LERADO
LERADO FINANCIAL GROUP
隆成金融集團

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 2023

Reference is made to the annual report of Lerado Financial Group Company Limited (the "**Company**") for the year ended 31 December 2023 dated 28 March 2024 (the "**Annual Report**") and published on 30 April 2024. 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

The Company would like to clarify and provide supplemental information in the paragraph set out in P.9 of the Annual Report, regarding the table of the top 20 borrowers, of which were the top 20 borrowers in terms of opening balances of outstanding loan and interest receivables for the year ended 31 December 2023.

Additional information on the impairment loss on loan receivables

The impairment loss on loan receivables amounted HK$285 million for the year ended 31 December 2023. Details of relevant loans regarding the top 20 impairment losses made among the borrowers for the year ended 31 December 2023 are as follows:

No.	The Name of Borrowers	Loss allowance (reversal of loss allowance) made in year 2023	Loss allowance (reversal of loss allowance) made in year 2022	Interest rate p.a.	Latest maturity date	Loan and interest receivables as at 31 Dec 2023
		HK$'000	*HK$'000*			*HK$'000*
1	Individual Customer B[1]	22,747	612	8%	2024-06-20	9,039
2	Individual Customer C[1]	22,294	144	8%	2024-06-21	8,859
3	Individual Customer D[1]	22,294	406	8%	2024-06-21	8,859
4	Individual Customer E[1]	22,275	100	8%	2024-06-26	8,851
5	Individual Customer G[1]	20,320	64	7%	2025-02-28	8,075
6	Individual Customer H	19,298	61	7%	2025-03-09	7,669
7	Individual Customer X[1]	18,082	61	9%	2024-05-21	7,183
8	Individual Customer K	15,118	48	7%	2025-03-07	6,008
9	Individual Customer N[1]	13,904	46	9%	2024-04-26	5,524
10	Individual Customer O[1]	13,818	45	8%	2024-04-06	5,490
11	Individual Customer P[1]	13,729	45	9%	2024-04-26	5,455
12	Individual Customer R[1]	12,833	43	10%	2024-06-12	5,098
13	Individual Customer S	12,670	(3,921)	8%	2025-03-19	5,034
14	Individual Customer T[1]	10,978	–	8%	2024-04-10	4,248
15	Individual Customer U	10,851	35	8%	2025-01-17	4,312
16	Individual Customer V	10,754	42	10%	2025-03-30	4,270
17	Corporate Customer A[1]	9,617	16,365	8%	2024-10-30	–
18	Individual Customer A[1]	8,758	22,160	8%	2024-04-18	–
19	Individual Customer F[1]	8,268	20,923	10%	2024-05-14	–
20	Individual Customer W	5,508	21	11%	2025-01-09	2,187
	Sub-total	294,116	57,300			106,161
	Other borrowers	(8,719)	224,258			790,651
	Total	285,397	281,558			896,812

Note 1: The Company was in the course of negotiation and discussions with the borrowers on repayment arrangements. The principal and interests of the respective loans were not fully settled.

The provision for impairment of loan receivables was approximately HK$285 million based on ECL applied to different stages. The increase in the allowance for ECL was mainly attributable to the deteriorating financial position of the borrowers and caused a significant decrease in their ability to meet debt obligations. After assessments based on the borrowers' repayment and financial status and communication with the borrowers, certain loan receivables have been transferred to stage 3 or written-off where lifetime ECL are recognised. Please refer to the paragraph headed "Monitoring of loan recoverability" in the section headed "Management Discussion and Analysis" on page 8 of the Annual Report for details about the grant of Unsecured Loans.

For events and circumstances that lead to the Company in recognizing or further making impairment of its loans, factors would normally include (a) delay in settlement of loan interest or loan principal amounts by the borrowers on the due date; (b) legal actions being taken by the Company against the borrowers; and (c) decrease in value of the collaterals if applicable.

By end of March 2024, the Company first became aware of the abovementioned events and circumstances when the impairment of ECL was provided by the independent valuer and agreed by our auditor. The abovementioned events and circumstances were not anticipated by the Company at the time of grant of the loans.

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 2023.

The PDs considered for receivables in stage 1 and stage 2 were estimated with reference to the historical default rates of B1 rating and Caa-C-rating from Moody's annual default study "Default Trends – Global: Corporate default rate to moderate in 2024 but remain near its long-term average" respectively, and adjusted with forward-looking factor which was estimated with reference to the default rate forecasts in the same Moody's research. The loan receivable in stage 1 are those without significant increase in credit risk as of the valuation date compared to that in the initial recognition. According to HKFRS 9, 12-month ECL was considered. The adopted PD for stage 1 was 1.2% which was based on the 1-year PD for B1-rating. The loan receivable in stage 2 are those with significant increase in credit risk as of the valuation date compared to that in the initial recognition. According to HKFRS 9, lifetime ECL was considered. The adopted PD for stage 2 ranged from 27.1% to 54.5%, depending on the expected life of the loan receivable. For stage 3, 100% PD is assumed.

LGD is calculated by one minus recovery rate, where the recovery rate, ranging from approximately 27% to 32%, is based on subordinated bond recovery rate in the Moody's research paper. 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 are in line with the current credit grading.

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 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 Company assessed the credit risk of the loans which was considered to be high. It was noted that one of the significant changes in the value of the input would be certain loan receivables which was stage 1 for the year ended 31 December 2022 have been transferred to stage 3 for the year ended 31 December 2023 which constituted the impairment loss on loan receivables of approximately HK$278 million.

The transfer of stage was decided based on a comprehensive analysis of various factors including but not limited to the repayment of interest during the year, the historical loan performance (such as default records) and the maturity of loans. It is noted that the loans in our loan portfolio were not yet due.

Please find the movement tables as below:

(i) gross loan and interest receivables (in HK$'000)

From / To	Stage 1	Stage 2	Stage 3	Written off
Stage 1	271,074	7,405	Nil	Nil
Stage 2	176,054	476,023	49,451	Nil
Stage 3	395,991	13,173	20,518	Nil
Written off	Nil	Nil	Nil	(5)

(ii) impairment made between different stages (in HK$'000)

From / To	Stage 1	Stage 2	Stage 3	Written off
Stage 1	(3,709)	(3,932)	Nil	Nil
Stage 2	47,120	(36,162)	(33,171)	Nil
Stage 3	278,362	5,999	(21)	Nil
Written off	Nil	Nil	39,976	(9,065)

The Group undergoes the following due diligence procedure in assessing loan applications:

(A) Obtaining identity proof – such as identity card and passport (for individuals) and business registration certificate, certificate of incorporation and the constitutional documents (for corporate entities) must be provided for verification;

(B) Obtaining address proof – such as utility bills, bank/credit card statements or formal correspondence issued by a government or statutory body is required to be produced;

(C) Repayment ability assessment – to assess and justify the repayment ability of the customer, criteria such as availability of guarantor, the background of the customer, and where applicable, the past payment record and any other relevant information are to be considered. Further information from the customer may be requested including but not limited to the followings: tax demand note, tax return, bank statement, payroll slip, employer's letter, employment contract, rental income receipt, tenancy agreement, financial statements, and auditor's report (where applicable); and

(D) Credit worthiness assessment – Searches and background checks will be conducted upon potential clients by conducting internal checks or obtaining credit assessment report by independent professional firm which mainly contains bankruptcy or winding up search and litigation search; background search and media searches would be subsequently conducted upon the potential clients. For all such potential clients, a credit report would be obtained prior to granting of any loans.

Based on the above procedures, the Company considers that the credit risk and the risk of breaching the relevant laws and regulations in connection with anti-money laundering or antiterrorist financing are relatively low. Nonetheless, the Company has in place all necessary measures to mitigate the risk of money laundering or terrorist financing risk of potential customers' businesses, such as the nature and details of the business/occupation/employment of the potential customer; the anticipated level and nature of the activity; location of potential customer; the expected source and origin of the funds; and the initial and ongoing source(s) of wealth or income.

Furthermore, for guarantors who provide personal/corporate guarantee in favour of a loan, where applicable, are also required to meet the same basic eligibility and approval criteria as the borrower of loans, and will be required to go through the same verification and approval procedures. In case where loans are secured over certain properties in Hong Kong or personal assets such as diamonds and jewelries, the Company would engage independent third parties such as legal advisors to investigate on the title deeds of the properties and for personal assets charged, certificates of authenticity are requested for verification.

The potential loan(s) would be reported to the Company and its Board of Directors for the consideration by its members, if it is of larger amount (i.e. by assessment of size tests under chapter 14 of the Listing Rules, may constitute a discloseable transaction or above), in which case, such potential loan(s) shall be reported to the Board for discussion and approval, the Directors (including the independent non-executive Directors) shall then consider whether such loans are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole. Moreover, for any potential loan(s) which may involve connected person(s) as defined under chapter 14A of the Listing Rules, such loan(s) will be reported to the Board immediately for assessment with respect to size tests and assessment by the Board as elaborated above.

Our subsidiary's lending procedures are thoroughly aligned with market standards and industry best practices. However, the recent events and circumstances have highlighted the inherent challenges in predicting and accounting for the complex and dynamic nature of the money lending environment. The recent macroeconomic shifts, including unexpected industry downturns in property market in PRC; a prolonged high interest rate environment; and subdued global economic growth, were of an unprecedented magnitude and speed, making it extremely challenging to accurately predict their impact on our borrowers' financial health. Additionally, the complex and dynamic nature of the money lending environment means that certain borrower behaviors and decision-making patterns can deviate from our initial assessments, leading to unexpected defaults or deterioration in their financial positions.

Based on the detailed credit assessment and due diligence procedures, as well as the robust internal control frameworks including ongoing monitoring and loan recovery processes, our Board is of the view that the overall risk management practices employed by the Company are sufficient and appropriate.

The Group has debt recovery procedures in place. For any loans with shortfall and/or overdue payments, demand letters and legal letters will be issued. If the borrower does not respond, the Group will engage external legal advisers for seeking advice and would consider to take further actions. At the same time, the Group will contact the borrower for additional collateral and/or settlement plan. The Group may also engage debt collection agents for such loan where appropriate. If the negotiation is not successful, or additional collateral is not sufficient or default in settlement plan, external legal advisers will issue final warning to the borrower. Subsequently, writs of summon will be served to the borrower to take proceedings to court.

The Directors had reviewed the operation of the money lending business and obtained relevant documents to assess its performance. The Directors had performed all necessary measures to recover the outstanding loans including but not limited to (i) concluding settlement plans with debtors; (ii) issuing demand letters; and (iii) taking legal proceedings. Debt recovery actions had been taken on the credit-impaired loans.

The management of the Group has demonstrated continuous effort in recovering the outstanding loans in the money lending business. In respect of the loan receivables under the money lending business, recoverability of the receivable loans was monitored on an ongoing basis. In assessing the possibility of recovering the loan receivables, the management of the Group has considered the information such as (i) historical payment records e.g., timely settlement of loan interest or loan principal amounts on the due dates; (ii) the length of the overdue period; and (iii) any foreseeable changes in the economic environment that would significantly deteriorating the borrower's ability to meet its obligation. Furthermore, the management of the Group also made periodic individual assessment on the recoverability of loans receivables in the entire loan portfolio based on the creditworthiness of the borrowers as can be substantiated by their history of default, ability to make timely payment of interest during the loan period and loan-to-collateral ratio to ensure whether follow-up action should be taken to avoid potential exposure to recoverability problem.

As at 31 December 2023, the Group was engaged in ongoing negotiations and discussions with the borrowers on repayment arrangements. The Group had issued demand letters to the borrowers with outstanding loans to demand the repayment of the due but unpaid principal and interest under the loans. Subsequently, the Group had instructed a solicitor to issue 20 demand letters to demand immediate repayment of the due but unpaid principal and interest under the loans. The Group subsequently consulted legal advisers on (i) the appointment of a professional independent receiver to recover the outstanding loans from the borrowers; and (ii) the commencement of legal proceedings to recover the outstanding loans from the borrowers. Following ongoing negotiations with the borrowers and recovery efforts made by the Group, total amount of approximately HK$128.5 million have been settled to the Group between 1 January 2024 and the date of this announcement. The Company was still in good communication with the borrowers of the loans overdue and was trying to find out a solution to repay the outstanding loans.

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 2023.

Despite the Impairments being made as at 31 December 2023, the Group reserves all of its rights to take legal actions to recover any outstanding amounts due from each of the borrowers to safeguard the interests of the Group and the shareholders of the Company.

Breakdowns of loan by categories

The Group offers both secured and unsecured loans. Secured loans are mainly secured by listed securities. Set out below is the table showing breakdown of types of loans and types of collateral as at 31 December 2023:

Types of loans	HK$'000
Personal loans	880,633
Corporate loans	16,179
Total	896,812

Secured or unsecured	Types of collateral	HK$'000
Unsecured	Personal guarantee	–
	Nil	894,832
Secured	Trade receivables	1,980
Total		896,812

Note: The nil balance in the net loan and interest receivables is due to the respective loan is written-off during the year.

Size and diversity of borrowers

During the year ended 31 December 2023, the Group focused on serving existing screened customers in its money lending business.

During the year ended 31 December 2023, the Group had granted loans with principal amount ranging from approximately HK$0.3 million to approximately HK$25 million per loan. During the year ended 31 December 2023, the interest rates of the loan receivables of the Group were ranging from approximately 7% to 18% per annum with maturity profiles ranging from 1 year to 5 years.

Concentration of loans on major borrowers

As at 31 December 2023, the largest borrower accounted for approximately 1.7% and the five largest borrowers accounted for approximately 6.9% in terms of the Group's total outstanding loan receivables of approximately HK$90 million as at 31 December 2023.

Ageing Analysis of the Outstanding Loans

Gross loan receivables with ageing analysis presented below per maturity dates

	As at 31 December 2023 *HK$'000*
Not due yet	1,371,756
Overdue	37,928
	1,409,684

The ageing analysis of loan receivables based on latest loan grant date is as follows:

	As at 31 December 2023 *HK$'000*
Overdue	37,928
Within one year	625,229
1 year to 5 years	746,527
Total	1,409,684

The loans, which are not due yet, will be matured within 1 year to 5 years and 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, 2 December 2024

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.