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Newtree Group Holdings Limited

友川集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1323)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

Reference is made to the annual results announcement (the “**Results Announcement**”) of Newtree Group Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 March 2018 and the annual report (the “**Annual Report**”) of the Company for the year ended 31 March 2018. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Annual Report.

In addition to the information provided in the Results Announcement and the Annual Report, the Board would like to provide further information in relation to the qualified opinion (the “**Qualified Opinion**”) on the consolidated financial statements of the Group for the year ended 31 March 2018 issued by the auditor of the Company (the “**Auditor**”) which relates to the net carrying amounts of the loan receivables of the Group arising from Money Lending Business amounted to approximately HK\$283,136,000 as at 31 March 2018 and the interest income amounting to approximately HK\$32,330,000 which was recognised under Money Lending Business for the year ended 31 March 2018.

Management’s view on the Qualified Opinion

During the course of the audit, the Auditor considered that it was unable to obtain sufficient appropriate audit evidence regarding the impairment assessments of the outstanding loan receivables, including sufficiently documented credit risk assessments and bases and supporting documentation for the results of the credit reviews, and requested additional information from the Company. It was also the Auditor’s view that only first mortgages

were considered as highly effective pledge of assets whereas the effectiveness diminished accordingly for second and third mortgages and the effectiveness was also being reduced for those cross-border pledged assets in the PRC.

After being requested by the Auditor, the Group immediately consulted its Hong Kong and PRC legal advisers to seek for legal opinions on the enforceability of agreements signed for the second and third mortgages in Hong Kong and several shares and properties pledges in the PRC for the purposes of the impairment assessments. The Group also performed further valuation assessment and requested several asset appraisal companies to perform valuation on the pledged assets in the PRC. At the same time, the Group requested its clients to provide latest updated wealth proof and creditability information including updated outstanding borrowing or loan statements (outstanding first mortgage loan balance), latest bank statements or other asset proof of personal borrowers and latest management account or other business update illustrating the financial position of corporate borrowers.

For the loans with signs of default and provision made, the amount of the provision for each loan was determined with reference to the respective loan risks, aging of the loan, latest valuation of the collaterals, expected handling charge and timing in realizing the collaterals in case of default and the latest possible discount rate in disposal of the loan portfolio to other money lender peers. No impairment had been made to some loans with signs of default as the Group had reassessed the recoverability of the loans where the outstanding loans and interest receivables were collateralised and the Company expected they would be fully recoverable in case of default. Nevertheless, the Company had put great effort in gathering updated information from clients and providing such available information to satisfy the Auditor's audit work. However, in consideration of the time limit and constraint of requesting clients to provide latest updated information which required their cooperation, the Company was unable to provide all the requested information to the Auditor in time and the Auditor eventually expressed the Qualified Opinion.

As disclosed in the Results Announcement and the Annual Report, there was no disagreement between the views of the audit committee and the management of the Company and those of the Auditor on the Qualified Opinion.

Audit Committee's view on the Qualified Opinion

The Audit Committee discussed the matter with the Auditor at the Audit Committee meeting held on 29 June 2018 during which all the members of the Audit Committee attended the meeting. The Audit Committee held the same view with the Auditor and considered that the Company should take more initiatives, including recruiting more human resources in obtaining the supporting documents in relation to the borrowers' creditability to ensure the risk of loan portfolio could be closely monitored for audit purposes and at the same time without infringing the borrowers' personal financial status privacy. The Audit Committee considered that the Group had proper loan approval procedures but believed that the monitoring procedures especially in the area of documentation and retention of clients' documents which involved clients' privacy could be further strengthened.

Action plan of the Group to address the Qualified Opinion

To address the Qualified Opinion, with the advice of the independent non-executive Directors, the Company has engaged an independent professional firm of certified public accountants to review and advise on the whole loan monitoring process as well as the documentation and retention of clients' documents with an aim to inbuilt more creditability and risk assessment factors in each of the monitoring procedures of Money Lending Business. According to the latest discussion with such firm of certified public accountants, the preliminary review results are expected to be available in late August 2018. The enhancement of the monitoring procedures is expected to be completed in or about late September 2018 after the adoption of the advice and suggestions from such firm of certified public accountants.

In order to address the Auditor's concern and with a view to removing the audit qualifications for the consolidated financial statements of the Group for the year ending 31 March 2019, the Company intends to carry out the following measures: (i) for existing loans with an expiry date on or before 31 March 2019 which the Auditor has concern, the Group will not renew the expiry date of such loans to a date falling after 31 March 2019; and (ii) for existing loans with an expiry date after 31 March 2019 which the Auditor has concern, the Group will negotiate with the relevant borrowers for full prepayment on or before 31 March 2019 and if the relevant borrowers refuse to make full prepayment before 31 March 2019, the Group will make the necessary credit assessment to determine the recoverable amount and make all necessary provisions. The assessment of impairment of loan receivables would be performed in a more detailed manner in the year ending 31 March 2019 with the application of HKFRS 9 Financial Instruments which is effective for accounting period beginning on or after 1 January 2018.

The Company has preliminary discussed the impact of the Qualified Opinion on the consolidated financial statements of the Group for the year ending 31 March 2019 with the Auditor and believe that the Qualified Opinion, except for the effect on the opening balances of the consolidated statement of financial position and comparability of the consolidated statement of comprehensive income, can be removed in the consolidated financial statements of the Group for the year ending 31 March 2019 in view of the above measures taken and to be taken by the Company.

By Order of the Board
Newtree Group Holdings Limited
Wong Wai Sing
Chairman and Executive Director

Hong Kong, 24 August 2018

As at the date of this announcement, the executive Directors are Mr. Wong Wai Sing, Mr. Chan Kin Lung, Mr. Lee Chi Shing, Caesar and Mr. Wong Jeffrey; and the independent non-executive Directors are Mr. Kwok Kam Tim, Dr. Hui Chik Kwan and Mr. Tso Ping Cheong, Brian.