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# 上海大生農業金融科技股份有限公司

Shanghai Dasheng Agriculture Finance Technology Co., Ltd.

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock code: 1103)**

## **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2021**

Reference is made to the annual report for the year ended 31 December 2021 (the “**2021 Annual Report**”) of Shanghai Dasheng Agriculture Finance Technology Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) published on 25 April 2022. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the 2021 Annual Report.

In addition to the information provided in the 2021 Annual Report, the Board would like to further inform the shareholders of the Company the following information:

### **IMPAIRMENT LOSS ON TRADE RECEIVABLES**

As disclosed in the 2021 Annual Report, the Group recognised impairment loss on trade receivables of approximately RMB34,457,000 (the “**Impairment Loss**”) for the year ended 31 December 2021. The Group engaged an independent professional qualified valuer to carry out a valuation of the recoverable amount of receivables as at 31 December 2021 (the “**Valuation Date**”). Save as disclosed in the 2021 Annual Report, further information regarding the Impairment Loss is set out below:

## Nature of the Impairment Loss

The balance of trade receivables represents the outstanding receivables and deposits from customers of the Group on agricultural and petrochemical products supply chain services segment (the “**Trading Segment**”) and agrochemical products supply chain services segment (the “**Agrochemical Segment**”), which arose in the ordinary and usual course of business of the Group. As at 31 December 2021, allowance for credit losses for trade receivables of approximately RMB626,969,000 of the Trading Segment was recognised, where most of the outstanding balances have an ageing of over three years. Impairment loss on trade receivables of the Trading Segment of approximately RMB34,457,000 was recognised during the year.

## Details on the Circumstances and Reasons for the Impairment Loss

The customers in the Trading Segment consist of small customers, who have large outstanding debts and lawsuits. Therefore, the recovery probability from these customers is questionable. The Group has been following up the status and conducted company searches through search engines to understand the latest development of such customers. Besides, based on the ageing analysis of trade receivables, approximately RMB626,359,000 or 99.9% of the balance have an ageing of over three years, which the management of the Group considered the recoverability to be low.

As disclosed in the 2021 Annual Report, the Group’s Trading Segment has ceased to generate any revenue since 2020. The Group carried out an assessment of the recoverable amount of trade receivables of the Trading Segment with reference to a valuation report performed by an independent valuer (the “**Valuer**”), which was based on certain key assumptions. Based on the valuation results, the recoverable amount of trade receivables of the Trading Segment as at the Valuation Date is nil. Accordingly, the Impairment Loss on trade receivables of the Trading Segment was recognised for the year ended 31 December 2021.

On the other hand, since the Group’s agrochemical products supply chain services were conducted through Anhui Huaxing, a wholly-owned subsidiary of the Company, and its subsidiaries (the “**Anhui Huaxing Group**”), which was deconsolidated from the Group since 13 August 2021, the outstanding balance of trade receivables in the Agrochemical Segment, has been deconsolidated from the consolidated financial statements of the Group since 13 August 2021.

## **Value of Inputs Used or Key Assumptions Adopted in the Valuation**

With reference to the valuation, the Group carried out an assessment on the recoverable amount of trade receivables and estimated the amount of the expected credit loss (the “ECL”) of trade receivables of the Trading Segment.

The valuation of trade receivables considered ECL method, in which the ECL is based on the assessments considering exposure at default, probability of default, and expected recovery rates from loss given default adjusted with time discount factor.

The key assumptions and inputs adopted in the estimation of the amount of the ECL of trade receivables valuation are as follow:

- (i) Estimation of exposure at default: Receivables were segmented into different subgroups based on the Company’s accounting policy. The policy will classify debtors into subgroups based on their credit qualities of debtors. Stage 1 was considered as the lowest credit risk and Stage 3 was considered as the highest credit risk. If the credit quality of debtor changes over the reporting period, receivables will be reclassified to another stage.
- (ii) Estimation of probability of default: The forecasted probabilities of default of receivables as at Valuation Date were based on historical default rates, which were collected from Moody’s default study, and forward looking factor, which was based on regression analysis. Regression input includes GDP growth rate and inflation rate.
- (iii) Estimation of expected recovery rate: All trade receivables of the Trading Segment are assumed to be fully impaired. Since the customers in the Trading Segment have large outstanding debts and lawsuits, the recovery probability from these customers is questionable.
- (iv) Estimation of discount rate: Discount rate of the Company is assumed to be China risk free rate which has made reference to the yield of PRC government bond yields as at the Valuation Date.

The Valuer is of the opinion that the recoverable amount of trade receivables of the Trading Segment of the Group as at the Valuation Date is nil. The ECL was prepared with reference to the valuation results conducted by the Valuer. The Group believed that the above-mentioned valuation basis, value of inputs used and key assumptions applied by the Valuer were consistent with the current market trends and conditions of the Trading Segment. Accordingly, allowance for credit losses for trade receivables has been made to the Group’s audited financial statement for the year ended 31 December 2021.

## **Valuation Method and Reason for its Adoption**

The Group's impairment assessment policy on trade receivables was set out in note 4 to the consolidated financial statements of the Company as included in the 2021 Annual Report.

The Group always recognises lifetime ECL for trade receivables and has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the ECLs on these items by using a provision matrix, grouped by past due status.

Based on the valuation performed by the Valuer, the valuation valued the trade receivables on a fair value basis, which is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

In arriving at the valuation, reference was made to generally accepted approaches to the valuation of receivables, the HKFRS 9 in relation to the disclosure and presentation, recognition and measurement of financial instruments.

Based on the valuation report, the Valuer adopted probability of default method for the valuation of ECL which is commonly used in measuring the ECL of receivables. The Valuer estimated the ECL as the product of four factors: (i) exposure at default; (ii) forecasted probability of default; (iii) recovery rate; and (iv) adjusted with time discount factor, if applicable. Recoverable amount of receivables is estimated as its exposure of default less the ECL.

Based on the valuation results, allowance for credit losses for trade receivables of the Trading Segment of approximately RMB626,969,000 was recognised for the year ended 31 December 2021. Impairment loss on trade receivables of the Trading Segment of approximately RMB34,457,000 was recognised during the year ended 31 December 2021.

As at the date of this announcement, there are no subsequent changes to the valuation methods as referred to above following their adoption.

**Shareholders of the Company are advised to exercise caution when dealing in the shares of the Company.**

By order of the Board  
**Shanghai Dasheng Agriculture Finance Technology Co., Ltd.**  
**Lan Huasheng**  
*Chairman*

Shanghai, PRC, 11 October 2022

*As at the date of this announcement, the Board comprises three executive directors: Mr. Lan Huasheng, Mr. Wang Liguang and Mr. Li Wenming; one non-executive director: Mr. Lu Tingfu; and two independent non-executive directors: Mr. Chung Cheuk Ming and Mr. Yang Gaoyu.*