旭通控股
STEERING HOLDINGS

Steering Holdings Limited
旭通控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1826)

SUPPLEMENTAL ANNOUNCEMENT REGARDING THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the annual results announcement (the "**Announcement**") of Steering Holdings Limited (the "**Company**") for the year ended 31 December 2019 published on 11 May 2020 and the Company's annual report for the year ended 31 December 2019 published on 15 May 2020 (the "**Annual Report**"). Capitalised terms used herein shall have the same meaning as defined in the Announcement unless the context requires otherwise.

Further to the information disclosed in the Announcement and the Annual Report, the Company wishes to provide shareholders of the Company and potential investors of the Company with the following supplemental information.

IMPAIRMENT LOSSES

For the year ended 31 December 2019, the Company recorded impairment losses recognised on trade receivables of approximately HK$176.3 million (2018: approximately HK$1.9 million) (the "**Impairment Losses**").

Background, details and reasons for the recognition of the Impairment Losses

The Impairment Losses are mainly related to the Company's financial information and technology services, with approximately HK$1.5 million relating to the Company's contracting service and consultancy service segment. During the year ended 31 December 2019, the Company's subsidiary, Shangrao Hongmiao, had established business cooperation with certain credit service providers and financial institutions in the PRC (the "**Financial Service Providers**"), pursuant to which Shangrao Hongmiao shall refer individual borrowers in the PRC with financial needs to the Financial Service Providers and analyse the creditworthiness of such individual borrowers, and the Financial Service Providers would match these individual borrowers with individual lenders, banks or other licensed financial institutions for suitable financial products. Shangrao Hongmiao shall be entitled to service fee payable by the individual borrowers or the Financial Service Providers (depending on the terms of the contracts with such Financial Service Providers) for every successful referral.

The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime expected credit losses ("**ECL**"). Except for debtors which have been credit-impaired, the Group determines the ECL on trade receivables by using a provision matrix, grouped by internal credit rating.

Out of the Impairment Losses of HK$176.3 million, approximately HK$160.3 million has been recognised for credit-impaired trade receivables, which relates to the Company's business cooperation with five Financial Service Providers, details of which are as follows:

(1) Among the contracts with these five Financial Service Providers, three of them shall be responsible for paying the service fee to Shangrao Hongmiao while under the contracts with the other two Financial Service Providers, the individual borrowers shall pay the service fee to Shangrao Hongmiao directly.

(2) As at 31 December 2019, the three Financial Service Providers who shall pay Shangrao Hongmiao the service fee had yet to receive the full amount of the loans repayable by the individual borrowers, and thus the relevant service fee had not been paid to Shangrao Hongmiao, the outstanding amount of which was approximately HK$54.5 million.

(3) As at 31 December 2019, the individual borrowers who shall pay Shangrao Hongmiao the service fee had yet to settle the amount due, which amounted to approximately HK$105.8 million.

(4) Having considered the repeated attempts made by the Group for the service fee due from the three Financial Service Providers and the individual borrowers, the time elapsed since the amount has become due and the recent economic downturn in the PRC, the Directors consider that such outstanding service fee would not be recoverable and have concluded that these receivables were credit-impaired.

The remaining Impairment Losses of approximately HK$16 million has been recognised for not credit-impaired trade receivables. Approximately HK$14.5 million and approximately HK$1.5 million were related to the service fee payable by various Financial Service Providers and service fee payable by various types of customers, such as property management and public utility companies, respectively, under the relevant contracts, details of which are as follows:

(1) As at 31 December 2019, such Financial Service Providers had received from the individual borrowers the relevant debts and the service fee payable to Shangrao Hongmiao. Therefore, the Directors consider that there is a fair chance to recover the service fee due from these Financial Service Providers.

(2) As at 31 December 2019, the Group had provided contracting service for alteration and addition works, maintenance, specialist works and new development, along with consultancy service, to various types of customers, and the Directors consider that there is a fair chance to recover the service fee due from these customers.

(3) The Impairment Loss was determined in accordance with the HKFRS 9's requirement on ECL. HKFRS 9 requires all financial instruments that are measured at amortised cost (including the trade receivables) to be assessed from an ECL perspective, even if there are no objective evidences on occurrence of specific credit events or credit defaults. The ECL should reflect an unbiased and probability-weighted conclusion of all possible outcomes, with reference to past events, current conditions and forward-looking macroeconomic information as at the reporting date. The approximately HK$16 million ECL of the trade receivables has been recognised on a portfolio basis with reference to the aggregated aging status and credit profiles of the trade counterparties.

Method, basis and key assumptions used in determining the amount of the impairment

For not credit-impaired trade receivables as at 31 December 2019, the Company has engaged an independent valuer to derive the conclusion of approximately HK$16 million ECL. The independent valuer used provision matrix to determine the lifetime ECL of these trade receivables, on a portfolio basis, with reference to the Company's historical and the counterparties' industry default data. The assumptions that support the adoption of Simplified Approach to derive the approximately HK$16 million ECL are as follows.

(1) Historical aging schedules, settlement and default records can be reliably measured and be relied on when measuring the ECL on a portfolio basis as at 31 December 2019.

(2) Industry credit data and default records can be reliably measured and be relied on when measuring the ECL on a portfolio basis as at 31 December 2019.

(3) Forward-looking information, based on the point-in-time estimates of macroeconomic indicators as at the reporting date, can be reliably adopted as at 31 December 2019.

The independent valuer has adopted a consistent methodology throughout the year, whereby the Company's most recent default data and the counterparties' industry default data are adopted as the core inputs of the assessment models.

In respect of the Impairment Losses of approximately HK$160.3 million, the Company has concluded that such trade receivables were credit-impaired on the basis that the likelihood of recovering such receivables is remote. As the Company has adopted the approach of specific provision in the recognition of the Impairment Losses of approximately HK$160.3 million, no valuation was conducted on such impairment.

Directors' view

Having considered the default rates of relevant debtors, the length of time elapsed since the receivables become due, repeated attempts made by the Group for the service fee, the recent economic downturn in the PRC and the opinions from the Company's professional advisers, the Directors consider the impairment made was fair and reasonable.

BUSINESS COOPERATION WITH CREDIT SERVICE PROVIDER

Background

For the year ended 31 December 2019, the Company commenced business cooperation with Shenzhen Xingrui Information Technology Co., Ltd. (深圳興睿信息科技有限公司) (the "**Credit Service Provider**"), which is an independent third party, details of which are as follows:

(1) in July 2019, Shangrao Hongmiao and the Credit Service Provider reached a business cooperation agreement (the "**Agreement**"), pursuant to which Shangrao Hongmiao shall refer borrowers who are individuals in the PRC with financial needs (the "**Borrowers**") to the Credit Service Provider, which has established business relationships with individuals or various banks and other licensed financial institutions in the PRC (the "**Lenders**") to distribute their financial products;

(2) for each referral of Borrower, Shangrao Hongmiao shall be responsible for analysing the Borrowers' creditworthiness and assisting the Borrowers' in loan applications, which are subject to final approval of the Credit Service Provider and the Lenders. In consideration for the services provided by Shangrao Hongmiao, Shangrao Hongmiao shall receive service fee and an account management fee at a pre-agreed rate from the Borrowers for each successful referral to the Credit Service Provider and the Lenders;

(3) the Credit Service Provider shall be responsible for liaising between the Lenders and Shangrao Hongmiao and collecting the principal and all accrued interests from the Borrowers in respect of the loans advanced by the Lenders. Under the Agreement, the Credit Service Provider has authorised Shangrao Hongmiao to collect the interests accrued on the loans (the "**Accrued Interests**") from the Borrowers for and on its behalf, and Shangrao Hongmiao shall then pay to the Credit Service Provider all the Accrued Interests; and

(4) in order to secure the due performance of Shangrao Hongmiao under the Agreement including the obligation to return to the Credit Service Provider the Accrued Interests collected from the Borrowers, the Credit Service Provider has requested Shangrao Hongmiao, and Shangrao Hongmiao has agreed, to advance to the Credit Service Provider a sum as security (the "**Security Sum**"), provided that the balance of the Security Sum after netting off the Accrued Interests received by Shangrao Hongmiao shall not at any time during the term of the Agreement exceed 5% of the total amount of loans of RMB4 billion that the Lenders intended to provide, i.e. RMB200 million. The parties also agreed that Shangrao Hongmiao shall be entitled to set off against the Security Sum and retain such amount of the Accrued Interests equivalent to the Security Sum.

Business security model

The Company's financial information and technology services segment is a newly developed business stream with huge growth potential. The Company is currently exploiting profitable business model by working with different types of strategic partners in the "loan facilitation" (助貸) services in the PRC. Currently, the Company adopts the "business security model" (業務押金模式), where a certain amount of security deposit is provided to the financial service provider to secure the Company's performance under the relevant contract, and the "credit trust model" (信任模式), where no security deposit or other pledged asset is involved. With the expansion of the financial information and technology services in the PRC and an increasing competitiveness of the market, the "business security model" has become a common practice in the market as financial service providers could better manage their risks and safeguard their interest in the event of default of payment by borrowers.

Nature and recoverability of Security Sum

As at 31 December 2019, the Security Sum, which is trade-related and arose purely from the course of the Company's business of financial information and technology services, amounted to approximately RMB159 million (equivalent to approximately HK$177,689,000) having taken into account the set-off arrangement. The Security Sum is unsecured and non-interest bearing. The accounting treatments for the Security Sum are as follows:

(1) the service fee received by Shangrao Hongmiao from the individual borrowers would be recognised as revenue and trade receivables;

(2) the Accrued Interests received by Shangrao Hongmiao from the individual borrowers would first be set off against the trade receivables, i.e. the service fee, and the remaining sum would be recognised as other payables; and

(3) the Security Sum would then be set off against other payables, i.e. the remaining sum of the Accrued Interests, and the net-off amount would be recognised as other receivables.

The Company has taken the following factors into account when assessing the recoverability of the Security Sum:

(1) the background of the Credit Service Provider including but not limited to (a) its shareholders' profiles, which include various private equity funds; (b) its competitive advantages in the financial technology industry in the PRC in providing one-stop financial system solution and services; and (c) its customer base, which involves booming and flourishing car leasing industry and retail-related industry;

(2) the track record with the Credit Service Provider for the year ended 31 December 2019, in which the service fee recognised as the Company's revenue amounted to approximately RMB74.9 million for the period from June 2019 to December 2019 and the Accrued Interests received and retained by the Company in aggregate amounted to approximately RMB278.9 million for the same period;

(3) from January to April 2020, the Company further received Accrued Interests of approximately RMB50 million, which has been set off against the Security Sum and retained by the Company. As at 30 April 2020, the Security Sum payable by the Credit Service Provider amounted to approximately RMB106 million and it is expected that the Accrued Interests to be received by the Company for the year ending 31 December 2020 would fully cover the Security Sum;

(4) pursuant to the Agreement, the Security Sum (after netting off any Accrued Interests received by Shangrao Hongmiao) is repayable within 20 days upon the Credit Service Provider receiving a notice served by Shangrao Hongmiao. As advised by the Company's PRC legal advisers, if the Credit Service Provider fails to repay the Security Sum after the specified period, the Company is entitled to terminate the Agreement forthwith and commence legal proceedings against the Credit Service Provider for the Security Sum and all losses and damage arising therefrom in accordance with the PRC Company Law (中華人民共和國合同法); and

(5) the Company regularly reviews and closely monitors the amount of loans advanced by the Lenders and the Accrued Interests collected from the Borrowers to assess the sustainability of the business model.

Further, where any Borrowers fail to repay the loans to the Credit Service Provider and/or the Accrued Interest to Shangrao Hongmiao:

(1) there is no provision under the Agreement that allows the Credit Service Provider to forfeit the Security Sum due to default of payment by any Borrowers; and

(2) the right of Shangrao Hongmiao to request repayment from the Credit Service Provider is not conditional upon any full payment or default of repayment of loans or Accrued Interests by any Borrowers.

By order of the Board
Steering Holdings Limited
Wang Jing
Chairman of the Board and executive Director

Hong Kong, 17 July 2020

As at the date of this announcement, the executive Directors are Mr. Wang Jing, Ms. Feng Xuelian and Mr. Ng Kin Siu; the non-executive Director is Mr. Gao Yunhong; and the independent non-executive Directors are Mr. Chan Yuk Sang, Mr. Wan Chi Wai Anthony and Mr. Lau Kwok Fai Patrick.