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SAU SAN TONG HOLDINGS LIMITED

修身堂控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8200)

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

Reference is made to the annual report of Sau San Tong Holdings Limited for the year ended 31 March 2022 published on 30 June 2022 (the “**Annual Report**”). Unless otherwise defined in this announcement or the context requires, capitalised terms used herein shall have the same meanings as those defined in the Annual Report.

The Company would like to provide the following supplemental information in relation to the money lending business of the Group which should be read in conjunction with the Annual Report.

THE NUMBER OF BORROWERS

There was a total of 39 borrowers for the loan receivables as at 31 March 2022.

CREDIT ASSESSMENT SYSTEM OF THE GROUP

In order to perform credit assessment on the loan applicants of the Group, the Group conducts a series of due diligence work to assess (i) the credit worthiness of applicants, and (ii) their financial ability for loan repayments.

Due diligence performed by the Group involves know your client (“**KYC**”) procedures, including but not limited to (i) obtaining information as to source and amount of income, proof of other net assets, copy of identity card, address proof, (ii) interviewing the applicants to understand their financial needs and repayment abilities, (iii) inspecting supporting documents to verify the information submitted by the applicants, and (iv) performing background research and on-site visit.

DETERMINATION OF INTEREST RATE

The interest rate charged on the loan portfolio by the Group was subject to the macro-economic factors during the time of the loan granted. The loan terms, including the interest rate, were arrived at after considering a combination of factors including (i) the prevalent market rates, (ii) the financial strength of the applicants, (iii) the collaterals offered, and (iv) the past credit history of the applicants with the Group.

Determination of interest rate, or the range of interest rate, is assessed on case-by-case and dynamic basis taking into account of totality of the circumstances (rather than on a bright-line test basis) which could be varied over time. For illustrative purpose only, the ranges of interest rate offered for the loan receivables as at 31 March 2022 could be summarised as below. However, it does not form a bright-line test basis for the Group to grant loan going forward and all relevant factors should be considered on case-by-case basis from time to time.

Interest rates ranged from 6% to 12%

In general, for those loan applicants who could demonstrate satisfactory creditworthiness and financial ability to make loan repayment without any material findings by the Group, the Group would offer interest rate mainly ranging from 8% to 12%, except individual cases that the loan applicant could demonstrate exceptionally promising creditworthiness and strong financial ability, then the Group would offer a lower interest of 6% when the general market offered very low interest rate.

For this group of loan applicants, satisfactory creditworthiness was demonstrated by a combination of:

- good repayment record in the past;
- high consistency between the supporting documents provided and the descriptions and representations made by the loan applicant;
- sustainable operating history and track record; and/or
- reputable character and/or renowned brand name in their respective industry.

Further, the loan applicants were able to demonstrate that they possess the financial ability to make loan repayment by a combination of:

- holding of good quality asset(s);
- relatively low debt to the income ratio of the loan applicant;
- relatively low gearing ratio and solid financial liquidity; and/or
- able to provide, if any, other personal guarantor or high value collateral as additional proof of financial ability.

Interest rates ranging from 14% to 16%

During the course of conducting due diligence on the loan applicant by the Group, if it comes to the attention of the Group that there are any findings potentially raising additional concern to the Group, regardless of such findings relate to the loan applicant's credit worthiness or the financial ability, appropriate following-up steps will be taken by the Group.

If appropriate reasonable explanation could be provided by the loan applicant, with the support of sufficient documents to justify the loan applicant, that the Group could conclude the expectation of the potential risk is still minimal, the Group would then tend to charge an interest rate ranging from 14% to 16%, which is slightly higher than the general range of 8% to 12%.

Interest rates ranging from 24% to 30%

For all findings in the due diligence process, the Group would take appropriate follow-up steps to assess the impact of such findings to the loan applicant's creditworthiness and financial ability. In the event that the findings causing a potential risk exists but at an acceptable low level, and the loan applicant's capability to meet the financial obligation is considered adequate in the event of adverse business or economic conditions, the Group would then tend to charge a high interest rate ranging from 24% to 30%, which is higher than the general range of 8% to 12% and the range of 14 to 16%.

Interest rates ranging from 36 to 48%

In the event that, after conducting all reasonable steps to following up the findings, the Group concludes the findings could potentially elevated the vulnerability of the loan applicant, particularly in the event of adverse change in business or economic conditions, but the business or financial flexibility available to the loan applicant could still support the serving of its financial commitment, the Group tends to charge a premium high interest rate ranging from 36% to 48%, which is notably higher than the other interest rate ranges.

Since the potential risk of this group of borrowers are in general higher than the others, the loan term would generally shorten to two or three months only. For this type of high risk borrowers, the Company would put through additional effort to closely monitor the repayment progress to ensure the collectability. In particular, the interest would typically be charged and paid on monthly basis and the Company would closely monitor the borrower's interest repayment.

THE BENCHMARK OF BORROWERS OF THE GROUP

The benchmarks that the customer should meet to become the Company target/potential customers are mainly (i) satisfactory credit worthiness, and (ii) the financial ability to make loan repayment, having taken into account of all relevant factors after performing the respective due diligence by the Group. The followings are the key factors to be considered in assessing whether the borrowers meet the above benchmark and up to the satisfaction of the Group.

Corporate Customers:

To avoid a high level of concentration risk, prospective borrowers are not restricted to a particular industry and the existing borrowers are also not from a particular industry.

- The prospective borrowers should have principal business operation in Hong Kong which could facilitate the Group's KYC procedures.
- Minimum amount of revenue/profit in the last 12 months and minimum amount of total assets/net assets as at a particular date are to be considered collectively but not in an absolute benchmark. The value of collateral and the financial position are also one of the factors to be considered. However, when there is no guarantee or collateral attached, ratio of loan amount to profit, ratio of loan amount to revenue and ratio of loan amount to net assets value are to be considered collectively.

- The cash flow information and loan applicant's budgeting, if available, are other financial benchmarks acceptable to the Group. These could solidify the Group's understandings on the loan applicant and facilitate the Group to estimate the recoverability of the loan.
- Length of operation history is considered but this is not the only conclusive factor.
- Legal cases and/or public news of the corporation are also the factors to be considered.

Individual Customers:

- No particular age group of prospective borrowers is targeted.
- No particular occupation of prospective borrowers is targeted.
- Minimum asset threshold are not set. However, other types of asset proof and income proof are one of the key factors to be considered to assess the financial solvency.
- Legal cases and/or public news of the individual are also the factors to be considered.

OVERDUE LOAN AND ACTIONS TAKEN BY THE GROUP

The following table sets forth the distribution of the balances of the Group's outstanding loan exposure to borrowers by size as at 31 March 2022:

Principal amount when the loan granted	Number of loan	Tenure of the loan <i>Months</i>	Interest rates per annum <i>%</i>	(Gross) loans receivable as at 31 March 2022		Net loans receivable as at 31 March 2022	Overdue for period within 1 year <i>HK\$'000</i>	Not yet due with maturity		
				<i>HK\$'000</i>	Loss allowance <i>HK\$'000</i>			over 1 year and within 2 years <i>HK\$'000</i>	over 2 years and within 3 years <i>HK\$'000</i>	
Less than or equal to HK\$5 million	35	3 to 37	6 to 48	79,534	18,638	60,896	17,596	30,049	12,870	381
over HK\$5 million but less than or equal to HK\$10 million	4	1 to 12	12 to 36	20,011	11,031	8,980	-	8,980	-	-
over HK\$15 million but less than or equal to HK\$20 million	2	12	8	30,700	71	30,629	-	30,629	-	-
Total				<u>130,245</u>	<u>29,740</u>	<u>100,505</u>	<u>17,596</u>	<u>69,658</u>	<u>12,870</u>	<u>381</u>

The Group has taken the following actions in recovering the overdue loan amounts:

- (i) issued demand letters to the borrowers;
- (ii) made calls to demand full repayment;
- (iii) enquired the borrowers the expected time to fully repay the loan;
- (iv) considered and continued to evaluate the cost and benefits to take legal actions against the borrowers (for those borrowers who could demonstrate that they are fully aware of their overdue obligation; easily reachable by our Group; committed to repay as soon as possible and continue to make timely repayment of interest after the maturity date, the Group may not take legal actions immediately which could incur additional legal cost to us); and
- (v) consulted external legal advisers and took legal actions against the borrowers when necessary.

Subsequent to the year end date of 31 March 2022 and up to the date of this announcement, approximately HK\$7,649,000 of the overdue loan was recovered in full. The Group will continue to closely monitor and take appropriate actions in all reasonable endeavours to recover the overdue loans. Please refer to note 18 to the consolidated financial statements in the Annual Report for further details of the breakdown of the loan and interest receivables with the respective loss allowance.

COMPLIANCE WITH LISTING RULES

The Company confirms that (i) it has complied with the requirements set out in Chapter 14 and/ or 14A of the Listing Rules when it granted the loans to each of the borrowers, whose loan was still outstanding as at 31 March 2022; and (ii) there is no agreement, arrangement, understanding or undertaking (whether formal or informal and whether express or implied) with any of its connected person (or its associate) with respect to the grant of loans to any of its borrowers whose loan was still outstanding as at 31 March 2022.

By order of the Board
Sau San Tong Holdings Limited
Mui Wai Sum
Executive Director

Hong Kong, 18 November 2022

As at the date of this announcement, the Board comprises executive directors namely Mr. Mui Wai Sum and Mr. Chan Ka Kin; non-executive director namely Mr. Takashi Togo; independent non-executive directors namely Ms. Chiu Kam Hing, Kathy, Mr. Lau Wai Leung, Alfred and Mr. Au Siu Lun.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Listed Company Information” page of the website of the Stock Exchange at www.hkexnews.hk for at least seven days from the date of its publication and on the Company’s website at www.sst-holding.com.

** For identification purpose only*