

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



China Smartpay Group Holdings Limited

中國支付通集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8325)

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

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

In addition to the information provided in the Annual Report, the Board of Directors would like to provide supplemental information to the Shareholders regarding the Group’s money lending business, in relation to its (i) business model and major terms of loans; (ii) number, size and diversity of customers and concentration of loans to major customers; (iii) credit risk assessment policies and internal control procedures; and (iv) movements in allowance for expected credit losses.

Reference is made to the annual report of China Smartpay Group Holdings Limited (the “Company”, together with its subsidiaries as the “Group”) for the year ended 31 March 2022 (the “Annual Report”) published on 19 August 2022, with respect to, amongst other things, the consolidated results of the Group. In the Annual Report, the following was mentioned:

On page 10 of the Annual Report:

“For the loan receivables, prior to the lending of loan, the Group reviews the financial strength, purpose of the borrowing and repayment ability of the borrower to ensure that the borrower has sound financial repayment ability. In estimating the ECL and in determining whether there is a significant increase in credit risk since initial recognition and whether the financial asset is credit-impaired, the Group has taken into account the historical actual credit loss experience for the borrowers and adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default in each case.”

Furthermore, on page 157 of the Annual Report:

“The Group’s loan receivables by geographical location are concentrated to debtors in the PRC and are influenced mainly by the individual characteristic of each customer. The Group has set up internal policies in determination of credit limits, credit approvals and other monitoring procedures to ensure that the follow-up action is taken to recover the overdue loan.

For the loan receivables, prior to the lending of loan, the Group reviews the financial strength, purpose of the borrowing and repayment ability of the borrower to ensure that the borrower has sound financial repayment ability. In estimating the ECL and in determining whether there is a significant increase in credit risk since initial recognition and whether the financial asset is credit impaired, the Group has taken into account the historical actual credit loss experience for the borrowers and adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default in each case.”

In respect of the above and in addition to the information provided in the Annual Report, the board (“**Board**”) of directors (the “**Directors**”) of the Company would like to provide the following supplemental information to the shareholders of the Company (“**Shareholders**”) regarding the Group’s money lending business. Capitalised terms used in this announcement shall adopt the same meanings as defined in the Annual Report, unless the context requires otherwise.

BUSINESS MODEL OF THE GROUP’S MONEY LENDING BUSINESS AND MAJOR TERMS OF LOANS

The Group’s money lending business was mainly conducted through its wholly-owned subsidiary, Million Promise Limited (“**Million Promise**”), which offered loan financing services to both corporate and individual customers in full compliance with the requirements under the Money Lenders Ordinance (Cap. 163). Potential customer(s) approach(es) Million Promise on their own or are referred through the Group’s business network and connections. Independence check are performed on potential customer(s) to assess whether the potential customer(s) is a third party independent of the Company and its connected persons under the GEM Listing Rules. The Group has maintained a set of sound and effective credit risk assessment policies and internal control measures in respect of, among others, credit approval, ongoing monitoring of loan recoverability and loan collection, as set out in the section headed “Credit Risk Assessment and Internal Control Procedures” below to safeguard the Group’s assets and interests. The source of funds for Million Promise’s money lending business is from the internal resources of the Group. Apart from Million Promise, the Group also, in its ordinary and usual course of business, granted several short-term loans to well-established companies in the PRC through two PRC subsidiaries. However, due to the current economic environment which is not favourable to the Group’s money lending business, the Group does not intend to continue such business. Million Promise and the aforesaid PRC subsidiaries have ceased the money lending business as of the date of this announcement.

For the year ended 31 March 2022, the Group provided term loans to individuals and companies, which accounted for approximately 20.4% and 79.6% respectively of the total term loans granted by the Group during the same period. For the year ended 31 March 2022, all grantees of the loans granted by Million Promise and two subsidiaries are independent third parties of the Company and its connected persons under the GEM Listing Rules.

In determination of the loan terms, the Group refers to the prevailing market practices regarding the loan terms, and it may require security, personal or corporate guarantee before it would grant a loan to lower its exposure. It would also determine such grant of loans and the relevant terms based on the results of credit risk assessment on those potential customers. For the year ended 31 March 2022, none of the current Million Promise's loan financing cases had a loan tenure of more than two years to minimise the risk of customer's non-repayment. Based on the credit assessment reports of the customers, no guarantee or other security was required for the valid loans as at 31 March 2022. For other details of the loan receivables of the Group for the year ended 31 March 2022, please refer to Note 22 to the Consolidated Financial Statements in the Annual Report.

NUMBER, SIZE AND DIVERSITY OF CUSTOMERS AND CONCENTRATION OF LOANS TO MAJOR CUSTOMERS

The Group's money lending business focused on individual customers and small business markets in Hong Kong and in the PRC, which can be categorised as follows:

1. For personal loans, the Group targets wealthy and reputable customers, the occupations of which ranged from executives, businessmen to professionals.
2. For corporate loans, the Group targets small companies with well-established business operations in Hong Kong and in the PRC.

As at 31 March 2022, the loan receivables of the Group were incurred from 11 customers, which included individuals and companies registered in Hong Kong, the PRC and the British Virgin Islands, among which approximately 24.9% of the total loan receivables was due from the Group's largest customer and approximately 79.9% of the total loan receivables was due from the Group's five largest customers.

Loan to Dadi Group

On 28 June 2019, the Group granted an interest-free loan (the "**Loan**") in the amount of RMB16,000,000 (equivalent to approximately HK\$19,733,000) to First Fintech (Shanghai) Company Limited* (眾網金融科技(上海)有限公司) ("**First Fintech**"), which is a wholly-owned operating subsidiary of Dadi International Group Limited (formerly known as Zhi Cheng Holdings Limited) ("**Dadi**"), a company listed on the Stock Exchange (stock code: 8130), (Dadi together with its subsidiaries collectively, the "**Dadi Group**").

Background of Dadi Group

The Company had held 14.25% of Dadi's shares and was one of the substantial shareholders of Dadi until 14 February 2019 when the Company's subsidiary, Joy Grand Investment Limited ("**Joy Grand**") entered into a sales and purchase agreement, pursuant to which Joy Grand agreed to sell 14.25% of the entire issued share capital in Dadi to Dadi International Holdings Co., Ltd. ("**Dadi International**") at a consideration of HK\$90,424,000 (the "**Disposal**"). Save for the above, there is no any other relationship between the Group and Dadi.

Dadi International is an indirect non-wholly owned subsidiary of Shanxi Dadi Huanjing Investment Holding Co., Ltd* (山西大地環境投資控股有限公司), which is a wholly state-owned enterprise under the administration of the State-owned Assets Supervision and Administration Commission of Shanxi Province of the PRC.

Reasons of Granting the Loan

In June 2019, Dadi entered into a memorandum of strategic cooperation with Juvenile & Children's Publishing House* (少年兒童出版社) ("**JCPH**"), pursuant to which Dadi intended to establish a joint venture company with JCPH which would be principally engaged in, including but not limited to, the animation design and production, publication and distribution of books and the development and establishment of relevant cultural media channels surrounding the works including *I Wonder Why* in a view to enhancing its capacity in cultural media services and expand relevant businesses.

At the time of the Loan, the Company had reasonable grounds to believe that Dadi would have continued to expand their business with the support from Dadi International and Dadi's strategic cooperation with JCPH formed the basis for its future business expansion. It is expected that the Group's payment system in the PRC would be adopted as the exclusive payment platform for the exhibitions and promotions of Dadi under its strategic cooperation with JCPH. The Directors therefore were of the view that it would bring benefits to and be in the interests of the Company and its shareholders as a whole to cooperate with Dadi to enhance the volume of transactions and boost the turnover for the prepaid cards and internet payment business and internet micro-credit business through the exhibitions and promotions of Dadi in the PRC.

In addition, on 22 May 2019, Dadi entered into a trust loan agreement with a lender who agreed to grant a non-wholly-owned subsidiary of Dadi an interest-bearing trust loan of a maximum principal amount of RMB500 million for the purpose of its purchase and sales of books business. Given such trust loan and the investment from Dadi International, the Directors believed that Dadi would have sufficient resources to operate the education project. Accordingly, the Directors expected that the Company's payment business would have benefited from Dadi's potential customers.

Default of Repayment by Dadi Group

However, due to the adverse impacts brought by the outbreak of the COVID-19 pandemic and the deteriorating macro-economic environment in the PRC, the tentative business cooperation between the Group and Dadi in the PRC was postponed and the Loan due from Dadi Group has not been settled up to the date of this announcement.

The Company has used its best efforts to request repayments of the outstanding loan balance from Dadi, including but not limited to continuously communicating with Dadi's management, proposing repayment schedule, and sending written and oral requests. However, due to the recession of the business and cash flow problems in Dadi, Dadi replied to the Company that they could only settle the Loan when they have sufficient cash flow. After assessing the financial condition of First Fintech and Dadi, the Directors decided to pursue legal action against Dadi to recover the outstanding balance. On 12 October 2022, the Group filed legal claim against First Fintech with the Shanghai Pudong New District People's Court and as of the date of this announcement, the relevant court documents including the statement of claim have been served on First Fintech.

CREDIT RISK ASSESSMENT POLICIES AND INTERNAL CONTROL PROCEDURES

The key operation of the money lending business of the Group located in Hong Kong and in the PRC. The Group has its internal work procedures in granting a loan facility. When potential customers approach for a request on loan financing, the client identification procedure will take place and the Group would enquire the potential customers' personal information. After credit assessment and review of the loan applications, with the terms of loan agreements determined (having taken into consideration factors such as credit risks of the customers, their recoverability and the prevalent market interest rates), loan agreements will be prepared.

The following summary sets out the key internal control measures of the Group to assess the creditworthiness and repayment ability of potential customers:

- (A) Identity proof – such as identity card and passport (for individuals) and business registration certificate, certificate of incorporation and the constitutional documents (for corporate entities) must be provided for verification;
- (B) Address proof – such as utility bills, bank/credit card statements or formal correspondence issued by a government or statutory body is required to be produced;
- (C) Repayment ability assessment – to assess and justify the repayment ability of the customer, criteria such as availability of guarantor, the background of the customer, and where applicable, the past payment record and any other relevant information are to be considered. Further information from the customer may be requested including but not limited to the followings: tax demand note, tax return, bank statement, payroll slip, employer's letter, employment contract, financial statements, and auditor's report (where applicable); and
- (D) Credit worthiness assessment – Searches and background checks will be conducted upon potential customers by obtaining credit assessment report by independent professional firm which mainly contains bankruptcy or winding up search and litigation search; background search and media searches would be subsequently conducted upon the potential customers. For all such potential customers, a credit report would be obtained prior to granting of any loans.

Based on the above procedures, the Company considers that the Group's credit risk and the risk of breaching the relevant laws and regulations in connection with anti-money laundering or anti-terrorist financing is relatively low. Nonetheless, the Company has in place all measures to mitigate the risk of money laundering or terrorist financing risk of potential customers' businesses, such as the nature and details of the business/occupation/employment of the potential customer; the anticipated level and nature of the activity that is to be undertaken through the relationship, location of potential customer; the expected source and origin of the funds to be used in the relationship; and the initial and ongoing source(s) of wealth or income.

Furthermore, guarantors who provide personal/corporate guarantee in favour of a loan, where applicable, are also required to meet the same basic eligibility and approval criteria as the borrower of loans, and will be required to go through the same verification and approval procedures.

After granting loans, the sole director of Million Promise and the management team of the two aforesaid PRC subsidiaries will conduct regular review and carry out follow up actions (on a monthly and continuing basis) in respect of overdue amounts to minimise the Group's exposure to credit risk and follow up closely with its customers as to the deadlines in payment of interest of the loans.

The Group has standard procedures in dealing with default in payment. In case there are any minor defaults, its management will send reminder and/or demand letters to its customers. In case the default for loans persists (i.e. delay in repayment has exceeded for six months or above), the collection procedure will commence and the Group will engage lawyers in advising on the loan and its recovery and enforcement action.

MOVEMENTS IN ALLOWANCE FOR EXPECTED CREDIT LOSSES (“ECL”)

The Group performs impairment assessment under ECL model on loan receivables which are subject to impairment under Hong Kong Financial Reporting Standard 9 (“**HKFRS9**”). The amount of ECL is updated at each reporting date to reflect changes in credit risk since recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument (referred to as Underperforming). In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date (referred to as Performing).

The Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

As at 31 March 2022, the Group recognised lifetime ECL on loan receivables under Underperforming of approximately HK\$18.5 million, which refers to the loans that have had a significant increase in credit risk and for which the lifetime ECL was recognised. The significant increase in credit risk refers to an increase in rate for exposure at default due to the deterioration of financial performance of the borrowers.

In estimating the ECL and in determining whether there is a significant increase in credit risk since initial recognition and whether the financial asset is credit-impaired involves management judgments and assumptions, primarily including the following:

- the historical actual credit loss experience for the borrowers and adjusted for forward-looking factors that are specific to the borrowers;
- general economic conditions and assessment both current conditions at the reporting date as well as the forecast future conditions of the industry in which the counterparties operate; and
- in estimating the probability of default of these loan receivables, as well as the loss upon default in each case.

The Group will continue to adhere to the established credit assessment policies and internal control procedures of the money lending business to monitor the timely repayment, control credit risks and enhance recoverability of the borrowers.

The Directors believe that the above ECL measurement on the loans and interest receivables based on the Group's internal credit check and review policy will provide a fair and reasonable estimate of the impairment losses. On the other hand, the Group will carry out ongoing periodic review and negotiations with the counterparties of those loans and interest receivables and seek opinions from qualified professionals on the impairment review so as to ensure the financial results are truly and fairly stated and in compliance with the accounting standards and policies.

GENERAL

The information contained in this supplemental announcement does not affect other information contained in the Annual Report and save as disclosed above, all other information in the Annual Report remains unchanged.

By order of the Board of
China Smartpay Group Holdings Limited
ZHANG Xi
Chairman

Hong Kong, 20 January 2023

As at the date of this announcement, the Board comprises (i) Mr. Zhang Xi, Mr. Wu Hao, Mr. Lin Xiaofeng and Mr. Song Xiangping as executive Directors; and (ii) Mr. Wang Yiming, Mr. Lu Dongcheng and Dr. Yuan Shumin as independent non-executive Directors.

This announcement, for which all 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 Stock Exchange's website at www.hkexnews.hk for at least 7 days from the date of its publication and on the website of the Company at www.chinasmartpay.com.