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Lerado Financial Group Company Limited

隆成金融集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1225)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Reference is made to the annual report of Lerado Financial Group Company Limited (the “**Company**”) for the year ended 31 December 2022 dated 31 March 2023 (the “**Annual Report**”) and published on 27 April 2023. Capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report unless otherwise defined herein. In addition to the information contained in the Annual Report, the Board hereby further provides to the Shareholders and the potential investors of the Company with the following supplementary information to the section headed “Money Lending and Finance Leasing”.

MONEY LENDING AND FINANCE LEASING

For loan receivables, the ECL was primarily estimated based on three key parameters, namely exposure at default (“**EAD**”), probability of default (“**PD**”), and loss given default (“**LGD**”). EAD is based on the gross carrying amount of the receivables as of 31 December 2022.

LGD is calculated by one minus recovery rate, where the recovery rate is estimated with available data in the Moody’s research paper and the collateral-to-loan ratio (if there is any collateral pledged to the loan, and its fair value could be provided by the management of the Company or could be estimated based on quoted price in an active market). For loan receivables that the management of the Company considered could not be recovered, no recovery was applied.

The key assumption and basis used in determining the ECL, market data (e.g. PD, LGD, Moody’s forecast) are in line with the credit risk of the subject in the future.

The adopted valuation method is a common and widely used approach to estimate the expected credit loss for receivables. While the expected credit losses should be measured as probability-weighted or expected loss amount, the method adopted considered both the expected probability of occurrence of loss event and the expected loss severity in the event of default based on historical data and market expectation.

The significant changes in the value of the input would be certain loan receivables which were stage 1 for the year ended 31 December 2021 have been transferred to stage 2 or stage 3 for the year ended 31 December 2022 which constituted the impairment loss on loan receivables of approximately HK\$199 million. As at 31 December 2022, 154 of loans were with impairment. As at 31 December 2022, demand letters were issued and no legal actions taken on the overdue loans with significant impairment. The management was in the course of reviewing the overdue loan. The management of the Company is of the view that the exercise of the collaterals would incur additional time costs and legal costs. In order to maintain the diversity of loan portfolios and customer relationship, our management would take the approach of negotiating with the customers in the first place before exercising the collaterals or taking legal actions.

Loans were allowed to be extended for two years in response of the COVID-19 pandemic, Sino-US trade relation and the social demonstration in Hong Kong. In response to the economic impact, we are of the view that the extension are fair and reasonable, followed normal market practice and hence the extensions were in the interests of the Company and the Shareholders as a whole.

The Group has persistently implemented internal policy in relation to the money lending business and remains sensitive in minimizing the credit risk it is exposed to. The internal policy are designed to meet the Group's needs and to minimize the credit risks to which the Group is exposed to, and provide reasonable but not absolute assurance against losses.

The following internal policy of the initial loans and extending the loans are put in place:

Pre-Approval and credit review

Prior to grant of a loan to a borrower, the Group carries out credit risk assessment on the borrower, taking into account, among other things, the background and character of the borrowers, shareholders' background, character, and management capability (if any), purpose of the loan, value of collateral and guarantee (if any), where applicable, relevant public searches and the financial strength of the borrower, shareholder and guarantor.

Monitoring of loan recoverability

The Group closely reviews and monitors the loan repayment status subsequent to the drawdown of loans on a regular basis to ensure that loan repayments are punctual and past due accounts are handled efficiently. When there is past due accounts, the Group would take actions including discuss the repayment terms or settlement proposals with the borrower and if unsuccessful, legal action would be taken against the borrower.

Regarding the loan's extension, the credit assessment report would be prepared for the approval by the credit committee. The most updated information includes but not limited to the repayment record of the borrower, loan-to-value (the "LTV") of the collaterals and the identification proof of the borrower are obtained from the borrower. The credit committee members performed credit assessment based on the information as stated in the credit assessment report. First and foremost, the credit committee members considers the creditworthiness of borrowers by taking into account the total amount of repayment made by the borrowers, the timing of the interests repayment and the repayment plan.

The Company had performed the following detailed analysis and ongoing monitoring exercises in considering the approval of loan extension. We communicated with the borrower and enquired about additional information including but not limited to the reason for extension, use of borrowed funds and repayment plan etc.. With respect to the Secured Loans, the LTV of the collaterals were monitored on a quarterly basis within the tenor of the loan. By the time of loan extension, the LTV of the collaterals were further assessed. With respect to the Unsecured Loans, the enhanced due diligence regarding the repayment ability was performed including but not limited to obtaining the proof of source of income and the proof of net-worth such as bank statements.

The Company would demand the repayment of the outstanding interests due by the borrowers before the approval of extension of loans. The Company would negotiate with the borrowers to provide further guarantee/securities pledge so as to safeguard the benefits of the Company.

The management of the Company is of the view that the exercise of the collaterals would incur additional time costs and legal costs. In order to maintain the diversity of loan portfolios and customer relationship, our management would take the approach of negotiating with the customers in the first place before exercising the collaterals or taking legal actions.

As at 31 December 2022, the Group has 10 corporate customers which are private companies, and 154 individual customers.

Regarding to the loans granted without collaterals (the “**Unsecured Loans**”), the interest rate is ranged from 7% to 12%, which the higher end is comparatively better than that of loans granted with collaterals (the “**Secured Loans**”). As such, the interest received from the Unsecured Loans would have more contributions than that of Secured Loans to the Company’s loan interest income as a whole.

Besides, there was keen competition in the money lending market. In order to maintain our business in the market, the provision of unsecured loans would broaden the scope of our customer base which facilitate us to have a better mix of loan portfolios with a weighted balance of risk and return. Meanwhile, the company could also have better utilized the funds in our accounts so as to drive more business for the Company.

Moreover, the customer relationship was better managed by extending our money lending services to borrowers without collaterals. Our management is of the view that by providing a full scope of services, without limiting our scope of offering secured loans, the customer stickiness is significantly enhanced. This is one of our key strategies to secure our business with the recurring customers and maintain the volume of our loan portfolios.

The Company has complied with requirements set out in chapter 14 and/or 14A of the Listing Rules when it granted the loans or the loan extensions to each of the borrower(s), whose loan(s) was still outstanding as at 31 December 2022.

The following table sets forth details of the top 20 borrowers in term of outstanding loan receivable as at 31 December 2022:

The Top 20 Borrowers

No.	The Name of Borrowers	Loss allowance (reversal of loss allowance) made in year 2022 HK\$'000	Loss allowance (reversal of loss allowance) made in year 2021 HK\$'000	Interest rate	The date when the loan was granted	Original maturity date	Latest maturity date	Loan and interest receivables as at 31 Dec 2022 HK\$'000	Date of loan extension or any addition clauses	Any collaterals and guarantee
1)	Corporate Customer A	16,365	8,140	8% p.a.	2016-10-31	2017-10-30	2023-10-30	34,593	2017-10-30 2019-10-30 2021-03-30	Personal guarantee
2)	Individual Customer A	22,160	156	8% p.a.	2016-04-20	2017-04-19	2024-04-18	31,504	2017-04-19 2019-04-19 2021-04-18	Assets pledged
3)	Individual Customer B	612	(399)	8% p.a.	2016-06-22	2017-06-21	2024-06-20	30,798	2017-06-21 2019-06-20 2021-06-15	Assets pledged
4)	Individual Customer C	144	69	8% p.a.	2016-06-23	2017-06-22	2024-06-21	30,798	2017-06-22 2019-06-21 2021-06-14	Assets pledged
5)	Individual Customer D	406	(192)	8% p.a.	2016-06-23	2017-06-22	2024-06-21	30,152	2017-06-22 2019-06-21 2021-06-13	Assets pledged
6)	Individual Customer E	100	113	8% p.a.	2016-06-28	2017-06-27	2024-06-26	30,125	2017-06-27 2019-06-26 2021-06-15	Assets pledged
7)	Individual Customer F	20,923	143	10% p.a.	2016-05-16	2017-05-15	2024-05-14	29,740	2017-05-15 2019-05-14 2021-05-14	Assets pledged
8)	Individual Customer G	64	130	7% p.a.	2017-03-01	2018-02-28	2024-02-28	27,541	2018-02-28 2020-02-28 2021-02-28	N/A

No.	The Name of Borrowers	Loss allowance (reversal of loss allowance) made in year 2022 HK\$'000	Loss allowance (reversal of loss allowance) made in year 2021 HK\$'000	Interest rate	The date when the loan was granted	Original maturity date	Latest maturity date	Loan and interest receivables as at 31 Dec 2022 HK\$'000	Date of loan extension or any addition clauses	Any collaterals and guarantee
9)	Individual Customer H	61	459	7% p.a.	2017-03-10	2018-03-09	2024-03-09	26,157	2018-03-09 2020-03-09 2021-03-09	N/A
10)	Individual Customer I	61	117	9% p.a.	2017-05-22	2018-05-21	2024-05-21	24,271	2018-05-21 2020-05-21 2021-05-30	N/A
11)	Individual Customer J	(5,243)	4,977	9% p.a.	2017-05-19	2018-05-18	2024-05-18	21,066	2018-05-18 2020-05-18 2021-05-18	Assets pledged
12)	Individual Customer K	48	97	7% p.a.	2017-03-08	2018-03-07	2024-03-07	20,483	2018-03-07 2020-03-07 2021-03-07	N/A
13)	Individual Customer L	383	–	8% p.a.	2017-04-26	2018-04-25	2024-04-25	19,270	2018-04-25 2020-04-25 2021-04-25	Assets pledged
14)	Individual Customer M	(4,777)	4,534	8% p.a.	2017-04-26	2018-04-25	2024-04-25	19,120	2018-04-25 2020-04-25 2021-04-25	Assets pledged
15)	Individual Customer N	46	90	9% p.a.	2017-04-27	2018-04-26	2024-04-26	18,720	2018-04-26 2020-04-26 2021-04-26	N/A
16)	Individual Customer O	45	89	8% p.a.	2017-04-07	2018-04-06	2024-04-06	18,638	2018-04-06 2020-04-06 2021-04-06	N/A
17)	Individual Customer P	45	89	9% p.a.	2017-04-27	2018-04-26	2024-04-26	18,470	2018-04-26 2020-04-26 2021-04-26	N/A
18)	Individual Customer Q ¹	8,503	4,278	8% p.a.	2016-11-22	2017-11-21	2023-05-21	18,020	2017-11-21 2019-11-21 2021-06-01	N/A
19)	Individual Customer R	43	83	10% p.a.	2016-06-13	2017-06-12	2024-06-12	17,203	2017-06-12 2019-06-12 2021-06-12	N/A
20)	Individual Customer S	(3,921) ²	4,044	8% p.a.	2017-03-20	2018-03-19	2024-03-19	17,084	2018-03-19 2020-03-19 2021-03-19	N/A

Note 1 The principal and interests was not fully settled by the due date in 2023. After communicating with the borrower, the borrower agreed to repay the outstanding interests overdue first. Part of the loan interest has been settled during September 2023.

Note 2 Negative amount of loss allowance represents the reversal of loss allowance made during the year.

Maturity profile of loan receivables

The following table sets forth the distribution of the remaining maturity as at 31 December 2022:

	As at 31 December			
	2022		2021	
	Amount <i>HK\$'000</i>	%	Amount <i>HK\$'000</i>	%
Within one year	141,870	12%	555,146	38%
1 year to 5 years	1,058,840	88%	897,562	62%
	<u>1,200,710</u>	<u>100%</u>	<u>1,452,708</u>	<u>100%</u>

Note: The loan receivables with 1 year to 5 years were also receivable on demand

The above supplementary information does not affect the other information contained in the Annual Report. Save as disclosed above, all other information in the Annual Report remains unchanged.

By Order of the Board
Lerado Financial Group Company Limited
Ho Kuan Lai
Executive Director

Hong Kong, 3 October 2023

As at the date of this announcement, the executive directors of the Company are Mr. CHEN Chun Chieh, Ms. HO Kuan Lai and Mr. LEUNG Kam Por Ken; and the independent non-executive directors of the Company are Mr. YU Tat Chi Michael, Mr. YANG Haihui and Mr. LAM Williamson.