



# China Smartpay Group Holdings Limited


(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8325)



# 2019

Third Quarterly Report



## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This report, for which the directors (the “**Directors**”) of China Smartpay Group Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited (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 report 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 report misleading.*



## FINANCIAL HIGHLIGHTS

- The Group's revenue amounted to approximately HK\$216.78 million for the nine months ended 31 December 2019, which represented a decrease of approximately 50.47% as compared with that of approximately HK\$437.69 million recorded in the corresponding period in 2018.
- The Group's gross profit amounted to approximately HK\$106.01 million, which represented a decrease of approximately 30.40% as compared with that of approximately HK\$152.32 million recorded in the corresponding period in 2018.
- The Group reported a loss amounted to approximately HK\$53.61 million for the nine months ended 31 December 2019 as compared with that of approximately HK\$80.53 million recorded in the corresponding period in 2018. The Group reported a loss attributable to equity holders of the Company for the nine months ended 31 December 2019 amounted to approximately HK\$53.87 million (2018: approximately HK\$78.84 million).
- Loss per share for the loss attributable to equity holders of the Company for the nine months ended 31 December 2019 was approximately 3.28 HK cents (2018: approximately 4.79 HK cents).
- The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2019 (2018: Nil).

## THIRD QUARTERLY RESULTS (UNAUDITED)

The board (the “**Board**”) of Directors is pleased to present the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the three months and nine months ended 31 December 2019 together with the comparative figures for the corresponding periods in 2018 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 31 December 2019

|   | Note | Unaudited<br>Three months ended<br>31 December |          | Unaudited<br>Nine months ended<br>31 December |           |
|---|------|--|----------|---|-----------|
|   |      | 2019   | 2018     | 2019  | 2018      |
|   |      | HK\$'000                                       | HK\$'000 | HK\$'000                                      | HK\$'000  |
| <b>Revenue</b>  | 2    | <b>83,801</b>                                  | 152,363  | <b>216,779</b>                                | 437,693   |
| Cost of services rendered   |      | <b>(37,374)</b>                                | (87,557) | <b>(110,766)</b>                              | (285,375) |
| Gross profit  |      | <b>46,427</b>                                  | 64,806   | <b>106,013</b>                                | 152,318   |
| Other income  |      | <b>9,886</b>                                   | 4,656    | <b>17,998</b>                                 | 18,575    |
| General administrative expenses   |      | <b>(51,991)</b>                                | (84,368) | <b>(148,454)</b>                              | (205,630) |
| Selling and distribution costs  |      | <b>(315)</b>                                   | (6,486)  | <b>(4,772)</b>                                | (23,429)  |
| Finance costs   | 4    | <b>(12,287)</b>                                | (12,340) | <b>(29,115)</b>                               | (36,974)  |
| Share of results of associates  |      | <b>(977)</b>                                   | (962)    | <b>7,618</b>                                  | 6,843     |
| Waiver of contingent consideration  |      | —  | 37,766   | —   | 37,766    |
| Fair value gain on derivative financial instruments                             |      | —  | 504      | —   | 1,527     |
| Fair value gain (loss) on financial assets at fair value through profit or loss |      | —  | 3,556    | —   | (15,748)  |

|  | Note | Unaudited<br>Three months ended<br>31 December |                  | Unaudited<br>Nine months ended<br>31 December |                  |
|--|------|--|------------------|---|------------------|
|  |      | 2019<br>HK\$'000                               | 2018<br>HK\$'000 | 2019<br>HK\$'000                              | 2018<br>HK\$'000 |
| Loss on disposal of a subsidiary   |      | —  | —                | —   | (9,484)          |
| Loss on disposal of equity interest in a joint venture   |      | —  | (4)              | —   | (33)             |
| <b>(Loss) Profit before tax</b>  | 4    | <b>(9,257)</b>                                 | 7,128            | <b>(50,712)</b>                               | (74,269)         |
| Income tax expenses  | 5    | <b>(350)</b>                                   | (1,840)          | <b>(2,893)</b>                                | (6,259)          |
| <b>(Loss) Profit for the period</b>  |      | <b>(9,607)</b>                                 | 5,288            | <b>(53,605)</b>                               | (80,528)         |
| <b>Attributable to:</b>  |      |  |                  |   |                  |
| Equity holders of the Company  |      | <b>(9,941)</b>                                 | 8,481            | <b>(53,869)</b>                               | (78,837)         |
| Non-controlling interests  |      | <b>334</b>                                     | (3,193)          | <b>264</b>                                    | (1,691)          |
|  |      | <b>(9,607)</b>                                 | 5,288            | <b>(53,605)</b>                               | (80,528)         |
| <b>(Loss) Earnings per share for (loss) profit attributable to equity holders of the Company</b> |      |  |                  |   |                  |
| Basic and diluted  | 6    | <b>(0.61)HK cents</b>                          | 0.52HK cents     | <b>(3.28)HK cents</b>                         | (4.79)HK cents   |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 31 December 2019

|  | Unaudited<br>Three months ended<br>31 December |                  | Unaudited<br>Nine months ended<br>31 December |                  |
|--|--|------------------|---|------------------|
|  | 2019<br>HK\$'000                               | 2018<br>HK\$'000 | 2019<br>HK\$'000                              | 2018<br>HK\$'000 |
| (Loss) Profit for the period   | (9,607)  | 5,288            | (53,605)                                      | (80,528)         |
| <b>Other comprehensive<br/>(expenses) income</b>   |  |                  |   |                  |
| <i>Item that will not be reclassified<br/>to profit or loss:</i>   |  |                  |   |                  |
| Equity investment at fair value<br>through other comprehensive<br>income – net movement in fair<br>value reserve (non-cycling) | —  | —                | —   | (10,463)         |
| <i>Items that may be reclassified<br/>subsequently to profit or loss:</i>  |  |                  |   |                  |
| Share of other comprehensive<br>expenses of associates<br>– exchange difference on<br>translation                              | (1,491)  | (5,511)          | (22,526)                                      | (22,697)         |
| Exchange difference on<br>translation of foreign<br>subsidiaries   | (14,945)                                       | (31,023)         | (76,964)                                      | (50,934)         |
| Share of other comprehensive<br>expenses of joint ventures<br>– exchange difference on<br>translation                          | —  | —                | —   | (459)            |
| Derecognition of exchange<br>reserve upon disposal of equity<br>interest in a joint venture                                    | —  | —                | —   | 120              |
| <b>Total comprehensive expenses<br/>for the period</b>   | <b>(26,043)</b>                                | <b>(31,246)</b>  | <b>(153,095)</b>                              | <b>(164,961)</b> |
| <b>Attributable to:</b>  |  |                  |   |                  |
| Equity holders of the Company  | (27,645)                                       | (27,021)         | (150,411)                                     | (155,481)        |
| Non-controlling interests  | 1,602  | (4,225)          | (2,684)                                       | (9,480)          |
|  | <b>(26,043)</b>                                | <b>(31,246)</b>  | <b>(153,095)</b>                              | <b>(164,961)</b> |



## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS

*For the nine months ended 31 December 2019*

### 1. CORPORATE INFORMATION AND BASIS OF PREPARATION

#### Corporate information

The Company was incorporated in the Cayman Islands on 12 December 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company got listed on GEM of the Stock Exchange on 28 August 2009.

#### Basis of preparation

The unaudited condensed consolidated third quarterly financial statements of the Company for the nine months ended 31 December 2019 (the “**Third Quarterly Financial Statements**”) have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rule.

The preparation of the Third Quarterly Financial Statements requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Third Quarterly Financial Statements include an explanation of events and transactions that are significant to an understanding of the financial performance of the Group since 31 March 2019, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). They shall be read in conjunction with the Group’s audited consolidated financial statements for the year ended 31 March 2019 (the “**2018/2019 Annual Financial Statements**”).



## 1. CORPORATE INFORMATION AND BASIS OF PREPARATION *(Continued)*

### Basis of preparation *(Continued)*

The Third Quarterly Financial Statements have been prepared on the historical costs basis and present in Hong Kong dollars (HK\$), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK\$'000) except otherwise indicated.

The accounting policies and methods of computation applied in the preparation of the Third Quarterly Financial Statements are consistent with those applied in preparing the 2018/2019 Annual Financial Statements except for the adoption of the new/revised HKFRSs which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 April 2019.

The Group has adopted the following new/revised standards, amendments and interpretations issued by the HKICPA for the first time for the condensed consolidated financial statements.

|                               |  |
|-------------------------------|--|
| Annual Improvements to HKFRSs | 2015-2017 Cycle                                |
| HKFRS 16                      | Leases   |
| HK(IFRIC)-Int 23              | Uncertainty over Income Tax Treatments         |
| Amendments to HKAS 19         | Employee benefits                              |
| Amendments to HKFRS 9         | Prepayment Features with Negative Compensation |
| Amendments to HKAS 28         | Investments in Associates and Joint Ventures   |





## 1. **CORPORATE INFORMATION AND BASIS OF PREPARATION** *(Continued)*

### HKFRS 16 “Leases”

The Group has adopted HKFRS 16, which replaced HKAS 17, and the related consequential amendments to other HKFRSs for the nine months ended 31 December 2019 which resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 16, the Group has elected to apply the new standard retrospectively with the cumulative effect of initial application recognised at 1 April 2019.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease rental expenses were recognised in profit or loss over the lease period on a straight-line basis.

On adoption of HKFRS 16, the Group recognised long-term lease liabilities which had previously been classified as operating leases if appropriate. The Group did not reassess if a contract was or contained a lease at adoption. These liabilities were subsequently measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of respective entities. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to profit or loss in the period in which it is incurred on the basis that produces a constant periodic rate of interest on the remaining lease liability balance.

At the inception of a contract that contains a lease component, as a lessee, the Group allocated the consideration in the contract to each lease component on the basis of their relative stand-alone-price. The Group, as a lessee assessed its leases for non-lease components and separated non-lease components from lease components for certain classes of assets if the non-lease components were material.



## 1. CORPORATE INFORMATION AND BASIS OF PREPARATION *(Continued)*

### HKFRS 16 “Leases” *(Continued)*

The associated right-of-use assets if appropriate, were measured at the amount equal to the initial measurement of lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the unaudited condensed consolidated statements of financial position immediately before the date of initial application. The right-of-use assets were recognised in the unaudited condensed consolidated statements of financial position.

Depreciation was charged to profit or loss on a straight-line basis over the shorter of the assets useful lives or over the unexpired term of lease.

Payments associated with short-term leases or leases of low-value assets are recognised on a straight-line basis over the lease term as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

On adoption of HKFRS 16, the Group recognized right-of-use assets and lease liabilities in relation to leases which had previously been classified as operating leases under HKAS 17. The lease liabilities of approximately HK\$13,615,000 was measured at the present value of the remaining minimum lease payments, discounted using the Group’s incremental borrowing rates as of 1 April 2019, with the relevant interest charged to profit or loss over the lease period. The Group applied single discount rate to a portfolio of lease with reasonably similar characteristics in the People’s Republic of China (the “**PRC**”), Hong Kong and Thailand. The right-of-use assets of approximately HK\$13,615,000 were recognized at cost, representing the amount of initial measurement of the lease liabilities and to be depreciated over the lease period on a straight-line basis. The interest expense in respect of lease liabilities and depreciation of right-of-use assets charged to profit or loss during the nine months ended 31 December 2019 was approximately HK\$342,000 and HK\$5,367,000 respectively.

### Future changes in HKFRSs

The Directors are in the process of assessing the possible impact on the future adoption of these new/revised HKFRSs, but are not yet in a position to reasonably estimate their impact on the Group’s consolidated financial statements.

## 2. REVENUE

Revenue is analysed by category as follows:

|   | Unaudited<br>Three months ended<br>31 December |                  | Unaudited<br>Nine months ended<br>31 December |                  |
|---|--|------------------|---|------------------|
|   | 2019<br>HK\$'000                               | 2018<br>HK\$'000 | 2019<br>HK\$'000                              | 2018<br>HK\$'000 |
| <b><u>Revenue from contracts<br/>with customers within<br/>HKFRS 15</u></b> |  |                  |   |                  |
| <b>Prepaid cards and<br/>internet payment<br/>business</b>                  |  |                  |   |                  |
| Merchant service fee<br>income  | <b>18,615</b>                                  | 73,015           | <b>54,563</b>                                 | 168,765          |
| Management fee income<br>of prepaid cards                                   | <b>121</b>                                     | —                | <b>1,794</b>                                  | 904              |
| Card issuing service fee<br>income  | <b>72</b>                                      | 151              | <b>356</b>                                    | 289              |
| Sales and service fee<br>income of point of sales<br>machines               | <b>22</b>                                      | 37               | <b>23</b>                                     | 608              |
| <b>Prestige benefits<br/>business</b>                                       |  |                  |   |                  |
| Issuance income of<br>prestige benefits cards                               | <b>26,441</b>                                  | 37,427           | <b>61,512</b>                                 | 112,502          |
| Hotel booking agency<br>service income                                      | <b>443</b>                                     | 12,838           | <b>2,875</b>                                  | 48,460           |
| <b>Merchant acquiring<br/>business</b>                                      |  |                  |   |                  |
| Merchant discount rate<br>Income ("MDR income")                             | <b>19,903</b>                                  | 18,309           | <b>51,830</b>                                 | 63,454           |
| Marketing and distribution<br>service income                                | <b>527</b>                                     | 205              | <b>1,460</b>                                  | 238              |

## 2. REVENUE (Continued)

|   | Unaudited<br>Three months ended<br>31 December |                  | Unaudited<br>Nine months ended<br>31 December |                  |
|---|--|------------------|---|------------------|
|   | 2019<br>HK\$'000                               | 2018<br>HK\$'000 | 2019<br>HK\$'000                              | 2018<br>HK\$'000 |
| <b><u>Revenue from other sources</u></b>              |  |                  |   |                  |
| <b>Prepaid cards and internet payment business</b>    |  |                  |   |                  |
| Interest income from accumulated utilised float funds | —  | 129              | —   | 1,359            |
| <b>Internet micro-credit business</b>                 |  |                  |   |                  |
| Loan interest income                                  | 12,412   | 5,006            | 27,725  | 23,093           |
| <b>Merchant acquiring business</b>                    |  |                  |   |                  |
| Foreign exchange rate discount income                 | 5,245  | 5,246            | 14,641  | 18,021           |
|   | <b>83,801</b>                                  | 152,363          | <b>216,779</b>                                | 437,693          |



### 3. SEGMENT REPORTING

The Directors have been identified as the chief operating decision makers to evaluate the performance of operating segments and to allocate resources to those segments. Based on risks and returns and the Group's internal financial reporting, the Directors consider that the operating segments of the Group comprise:

- (i) prepaid cards and internet payment business in the PRC;
- (ii) prestige benefits business in the PRC;
- (iii) internet micro-credit business in the PRC;
- (iv) merchant acquiring business in Thailand; and
- (v) securities investment business in Hong Kong.

In addition, the Directors consider that the Group's place of domicile is Hong Kong, where the central management and control is located.

Segment results, which are the measures reported to the chief operating decision makers for the purposes of resources allocation and assessment of segment performance, represent the profit earned or loss incurred by each segment without allocation of other income, finance costs, general administrative expenses incurred by corporate office, share of results of joint ventures and associates and income tax.

In determining the Group's geographical segments, revenue is attributed to the segments based on the location where services are provided. The geographical segment information is reflected within operating segment information as the Group's five distinctive business activities are provided in three different locations.

### 3. SEGMENT REPORTING *(Continued)*

Nine months ended 31 December 2019 (unaudited)

|                                   | Prepaid cards<br>and internet<br>payment<br>business<br>HK\$'000 | Prestige<br>benefits<br>business<br>HK\$'000 | Internet<br>micro-credit<br>business<br>HK\$'000 | Merchant<br>acquiring<br>business<br>HK\$'000 | Securities<br>investment<br>business<br>HK\$'000 | Consolidated<br>HK\$'000 |
|-----------------------------------|--|--|--|---|--|--------------------------|
| Segment revenue                   | 56,736   | 64,387                                       | 27,725   | 67,931  | –  | 216,779                  |
| Segment results                   | (28,264)   | 14,966                                       | (2,370)  | 5,681   | –  | (9,987)                  |
| Unallocated other income          |  |  |  |   |  | 17,998                   |
| Unallocated finance costs         |  |  |  |   |  | (29,115)                 |
| Unallocated other expenses        |  |  |  |   |  | (37,226)                 |
| Share of results of<br>associates |  |  |  |   |  | 7,618                    |
| <b>Loss before tax</b>            |  |  |  |   |  | (50,712)                 |
| Income tax expenses               |  |  |  |   |  | (2,893)                  |
| <b>Loss for the period</b>        |  |  |  |   |  | (53,605)                 |

### 3. SEGMENT REPORTING (Continued)

Nine months ended 31 December 2018 (unaudited)

|   | Prepaid cards<br>and internet<br>payment<br>business<br>HK\$'000 | Prestige<br>benefits<br>business<br>HK\$'000 | Internet<br>micro-credit<br>business<br>HK\$'000 | Merchant<br>acquiring<br>business<br>HK\$'000 | Securities<br>investment<br>business<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|--|--|--|---|--|--------------------------|
| Segment revenue   | 171,925  | 160,962                                      | 23,093   | 81,713  | —  | 437,693                  |
| Segment results   | (1,637)  | (7,976)                                      | (2,974)  | 6,689   | (15,748)   | (21,646)                 |
| Unallocated other income                                  |  |  |  |   |  | 18,575                   |
| Unallocated finance costs                                 |  |  |  |   |  | (36,974)                 |
| Unallocated other expenses                                |  |  |  |   |  | (70,843)                 |
| Waiver of contingent<br>consideration                     |  |  |  |   |  | 37,766                   |
| Fair value gain on derivative<br>financial instruments    |  |  |  |   |  | 1,527                    |
| Loss on disposal of<br>subsidiaries                       |  |  |  |   |  | (9,484)                  |
| Loss on disposal of equity<br>interest in a joint venture |  |  |  |   |  | (33)                     |
| Share of results of associates                            |  |  |  |   |  | 6,843                    |
| <b>Loss before tax</b>                                    |  |  |  |   |  | (74,269)                 |
| Income tax expenses                                       |  |  |  |   |  | (6,259)                  |
| <b>Loss for the period</b>                                |  |  |  |   |  | (80,528)                 |

#### 4. (LOSS) PROFIT BEFORE TAX

|   | Unaudited<br>Three months ended<br>31 December |                  | Unaudited<br>Nine months ended<br>31 December |                  |
|---|--|------------------|---|------------------|
|   | 2019<br>HK\$'000                               | 2018<br>HK\$'000 | 2019<br>HK\$'000                              | 2018<br>HK\$'000 |
| This is stated after charging<br>(crediting):   |  |                  |   |                  |
| <b>Finance costs</b>  |  |                  |   |                  |
| Interest on bonds   | 12,026   | 8,952            | 28,307  | 26,812           |
| Finance costs on other<br>long-term liabilities   | 159  | 44               | 466   | 132              |
| Finance costs on leases<br>liabilities  | 102  | —                | 342   | —                |
| Effective interest expense<br>on convertible bonds                                      | —  | 3,344            | —   | 10,030           |
|   | <b>12,287</b>                                  | 12,340           | <b>29,115</b>                                 | 36,974           |
| <b>Other items</b>  |  |                  |   |                  |
| Amortisation of intangible<br>assets  | 5,534  | 4,529            | 14,867  | 12,761           |
| Depreciation of property,<br>plant and equipment  | 1,766  | 2,139            | 7,127   | 7,396            |
| Depreciation of right-of-use<br>assets  | 1,897  | —                | 5,367   | —                |
| Operating lease charges on<br>premises  | 255  | 3,051            | 1,061   | 9,623            |
| (Gain) Loss on disposal<br>of property, plant and<br>equipment                          | (7,552)  | —                | (7,531)                                       | 113              |
| Loss allowance on loan<br>receivables   | 7,507  | 2,246            | 11,267  | 26,495           |
| Staff costs, including<br>directors' emoluments<br>and share-based<br>compensation cost | 26,136   | 31,474           | 75,591  | 93,999           |
| Share-based compensation<br>cost to service providers                                   | —  | —                | —   | 836              |
| Spin-off expenses ( <i>Note</i> )   | —  | 8,323            | —   | 14,547           |

*Note:* The amount represents expenses incurred for processing the spin-off and separate listing of the merchant acquiring business in Thailand on GEM.



## 5. TAXATION

|  | Unaudited<br>Three months ended<br>31 December |                  | Unaudited<br>Nine months ended<br>31 December |                  |
|--|--|------------------|---|------------------|
|  | 2019<br>HK\$'000                               | 2018<br>HK\$'000 | 2019<br>HK\$'000                              | 2018<br>HK\$'000 |
| <b>Current tax</b>   |  |                  |   |                  |
| PRC Enterprise Income Tax                                    | (46)   | 1,167            | (645)   | (709)            |
| Thailand Enterprise Income Tax                               | 345  | 265              | 922   | 1,294            |
| Withholding tax on dividend declared by a foreign subsidiary | —  | 567              | 202   | 567              |
|  | <b>299</b>                                     | 1,999            | <b>479</b>                                    | 1,152            |
| <b>Deferred tax</b>  |  |                  |   |                  |
| (Recognition) Utilisation of tax losses                      | —  | (55)             | 20  | —                |
| Origination (Reversal) of temporary difference               | 51   | (104)            | 2,394   | 5,107            |
|  | <b>51</b>                                      | (159)            | <b>2,414</b>                                  | 5,107            |
| Income tax expenses for the period                           | <b>350</b>                                     | 1,840            | <b>2,893</b>                                  | 6,259            |

### (i) Hong Kong Profits Tax

Hong Kong Profits Tax has not been provided as certain Group entities' estimated assessable profits for the period were absorbed by unrelieved tax losses brought forward from previous year and certain Group Entities' incurred losses for taxation purposes for the periods ended 31 December 2019 and 2018.

## 5. TAXATION *(Continued)*

### (ii) Income taxes outside Hong Kong

The Company and its subsidiaries established in the Cayman Islands and British Virgin Islands (“**BVI**”) are exempted from the payment of income tax in the Cayman Islands and the BVI respectively.

The Group’s operations in the PRC are subject to enterprise income tax of the PRC (“**PRC Enterprise Income Tax**”) at 25% (2018: 25%), except for 開聯通支付服務有限公司 (Open Union Payment Services Limited\*, “**Open Union**”) and 上海靜元信息科技有 限公司 (Shanghai Jingyuan Message Technology Limited\*, “**Shanghai Jingyuan**”) (2018: Open Union and Shanghai Jingyuan), which are subject to PRC Enterprise Income Tax at a preferential rate of 15% (2018: 15%) for high and new technology enterprises.

The Group’s operation in Thailand is subject to Thailand income tax at 20% (2018: 20%).

The Group’s operation in Singapore is subject to Singapore income tax at 17% (2018: 17%).

The Group’s operation in Korea is subject to Korea corporation tax ranged from 10% to 22% (2018: 10% to 22%).

Dividends payable by a foreign invested enterprise in the PRC or Thailand to its foreign investors are subject to a 10% (2018: 10%) withholding tax, unless any foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC or Thailand that provides for a different withholding arrangement.

\* *English translation for identification purpose only.*

## 6. (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share for the three months and nine months ended 31 December 2019 are calculated based on the unaudited consolidated (loss) profit for the period attributable to the equity holders of the Company of loss approximately HK\$9,941,000 and loss of approximately HK\$53,869,000 respectively, (2018: profit of approximately HK\$8,481,000 and loss approximately HK\$78,837,000 respectively) and on the weighted average number of 1,644,188,693 ordinary shares (2018: 1,644,188,693 ordinary shares) in issue during the period.

Diluted (loss) earnings per share is the same as basic (loss) earnings per share as the effect of potential ordinary shares had anti-dilutive effects during the three months and nine months ended 31 December 2019 and 2018 respectively.

## 7. MOVEMENT OF EQUITY

|   | Attributable to equity holders of the Company |                           |                             |                              |                               |                                  |                                |                   |                                       |                          |
|---|---|---------------------------|-----------------------------|------------------------------|-------------------------------|----------------------------------|--------------------------------|-------------------|---------------------------------------|--------------------------|
|   | Share capital<br>HK\$'000                     | Share premium<br>HK\$'000 | Capital reserve<br>HK\$'000 | Exchange reserve<br>HK\$'000 | Statutory reserve<br>HK\$'000 | Share option reserve<br>HK\$'000 | Accumulated losses<br>HK\$'000 | Total<br>HK\$'000 | Non-controlling interests<br>HK\$'000 | Total equity<br>HK\$'000 |
| <b>For the nine months ended<br/>31 December 2019</b>                             |   |                           |                             |                              |                               |                                  |                                |                   |                                       |                          |
| At 1 April 2019 (Audited)   | 16,441  | 1,562,367                 | 5,498                       | (45,625)                     | 10,834                        | 215,870                          | (816,471)                      | 948,914           | 87,308                                | 1,036,222                |
| Loss for the period   | -   | -                         | -                           | -                            | -                             | -                                | (53,869)                       | (53,869)          | 264                                   | (53,605)                 |
| <b>Other comprehensive<br/>expenses</b>   |   |                           |                             |                              |                               |                                  |                                |                   |                                       |                          |
| <i>Items that may be<br/>reclassified<br/>subsequently to profit or<br/>loss:</i> |   |                           |                             |                              |                               |                                  |                                |                   |                                       |                          |
| Share of other<br>comprehensive<br>expenses of associates                         | -   | -                         | -                           | (22,526)                     | -                             | -                                | -                              | (22,526)          | -                                     | (22,526)                 |
| Exchange difference on<br>translation of foreign<br>subsidiaries                  | -   | -                         | -                           | (74,016)                     | -                             | -                                | -                              | (74,016)          | (2,948)                               | (76,964)                 |
| Total comprehensive<br>expenses for the period                                    | -   | -                         | -                           | (96,542)                     | -                             | -                                | (53,869)                       | (150,411)         | (2,684)                               | (153,095)                |
| <b>Transaction with owners:</b>   |   |                           |                             |                              |                               |                                  |                                |                   |                                       |                          |
| <i>Contribution and<br/>distributions</i>   |   |                           |                             |                              |                               |                                  |                                |                   |                                       |                          |
| Recognition of share-based<br>compensation cost                                   | -   | -                         | -                           | -                            | -                             | 7,518                            | -                              | 7,518             | -                                     | 7,518                    |
| Forfeiture of share options   | -   | -                         | -                           | -                            | -                             | (2,352)                          | 2,352                          | -                 | -                                     | -                        |
| Lapse of share options  | -   | -                         | -                           | -                            | -                             | (98,271)                         | 98,271                         | -                 | -                                     | -                        |
|   | -   | -                         | -                           | -                            | -                             | (93,105)                         | 100,623                        | 7,518             | -                                     | 7,518                    |
| At 31 December 2019<br>(Unaudited)  | 16,441  | 1,562,367                 | 5,498                       | (142,167)                    | 10,834                        | 122,765                          | (769,717)                      | 806,021           | 84,624                                | 890,645                  |

## 7. MOVEMENT OF EQUITY (Continued)

|   | Attributable to equity holders of the Company |                           |                             |   |                                  |  |   |  |  |                   |  |                             |
|---|---|---------------------------|-----------------------------|---|----------------------------------|--|---|--|--|-------------------|--|-----------------------------|
|   | Share capital<br>HK\$'000                     | Share premium<br>HK\$'000 | Capital reserve<br>HK\$'000 | Fair value<br>Exchange<br>reserve<br>HK\$'000 | Statutory<br>reserve<br>HK\$'000 | Share<br>option<br>reserve<br>HK\$'000 | Fair<br>value<br>Reserve<br>(recycling)<br>HK\$'000 | Reserve<br>(non-<br>recycling)<br>HK\$'000 | Acc-<br>umulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 | Non-<br>controlling<br>interests<br>HK\$'000 | Total<br>equity<br>HK\$'000 |
| <b>For the nine months<br/>ended 31 December<br/>2018</b>   |   |                           |                             |   |                                  |  |   |  |  |                   |  |                             |
| At 1 April 2018 (audited)   | 16,441  | 1,562,367                 | 5,498                       | 48,494  | 7,336                            | 234,837                                | 24,965  | —  | (577,445)                              | 1,322,493         | 79,264                                       | 1,401,757                   |
| Impact on initial application<br>of HKFRS 9 (Note 1)  | —   | —                         | —                           | —   | —                                | —                                      | (24,965)  | 24,965                                     | —                                      | —                 | —  | —                           |
| At 1 April 2018 (audited)   | 16,441  | 1,562,367                 | 5,498                       | 48,494  | 7,336                            | 234,837                                | —   | 24,965                                     | (577,445)                              | 1,322,493         | 79,264                                       | 1,401,757                   |
| Loss for the period   | —   | —                         | —                           | —   | —                                | —                                      | —   | —  | (78,837)                               | (78,837)          | (1,691)                                      | (80,528)                    |
| <b>Total other<br/>comprehensive<br/>(expenses) income:</b>   |   |                           |                             |   |                                  |  |   |  |  |                   |  |                             |
| <i>Item that will not be<br/>reclassified to profit or<br/>loss:</i>  |   |                           |                             |   |                                  |  |   |  |  |                   |  |                             |
| Equity investment at fair<br>value through other<br>comprehensive income<br>— net movement in<br>fair value reserve (non-<br>recycling) | —   | —                         | —                           | —   | —                                | —                                      | —   | (10,463)                                   | —                                      | (10,463)          | —  | (10,463)                    |
| <i>Items that may<br/>be reclassified<br/>subsequently to profit<br/>or loss:</i>   |   |                           |                             |   |                                  |  |   |  |  |                   |  |                             |
| Share of other<br>comprehensive<br>expenses of associates<br>— exchange difference<br>translation                                       | —   | —                         | —                           | (22,697)                                      | —                                | —                                      | —   | —  | —                                      | (22,697)          | —  | (22,697)                    |
| Share of other<br>comprehensive income<br>of joint ventures   | —   | —                         | —                           | (459)   | —                                | —                                      | —   | —  | —                                      | (459)             | —  | (459)                       |
| Derecognition of exchange<br>reserve upon disposal<br>of equity interest in a<br>joint venture  | —   | —                         | —                           | 120   | —                                | —                                      | —   | —  | —                                      | 120               | —  | 120                         |
| Exchange difference on<br>translation of foreign<br>subsidiaries  | —   | —                         | —                           | (43,145)                                      | —                                | —                                      | —   | —  | —                                      | (43,145)          | (7,789)                                      | (50,934)                    |

## 7. MOVEMENT OF EQUITY (Continued)

|  | Attributable to equity holders of the Company |                           |                             |   |                                  |  |   |  |  |                   |  |                             |
|--|---|---------------------------|-----------------------------|---|----------------------------------|--|---|--|--|-------------------|--|-----------------------------|
|  | Share capital<br>HK\$'000                     | Share premium<br>HK\$'000 | Capital reserve<br>HK\$'000 | Fair value<br>Exchange<br>reserve<br>HK\$'000 | Statutory<br>reserve<br>HK\$'000 | Share<br>option<br>reserve<br>HK\$'000 | Fair<br>value<br>Reserve<br>(recycling)<br>HK\$'000 | Reserve<br>(non-<br>recycling)<br>HK\$'000 | Acc-<br>umulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 | Non-<br>controlling<br>interests<br>HK\$'000 | Total<br>equity<br>HK\$'000 |
| Total comprehensive expenses for the period                                  | —   | —                         | —                           | (66,181)                                      | —                                | —                                      | —   | (10,463)                                   | (78,837)                               | (155,481)         | (9,480)                                      | (164,961)                   |
| Realisation of fair value reserve upon disposal of a subsidiary              | —   | —                         | —                           | —   | —                                | —                                      | —   | (14,502)                                   | 14,502                                 | —                 | —  | —                           |
| <b>Transaction with owners:</b>  |   |                           |                             |   |                                  |  |   |  |  |                   |  |                             |
| <i>Contribution and distributions</i>  |   |                           |                             |   |                                  |  |   |  |  |                   |  |                             |
| Forfeiture of share options  | —   | —                         | —                           | —   | —                                | (11,853)                               | —   | —  | 11,853                                 | —                 | —  | —                           |
| Lapse of share options   | —   | —                         | —                           | —   | —                                | (23,938)                               | —   | —  | 23,938                                 | —                 | —  | —                           |
| Recognition of share-based compensation cost                                 | —   | —                         | —                           | —   | —                                | 13,511                                 | —   | —  | —                                      | 13,511            | —  | 13,511                      |
| Dividends paid to non-controlling interests of non-wholly owned subsidiaries | —   | —                         | —                           | —   | —                                | —                                      | —   | —  | —                                      | —                 | (2,430)                                      | (2,430)                     |
| Transfer to statutory reserve  | —   | —                         | —                           | —   | 3,638                            | —                                      | —   | —  | (3,638)                                | —                 | —  | —                           |
|  | —   | —                         | —                           | —   | 3,638                            | (22,280)                               | —   | —  | 32,153                                 | 13,511            | (2,430)                                      | 11,081                      |
| <i>Changes in ownership interests</i>  |   |                           |                             |   |                                  |  |   |  |  |                   |  |                             |
| Deemed disposal of partial interest in OPG <Remark 1>                        | —   | —                         | —                           | —   | —                                | —                                      | —   | —  | 21,748                                 | 21,748            | 19,763                                       | 41,511                      |
| Acquisition of additional interest in a subsidiary                           | —   | —                         | —                           | —   | —                                | —                                      | —   | —  | 1,311                                  | 1,311             | (2,132)                                      | (821)                       |
|  | —   | —                         | —                           | —   | —                                | —                                      | —   | —  | 23,059                                 | 23,059            | 17,631                                       | 40,690                      |
| At 31 December 2018<br>(Unaudited)   | 16,441  | 1,562,367                 | 5,498                       | (17,687)                                      | 10,974                           | 212,557                                | —   | —  | (586,568)                              | 1,203,582         | 84,985                                       | 1,288,567                   |

## 7. MOVEMENT OF EQUITY (Continued)

<Remark 1>

On 16 October 2018, the shares of Oriental Payment Group Holding Limited (“OPG”), a non-wholly owned subsidiary of the Company, were listed on GEM of the Stock Exchange by way of share offer (Stock code: 8613). 250,000,000 new ordinary shares of OPG of HK\$0.01 each were issued at HK\$0.22 per share (the “OPG Share Offer”). On the same date, 749,999,800 ordinary shares of OPG of HK\$0.01 each were issued to its existing shareholders through capitalisation of HK\$7,499,998 standing to the credit of share premium account of OPG (the “Capitalisation Issue”). Immediately following completion of the Capitalisation Issue and the OPG Share Offer, the Company’s effective equity interests in OPG decreased from 70% to 52.50%. OPG would remain as the non-wholly owned subsidiary of the Company. The net proceeds for the Share Offer amounted to approximately HK\$41,511,000.

The financial impact of the OPG Share Offer is set out as follow:

|  | <i>HK\$’000</i> |
|--|-----------------|
| Net consideration received                   | 41,511          |
| Carrying amount of interests in OPG disposed | (19,763)        |
|  | <hr/>           |
| Difference recognised directly in equity     | 21,748          |
|  | <hr/>           |

The details of the OPG Share Offer was set out in the prospectus issued by OPG dated 27 September 2018 and the announcements of the Company dated 15 October 2018 and 16 October 2018.



## 8. OTHER AND SUBSEQUENT EVENTS

Charm Act Group Limited (“**Charm Act**”), a wholly-owned subsidiary of the Company and the controlling shareholder holding 52.5% of the total issued share capital of OPG, entered into a placing agreement (the “**Placing Agreement**”) dated 13 January 2020 (as supplemented, amended or modified by the side letter dated 23 January 2020) with the placing agent, namely, Gayang Securities Limited (a company indirectly owned by Mr. Yan Dinggui, the executive Director, as to 98.7%) (the “**Placing Agent**”), to place up to 200,000,000 shares (the “**Placing Share(s)**”) of OPG at the placing price of HK\$0.07 per Placing Share on a best effort basis (the “**Placing**”). After the completion of the Placing took place on 3 February 2020, the Group received net proceeds of approximately HK\$13,700,000 from the Placing. Accordingly, Charm Act holds 325,000,000 shares of OPG, representing 32.5% of the total issued share capital of OPG, and Charm Act shall remain as the controlling shareholder and continue to control over OPG; while OPG will remain as a subsidiary of the Company, and its financial results and financial positions will continue to be consolidated in the consolidated financial statements of the Company and its subsidiaries.

For details of the Placing, please refer to the announcements of the Company respectively dated 13 January 2020, 23 January 2020 and 3 February 2020.



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

China Smartpay Group Holdings Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) have engaged in the following businesses during the nine months ended 31 December 2019 (the “**Review Period**”):

The Group offers a wide range of value-added and internet payment services to its customers and controls one of the only six payment service licences for nationwide prepaid cards and internet payment services in the People’s Republic of China (the “**PRC**” or “**China**”). It has always been the Group’s intention to provide its users a one-stop solution combining payment, benefits and credit services.

As for the internet payment business, the Group focuses on areas with rapid growth potentials and strives to establish partnerships with various parties to provide secure and convenient internet payment services for different financial institutions and bulk commodity trading platforms on one hand, and to provide crossborder payment and custom clearance services for cross-border e-commerce enterprises on the other hand. As one of the limited national prepaid card enterprises, we will utilise the resources of our branches to vigorously develop prepaid cards business across the nation in the future and intensively strengthen our presence in the areas of industry cooperation leveraging our own advantages.

According to the business data from third party payment industry, with the internet payment business growth decelerating, the prepaid card industry steadily developed within the criteria. A continuous stable growth of GDP and residents’ income resulted in a general enhancement of self-discipline in the industry, a full acceleration of industrial opening and an extensive application and innovation of financial technology, therefore the payment industry will keep growing up to a certain extent and go on developing rapidly.





## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **BUSINESS REVIEW** *(Continued)*

As for the prestige benefits business, with the increased market demands and business cooperation needs, we launched the new official website and additional online sales channels to roll-out prestige benefits products directly to end customers in a gradual pace. In the prestige membership benefit service industry of banking and credit card organizations, in addition to the leading banks that issue large volume of the original credit cards, there are more and more small-and-medium banks concerned with benefit service for the cardholders and providing their customers retail or credit card businesses with value-added benefit services. Besides, with the emerging consumption pattern of paid membership, there will be more demand for membership benefit in new retail sectors and on internet platforms. As to the industry ahead, there will be more service targets and larger market scale.

The Group is fully promoting further development of the internet micro-credit business through infrastructure technology upgrading and business model optimisation. By adhering to its positioning of providing “inclusive financial services” and leveraging on the internet scene platform, big data capability and technical applications, the Group provides borrowers with various customised credit products based on their actual situations and meet their borrowing and consumption needs. The micro-credit industry experienced a greater development in the past few years and the assets formed by the internet credit providers represented by the leading internet enterprises such as BAT continually generated. In consideration of the development prospects of the businesses such as domestic consumption and personal operation, we are optimistic about the future industrial development.

As for the merchant acquiring business, we are an established merchant acquirer in providing a suite of comprehensive payment processing services to merchants of all sizes frequently visited by Chinese tourists in Thailand.



## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **BUSINESS REVIEW** *(Continued)*

There are three main revenue streams derived from the merchant acquiring business, including (i) MDR income; (ii) foreign exchange rate discount income; and (iii) marketing and distribution service income. For each successful transaction processed via its point-of-sale (“**POS**”) terminals, MDR income is charged to its merchants based on certain percentage of the transaction value. Foreign exchange rate discount income is derived from its daily settlement with UnionPay International (“**UPI**”) whereby a favourable spot exchange rate in Baht to United States dollars (“**US\$**”) is offered by UPI in translating the nominated transaction value in Baht. The marketing and distribution service income represents the income derived from developing marketing channels for expanding the use of payment service system through its merchant network.

During the Review Period, the Group continuously faced the risks of uncertainties in Thailand’s economic outlook, its relationship with the PRC and the impact of Sino-US trade war, which would affect Chinese tourists’ spending sentiments in Thailand. The management would closely monitor the market conditions and adjust the Group’s business strategies to cope with the fluctuation in transaction value derived from its merchant network.

In order to capture the opportunities from the increasing number of Chinese tourists using Alipay and Wechat Pay in Thailand, the Group started to support these payment methods during the Review Period.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS OUTLOOK

Regarding the prepaid cards and internet payment business, the Group has established or been actually operating several branch corporate entities, advancing the commencement of prepaid cards and internet business in each branch company. The current continuous stable growth of GDP and residents' income will provide a fundamental support to the sustainability of payment business. The regulators have constantly strengthened the regulation of non-banking payment institutions, and specifically cracked down on and investigated the operation of the payment business without license and the licensed institutions which provided the channels to the unlicensed institutions conducting payment business and therefore the payment institutions will be urged to reinforce their self-discipline and compliance management. As the Group legally commenced its business in strict compliance with the requirements in the long run, the reinforcement of regulation by the regulators and crackdown on unlicensed operation of payment business may bring more businesses and customers to the Group, boosting the development of payment business for the Group. Focused on the breakthrough of the industrial solution, extending the progress everywhere can rapidly expand the payment scale. The module product lines such as cross-border payment, KLT Pay, 海外聚合, 商圈卡 & 积分商城 were established and launched in succession to promote the business model for "Payment + Industrial solution" and continue extending the direction to B-end enabling business. With the speedy growth of internet, consumers have got accustomed in utilizing the third party payment method for consumptions. Meanwhile, the population of Chinese people who get used to online consumption keep growing at a fast pace and the growth rate has been up to 10% or above. With the eruption of internet mobile era and the development of 5G technology, the future third party companies will be more closely linked to human lifestyle in order to bring an all-round life service payment power to people. On the other hand, Central Bank issued a series of significant regulatory measures against the third party payment industry, which will speed up its restructuring and will be a mix of challenges and opportunities for the payment companies in compliance with the requirements. The payment companies which develop within the criteria will embrace the emergent developmental opportunities.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS OUTLOOK *(Continued)*

The mobile payment market represented by Singapore in Southeast Asia will be expanded, especially the integrated payment one that serves Chinese tourists. We own an integrated payment license in Singapore and will have a tremendous number of Chinese tourists who frequently visit Singapore and different Southeast Asian countries in the three years ahead, which will be a chance for us to be connected to the local micro, small and medium-sized merchants in Southeast Asia and a point of profit growth for new business. The mobile payment business of Southeast Asia is relatively outdated while a number of frequent Chinese tourists are nurturing such local payment market. We have plenty of experiences both in access to integrated payment and settlement system development and meanwhile, may seize the chance to diversify the merchant membership benefit products and the financial credit products in compliance with the regulations in various Southeast Asian countries as well. This is the competitive advantage other peers do not have.

As for the internet-micro-credit business, the Chinese government restricted the promotion for the networks of internet-micro-credit business and in general, prohibited the networking operational promotion. However, Massnet Microcredit Company (Chongqing) Limited (“**Massnet Microcredit**”) with the support of abundant client base and database from the Group organically grew together with the Group’s business. Concurrently, the interest in inclusive finance (personal or small-and-micro enterprise) from licensed financial business and the developmental trend will exacerbate that sectorial competition and a higher standard in terms of product customization, customers’ experience and etc. will be required. As a licensed internet-micro-credit institution, Massnet Microcredit will incessantly expand quality client sources and introduce fund leverages such as banks and trustees. Subject to effective risk control, the product patterns are enriched, the business scale enlarged and the profit contribution enhanced. Micro-credit finance introduces quality customer flow and gradually raises the interest rate reasonably in the form of combination of interindustry co-operations and intragroup resources.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS OUTLOOK *(Continued)*

As for the prestige benefits business, we had focused on the value-added services provided by banks and card issuing organizations to high-end cardholders, and being a long-term partner with financial institutions and an officially designated service provider of Visa, Master, American Express and China UnionPay. As an experienced banking service provider for many years, we are familiar with the benefits and rules of concession events of member loyalty program and has full procedural experience in member benefit services. After accumulation for many years, we possess a comprehensive IT system for eco-services, a sophisticated resources management platform & a merchant service platform (so that it can quickly expand and connect new benefits), a sophisticated customer service platform, a buffet platform, an afternoon tea platform, a hotel reservation platform, a hotel SPA platform, an airport/high-speed rail VIP lounge platform and a comprehensive online & offline merchant coupon code system, and all supermarket, food & beverage, entertainment, coffee and internet products may offer cash coupon and conversion coupon, which can bring diversified and customized products to the co-operative platforms. In order to meet the need of different business scenarios, with layout payment membership program and bonus point program, SaaS system for benefit services has been developed to integrate resources on the marketing platform for one-stop benefit services of internet technology + marketing platform + benefit services and in turn, to create a breakthrough as a pure role of provider, produce a full set of solution to benefit services, analyse the industrial business scenarios and come into production for establishment of an eco-system for open platform. On the other hand, we utilize our own licensed resources advantage to link to the financial services such as internet payment and consumption analysis for better use of the services to the Group's ecology. We increase the share of procured and retailed products and in turn heightens the overall profit margin of the products via reduction of the share of use rate products. Through systematic and procedural optimization, it lowers labour participation and cuts manpower costs, strengthens optimization for existing partnership to lessen business costs across new benefit products (from hotel services to new products covering card, coupon, travel & healthcare), new business model (from products supply to system product services & operational services) and new industrial customers (from credit card centre to retail bank clients and clients from other industries). We have once updated the generation of the products in benefits business and set aside some products with low gross profit which may incur losses, providing the banks with better benefit service and also ensuring our own profit margin to purely pursue market share; on the other hand, the peer competition has become aggravated in China and, combined with in-house product strategy adjustment at the same time, we generally arrange our own products' pricing, control our procurement costs in all aspects and implement pre-online product examination model to ensure that the profit margin would rise notably higher than that of last period.



## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **BUSINESS OUTLOOK** *(Continued)*

As for the merchant acquiring business in Thailand, the Group remains cost conscious through stringent cost control measures in order to improve the performance of the Group. The Group will proactively seek business opportunities that will contribute to and sustain the Group's future development in generating better return for the shareholders of the Company.

As for the securities investment business, the Group will continue to capitalise on financial investment opportunities in the Company's related industries or markets to enhance capital returns, facilitate future growth and develop our core business segments.

### **FINANCIAL REVIEW**

#### **Revenue**

The Group's revenue for the Review Period was approximately HK\$217 million, representing a decrease of approximately 50% as compared to that of the corresponding period in the last year because of the significant decrease in the revenue of the prestige benefits business, prepaid cards and internet payment business and merchant acquiring business.

The revenue from sales of prestige benefits card decreased mainly because the Group terminated the co-operation with a major customer, Shanghai Pudong Development Bank Co., Limited which recorded a significant decrease in issuance of prestige benefits cards because the gross profit margin was too low in regard to issuing prestige benefits cards. At the same time, the Group stopped to cooperate with some cold call centers because cold call marketing became less effective due to the PRC government's promotion and public awareness of telephone scam.

Hotel booking service income significantly decreased mainly because one of the major customers reduced their budget on credit cards loyalty points redemption and put fewer efforts to promote the redemption of loyalty point, which led to the decrease in service income. The Group did not continue the co-operation with another major customer, Shanghai Pudong Development Bank Co., Limited since August 2018. This led to a significant decrease in hotel booking service income.



## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **FINANCIAL REVIEW** *(Continued)*

#### **Revenue** *(Continued)*

The significant decrease in the revenue of prepaid cards during the Review Period was because the ongoing effects of prepaid cards policy in China and regular review by the PRC regulatory authority led to a decrease in the value of prepaid cards issued from the corresponding period in the last year, which directly affected the merchant service fee income of prepaid cards. More importantly, the original provision deposit revenue became nil upon the centralised depository of provisions, resulting in a significant decrease in the revenue of prepaid cards.

As for the merchant acquiring business in Thailand, there was a decrease in MDR income and foreign exchange rate discount income by approximately HK\$11.6 million and HK\$3.4 million, respectively when comparing with that in the same period in the last year. The decrease in these two income streams was in line with the decrease in the volume via UnionPay processed by the Group for the Review Period as a result of the uncertainties in overall Chinese tourists' spending sentiments in Thailand and the challenges brought about by Alipay and Wechat Pay, the two increasing popular payment methods among Chinese tourists in Thailand.

#### **Cost of Services Rendered**

Cost of services rendered amounted to approximately HK\$111 million, representing a decrease of approximately 61% as compared with that recorded in the corresponding period in the last year. The cost of services rendered decreased in line with the decrease in revenue.

#### **General Administrative Expenses**

The general administrative expenses of the Group for the Review Period were approximately HK\$148 million, representing a decrease of approximately 28% from that of the corresponding period in the last year. The decrease was primarily attributable to a decrease in share based compensation costs, salaries, allowances and other short-term employee benefits, and loss allowance on loan receivables.



## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **FINANCIAL REVIEW** *(Continued)*

#### **Selling and Distribution Costs**

The selling and distribution costs for the Review Period amounted to approximately HK\$5 million, representing a decrease of approximately 80% from that in the corresponding period in the last year. The decrease was mainly because the Group employed new information technology staff for the development of the systems instead of outsourcing the development to the service providers and hence resulted in a decrease in the agency fee. Meanwhile, Massnet Microcredit re-started its online micro-credit business and changed the marketing strategy to fully relying on the suppliers for the promotion of their products and referral of potential borrowers.

#### **Finance Costs**

The finance costs for the Review Period amounted to approximately HK\$29 million, representing a decrease of approximately 21% from that in the corresponding period in the last year. The decrease was mainly because the Group completed the early redemption of convertible bonds in March 2019.

#### **Loss for the Review Period**

During the Review Period, the Group reported a net loss attributable to equity holders of the Company amounted to approximately HK\$54 million. Basic loss per share was approximately 3.28 HK cents as compared with approximately 4.79 HK cents recorded in the corresponding period in the last year.

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or were required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

(Continued)

Long positions in ordinary shares (the "Shares") of HK\$0.01 each of the Company and underlying Shares in equity derivatives

| Name  | Capacity                                      | Number of Shares | Percentage of shareholding |
|---|---|------------------|----------------------------|
| Mr. Yan Dinggui ("Mr. Yan")   | Interest in controlled corporations (Note 1)  | 490,019,430      | 29.80%                     |
| Dr. Cao Guoqi ("Dr. Cao")<br>(resigned on 21 January 2020)          | Interest in a controlled corporation (Note 2) | 150,000          | 0.01%                      |
|   | Beneficial owner (Note 3)                     | 15,000,000       | 0.91%                      |
|   | Interest of spouse (Note 4)                   | 1,370,000        | 0.08%                      |
| Mr. Zhang Huaqiao<br>("Mr. Zhang")<br>(resigned on 21 January 2020) | Beneficial owner (Note 3)                     | 25,000,000       | 1.52%                      |
| Mr. Song Xiangping<br>("Mr. Song")                                  | Beneficial owner (Note 3)                     | 5,000,000        | 0.30%                      |

Notes:

- These 490,019,430 Shares were held by Invech Holdings Limited ("Invech"). Invech was wholly owned by Bright New Vision Inc. ("BNV") which was in turn wholly owned by Jiayin Asia Limited ("Jiayin"). Jiayin was wholly owned by 上海嘉凝信息技術有限公司 ("上海嘉凝") which was in turn wholly owned by 上海嘉銀金融服務有限公司 ("上海嘉銀"). 上海嘉銀 was held by Mr. Yan as to 75%. Accordingly, Mr. Yan, 上海嘉銀, 上海嘉凝, Jiayin and BNV were deemed to be interested in such 490,019,430 Shares held by Invech pursuant to Part XV of the SFO.
- These 150,000 Shares were held by Probest Limited ("Probest") which was in turn wholly owned by Dr. Cao, an executive Director. As such, Dr. Cao is deemed to be interested in such 150,000 Shares held by Probest pursuant to Part XV of the SFO.



## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES**

*(Continued)*

Long positions in ordinary shares (the “**Shares**”) of HK\$0.01 each of the Company and underlying Shares in equity derivatives *(Continued)*

*Notes: (Continued)*

3. Share options of 15,000,000 Shares, 25,000,000 Shares and 5,000,000 Shares were granted to Dr. Cao, Mr. Zhang and Mr. Song respectively pursuant to the Company's share option scheme. Accordingly, each of Dr. Cao, Mr. Zhang and Mr. Song was taken to be interested in such number of underlying Shares that they are entitled to subscribe for upon exercise of the respective share options granted to them pursuant to Part XV of the SFO.
4. These 1,370,000 Shares were held by Ms. Zheng Lu who is the wife of Dr. Cao. Accordingly, Dr. Cao was deemed to be interested in such 1,370,000 Shares held by Ms. Zheng Lu pursuant to Part XV of the SFO.

Save as disclosed above, as at 31 December 2019, so far as is known to any Directors or chief executive of the Company, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or were required pursuant to section 352 of the SFO to be entered in the register referred to therein or were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## **DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed above, at no time during the Review Period, the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and/or its associated corporations (within the meaning of the SFO).

Save as disclosed above and in the share option scheme of the Company, at no time during the Review Period was the Company, any of its subsidiaries, its associated companies, its fellow subsidiaries or its holding companies a party to any arrangements to enable the Directors or the chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company and/or its associated corporations (within the meaning of the SFO).

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, so far as is known to the Directors, the following substantial shareholders or other persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares and underlying Shares which would fall to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

### *Long positions in Shares*

| <b>Name</b>                                | <b>Capacity</b>                               | <b>Number of Shares</b> | <b>Percentage of shareholding</b> |
|--|---|-------------------------|-----------------------------------|
| Mr. Zhang Chang<br>("Mr. Zhang")           | Interest in a controlled corporation (Note 1) | 170,000,000             | 10.34%                            |
|  | Beneficial owner (Note 1)                     | 93,090,000              | 5.66%                             |
| Sino Starlet Limited<br>("Sino Starlet")   | Beneficial owner (Note 1)                     | 170,000,000             | 10.34%                            |
| Vered Capital Limited<br>("Vered Capital") | Beneficial owner (Note 2)                     | 260,090,000             | 15.82%                            |
| 上海嘉銀                                       | Interest in a controlled corporation (Note 3) | 490,019,430             | 29.80%                            |
| 上海嘉凝                                       | Interest in a controlled corporation (Note 3) | 490,019,430             | 29.80%                            |
| Jiayin                                     | Interest in a controlled corporation (Note 3) | 490,019,430             | 29.80%                            |
| BNV  | Interest in a controlled corporation (Note 3) | 490,019,430             | 29.80%                            |
| Invech                                     | Beneficial owner (Note 3)                     | 490,019,430             | 29.80%                            |
| Lujiazui Finance (Hong Kong) Limited       | Beneficial owner (Note 4)                     | 114,210,000             | 6.95%                             |



## **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES** *(Continued)*

Save as disclosed above, as at 31 December 2019, there was no any substantial shareholder or other person who had any interest or short position in the Shares or underlying Shares which would fall to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### *Note:*

1. Out of 263,090,000 Shares, 170,000,000 Shares were held by Sino Starlet, which was in turn wholly owned by Mr. Zhang. Accordingly, Mr. Zhang is deemed to be interested in these 170,000,000 Shares held by Sino Starlet pursuant to Part XV of the SFO.
2. On 27 July 2018 Vered Capital acquired the security interests of 170,000,000 Shares from Sino Starlet and 90,090,000 Shares from Mr. Zhang.
3. These 490,019,430 Shares were held by Invech. Invech was wholly owned by BNV which was in turn wholly owned by Jiayin. Jiayin was wholly owned by 上海嘉凝 which was in turn wholly owned by 上海嘉銀. 上海嘉銀 was held by Mr. Yan, an executive Director of the Company, as to 75%. Accordingly, Mr. Yan, 上海嘉銀, 上海嘉凝, Jiayin and BNV were deemed to be interested in such 490,019,430 Shares held by Invech pursuant to Part XV of the SFO.
4. Information is extracted from the corporate substantial shareholder notice filed by Lujiazui Finance (Hong Kong) Limited on 27 July 2018. According to the notice, (i) LJF Payment Company Limited has entered into voluntary liquidation, therefore LJF Payment Company Limited transferred 114,210,000 Shares to its parent company, Lujiazui Finance (Hong Kong) Limited as a result of the assets deposition in liquidation and (ii) Lujiazui Finance (Hong Kong) Limited or its directors are accustomed or obliged to act in accordance with the directions or instructions of 上海陸家嘴金融發展有限公司, 上海陸家嘴金融貿易區開發股份有限公司 and 上海陸家嘴(集團)有限公司.



## COMPETING INTERESTS

During the Review Period, none of the Directors or the controlling shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in any business which competes or may compete, either directly or indirectly, with the business of the Group or has or may have any conflicts of interest with the Group.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Review Period.

## BREACH OF LOAN AGREEMENT

Based on the interim report of the Company for the six months ended 30 September 2019, the equity attributable to equity holders of the Company as at 30 September 2019 was less than HK\$1,200,000,000, which shall constitute a breach (the "**Breach**") of a business operation covenant (the "**Relevant Covenant**") given by the Company under the bonds issued by the Company as disclosed in its announcements respectively dated 31 July 2016, 2 August 2016 and 12 August 2016 in respect of its issue of fixed rate senior secured bonds (the "**Bonds**") in the aggregate principal amount of US\$48,000,000, and also an event of default giving rise to the right of the holders of the Bonds to redeem the outstanding Bonds and hence enforce the collateral.

As at the date hereof, the Company is in the course of seeking consent in writing from each of (i) AI Global Investment SPC acting on behalf of and for the account of AI Investment Fund S.P. (formerly known as Haitong Global Investment SPC III acting on behalf and for the account of Haitong Dynamic Investment Fund II S.P.), (ii) Honour Grace Investments Limited and (iii) Sun Create Richly Holdings (Asia) Limited, being the existing subscribers (the "**Subscriber(s)**") of the Bonds as to the waiver of the Company's compliance with and satisfaction of the Relevant Covenant, and none of the Subscribers has expressed an intention to issue any written confirmation as to the occurrence of an event of default under the Bonds in connection with and as a result of the Breach.

For details, please refer to the announcement of the Company dated 20 January 2020.



## **CORPORATE GOVERNANCE CODE**

The Company is governed by the Board, which is responsible for overseeing the overall strategy and development of the Company, as well as monitoring the internal control policies and evaluating the financial performance of the Group. The Board sets the overall strategies for the Group with a view of developing its business and enhancing its corporate value. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for approval by the Board before publication, the execution of business strategies and initiatives adopted by the Board, the implementation of adequate internal control systems and risk management procedures, and the compliance with relevant statutory requirements and rules and regulations. During the Review Period, the Company has complied with all the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules.

Besides, as a part of the corporate governance practices, the Board has established a nomination committee, a remuneration committee, an audit committee, an internal control committee and a compliance committee. The Board is responsible for developing and reviewing the Group’s policies and practices on corporate governance and reviewing and monitoring the training and continuous professional development of our Directors. The internal control committee is vested with the responsibility of reviewing and monitoring the training and continuous professional development of the Group’s senior management whilst the compliance committee is responsible for developing, reviewing and monitoring the code of conduct applicable to our Directors and the Group’s employees and reviewing the Company’s compliance with the CG Code and the disclosure in the Company’s Corporate Governance Report.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the required standard of dealings as set out in Rules 5.46 to 5.67 of the GEM Listing Rules as the code of conduct regarding the Directors’ securities transactions in securities of the Company. Having made specific enquiries to all Directors, the Company was not aware of any non-compliance with the required standard of dealings as set out in the adopted code of conduct regarding Directors’ securities transactions from 1 April 2019 to 31 December 2019.



## AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee comprises Dr. Yuan Shumin, Mr. Lu Dongcheng and Mr. Wang Yiming, all of whom are independent non-executive Directors. Dr. Yuan Shumin has been appointed as the chairman of the Audit Committee.

The primary responsibilities of the Audit Committee are (i) to review the annual report and accounts, half yearly reports and quarterly reports and to provide advice, comments thereon to the Board and (ii) to review and supervise the financial reporting process, risk management and internal control system of the Group.

The Group’s unaudited quarterly results for the nine months ended 31 December 2019 have been reviewed by the Audit Committee, which was of the opinion that such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures had been made.

On behalf of the Board

**Song Qian**

*Chairlady*

Hong Kong, 14 February 2020

*As at the date of this report, the Board comprises (i) five executive Directors, namely Mr. Yan Dinggui, Ms. Song Qian, Mr. Song Xiangping, Mr. Lin Xiaofeng and Mr. Liu Liang; and (ii) three independent non-executive Directors, namely Mr. Wang Yiming, Mr. Lu Dongcheng and Dr. Yuan Shumin.*