



China Smartpay Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8325)



2020

Third Quarterly Report



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FINANCIAL HIGHLIGHTS

- The Group's revenue and gross profit amounted to approximately HK\$58.97 million and HK\$32.07 million for the nine months ended 31 December 2020, which represented a decrease of approximately 68.81% and 65.10% respectively as compared with the Group's revenue and gross profit recorded in the corresponding period in 2019.
- The Group reported a loss amounted to approximately HK\$65.04 million for the nine months ended 31 December 2020 as compared with that of approximately HK\$53.61 million recorded in the corresponding period in 2019. The Group reported a loss attributable to equity holders of the Company for the nine months ended 31 December 2020 amounted to approximately HK\$53.39 million (2019: approximately HK\$53.87 million).
- Loss per share for the loss attributable to equity holders of the Company for the nine months ended 31 December 2020 was approximately 3.25 HK cents (2019: approximately 3.28 HK cents).
- The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2020 (2019: 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 2020 together with the comparative figures for the corresponding periods in 2019 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 31 December 2020

	Notes	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
		2020	2019	2020	2019
		HK\$'000	HK\$'000 (Re-presented)	HK\$'000	HK\$'000 (Re-presented)
Continuing operations					
Revenue	2	29,629	71,389	58,965	189,054
Cost of services rendered		(14,886)	(35,124)	(26,891)	(97,147)
Gross profit		14,743	36,265	32,074	91,907
Other income		2,433	6,792	6,989	9,405
General administrative expenses		(33,534)	(37,826)	(86,324)	(124,281)
Selling and distribution costs		(2,753)	(315)	(9,170)	(4,772)
Finance costs	4	(7,674)	(12,274)	(23,302)	(29,077)
Share of results of associates		7,291	(977)	10,133	7,618
Loss before tax from continuing operations	4	(19,494)	(8,335)	(69,600)	(49,200)
Income tax (expenses) credit	5	—	(354)	5	(2,291)



		Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
Notes		2020 HK\$'000	2019 HK\$'000 (Re-presented)	2020 HK\$'000	2019 HK\$'000 (Re-presented)
Loss for the period from continuing operations		(19,494)	(8,689)	(69,595)	(51,491)
Discontinued operations					
Profit (Loss) for the period from discontinued operations	7	—	(918)	4,551	(2,114)
Loss for the period		(19,494)	(9,607)	(65,044)	(53,605)
Attributable to:					
Equity holders of the Company		(15,577)	(9,941)	(53,393)	(53,869)
Non-controlling interests		(3,917)	334	(11,651)	264
		(19,494)	(9,607)	(65,044)	(53,605)
From continuing and discontinued operations					
Loss per share attributable to equity holders of the Company					
Basic and diluted	8	(0.95) HK cents	(0.60) HK cents	(3.25) HK cents	(3.28) HK cents
From continuing operations					
Loss per share attributable to equity holders of the Company					
Basic and diluted	8	(1.19) HK cents	(0.53) HK cents	(4.23) HK cents	(3.13) HK cents



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 31 December 2020

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2020 HK\$'000	2019 HK\$'000 (Re-presented)	2020 HK\$'000	2019 HK\$'000 (Re-presented)
Loss for the period	(19,494)	(9,607)	(65,044)	(53,605)
Other comprehensive income (expenses)				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Share of other comprehensive income (expenses) of associates – exchange difference on translation	10,527	(1,491)	18,814	(22,526)
Derecognition of exchange reserve upon disposal of a subsidiary	—	—	2,559	—
Exchange difference on translation of foreign subsidiaries	12,291	(14,945)	38,960	(76,964)
Total comprehensive income (expenses) for the period	3,324	(26,043)	(4,711)	(153,095)
Attributable to:				
Equity holders of the Company	4,272	(27,645)	(4,144)	(150,411)
Non-controlling interests	(948)	1,602	(567)	(2,684)
	3,324	(26,043)	(4,711)	(153,095)



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS

For the nine months ended 31 December 2020

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 consolidated third quarterly financial statements of the Company for the nine months ended 31 December 2020 (the “**Third 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 Third 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 Third 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 2020, 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 2020 (the “**2019/20 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 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 accounting policies and methods of computation applied in the preparation of the Third Quarterly Financial Statements are consistent with those applied in preparing the 2019/20 Annual Financial Statements except for the adoption of the new/revised HKFRSs which are relevant to the Group’s operations and are effective for the Group’s financial year beginning on 1 April 2020.

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.

Amendments to HKASs 1 and 8	Definition of Material
Amendments to HKAS 39, HKFRSs 7 and 9	Interest Rate Benchmark Reform
Amendments to HKFRS 3	Definition of Business
Amendments to HKFRS 16	Covid-19 Related Rent Concessions

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 31 December		Unaudited Nine months ended 31 December	
	2020 HK\$'000	2019 HK\$'000 (Re-presented)	2020 HK\$'000	2019 HK\$'000 (Re-presented)
<u>Revenue from contracts with customers within HKFRS 15</u>				
Prepaid cards and internet payment business				
Card issuing service fee income	38	72	121	356
Management fee income of prepaid cards	1,274	121	4,363	1,794
Merchant service fee income	22,037	18,615	25,133	54,563
Sales and service fee income of point of sales machines	—	22	—	23
Prestige benefits business				
Issuance income of prestige benefits cards	3,435	26,441	18,856	61,512
Hotel booking agency service income	6	443	57	2,875
Merchant acquiring business				
Merchant discount rate income ("MDR income")	2,273	19,903	8,433	51,830
Marketing and distribution service income	9	527	25	1,460



2. REVENUE (Continued)

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2020 HK\$'000	2019 HK\$'000 (Re-presented)	2020 HK\$'000	2019 HK\$'000 (Re-presented)
<i>Revenue from other sources</i>				
Merchant acquiring business				
Foreign exchange rate discount income	557	5,245	1,977	14,641
	29,629	71,389	58,965	189,054



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 the:

- (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 in.

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 locations 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)

Nine months ended 31 December 2020 (Unaudited)

	Continuing operations			Discontinued operations	
	Prepaid cards and internet payment business HK\$'000	Prestige benefits business HK\$'000	Merchant acquiring business HK\$'000	Internet micro-credit business HK\$'000	Consolidated HK\$'000
Segment revenue	29,617	18,913	10,435	15,453	74,418
Segment results	(14,081)	(1,241)	(7,221)	(198)	(22,741)
Unallocated other income					7,601
Unallocated finance costs					(23,312)
Unallocated other expenses					(37,399)
Share of results of associates					10,133
Gain on disposal of a subsidiary					1,133
Loss before tax					(64,585)
Income tax expenses					(459)
Loss for the period					(65,044)



3. SEGMENT REPORTING (Continued)

Nine months ended 31 December 2019 (Unaudited)

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

4. LOSS BEFORE TAX

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2020 HK\$'000	2019 HK\$'000 (Re-presented)	2020 HK\$'000	2019 HK\$'000 (Re-presented)
Note				
This is stated after charging (crediting):				
Finance costs				
Continuing operations				
Interest expenses for financial liabilities at amortised cost	291	159	589	466
Interest on bonds payables	6,638	12,026	20,362	28,307
Finance costs on lease liabilities	175	89	313	304
Effective interest expenses on convertible bonds issued by a listed subsidiary	9 570	—	1,170	—
Other finance costs	—	—	868	—
	7,674	12,274	23,302	29,077
Discontinued operations				
Finance costs on lease liabilities	—	13	10	38
	7,674	12,287	23,312	29,115

4. LOSS BEFORE TAX (Continued)

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2020 HK\$'000	2019 HK\$'000 (Re-presented)	2020 HK\$'000	2019 HK\$'000 (Re-presented)
Note				
Other items				
Continuing operations				
Amortisation of intangible assets	2,022	5,392	6,945	14,435
Depreciation of property, plant and equipment	1,429	1,892	4,279	6,695
Depreciation of right-of-use assets	2,251	1,861	6,038	5,146
Gain on disposal of property, plant and equipment	—	(7,552)	—	(7,531)
Staff costs, including directors' emoluments and share-based compensation cost	17,668	27,470	37,820	71,687
Discontinued operations				
Amortisation of intangible assets	—	142	275	432
Depreciation of property, plant and equipment	—	129	174	687
Depreciation of right-of-use assets	—	36	132	221
Loss allowances on loan receivables	—	5,530	4,515	9,290
Staff costs, including directors' emoluments and share-based compensation cost	—	3,384	3,558	8,622

5. TAXATION

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2020 HK\$'000	2019 HK\$'000 (Re-presented)	2020 HK\$'000	2019 HK\$'000 (Re-presented)
Continuing operations				
Current tax				
Hong Kong Profits Tax	—	—	—	—
PRC Enterprise Income Tax	—	(42)	(5)	(1,247)
Thailand Enterprise Income Tax	—	345	—	922
Withholding tax on dividend declared by a foreign subsidiary	—	—	—	202
	—	303	(5)	(123)
Deferred tax				
Utilisation of tax losses	—	—	—	20
Origination of temporary difference	—	51	—	2,394
	—	51	—	2,414
Income tax expenses (credit) for continuing operations	—	354	(5)	2,291
Discontinued operations				
Current tax				
PRC Enterprise Income Tax	—	(4)	464	602
Total income tax expenses for continuing and discontinued operations	—	350	459	2,893



5. TAXATION *(Continued)*

(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 a loss for taxation purposes for the periods ended 31 December 2020 and 2019.

(ii) Income taxes outside Hong Kong

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

The Group's operations in the PRC are subject to an enterprise income tax of the PRC (the "**PRC Enterprise Income Tax**") at 25% (2019: 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**") (2019: Open Union and Shanghai Jingyuan), which are subject to the PRC Enterprise Income Tax at a preferential rate of 15% (2019: 15%) for high and new technology enterprises.

The Group's operation in Thailand is subject to a Thailand income tax at 20% (2019: 20%).

The Group's operation in Singapore is subject to a Singapore income tax at 17% (2019: 17%).

The Group's operation in Korea is subject to a Korea corporation tax ranged from 10% to 25% (2019: 10% to 25%).

The Group's operation in Cambodia is subject to a Cambodia Corporate Income Tax at 20% (2019: 20%).

Dividends payable by a foreign invested enterprise in the PRC or Thailand to its foreign investors are subject to a 10% (2019: 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 are subject to a 14% (2019: 14%) withholding tax.

* *English translation for identification purpose only.*



6. DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2020 (2019: Nil).

7. DISCONTINUED OPERATIONS

Internet micro-credit business

On 13 March 2020, the Group entered into a sale and purchase agreement (as amended, supplemented or modified by the supplemental agreement dated 8 May 2020) to dispose of 75% equity interest of Keen Best Investments Limited (“**Keen Best**”) and its subsidiaries including Union Evernew Investment Limited (“**Union Evernew**”), 重慶市眾網小額貸款有限公司 (Massnet Microcredit Company (Chongqing) Limited*, “**Massnet Microcredit**”) and 上海洋芋信息科技有限公司 (together the “**Disposal Group**”), to an independent third party and a connected person of the Company, which is beneficially owned by Mr. Yan Dinggui (who resigned as an executive Director and the executive deputy chairman of the Board 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.

For details of the Disposal, please refer to the announcements of the Company dated 13 March 2020, 29 April 2020, 8 May 2020, 12 June 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 have been presented separately in the Third Quarterly Financial Statements with the comparative figures re-presented to reflect a consistent presentation.

* *English translation for identification purpose only.*



7. DISCONTINUED OPERATIONS (CONTINUED)

Internet micro-credit business (Continued)

The results of the Disposal Group for the nine months ended 31 December 2020 and 2019 are analysed as follows:

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue		15,453	27,725
Cost of services rendered		(4,488)	(13,619)
Gross profit		10,965	14,106
Other income		612	8,593
General administrative expenses		(7,685)	(24,173)
Finance costs	4	(10)	(38)
Profit (Loss) before tax	4	3,882	(1,512)
Income tax expenses	5	(464)	(602)
Profit (Loss) after tax		3,418	(2,114)
Gain on disposal of a subsidiary		1,133	—
Profit (Loss) attributable to discontinued operations		4,551	(2,114)



7. DISCONTINUED OPERATIONS (CONTINUED)

Internet micro-credit business (Continued)

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

	2020 HK cents	2019 HK cents
Earnings (Loss) per share for the Disposal Group attributable to owners of the Company		
Basic and diluted	0.28	(0.13)

8. LOSS PER SHARE

Basic loss per share for the three months and nine months ended 31 December 2020 are calculated based on the unaudited consolidated loss for the period attributable to the equity holders of the Company of approximately HK\$15,577,000 and approximately HK\$53,393,000 respectively (2019: approximately HK\$9,941,000 and approximately HK\$53,869,000 respectively), and on the weighted average number of 1,644,188,693 ordinary shares (2019: 1,644,188,693 ordinary shares) in issue respectively.

Diluted loss per share is the same as basic loss per share as the effect of potential ordinary shares had anti-dilutive effects during the three months and nine months ended 31 December 2020 and 2019.



9. CONVERTIBLE BONDS ISSUED BY A LISTED SUBSIDIARY

On 26 June 2020 (the “**Bond Issue Date**”), Oriental Payment Group Holdings Limited (“**OPG**”, together with its subsidiaries, the “**OPG Group**”), the subsidiary of the Company, issued convertible bonds (the “**Convertible Bonds**”) with a coupon interest rate of 7% per annum in an aggregate principal amount of HK\$11,850,000 to not less than six independent placees who, and where applicable, whose ultimate beneficial owners were independent third parties. The Convertible Bonds will mature on the date (the “**Maturity Date**”) falling upon the expiry of two years from the Bond Issue Date or if such date is not a business day, the immediate preceding business day.

The coupon interest is accrued on a day to day basis on the principal amount of the Convertible Bonds outstanding and shall only be payable by OPG semi-annually in arrears on the dates falling six months and one year after the Bond Issue Date and on the anniversary(ies) of such dates for each year thereafter up to and including the Maturity Date. Bondholders will be entitled to receive an additional interest at the rate of 10% per annum from the Bond Issue Date up to and including the Maturity Date chargeable on the principal amount of the Convertible Bonds, which will be payable by OPG on the Maturity Date, if they have not converted any of their Convertible Bonds into new shares of OPG.

The Convertible Bonds can be converted into a maximum number of 79,000,000 ordinary shares of OPG at the initial conversion price of HK\$0.15 per share of OPG.

9. CONVERTIBLE BONDS ISSUED BY A LISTED SUBSIDIARY (Continued)

The Convertible Bonds recognised at the end of the reporting period are calculated as follows:

	Note	HK\$'000
Liability component		
Fair value of liability component at the Bond Issue Date		10,951
Issue costs		(284)
		10,667
Effective interest expenses	4	1,170
Liability component at 31 December 2020		11,837
Potential non-controlling interests		
Nominal value of the Convertible Bonds		11,850
Fair value of liability component at the Bond Issue Date		(10,951)
Issue costs		(23)
Potential non-controlling interests at the Bond Issue Date and at 31 December 2020		876

For details of the placing of the Convertible Bonds by OPG, please refer to the joint announcements of the Company and OPG dated 10 June 2020 and 26 June 2020 respectively.



Non-controlling interests

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10. MOVEMENT OF EQUITY (Continued)

	Attributable to equity holders of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000 <Remark>	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
For the nine months ended										
31 December 2019										
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)
Other comprehensive expenses										
<i>Items that may be reclassified subsequently to profit or loss:</i>										
Share of other comprehensive expenses of associates	—	—	—	(22,526)	—	—	—	(22,526)	—	(22,526)
Exchange difference on translation of foreign subsidiaries	—	—	—	(74,016)	—	—	—	(74,016)	(2,948)	(76,964)
Total comprehensive expenses for the period	—	—	—	(96,542)	—	—	(53,869)	(150,411)	(2,684)	(153,095)
Transaction with owners:										
<i>Contribution and distributions</i>										
Recognition of share-based 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										
(Unaudited)	16,441	1,562,367	5,498	(142,167)	10,834	122,765	(769,717)	806,021	84,624	890,645



10. 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.

11. OTHER AND SUBSEQUENT EVENTS

On 15 December 2020, the Company entered into the placing agreement (the **“Placing Agreement”**) with the placing agent (the **“Placing Agent”**), pursuant to which the Company agreed to place through the Placing Agent up to 328,837,738 placing shares to not less than six placees at the placing price of HK\$0.16 per placing share on a best effort basis (the **“Placing”**). The Placing was completed on 6 January 2021, where a total of 328,830,000 shares of the Company have been successfully placed to not less than six placees. For details of the Placing, please refer to the announcements of the Company dated 15 December 2020 and 6 January 2021 respectively.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group has engaged in the following businesses during the nine months ended 31 December 2020 (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 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 cross-border 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, with internet payment business growth decelerating, the prepaid card industry steadily developed within the criteria. A continuous stable growth of gross domestic product ("**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, and hence payment industry will keep growing up to a certain extent and go on developing rapidly.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

For the 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.

For the internet micro-credit business, the Group entered into a sale and purchase agreement on 13 March 2020 (as amended, supplemented or modified by the supplemental agreement dated 8 May 2020) with the purchasers, Geerong (HK) Limited and Oak Bay International Limited, pursuant to which the Company has conditionally agreed to sell 75% of the entire issued share capital of Keen Best Investments Limited ("**Keen Best**") and its indirect wholly-owned subsidiary, 重慶市眾網小額貸款有限公司 (Massnet Microcredit Company (Chongqing) Limited*) ("**Massnet Microcredit**") at a total consideration of HK\$225 million (the "**Disposal**"). During the past few years, the business environment for microcredit in the PRC has become more competitive with the tightening regulatory policies in the PRC. The Disposal Group's financial performance and position has been deteriorating as a result of the intense competition in the market and the increase in default risk. The Group will continue to hold 25% of the equity interests in Keen Best which would become an associate of the Group. A resolution in relation to the Disposal was passed by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 12 June 2020. The Disposal was completed on 29 September 2020.

* *English translation for identification purpose only.*



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

For merchant acquiring business, it is 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.

During the Review Period, the OPG Group has continuously faced the risks of the uncertainties in the impact of Sino-US trade war and the outbreak of coronavirus disease 2019 (“**COVID-19**”) pandemic, which would affect 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.

The OPG Group is exploring investment opportunities in online and offline payment related business in Asia Pacific and has undergone placing of the Convertible Bonds to raise funds in June 2020. 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.

During the Review 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.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW (CONTINUED AND DISCONTINUED OPERATIONS)

Revenue

The internet micro-credit services, 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\$74 million, of which approximately HK\$30 million was attributed to the prepaid cards and internet payment business; approximately HK\$10 million was attributed to the merchant acquiring business in Thailand; approximately HK\$19 million was attributed to the prestige benefits business; and approximately HK\$15 million was attributed to the internet micro-credit business respectively.

The Group's revenue for the Review Period was approximately HK\$74 million, representing a decrease of approximately 66% as compared with that of the corresponding period in the last year because of the significant decrease in the revenue of the prepaid cards and internet payment business, prestige benefits business and merchant acquiring business. The decrease in the revenue of the prepaid cards and internet payment business, prestige benefits business and merchants acquiring business were mainly due to the outbreak of the COVID-19 pandemic during which the citizens reduced their frequency of outgoing and hence caused the significant decrease in the transaction volume.

Cost of Services Rendered

Cost of services rendered amounted to approximately HK\$31 million, representing a decrease of approximately 72% 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\$94 million, representing a decrease of approximately 37% 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 AND DISCONTINUED OPERATIONS) *(Continued)*

Selling and Distribution Costs

The selling and distribution costs for the Review Period amounted to approximately HK\$9 million, representing an increase of approximately 92% from that in the corresponding period in the last year. The increase in selling and distribution costs was mainly due to the increase in amortisation cost which was offset by the decrease in the transaction volume.

Finance Costs

The finance costs for the Review Period amounted to approximately HK\$23 million, representing a decrease of approximately 20% from that in the corresponding period in the last year. The decrease was primarily attributable to a decrease in the interests on bond payable.

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\$53 million. Basic loss per share was approximately 3.25 HK cents as compared with approximately 3.28 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 2020, 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 pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to Rule 5.46 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)

- (a) 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. Lin Xiaofeng (“Mr. Lin”)	Beneficial owner (Note)	11,000,000	0.66%

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 “**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.

- (b) **Associated corporations**

Save as disclosed above, as at 31 December 2020, 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 pursuant to section 352 of the SFO to be entered in the register referred to therein or were required, pursuant to Rule 5.46 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 Share Option Scheme, 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 2020, 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

Name	Capacity	Number of Shares	Percentage of shareholding
Mr. Zhang Chang ("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 ("Sino Starlet")	Beneficial owner (Note 1)	170,000,000	10.34%
Vered Capital Limited ("Vered Capital")	Beneficial owner (Note 2)	260,090,000	15.82%



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

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.

Save as disclosed above, as at 31 December 2020, there was no any substantial shareholder or other 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 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.

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.



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 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, interim and quarterly 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.

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 Corporate Governance Code and Corporate Governance Report (the **"CG Code"**) as set out in Appendix 15 to the GEM Listing Rules and the disclosure in the Company's Corporate Governance Report.

During the Review Period, the Company has complied with all the code provisions of the CG Code except for the deviation from the code provision A.2.1.

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Ms. Song Qian has been the chairlady and the chief executive officer of the Company (the **"CEO"**) since 20 January 2020 following her appointment as an executive Director until 12 October 2020. Although the Company already has a strong corporate governance structure in place to ensure effective oversight of management, to improve the compliance with the CG Codes, Ms. Song Qian resigned as the chairlady of the Board and the CEO both on 12 October 2020 while remaining as an executive Director (but subsequently resigned as an executive Director on 5 February 2021) and Mr. Zhang Xi has been appointed as executive Director and the chairman of the Board on the same date. As at the date of this report, the Company is still looking for suitable candidate to fill the vacancy of the CEO. Since 12 October 2020, there was no longer deviation from the code provision A.2.1.



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 2020 to 31 December 2020.

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 and 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 2020 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, 10 February 2021

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