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CAPITAL ESTATE LIMITED

冠中地產有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 193)

SUPPLEMENTAL ANNOUNCEMENT ON INFORMATION IN RELATION TO THE CONSUMER FINANCE BUSINESS OF THE COMPANY

Reference is made to the annual report of the Company for the year ended 31 July 2022 (the “**2022 Annual Report**”). Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meanings as those defined in the 2022 Annual Report. The Board would like to provide the shareholders and potential investors of the Company with supplemental information in relation to the Group’s consumer finance business under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) (the “**Consumer Finance Business**”) as disclosed in the 2022 Annual Report as follows:

(I) THE BUSINESS MODEL, CREDIT APPROVAL AND RISK ASSESSMENT POLICY

The Group holds a money lenders license under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) and utilizes its internal resources in funding its Consumer Finance Business. The service consists of the provision of unsecured consumer finance to Hong Kong permanent resident through a self-developed online consumer lending software. The Group promotes such service mainly through internet and individual customers can apply for the service through a mobile app which is publicly available. Approval status, due date reminder and other notification will be sent to user through the mobile app while user can submit repayments and check their loan status through the app as well. As the money lending service targets a large population, and the loans are unsecured, hence, a certain level of loss resulting from risk of default is expected. Such default risk is reflected in the interest rate charged as to cover the potential loss from default.

It is the Group's policy that potential borrowers are subject to background check and credit rating procedures before the approval and grant of the loan. Background check includes verification of identity, home and office addresser, and proof of income of the potential borrowers based on documents and information provided. The Group has a specific team to check and verify the information provided by the potential borrowers. After verification, such information will be processed by the Group's self-developed credit risk model to determine whether a loan will be granted. The self-developed credit risk model will assign scores to each of the potential borrowers, which is based on information provided by the borrowers, including income, employment status and accommodation type. For recurring borrowers, their historical repayment records will also be considered. An overall credit score will be determined and for eligible applicant, the loan amount, credit period and interest rate applicable will be generated based on the credit score. Our senior loan operation officers will review such results and contact the potential borrower for further procedures if the acceptable loan and credit period matched with the application.

Borrower who has not made any repayment or with any late installment payment record, is not eligible to apply for any reloan. For borrower who has repaid a certain percentage of principal with a good record of timely repayment, a reloan option will become available in the app. Such user may apply for a reloan to settle the outstanding principal of the original loan and the remaining balance of the reloan will be transferred to the borrowers' bank accounts. All reloan applications are subjected to independent approval procedures separately from the original loan.

Our senior loan operation officers will continuously monitor the repayment status of the borrowers through the self-developed online consumer lending software on a daily basis. For customers who fail to make repayment on time, the self-developed online consumer lending software will automatically send notification to them through the app and SMS on the day after the due date of the repayment. Our senior loan operation officers will also send email notification and make follow-up phone calls to these customers on the same day. If there were still no response from the customers to the above actions, a formal written repayment notice will be sent by post to the customers' registered postal address on the second day after the due date. On the sixth day after the due date, a final reminder will be sent to the customers' registered emails. If there were still no repayments or any feedback from the customers, another written notice will be sent by post on the seventh day after the due date and the outstanding amount will be passed to external debt collector.

(II) LOAN SIZE AND PORTFOLIO

As at 31 July 2022, the Consumer Finance Business has approximately 3,400 users (2021: approximately 3,500 users) and maintained a net loan portfolio of HK\$67.2 million as at 31 July, 2022 (2021: HK\$54.9 million) with loans to individual users ranging from HK\$2,000 to HK\$120,000 (2021: HK\$2,000 to HK\$100,000) with credit period up to 36 months (2021: 12 months). The receivables are unsecured and carry interest at fixed rate ranged from 26% to 48% (2021: 15% to 50%) which is determined based on factors including loan term, principal amount and credit history of individual customer. Loan granted to approximately 83% (2021: 87%) of the customers are with principal amount of HK\$40,000 or below and approximately 86% (2021: 100%) with credit period of 18 months or less.

The following table shows the percentage of customers by principal amount, credit period and interest rate:

	% of user	
	2022	2021
Principal amount:		
Below HK\$20,000	44.4%	65.5%
Below HK\$40,000 but over HK\$20,000	38.3%	21.8%
Below HK\$80,000 but over HK\$40,000	16.9%	12.6%
Below HK\$120,000 but over HK\$80,000	0.4%	0.1%
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	100.0%	100.0%
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Credit period:		
6 months or less	4.5%	8.2%
12 months or less but over 6 months	46.4%	91.4%
18 months or less but over 12 months	34.7%	0.4%
24 months or less but over 18 months	10.7%	0.0%
36 months or less but over 24 months	3.7%	0.0%
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	100.0%	100.0%
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Interest rate:		
Below 35%	10.0%	0.1%
Below 40% but over 35%	58.3%	0.4%
Below 45% but over 40%	20.8%	99.4%
Below 50% but over 45%	10.9%	0.1%
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	100.0%	100.0%
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The Group has no concentration risk on the receivables from customers of consumer finance. Gross receivable from the largest borrower and the five largest borrowers in aggregate, are below 1% of the net loan portfolio as at 31 July 2022 and 31 July 2021.

(III) BASIS OF LOAN IMPAIRMENTS ASSESSMENT AND ANALYSIS

Impairment losses under expected credit loss model on receivables amounting to HK\$15.2 million (2021: HK\$12.0 million) was recorded during the year. According to the Group's lending business loan impairment policy, customers defaulting in repayment for over 21 days are considered as credit-impaired, and full provision on the amount outstanding will be made. Receivables from customers that is not credit-impaired are assessed on a collective basis as these customers share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The provision rates applied to receivable from these customers are based on the Group's historical default rates over the expected life of the receivables and forward-looking information that is reasonable and supportable available without undue costs or effort. The increase in impairment losses was due to the overall economic downturn and in line with the increase in loan portfolio and interest income.

By Order of the Board
Capital Estate Limited
Tsui Wing Tak
Chairman

Hong Kong, 10 May 2023

As at the date of this announcement, the Board comprises Mr. Tsui Wing Tak, Mr. Chu Nin Yiu, Stephen as executive directors, Mr. Lam Yiu Cho as non-executive director and Mr. Yeung Chi Wai, Mr. Wong Kwong Fat and Mr. Chan Shu Yan, Stephen as independent non-executive directors.