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## **SMART CITY DEVELOPMENT HOLDINGS LIMITED**

### **智城發展控股有限公司**

*(Incorporated in Cayman Islands with limited liability)*

**(Stock Code: 8268)**

## **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 MARCH 2022**

Reference is made to the annual report of Smart City Development Holdings Limited (the “**Company**”) for the year ended 31 March 2022 published by the Company on 29 June 2022 (the “**2022 Annual Report**”). Unless otherwise specified, all capitalised terms used herein have the same meaning as those defined in the 2022 Annual Report.

### **SUPPLEMENTAL INFORMATION ON THE 2022 ANNUAL REPORT IN RELATION TO THE MONEY LENDING BUSINESS OF THE GROUP**

In addition to the information disclosed in the 2022 Annual Report, the Board would like to provide supplemental information regarding the Money Lending Business of the Group.

#### **Business model of the Group’s Money Lending Business**

The Group’s money lending services are generally provided to individual and corporate borrowers that have short-term funding needs and could provide sufficient collaterals for their borrowings. The Group’s clientele is primarily acquired through business referrals and introductions from the Group’s senior management, business partners or customers.

During the Reporting Period, the range of interest rate on the Group’s fixed rate loans receivable was 8% to 12% (2021: 8% to 15%) per annum.

The Group generates interest income from such loan facility as revenue. The Group recorded revenue from this segment amounted to approximately HK\$1,264,000 (2021: HK\$1,149,000), representing an increase of approximately 10%.

## **The Group's credit risk assessment policy in respect of its Money Lending Business**

The Group's credit risk is mainly arising from its loan receivable from customers. To monitor its credit risk, the Group sets out the following credit policies for its Money Lending Business.

The Group has set up a Credit Committee for its term loan business which has full authority to handle all credit related matters of the Group. The primary duties of the Credit Committee are, among other things, to approve and oversee the Group's credit policy and to monitor its loan portfolio. All decisions made on loan applications are handled by the Credit Department and are subject to independent reviews of the Group's management and the internal control review. All new customers have to pass the Group's financial background and credit checks before a loan, which must be approved by the Credit Committee, can be granted. In terms of credit monitoring, the Credit Committee will check for irregularities and report to the directors as necessary. The directors will perform sample check on the loan files to ascertain that loan approval procedures and documentations are properly performed by the front office team. For loans with collateral, the Credit Committee will identify possible irregularities in the credit quality of the loan portfolio. In cases where the borrower requests a restructuring of the repayment schedule, approval has to be obtained from the Credit Committee on a case-by-case basis. The approved restructured loans will be monitored by the front office team and reviewed by the Credit Committee to ensure timely repayment.

The Company confirms that the aforementioned credit policies have been strictly followed with no enhancement during the year ended 31 March 2022.

Impairment review has been performed by management to assess impairment loss on trade receivables from loans receivable from customers. The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. At the end of the reporting period, the Company performed an impairment assessment on the Group's loans and interest receivables with reference to a valuation prepared by an independent professional valuer. The valuation measured impairment on loans and interest receivables using the general approach, which is often referred to "three-stage model", under Hong Kong Financial Reporting Standard 9 Financial Instruments.

Stage 1: Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

- Stage 2: Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3: Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

As at 31 March 2022, 9 loans and interest receivables remained outstanding, of which 9 loans and interest receivables with the aggregate gross balance of HK\$26,149,000 were classified under stage 1 (initial recognition). Based on the valuation, a total allowance for ECL on loan receivables of HK\$87,000 (31 March 2021: Nil) was made for the Reporting Period. The Group has recorded a reversal of allowance of HK\$19,000 due to the repayment of two loans and the valuation prepared by the independent professional valuer.

### **Size and diversity of customers**

As at 31 March 2022, the gross carrying amount of unsecured loan receivable amounting to HK\$26,149,000 (2021: HK\$12,823,000) of which HK\$2,500,000 are with personal guarantee. In addition, The Group's largest borrower of the Group by itself and together with the other four largest borrowers of the Group accounted for approximately 19.1% (2021: 23.4%) and 82.2% (2021: 89.7%) respectively of the Group's loans receivable at 31 March 2022.

### **Key internal controls**

The Group generally provides short-term loans. For the new and renewal loans during the Reporting Period, 61.8% was with a term within 1 year, and 38.2% was more than 1 year but not more than 2 years. The repayment terms and conditions are determined from the factors including the liquidity needs of the borrowers, the Group's funding and cash flows management strategies, and the terms and rates of the prevailing market.

The licensing of money lenders and regulation of money-lending transactions are governed by the Money Lenders Ordinance, Cap. 163 (the "MLO"). The Group has credit policies, guidelines and procedures in place which cover key internal controls of a loan transaction including due diligence, credit appraisal, proper execution of documentations, continuous monitoring and collection and recovery. The due diligence procedures included conducting research on the borrowers' background, evaluating its current business operations and financial conditions, market reputation and creditability, and conducting financial analysis and recoverability analysis. To minimise credit or investment risks, the Group may require personal guarantees and corporate guarantees in respect of certain loans.

Upon completion of relevant account opening, Know-your-client (“KYC”) and credit assessment procedures, the Group would grant a loan facility to such borrowers for their own financing needs. The Group has followed all forms and procedures prescribed under the provisions of the MLO when making relevant application for the renewal of Money Lender License and conducting our money lending business. After drawdown of loan, the loan agreement will be filed with the loan documents properly. The Group maintains regular contact with the borrowers and carries out periodical review to assess the recovery of the loan based on the business development, financial status, repayment ability including such as recent settlement record and any litigations and bankruptcy orders against borrowers. The Group will take all necessary legal actions against the relevant clients to follow up the settlement of the outstanding loans.

The above supplemental information does not affect other information contained in the 2022 Annual Report. Save as disclosed above, the other information contained in the 2022 Annual Report remains unchanged.

By Order of the Board  
**Smart City Development Holdings Limited**  
**Hung Kenneth**  
*Executive Director*

Hong Kong, 28 September 2022

*As at the date of this announcement, the Board comprises Mr. Hung Kenneth and Ms. Lau Po Yee as executive Directors and Mr. Wong Yuk Lun Alan, Mr. Lam Wai Hung and Ms. Au Shui Ming Anna as independent non-executive Directors.*

*This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, 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.*

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