reason of enforcement	Recovering action	Status
6th largest client	the total value of collateral dropped significantly below the outstanding amount on the date of enforcement	1) Instructed a solicitor to issue demand letter on 2nd Sep 2022 2) Instructed a solicitor to issue demand letter on 6th Sep 2023	discussed with the borrower, but he/she has no repayment capability
7th largest client	N/A – the listed shares was in late stage of delisting procedure	1) Instructed a solicitor to issue demand letter on 2nd Sep 2022 2) Instructed a solicitor to issue demand letter on 6th Sep 2023	unable to reach the borrower
8th largest client	the total value of collateral dropped significantly below the outstanding amount on the date of enforcement	1) Instructed a solicitor to issue demand letter on 2nd Sep 2022 2) Instructed a solicitor to issue demand letter on 6th Sep 2023	unable to reach the borrower

5. Risk Management Policies

The Group has set up a Credit Committee for its termed loan 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 by the front office team. For loans with collateral, the Credit Committee will identify possible irregularities in the credit quality of the loan portfolio. If the Loan to Securities Ratio (if applicable) increased to or above a pre-determined accepted ratio, the borrower may be required to deposit additional collateral or partially repay the loan outstanding in order to bring the Loan to Security Ratio below the accepted ratio.

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 by the front office team and reviewed by the Credit Committee to ensure timely repayment. The Company confirmed that the aforementioned credit policies have been strictly followed during the year ended 31 December 2022.

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 the ECL model adopted by the Group:

The measurement of ECL is a function of the following variables:

(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.

6. Loan Impairment Policies

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

As the term loans are normally repaid in lump sum on maturity, they would not be past due during the loan period and thus, past due day information is not meaningful in assessing if there is significant increase in credit risk during the loan period. In case where the loans are secured by securities collateral, management considers the collateral value provides more useful information in assessing the probability of default. In this regard, the Group has rebutted the presumption in HKFRS 9 that there have been significant increases in credit risk since initial recognition when the loans receivables are more than 30 days past due.

In assessing default risk of loan receivables, management considered the following factors:

- 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:

Repayment of loan is delayed by borrower;

Collateral Ratio (if any) is 60% or higher; and

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.

In assessing default risk of loan receivables, management would make reference to the default rates studies conducted by certain external credit rating agency, e.g. Moody's Rating. In addition, management would incorporate forward looking economic information through the use of industry trend and experienced credit judgment to reflect qualitative factors.

In determining the Loss Given Default i.e. the magnitude of a loss if there is a default, management would estimate (i) the probability of price changes based on observed historical price movements of the underlying securities collateral (if any), 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 borrowers without resorting to liquidation of securities collateral (if any); (iii) sale proceeds based on the latest discussion with the third parties in selling the debts; (iv) time value of money, if applicable.

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

By Order of the Board
Pinestone Capital Limited
Lee Chun Tung
Executive Director

Hong Kong, 12 September 2023

As at the date of this announcement, the Board comprises Mr. Lee Chun Tung and Mr. Yan Ximao as the executive Directors; Mr. Yau Tung Shing as non-executive Directors; and Mr. Lau Kelly, Mr. Wong Chun Peng Stewart and Mr. Cheng Man Pan as independent non-executive Directors.