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China Smartpay Group Holdings Limited
中國支付通集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8325)

SUPPLEMENTAL ANNOUNCEMENT TO ISSUE OF SECOND TRANCHE CONSIDERATION SHARES IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF AE INVESTMENT CONSULTING LIMITED

Reference is made to the announcement (the "**2015 Announcement**") and the circular (the "**Circular**") of China Smartpay Group Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") to its shareholders respectively dated 8 July 2015 and 12 June 2015 in relation to, among other things, the Acquisition. Reference is also made to the announcement (the "**2017 Announcement**") of the Company dated 11 January 2017 in relation to the issue of the Second Tranche Consideration Shares in relation to the Acquisition and the annual report the "**2017 Annual Report**") of the Group dated 23 June 2017 for the year ended 31 March 2017 in this connection. Unless otherwise defined herein, terms used in this announcement shall have the same meaning as those defined in the Circular.

As disclosed in the 2017 Announcement and/or the 2017 Annual Report (as the case may be), the 2015 Net Profit exceeded the 2015 Performance Target, and the Second Tranche Consideration Shares were allotted and issued to the Vendors in accordance with the terms and conditions of the Sale and Purchase Agreement, where "2015 Net Profit" (as also appearing in the 2015 Announcement and the Circular) means:

"the audited consolidated operating profits after taxation but before any extraordinary items of the (Target) Group in respect of the 2015 Guaranteed Period prepared in accordance with HKFRS as appeared in the 2015 Audited Accounts and operating profits shall mean profits excluding (i) fair value gain or loss arising from valuation of property or non-competition clause or any financial assets and liabilities; (ii) staff expenses in relation to granting of share-options; and (ii) non-recurring gain or loss",

which has provided for, and taken into account, the adjustment principle for, and the adjustment mechanism of, "any extraordinary items" of the Target Group for the purpose of calculating the 2015 net profit, that is, the audited consolidated operating profits after taxation but before any extraordinary items of the Target Group.

In this relation, the Company would like to supplement the information on inclusion of certain reconciliation adjustment items in determining the actual amount of the 2015 Net Profit so as to ascertain whether the 2015 Performance Target had been achieved. Such items are (i) recognition of certain sale arrangements; (ii) exclusion of management fee charged by the Group; (iii) recognition of tax incentives; and (iv) exclusion of deferred taxation impacts.

(i) Recognition of certain sale arrangements

Certain goods were sold and delivered by the Target Group before the 2015 Guarantee Period (commencing from 1 August 2015 and ending on 31 July 2016). However, the PRC invoices in relation to such sale were issued after 1 August 2015.

Under the Hong Kong Financial Reporting Standards ("**HKFRS**"), revenue was recognised for such sale before 1 August 2015 when the risks and rewards of the products were transferred to the customers of the Target Group, and hence such sale was not treated as operating profits for the 2015 Guarantee Period.

Whereas under the People's Republic of China Generally Accepted Accounting Principles ("**PRC GAAP**") and the local tax reporting requirements, revenue for such sale was recognised after 1 August 2015 when the relevant PRC tax invoices were issued.

In the course of the parties' negotiation for the terms and conditions of the Acquisition in 2015, the Group had considered the historical financial results of the Target Group up to the date of signing of the Sale and Purchase Agreement prepared in accordance with the PRC GAAP in determining the amount of the Consideration. At that time, the relevant PRC tax invoices of such sale had not yet been issued and hence such sale revenue was not reflected in the then Target Group's historical financial results under the PRC GAAP. In other words, such sale revenue had not been taken into account by the parties in determining the Consideration.

In 2016, after expiry of the 2015 Guarantee Period, the Group proceeded to ascertain whether or not the 2015 Performance Target was achieved, where audit of the 2015 Guarantee Period on the Target Group was commenced and carried out under the HKFRS.

The Company and its audit committee consider that it is fair and reasonable to include the revenue for the aforesaid sale in the amount of RMB4,484,380 (equivalent to HK$5,605,475) as extraordinary item in calculating the 2015 Net Profit on the following basis:

(a) due to the difference in the accounting treatment of such sale revenue under the PRC GAAP and the HKFRS, such revenue had not been taken into account in determining the Consideration at the time of signing of the Sale and Purchase Agreement under the PRC GAAP on one hand, while it was not reflected as operating profits in the financial statements of the Target Group under the HKFRS after expiry of the 2015 Guarantee Period on the other hand. As such, although such sale had actually taken place, its revenue had neither been taken into account in determining the Consideration nor been reflected in the financial performance of the Target Group for the 2015 Guaranteed Period; and

(b) the foregoing adjustment was a one-off incident and has no continuous impacts on the Target Group as the accounting practice of the Target Group for the revenue recognition for similar transactions under HKFRS and PRC GAAP has become consistent after audit of the 2015 Guarantee Period.

(ii) Exclusion of management fee charged by the Group

The management fee represented the intra-group recharge of corporate expenses charged by the Group to the Target Group following the Acquisition, including the Target Group's sharing of the Group's corporate office staff costs as well as accounting, legal, compliance and other supporting costs (such as feasibility study on future business development of, and future information technology environment affecting, the Target Group).

The Company and its audit committee consider that it is fair and reasonable to exclude such recharge of corporate expenses in the amount of RMB4,998,750 (equivalent to HK$6,248,438 (to the nearest dollar)) as extraordinary item from calculating the 2015 Net Profit on the following basis:

(a) during the negotiation for the Acquisition, merely the operating results of the Target Group were taken into account for determining the amount of the 2015 Performance Target, without the potential corporate expenses to be re-charged by the Group (the amount of which could not be ascertained);

(b) such intra-group expenses would not have been incurred should the Target Group operate independently of the Group since the Company as a listed Company is required to incur costs and expenses for on-going compliance purpose, and exclusion of such expenses could therefore truly reflect operational performance of the Target Group itself; and

(c) the amount of such recharge was determined with reference to the time and effort spent by the management team of the Group on the Target Group and also the revenue contribution of the Target Group to the Group as a whole.

(iii) Recognition of tax incentives

Upon Acquisition, the Target Group applied for tax incentives allowed for new and high tech enterprises in the PRC for the financial years of 2016 onwards. However, the relevant tax incentive for the period from 1 January 2016 to 31 July 2016 had not been formally approved by the relevant tax authorities before the issuance of the 2015 Audited Accounts, and hence such incentives were not taken into account for HKFRS reporting purpose.

The Company and its audit committee consider that it is fair and reasonable to include such tax incentives in the amount of RMB2,414,554 (equivalent to approximately HK$3,018,193 (to the nearest dollar)) as extraordinary item in calculating the 2015 Net Profit on the following basis:

(a) the approval for such tax incentive was expected to be highly probable; and

(b) such tax incentive was subsequently granted by the relevant tax authorities, which had taken into effect from 1 January 2016.

(iv) Exclusion of deferred taxation impacts

The deferred taxation adjustments in the amount of RMB1,754,009 (equivalent to approximately HK$2,192,511 (to the nearest dollar)) were mainly made as a result of the above three adjustments, as applicable, for the corresponding tax effect (if any). Accordingly, the Company and its audit committee consider that it will not be fair and reasonable without taking into account such effect.

As a result of the above, the 2015 Net Profit was adjusted from RMB17,017,009 (equivalent to HK$21,271,261 (to the nearest dollar)) to RMB30,668,702 (equivalent to HK$38,335,878 (to the nearest dollar)).

The Board would like to emphasise that the above reconciliation adjustments were mutually agreed by the parties to the Sale and Purchase Agreement.

By Order of the Board
China Smartpay Group Holdings Limited
Yan Dinggui
Executive Deputy Chairman

Hong Kong, 4 May 2018

Translation of RMB to HK$ in this announcement is based on the exchange rate of HK$1.25 = RMB1.

As at the date of this announcement, the Board comprises (i) five executive Directors, namely, Dr. Cao Guoqi, Mr. Fung Weichang, Mr. Xiong Wensen, Mr. Song Xiangping and Mr. Yan Dinggui; (ii) two non-executive Directors, namely, Mr. Zhang Huaqiao and Mr. Xie Zhichun; and (iii) four independent non-executive Directors, namely, Mr. Wang Yiming, Mr. Lu Dongcheng, Dr. Yuan Shumin and Dr. Zhou Jinhuang.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement 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 announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at http://www.hkgem.com for at least 7 days from the date of its posting and on the Company's website at http://www.chinasmartpay.com.