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Baiying Holdings Group Limited

百應控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8525)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT FOR THE YEAR ENDED 2021

Reference is made to the announcement of Baiying Holdings Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 24 March 2022 in relation to the annual results for the year ended 31 December 2021 (the “**Results Announcement**”) and the annual report (the “**Annual Report**”). Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as those defined in the Results Announcement.

In addition to the information provided in the Results Announcement and the Annual Report, the Board would like to provide the following information to supplement the Results Announcement and Annual Report, and the Results Announcement and the Annual Report shall be read in conjunction with the information below.

A. IMPAIRMENT LOSS ON FINANCIAL LEASE RECEIVABLES

As disclosed in the Results Announcement, the Company had recognised RMB14.0 million impairment losses charged on finance lease receivables during the Reporting Period, which was primarily due to the increase in the risk of recovery of three default agreements leading to the increase in provision ratio (each, the “**Impaired Agreement**”, collectively, the “**Impaired Agreements**”). All the Impaired Agreements are 90 days past due and the Company has commenced legal or arbitral proceedings in relation to the Impaired Agreements. To the best knowledge of the Directors after making all reasonable enquiries, the counter parties to the Impaired Agreements are independent

third parties and the Impaired Agreements has no bearing on the related parties of the Company. A breakdown of the amount outstanding and allowance for impairment loss recognised as at 31 December 2021 in respect of such Impaired Agreements are as follows:

No.	Counter party	Type of Receivables	Amount outstanding (RMB million)	Allowance for impairment loss (RMB million)
1.	Relevant Party A	Overdue and credit-impaired	6.9	4.3
2.	Relevant Party B	Overdue and credit-impaired	32.6	10.8
3.	Relevant Party C	Overdue and credit-impaired	21.6	8.1
Total:			61.1	23.2

Circumstances revolving around each of the Impaired Agreement and the reason for impairment recognition therein as follows:

1. Relevant Party A

The Company entered into a financial lease agreement with Relevant Party A on 27 November 2017, pursuant to which Relevant Party A shall pay the Company an aggregate lease payment of RMB35.3 million. However, Relevant Party A defaulted in payments since 3 December 2019. In October 2020, the Company commenced arbitration proceedings against Relevant Party A.

Reason for impairment recognition

In May 2021, an arbitral award was awarded in favour of the Company, and the case were brought to the enforcement phase in June 2021. As of 31 December 2021, the case is still in the enforcement phase. As the Company is of the opinion that Relevant Party A is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, as well as the financial asset is 90 days past due, impairment loss of approximately RMB1.3 million was recognised for the Reporting Period.

2. Relevant Party B

The Company entered into a sale-leaseback agreement with Relevant Party B on 28 September 2017 pursuant to which the Company purchased from Relevant Party B the relevant leaseback assets at the consideration of RMB40.0 million, and lease to Relevant Party B the relevant leaseback assets for an aggregate lease payment of RMB48.4 million. However, Relevant Party B has defaulted in payments since 12 October 2018. In April 2019, the Company commenced legal proceedings against Relevant Party B.

Reason for impairment recognition

In December 2019, a judgment was awarded in favour of the Company, and the case was brought to the enforcement phase in May 2021. As of 31 December 2021, the case is still in the enforcement phase. As the Company is of the opinion that Relevant Party B is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, as well as the financial asset is 90 days past due, impairment loss of approximately RMB9.6 million was recognised for the Reporting Period.

3. Relevant Party C

The Company entered into a sale-leaseback agreement with Relevant Party C on 8 August 2017 pursuant to which the Company purchased from Relevant Party C the relevant leaseback assets at the consideration of RMB33.0 million, and lease to Relevant Party C the relevant leaseback Assets for an aggregate lease payment of 44.6 million. However, Relevant Party C has since 31 December 2019 defaulted in payments. In September 2020, the Company commenced arbitration proceedings against Relevant Party C.

Reason for impairment recognition

In March 2021, an arbitral award was awarded in favour of the Company, and the case was brought to the enforcement phase in June 2021. With the aim to reach an amicable settlement, on 15 December 2021, the Company and Relevant Party C and its ultimate beneficial owners entered into a settlement agreement, pursuant to which Relevant Party C shall pay the Company an aggregate sum of RMB15.0 million in six installments accordance to the payment schedule as provided in the settlement agreement, with the first payment due on 10 January 2022. As the Company is of the opinion that it is unlikely to recover the full sum of finance lease receivables under the original sale-leaseback agreement and that the financial asset is 90 days past due, impairment loss of approximately RMB7.0 million was recognised for the Reporting Period.

Value of inputs used or key assumptions adopted in the impairment valuation

As required by HKFRS 9, the Company performed impairment assessment in the end of the Reporting Period under the expected credit loss (“ECL”) model on finance lease receivables and loans and receivables, and the accounting policy, key assumptions and inputs are stated in Note 1(e)(vii) and 26(a) to the consolidated financial statements in the Annual Report.

In accordance with HKFRS 9, the Group classifies finance lease receivables and loans and receivables into three stages and make provisions for ECL, accordingly, depending on whether credit risk on that financial asset has increased significantly since initial recognition. The three stages are defined as follows:

Stage 1 (12-month ECL): A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month ECL is recognised as loss allowance;

Stage 2 (Lifetime ECL not credit-impaired): A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired, indicators usually include financial asset overdue more than 30 days but less than 90 days. The amount equal to lifetime ECL is recognised as loss allowance; and

Stage 3 (Lifetime ECL credit-impaired): A financial instrument is considered to be credit-impaired as at statement of financial position date, indicators usually include financial asset overdue more than 90 days. The amount equal to lifetime ECL is recognised as loss allowance.

The estimation of the amount of ECL of credit-impaired financial lease receivables is based on the estimated net realisable value of any collateral provided or the estimated recovery rate from loss given default in relation to the Impaired Agreements, and if appropriate, adjusted by a discount rate ranging from approximately 19% to 37% depending on factors that were specific to the debtors and affecting the general economic conditions such as the nature of any collaterals, its geographical location and its rate of depreciation and cost of disposal and time required for disposing collaterals and further discounted by the estimated internal rate of return of each Impaired Agreement.

The details of the key assumptions and inputs adopted in the impairment assessment of the each of the Impaired Agreements as follows:

Relevant Party A

Estimated net realisable value of collateral:	Pursuant to the Fujian Province Xiamen Intermediate Court Notice (2021閩02執No.692), the relevant collateral of 38 carparks shall be liquidated through a public auction process at a starting price of RMB188,000 each. Therefore, the collateral of 38 carparks was valued at an aggregate amount of RMB7.1 million. As Relevant Party A had also provided the relevant collateral as collateral for other receivables from sale-leaseback transactions owed to us, only part of the total estimated net realisable value of the collateral is apportioned to the relevant Impaired Agreement according to the relative amount outstanding.
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Discount rate on the valuation of the collateral: Based on the valuation of the collateral, the Directors shall allocate a discount rate to the valuation taking into consideration factors such as geographical location of the collateral and its difficulty of disposal, estimated time and cost of disposal, as well as the estimated present value of cashflows generated from the collateral.

Relevant Party B

Estimated net realisable value of collateral: The collateral provided under the relevant Impaired Agreements was valued by Xiamen University Asset Valuation Land and Property Co., Ltd (廈門大學資產評估土地房地產有限責任公司) an independent valuer (the “**Independent Valuer**”). The Independent Valuer was selected by the relevant court to conduct such valuation during the enforcement phase in accordance with the relevant rules and procedures.

Discount rate on the valuation of the collateral: Based on the valuation of the collateral, the Directors shall allocate a discount rate to the valuation taking into consideration factors such as the starting and retention price of the collateral in public auction, geographical location of the collateral and its difficulty of disposal, estimated time and cost of disposal, as well as the estimated present value of cashflows generated from the collateral.

Relevant Party C

Estimated recovery rate from loss given default: Pursuant to a settlement agreement, the Company and Relevant Party C and its ultimate beneficial owners entered into a settlement agreement, pursuant to which Relevant Party C shall pay the Company an aggregate sum of RMB15.0 million in six installments in accordance to the payment schedule as provided in the settlement agreement. The estimated cashflow from the settlement agreement is then discounted by the estimated IRR to adjust for the present value of all cashflows. Notwithstanding the fact that impairment is calculated based on the estimated recovery rate pursuant to the settlement agreement, the execution of the settlement agreement does not affect the Company’s rights to the relevant collaterals provided in relation relevant Impaired Agreement.

Having considered the above, the Directors are of the view that such provisions of impairment were in line with the relevant accounting standards.

B. WRITE OFF ON FINANCIAL LEASE RECEIVABLES

General details on the write off receivables

As disclosed in the Results Announcement and Annual Report, the net amount of finance lease receivables of six default agreements of RMB12.2 million were written off for the Reporting Period (each, the “**Written Off Agreement**”, collectively, the “**Written Off Agreements**”). The Written Off Agreements were written off in accordance to the provisions of the Hong Kong Financial Reporting Standards, with reference to factors such as the duration of the uncollectible accounts, the nature of the accounts and the number of competing claims as against the relevant counter party, amongst other reasons. Provision for bad debts has been made in full for the written-off receivables of RMB12.2 million. Particulars are as follows:

No.	Counter party	Amount written off (RMB million)	Nature	Date in which debt became overdue (Aging as of 31 December 2021)	Impairment
1.	Relevant Party D	0.1	Business Transaction in ordinary course of business	October 2016 (5 years and 2 months)	Full provision of impairment
2.	Relevant Party E	3.6	Business Transaction in ordinary course of business	November 2012 (9 years and 1 month)	Full provision of impairment
3.	Relevant Party F	1.4	Business Transaction in ordinary course of business	November 2015 (6 years and 4 months)	Full provision of impairment
4.	Relevant Party G	1.4	Business Transaction in ordinary course of business	May 2016 (5 years and 7 months)	Full provision of impairment
5.	Relevant Party H	2.7	Business Transaction in ordinary course of business	June 2012 (9 years and 6 months)	Full provision of impairment
6.	Relevant Party I	3.0	Business Transaction in ordinary course of business	October 2014 (7 years and 2 months)	Full provision of impairment
		<hr/> Total: 12.2			

Basis for write off

Set out below are the basis in which each of the Written Off Agreements were written off:

No.	Counter party	Basis for write off
1.	Relevant Party D	<p>Litigation was brought against the counter party in August 2019, and a judgment was awarded in favour of the Company in April 2020. The case was brought to the enforcement phase, but due to numerous simultaneous claims against the counter party, there was no enforceable assets, the enforcement procedure was brought to an end.</p> <p>Based on the above, considering in particular that the debt had been overdue for more than 5 years, as well as the fact that there exist numerous claims in the enforcement phase against the counter party preceding our claim, the Directors are of the opinion that there is no reasonable expectation of recovering such debt.</p>
2.	Relevant Party E	<p>Pursuant to the relevant agreement, the Company shall sell, and the counter party shall purchase, a magnetite concentrate acid production unit leased to a third party at the time. However, it was later discovered by the relevant court that partial rights to the relevant magnetite concentrate acid production unit had been sold by the third party leasee without the Company's authorisation and knowledge, resulting in the counter party unable to obtain the full rights to the magnetite concentrate acid production unit. Despite commencing lengthy legal and arbitral proceedings against the leasee and counter party, the Company is yet to recover the debt.</p> <p>As the Directors are of the view that the cost of commencing further litigation may potentially exceed the remaining amounts due, the Directors are of the opinion that the Company shall no longer sought for the remaining amounts due and therefore there is no reasonable expectation of recovering such debt.</p>

3. Relevant Party F
- Litigation was brought against the counter party in March 2016, and a judgement was award in favour of the Company in June 2016. In October 2016, the case was brought to the enforcement phase, and part of the debt was recovered. Due to a lack of enforceable assets, the enforcement procedure was brought to an end in March 2019.

Based on the above, considering in particular that the debt has been overdue for more than 6 years, as well as the fact that there exist numerous other claims against the counter party simultaneously, the Directors are of the opinion that there is no reasonable expectation of recovering such debt.

4. Relevant Party G
- Arbitration was brought against the counter party in June 2016, and an arbitration award in favour of the Company was obtained in October 2016. In December 2016, the case was brought to the enforcement phase, but the relevant court was unable to realise any funds from the enforcement process.

Based on the above, considering in particular that the debt has been over due for more than 5 years, as well as the fact that there exist numerous other claims against the counter party and its guarantors simultaneously, the Directors are of the opinion that there is no reasonable expectation of recovering such debt.

5. Relevant Party H
- Arbitration was brought against the counter party in August 2012, and an arbitration award in favor of the Company was obtained in November 2012. In December 2012, the case was brought to the enforcement phase, but the relevant court was unable to realise any funds from the enforcement process.

Based on the above, considering in particular that the debt has been overdue for more than 9 years, as well as the fact that there exist numerous other claims against the counter party and its guarantors simultaneously, the Directors are of the opinion that there is no reasonable expectation of recovering such debt.

6. Relevant Party I Arbitration was brought against the counter party in October 2015, and an arbitration award in favour of the Company was obtained in August 2016. In March 2017, the case was brought to the enforcement phase, but the relevant court was unable to realise any funds from the enforcement process.

Based on the above, considering in particular that the debt has been overdue for more than 7 years, as well as the fact that there exist numerous other claims against the counter party and its guarantors simultaneously, the Directors are of the opinion that there is no reasonable expectation of recovering such debt.

Impact of write off on the Company

As impairment provision has been made in full for the abovementioned receivables written off totaling RMB12.2 million, no impact will be brought to the current profits and losses of the Company. The write off is in line with the actualities of the Company and the requirements of the relevant accounting policies and has no bearing on the related parties of the Company. In addition, the Company has kept, and will continue to keep, the breakdown of all receivables written off on file for future reference and will reserve its right of recourse. In view of the foregoing, the write off will not prejudice the interests of the Company and the Shareholders as a whole.

Risk Assessment performed in relation to each Written Off Agreement

Our Group has implemented a comprehensive and effective risk management system with stringent procedures in place, including multi-level assessment and approval processes, to offer customers customised repayment plans and interest rates based on their respective credit profiles and historical transaction records. Before entering into agreements with our customers, the Company shall, regardless of the contract sum, conduct due diligence and risk assessments works as set out in the Company's business process management regulations ("BPM") before entering into any financial leasing agreements. The major steps of our due diligence and risk assessments are set out below:

1. After understanding our potential customer's financing needs, we would request the potential customer to provide a series of documentation to prove that it is a legally valid entity and to understand the business production and financial situation of the potential client. Due diligence works including public searches, on site visits, and due diligence interviews with various parties will also be conducted by our operations team to fully grasp the potential customer's financial status and business operations.

2. Upon preliminary review, the operations team will pass files which are deemed potentially feasible to the credit management department for further examination and review. Our credit management department shall conduct a full due diligence investigation and risk assessment, feasibility assessment, and raise any potential red flags, and produce a project investigation report, which shall be approved by the risk management department and provided for the project review committee's consideration.
3. Upon review of the relevant project investigation report, the project review committee shall resolve whether to proceed with the relevant project.
4. For projects which shall be proceeded with, the general manager shall also conduct a final on-site inspection.

The table below sets out the risk assessment and due diligence steps taken in relation to the Written Off Agreements at the time of entering into the relevant finance lease agreements:

Counter Party	Risk Assessment and due diligence steps taken
Relevant Party D	<ul style="list-style-type: none"> – Conducted background search on the relevant ultimate beneficial owners of the counter party, including date of birth, education, employment and entrepreneurship history – Conducted background search on each of the companies owned by the ultimate beneficial owners of the counter party, including the business scope, number of employees, the business model, price of goods sold and seasonality of its business – Analysed financial data of the counter party's business including its monthly revenue and inventory sold, as well as profit margin for the last 2 years – Reviewed the credit status, property status, bank balance and debt status of the ultimate beneficial owners of the counter party via public searches – Conducted site visit at the counter party's premises to verify the validity of its business – Obtained copies of licenses required for the business of the ultimate beneficial owners

- Relevant Party E
- Conducted basic due diligence including verifying the identity of the counter party
- Relevant Party F
- Conducted background search on the relevant ultimate beneficial owners of the counter party, including date of birth, education, employment and entrepreneurship history
 - Obtained an opinion from an independent property valuer as to the valuation of the sale-leaseback asset
 - Analysed financial data of the sale-leaseback asset including the estimated profitability of the sale-leaseback asset, with reference to its profit margin, usage rate, as well as operation costs
 - Reviewed the other major assets and investments of the counter party, as well as other income stream of the counter party and his guarantor
 - Reviewed the credit status and bank balance of the counter party and his guarantor
 - Conducted site visit at the counter party’s residential address to verify his identity
 - Conducted site visit at the sale-leaseback asset to examine the condition of the sale-leaseback asset
 - Conducted litigation search and investigated potential future disputes
- Relevant Party G
- Conducted background investigation on the counter party and its subsidiaries, including its beneficial owners, number and types of employees, product sold, business model, profit margin, business environment of the counter party’s business
 - Conducted SWOT analysis on the counter party’s business
 - Conducted background investigation on the guarantor, including its beneficial owners, number of employees, business model and analysed the management accounts of the guarantor
 - Conducted on-site visit at the premises of the counter party and at the sale-leaseback asset to verify its validity

Relevant Party H

- Conducted background investigation on the counter party and its subsidiaries, including its beneficial owners, number and types of employees, business model, profit margin, business environment of the counter party's business
- Obtained data and analysed the electricity cost of the counter party
- Reviewed the credit status, property status, bank balance and debt status of the counter party, its subsidiaries and its ultimate beneficial owners via public searches
- Conducted on-site visit at the premises of the counter party and at the sale-leaseback asset to verify its validity and condition

Relevant Party I

- Conducted background investigation on counter party's group, including its ultimate beneficial owner, business model, profit analysis of each company in the counter party's group
- Reviewed and analysed the credit status, property status, bank balance and debt status of the counter party, and other companies in the counter party's group
- Reviewed the service contract taken up by the counter party, and analysed the contract backlog of the contracts
- Conducted on-site visit at the premises of the counter party and at the sale-leaseback asset to verify its validity and condition

Receivables Collection/Recovery

The Company had adhered to the procedures set out in the BPM and conducted regular post-grant reviews and stringent post-grant management in relation to the Written Off Agreements. We have commenced legal proceedings against all relevant counter parties once other means of debt recovery has failed, and save as for against Relevant Party E, we have applied to the relevant courts to commence the enforcement procedure in attempt to recover the debt owed. We have also seised any security deposit collected in relation to the Written Off Agreements and, depending on the value of the sale-leaseback asset and its ease of its disposal, also apply to court for recovering the sale-leaseback asset as a means of recovering part of the debt due.

Save as stated above, all other information in the Results Announcement remains unchanged. This clarification announcement is supplemental to and should be read in conjunction with the Results Announcement.

By order of the Board
Baiying Holdings Group Limited
Zhou Shiyuan
Chairman

Fujian Province, the PRC, 14 April 2022

As at the date of this announcement, the executive Directors are Mr. Zhou Shiyuan, Mr. Chen Xinwei and Mr. Huang Dake; the non-executive Director is Mr. Ke Jinding; and the independent non-executive Directors are Mr. Chen Chaolin, Mr. Tu Liandong and Mr. Xie Mianbi.

This announcement, for which 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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; and (2) 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 GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company’s website at www.byleasing.com.