偉祿集團控股有限公司
REALORD GROUP HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 1196)

ANNOUNCEMENT
ADDITIONAL INFORMATION IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the annual report of Realord Group Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2021 (the "**Annual Report 2021**") published on 28 April 2022. Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the Annual Report 2021.

The board (the "**Board**") of directors of the Company (the **"Directors**") wishes to provide additional information to the shareholders of the Company (the "**Shareholders**") relating to its margin financing business and money lending business as referred to in "The Financial Services Segment" under "Management Discussion and Analysis" in the Annual Report 2021.

MARGIN FINANCING BUSINESS

Business model

The margin financing business forms an integral part of the securities brokerage business under the Financial Services Segment. The Group provides margin loans to its brokerage clients. Funding for this business is from bank loans and internal resources of the Group. The margin financing operation of the Group is based on the loan-to-collateral ratio (the "**Collateral Ratio**") set by the credit department for each of the securities with reference to its liquidity, risk profile and financial strength of the underlying entities and the loan-to-collateral ratio adopted by banks. Margin clients are required to pledge deposits and/or liquid securities as collaterals to the Group in order to obtain margin facilities for securities trading.

As at 31 December 2021, approximately 70.9% (31 December 2020: 54.8%), 29.0% (31 December 2020: 34.0%) and 0.1% (31 December 2020: 11.2%) of the total loan balance to margin financing clients of HK$276.2 million (31 December 2020: HK$138.5 million) were from individual investors, corporate investors and professional investors as defined under Part 1 of Schedule 1 of Section 397 of the Securities and Futures Ordinance (Cap.571D), respectively.

Credit policy

The Group has established a credit assessment committee (the "**Margin Financing CAC**") presently comprising six members (including the chief financial officer of the Company, two responsible officers and three directors of the securities brokerage company). The Margin Financing CAC is responsible for establishing credit policy, approving margin limit, and monitoring the credit exposure of the margin financing business.

To perform credit assessment (the "**Credit Assessment**") on the clients, the credit risk staff team (the "**Credit Risk Team**"), which currently has five staff, will conduct the following procedures:

(i) "know your client" procedures including:

   (a) checking the background of client; and

   (b) if the client is a corporate client, checking the background of the shareholder(s) and the ultimate beneficial owner(s), and business operations of such corporate client, obtaining and reviewing corporate documents of the corporate client including but not limited to the constitution documents and financial statements; and

(ii) assessment of the repayment ability and credit quality of client based on:

   (a) for individual client, his/her occupation, proof of income, proof of assets, proof of financial standing, historical trading pattern, and historical settlement records with the Group (if applicable); and

   (b) for corporate client, its latest available financial statements, leverage level, assets quality, external credit rating, historical trading pattern, and historical settlement records with the Group (if applicable).

Upon satisfactory on the results of the Credit Assessment, the Credit Risk Team shall recommend to the Margin Financing CAC's approval of the applicable margin limit with reference to the repayment ability and the credit quality of the client and the client's collaterals. The Margin Financing CAC shall review and make the decision to approve, reject or modify the margin limit and/or terms on the margin loan.

The Credit Risk Team is also responsible for on-going monitoring of the Collateral Ratio. The Margin Financing CAC will review the Collateral Ratio quarterly.

Key internal control measures

The Group has adopted the following key internal control measures to monitor its margin financing business:

(i) on a daily basis, a team comprising the head of customer service of the securities brokerage company and its responsible officer (who is also a member of the Credit Risk Team) for monitoring margin financing (the "**Margin Monitoring Team**") will generate a margin call report which shows the clients' margin status and identify if there is any shortfall in clients' collaterals;

(ii) for any insufficient collaterals identified, the Margin Monitoring Team shall make immediate margin calls for additional collateral;

(iii) in the event the clients fail to mitigate the shortfall of their collaterals, the Margin Monitoring Team shall make timely report to the responsible officers of securities brokerage company who will consider the necessary actions to take including but not limited to forced liquidation of the clients' position;

(iv) the Margin Monitoring Team shall also closely monitor any unusual movements, corporate news or trading halts/suspensions of all underlying securities related to outstanding margin financing facilities in order to mitigate the clients' credit risk and report to the responsible officers of all relevant incidents as and when arise, for the responsible officers to consider further actions; and

(v) the responsible officers of securities brokerage company shall report to the management of the Group on any material adverse incidents on margin financing operation.

Major terms of loans and concentration of loans on major clients

During the year ended 31 December 2021, the interest rate of the margin financing was charged at a range of 5% to 20% (31 December 2020: a range of 5% to 20%) subject to the credibility of the clients and quality of the securities collateral. The Group's largest margin client and the five largest margin clients accounted for approximately 7.2% (31 December 2020: 14.3%) and 30.2% (31 December 2020: 46.8%) of the total loan balance to margin clients as at 31 December 2021. As at 31 December 2021, the Group's largest margin client was an individual client (31 December 2020: a corporate client) and the Group's five largest margin clients included 3 individual clients and 2 corporate clients (31 December 2020: 2 individual clients, 2 corporate clients and 1 professional investor).

Recoverability and impairment assessment

The Group measures the impairment loss on the basis of lifetime expected credit losses assessment for the loan receivables from margin financing clients. The Group monitors the market conditions and adequacy of securities collateral and margin deposits of each margin account on a daily basis. Margin calls and/or forced liquidation will be made where necessary. The Group reviews the recoverable amount of each individual receivable at the end of each reporting period to ensure that adequate provision for impairment losses is made for irrecoverable amounts. As part of the Group's credit risk management, the Group estimates impairment loss on loans to margin clients individually by reference to any historical default or delay in payments, historical settlements record and current past due exposure of each client.

During the year ended 31 December 2021, reversal of impairment losses on receivables arising from loans to margin clients of HK$1,868,000 (31 December 2020: provision of impairment losses of HK$1,947,000) was recognised. Provision of impairment loss was provided for margin loan balances with insufficient collaterals. As at 31 December 2021, 99% (31 December 2020: 95%) of the margin loan balances were secured by sufficient collaterals.

As a result of the increase in the percentage of margin loan balances with sufficient collaterals from 95% as at 31 December 2020 to 99% as at 31 December 2021, reversal of impairment losses was recognised for the year ended 31 December 2021. As at 31 December 2021, no specific provision was made on the margin loan receivables (31 December 2020: Nil).

MONEY LENDING BUSINESS

Business model

The Group provides loans to clients with tailored made liquidity solutions and its clients are mainly solicited from business referrals of existing clients or business connections of the management team of the Group. Securities brokerage division also refers the brokerage clients who have financing needs to the money lending division with a view to providing one-stop financing solutions to the clients. The funding for this money lending business is from internal resources of the Group. As at 31 December 2021, approximately 34.3% (31 December 2020: 50.2%) and 65.7% (31 December 2020: 49.8%) of the total loan balance to money lending clients of HK$207.0 million (31 December 2020: HK$177.7 million) were individuals and corporate clients, respectively.

Credit policy

The Group has established a credit assessment committee (the "**Money Lending CAC**") presently comprising five members (including the chief financial officer of the Company and four directors of the money lending company). The Money Lending CAC is responsible for establishing credit policy, approving loan terms, and monitoring the credit exposure of the money lending business.

To perform the Credit Assessment on the client, the Credit Risk Team shall conduct the same procedures as that of margin financing operation including (i) "know your client" procedures; and (ii) assessment of the repayment ability and credit quality of client, details of which are set out in the paragraphs of "Credit policy" in the session headed "Margin Financing Business" above.

Upon satisfactory on the results of the Credit Assessment, a team comprising a director of the money lending company (who is also a member of the Money Lending CAC) and a finance manager of the Company (the "**Money Lending Team**") will propose loan terms (the "**Proposed Loan Terms**"), including but not limited to interest rate, tenor, collateral and guarantee, if applicable, to the Money Lending CAC based on the prevailing market condition, repayment ability and credit quality of the client and the client's financial need. The Proposed Loan Terms will be reviewed and approved by the Money Lending CAC and were determined on case-by-case basis.

The Money Lending Team is responsible for on-going monitoring of the status of the loans granted by the money lending company and assessing the credit exposure risks of its loan portfolio from time to time.

Key internal control measures

The Group has adopted the following key internal control measures to monitor its money lending business:

(i) on monthly basis, the Money Lending Team will prepare a monthly loan profile summary which will be reviewed by the Money Lending CAC to identify if there is any loan overdue;

(ii) for any loan being overdue, the Money Lending Team will immediately notify the Money Lending CAC, and provide regular updates on the progress of the collection of the outstanding balance of the loans and commence procedures to recover the outstanding balance, if applicable, in accordance with internal procedures; and

(iii) the status of the loan portfolio shall be reported to the Board by the Money Lending CAC on semi-annual basis.

Major terms of loans and concentration of loans on major clients

During the year ended 31 December 2021, the interest rate of the money lending business was charged at a range from 8.5% to 12% per annum (31 December 2020: a range of 8.5% to 15% per annum) subject to the creditability of the clients, and the loan receivables from clients were generally unsecured and repayable with a term of one year or less. The Group's largest money lending client and the five largest money lending clients accounted for approximately 43.0% (31 December 2020: 46.5%) and 87.9% (31 December 2020: 90.9%) of the total loan balance to money lending clients as at 31 December 2021. As at 31 December 2021, the Group's largest money lending client was a corporate client (31 December 2020: a corporate client) and the Group's largest 5 money lending clients included 3 corporate clients and 2 individual clients (31 December 2020: 1 corporate client and 4 individual clients).

Recoverability and impairment assessment

Same as the margin financing business, the Group measures the impairment loss on the basis of lifetime expected credit losses assessment for the loan receivables from the money lending clients. The Group reviews the loan receivables at the end of each reporting period to ensure that adequate provision for impairment losses is made for irrecoverable amounts, if any. As part of the Group's credit risk management, the Group estimates impairment loss on loans receivables individually by reference to any historical default or delay in payments, historical settlements record and current past due exposure of each client.

During the year ended 31 December 2021, reversal of impairment losses on loan receivables of HK$4,064,000 (31 December 2020: impairment losses of HK$20,626,000) was recognised. Provision of impairment loss was provided for the whole loan portfolio of the Group to recognise the expected credit losses of the receivables from money lending clients. The reversal of impairment losses was mainly due to overall improvement of credit risk factors of the loan portfolio of the Group as at 31 December 2021. As at 31 December 2021, none of the loan receivables had been overdue and no specific provision on the loan receivables had been made (31 December 2020: Nil).

The Board confirms that the additional information provided in this announcement does not affect any other information contained in the Annual Report 2021 and the contents of the Annual Report 2021 remain unchanged.

By Order of the Board
Realord Group Holdings Limited
Lin Xiaohui
Chairman

Hong Kong, 18 October 2022

As at the date of this announcement, the executive Directors of the Company are Dr. Lin Xiaohui, Madam Su Jiaohua and Mr. Lin Xiaodong and the independent non-executive Directors are Mr. Yu Leung Fai, Mr. Fang Jixin and Mr. Ho Chun Chung Patrick.