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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 31 DECEMBER 2022

References are made to the announcement of Baiying Holdings Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 27 March 2023 in relation to the annual results (the “**Results Announcement**”) and the annual report (the “**Annual Report**”) for the year ended 31 December 2022. 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.

IMPAIRMENT LOSS ON FINANCIAL LEASE RECEIVABLES

General circumstances of impairment

The Company has recognised RMB6.7 million as impairment losses charged on finance lease receivables (the “**Impairment**”) during the Reporting Period, which consisted of overdue and credit-impaired finance lease receivables, of which approximately RMB6.3 million of impairment loss involved 2 default agreements amongst 2 customers (each, the “**Overdue and Credit-impaired Agreement**”, collectively, the “**Overdue and Credit-impaired Agreements**”). The Overdue and Credit-impaired Agreements are 90 days past due and the Company has commenced legal or arbitral proceedings against all relevant counter parties, and it has applied to the relevant courts to commence the enforcement procedure in an attempt to recover the debt owed. The Company has also seized any security deposit collected in relation to the Overdue and Credit-impaired Agreements. To the best knowledge of the Directors after making all reasonable enquiries, the counter parties to the Overdue and Credit-

impaired Agreements are independent third parties and the Overdue and Credit-impaired Agreements have no bearing on the related parties of the Company. A breakdown of the amount outstanding, the allowance for impairment losses recognised as at 31 December 2022, and the impairment losses charged for the year ended 31 December 2022 in respect of such Overdue and Credit-impaired Agreements are as follows:

No. Counter party	Status	Amount outstanding (RMB million)	Allowance for impairment losses as at 31 December 2022 (RMB million)	Impairment losses charged/ (reversed) for the year ended 31 December 2022 (RMB million)
1. Relevant Party A	Overdue and credit-impaired	32.6	19.0	8.2
2. Relevant Party B	Overdue and credit-impaired	0 (due to reversal of impairment loss)	0 (due to reversal of impairment loss)	(1.9)
	Total:	<u>32.6</u>	<u>19.0</u>	<u>6.3</u>

Circumstances revolving around each of the Overdue and Credit-impaired Agreements and the reasons for impairment recognition and/or reversal of impairment loss therein as follows:

1. Relevant Party A

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

Reason for impairment recognition

In December 2019, a judgment was awarded in favour of the Company. Since then, the Company has been in continuous negotiation with Relevant Party A for the settlement of the judgment debt and the case was brought to the execution phase in May 2021 whereby the Company enforced its right of sales on the collateral. The Company arranged for the auction of the collateral in April 2022 and July 2022. However, due to insufficient interest, the auctions were not successful. The Company has been and will continue to seek for interested and willing buyers for the disposal of the collateral to maximize its disposal value. As of 31 December 2022, the case is still in the execution phase. As the Company is of the opinion that Relevant Party A is unlikely to repay 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, an impairment loss of approximately RMB8.2 million was recognised for the Reporting Period, being the decrease in estimated net realisable value as compared to that as at 31 December 2021, taking into account of factors such as the starting price of the latest public auction and estimated time of disposal.

2. Relevant Party B

The Company entered into a sale-leaseback agreement with Relevant Party B on 8 August 2017 pursuant to which the Company purchased from Relevant Party B the relevant leaseback assets at the consideration of RMB33.0 million, and lease to Relevant Party B the relevant leaseback assets for an aggregate lease payment of RMB44.6 million. However, Relevant Party B has defaulted in payments since 31 December 2019. In September 2020, the Company commenced arbitration proceedings against Relevant Party B.

Reason for impairment recognition and reversal of impairment loss

In March 2021, an arbitral award was awarded in favour of the Company, and the case was brought to the execution phase in June 2021 whereby the Company enforced its right of sales on the collaterals, which consisted of eight properties in the PRC with a total area of approximately 1,580 square metre. However, with the aim to reach an amicable settlement and to expedite the recovery of the outstanding amount, on 15 December 2021, the Company entered into a settlement agreement (the “**Old Settlement Agreement**”) with Relevant Party B and its ultimate beneficial owners, pursuant to which Relevant Party B shall pay the Company an aggregate sum of RMB15.0 million in six installments in accordance with the payment schedule as provided in the settlement agreement. Upon entering into the settlement agreement, the Company ceased enforcing the right of sale on the collaterals. The Company was of the view that it is more beneficial to the Company to enter into the Old Settlement Agreement over enforcing its right of sale over the collaterals after taking into account of the time and cost of enforcement. 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, an allowance for impairment loss of approximately RMB8.1 million was recognised as at 31 December 2021. On 18 November 2022, a new settlement agreement (the “**New Settlement Agreement**”) was entered into between the Company and Relevant Party B and its ultimate beneficial owners, pursuant to which Relevant Party B paid the Company a sum of RMB9.7 million in a one-off payment, thereby discharging Relevant Party B from all liabilities under the Old Settlement Agreement. For the year ended 31 December 2022, the Company has received a total of RMB15.4 million under the Old Settlement Agreement and the New Settlement Agreement, which represents a shortfall of RMB6.2 million compared to the net amount of finance lease receivables owed under the relevant Overdue and Credit-impaired Agreement, leading to a write-off of RMB6.2 million of the finance lease receivables under the relevant Overdue and Credit-impaired Agreement. As the allowance for impairment loss already recognised on the relevant finance lease receivables as at 31 December 2021 were approximately RMB8.1 million based on the estimated present value of cashflows generated from the Old Settlement Agreement, which were RMB1.9 million higher than such shortfall of RMB6.2 million, there was a reversal of impairment loss of finance lease receivables of approximately RMB1.9 million for the year ended 31 December 2022.

The remaining RMB0.4 million of net impairment loss charged on finance lease receivables mainly consisted of overdue and credit-impaired finance lease receivables, involving 9 agreements amongst 4 customers (each, the “**Remaining Overdue and Credit-impaired Agreement**”, collectively, the “**Remaining Overdue and Credit-impaired Agreements**”). The Company has been in negotiation with the relevant counter parties for the settlement of the overdue amounts. In the event that the relevant counter parties fail to settle the overdue amount after the Company’s recovery actions, the Company will consider commencing legal or arbitral proceedings against all relevant counter parties. To the best knowledge of the Directors after making all reasonable enquiries, the counter parties to the Remaining Overdue and Credit-impaired Agreements are independent third parties and the Remaining Overdue and Credit-impaired Agreements have no bearing on the related parties of the Company.

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 the accounting policy, key assumptions and inputs are stated in Notes 1(f)(vii) and 27(a) to the consolidated financial statements in the Annual Report.

In accordance with HKFRS 9, the Group classifies finance lease 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 relevant agreements, and if appropriate, adjusted by a discount rate 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, its rate of depreciation and cost, time and difficulty of disposal and further discounted by the estimated internal rate of return of each relevant agreement, as well as the estimated present value of cashflows generated from the collaterals.

Subsequent recoveries of finance lease receivables that were previously credit-impaired are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

The details of the key assumptions and inputs adopted in the impairment assessment of each of the Overdue and Credit-impaired Agreements are as follows:

Relevant Party A

Estimated net realisable value of collateral:

Pursuant to the auction notice (變賣公告) published by Taobao auction website on 10 November 2022, the starting price of the public auction of the collateral provided under the relevant Overdue and Credit-impaired Agreement was RMB22.6 million, which served as a starting point for calculating the estimated net realisable value of collateral.

Discount rate on the estimated net realisable value of the collateral:

Based on the aforementioned estimated net realisable value of the collateral, the Directors allocated a discount rate of approximately 40% to the estimated value based on the following formula:

$$1 - \frac{(1 - A) \times (1 - B)}{(1 + C)^D}$$

A = risk factor discount of approximately 10%

B = estimated cost of disposal of approximately 10%

C = discount rate of approximately 16%

D = estimated time of disposal of approximately 2 years

The Directors derived the above risk factor discount, estimated cost of disposal and time of disposal after taking into consideration of factors such as geographical location of the collateral, the difficulty in disposing the collateral and based on the Company previous experiences in dealing with similar collateral disposals. The Directors applied a discount rate of approximately 16% based on the internal rate of return of the sale-leaseback agreement with Relevant Party A.

Relevant Party B

Reversal of impairment loss: Pursuant to the New Settlement Agreement, Relevant Party B has paid the Company a sum of RMB9.7 million in a one-off payment. For the year ended 31 December 2022, the Company has received RMB15.4 million in aggregate under the Old Settlement Agreement and the New Settlement Agreement, which represents a shortfall of RMB6.2 million compared to the net amount of finance lease receivables owed under the relevant Overdue and Credit-impaired Agreement, leading to a write-off of RMB6.2 million of the finance lease receivables under the relevant Overdue and Credit-impaired Agreement. As the allowance for impairment loss already recognised on the relevant finance lease receivables as at 31 December 2021 were approximately RMB8.1 million based on the estimated present value of cashflows generated from the Old Settlement Agreement, which were RMB1.9 million higher than such shortfall of RMB6.2 million, there was a reversal of impairment loss of finance lease receivables of approximately RMB1.9 million for the year ended 31 December 2022.

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

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

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

Fujian Province, the PRC, 10 May 2023

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. Xie Mianbi and Mr. Tu Liandong.

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.

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