MOG DIGITECH HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1942)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Reference is made to the annual report of MOG Digitech Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2023, which the Company published on 26 April 2024 (the "**2023 Annual Report**"). Unless otherwise defined, terms used in this announcement shall have the same meanings as those defined in the 2023 Annual Report.

The Company would like to provide its shareholders and potential investors with the following supplemental information relating to the Group's financing services (the "**Financing Services**") as disclosed in the "4. SEGMENT INFORMATION" section on pages 115 to 120 of the 2023 Annual Report.

1. BUSINESS MODEL OF THE FINANCING SERVICES

The Group provides Financing Services through Positive Oasis Limited and its subsidiaries (the "**PO Group**").

The Financing Services are exclusively available to corporate clients seeking funding to settle accounts receivable resulting from the acquisition of digital hardware from the Group. The PO Group initially provides Financing Services using its internal resources. In this scenario, the customer transfers its receivables to the PO Group, which then handles account management and collection services. Once the receivable is assigned, the ownership and benefits of the receivable are transferred to the PO Group. As a result, the PO Group assumes the credit risk, and the principal receivables will be reflected in the Group's financial statements in accordance with the applicable accounting standards. However, during 2023, the PO Group did not conduct any transactions under this model due to the high business and credit risk, as well as the cost of money during the economic downturn period. To ensure effective credit risk management, the PO Group establishes funding arrangements with an independent third party (the "**Financier**") that provides a credit facility. Under the agreement between the Financier and the PO Group, the Financier entrusts the PO Group to originate and grant financing loans to specified customers. The PO Group retains the right to assign the receivables to the Financier, who has conditionally agreed to accept such accounts receivable in the event of default on the financing loan. This arrangement allows the Financier to assume ownership, along with the associated rights and benefits of the accounts receivable, thereby enhancing the Group's ability to mitigate and manage credit risk exposure. In consideration of the above, given that the Financier assumed the credit risk, no principal receivables have been recognized in the Group's financial statements in accordance with the applicable accounting standards. With regard to its impact on the Group's income statement, the PO Group generates financing services income derived from the variance between the interest rate imposed on its clients and the interest cost charged by the Financier.

In practice, upon receiving a request for Financing Service, the PO Group's Management promptly notifies the Financier and seeks his consent to facilitate the loan through the PO Group. Once consent is obtained, the Group initiates the preparation of the financing agreement. Prior to entering into a financing agreement, the PO Group diligently conducts a thorough credit assessment of applicants for the Financing Services. When evaluating creditworthiness, the PO Group emphasizes the importance of the trading records and credit history of the customers within the Group. In cases where there is insufficient information, the Group may engage external agencies to conduct a credit search to obtain background information and the credit history of its clients.

The loan approval process involves a thorough know-your-customer assessment, during which the management of the Group's subsidiaries diligently verifies all obtained information, including corporate and business background details. Ultimately, the decision to approve the loan falls under the responsibility of the director(s) of the relevant Group's subsidiaries.

The finance team of the Group's relevant subsidiary keeps a record of the interest receivables and collaborates with the operations team to issue reminders and alerts for repayment. During the monitoring stage, such the finance team checks the status of each receivable on a monthly basis and reports to the director of the Group's relevant subsidiary if necessary.

The Group's policy requires regular review of each receivable's outstanding balance, at least annually or more frequently if necessary, due to specific circumstances or market conditions. Assessment of impairment allowances on individual accounts is done on a case by-case basis. An independent professional valuer will be engaged to review and assess this evaluation. Generally, impairment allowances are recognised when there are default indicators on loan principal or interest receivables.

2. DETAILS OF THE ACQUIRED RECEIVABLES AND FINANCING LOANS

As disclosed in the 2023 Annual Report, as of 31 December 2023, the outstanding balances of the Acquired Receivables (as defined below) and the outstanding interest receivables arising from the Financing Loans (as defined below) were as follows:

(i) approximately HK$102,883,000 for the accounts receivable acquired through the acquisition of the PO Group in 2022 (the "**Acquired Receivables**"); and

(ii) approximately HK$10,726,000 for the interest receivable arising from forty-two (42) financing loans granted to customers in 2023 (the "**Financing Loans**") to facilitate the settlement of accounts receivable resulting from the purchase of electronic hardware.

Below is the detailed breakdown of (i) the outstanding Acquired Receivables; and (ii) the top five outstanding interest receivables associated with the Financing Loans as of 31 December 2023:

(i) The Acquired Receivables

	Outstanding receivable amount as at 31 December 2023 *RMB'000*	**Percentage to total outstanding amount**	**Terms**	**Maturity date**	**Effective interest rate**
Borrower A	33,069	32.14%	92 months	31 July 2026	11.64%
Borrower B	2,351	2.29%	53 months	31 December 2023	12.93%
Borrower C	67,463	65.57%	51 months	31 August 2025	9.17%
Total	**102,883**	**100.00%**			

Note: No collateral and/or guarantees were provided pursuant to the terms of the Acquired Receivables.

(ii) The Financing Loans

	Outstanding receivable amount as at 31 December 2023 *RMB'000*	**Percentage to total outstanding amount**
Borrower D	1,179	10.99%
Borrower E	725	6.76%
Borrower F	711	6.63%
Borrower G	608	5.67%
Borrower H	607	5.66%
Others	6,896	64.29%
Total *(Notes)*	**10,726**	**100.00%**

Notes:

1. The outstanding interest receivables from the Financing Loans have been included in the item “Deposits paid” under the “Trade and other receivables”, as disclosed on page 148 of the Annual Report.

2. Based on the information in the “1. BUSINESS MODEL OF THE FINANCING SERVICES” section, the Financing Loans do not have a specified maturity date or an annual interest rate according to the terms of the Financing Loans due to the nature of services.

3. No collateral and/or guarantees were provided pursuant to the terms of the Financing Loans.

In addition, below is the aging analysis of the outstanding Acquired Receivables and the outstanding interest receivables arising from the Financing Loans.

	As at 31 December 2023 *RMB’000*
Not yet due	69,330
Past due	
– Within 30 days	–
– 31 to 60 days	–
– 61 to 90 days	–
– 91 to 120 days	–
– 121 to 360 days	28,292
– Over 361 days	15,987
Total	44,279
Total (i.e. RMB102,883,000 + RMB10,726,000)	**113,609**

3. MOVEMENTS OF IMPAIRMENTS OF THE ACQUIRED RECEIVABLES

Given that the interest receivables from the Financing Loans are anticipated to be recovered within one year, the assessment has focused solely on the impairment of loan receivables arising from the Acquired Receivables.

Below are the changes in the impairment of loan receivables arising from the Acquired Receivables:

		RMB'000
Outstanding loan receivables as at 31 December 2023 (before accumulated expected credit loss ("**ECL**") allowance)	(A)	102,883
Accumulated ECL allowance		
As at 1 January 2023		5,421
Recognition of ECL for the year 31 December 2023		6,159
As at 31 December 2023	(B)	11,580
Outstanding loan receivables as at 31 December 2023 (after accumulated ECL allowance)	(A) – (B)	91,303

The Group, based on the applicable accounting standards, applies the general approach, which is generally referred to as the "three-stage" model under the International Financial Reporting Standard 9 "Financial Instrument", in with the ECL of the loan receivables are determined based on (i) the changes in credit quality of the loan receivables since initial recognition; and (ii) the estimated expectation of an economic loss of the loan receivables under consideration.

Under the general approach, there are two measurement bases for allowance of ECL: (a) 12-month ECL, which is the ECL that results from default events that are possible within 12 months after the reporting date and are calculated as the allowance for ECL on a loan and interest receivable weighted by the probability of default accumulated over the 12 months after the reporting date; (b) lifetime ECL, which are the ECL that result from all possible default events over the expected life of a loan and interest receivable and are calculated as the allowance for ECL on a loan and interest receivable weighted by the probability of default accumulated over the entire life of the loan and interest receivable.

The allowance for ECL on loan receivables is derived from gross credit exposure, recovery rate, and probability of default. The Group uses the following ECL formula to calculate this allowance.

Expected default rate × exposure at default × (1 – recovery rate) × discount factor

For ECL assessment, the Group's loan receivables are classified as follows:

(a) Stage 1 (Performing) includes loan receivables that have not had a significant increase in credit risk since initial recognition or have low credit risk at the reporting date. For these loan receivables, 12-month ECL are recognised.

(b) Stage 2 (Underperforming) includes loan receivables that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these loan receivables, lifetime ECL are recognised.

(c) Stage 3 (Non-performing) includes loan receivables that have objective evidence of impairment and are considered as credit-impaired financial assets at the reporting date. For these loan receivables, lifetime ECL are recognised.

As of 31 December 2023, an aggregate amount of impairment for the ECL of approximately RMB11,580,000 was recognised on loan receivables in stage 3 for the year ended 31 December 2023.

The Group engaged Win Bailey Valuation and Advisory Limited as the independent professional valuer (the "**Valuer**") to assess the ECL. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, the Valuer and its ultimate beneficial owners are independent third parties and not connected with the Company and its connected persons (as defined under the Listing Rules)

The supplemental information in this announcement does not affect other information in the 2023 Annual Report. Save as disclosed in this announcement, the contents of the 2023 Annual Report remain unchanged.

By order of the Board
MOG Digitech Holdings Limited
Zhou Yue
Executive Director

Hong Kong, 17 October 2024

As at the date of this announcement, the Company has four executive Directors, namely Mr. Deng Zhihua (Chairman and Co-chief executive officer), Mr. Chen Yongzhong (Co-chief executive officer), Ms. Tang Tsz Yuet and Mr. Zhou Yue, and three independent non-executive Directors, namely Mr. Yau Tung Shing, Ms. Chen Wen and Mr. Gao Hongxiang.