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China Wacan Group Company Limited
中國網成集團股份有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1920)

SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2024

Reference is made to the annual report of China Wacan Group Company Limited (the “**Company**”) for the year ended 31 December 2024 (the “**2024 Annual Report**”). Unless otherwise defined, capitalised terms used herein shall have the same meaning as those defined in the 2024 Annual Report.

In addition to the disclosures made in the 2024 Annual Report, the Company would like to provide the shareholders and the potential investors of the Company with the following supplemental information in relation to the impairment losses under expected credit loss (the “**ECL**”) model as disclosed in the section headed “Management Discussion and Analysis” of the 2024 Annual Report.

In respect of the impairment losses of approximately HK\$15.7 million and approximately HK\$3.6 million under two construction projects in Chai Wan and Kwun Tong, the Group had respectively in February 2022 and January 2024 submitted payment applications to the customer in respect of the Group’s last construction works done for the two construction projects. Despite the Group’s persistently chasing, the customer did not issue its payment certifications to confirm the payments. Until December 2024, the Group received a letter from the customer stating that it was still in progress in processing the Group’s payment applications and needed more time to pay the construction fees in respect of these two payment applications to the Group. From that moment, the Directors first became aware that there was considerable uncertainty regarding the collection of these payments from the customer and the impairment should be made.

The impairment under ECL model was calculated based on a valuation report issued by an independent valuer in March 2025 (the “**Valuation Report**”) in accordance with Hong Kong Financial Reporting Standards 9, details of the inputs/assumptions, significant changes, valuation methods used in the Valuation Report are summarised as follows:

INPUTS/ASSUMPTIONS

All the receivables and unbilled revenues were classified into 3 groups:

Group A:

- a) Repayment on schedule
- b) Overdue within normal credit term (e.g. 60 days), subject to individual analysis
- c) No change in debtor’s credit rating (market or internal).

Group A debts were assumed to have small credit risk.

Group B:

- a) Delayed repayment
- b) Overdue (e.g. over 60 days but within 90 days), with supportable evidence for repayment (e.g. communication records, draft/signed documents), subject to individual analysis
- c) There was a change in debtor’s credit rating (market or internal).

Group B debtors were assumed to have relatively higher credit risk.

Group C:

- a) Delayed repayment
- b) Overdue (e.g. over 90 days), without supportable evidence for repayment, subject to individual analysis
- c) There was a significant change in debtor’s credit rating (market or internal)

Group C amounts were long overdue and debtors were considered to be defaulted.

Inputs for the model included:

- a) **Probability of Default:** The probabilities of default utilized were referenced from the “Annual Default Study: Corporate Default Rate was Expected to Fall Below Its Long-Term Average in 2025,” dated 28 February 2025, published by Moody’s Ratings, and adjusted by the forward-looking factors. The forward-looking probability of default for Group A accounts receivable, retention receivables, and unbilled revenue ranged from 0.0% to 9.7%, 0.0% to 3.1%, and 0.0% to 100%, respectively. For all accounts receivable, retention receivables, and unbilled revenue in Group C, the adopted forward-looking probability of default was 100%.
- b) **Recovery Rate:** The values used for the recovery rate were referenced from the “Annual Default Study: Corporate Default Rate was Expected to Fall Below Its Long-Term Average in 2025,” dated 28 February 2025, published by Moody’s Ratings. The recovery rates for Group A accounts receivable, retention receivables, and unbilled revenue ranged from 37.9%, 37.9%, and 0.0% to 37.9%, respectively. For all accounts receivable, retention receivables, and unbilled revenue in Group C, the recovery rate adopted was 0%.
- c) **Forward-Looking Adjustment Factor:** The forward-looking adjustment factor was estimated using regression analysis to identify the relationship between a dependent variable (probability of default) and an independent variable (GDP). The historical probability of default referred to the “Annual Default Study: Corporate Default Rate was Expected to Fall Below Its Long-Term Average in 2025,” dated 28 February 2025, published by Moody’s Ratings. Historical GDP data was sourced from the World Economic Outlook Database, dated October 2024, released by the IMF. The forward-looking adjustment factors were as follows: 0% (economic stability), -63.73% (economic improvement), and 139.92% (economic decline) for investment-grade assets; and 0% (economic stability), -53.78% (economic improvement), and 88.69% (economic decline) for speculative-grade assets.

SIGNIFICANT CHANGES

There had been no significant changes in the value of inputs or assumptions compared to those previously adopted. The data had been updated solely from the 2023 market data to the 2024 market data.

VALUATION METHOD

The Valuation Report utilized the general approach for ECL as outlined in HKFRS 9, clause 5.5.17, specifically employing the Probability-Weighted Loss Default model. The same valuation model had been used for both 2023 and 2024.

After making the impairment, the Company has ceased business with the customer and kept chasing the payments of the outstanding debts, such as consistently sending payment reminders to the customer, proactively reply to questions of its quantity surveyors, proactively communicating with the developers and main contractors of the relevant construction projects trying to seek their assistance in pushing the payment of the outstanding amounts, etc. The Company is also considering to seek legal advice on possible legal actions against the customer, but has not formed any concrete plan in taking legal proceedings against them in view of the possible extra legal costs and time to be spent.

Save as disclosed in this announcement, there are no other changes to the content of the 2024 Annual Report, and the supplemental information provided in this announcement does not affect other information contained in the 2024 Annual Report.

By order of the Board
China Wacan Group Company Limited
Zhou Zhenlin
Chairman of the Board and Executive Director

Hong Kong, 12 September 2025

As at the date of this announcement, the Board comprises Mr. Zhou Zhenlin, Ms. Peng Yunying and Mr. Guo Xianjiao as executive Directors and Ms. Ding Xin, Ms. Zhang Lingke and Professor Lam Sing Kwong Simon as independent non-executive Directors.