



China Smartpay Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8325)



2021

First Quarterly Report



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FINANCIAL HIGHLIGHTS

- The Group's revenue and gross profit amounted to approximately HK\$15.08 million and HK\$12.77 million, for the three months ended 30 June 2021, which represented a decrease of approximately 14.17% and increase of approximately 66.19% respectively as compared with the Group's revenue and gross profit recorded in the corresponding period in 2020.
- The Group reported a loss amounted to approximately HK\$20.76 million for the three months ended 30 June 2021 as compared with that of approximately HK\$27.70 million recorded in the corresponding period in 2020. The Group reported a loss attributable to equity holders of the Company for the three months ended 30 June 2021 amounted to approximately HK\$15.79 million (2020: approximately HK\$24.17 million).
- Loss per share for the loss attributable to equity holders of the Company for the three months ended 30 June 2021 was approximately 0.80 HK cents (2020: approximately 1.47 HK cents).
- The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2021 (2020: Nil).

FIRST QUARTERLY RESULTS (UNAUDITED)

The board (the “**Board**”) of Directors is pleased to present the unaudited condensed consolidated financial results of the Group for the three months ended 30 June 2021 (the “**Review Period**”) together with the comparative figures for the corresponding period in 2020 (the “**Corresponding Period**” or “**2020**”) as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2021

		Unaudited Three months ended 30 June	
	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
Continuing operations			
Revenue	2	15,082	17,571
Cost of services rendered		(2,310)	(9,886)
Gross profit		12,772	7,685
Other income		1,608	840
General administrative expenses		(25,460)	(22,915)
Selling and distribution costs		(4,557)	(4,195)
Finance costs	4	(6,432)	(7,358)
Share of results of associates		1,380	(398)
Loss before tax from continuing operations	4	(20,689)	(26,341)
Income tax expenses	5	(73)	—
Loss for the period from continuing operations		(20,762)	(26,341)
Discontinued operations			
Loss for the period from discontinued operations	7	—	(1,363)
Loss for the period		(20,762)	(27,704)

		Unaudited Three months ended 30 June	
		2021	2020
		HK\$'000	HK\$'000
		<i>Notes</i>	
Attributable to:			
Equity holders of the Company		(15,792)	(24,169)
Non-controlling interests		(4,970)	(3,535)
		(20,762)	(27,704)
From continuing and discontinued operations			
Loss per share attributable to equity holders of the Company			
Basic and diluted	<i>8</i>	(0.80) HK cents	(1.47) HK cents
From continuing operations			
Loss per share attributable to equity holders of the Company			
Basic and diluted		(0.80) HK cents	(1.39) HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2021

	Unaudited Three months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Loss for the period	(20,762)	(27,704)
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Share of other comprehensive income of associates — exchange difference on translation	3,358	752
Exchange difference on translation of foreign subsidiaries	7,639	4,112
Total comprehensive expenses for the period	(9,765)	(22,840)
Total comprehensive expenses attributable to:		
Equity holders of the Company	(5,767)	(20,779)
Non-controlling interests	(3,998)	(2,061)
	(9,765)	(22,840)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FIRST QUARTERLY FINANCIAL STATEMENTS

For the three months ended 30 June 2021

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 were listed on GEM of the Stock Exchange on 28 August 2009.

Basis of preparation

The unaudited condensed first quarterly financial statements of the Company for the three months ended 30 June 2021 (the “**First Quarterly Financial Statements**”) have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

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

The First Quarterly Financial Statements include an explanation of events and transactions that are significant to an understanding of the financial performances of the Group since 31 March 2021, 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 Interpretation 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 2021 (the “**2021 Annual Financial Statements**”).

The First Quarterly Financial Statements have been prepared on the historical costs basis and presented 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 adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current period had no significant effects on the results and financial position of the Group for current and prior periods.

At the date of authorisation of the First Quarterly Financial Statements, the Group has not early adopted the new/revised HKFRSs that have been issued but are not yet effective for the current period. The Directors do not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the results of the Group.

2. REVENUE

Revenue is analysed by category as follows:

	Unaudited	
	Three months ended	
	30 June	
	2021	2020
	HK\$'000	HK\$'000
<u>Revenue from contracts with customers within HKFRS 15</u>		
Prepaid cards and internet payment business		
Card issuing service fee income	3	41
Management fee income of prepaid cards	2,332	1,860
Merchant service fee income	11,161	2,217
Prestige benefits business		
Issuance income of prestige benefits cards	157	9,181
Hotel booking agency service income	1	10
Merchant acquiring business		
Merchant discount rate income ("MDR income")	1,171	3,469
Marketing and distribution service income	8	6
<u>Revenue from other sources</u>		
Merchant acquiring business		
Foreign exchange rate discount income	249	787
	15,082	17,571

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 People's Republic of China (the "PRC");
- (ii) prestige benefits business in the PRC;
- (iii) merchant acquiring business in Thailand; and
- (iv) internet micro-credit business in the PRC (Discontinued).

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, other gain or loss, finance costs, general administrative expenses incurred by corporate office, share of results of 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 four distinctive business activities are provided in two different locations.

3. SEGMENT REPORTING (Continued)

Three months ended 30 June 2021 (unaudited)

	Prepaid cards and internet payment business <i>HK\$'000</i>	Prestige benefits business <i>HK\$'000</i>	Merchant acquiring business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	13,496	158	1,428	15,082
Segment results	(1,340)	(2,842)	(6,630)	(10,812)
Unallocated other income				1,608
Unallocated finance costs				(6,432)
Unallocated other expenses and losses				(6,433)
Share of results of associates				1,380
Loss before tax				(20,689)
Income tax expenses				(73)
Loss for the period				(20,762)

3. SEGMENT REPORTING (Continued)

Three months ended 30 June 2020 (unaudited)

	Continuing operations			Discontinued operations	Consolidated HK\$'000
	Prepaid cards and internet payment business HK\$'000	Prestige benefits business HK\$'000	Merchant acquiring business HK\$'000	Internet micro-credit business HK\$'000	
Segment revenue	4,118	9,191	4,262	9,122	26,693
Segment results	(5,076)	(2,483)	(5,069)	(1,175)	(13,803)
Unallocated other income					1,256
Unallocated finance costs					(7,368)
Unallocated other expenses and losses					(6,934)
Share of results of associates					(398)
Loss before tax					(27,247)
Income tax expenses					(457)
Loss for the period					(27,704)

4. LOSS BEFORE TAX

This is stated after charging:

	Unaudited	
	Three months ended	
	30 June	
	2021	2020
	HK\$'000	HK\$'000
Finance costs		
Continuing operations		
Finance costs on other long-term liabilities	755	146
Interest on bonds payables	4,787	7,098
Finance costs on lease liabilities	255	83
Effective interest expenses on convertible bonds issued by a listed subsidiary	635	31
	6,432	7,358
Discontinued operations		
Finance costs on lease liabilities	—	10
	6,432	7,368
Other items		
Continuing operations		
Amortisation of intangible assets	477	4,289
Depreciation of property, plant and equipment	1,382	1,409
Depreciation of right-of-use assets	2,999	1,632
Operating lease charges on premises	230	384
Staff costs, including directors' remuneration and share-based compensation cost	15,831	12,665
Discontinued operations		
Amortisation of intangible assets	—	151
Depreciation of property, plant and equipment	—	101
Depreciation of right-of-use assets	—	66
Loss allowance on loan receivables	—	3,469
Staff costs, including directors' remuneration and share-based compensation cost	—	1,793

5. TAXATION

	Unaudited Three months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Continuing operations		
Deferred tax		
Reversal of over provision of deferred tax assets in prior year	73	—
Income tax expenses for continuing operations	73	—
Discontinued operations		
Current tax		
PRC Enterprise Income Tax	—	457
Total income tax expenses for continuing and discontinued operations	73	457

(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 the previous year, some incurred a loss for taxation purposes, and some had no assessable profits in Hong Kong for the periods ended 30 June 2021 and 2020.

(ii) Income taxes outside Hong Kong

The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands are exempted from the payment of income tax of the respective jurisdiction.

The Group's operations in the PRC are subject to an enterprise income tax (the "PRC Enterprise Income Tax") of the PRC at 25% (2020: 25%), except for 開聯通支付服務有限公司 (Open Union Payment Services Limited*, "Open Union") and 上海靜元信息技術有限公司 (Shanghai Jingyuan Message Technology Limited*, "Shanghai Jingyuan") (2020: Open Union and Shanghai Jingyuan) which are subject to the PRC Enterprise Income Tax at a preferential rate of 15% (2020: 15%) for high and new technology enterprises.

* English translation for identification purpose only.

5. TAXATION *(Continued)*

(ii) **Income taxes outside Hong Kong** *(Continued)*

The Group's operation in Thailand is subject to Thailand Enterprise Income Tax at 20% (2020: 20%).

The Group's operation in Singapore is subject to Singapore Income Tax at 17% (2020: 17%).

The Group's operation in Korea is subject to Korea Corporate Income Tax ranged from 10% to 25% (2020: 10% to 25%).

The Group's operation in Cambodia is subject to Cambodia Corporate Income Tax at 20% (2020: 20%).

Dividends payable by a foreign invested enterprise in the PRC or Thailand to its foreign investors are subject to a 10% (2020: 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.

Dividend payable by an enterprise in Cambodia to its foreign investors is subject to a 14% (2020: 14%) withholding tax.

6. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2021 (2020: Nil).

7. DISCONTINUED OPERATIONS

Internet micro-credit business

On 13 March 2020, the Group entered into a sale and purchase agreement (as amended and supplemented by the supplemental agreement dated 8 May 2020) to dispose of its 75% equity interest of Keen Best Investments Limited and its subsidiaries, Union Evernew Investment Limited, 重慶市眾網小額貸款有限公司 and 上海洋芋信息科技有限公司 (together the "**Disposal Group**"), to an independent third party and a related company of the Company, which is beneficially owned by Mr. Yan Dinggui, a former executive Director who resigned on 24 September 2020, at a consideration of HK\$120,000,000 and HK\$105,000,000, respectively (the "**Disposal**"). Since the Disposal Group carried out most of the Group's internet micro-credit business, in the opinion of the Directors, the Disposal would cause the Group's internet micro-credit business to be discontinued. The Disposal was completed on 29 September 2020.

7. DISCONTINUED OPERATIONS (Continued)

Internet micro-credit business (Continued)

For details of the Disposal, please refer to the announcements of the Company dated 13 March 2020, 29 April 2020, 8 May 2020, 30 June 2020, 31 August 2020 and 29 September 2020 respectively; and the circular dated 22 May 2020.

The results of the Disposal Group for the Corresponding Period are analysed as follows:

	Notes	2020 HK\$'000
Revenue		9,122
Cost of services rendered		(2,581)
Gross profit		6,541
Other income		416
General administrative expenses		(7,853)
Finance costs	4	(10)
Loss before tax	4	(906)
Income tax expenses	5	(457)
Loss for the period		(1,363)

The loss per share information of the Disposal Group is as follows:

	2020 HK cents
Loss per share for the Disposal group attributable to owners of the Company	
Basic and diluted	(0.08)

8. LOSS PER SHARE

Basic loss per share for the Review Period is calculated based on the unaudited consolidated loss for the period attributable to the equity holders of the Company of approximately HK\$15,792,000 (2020: approximately HK\$24,169,000) and on the weighted average number of 1,977,354,957 ordinary shares (2020: 1,644,188,693 ordinary shares) in issue during the period.

Diluted loss per share is the same as basic loss per share because the effect of potential ordinary shares is anti-dilutive during the periods ended 30 June 2021 and 2020 respectively.

MOVEMENT OF EQUITY

	Attributable to equity holders of the Company						Non-controlling interests		Total equity HK\$'000		
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve (Remark) HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		Existing HK\$'000	Potential HK\$'000
For the three months ended 30 June 2021											
At 1 April 2021 (audited)	19,730	1,610,966	5,498	(66,146)	11,988	13,641	(1,466,233)	129,444	53,355	876	183,675
Loss for the period	–	–	–	–	–	–	(15,792)	(15,792)	(4,970)	–	(20,762)
Other comprehensive income (expenses): <i>Items that may not be reclassified subsequently to profit or loss</i>											
Share of other comprehensive expenses of associates-exchange difference on translation	–	–	–	3,358	–	–	–	3,358	–	–	3,358
Exchange difference on translation of foreign subsidiaries	–	–	–	6,667	–	–	–	6,667	972	–	7,639
Total comprehensive income (expenses) for the period	–	–	–	10,025	–	–	(15,792)	(5,767)	(3,998)	–	(9,765)
Transaction with owners:											
Contribution and distributions											
Issue of shares upon placing of shares	3,946	66,366	–	–	–	–	–	70,312	–	–	70,312
Recognition of share-based compensation cost	–	–	–	–	–	253	–	253	–	–	253
Dividends paid to non-controlling interests of non-wholly owned subsidiary	–	–	–	–	–	–	–	–	(876)	–	(876)
Transfer to statutory reserve	–	–	–	–	(1,200)	–	1,200	–	–	–	–
At 30 June 2021	3,946	66,366	–	–	(1,200)	253	1,200	70,565	(876)	–	69,689
At 30 June 2021 (unaudited)	23,676	1,677,332	5,498	(56,121)	10,788	13,894	(1,480,825)	194,242	48,481	876	243,599

9. MOVEMENT OF EQUITY (Continued)

	Attributable to equity holders of the Company						Non-controlling interests				
	Share capital	Share premium	Capital reserve	Exchange reserve	Statutory reserve (Remark)	Share option reserve	Accumulated losses	Total	Existing	Potential	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the three months ended 30 June 2020											
At 1 April 2020 (audited)	16,441	1,662,367	5,498	(102,498)	11,963	21,581	(1,379,420)	135,932	69,011	—	204,943
Loss for the period	—	—	—	—	—	—	(24,169)	(24,169)	(3,635)	—	(27,704)
Other comprehensive income											
<i>Items that may not be reclassified subsequently to profit or loss:</i>											
Share of other comprehensive expenses of associates-exchange difference on translation	—	—	—	752	—	—	—	752	—	—	752
Exchange difference on translation of foreign subsidiaries	—	—	—	2,638	—	—	—	2,638	1,474	—	4,112
Total comprehensive expenses for the period	—	—	—	3,390	—	—	(24,169)	(20,779)	(2,061)	—	(22,840)
Transaction with owners											
<i>Contribution and distributions</i>											
Recognition of share-based compensation cost	—	—	—	—	—	313	—	313	—	—	313
Lapse of share options	—	—	—	—	—	(11,756)	11,756	—	—	—	—
	—	—	—	—	—	(11,443)	11,756	313	—	—	313
<i>Change in ownership interests</i>											
Convertible bonds issued by a listed subsidiary	—	—	—	—	—	—	—	—	—	876	876
At 30 June 2020 (unaudited)	16,441	1,662,367	5,498	(99,108)	11,963	10,138	(1,391,833)	115,466	66,950	876	183,292

9. MOVEMENT OF EQUITY *(Continued)*

(Remark)

In accordance with the relevant laws and regulations in Thailand, Oriental City Group (Thailand) Company Limited is required to appropriate not less than 5% of its net profit to the statutory reserve upon each dividend distribution, until the statutory reserve reaches 10% of its registered authorised capital. The statutory reserve is not available for dividend distribution.

In accordance with the relevant laws and regulations in the PRC and the relevant articles of association of the group entities incorporated in the PRC (the “**PRC Subsidiaries**”), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years’ losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the paid-up capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years’ losses, if any, and may be converted into paid-up capital provided that the remaining balance of the statutory surplus reserve fund after such conversion is no less than 25% of the paid-up capital.

10. OTHER AND SUBSEQUENT EVENTS

On 9 July 2021, Oriental Payment Group Holdings Limited (“**OPG**”), an indirect non-wholly owned listed subsidiary of the Company held by it as to 32.5% through Charm Act Group Limited (“**Charm Act**”), entered into a placing agreement (the “**Placing Agreement**”) with SBI China Capital Financial Services Limited (the “**Placing Agent**”), pursuant to which OPG agreed to place through the Placing Agent up to 100,000,000 placing shares to not less than six placees at the placing price of HK\$0.07 per placing share on a best effort basis (the “**OPG Placing**”). On 23 July 2021, OPG entered into the first side letter (the “**1st Side Letter**”) to the Placing Agreement with the Placing Agent, pursuant to which, among others, the placing price under the Placing Agreement was revised from HK\$0.07 per placing share to HK\$0.072 per placing share while the expiry date of the placing period and the long stop date under the Placing Agreement were extended to 6 August 2021. On 6 August 2021, OPG further entered into the second side letter to the Placing Agreement (as amended and/or supplemented by the 1st Side Letter) with the Placing Agent, pursuant to which the expiry date of the placing period and the long stop date under the Placing Agreement were further extended to 26 August 2021. As at the date of this report, the OPG Placing has not completed yet through Charm Act.

As at the date of this report, the Company is a controlling shareholder indirectly holding 325,000,000 OPG shares through Charm Act, representing 32.5% of the total issued share capital of OPG.

10. OTHER AND SUBSEQUENT EVENTS *(Continued)*

Assuming that the maximum of 100,000,000 placing shares are successfully placed, and are allotted and issued by OPG, the shareholding interest of the Company in OPG will be diluted from 32.5% to approximately 29.55%, representing a decrease of approximately 2.95%. Accordingly, such dilution of shareholding interest of the Company in OPG immediately after completion is regarded as a deemed disposal by the Company of its shareholding interest in OPG pursuant to Rule 19.29 of the GEM Listing Rules.

Upon completion, OPG will cease to be a subsidiary of the Company, and the financial results and financial positions of the OPG and its subsidiaries will no longer be consolidated into, and will be accounted for using the equity method in, the consolidated financial statements of the Group.

For details of the OPG Placing, please refer to the joint announcements of the Company and OPG dated 9 July 2021, 23 July 2021 and 6 August 2021 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group has been engaged in the following businesses during 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 PRC. It has always been the Group's intention to provide its users with a one-stop solution combining payment, benefits and credit services. The Group operated in a steady and compliant manner and received recognition and commendation from regulatory authorities.

For 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 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 its presence in the areas of industry cooperation leveraging on its own advantages.

According to the business data from third party payment industry, prepaid card industry steadily developed within the criteria. A continuous stable growth of gross domestic product 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, and hence payment industry will keep growing rapidly.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

However, due to the impact of the outbreak of the COVID-19 pandemic, the trend of domestic consumption has been shifting toward online consumption, and the consumption with traditional prepaid cards has been suppressed to a certain extent at the merchant side, resulting in a decline in the number of cards issued. Nevertheless, the main reason for the decline in the Group's revenue was that the development of internet business and cross-border business did not progress as expected. Firstly, due to the impact of the outbreak of the COVID-19 pandemic to the general environment, the development of cross-border business has been stagnant for a long period of time; secondly, the Company has raised the rating standard for the internet business at the merchant onboarding side, and we have also strengthened our efforts in anti-money laundering control to fulfil the inspection requirements of the People's Bank of China ("**PBOC**") for the license renewal of the Company in 2021. With the successful completion of the license renewal in May 2021, we are actively expanding the corresponding payment business. Regarding the traditional prepaid cards, we will continue to strengthen our efforts in further developing our existing client base while also actively expanding other forms of card issuance (i.e. online card issuing and co-branded cards); cross-border RMB business has completed system integration with several banks while the whole operation processes of the "big trade function (大貿功能)" have successfully launched online. In terms of internet business, the branches of Open Union Payment (開聯通) are actively expanding the onboarding of qualified merchants, and all the currently onboarded merchants process a certain transaction scale. At this point, we will achieve quality and sound development and growth in the payment business in the new financial year.

In May 2021, the Group has successfully renewed the license from the PBOC for national internet payment and prepaid card service for another period of five years, thanks to the unwavering focus from the management in overhauling the Company's compliance system following an incident occurred in 2019. In order to build a more resilient operation system in line with regulatory requirements, the focus of this business unit among other competing operational priorities was to roll out the upgraded procedures and to monitor the execution effectively, as well as to conduct internal trainings. At the same time, the Company improved the risk management system and internal audit procedures to capture early signs of potential loopholes in anti-money laundering.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

For prestige benefits business, with the increased market demands and business cooperation needs, we launch 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 issued more volume of the original credit cards, there are more and more small-and-medium banks concerned with benefit service for the cardholders and providing the customers of 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 sector and on internet platform. As to the industry ahead, there will be more service targets and larger market scale. The original scheduled equity procurement contract projects with major cooperative banks were completed in September 2020. The number of cooperative equity procurement projects with banks have been significantly reduced due to the continued impact of the outbreak of COVID-19 pandemic, it is also expected that the impact of the COVID-19 pandemic on the industry will exist for a long period of time, the Company is actively adjusting the direction of its future business development. In addition to providing services to the original existing products, the Group also developed new products and new businesses in light of the new situation of the epidemic, therefore, the income recorded for the Review Period has decreased significantly compared with that in the Corresponding Period.

For merchant acquiring business, during the Reporting Period, Oriental Payment Group Holdings Limited (“**OPG**”; together with its subsidiaries, the “**OPG Group**”) has continuously faced the risks of the uncertainties in the impact of Sino-US trade war and the outbreak of the COVID-19 pandemic, which continuously affected Chinese tourists’ spending in Thailand. In particular, the outbreak of COVID-19 pandemic which led to the suspension of a majority of international flights to Thailand resulted in a material adverse effect to the income of the OPG Group. It is uncertain as to when the international flights to Thailand would be completely resumed, and hence OPG has been proactive in exploring other business opportunities, especially payment related business, that could sustain OPG’s business development and growth for generating a better return to the shareholders of OPG.

While the OPG Group is exploring investment opportunities in online and offline payment related business in Asia Pacific, it has undergone a placing of convertible bonds in June 2020 to raise funds. Taking into account the speedy recovery of the PRC from the COVID-19 pandemic and the favourable policies towards the Guangdong – Hong Kong – Macau Greater Bay Area (the “**Greater Bay Area**”), the OPG Group is also exploring investment opportunities in new economies like fintech industry and IT industry in the PRC, and, in particular, in the Greater Bay Area.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

During the Reporting Period, the Group has implemented more stringent cost saving measures in order to reduce the expenditure to a more reasonable and justifiable level. The Group will stay alert to the development and situation of the COVID-19 pandemic, continue to assess its impacts on the financial position and operating results of the Group and take necessary actions to maintain the stability of the businesses. The Group will keep proactive to seek business opportunities that will contribute and sustain the Group's future development on generating better return to the shareholders of the Company.

FINANCIAL REVIEW

Revenue

The merchant acquiring transaction fee income and the foreign exchange rate discount income generated from merchant acquiring business in Thailand, the prepaid cards and internet payment business and the prestige benefits business all contributed to the total revenue of the Group for the Review Period. Total revenue of the Group for the Review Period amounted to approximately HK\$15.1 million, of which approximately HK\$13.5 million was attributed to the prepaid cards and internet payment business; approximately HK\$1.5 million was attributed to the merchant acquiring business in Thailand; and approximately HK\$0.1 million was attributed to the prestige benefits business respectively.

The Group's revenue for the Review Period was approximately HK\$15.1 million, representing a decrease of approximately 14% as compared with that of the Corresponding Period because of the significant decrease in the revenue of the prestige benefits business and merchant acquiring business. The decrease in the revenue of the prestige benefits business was because the continuous outbreak of the COVID-19 pandemic reduced the citizens' frequency of outgoing and hence caused the significant decrease in the transaction volume.

As for the merchant acquiring business in Thailand, there was a decrease by approximately HK\$2.9 million when comparing with that of the Corresponding Period. The decrease was primarily attributable to some of the Chinese tourists, who were previously stuck in Thailand due to the lockdown in Thailand and closure of airports in the PRC for the Corresponding Period, having gradually returned to the PRC and also a majority of the international flights to Thailand remaining to have not resumed. This resulted in a further drop of the Chinese tourists' spending in Thailand, and hence a further decrease in the transaction volume via UPI processed by the OPG Group for the Review Period as compared with that of the Corresponding Period.

Cost of Services Rendered

Cost of services rendered amounted to approximately HK\$2.3 million, representing a decrease of approximately 77% as compared with that recorded in the Corresponding Period. The cost of services rendered decreased in line with the decrease in revenue.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

General Administrative Expenses

The general administrative expenses of the Group for the Review Period were approximately HK\$25.5 million, representing an increase of approximately 11% from that of the Corresponding Period. The increase was primarily because the PRC government cancelled the preferential policy that exempted corporate from making contributions to social insurance for their employees, resulting in an increase in corporate social insurance costs.

Selling and Distribution Costs

The selling and distribution costs for the Review Period amounted to approximately HK\$4.6 million, representing an increase of approximately 9% from that incurred in the Corresponding Period.

Finance Costs

The finance costs for the Review Period amounted to approximately HK\$6.4 million, representing a decrease of approximately 13% from that incurred in the Corresponding Period. The decrease was primarily attributable to the decrease of the principal of the bond payables.

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\$15.8 million. Basic loss per share was approximately 0.80 HK cents as compared with that of approximately 1.47 HK cents recorded in the Corresponding Period.

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

As at 30 June 2021, the interests 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 of HK\$0.01 each of the Company (the "Shares")

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Lin Xiaofeng ("Mr. Lin")	Beneficial owner	11,000,000	0.46%

Notes:

These Shares represent the underlying Shares under the share options granted to Mr. Lin pursuant to the Company's share option scheme which was adopted by the Company on 14 August 2009 and expired on 13 August 2019 (the "Old Share Option Scheme"). Accordingly, pursuant to Part XV of the SFO, he is taken to be interested in those underlying Shares that he is entitled to subscribe for upon and subject to the exercise of the share options granted thereunder.

Save as disclosed above, as at 30 June 2021, so far as is known to any of the Directors or the 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 & 8 of part XV of the SFO (including interest 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 Rules 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 except for the arrangements under the Old Share Option Scheme and the new share option scheme of the Company, which was adopted on 13 May 2021, 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 DISCLOSEABLE UNDER THE SFO

As at 30 June 2021, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company 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:

The Company

Long positions in Shares

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Zhang Chang ("Mr. Zhang")	Interest in a controlled corporation (Note 1)	170,000,000	7.18%
	Beneficial owner (Note 1)	93,090,000	3.93%
Sino Starlet Limited ("Sino Starlet")	Beneficial owner (Note 1)	170,000,000	7.18%
Vered Capital Limited ("Vered Capital")	Person having a security interest in shares (Note 2)	260,090,000	10.99%

Note:

- Out of 263,090,000 Shares, 170,000,000 Shares were held by Sino Starlet, which is wholly owned by Mr. Zhang. As Mr. Zhang is the controlling shareholder of Sino Starlet, he is deemed to be interested in these 170,000,000 Shares held by Sino Starlet pursuant to Part XV of the SFO.
- 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, respectively.

Save as disclosed above, as at 30 June 2021, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person (other than a Director or chief executive of the Company) who had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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 nor any conflicts of interest which has or may have 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.

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 and directions for the Group with a view to 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, execution of business strategies and initiatives adopted by the Board, implementation of adequate internal control systems and risk management procedures, and compliance with relevant statutory requirements and rules and regulations. During the Review Period, the Company has complied with all the code provisions as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules (the "**CG Code**").

As 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 while 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 the securities of the Company. Having made specific enquiry to each of the 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 2021 to 30 June 2021.

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 provide advice, comments thereon to the Board and (ii) review and supervise the financial reporting process, risk management and internal control system of the Group.

The Group's unaudited quarterly results for the Review Period 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

Zhang Xi
Chairman

Hong Kong, 13 August 2021

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