THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Rongzhong Financial Holdings Company Limited, you should at once hand this circular with the accompanying proxy form to the purchaser or transferee or to the licensed securities dealer, the bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

RONGZHONG

CHINA RONGZHONG FINANCIAL HOLDINGS COMPANY LIMITED
中國融眾金融控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03963)

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 51% EQUITY INTEREST IN THE TARGET COMPANY; AND (2) EGM NOTICE

Financial adviser to the Company

Lego Corporate Finance Limited
力高企業融資有限公司

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

Giraffe
智富

Giraffe Capital Limited

A notice convening the extraordinary general meeting of the Company to be held at 10:30 a.m. on Thursday, 29 July 2021 at 2/F, J Plus, 35-45B Bonham Strand, Sheung Wan, Hong Kong (the "**EGM**") is set out on pages EGM-1 to EGM-3 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM (i.e not later than 10:30 a.m. on Tuesday, 27 July 2021) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

References to time and dates in this circular are to Hong Kong time and dates.

PRECAUTIONARY MEASURES FOR THE EGM

Please see page EGM-3 of this circular for measures being taken to try to prevent and control the spread of the novel coronavirus (COVID-19) epidemic at the EGM, including:

- compulsory body temperature checks and health declarations
- compulsory wearing of a surgical face mask for each attendee
- no distribution of corporate gift or refreshment

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine will be denied entry into the meeting venue. The Company reminds shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting as an alternative to attending the meeting in person.

30 June 2021

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the proposed acquisition of the Sale Shares by the Purchaser in accordance with the terms and conditions of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements)
"Agreed Proportion"	the agreed proportion in relation to the Transfer Shares to be transferred to the respective Vendors (or their respective designated transferee, if applicable) and Cash Consideration expressed as percentages, being (i) 68.63% to Vendor A; (ii) 5.10% to Vendor B; (iii) 8.62% to Vendor C; and (iv) 17.65% to Vendor D
"ALLF"	collectively, Alpha & Leader Law Firm, Alpha & Leader (Shanghai) Law Firm, Alpha & Leader (Beijing) Law Firm and Alpha & Leader (Wuhan) Law Firm which are respectively interested as to 25% and 25% by Mr. Pan and Mr. Li, being substantial shareholders of Vendor A
"ALLF Agreements"	collectively, the Master Cooperation Agreement and the Letter of Undertaking
"Alpha (Guangzhou)"	Alpha & Leader Business Management Consulting (Guangzhou) Co. Ltd., a wholly-owned subsidiary of the Target Company
"Alpha (Guangzhou) Business"	the business (including but not limited to assisting client in handling accounts receivable, credit evaluation, due diligence and other related business) of Alpha (Guangzhou)
"Alpha (Singapore)"	Alpha & Leader Risk and Asset (Singapore) Pte. Ltd., a wholly-owned subsidiary of the Target Company
"Announcements"	the announcements of the Company dated 26 June 2020, 29 March 2021 and 29 June 2021 in relation to the Sale and Purchase Agreement, the First Supplemental Agreement and the Second Supplemental Agreement, respectively
"associate(s)"	has the meaning ascribed to it under the Listing Rules

"Auditor"	being the auditor of the Target Company, which shall be an independent firm of certified public accountants of international repute as nominated by the Purchaser and appointed by the Target Company
"Board"	the board of Directors of the Company
"Business Day(s)"	a day (other than Saturday, Sunday or days on which a typhoon signal 8 or above or black rainstorm is hoisted in Hong Kong between 9:00 a.m. to 5:00 p.m.) on which banks in Hong Kong are open for general banking business
"Cash Consideration"	the partial consideration as to HK$3,831,256 to be paid by the Purchaser to the Vendors in cash, as described in the section headed "Transfer of Transfer Shares by tranches" in this circular
"Company"	China Rongzhong Financial Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) whose issued Shares are listed on the Stock Exchange
"Completion"	completion of the Acquisition pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements)
"Completion Date"	the date on which Completion takes place, being the 10th Business Day immediately following the day on which all the conditions precedent have been satisfied and/or waived or such other date as the Vendors and the Purchaser may agree in writing
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration for the Sale Shares, being HK$32,640,000, subject to adjustments in accordance with the terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements)

"Debt Recovery Business"	certain related services carried out by ALLF in the course of providing legal services to its clients such as debt dispute mediation and debt collection services through non-litigation means and conducting of due diligence
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held at 10:30 a.m. on Thursday, 29 July 2021 at 2/F, J Plus, 35-45B Bonham Strand, Sheung Wan, Hong Kong for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder
"EGM Notice"	the notice of the EGM
"Enlarged Group"	collectively, the Group and the Target Group upon Completion
"Fifth Tranche Transfer Shares"	the additional Transfer Shares which are existing Shares to be procured to transfer by Solomon Glory, as described in the section headed "Adjustment to Consideration subject to the profit guarantee" in this circular
"First Supplemental Agreement"	the supplemental agreement dated 29 March 2021 entered into among the Purchaser, the Vendors, Mr. Pan, Mr. Li, Silver Creation and Solomon Glory to amend and supplement certain terms of the Sale and Purchase Agreement
"First Tranche Transfer Shares"	the first tranche Transfer Shares in the amount of 31,911,908 to be transferred by Silver Creation
"Fourth Tranche Transfer Shares"	the fourth tranche Transfer Shares in the amount of 6,591,471 which are existing Shares to be procured to transfer by Solomon Glory, as described in the section headed "Transfer of Transfer Shares by tranches" in this circular
"Goldbond"	Goldbond Group Holdings Limited, a company listed on the Stock Exchange with stock code 172 and a controlling Shareholder as at the Latest Practicable Date

"Group"	the Company and its subsidiaries
"Guaranteed Period"	the period from 1 July 2020 to 31 December 2023
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company comprising all independent non-executive Directors established to advise the Independent Shareholders in respect of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder
"Independent Financial Adviser"	Giraffe Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than those who have a material interest in the Acquisition and therefore are, together with their associates, required to abstain from voting on the resolution(s) to approve the Acquisition under the Listing Rules
"Independent Third Party(ies)"	third party(ies) which is/are independent of the Company and its connected person(s)
"Latest Practicable Date"	29 June 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Letter of Undertaking"	the letter of undertaking to be executed in relation to the business arrangements between Alpha (Guangzhou) and ALLF relating to the Debt Recovery Business upon Completion
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Lock-up Agreement"	the lock-up agreement to be entered into among the Vendors, the Purchaser, Goldbond, Silver Creation and Solomon Glory on the Completion Date setting out certain restrictions on disposal of the Transfer Shares by the Vendors and other relevant rights of the parties
"Long Stop Date"	30 September 2021, or such later date as the parties to the Sale and Purchase Agreement and the Supplemental Agreements may agree in writing
"Master Cooperation Agreement"	the master cooperation agreement to be entered into between ALLF and Alpha (Guangzhou) upon Completion in relation to the business arrangements between ALLF and Alpha (Guangzhou) relating to the Debt Recovery Business
"Mr. Lam"	Mr. Lam Tat Cheong, who beneficially and wholly owned Vendor C
"Mr. Li"	Mr. Li Jianhui, being the covenantor to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements)
"Mr. Lin"	Mr. Lin Fei, being an individual holding 30% beneficial interest of Vendor D
"Mr. Pan"	Mr. Pan Weisi, being the guarantor to the Vendors and the covenantor to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements)
"Mr. Wang"	Mr. Wang Qiang, being an individual holding 70% beneficial interest of Vendor D
"Ms. Jacqueline Wong"	Ms. Wong Jacqueline Yue Yee, being a non-executive Director and a controlling Shareholder of the Company as at the Latest Practicable Date
"Ms. Michelle Wong"	Ms. Wong Michelle Yatyee, being a non-executive Director and a controlling Shareholder of the Company as at the Latest Practicable Date
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

"Promissory Note(s)"	the non-interest-bearing promissory notes in the aggregate principal amount equivalent to (i) number of the relevant Transfer Shares multiplied by (ii) 120% of the 20-day average closing price (as stated in the daily quotation sheet of the Stock Exchange) of the Shares immediately before the date of the First Supplemental Agreement to be issued by the Purchaser to Silver Creation with a maturity date on 31 December 2021 and Solomon Glory with a maturity of 13 months from the respective issue dates in settlement of the relevant Transfer Shares by tranches
"Purchaser"	the Company, being the purchaser to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements)
"RMB"	Renminbi, the lawful currency in the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement dated 26 June 2020 entered into between the Purchaser, Mr. Pan, Mr. Li and the Vendors in respect of the Acquisition
"Sale Shares"	408,000 ordinary shares of the Target Company to be acquired by the Purchaser, representing 51% of the total number of issued and fully paid up shares of the Target Company as at the date of the Sale and Purchase Agreement
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Second Supplemental Agreement"	the supplemental agreement dated 29 June 2021 entered into among the Purchaser, the Vendors, Mr. Pan, Mr. Li, Silver Creation and Solomon Glory to amend and supplement certain terms of the Sale and Purchase Agreement (as supplemented by the First Supplemental Agreement)
"Second Tranche Transfer Shares"	the second tranche Transfer Shares in the amount of 15,955,954 to be procured to transfer by Solomon Glory
"Share(s)"	the ordinary share(s) of par value of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)

"Shareholders' Agreement"	the shareholders' agreement to be entered into between Vendor B, Vendor C, the Purchaser and the Target Company on the Completion Date
"Shareholders' Loan"	the convertible shareholders' loan in the principal amount of up to HK$8,000,000 to be advanced by the Purchaser to the Target Company after Completion pursuant to the Shareholders' Loan Agreement
"Shareholders' Loan Agreement"	the shareholders' loan agreement to be entered into between the Purchaser and the Target Company on the Completion Date
"Silver Creation"	Silver Creation Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a substantial Shareholder interested in 77,527,255 Shares, representing approximately 18.79% of the issued share capital of the Company as at the Latest Practicable Date
"Solomon Glory"	Solomon Glory Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Goldbond, being the chargee of 38,503,380 Shares (representing approximately 9.33% of the issued share capital of the Company as at the Latest Practicable Date) which pursuant to an order issued on 13 March 2019 by The High Court of The Hong Kong Special Administrative Region, such Shares shall be sold at a price not more than 10% discount to the average closing prices of the Shares as quoted on the Stock Exchange for the previous 10 consecutive trading days prior to the date of sale of such Shares or any of them
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreements"	collectively, the First Supplemental Agreement and the Second Supplemental Agreement
"Target Company"	Alpha & Leader Risks and Assets Management Company Limited, a company incorporated in Hong Kong with limited liability and owned as to 35% by Vendor A, 33% by Vendor B, 23% by Vendor C and 9% by Vendor D, respectively, all of whom are Independent Third Parties

"Target Group"	collectively, the Target Company and its subsidiaries
"Third Tranche Transfer Shares"	the third tranche Transfer Shares in the amount of 15,955,955 to be procured to transfer by Solomon Glory
"Transfer Share(s)"	the aggregate maximum of 70,415,288 Shares (i) to be transferred by Silver Creation as to 31,911,908 existing Shares; and (ii) to be transferred under procurement by Solomon Glory in the maximum of 38,503,380 existing Shares to the Vendors (or their respective designated transferee(s), if applicable), in accordance with the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), as partial settlement for the Consideration
"USD"	United States dollars, the lawful currency of the United States of America
"Vendor A"	Alpha Focus International Limited, being one of the Vendors holding 35% equity interest in the Target Company
"Vendor B"	Mr. Rozario Bobby Roberto, being one of the Vendors holding 33% equity interest in the Target Company and 15% equity interest of Vendor A
"Vendor C"	Ever Art Investment Limited, being one of the Vendors holding 23% equity interest in the Target Company
"Vendor D"	Forever Management Limited, being one of the Vendors holding 9% equity interest in the Target Company
"Vendors"	collectively Vendor A, Vendor B, Vendor C and Vendor D, being the vendors to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements)
"Wave Leader"	Wave Leader Limited, being directly wholly-owned by the Target Company

"2nd Transfer Date"	the 20th Business Day after the audited consolidated financial statements of the Target Group for the year ending 31 December 2021 becomes available
"3rd Transfer Date"	the 20th Business Day after the audited consolidated financial statements of the Target Group for the year ending 31 December 2022 becomes available
"4th Transfer Date"	the 20th Business Day after the audited consolidated financial statements of the Target Group for the year ending 31 December 2023 becomes available
"%"	per cent.

CHINA RONGZHONG FINANCIAL HOLDINGS COMPANY LIMITED
中國融眾金融控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 03963)

Executive Director:
Ms. Wong Emilie Hoi Yan

Non-executive Directors:
Mr. Chen Shuai
Ms. Wong Jacqueline Yue Yee
Ms. Wong Michelle Yatyee
Mr. Wong Ming Bun David

Independent non-executive Directors:
Mr. Lie Chi Wing
Mr. Ng Wing Chung Vincent
Mr. Yu Yang

Registered Office:
Second Floor
Century Yard, Cricket Square
P.O. Box 902
Grand Cayman KY1-1103
Cayman Islands

Headquarter and Principal Place of Business in China:
Floor 18, Tower B
Optics Valley International Plaza
No. 889 Luoyu Road
East Lake Development Zone
Wuhan, Hubei Province
China

Principal Place of Business in Hong Kong registered under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong):
Room 1306, 13/F
Tai Yau Building
No. 181 Johnston Road
Wan Chai, Hong Kong

30 June 2021

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 51% EQUITY INTEREST IN THE TARGET COMPANY; AND (2) EGM NOTICE

INTRODUCTION

References are made to the Announcements in relation to the Acquisition.

The Acquisition constitutes a major transaction of the Company which is subject to the reporting, announcement, circular and Shareholders' approval requirement under Chapter 14 of the Listing Rules.

The Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder constitutes a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with, among other things, (i) further details of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder; (ii) the letter from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) financial information of the Group and the Target Group; (v) the unaudited pro forma financial information on the Enlarged Group; (vi) EGM Notice; and (vii) other information as required under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT (AS SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENTS)

On 26 June 2020 (after the trading hours), the Purchaser, the Vendors, Mr. Pan and Mr. Li entered into the Sale and Purchase Agreement in relation to the Acquisition. On 29 March 2021 (after the trading hours), the Purchaser, the Vendors, Mr. Pan, Mr. Li, Silver Creation and Solomon Glory entered into the First Supplemental Agreement to amend and supplement certain terms of the Sale and Purchase Agreement. On 29 June 2021 (after trading hours), the Purchaser, the Vendors, Mr. Pan, Mr. Li, Silver Creation and Solomon Glory entered into the Second Supplemental Agreement to amend and supplement certain terms of the Sale and Purchase Agreement (as supplemented by the First Supplemental Agreement). The principal terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) are set out as follows:

Date

26 June 2020 (as supplemented on 29 March 2021 and 29 June 2021) (after trading hours)

Parties

(1) The Company, as the Purchaser

(2) Alpha Focus International Limited, as one of the Vendors

(3) Mr. Rozario Bobby Roberto, as one of the Vendors

(4) Ever Art Investment Limited, as one of the Vendors

(5) Forever Management Limited, as one of the Vendors

(6) Mr. Pan, as guarantor to the Vendors and covenantor

(7) Mr. Li, as covenantor

(8) Silver Creation; and

(9) Solomon Glory

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, each of the Vendors, Mr. Pan, Mr. Li and their respective ultimate beneficial owners/associates are Independent Third Parties. Silver Creation is a substantial Shareholder and Solomon Glory is a wholly owned subsidiary of Goldbond, which is a controlling Shareholder. Each of Silver Creation and Solomon Glory is a connected person of the Company.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell, in aggregate, the Sale Shares, representing 51% of the equity interest in the Target Company. As at the Latest Practicable Date, the total number of issued shares of the Target Company was 800,000, which was owned as to 35%, 33%, 23% and 9% by Vendor A, Vendor B, Vendor C and Vendor D, respectively. Pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), Vendor A, Vendor B, Vendor C and Vendor D have conditionally agreed to sell 280,000 shares, 20,800 shares, 35,200 shares and 72,000 shares, respectively, of the Target Company, representing approximately 35%, 2.6%, 4.4% and 9% of the equity interest in the Target Company, respectively.

Consideration and Transfer Shares

The Consideration for the Sale Shares is HK$32,640,000 (subject to adjustments as referred to in the below section headed "Adjustment to Consideration subject to the profit guarantee") which shall be settled in the following order by (1) the transfer or procurement of transfer of existing Shares held by Shareholders namely (i) Silver Creation in the amount of 31,911,908 Shares; and (ii) Solomon Glory in the amount of 38,503,380 Shares; and (2) cash in the amount of HK$3,831,256, to the Vendors at the Agreed Proportion by tranches, further details of which are set out in the below section headed "Transfer of Transfer Shares by tranches".

31,911,908 Shares will be directly transferred by Silver Creation to the Vendors to settle part of the Consideration. However, as the 38,503,380 Shares to be transferred to the Vendors were held by Yong Hua International Limited and charged to Solomon Glory (details of which are set out in the announcement of the Company dated 4 July 2019), such Shares would be procured by Solomon Glory to be transferred to the Vendors to settle part of the Consideration. The remaining amount of Consideration will be settled by Cash Consideration in the amount of HK$3,831,256 to be paid by the Purchaser, details of which are disclosed in the section headed "Transfer of Transfer Shares by tranches".

Transfer of Transfer Shares by tranches

Pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), the settlement of the Consideration to the Vendors shall be as follows:

(i) as to HK$13,056,000, representing 40% of the Consideration, which shall be satisfied by the First Tranche Transfer Shares to be transferred by Silver Creation to the Vendors at the Agreed Proportion for settlement on the Completion Date;

(ii) subject to adjustments in accordance with clause (a) in the below section headed "Adjustment to Consideration subject to the profit guarantee", as to HK$6,528,000, representing 20% of the Consideration, which shall be satisfied by the Second Tranche Transfer Shares to be transferred under procurement by Solomon Glory to the Vendors at the Agreed Proportion for settlement on the 2nd Transfer Date;

(iii) subject to adjustments in accordance with clause (b) in the below section headed "Adjustment to Consideration subject to the profit guarantee", as to HK$6,528,000, representing 20% of the Consideration, which shall be satisfied by the Third Tranche Transfer Shares to be transferred under procurement by Solomon Glory to the Vendors at the Agreed Proportion for settlement on the 3rd Transfer Date;

(iv) subject to adjustments in accordance with clause (c) in the below section headed "Adjustment to Consideration subject to the profit guarantee", as to HK$6,528,000, representing 20% of the Consideration, which shall first be satisfied by the Fourth Tranche Transfer Shares to be transferred under procurement by Solomon Glory and then satisfied by Cash Consideration by the Company to the Vendors at the Agreed Proportion for settlement on the 4th Transfer Date; and

(v) if the relevant partial Consideration settled or to be settled on the 2nd Transfer Date, the 3rd Transfer Date and/or the 4th Transfer Date (as the case may be) have been adjusted in accordance with clause (a), (b) and/or (c) in the below section headed "Adjustment to Consideration subject to the profit guarantee", additional Consideration (if any) shall (1) be settled by the Fifth Tranche Transfer Shares by way of transfer under procurement by Solomon Glory; and/or (2) be satisfied by Cash Consideration by the Company to the Vendors at the Agreed Proportion on the 4th Transfer Date in accordance with clause (d) in the below section headed "Adjustment to Consideration subject to the profit guarantee".

For the avoidance of doubt, the First Tranche Transfer Shares shall be transferred directly by Silver Creation to the Vendors at Completion. The Second Tranche Transfer Shares, the Third Tranche Transfer Shares, the Fourth Tranche Transfer Shares and the Fifth Tranche Transfer Shares (if any) shall first be transferred under procurement by Solomon Glory, and shall then be settled by the Cash Consideration by the Company to the Vendors.

In the event that part of the Consideration is adjusted according to clause (a), (b), (c) and (d) in the below section headed "Adjustment to Consideration subject to the profit guarantee", the number of Shares and cash that each Vendor will receive will be proportionately reduced.

Basis of Consideration

The Consideration of HK$32,640,000 implied a valuation of the Target Company in its entirety of HK$64,000,000. In arriving such implied valuation, factors including but not limited to (i) the guaranteed profit for the Guaranteed Period; (ii) the length of the Guaranteed Period; (iii) the price-to-earnings ("**P/E**") ratios of profit-making comparable companies (the "**Comparable Companies**") which are listed on the Stock Exchange with principal activities including finance leasing or factoring business with accounts receivable management/collection services and are considered to be similar to the Target Group's business; and (iv) the business prospect of the Target Group as discussed in the below section headed "Reasons for and benefits of the Acquisition" were taken into account.

Comparable Companies and their P/E ratios

In selecting the Comparable Companies for the purpose of assessing the fairness and reasonableness of the Consideration, reference had first been made to other Hong Kong listed companies which are principally engaged in debt recovery business and/or credit analysis services which are similar to the business of the Target Group. However, no companies engaged in the aforesaid business segment only had been identified. Hence, the selection criteria had been extended to cover companies which are principally engaged in financial leasing and/or factoring with accounts receivable management/collection services. On a best-effort basis, an exhaustive list of three Comparable Companies having matched the extended scope which the Directors considered these are fair and representative samples, had been identified which are tabulated below:

Company name (Stock code)	**Principal business**	**P/E ratio as at the date of the Sale and Purchase Agreement (times)** *(Note 1)*	**P/E ratio as at the date of the First Supplemental Agreement (times)** *(Note 2)*
Yue Da International Holdings Limited (629)	Factoring with accounts receivable management/ collection services in the PRC	9.8	33.4
Sheng Ye Capital Limited (6069)	Factoring with accounts receivable management/ collection services in the PRC	16.7	14.3
Baiying Holdings Group Limited (8525)	Finance leasing with accounts receivable management/collection services in the PRC	6.5	13.2
	Maximum	16.7	33.4
	Minimum	6.5	13.2
	Average	11.0	20.3
Target Company *(Note 3)*		7.7 (based on guaranteed profit)	
		11.6 (based on historical profit)	

Source: The website of the Stock Exchange *(http://www.hkexnews.hk)*.

Notes:

1. The P/E ratios of the Comparable Companies are computed by dividing their respective market capitalisations as at the date of the Sale and Purchase Agreement by their corresponding audited profits attributable to owners for the latest financial year prior to the date of the Sale and Purchase Agreement.

2. The P/E ratios of the Comparable Companies are computed by dividing their respective market capitalisations as at the date of the First Supplemental Agreement by their corresponding audited profits attributable to owners for the latest financial year prior to the date of the First Supplemental Agreement.

3. The implied P/E ratio of the Target Company based on the guaranteed profit is computed by dividing the implied valuation of the Target Company of HK$64,000,000 by the average guaranteed profit per year of approximately HK$8.29 million which is derived based on the aggregate guaranteed profit of HK$29,000,000 (being the sum of the amount of profit required for the second half of 2020, being HK$2,500,000 as stipulated under the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) as one of the conditions precedent thereof and the accumulated guaranteed profit of HK$26,500,000 for the period from 1 January 2021 to 31 December 2023) and the length of the Guaranteed Period of 3.5 years.

   The implied P/E ratio of the Target Company based on historical profit is computed by dividing the implied valuation of the Target Company of HK$64,000,000 by the profit of the Target Group for the year ended 31 December 2020 of HK$5,540,000.

4. For illustrative purpose only, currency conversion at an approximate rate of RMB1 to HK$1.2 was adopted.

In view of the loss-making position of the Target Group for the year ended 31 December 2019 and the fact that the financial performance of the Target Group for the first half of 2020 has been affected due to the impact of COVID-19 epidemic, which could not properly reflect the potentials of the Target Group, P/E ratio based on guaranteed profit for the Guaranteed Period is used when determining the Consideration. As shown above, the implied P/E ratio of the Target Company based on the guaranteed profit of 7.7 times falls within the range and is below the average P/E ratio of the Comparable Companies as at the date of the Sale and Purchase Agreement, which represents a favourable factor to the Company when assessing the Consideration.

The financial information of the Target Group for the year ended 31 December 2020 was then made available only after the entering into of the First Supplemental Agreement, where the Target Group achieved a turnaround with profit of approximately HK$5.5 million. The implied P/E ratio based on the historical profit was approximately 11.6 times, which falls within the range of the P/E ratios of the Comparable Companies and is below the P/E ratios of all of the Comparable Companies as at the date of the First Supplemental Agreement.

In spite of the fact that (i) no Hong Kong-listed companies which are principally engaged in the same business as the Target Group, being the provision of debt recovery solutions, were identified; and (ii) the Comparable Companies are principally engaged in finance leasing or factoring business involving accounts receivable management/collection services, the business models of which may not be identical to that of the Target Group, the Directors have further extended the search criteria to include other companies on a global basis which are (i) listed in other regions of the world; (ii) principally engaged in provision of debt recovery solutions which accounted for over 50% of total revenue as shown in the respective latest published annual reports; and (iii) profit-making for the latest financial year (the "**Overseas Comparables**"). However, given the difference among the Overseas Comparables and the Target Group in terms of (i) capital markets which may be subject to different risks and regulations; and (ii) principal places of operation, the P/E ratios of the Overseas Comparables did not form the basis in determination of the Consideration, but served only as reference in addition to the P/E ratios of the Comparable Companies which remains as the primary basis for the Consideration. According to the search performed on Thomson Reuters Eikon and based on the aforesaid selection criteria, the Overseas Comparables have been identified which represent an exhaustive list to the best of the Directors' knowledge, and the Directors considered these are fair and representative samples.

Set out below is a list of the Overseas Comparables identified:

Company name (Stock code)	**Listing location**	**Principal business**	**Principal place of operation**	**P/E ratio as at the Latest Practicable Date (times)** *(Note 1)*
Encore Capital Group, Inc. (ECPG)	The United States	Provision of debt recovery solutions	The United States and Europe	7.0
PRA Group, Inc. (PRAA)	The United States	Provision of debt recovery solutions	The United States and United Kingdom	12.0
Intrum AB (INTRUM)	Sweden	Provision of debt recovery solutions	Europe	18.1
Kruk S.A. (KRU)	Poland	Provision of debt recovery solutions	Europe	61.2
			Maximum	61.2
			Minimum	7.0
			Median	15.1
			Average	24.6

Source: Thomson Reuters Eikon database

Notes:

1. The P/E ratios of the Overseas Comparables are computed by dividing their respective market capitalisation as at the Latest Practicable Date by their corresponding audited profits attributable to owners for the latest financial year.

2. For illustrative purpose only, currency conversion at the respective approximate rates of USD1 to HK$7.8, SEK1 to HK$0.93 and PLN1 to HK$2.09 were adopted.

As presented, both of the implied P/E ratios of the Target Company of approximately 7.7 times (based on guaranteed profit) and 11.6 times (based on historical profit) fall within the range of the P/E ratios of the Overseas Comparables and are below the median and average P/E ratios of the Overseas Comparables.

Basis of determination of the guaranteed profits

It is expected that the sum of (i) the audited consolidated net profit after tax of the Target Company; and (ii) the interest expense arising from the Shareholders' Loan shall not be less than (i) HK$6,000,000 for the year ending 31 December 2021; (ii) HK$8,250,000 for the year ending 31 December 2022; and (iii) HK$12,250,000 for the year ending 31 December 2023, representing increments of 37.5% and 48.5% for 2022 and 2023, respectively.

In determining the guaranteed profit for the year ending 31 December 2021, the Company and the Vendors have primarily made reference to (i) the actual revenue of the Target Group for the three years ended 31 December 2020 and the period from 1 January to 30 April 2021 and the growth of average monthly revenue during the four months ended 30 April 2021 over the average monthly revenue for the year ended 31 December 2020; (ii) the historical revenue of ALLF derived from Debt Recovery Business for the three years ended 31 December 2020 where following Completion, the Target Group shall recognise the income generated therefrom through the Master Cooperation Agreement in accordance with the terms and conditions therein; (iii) the expected growth in revenue upon implementation of the business expansion plan of the Target Group including the setting up of new regional offices in other cities in the PRC and Malaysia in 2021 and 2022; and (iv) relevant cost and expense components of the Target Group's business taking into account historical costs and expenses, as discussed below.

(i) Target Group's financial performance

Notwithstanding the negative impact brought by COVID-19 in early 2020, the Target Group has been recognising higher revenues among years and achieved turnaround, reaching a net profit of approximately HK$5.5 million for the year ended 31 December 2020. According to the Vendors, the Target Group recorded unaudited consolidated revenue of approximately HK$12.4 million for the four months ended 30 April 2021, or an average monthly revenue of approximately HK$3.1 million, representing a growth of 24% as compared to the average monthly revenue of approximately HK$2.5 million for the year ended 31 December 2020.

(ii) ALLF's financial performance in respect of Debt Recovery Business

Upon the entering into of the Master Cooperation Agreement, it is expected that a considerable amount of income from Debt Recovery Business which has been recognised under ALLF previously would be recognised under the Target Group instead. As advised by the Vendors, the revenue of ALLF derived from Debt Recovery Business for the three years ended 31 December 2018, 2019 and 2020 amounted to HK$18.2 million, HK$18.6 million and HK$17.1 million, respectively. While the Vendors have been actively persuading its new and existing clients to engage Alpha (Guangzhou) with respect to Debt Recovery Business since the entering into of the Sale and Purchase Agreement, the client can decide the signing party to the engagement letter. According to the Vendors, it is expected that the Target Group would derive income from ALLF with respect to the Debt Recovery Business through the Master Cooperation Agreement in the amount of approximately HK$16.0 million, HK$16.8 million and HK$18.8 million for the three years ending 31 December 2021, 2022 and 2023, respectively, as determined with reference to (i) the historical revenue of ALLF with respect to Debt Recovery Business; (ii) the expected majority portion of ALLF's clients who would continue to engage ALLF for provision of Debt Recovery Business considering the historical insignificant number of ALLF's clients that transferred to Alpha (Guangzhou) during the past years; and (iii) potential new clients to be recruited and engaged with ALLF, such that the income to be derived therefrom would be recognised by the Target Group through the arrangement under the Master Cooperation Agreement (as detailed in the below section headed "Non-competition and ALLF Agreements – Master Cooperation Agreement").

As at the Latest Practicable Date, ALLF has yet to assign any debt collection services engagement to the Target Group. As described in the below section headed "Non-competition and ALLF Agreements – Master Cooperation Agreement", subject to the Master Cooperation Agreement becoming effective, in the event that ALLF would act as the signing party to the engagement letter with any new clients at the request of such clients or Alpha (Guangzhou) with respect to debt recovery services, ALLF shall assign Alpha (Guangzhou) as the service provider with respect to debt collection services and the income generated therefrom shall be payable to Alpha (Guangzhou) through ALLF by issuance of invoice by Alpha (Guangzhou) to ALLF in the manners described in "Revenue recognition" below under the section headed "Master Cooperation Agreement".

(iii) Business expansion plan of the Target Group

As further discussed in the below section headed "Reasons for and benefits of the Acquisition", the Target Group would recruit additional staff to enhance its one-stop debt collection services and plans to set up new regional offices in Wuhan, the PRC, Kuala Lumpur and Taiwan which is in line with its expansion plan.

As advised by the Vendors, as at the Latest Practicable Date, (i) the new regional office in Wuhan is currently undergoing the business registration process and it is expected that the set-up of such new company will complete by June 2021; and (ii) owing to travel restriction due to the COVID-19, the set-up of the new regional office in Kuala Lumpur is expected to complete by June 2022. In respect of the new office in Kuala Lumpur, the Target Group has been liaising with the local registration company for the set-up of the new office including preparation of the relevant required documents and/or information for submission of the application for incorporation of Malaysia private company and the conducting of market feasibility study with respect to debt recovery/credit investigation services market in Malaysia.

In addition to catering local demand in Wuhan and Kuala Lumpur, setting up new office in Kuala Lumpur is expected to help capture a new business stream from overseas clients to place debt collection claims in the PRC. It is expected that the language capability advantages of Malaysian being biliterate and trilingual would further help build the Target Group as an international hub in South Asia to attract Chinese related business from all parts of the world. Apart from gaining new customer base and capturing additional market shares in the PRC, Malaysia and globally, the newly-established regional offices would enable the Target Group to provide service more efficiently to the existing customers who has business operations in those regions. As advised by the Vendors, a major recurring customer (who was the largest customer of the Target Group for each of the three years ended 31 December 2020) has entered into a framework agreement with the Target Group relating to comprehensive debt collection and litigation services in Kuala Lumpur, specifying the rates of service fee that correspond to various range of recovered amounts and the fee quotes for different types of investigations including those relating to refusal case, bankruptcy, fraudulent claims, guarantee authenticity which may be involved, subject to the scope of debt collection service to be agreed upon entering into the actual engagement, pending the set-up of new office in Kuala Lumpur. According to the Vendors, the cost structure in Malaysia is also much lower than in Hong Kong and Singapore. With reference to the data published by Bank Negara Malaysia (*http://www.bnm.gov.my*), being the Central Bank of Malaysia, the amount of non-performing/impaired loans as recorded in the banking system of Malaysia exhibited a year-on-year growing trend from an average of approximately RM25.7 billion in 2018 to an average of approximately RM26.8 billion in 2020, and further rose to an average of approximately RM29.3 billion during the first four months of 2021, representing a growth of approximately 10.9% as compared to the average amount of non-performing/impaired loans from 2018 to 2020. Considering the potential demand for the debt recovery services and the relatively lower cost structure, it is expected that the Target Group's earnings would be enhanced.

To further diversify the debt collection service scope and retain competitiveness over its peers, subject to market conditions, it is intended that the Target Group will acquire potential target companies engaging in debt recovery business located in the South East Asia including Singapore and Malaysia. While the Target Group has been consistently evaluating new business opportunities, it is expected that such acquisitions shall be funded partly by the Shareholders' Loan and therefore the negotiation shall be commenced after completion of the Acquisition. As at the Latest Practicable Date, no arrangement, understanding or agreement has been entered into regarding such potential acquisition. As such, the effect of the aforesaid acquisition has not been taken into consideration when determining the guaranteed profits.

In determining the respective guaranteed profits for the two years ending 31 December 2023, the Company and the Vendors have primarily made reference to (i) the estimated financial performance for the year ending 31 December 2021 particularly after taking into account the set-up of new office in Wuhan during 2021 and the market demand for the debt recovery services; (ii) the expected growth in revenue upon implementation of expansion plan by the Target Group including the setting up of new offices in other cities in the PRC and Malaysia, enabling the Target Group to capture additional market shares and therefore enhance its earnings; and (iii) the expected growth in the Target Group's business in view of the latest improving business performance, as well as the optimistic prospects of the debt collection market as further discussed in the below section headed "Reasons for and benefits of the Acquisition".

(iv) Costs and expenses to be incurred by the Target Group

In deriving the respective guaranteed profits during the Guaranteed Period, reference has been made to the Target Group's historical costs and expenses comprising research fees, staff costs, administration and rental expenses, travelling expenses and depreciation expenses. The expected costs and expenses during the Guaranteed Period are generally in line with the historical cost and expense structure of the Target Group.

Considering the above principal assumptions in deriving the guaranteed profits, the Directors are of the view that the guaranteed profits are factually supportable. As included as one of the conditions precedent to the completion of the Acquisition, the audited consolidated net profit after tax of the Target Company shall not be less than HK$5,000,000 for the year ended 31 December 2020, or HK$2,500,000 for the period from 1 July 2020 to 31 December 2020. As at the Latest Practicable Date, such condition had been fulfilled.

Directors' view on the basis of Consideration

In view of (i) the Comparable Companies being referenced to are appropriate for comparison purpose as they are engaged in similar business activities as that of the Target Group, being accounts receivable management/collection services; (ii) the predetermined guaranteed profits for the Guaranteed Period are factually supportable considering the historical financial performance of the Target Group and ALLF, the arrangements in place to secure the income arising from future cooperation with ALLF pursuant to the Master Cooperation Agreement and the expected growth in revenue upon implementation of the business plan of the Target Group including the setting up of new office branches in other cities in the PRC and Malaysia; (iii) the implied P/E ratio of 7.7 times adopted in deriving the Consideration is within the range and below the average P/E ratio of the Comparable Companies; and (iv) while the average guaranteed profit per year of approximately HK$8.29 million used in determining the Consideration could better reflect the earning potential of the Target Group given the loss-making position of the Target Group for the year ended 31 December 2019 and the fluctuating historical performance due to the onset of COVID-19 in early 2020, the implied P/E ratio of the Target Company of 11.6 times using the historical profit of the Target Group for the year ended 31 December 2020 falls within the range of P/E ratios of the Comparable Companies and is below the P/E ratios of all of the Comparable Companies as at the date of the First Supplemental Agreement, the Board is of the view that the basis of determination of the Consideration is fair and reasonable.

The Transfer Shares

As previously agreed under the Sale and Purchase Agreement and prior to the entering into of the Supplemental Agreements, the Consideration shall be settled by the Company by way of allotment and issue of new shares of the Company in the maximum amount of 98,909,989 based on the issue price of HK$0.33 per new Share which was determined with reference to the then prevailing market price of the Shares at the time of entering into the Sale and Purchase Agreement in June 2020, upon completion of which the Vendors' aggregate shareholding in the Company would amount to approximately 19.34% of the total issued share capital of the Company.

The aforementioned issue price of HK$0.33 per new Share represents:

(i) a discount of approximately 8.33% to the closing price of HK$0.36 per Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement;

(ii) a discount of approximately 8.33% to the average closing price of HK$0.36 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the Sale and Purchase Agreement;

(iii) a discount of approximately 2.94% to the average closing price of approximately HK$0.34 per Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the date of the Sale and Purchase Agreement;

(iv) a premium of approximately 6.45% over the average closing price of approximately HK$0.31 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the date of the Sale and Purchase Agreement;

(v) a premium of 100% over the closing price of HK$0.165 per Share as quoted on the Stock Exchange on the date of the First Supplemental Agreement; and

(vi) a premium of 100% over the closing price of HK$0.165 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), the payment terms of the Consideration have been revised such that the Consideration shall be settled mainly by way of transfer of existing Shares instead of allotment and issue of new Shares. As the Consideration remains the same and there will be no dilution effect as compared to the issue of new Shares, the number of existing Shares required for the same shareholding of 19.34% assuming the Consideration will be settled by way of transfer of existing Shares is adjusted downward to the maximum number of 79,779,772 Shares, subject to fulfilment of the guaranteed profits. The Consideration shall first be settled by the Transfer Shares to be transferred by Silver Creation as to 31,911,908 Shares, and then be procured by Solomon Glory to be transferred as to 38,503,380 Shares, and lastly be settled by cash of HK$3,831,256.

The Promissory Notes

In return for the transfer or procurement of transfer of the Transfer Shares by Silver Creation and Solomon Glory as partial settlement of the Consideration to the Vendors, the Purchaser shall issue the Promissory Notes by tranches in the aggregate principal amount equivalent to (i) number of respective Transfer Shares multiplied by (ii) 120% of the 20-day average closing price (as stated in the daily quotation sheet of the Stock Exchange) of the Shares immediately before the date of the First Supplemental Agreement, being HK$0.198, considering the prevailing market price of the Shares and the incentivising effect to the relevant Shareholders in return for transferring their Shares as payment for the Consideration on behalf of the Purchaser, to Silver Creation and Solomon Glory following each transfer. Based on the amount of 31,911,908 Transfer Shares and 38,503,380 Transfer Shares to be transferred by Silver Creation and to be transferred under procurement by Solomon Glory, the respective principal amounts of the Promissory Notes to be issued by the Purchaser will be approximately HK$6.32 million to Silver Creation and approximately HK$7.62 million to Solomon Glory.

The principal terms of the Promissory Notes to be issued by the Purchaser to Silver Creation and Solomon Glory, respectively, are summarised below:

Issuer:	The Purchaser	The Purchaser
Payee:	Silver Creation	Solomon Glory
Principal amount:	HK$6,318,558, calculated based on the amount of 31,911,908 Transfer Shares multiplied by 120% of the 20-day average closing price (as stated in the daily quotation sheet of the Stock Exchange) of the Shares immediately before the date of the First Supplemental Agreement, being HK$0.198.	HK$7,623,669 in aggregate, calculated based on the amount of 38,503,380 Transfer Shares multiplied by 120% of the 20-day average closing price (as stated in the daily quotation sheet of the Stock Exchange) of the Shares immediately before the date of the First Supplemental Agreement, being HK$0.198.
Interest:	Interest shall not accrue on the Promissory Notes.	
Maturity:	31 December 2021	13 months from the respective dates of issue of the Promissory Note

Early repayment:	The Purchaser may early repay the Promissory Note in whole or in part at any time and from time to time without premium or penalty with prior notice to Silver Creation.	The Purchaser may early repay the Promissory Note in whole or in part at any time and from time to time without premium or penalty.
Right of first refusal:	The Promissory Note (whether in whole or in part) is freely transferable or assignable, provided that Goldbond and its subsidiaries shall have rights of first refusal in acquiring the Promissory Note in the event that Silver Creation intends to transfer the Promissory Note to any third party, except where the transferee is a holding company (as defined in the Listing Rules) or a subsidiary (as defined in the Listing Rules) of Silver Creation or a subsidiary of the holding company of Silver Creation.	Not applicable

The share price of HK$0.198 per Transfer Share, being the share price as stipulated under the Promissory Notes, represents:

(i) a premium of 20% over the closing price of HK$0.165 per Share as quoted on the Stock Exchange on the date of the First Supplemental Agreement;

(ii) a premium of 20% over the average closing price of HK$0.165 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the First Supplemental Agreement;

(iii) a premium of 20% over the average closing price of HK$0.165 per Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the date of the First Supplemental Agreement;

(iv) a discount of approximately 7.0% to the average closing price of approximately HK$0.213 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the date of the First Supplemental Agreement;

(v) a discount of approximately 16.1% to the average closing price of approximately HK$0.236 per Share as quoted on the Stock Exchange for the last 120 consecutive trading days up to and including the date of the First Supplemental Agreement; and

(vi) a premium of 20% over the closing price of HK$0.165 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The share price of HK$0.198 per Transfer Share was determined primarily with reference to the historical market prices of the Shares since December 2020, when the parties to the First Supplemental Agreement commenced negotiations on the terms and structure. In particular, the Shares have been on an overall declining trend where the share price of HK$0.198 stipulated under the Promissory Notes represents a discount to the average closing price of the Shares for the last 90 consecutive trading days up to and including the date of the First Supplemental Agreement. Further, the decline of Share price from January to mid-February 2021 approximates 20% and thereafter, the Share price broadly maintained at around HK$0.165 up to and including the date of the First Supplemental Agreement. Such premium has been offered to incentivise the relevant Shareholders in facilitating the arrangement of their transfer of existing Shares on behalf of the Company.

The terms of the Promissory Notes are arrived at upon separate negotiations between the Purchaser with each of Silver Creation and Solomon Glory, and therefore resulted in different terms adopted for the Promissory Notes to be issued to the parties such as terms with respect to maturity and right of first refusal.

Despite that different terms have been adopted in the Promissory Notes including maturity and right of first refusal, other key terms such as the same price used in determination of principal amount and the zero-interest rate have been agreed with each of Silver Creation and Solomon Glory, and considering (i) the price as stipulated under the Promissory Notes was determined with reference to the then prevailing market price of the Shares; and (ii) a premium over the market price of the Shares was offered to facilitate the transfer arrangement with respect to the Transfer Shares by Silver Creation and Solomon Glory, the Board is of the view that the terms of the Promissory Notes are fair and reasonable.

Adjustment to Consideration subject to the profit guarantee

(a) In the event that the sum of (i) the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the year ending 31 December 2021, as audited by the Auditor; and (ii) the interest expense arising from the Shareholders' Loan during the year ending 31 December 2021, shall be:

(i) HK$6,000,000 or more, the partial Consideration as to HK$6,528,000 shall be settled at the Agreed Proportion on the 2nd Transfer Date; or

(ii) less than HK$6,000,000, the partial Consideration to be settled on the 2nd Transfer Date shall be adjusted and calculated as follows,

$$E = F \times \frac{G}{H}$$

where:

"E" means the final partial Consideration to be settled on the 2nd Transfer Date (rounded down to the nearest whole number). In the event that E equals to or is less than zero, the relevant partial Consideration shall be deemed as zero;

"F" means HK$6,528,000;

"G" means the sum of (i) the actual amount of the audited consolidated net profits after tax of the Target Company for the year ending 31 December 2021 as shown in its audited consolidated financial statements; and (ii) the interest expense arising from the Shareholders' Loan during the year ending 31 December 2021; and

"H" means HK$6,000,000.

(b) In the event that the sum of (i) the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the year ending 31 December 2022, as audited by the Auditor; and (ii) the interest expense arising from the Shareholders' Loan during the year ending 31 December 2022, shall be:

(i) HK$8,250,000 or more, the partial Consideration as to HK$6,528,000 shall be settled at the Agreed Proportion on the 3rd Transfer Date; or

(ii) less than HK$8,250,000, the partial Consideration to be settled on the 3rd Transfer Date shall be adjusted and calculated as follows,

$$J = K \text{ X } \frac{L}{M}$$

where:

"J" means the final partial Consideration to be settled on the 3rd Transfer Date (rounded down to the nearest whole number). In the event that J equals to or is less than zero, the relevant partial Consideration shall be deemed as zero;

"K" means HK$6,528,000;

"L" means the sum of (i) the actual amount of the audited consolidated net profits after tax of the Target Company for the year ending 31 December 2022 as shown in its audited consolidated financial statements; and (ii) the interest expense arising from the Shareholders' Loan during the year ending 31 December 2022; and

"M" means HK$8,250,000.

(c) In the event that the sum of (i) the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the year ending 31 December 2023, as audited by the Auditor; and (ii) the interest expense arising from the Shareholders' Loan during the year ending 31 December 2023, shall be:

(i) HK$12,250,000 or more, the partial Consideration as to HK$6,528,000 shall be settled at the Agreed Proportion on the 4th Transfer Date; or

(ii) less than HK$12,250,000, the partial Consideration to be settled on the 4th Transfer Date shall be adjusted and calculated as follows,

$$P = Q \times \frac{R}{S}$$

where:

"P" means the final partial Consideration to be settled on the 4th Transfer Date (rounded down to the nearest whole number). Where P is less than or equal to HK$2,696,744, in respect of such part of the Consideration, part or all of the Fourth Tranche Transfer Shares will be transferred to the Vendors; where P is more than HK$2,696,744, the excess will be settled in cash in the maximum amount of HK$3,831,256. In the event that P equals to or is less than zero, the relevant partial Consideration shall be deemed as zero;

"Q" means HK$6,528,000;

"R" means the sum of (i) the actual amount of the audited consolidated net profits after tax of the Target Company for the year ending 31 December 2023 as shown in its audited consolidated financial statements; and (ii) the interest expense arising from the Shareholders' Loan during the year ending 31 December 2023; and

"S" means HK$12,250,000.

(d) In the event that the respective partial Consideration settled or to be settled on the 2nd Transfer Date, the 3rd Transfer Date and/or the 4th Transfer Date (as the case may be) have been adjusted in accordance with clause (a), clause (b) and/or clause (c) above (as the case may be), based on the aggregate actual audited consolidated net profits after tax achieved by the Target Company for the period from 1 January 2021 to 31 December 2023, additional Consideration shall be settled on the 4th Transfer Date which shall be calculated as follows,

$$N = \left(\frac{T}{U}\right) \times (F + K + Q) - (E + J + P)$$

where:

"N" means the additional Consideration that will be settled on the 4th Transfer Date (rounded down to the nearest whole number). Where N is less than or equal to HK$15,752,744, part or all of the Second Tranche Transfer Shares, the Third Tranche Transfer Shares and/or the Fourth Tranche Transfer Shares ("**Fifth Tranche Transfer Shares**") will be transferred to the Vendors; where N is more than HK$15,752,744, the excess will be settled in cash in the maximum amount of HK$3,831,256. In the event that N equals to or is less than zero, there shall be no additional Consideration;

"T" means the sum of (i) the actual amount of the audited consolidated net profits after tax of the Target Company for the period from 1 January 2021 to 31 December 2023 as shown in its audited consolidated financial statements; and (ii) the interest expense arising from the Shareholders' Loan during the period from 1 January 2021 to 31 December 2023; and

"U" means HK$26,500,000, provided that:

(i) the maximum Consideration subject to fulfilment of the guaranteed profits shall be capped at HK$19,584,000; and

(ii) $\left(\frac{T}{U}\right) X (F + K + Q)$

shall be equal to or less than HK$19,584,000. In the event that it is larger than HK$19,584,000, it will be deemed to be HK$19,584,000 for the purpose of the above formula in calculating the additional Consideration to be settled on the 4th Transfer Date. Regarding clauses (a), (b), (c) and (d) of this section, the Purchaser and the Vendors shall jointly procure, within 70 Business Days after 31 December 2021, 31 December 2022 and 31 December 2023 respectively, the consolidated financial statements of the Target Company (including the consolidated balance sheets and consolidated profit and loss statements of the Target Company) in the relevant reporting period as stated in clause (a), clause (b) or clause (c) (as the case may be) to be drawn up in accordance with the Hong Kong Financial Reporting Standards and audited by the Auditor for delivery to the Purchaser. Solomon Glory shall procure the transfer of the Second Tranche Transfer Shares, the Third Tranche Transfer Shares, the Fourth Tranche Transfer Shares and the Fifth Tranche Transfer Shares (subject to adjustments in accordance with clause (a), clause (b), clause (c) and clause (d)) and the Company shall pay the Cash Consideration in accordance with clause (iv) in the above section headed "Transfer of Transfer Shares by tranches", subject to the audited consolidated financial statements (including the consolidated balance sheets and consolidated profit and loss statements of the Target Company) having been delivered to the Purchaser.

In the event that the Transfer Shares (or any part thereof) to be transferred to the Vendors (or any of them) involves fractions, the number of the Transfer Shares to be transferred to such Vendor(s) will be rounded down to the nearest whole number.

Conditions precedent

Completion shall be subject to and conditional upon fulfilment (or waiver, where applicable) of the following conditions on or before the Long Stop Date:

(i) the Vendors' title to the Sale Shares being in order and free from all encumbrances;

(ii) all the warranties remaining true and accurate and not misleading as at Completion and no events having occurred that would result in any breach of any of the warranties or provisions of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) by Mr. Pan and/or by the Vendors (or any of them);

(iii) the Vendors having assisted the Purchaser to undertake a legal, financial and business due diligence investigation in respect of the Target Group, and the results of such due diligence investigation being reasonably satisfactory to the Purchaser;

(iv) the tax issue(s) (if any) between ALLF and the Target Company having been settled and the results of which being reasonably satisfactory to the Purchaser;

(v) the legal opinion having been duly issued by legal advisor as to the laws of the PRC and addressed to the Purchaser (in the form satisfactory to the Purchaser) in respect of the due execution, validity, binding effect and enforceability of the ALLF Agreements;

(vi) the Vendors, the Purchaser, Goldbond, Silver Creation and Solomon Glory having executed and delivered the Lock-up Agreement on the Completion Date;

(vii) all necessary consents, confirmations, permits, approvals, licenses and authorisations from all relevant governmental, regulatory and other authorities, agencies and departments in Hong Kong, the PRC, Singapore or elsewhere or otherwise required from any third parties in connection with the transactions contemplated under the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) having been obtained;

(viii) the Independent Shareholders having approved the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder at the EGM;

(ix) the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the year ended 31 December 2020, as audited by the Auditor, being not less than HK$5,000,000, or the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the period from 1 July 2020 to 31 December 2020, as audited by the Auditor, being not less than HK$2,500,000; and

(x) there being no material litigation or winding-up petition with respect to all members of the Target Group as at Completion.

The above conditions precedent may be waived by the Purchaser, save for conditions (vii) and (viii) which cannot be waived by any parties. The parties shall use their best endeavours to satisfy the conditions precedent as soon as practicable and in any event on or before the Long Stop Date. As at the Latest Practicable Date, condition ix had been fulfiled.

Completion

Completion shall take place on the Completion Date after all the conditions precedent to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) have been fulfilled (or waived, where applicable).

The Lock-up Agreement

In consideration of the payment terms by way of transfer of existing Shares held by Silver Creation and Solomon Glory on behalf of the Purchaser, the entering into the Lock-up Agreement was included as one of the conditions precedent to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) to restrict the disposal of Transfer Shares held by the Vendors during certain restricted periods, save as disclosed below. Given that only minority portion of the Consideration will be settled on Completion with majority portion to be settled by stages on 2nd Transfer Date, 3rd Transfer Date and 4th Transfer Date respectively subject to the profit guarantee during the three years ending 31 December 2023, which serves a relatively long term commitment of the Vendors as to the business performance of the Target Group, the parties to the Lock-up Agreement further negotiated that the Transfer Shares could only be disposed of during the respective restricted periods under the following circumstances.

With respect to the First Tranche Transfer Shares

The restricted period with respect to disposal of the First Tranche Transfer Shares shall be 18 months immediately following the date of transfer from Silver Creation. In respect of the First Tranche Transfer Shares only, after 6 months following the date of transfer of the First Tranche Transfer Shares, the Vendors (or any of them) could, by notice in writing sent to the Purchaser, notify the Purchaser of their intention to dispose of all or part of the First Tranche Transfer Shares in the open market through the Stock Exchange during the aforesaid 18-month restricted period but the Vendor shall sell the First Tranche Transfer Shares to independent third party(ies) in the open market through the Stock Exchange at the prevailing market price. In the event that the relevant First Tranche Transfer Shares were disposed of in the open market through the Stock Exchange at a price of less than HK$0.4 per Share, the shortfall amount (being the difference between HK$0.4 and the average trading price of the relevant First Tranche Transfer Shares being sold in the open market) shall be compensated by the Purchaser to the relevant Vendor(s) in cash. Such shortfall amount shall be paid by the Purchaser on the 10th business day after the completion of the sales of the relevant First Tranche Transfer Shares by the relevant Vendor(s). For the avoidance of doubt, such arrangement in relation to the shortfall amount shall only be applicable to the relevant Vendor disposing the relevant First Tranche Transfer Shares through the Stock Exchange in the open market at a price of less than HK$0.4 per Share during the 7th month to 18th month of the restricted period. In the event that the relevant First Tranche Transfer Shares were disposed of in the open market through the Stock Exchange at a price of HK$0.4 or above, no compensation shall be made by the Purchaser to the Vendor(s). The calculation basis of the price of HK$0.4 per Share is set out below:

Number of new Shares originally agreed to be allotted and issued pursuant to the Sale and Purchase Agreement	98,909,989
Multiplied by: Issue price per new Share *(HK$)*	0.33
Consideration *(HK$)*	32,640,000
Divided by: Number of existing Shares required for the same shareholding of 19.34%	79,779,772
Implied price per existing Share *(HK$) (approximate)*	**0.409126**

Notwithstanding that the price of HK$0.4 per Share represents a premium over the closing price of HK$0.36 per Share on the date of the Sale and Purchase Agreement, as shown above, such price represents the implied price per existing Share by dividing the Consideration of HK$32,640,000 by the number of existing Shares of 79,779,772 required for the same shareholding of 19.34% which is less than the initial number of new Shares of 98,909,989 under the original settlement terms, therefore resulted in a higher implied price and accordingly a premium over the then prevailing market price of the Shares at the time of entering into the Sale and Purchase Agreement.

In consideration of the entering into of the Supplemental Agreements which would result in a lower number of Shares to be received by the Vendors under the Acquisition and given the declining trend of the share price since the date of the entering into of the Sale and Purchase Agreement in June 2020, the Company considers that it is justifiable to provide the compensatory arrangement in favour of the Vendors, which is limited to the First Tranche Transfer Shares.

With respect to the remaining Transfer Shares

The restricted period with respect to disposal of the Second Tranche Transfer Shares, Third Tranche Transfer Shares, Fourth Tranche Transfer Shares and Fifth Tranche Transfer Shares shall be 12 months immediately following the respective dates of transfer from Solomon Glory (except that the Vendors (or any of them) could dispose of or transfer the Transfer Shares to Goldbond or its subsidiaries only within the period from the seventh month following the respective dates of transfer from Solomon Glory to the expiry of the aforesaid corresponding 12-month restricted period); and if the disposal of Transfer Shares proceeds within the 12-month period upon expiry of the corresponding restricted period, the relevant Vendor should provide the first right of refusal to Solomon Glory and Goldbond for acquiring the Transfer Shares, in the maximum number equivalent to the aggregate number of existing Shares procured to transfer by Solomon Glory to the Vendors at the time of such proposed disposal.

In the event that the Vendors (or any one of them) (as the case may be) sells or transfers the Transfer Shares within the 12-month period after the expiry of the relevant restricted period, the Vendors (or any one of them) (as the case may be) should issue written notice ("**Transfer Notice**") to Goldbond and Solomon Glory offering to sell the relevant Transfer Shares at the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the 20 business days immediately preceding the date of the Transfer Notice ("**Fair Market Price**"). The Transfer Notice shall contain the offer price ("**Transfer Price**"), which shall be the Fair Market Price, and the identity of the third party purchaser. Within 10 business days of the date of the Transfer Notice, Goldbond and Solomon Glory have the right to issue written notice to Vendors (or any one of them) (as the case may be) accepting the offer in relation to the sale of the relevant Transfer Shares. In the event that Goldbond and Solomon Glory do not accept the offer, within 45 days upon expiry of the aforesaid 10 business days, the Vendors (or any one of them) (as the case may be) may sell the Transfer Shares to the third party purchaser at the Transfer Price (which could be adjusted, only to the extent of deducting the amount of dividend paid or equivalent amount distributed by the Company prior to the completion of sale of the Transfer Shares to the third party purchaser).

There is no term requiring the Company to purchase the Transfer Shares in respect of the Second Tranche Transfer Shares, Third Tranche Transfer Shares, Fourth Tranche Transfer Shares and Fifth Tranche Transfer Shares, nor any term imposing any obligation on the Company to make cash compensation which is similar to the arrangement for the First Tranche Transfer Shares, under the Lock-up Agreement. As part of the effort to engage Solomon Glory (being a wholly owned subsidiary of Goldbond) for the settlement of the Consideration by way of existing Shares on behalf of the Company and in order to facilitate the arrangement regarding the transfer of existing Shares by Solomon Glory, the Company has included Goldbond as a party eligible for purchasing the relevant Transfer Shares in the maximum amount equivalent to the aggregate number of existing Shares transferred by Solomon Glory. If such purchase materialises, Goldbond will make necessary announcement(s) as and when appropriate in compliance with Chapter 14 and/or 14A of the Listing Rules.

Directors' view on the revised settlement terms of the Consideration pursuant to the Supplemental Agreements

In view of the compensatory arrangement by the Purchaser to the Vendors in respect of the First Tranche Transfer Shares under the Lock-up Agreement in addition to the issue of Promissory Notes and the cash payment for the remaining Consideration, the actual commitment of the Purchaser under the revised settlement terms of the Consideration shall be the sum of (i) the aggregate principal amount of the Promissory Notes of HK$13,942,227; (ii) the Cash Consideration of HK$3,831,256; and (iii) the maximum shortfall amount to be compensated by the Purchaser to the Vendors in respect of the First Tranche Transfer Shares under the Lock-up Agreement of HK$12,764,763, as calculated based on the number of First Tranche Transfer Shares of 31,911,908 and the purchase price of HK$0.4 per Share, being HK$30,538,246 in total.

Having considered that (i) a majority portion of the Consideration shall be settled by way of transfer of the Transfer Shares by Silver Creation at Completion and under procurement by Solomon Glory to transfer which will provide the Company with greater financial flexibility as opposed to bank borrowings or cash payment in full (as discussed in the below section headed "Reasons for and benefits of the Acquisition") and at the same time engage the Vendors to become Shareholders of the Group to further strengthen the business relationship between the Vendors and the Company; (ii) the remaining minority portion of the Consideration shall be settled by cash which limits the cash outlay as opposed to settlement of the Consideration by cash in full; (iii) the combination of Transfer Shares and Cash Consideration as settlement of the Consideration will not result in any dilution to the existing Shareholders as opposed to allotment and issue of new Shares; (iv) the payment terms of only minority portion of the Consideration to be settled on Completion and majority portion to be settled by stages on 2nd Transfer Date, 3rd Transfer Date and 4th Transfer Date respectively subject to the profit guarantee during the three years ending 31 December 2023 would incentivise the Vendors to commit to a longer-term performance of the Target Group; (v) the purchase price of HK$0.4 per Share and the commitment on the part of the Company as stipulated under the Lock-up Agreement which is limited to the First Tranche Transfer Share are considered justifiable; and (vi) the actual commitment of the Purchaser under the revised settlement terms is less than the Consideration of HK$32,640,000, the Board is of the view that the settlement terms of the Consideration are normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders.

Shareholders' Loan Agreement

The Shareholders' Loan Agreement shall be entered into between the Purchaser and the Target Company on the Completion Date pursuant to which the Purchaser shall advance a shareholders' loan in the principal amount of up to HK$8,000,000 at the interest rate of 5% per annum, which may be convertible into new shares of the Target Company at the price of HK$80 per share, which was derived by dividing the implied value of the Target Company of HK$64,000,000 by the existing number of issued shares of the Target Company of 800,000 shares. The interest rate of 5% per annum to be accrued on the Shareholders' Loan was determined after considering the benchmark lending rate formulated by the People's Bank of China (PBOC) and the weighted average effective interest rate on the Group's bank borrowings which ranges from 4.35% to 4.93% per annum. The Shareholders' Loan shall be available for drawdown from the date of the Shareholders' Loan Agreement to up to three years after the date of the first drawdown (the "**Repayment Date**"), provided that the first drawing shall occur within 36 months from the date of the Shareholders' Loan Agreement. The interests shall accrue from the date of each withdrawal and shall be repaid every three months after the date of each withdrawal until the corresponding balance has been paid off. The outstanding balance of the Shareholders' Loan (including the accrued interests thereon which shall be payable quarterly) shall be repaid on or before the Repayment Date and transferred to the Purchaser's designated bank accounts. The Company will comply with the relevant requirements under Chapter 14 and/or 14A of the Listing Rules when it exercises the conversion right of the Shareholders' Loan.

Save for the Shareholders' Loan, there is no further commitment in relation to funding from the Company in connection with the Acquisition.

Non-competition and ALLF Agreements

As at the Latest Practicable Date, ALLF are interested as to 25% and 25% by Mr. Pan and Mr. Li, respectively with the remaining stakes held by two other independent partners equally. Prior to the entering into of the Sale and Purchase Agreement, ALLF has, in the course of providing legal services to the clients, also provided the Debt Recovery Business, the nature of which are similar to certain services provided by Alpha (Guangzhou). Pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), each of Mr. Pan and Mr. Li, as covenantors to the Sale and Purchase Agreement, jointly and severally, and irrevocably undertook to the Purchaser that, save for the arrangement under the ALLF Agreements (as detailed below), each of them shall not, and shall procure their respective close associates not to, directly or indirectly (i) engage in or otherwise participate in any business which compete or may compete with the business of the Target Group in Hong Kong, the PRC and Singapore, including but not limited to the Alpha (Guangzhou) Business (the "**Restricted Business**"); (ii) solicit from any members of the Target Group any Restricted Business that is currently conducted or is under negotiation to be conducted by any of them, or any of their customer, supplier, director, senior management or employee for the past 12 months; and (iii) utilise any of the confidential information of the Target Group unless written consent is obtained from the Purchaser.

Albeit the Target Group and ALLF have been promoting themselves under the same "Alpha & Leader" brand, the actual works have been performed by the entities distinctively pertaining to their proficiency and contexts, while the engagement by the clients with the brand could be realised through entering into contracts only with one entity, i.e. either ALLF or the Target Group, simply for the convenience of the clients. Notwithstanding that most clients who prefer to save costs would only treat litigation means as a last resort to the debt collection exercises if non-litigation means are not successful, some clients would prefer to engage with ALLF in which the service scope may include both non-litigation means such as debt collection outsourcing which is under the scope of the Target Group and litigation means such as direct legal proceedings which are under the scope of ALLF, having considered that contingency fee is one of the fee structures adopted in the PRC for such debt collection exercises. As a result, a single contract with ALLF that conveniently covers both means is indeed apposite to a dual contract arrangement, which is of normal business practice in the PRC and such arrangement has also been well accepted among the clients. Accordingly, the parties to the Sale and Purchase Agreement considered that the entering into of the ALLF Agreements would be crucial in resolving concerns in identifying revenue intake between the Target Group and ALLF, respectively, upon the Completion.

To manage the business arrangement between the Target Group and ALLF following Completion, the ALLF Agreements (comprising the Master Cooperation Agreement and the Letter of Undertaking) shall be executed upon Completion, with principal terms set out below.

Master Cooperation Agreement

Parties	:	(1) Alpha (Guangzhou) (2) ALLF (namely Alpha & Leader Law Firm, Alpha & Leader (Beijing) Law Firm, Alpha & Leader (Shanghai) Law Firm and Alpha & Leader (Wuhan) Law Firm)
Term	:	From the signing date to 31 December 2023

Service scope : Alpha (Guangzhou) shall principally engage in the Alpha (Guangzhou) Business including the provision of debt recovery and credit investigation services, being non-litigation means to debt collection exercises, including the following:

(a) provision of debt dispute resolution and recovery of overdue accounts receivable services such as issuing demand/dunning letter through lawyer, mediation through phone calls and site visits;

(b) performing due diligence of the transaction counterparty including accounts receivable financing, supply chain financing, credit background investigation, logistics investigation, trade authenticity investigation, etc.;

(c) performing due diligence on supplier(s) through on-site visits, data verification and process confirmation to provide comprehensive operation analysis on the supplier's compliance procedures, production capacity status, internal control and safety and security policy, insurance policy, staff training and welfare policy and identify potential risks for the clients' consideration in transacting with such suppliers;

(d) provision of know-your-client investigation services by identifying the corporate controller through in-depth investigation and big data analysis to evaluate and analyse complex business network, business model, various personnel relationships and shareholders background of the subject enterprise;

(e) provision of commercial credit investigation services including comprehensive evaluation of the clients' customers according to the requirements specified by the client(s) and provision of credit reports covering information on company registration, any previous business change, shareholding structure and shareholder background, legal representatives, operation status, rating by suppliers, branch(es), trademark status, risk analysis, business activities and credit rating, etc.;

(f) provision of big data risk management services to analyse data related to target companies using big data credit risk analytic system which corresponds to more than 100 credit risk indicators to provide clients with comprehensive credit risk assessment on target companies; and

(g) provision of other debt recovery-related services in the course of development or expansion of its business.

ALLF shall principally engage in the provision of legal services to its clients for direct legal proceedings against the debtors, including the following:

(a) provision of legal advisory retainer services including issuing demand letter in handling overdue accounts receivable;

(b) provision of specialised legal services including due diligence, information collection and analysis, issuance of legal opinions, etc.;

(c) provision of litigation or arbitration services including mediation, execution, debt restructuring, related property tracing investigations, field investigations, etc.;

(d) provision of legal services relating to acquisition and/or disposal of non-performing assets;

(e) provision of legal services to banks and financial institutions including due diligence, asset investigation, field investigation and dispute resolution, debt restructuring and collection, etc.; and

(f) provision of other legal services in compliance with the relevant statutory requirements.

Roles and responsibilities of the parties	:	Alpha (Guangzhou) shall engage in the Alpha (Guangzhou) Business while ALLF shall engage in the professional legal services. Either party shall avoid to engage in activities that may likely compete with each other.

With respect to Alpha (Guangzhou):

(1) The services under the Alpha (Guangzhou) Business (excluding the relevant legal services required therein, if any) required by existing and new clients of Alpha (Guangzhou) shall be directly handled by Alpha (Guangzhou), except for the circumstances stated in "With respect to ALLF: (3)" below;

(2) While ALLF shall assign Alpha (Guangzhou) as the exclusive party with respect to debt recovery exercises (as referred to in "With respect to ALLF: (3)" below), Alpha (Guangzhou) shall have its own discretion to decide whether to cooperate with ALLF or other independent third parties to engage in debt collection exercises or provision of legal services; and

(3) Alpha (Guangzhou) shall engage the legal team designated by ALLF as the regular legal adviser to the Alpha (Guangzhou) Business.

With respect to ALLF:

(1) ALLF shall not directly or indirectly contact the clients of Alpha (Guangzhou) (save for the clients of Alpha (Guangzhou) being referred by Alpha (Guangzhou) to engage with ALLF, who may be contacted by ALLF in the manner stated in (3) below) and their respective shareholders, directors, senior management or staff for the purpose of soliciting the same or similar business as that of Alpha (Guangzhou) Business (save for certain part of the Debt Recovery Business that requires litigation services which may not be carried out by Alpha (Guangzhou));

(2) ALLF shall not solicit new clients for the purpose of engaging in the Alpha (Guangzhou) Business; and

(3) In the event that ALLF would act as the signing party to the engagement letter with any new clients at the request of such clients or Alpha (Guangzhou) with respect to debt recovery services, such clients shall only be contacted by ALLF under the instruction of and arrangement by Alpha (Guangzhou), and ALLF shall assign Alpha (Guangzhou) as the service provider with respect to debt collection services, and the income generated therefrom shall be payable to Alpha (Guangzhou) through ALLF by issuance of invoice by Alpha (Guangzhou) to ALLF in the manner described in "Revenue recognition" below.

Revenue recognition	:	For the recognition of service income, Alpha (Guangzhou) and ALLF shall regularly provide each other the monthly income breakdown of the preceding month and mutually confirm the calculation of the income recognised within 15 days after the beginning of each month, and provide the plan for income distribution between the parties for the counterparty to confirm. When in doubt, each party has the right to request from the other party explanation and any relevant supporting documents. Each party shall complete the verification of the relevant income and lodge a written confirmation within 7 days from the date when the income and cost summary has been provided. Within 3 working days after delivery of the written confirmation, the payee shall issue an invoice with the agreed amount including other related expenses to the payer, and the payer shall pay the amount to the bank account(s) designated by the payee within 2 working days after receipt of the invoice.
Basis of fees	:	Income is allocated among Alpha (Guangzhou) and ALLF such that the service fees receivable from or payable to ALLF by Alpha (Guangzhou) shall be determined on normal commercial terms based on a cost-plus charging basis where the margin shall be referenced to market rate, and such rate shall be no less favourable to Alpha (Guangzhou) than that available from or to independent third parties for provision of the same or similar services.

Letter of Undertaking

The Letter of Undertaking shall be executed by ALLF (namely Alpha & Leader Law Firm, Alpha & Leader (Beijing) Law Firm, Alpha & Leader (Shanghai) Law Firm and Alpha & Leader (Wuhan) Law Firm) pursuant to which ALLF undertake to the Company that each of them shall fulfil its obligations, and perform its roles and responsibilities in accordance with the Master Cooperation Agreement and the Letter of Undertaking. The Letter of Undertaking shall become effective on the same date as the Master Cooperation Agreement.

Historical and expected income of the Target Group from ALLF

Since ALLF have been engaging in the debt recovery services including that of the Alpha (Guangzhou) Business under the brand of "Alpha & Leader", the Target Group has not derived any revenue from ALLF and their respective associates. Notwithstanding the aforesaid, as advised by the Vendors, assuming arrangements have been in place where ALLF have assigned Alpha (Guangzhou) as the service provider for the debt recovery services and the corresponding income (after deduction of relevant taxes and costs incurred by ALLF) have been recognised in accordance with the Master Cooperation Agreement, the Target Group would have derived income from ALLF and its associates of approximately HK$18.2 million, HK$18.6 million and HK$17.1 million for the three years ended 31 December 2018, 2019 and 2020, respectively, the underlying contracts of which are all sourced by the Target Group's management, being Vendor B, who oversees the business development division, and the sales team of the Debt Recovery Business and other related services which is led by Vendor B and has been serving both the Target Group and ALLF. Upon Completion, Vendor B will retain as management of the Target Group and will continue to be responsible for leading the sales team for sourcing of contracts for the Target Group. It is expected that all members of the sales team of the Debt Recovery Business shall be employed under the Target Group upon Completion. According to the Vendors, the Target Group recorded unaudited consolidated revenue of approximately HK$12.4 million for the four months ended 30 April 2021, which was attributable to the clients sourced by the Target Group.

The Target Group's expected income to be derived from ALLF and their respective associates through the Master Cooperation Agreement (being income attributable to ALLF's existing and new clients with respect to Debt Recovery Business) for the three years ending 31 December 2023 is summarised below:

	For the year ending 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
	(approximate)	*(approximate)*	*(approximate)*
Expected income to be derived from ALLF and their respective associates	16,000	16,800	18,816

Previous business arrangement between ALLF and the Company

On 25 November 2019, Rongzhong International Financial Leasing Co., Ltd, an indirect wholly-owned subsidiary of the Company, and Alpha & Leader (Wuhan) Law Firm entered into an entrusted management service contract in the aggregate contract amount of RMB200,000 in relation to provision of due diligence and loan receivable management services regarding certain non-performing loans, which is in the ordinary and usual course of business of the Group. As at the Latest Practicable Date, such engagement has been ongoing and will expire in November 2021. No income arising from the aforesaid service contract has been recognised by the Target Group.

Save as disclosed above, as at the Latest Practicable Date, there was no previous relationship/arrangement entered between ALLF and the Company and its connected persons.

Shareholders' Agreement

The Shareholders' Agreement shall be entered into between the Purchaser, Vendor B, Vendor C and the Target Company on the Completion Date to regulate, *inter alia*, the management and operations of business of the Target Company upon Completion. Set out below are the proposed principal terms of the Shareholders' Agreement:

(i) the Target Company shall, on its own or through its subsidiaries, conduct risk and asset management and its related business in the name of "Alpha & Leader";

(ii) the management shall be responsible for the daily operation of the Target Company while the board of directors shall be responsible for the overall management of the Target Company, setting up of its overall policy and objectives and shall be decisional on all affairs material to the Target Company and/or its subsidiaries;

(iii) the Purchaser shall use its best endeavours to procure additional funding for the Target Company, for the three years ending 31 December 2022, which shall be used as working capital and/or for business expansion of the Target Company. For the avoidance of doubt, such amount shall exclude the Shareholders' Loan in the principal amount of HK$8,000,000 to be granted by the Purchaser to the Target Company pursuant to the Shareholders' Loan Agreement;

(iv) the board of the Target Company shall be composed of not more than four directors, where the Purchaser shall have the right to appoint or remove two directors and Vendor B and Vendor C shall collectively have the right to appoint or remove two directors;

(v) each director of the Target Company shall hold one vote and all decisions of the board shall be determined by a simple majority of votes (except where a greater majority is required by the articles of association or by the laws of Hong Kong or according to the Shareholders' Agreement), while one of the directors appointed by the Purchaser shall hold an extra vote or casting vote;

(vi) Vendor B shall be appointed as the chairman of the board of the Target Company by the board of directors on the date of the Shareholders' Agreement;

(vii) the Purchaser shall, at its full discretion, have the right to, from time to time and upon serving of an advance notice, assign appropriate personnel to understand and discuss with the management about the business and the financial operation of the Target Company; and

(viii) if any shareholder(s) of the Target Company (the "**Selling Shareholder(s)**") proposes to transfer all or any portion of its shares in the Target Company to any third parties, each other shareholder(s) of the Target Company shall (a) have a right of first refusal to acquire such shares from the Selling Shareholder; and (b) have a tag-along right to sell all of its shares in the Target Company, while in the event that the Selling Shareholder shall be the Purchaser and the right of first refusal is not exercised by the other shareholder(s) as described in (a), the Purchaser shall have a drag-along right to require each other shareholder(s) of the Target Company to sell their shares of the Target Company on the same terms and conditions as offered to the Purchaser.

INFORMATION OF THE VENDORS, THE PURCHASER, SILVER CREATION AND SOLOMON GLORY

As at the Latest Practicable Date, Vendor B is an individual investor while Vendor A is a company incorporated in the British Virgin Islands with limited liability principally engaged in investment holding, and each of Vendor C and Vendor D is an investment holding company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, Vendor A is ultimately owned as to 50% by Mr. Pan, 35% by Mr. Li and 15% by Vendor B, respectively; Vendor C is beneficially and wholly owned by Mr. Lam; and Vendor D is ultimately owned as to 70% by Mr. Wang and 30% by Mr. Lin, respectively.

As at the Latest Practicable Date, the Purchaser, being the Company, is an exempted company incorporated in the Cayman Islands with limited liability, and is principally engaged in investment holding.

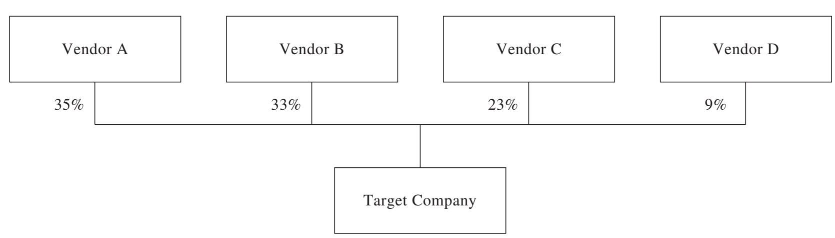
Silver Creation is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, Silver Creation is interested in 77,527,255 Shares, representing approximately 18.79% of the issued share capital of the Company and is a substantial Shareholder of the Company. Silver Creation is wholly-owned by Hony Capital Fund 2008, L.P. which is controlled by its sole general partner, Hony Capital Fund 2008 GP, L.P., which in turn is controlled by its sole general partner, Hony Capital Fund 2008 GP Limited, a company wholly-owned by Hony Group Management Limited, which is owned as to approximately 80% by Hony Managing Partners Limited which is in turn wholly-owned by Exponential Fortune Group Limited, a company owned as to approximately 49% by Mr. Zhao John Huan.

Solomon Glory is an investment holding company incorporated in the British Virgin Islands with limited liability. Solomon Glory is a wholly owned subsidiary of Goldbond, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 172).

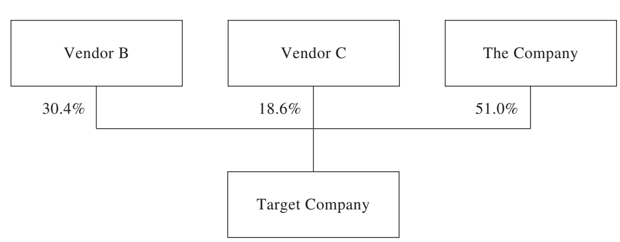
INFORMATION OF THE TARGET GROUP

Set out below is the shareholding structure of the Target Company (i) as at the Latest Practicable Date; and (ii) immediately after the Completion:

(i) Shareholding structure of the Target Company as at the Latest Practicable Date



(ii) Shareholding structure of the Target Company immediately after the Completion



The Target Company is a company incorporated in Hong Kong with limited liability, and together with its subsidiaries, are principally engaged in provision of debt and accounts receivable management and collection and credit investigation services in the PRC, Hong Kong and Singapore.

As at the Latest Practicable Date, the Target Company holds the entire equity interest in each of Alpha (Guangzhou), Wave Leader and Alpha (Singapore), respectively. Alpha (Guangzhou) is a company incorporated in the PRC with limited liability principally engaged in provision of consulting, credit investigation and analysis services, with branches stationed at Guangzhou, Beijing, Shanghai, Chengdu, Hangzhou, Xiamen, Qingdao, Nanjing and Chongqing, the PRC. Wave Leader is a dormant company incorporated in Hong Kong with limited liability. Alpha (Singapore) is a company incorporated in Singapore with limited liability principally engaged in provision of debt collection services. The Target Group and other affiliated companies such as ALLF have been serving clients in the name of "Alpha & Leader" with one-stop solution focusing on resolving clients' receivables and non-performing loan issues through the provision of legal and debt collection services. The "Alpha & Leader" trademark had been (i) registered in Hong Kong and owned by the Target Company; and (ii) registered in the PRC and owned by Alpha & Leader Law Firm. Alpha (Guangzhou) was authorised by Alpha & Leader Law Firm to use the "Alpha & Leader" trademark in the PRC for the period from 1 January 2021 to 31 December 2024.

The audited consolidated financial information of the Target Group for the two financial years ended 31 December 2020 is summarised below:

	For the year ended 31 December	
	2020	**2019**
	HK$'000	*HK$'000*
	(approximate)	*(approximate)*
Profit/(loss) before taxation	5,663	(994)
Profit/(loss) after taxation	5,540	(1,015)

As at 31 December 2020, the audited consolidated net assets of the Target Group amounted to approximately HK$0.8 million.

INDUSTRY OVERVIEW AND REGULATIONS OF THE DEBT COLLECTION BUSINESS

With reference to the market research report 《中國第三方債務調解及催收行業市場調研報告》("China's third-party debt mediation and collection industry market research report*") conducted by Hong Kong Credit and Collection Management Association (*https://www.hkccma.com/*) published in November 2020, non-performing debts in the PRC has been growing at an annual rate of over RMB100 billion from 2003 to 2016, driving the rapid development of debt recovery industry in the PRC. The industry has been growing over the past years and reached a mature stage in terms of industry standard. With the continuous development and in order to fulfil the needs of the customers, the PRC government has begun to gradually open up the restriction and welcome third-party debt mediation and collection agencies with a view to facilitate the operation and development of the demand-driven industry. The debt collection market can be mainly classified into (i) commercial accounts receivables arising in the sales of goods or services; (ii) personal loan arising from personal consumer credit from credit cards, property mortgage, car loans or student loans; and (iii) disposal of non-performing assets, all of which can be conducted through non-litigation means such as mediation and litigation means such as legal proceedings.

Given the significant number of enterprises, there is a huge demand for the commercial accounts receivables market in terms of the amount receivables arising from the ordinary course of business. The nature of companies that can be engaged in the debt collection industry includes law firms, asset management, credit consultancy, financial technology, investment management and corporate advisory. There are currently over 4,500 third-party mediation and collection agencies in the PRC, more than 99% of which are not entrusted under the name of law firm entities in the PRC. At the moment, the market size with respect to personal loan market represents more than 90% of the total market size, which is mostly contributed by credit card loans and consumer loans, with more than 4,200 third-party mediation and collection agencies engaging in the debt recovery of personal loans. There is currently no official regulatory authority that governs the debt mediation and collection industry in the PRC. As advised by the PRC legal adviser of the Company, the handling of debt disputes which involves both litigation means such as direct legal proceedings and non-litigation means shall only be carried out by law firm entities in the PRC, where the non-litigation exercises of such debt disputes can be carried out by institutions by means of being entrusted by law firm entities in accordance with the relevant laws and regulations.

In respect of debt collection market from non-performing assets, there are 5 national and 56 provincial asset management companies which are approved to acquire, manage and dispose of the non-performing assets including distressed debt assets, equity and real assets. There are also local asset management companies which are smaller in scale seeking to seize the potential market share in view of the growing demand of disposal of non-performing assets. Given the various means to realise cash from the disposal of non-performing assets, the dispute mediation and debt collection exercise arising from disposal of non-performing assets is relatively narrow as compared to commercial accounts receivables and personal loans.

Non-litigation means to the debt collection exercises refer to the collection of accounts receivables through legitimate mediation or debt recovery process, which can be conducted in four stages namely (1) performing of due diligence by reviewing relevant documents and the relationship of the transaction counterparties; (2) signing of contracts to entrust third party as agent to conduct debt mediation and collection exercise; (3) execution of mediation or debt recovery procedures by regular coordination and communications such as site visit, telephone or email contact and issue of formal reminder or dunning letters until the overdue debts are ultimately repaid; (4) conclusion of the debt recovery exercise, or in the event that such exercise is unsuccessful, propose alternative ways including to commence litigation by direct legal proceeding. As part of the mediation process and to increase the effectiveness of the debt recovery exercise, law firms are at times involved to the extent of providing demand letter in the name of the law firm which delivers more powerful emphasis on the obligations of the defaulting party and enforcement of rights by the client, etc. Litigation means to the debt collection exercises refer to the recovery of debts through civil litigation which can only be filed by law firm. Such legal procedures are typically implemented in four stages namely (1) application for payment order by the court; (2) application for advanced execution; (3) application for property preservation; and (4) claim for compensation.

REVENUE MODEL AND OPERATION OF THE TARGET GROUP

The Target Group derives its revenue from provision of debt recovery services to the debt collection exercises of accounts receivables to its clients, focusing on commercial accounts receivables that are past due for a period ranging from 3 to 12 months, and credit investigation services. While a minimal upfront deposit would be recognised by the Target Group in rare occasions upon signing of contracts, substantial or all of the Target Group's revenue have been and would be recognised upon completion of the underlying contract in relation to provision of debt recovery services to the clients, i.e. upon successful recovery of overdue receivables, excluding those amounts collected on behalf of its clients. With respect to provision of due diligence and credit investigation services which typically cover a number of target companies within various search periods per engagement, clients are normally required to settle a specified lump sum payment upon signing of contracts based on the agreed scope of work required for the due diligence exercise/credit investigation service as prepayment, where revenue will be recognised upon delivery of the respective due diligence/credit reports to the client by stages, and the corresponding amount will be deducted from the prepayment balance. Besides prepayment, the Target Group also accepts a monthly settlement with credit with respect to credit investigation service. A higher rate of service fee would be charged depending on the quality of the receivables and period of time past due with respect to debt collection services and the complexity of obtaining the relevant information on the subject companies with respect to due diligence and credit investigation services.

The Target Group has in-house experienced due diligence team of 17 members, mediation team of 28 members, compliance team of 18 members, business development team of 20 members, customer service team of 16 members, planning team of 4 members and management and administrative team of 32 members.

Type of services provided

Debt collection

A third-party non-litigation service that enables creditors to utilise professional negotiators in performing mediation for dispute resolution, debt recovery and asset disposal projects. Clients are mainly charged on contingency upon successful collection. This will help creditors minimise further loss on incurring legal costs for non-recoverable debts.

Due diligence

The Target Group will conduct due diligence which utilises industry data by performing direct field investigation, lateral investigation and market research as well as interviews to acquire insight into the overall condition on the subject companies for the following purposes:

1. Credit loan approval and risk disclosures

2. Transaction authentication

3. Vendor selection and validation

4. Fact findings and scrutiny

Credit investigation

The credit investigation service enables the clients to obtain a credit analysis of the target individual or entity. With the established database and network and credit assessment system using big data analytics, the Target Group can provide a credit report with credit scoring and recommended credit limit on the subject companies for client prior to the entering into of potential transactions between them. Credit reports can be obtained through online in Chinese, English and Japanese languages.

Experience and expertise of the management of the Group in the operation and management of the Target Group's business

The management of the Group has vast experience and knowledge in the financial and investment sector in particular the financial leasing industry which are complementary to the Target Group's business with respect to management of overdue receivables and/or disputed debts, being an inherent element arising from the Group's finance lease receivables. Set out below are the particulars of the management of the Group:

Ms. Wong Emilie Hoi Yan, an executive Director and chief executive officer of the Company responsible for implementation of the Group's development strategies and management of the daily operations of the Company. She has over 16 years of experience in financial reporting and internal control matters in the finance and finance leasing industry.

Mr. Chen Shuai, a non-executive Director, has extensive experience in investment management, supplier management and retail business and holds a Master of Business Administration degree from the China Europe International Business School and was awarded a bachelor's degree in economics from Beijing Forestry University.

Ms. Jacqueline Wong, a non-executive Director, is responsible for advising on strategic development and corporate governance of the Group. She is an executive director of Wah Link Investments Limited, a company which principally engaged in property investment and her role in Wah Link Investments Limited mainly involves acquiring, managing and maintaining residential and commercial real estates projects in Asia and in United States.

Ms. Michelle Wong, a non-executive Director, is responsible for advising on strategic development and corporate governance of the Group. She graduated from University of Southern California with a Bachelors of Arts degree in Political Science and holds a Juris Doctorate in Law from Whittier Law School. She is also an Executive Director of Goldbond since February 2007.

Mr. Wong Ming Bun David, a non-executive Director, has over 20 years of experience in capital market, financial investment and asset management. He was a senior vice president at Franklin Templeton Darby Private Equity and was responsible for deal origination, execution and monitoring and was involved in fundraising for regional growth capital funds with a primary focus on private credit and mezzanine financing in the Greater China and Southeast Asian region. Prior to that, he was an equity research analyst in Citigroup Smith Barney's Asia Pacific Consumer Research team. Also, he worked at PricewaterhouseCoopers focusing on banking and capital market assurance and business advisory services.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become a direct 51%-owned subsidiary of the Company and thus the financial results, assets and liabilities of the Target Group will be consolidated into those of the Group. For details of the unaudited pro forma financial information on the Enlarged Group, please refer to Appendix IV to this circular.

Assets and liabilities

Based on the unaudited pro forma financial information as set out in Appendix IV to this circular, assuming that Completion had taken place on 30 September 2020, the total assets of the Group would have increased from approximately HK$961.7 million to approximately HK$1,002.9 million, while the total liabilities of the Group would have increased from approximately HK$926.5 million to approximately HK$961.0 million. Hence, the net assets of the Group would have increased from approximately HK$35.1 million to approximately HK$42.0 million as a result of the Acquisition.

Earnings

Notwithstanding the financial performance of the Target Group for the first half of 2020 had been affected due to the impact of COVID-19 epidemic, the Target Group recognised the profit of approximately HK$5.5 million for the year ended 31 December 2020. In view of the generally positive outlook of the debt collection services market in terms of demand with respect to commercial accounts receivable as well as the customer base built by the management team of the Target Group, as detailed in the below section headed "Reasons for and benefits of the Acquisition", it is expected that earnings of the Group will be enhanced in the long run after Completion.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming there will be no change in the issued share capital of the Company from the Latest Practicable Date and up to the date of transfer of the Transfer Shares in full and no adjustment to the number of the Second Tranche Transfer Shares, the Third Tranche Transfer Shares and the Fourth Tranche Transfer Shares, set out below is the shareholding structure of the Company as at the Latest Practicable Date and immediately after the transfer of the Transfer Shares in full:

Shareholders	As at the Latest Practicable Date		Immediately after the transfer of the First Tranche Transfer Shares		Immediately after the transfer of the Second Tranche Transfer Shares		Immediately after the transfer of the Third Tranche Transfer Shares		Immediately after the transfer of the Fourth Tranche Transfer Shares *(Note 4)*	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Silver Creation	77,527,255	18.79	45,615,347	11.05	45,615,347	11.05	45,615,347	11.05	45,615,347	11.05
Mr. Xie Xiaoqing										
interested by Solomon Glory *(Note 1)*	38,503,380	9.33	38,503,380	9.33	22,547,426	5.47	6,591,471	1.60	–	–
held by controlled corporation	12,704,220	3.08	12,704,220	3.08	12,704,220	3.08	12,704,220	3.08	12,704,220	3.08
Vendor A	–	–	21,901,142	5.31	32,851,713	7.96	43,802,285	10.62	48,326,011	11.72
Vendor B	–	–	1,627,508	0.39	2,441,262	0.59	3,255,016	0.79	3,591,182	0.87
Vendor C	–	–	2,750,806	0.67	4,126,209	1.00	5,501,612	1.33	6,069,796	1.47
Vendor D	–	–	5,632,452	1.37	8,448,678	2.05	11,264,904	2.73	12,428,299	3.01
Subtotal	128,734,855	31.20	128,734,855	31.20	128,734,855	31.20	128,734,855	31.20	128,734,855	31.20
Perfect Honour Limited *(Note 2)*	143,805,903	34.86	143,805,903	34.86	143,805,903	34.86	143,805,903	34.86	143,805,903	34.86
Ms. Michelle Wong, Ms. Jacqueline Wong and their associates *(Note 3)*	20,234,242	4.91	20,234,242	4.91	20,234,242	4.91	20,234,242	4.91	20,234,242	4.91
Other public Shareholders	119,734,000	29.03	119,734,000	29.03	119,734,000	29.03	119,734,000	29.03	119,734,000	29.03
Total	412,509,000	100.00	412,509,000	100.00	412,509,000	100.00	412,509,000	100.00	412,509,000	100.00

Notes:

1. Solomon Glory, which is a wholly owned subsidiary of Goldbond, as lender, enforced its rights under the security of a loan agreement pursuant to which Yong Hua International Limited has charged, *inter alia*, its assets including but not limited to the 38,503,380 Shares held by it by way of floating charge, which was crystalised into a fixed charge. An order was subsequently issued by the High Court of Hong Kong to the effect that, among others, these charged Shares shall not be sold at a price of more than 10% discount to the average closing prices of the Shares as quoted on the Stock Exchange for the previous 10 consecutive trading days prior to the date of such sale. Although Solomon Glory has no voting right over the 38,503,380 Shares, as advised by the legal adviser of Goldbond, Solomon Glory has the right to enforce the transfer of the 38,503,380 Shares in accordance with the terms and conditions under the aforesaid court order.

2. The 143,805,903 Shares are held by Perfect Honour Limited, which is a wholly owned subsidiary of Goldbond, the shares of which are held as to approximately 30.99% by Allied Luck Trading Limited, a company wholly owned by Allied Luck Trust, and as to approximately 26.06% by Ace Solomon Investments Limited, a company wholly owned by Aceyork Trust. Ms. Michelle Wong and Ms. Jacqueline Wong are the beneficiaries of Allied Luck Trust and Aceyork Trust.

3. Among the 20,234,242 Shares, (i) 10,127,176 Shares are held by Legend Crown International Limited and 10,107,066 Shares are held by Plenty Boom Investments Limited, respectively, of which the entire issued share capital of each of Legend Crown International Limited and Plenty Boom Investments Limited are held by a discretionary trust whose trustee is Ace York Investment Management Limited, a company owned as to 50% by Ms. Jacqueline Wong and 50% by Ms. Michelle Wong, respectively.

4. Pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), the remaining Consideration shall be settled by cash of HK$3,831,256.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the business of provision of financial leasing services, including sales and leaseback leasing and direct financial leasing, in Hubei Province, the PRC. The Target Group is principally engaged in the debt collection business based in the PRC which, together with the Group's existing financial leasing operation, are business branches under the same roof (i.e. financial service industry). As overdue/defaulted payment forms part of the inherent risk of the financial leasing business currently engaged by the Group, the acquisition of the Target Group which specialises in debt collection of overdue receivables is expected to augment the Group's business.

Positive industry outlook and Target Group's expansion plan

According to the statistics from the National Bureau of Statistic of China (*http://www.stats.gov.cn/english/*), total accounts receivable of industrial enterprises in the PRC reached RMB13,480 billion, RMB14,340 billion, RMB17,400 billion and RMB16,410 billion in 2017, 2018, 2019 and 2020, respectively, representing a compound annual growth rate of approximately 6.8%. While based on an official research conducted by the State Administration of Industry and Commerce of the PRC (國家工商行政管理總局) (subsequently merged and known as the State Administration for Market Regulation (國家市場監督管理總局)) (*http://www.samr.gov.cn/*) and the Ministry of Commerce of the PRC (*http://english.mofcom.gov.cn/*), defaulted economic contracts accounted for around 30% annually, implying an overdue accounts receivable of around RMB4,923 billion as of 2020. According to the Monthly Statistical Bulletin (April 2021 – Issue No.320) released by Hong Kong Monetary Authority (*https://www.hkma.gov.hk/eng/*) in April 2021, the total amount of domestic loans in Hong Kong reached approximately HK$25,221 billion, HK$27,071 billion, HK$28,357 billion and HK$29,607 billion as of 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020, respectively, representing a compound annual growth rate of approximately 5.49%. Hence, it is observed that there is a scalable demand for management of receivables as well as debt recovery services with respect to overdue receivables. Moreover, according to a news article "China's debt collection firms flourishing as coronavirus batters economy" published from SCMP (*https://www.scmp.com/*) in August 2020, debt collection agencies in the PRC have been hiring additional staff to meet the huge demand for debt collection services as resulted from the increasing amount of non-performing loans amidst the challenging economic conditions. With reference to ''The Chinese NPL market in 2020'' (*https://www.pwccn.com/en/deals/publications/the-chinese-npl-market-in-2020.pdf*) issued by PricewaterhouseCoopers in 2020, collection of the non-performing loans in the PRC via litigation and enforcement process took a period between 12 and 30 months on average, the duration of which was beyond the investors' estimate. The debt recovery service via dispute mediation, as provided by the Target Group, could play a key role as an alternative for the investors in the debt collection market.

The Target Group plans to expand its business by (i) recruiting additional staff to enhance its one-stop debt collection service that addresses various customer preferences; and (ii) setting up new regional offices in Wuhan, Kuala Lumpur and Taiwan to enlarge its geographical coverage. Coupled with the Target Group's continuous efforts to expand and diversify its client portfolio and the opportunities within the debt recovery service sector, as well as forging long-term relationships with existing clients, it is expected that the Target Group would gain more market shares and broaden its revenue base in the coming years.

In light of (i) the potential demand for debt collection service in particular with respect to commercial accounts receivable; (ii) the established reputation of "Alpha & Leader" and geographical coverage of the Target Group in the PRC, Hong Kong and Singapore, as well as its customer base built by the management team comprising specialists with extensive experience accumulated over the past years; and (iii) the improving performance of the Target Group as demonstrated by its progressive growth in revenue from 2018 to 2020 driven by strong market demand and the turnaround from loss-making to profit-making position for the year ended 31 December 2020 despite the impact brought by COVID-19, the Company believes that the Acquisition would diversify the income sources of the Group and improve its cash flow as seen from the improving cash level of the Target Group in the past years, thereby enhancing the Shareholder's value as a whole.

Settlement terms of the Consideration

Following the execution of the Sale and Purchase Agreement and after considering the additional time required for the allotment and issue of new Shares for settlement in full of the Consideration, the Company has negotiated with the Vendors on other settlement possibilities including but not limited to by way of transfer of existing Shares. Taking into account the significant number of existing Shares required for the aforesaid settlement method, the Company has approached the controlling Shareholder and substantial Shareholder, each of whom is able to take up part of the payment obligations under the Sale and Purchase Agreement on behalf of the Company. The parties to the Supplemental Agreements have therefore agreed to, among other things, amend the payment terms under the Sale and Purchase Agreement to the effect that (i) a substantial portion of the Consideration shall be settled by way of transfer of existing Shares to the Vendors firstly by Silver Creation at Completion and secondly under procurement by Solomon Glory subject to the applicable guaranteed profits during the Guaranteed Period, while the Purchaser will issue the Promissory Notes with reference to the market price of the Shares prior to the entering of the First Supplemental Agreement to Silver Creation and Solomon Glory respectively in return; and (ii) the remaining minority portion shall be settled by cash by the Company to the Vendors.

On the other hand, the settlement of majority portion of the Consideration by way of transfer of existing Shares to the Vendors would enable the Company to engage the Vendors (including (i) Vendor B; and (ii) Mr. Lam who beneficially and wholly owned Vendor C who have been and will continue to be primarily engaged in the Target Group's business) to become Shareholders and strategic partner of the Group to cooperate and facilitate the operations of the Target Group upon Completion, while at the same time allowing the Group to maintain financial flexibility as opposed to alternative settlement arrangements of the Consideration such as (i) bank borrowings or cash payment in full which may weaken the balance sheet of the Company due to its relatively low cash level and the high costs associated with bank borrowings; and (ii) allotment and issue of new Shares as settlement of Consideration which will dilute the shareholding interests of existing Shareholders and hence not adopted. In connection with the transfer of existing Shares to the Vendors, the Lock-up Agreement shall also be entered into as one of the conditions precedent to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) to restrict the disposal of Shares by the Vendors after they become shareholders of the Company. In consideration of the entering into of the Supplemental Agreements which would result in a lower number of Shares to be received by the Vendors under the Acquisition and given the recent market price of the Shares which has been at a relatively low level as compared to the date of the entering into of the Sale and Purchase Agreement in June 2020, the Company considers that it is reasonable to provide the compensatory arrangement in favour of the Vendors, which is only limited to the First Tranche Transfer Shares. Further, the actual commitment of the Purchaser being the sum of the aggregate principal amount of the Promissory Notes to be issued to Silver Creation and Solomon Glory, the cash payment for the remaining Consideration and the maximum amount subject to compensatory arrangement with respect to the First Tranche Transfer Shares, is less than the Consideration of HK$32,640,000.

Guaranteed profits as protection to the Company

The Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) provides that the Consideration shall be reduced accordingly if the predetermined audited profits of the Target Group for the Guaranteed Period are not met, which would safeguard the interest of the Company in the event of performance shortfall by the Target Group following the Completion. Given the lapse of time since the entering into the Sale and Purchase Agreement in June 2020 and the various changes in market conditions, in particular, the impact brought by the COVID-19 pandemic as reflected in 2020 causing delay in certain business development and growth, the amount of profit of the Target Group required for 2020 has been adjusted downward, while the shortfall shall be reflected in the remaining Guaranteed Period by adjusting upward the respective guaranteed profits for 2022 and 2023, which is considered to be more commercially practicable as the pandemic situation is expected to be stabilised in the following years. The guaranteed profits for the Guaranteed Period are not only a show of confidence by the Vendors in the Target Group's future financial performance but also factually supportable in view of the business and financial track record of the Target Group and the arrangements in place to secure the income to be derived from ALLF, as well as the expected growth in revenue and improvement in earnings upon implementation of the business plan of the Target Group including the setting up of new offices in other cities in the PRC and Malaysia to ride on the growing market demand. Further details are set out in the section headed "Basis of Consideration – Basis of determination of the guaranteed profits".

Arrangement in place to secure future income from ALLF upon Completion

The entering into of the Master Cooperation Agreement would enable the Target Group to secure exclusive roles from certain clients of ALLF who needs debt collection services, in addition to the existing client base of the Target Group, which is expected to diversify the customer base and broaden the income stream of the Target Group. While the Target Group and ALLF have been providing services to clients corresponding to their respective business scope under the same "Alpha & Leader" brand, certain debt recovery services have been carried out by ALLF the nature of which is similar to that of Alpha (Guangzhou). In order to delineate the roles and responsibilities of Alpha (Guangzhou) and ALLF, and identify the revenue intake by each of Alpha (Guangzhou) and ALLF in carrying out their respective services following the Completion, the Master Cooperation Agreement shall be entered into by the parties to facilitate such business cooperation. The Master Cooperation Agreement provides procedures in place to identify, review and confirm the respective income amount entitled to by each of Alpha (Guangzhou) and ALLF on a monthly basis, which shall be conducted and settled within the prescribed period every month. In the event of disputes, documentary evidence or proofs in support of the calculations will be required to be presented to the counterparty for the parties to mutually agree on and confirm the service income or costs incurred in the previous month. Further details on the principal terms and income recognition procedures are set out in the section headed "Non-competition and ALLF Agreements – Master Cooperation Agreement".

In view of the above, the Directors (including members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) consider that the terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

Major transaction

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the consideration payable on the part of the Company for the Acquisition and the maximum commitment of the Company under the compensatory arrangement with respect to the First Tranche Transfer Shares pursuant to the Lock-up Agreement exceed 25% but are less than 100%, the Acquisition constitutes a major transaction of the Company which is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Connected transaction

As at the Latest Practicable Date since (i) Silver Creation is a substantial Shareholder interested in 77,527,255 Shares, representing approximately 18.79% of the issued share capital of the Company; and (ii) Solomon Glory is a wholly owned subsidiary of Goldbond, which is a controlling Shareholder interested in 143,805,903 Shares, representing approximately 34.86% of the issued share capital of the Company, each of Silver Creation, Goldbond and Solomon Glory is a connected person of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) constitutes a connected transaction of the Company. As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) exceed 5%, the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, the respective issuances of the Promissory Notes to Silver Creation and Solomon Glory by the Company also constitute connected transactions of the Company in the form of financial assistance in favour of the Company. However, as no security over any assets of the Group is involved in connection with the Promissory Notes and the Directors consider that the terms of the Promissory Notes are on normal commercial terms or better, the issuance of the Promissory Notes by the Company is fully exempt from the Independent Shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90 of the Listing Rules.

As at the Latest Practicable Date, the Directors who are considered to have material interests in the Supplemental Agreements namely (i) Ms. Michelle Wong and Ms. Jacqueline Wong by virtue of being controlling shareholders of Goldbond; (ii) Mr. Wong Ming Bun David by virtue of being the chief executive and executive director of Goldbond; and (iii) Mr. Chen Shuai by virtue of being a managing director of Hony Capital Fund 2008, L.P. which wholly owns Silver Creation, have abstained from voting on the relevant resolutions of the Board approving the Supplemental Agreements and the transactions contemplated thereunder. Save as disclosed, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, no other Director has a material interest in the Sale and Purchase Agreement and the Supplemental Agreements and was required to abstain from voting on the relevant resolutions of the Board approving the Sale and Purchase Agreement (including the Supplemental Agreements) and the transactions contemplated thereunder.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder. The Independent Financial Adviser has also been appointed to advise the Independent Board Committee and the Independent Shareholders on the same.

The EGM

The EGM will be convened for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), and the transactions contemplated thereunder. A notice convening the EGM to be held at 10:30 a.m. on Thursday, 29 July 2021 at 2/F, J Plus, 35-45B Bonham Strand, Sheung Wan, Hong Kong is set out on pages EGM-1 to EGM-3 of this circular.

The voting in respect of the resolution to be proposed at the EGM will be conducted by way of poll whereby any Shareholders and their respective close associates (as defined under the Listing Rules) who have a material interest in the Acquisition shall abstain from voting on the resolution in relation to the Acquisition to be proposed at the EGM. In view of the interests of Silver Creation, Solomon Glory, Goldbond, Ms. Michelle Wong and Ms. Jacqueline Wong in the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), each of Silver Creation, Goldbond, Ms. Michelle Wong and Ms. Jacqueline Wong and their respective associates will abstain from voting in respect of the resolution(s) to be proposed at the EGM to approve the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder. Save as disclosed, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, no other Shareholder or any of its associates has a material interest in the Acquisition and therefore no other Shareholder would be required to abstain from voting at the EGM.

Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 61 to 62 of this circular. Your attention is also drawn to the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder set out on pages 63 to 109 of this circular.

The Board (including members of the Independent Board Committee) considers that the terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including members of the Independent Board Committee) recommends the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information as set out in the appendices to this circular.

Completion of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) is subject to the fulfilment or waiver (as the case may be) of the conditions precedent thereto, and accordingly may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Yours faithfully,
By order of the Board
Wong Emilie Hoi Yan
Executive Director

RONGZHONG

CHINA RONGZHONG FINANCIAL HOLDINGS COMPANY LIMITED
中國融眾金融控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03963)

30 June 2021

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 51% EQUITY INTEREST IN THE TARGET COMPANY

We refer to the circular of the Company to the Shareholders dated 30 June 2021 (the "**Circular**"), of which this letter forms part. Capitalised terms used herein shall have the same meanings as defined in the Circular, unless the context requires otherwise.

The Independent Board Committee, comprising all of the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether, in its opinion, the terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Giraffe Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Details of the advice from the Independent Financial Adviser, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 63 to 109 of the Circular.

Having considered the terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), the principal factors and reasons considered by the Independent Financial Adviser and the advice of the Independent Financial Adviser, we are of the opinion that, although the Acquisition is not in the ordinary and usual course of business of the Group, the terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM.

Yours faithfully,
the Independent Board Committee

Mr. Lie Chi Wing **Mr. Ng Wing Chung Vincent** **Mr. Yu Yang**
Independent non-executive Directors

The following is the full text of the letter received from Giraffe Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.

Giraffe
智富

Giraffe Capital Limited

30 June 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 51% EQUITY INTEREST IN THE TARGET COMPANY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") of the circular issued by the Company dated 30 June 2021 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 26 June 2020 (after the trading hours), the Purchaser, the Vendors, Mr. Pan and Mr. Li entered into the Sale and Purchase Agreement in relation to the Acquisition, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell, the Sale Shares, representing 51% of the equity interest in the Target Company, at the Consideration of HK$32,640,000. On 29 March 2021 and on 29 June 2021 (after the trading hours), the Purchaser, the Vendors, Mr. Pan, Mr. Li, Silver Creation and Solomon Glory entered into the Supplemental Agreements to amend and supplement certain terms of the Sale and Purchase Agreement, of which the Consideration shall be settled by way of (1) transfer of existing Shares of a maximum number of 70,415,288 Shares held by Shareholders namely (i) Silver Creation, a substantial Shareholder; (ii) Solomon Glory, a wholly owned subsidiary of Goldbond, a controlling Shareholder; and (2) cash in the amount of HK$3,831,256 to the Vendors at the Agreed Proportion by tranches.

Since (i) Silver Creation is a substantial Shareholder interested in 77,527,255 Shares, representing approximately 18.79% of the issued share capital of the Company; and (ii) Solomon Glory is a wholly owned subsidiary of Goldbond, which is a controlling Shareholder interested in 143,805,903 Shares, representing approximately 34.86% of the issued share capital of the Company, each of Silver Creation, Goldbond and Solomon Glory is a connected person of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) constitutes a connected transaction of the Company. As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) exceed 5%, the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Lie Chi Wing, Mr. Ng Wing Chung Vincent and Mr. Yu Yang, has been formed to advise the Independent Shareholders in relation to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 13.84 of the Listing Rules, and accordingly, are qualified to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders. Save for our appointment as the Independent Financial Adviser, there was no engagement between the Group and us in the past two years.

Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, the announcement of the Company dated 26 June 2020 in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder, the announcements of the Company dated 29 March 2021 and 29 June 2021 in relation to the Supplemental Agreements and the transactions contemplated thereunder, the legal due diligence report on the Target Group prepared by the legal advisers of the Company as to the PRC law, the accountants' report on the Target Group for the years ended 31 December 2018, 2019 and 2020 issued by BDO, the annual report of the Company for the year ended 31 March 2020 (the "**Annual Report 2020**") and the interim report of the Company for the six months ended 30 September 2020 (the "**Interim Report 2020**"), the opinions expressed by and the representations of the Directors and management of the Group and certain relevant public information, and have enquired with and reviewed the information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management of the Company and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management of the Company and/or the Directors were true and accurate at the time when they are made and continue to be true up to the Latest Practicable Date. We have no reason to believe that any statements, information, opinions and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent verification and in-depth investigation into the information provided by the Company as well as the business and affairs of the Group, the Vendors, the Target Group or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. Our opinion is necessarily based on the financial, economic, market, industry-specific and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information regarding the Group. The Directors, having made all reasonable enquiries and careful consideration, confirm that to the best of their knowledge and belief, the information contained in the Circular 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 the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Information on the Group

1.1 Background of the Group

As disclosed in the Letter from the Board, the Group is principally engaged in the provision of financial leasing services in Hubei Province, in the PRC, with the longest operating history amongst Hubei-based financial leasing companies. The Group mainly offers two categories of financial leasing services to its customers, namely: (i) sales and leaseback; and (ii) direct financial leasing. In addition, value-added services such as advisory and consultancy services are also offered to its finance lease customers.

1.2 Financial information of the Group

Set out below is a summary of the Group's operating results as extracted from the Annual Report 2020 and Interim Report 2020:

	For the year ended 31 March		For the six months ended 30 September	
	2019	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue				
– Interest income arising from sale and leaseback arrangements	67,267	23,934	15,273	10,078
– Finance lease income	3,517	3,550	1,785	286
	70,784	**27,484**	**17,058**	**10,364**
(Impairment losses) reversal of impairment losses on financial assets	(100,802)	(48,218)	9,362	29,997
(Loss)/Profit for the year/period	**(91,410)**	**(65,726)**	**(133)**	**18,836**

For the years ended 31 March 2019 and 2020 and the six months ended 30 September 2020, the Group generated revenue from the provision of two categories of financial leasing services in the PRC, namely (i) sales and leaseback and (ii) direct financial leasing. Accordingly, the Group recorded interest income arising from sale and leaseback arrangements and finance lease income arising from direct financial leasing. Lease receivables and receivables arising from sale and leaseback arrangements are mainly secured by leased assets which are used in laser processing, plastics, industrial processing, textile and garment, hotel and leisure and other industries, customers' deposits and leased assets repurchase arrangement where applicable.

Comparison of financial performance between the six months ended 30 September 2019 and 2020

Based on the Interim Report 2020, the Group's revenue decreased from approximately HK$17.1 million for the six months ended 30 September 2019 ("**20191H**") to approximately HK$10.4 million for the six months ended 30 September 2020 ("**20201H**"), primarily attributable to the decrease in interest income arising from sale and leaseback arrangement, which was mainly due to the Group's prudent and conservative strategy to safeguard the asset with additional emphasis placed in the recovery of past due lease receivables and receivables arising from sale and leaseback arrangements and enhancement of internal control during the continued static economy.

Reversal of impairment losses on financial assets represented the reversal of impairment losses recognised on (i) lease receivables and receivables arising from sale and leaseback arrangements and (ii) loan receivable. The amount increased from approximately HK$9.4 million in 20191H to approximately HK$30.0 million in 20201H, which was mainly due to the changes in recoverability of certain past due lease receivables and receivables arising from sale and leaseback arrangements.

The Group recorded profit for the period of approximately HK$18.8 million in 20201H as compared to loss for the period of approximately HK$0.1 million in 20191H, mainly due to the reversal of impairment losses on financial assets recognised in 20201H.

Comparison of financial performance between the year ended 31 March 2019 and 2020

Based on the Annual Report 2020, the Group's revenue decreased from approximately HK$70.8 million for the year ended 31 March 2019 ("**FY2019**") to approximately HK$27.5 million for the year ended 31 March 2020 ("**FY2020**"), primarily attributable to the decrease in interest income arising from sale and leaseback arrangement, which was mainly due to the Group's prudent and conservative strategy to safeguard the asset with additional emphasis placed in the recovery of past due lease receivables and receivables arising from sale and leaseback arrangements and enhancement of internal control during the continued static economy.

Impairment losses on financial assets of approximately HK$48.2 million was further recognised in FY2020 mainly due to the increase in average expected loss rate on lease receivables and receivables arising from sale and leaseback arrangement, which was determined based on historical loss experience and economic conditions.

The Group's loss for the year decreased from approximately HK$91.4 million in FY2019 to approximately HK$65.7 million in FY2020, mainly due to the decrease in impairment losses on financial assets recognised in FY2020.

2. Information of the Target Group and the Vendors

2.1 Background of the Target Group

As stated in the Letter from the Board, as at the Latest Practicable Date, the Target Group (i) comprised the Target Company which is incorporated in Hong Kong with limited liability, and together with its subsidiaries, are principally engaged in provision of debt and accounts receivable management and collection services in the PRC, Hong Kong and Singapore, and (ii) is owned as to 35% by Vendor A, 33% by Vendor B, 23% by Vendor C and 9% by Vendor D, respectively.

As at the Latest Practicable Date, the Target Group holds the entire equity interest in each of Alpha (Guangzhou), Wave Leader and Alpha (Singapore), respectively. Alpha (Guangzhou) is a company incorporated in the PRC with limited liability principally engaged in provision of consulting, credit investigation and analysis services, with branches stationed at Guangzhou, Beijing, Shanghai, Chengdu, Hangzhou, Xiamen, Qingdao, Nanjing and Chongqing, the PRC. Wave Leader is a dormant company incorporated in Hong Kong with limited liability. Alpha (Singapore) is a company incorporated in Singapore with limited liability principally engaged in provision of debt collection services. The Target Group and other affiliated companies such as ALLF have been serving clients in the name of "Alpha & Leader" with one-stop solution focusing on resolving clients' receivables and non-performing loan issues through the provision of legal and debt collection services.

2.2 Highlights of the financial information of the Target Group

Set out below is a summary of the key financial information of the Target Group as extracted from the accountant's report on the Target Group set out in Appendix II to the Circular:

	For the year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)
Revenue			
– Debt collection services	6,967	11,500	19,049
– Credit investigation services	8,309	8,936	10,752
	15,276	**20,436**	**29,801**
Employee benefit expenses	12,349	13,444	14,903
(Loss)/Profit for the year	**(3,881)**	**(1,015)**	**5,540**

For the three years ended 31 December 2018, 2019 and 2020, the Target Group generated revenue mainly from the provision of debt collection services and credit investigation service in Hong Kong, the PRC and Singapore. Out of the total revenue of approximately HK$15.3 million, HK$20.4 million and HK$29.8 million for the years ended 31 December 2018, 2019 and 2020, approximately 71.5%, 81.9% and 89.0% was attributable to revenue from customers located in the PRC, respectively.

Comparison of financial performance between the year ended 31 December 2019 and 2020

As disclosed in the section headed "Management Discussion and Analysis of the Target Group" as set out in Appendix III to the Circular, the Target Group's revenue increased from approximately HK$20.4 million for the year ended 31 December 2019 to approximately HK$29.8 million for the year ended 31 December 2020, which was mainly due to the increase in revenue generated from debt collection services during the year. As inquired with the management of the Company, the increase was primarily due to the increase in number of customers and the total amount of debts successfully collected on behalf of the customers by the Target Group during the year.

As disclosed in the section headed "Management Discussion and Analysis of the Target Group" as set out in Appendix III to the Circular and inquired with the management of the Company, the Target Group's employee benefit expenses mainly comprised pension scheme contributions, salaries allowances, commissions and other benefits payable to employees. The amount increased from approximately HK$13.4 million for the year ended 31 December 2019 to approximately HK$14.9 million for the year ended 31 December 2020. As inquired with the management of the Company, the increase was mainly due to the increase in commissions to employees, which was in line with the increase in revenue during the year.

The Target Group recorded profit for the year of approximately HK$5.5 million for the year ended 31 December 2020 as compared to loss for the year of approximately HK$1.0 million for the year ended 31 December 2019, which was mainly attributable to the increase in revenue for the year.

Comparison of financial performance between the year ended 31 December 2018 and 2019

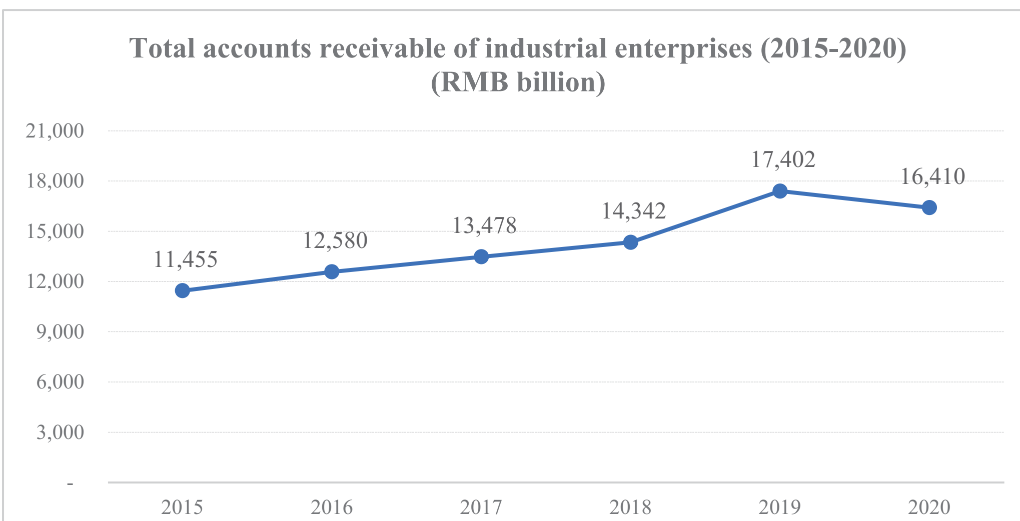
The Target Group's revenue increased from approximately HK$15.3 million for the year ended 31 December 2018 to approximately HK$20.4 million for the year ended 31 December 2019, which was mainly due to the increase in revenue generated from debt collection services during the year. As inquired with the management of the Company, the increase was primarily due to the increase in number of customers and the total amount of debts successfully collected on behalf of the customers by the Target Group during the year.

The Target Group's employee benefit expenses increased from approximately HK$12.3 million for the year ended 31 December 2018 to approximately HK$13.4 million for the year ended 31 December 2019. As inquired with the management of the Company, the increase was mainly due to the increase in commissions to employees, which was in line with the increase in revenue during the year.

The Target Group's loss for the year decreased from approximately HK$3.9 million for the year ended 31 December 2018 to approximately HK$1.0 million for the year ended 31 December 2019, primarily due to the increase in revenue for the year.

2.3 Business outlook

According to the statistics from the National Bureau of Statistic of China, the total accounts receivable of industrial enterprises in the PRC increased from approximately RMB11,455 billion in 2015 to approximately RMB16,410 billion in 2020, respectively, representing a compound annual growth rate ("**CAGR**") of approximately 7.5%.



Source: National Bureau of Statistic of China (http://www.stats.gov.cn/english/)

According to the Monthly Statistical Bulletin (April 2021 – Issue No. 320) released by Hong Kong Monetary Authority (https://www.hkma.gov.hk/eng/) in April 2021, the total amount of domestic loans in Hong Kong increased from approximately HK$22,038 billion as of 31 December 2015 to approximately HK$29,607 billion as of 31 December 2020, respectively, representing a CAGR of approximately 6.1%. Hence, it is observed that there is a scalable demand for management of receivables as well as debt recovery services with respect to overdue receivables in both PRC and Hong Kong.

With reference to "The Chinese NPL market in 2020" (https://www.pwccn.com/en/deals/publications/the-chinese-npl-market-in-2020.pdf) issued by PricewaterhouseCoopers in 2020, the collection of non-performing loans in the PRC via litigation and enforcement process took a period between 12 and 30 months on average, the duration of which was beyond the investors' estimate. Moreover, according to a news release from SCMP (https://www.scmp.com/) in August 2020, debt collection agencies in the PRC have been hiring additional staff to meet the scalable demand for debt collection services as resulted from the increasing amount of non-performing loans amidst the challenging economic conditions.

2.4 Information of the Vendors

According to the Letter from the Board, as at the Latest Practicable Date, Vendor B is an individual investor while Vendor A is a company incorporated in the British Virgin Islands with limited liability principally engaged in investment holding, and each of Vendor C and Vendor D is an investment holding company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, Vendor A is ultimately owned as to 50% by Mr. Pan, 35% by Mr. Li and 15% by Vendor B, respectively; Vendor C is beneficially and wholly owned by Mr. Lam; and Vendor D is ultimately owned as to 70% by Mr. Wang and 30% by Mr. Lin, respectively.

3. Information of Silver Creation and Solomon Glory

According to the Letter from the Board, Silver Creation is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, Silver Creation is interested in 77,527,255 Shares, representing approximately 18.79% of the issued share capital of the Company and is a substantial Shareholder of the Company. Silver Creation is wholly-owned by Hony Capital Fund 2008, L.P. which is controlled by its sole general partner, Hony Capital Fund 2008 GP, L.P., which in turn is controlled by its sole general partner, Hony Capital Fund 2008 GP Limited, a company wholly-owned by Hony Group Management Limited, which is owned as to approximately 80% by Hony Managing Partners Limited which is in turn wholly-owned by Exponential Fortune Group Limited, a company owned as to approximately 49% by Mr. Zhao John Huan.

According to the Letter from the Board, Solomon Glory is an investment holding company incorporated in the British Virgin Islands with limited liability. Solomon Glory is a wholly owned subsidiary of Goldbond, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 172).

4. Principal terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements)

Details of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) are set out in the Letter from the Board. The principal terms and conditions of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) are as follows:

4.1 Date

26 June 2020 (as supplemented on 29 March 2021 and 29 June 2021) (after the trading hours)

4.2 Parties

(i) The Company, as the Purchaser;

(ii) Alpha Focus International Limited, as one of the Vendors;

(iii) Mr. Rozario Bobby Roberto, as one of the Vendors;

(iv) Ever Art Investment Limited, as one of the Vendors;

(v) Forever Management Limited, as one of the Vendors;

(vi) Mr. Pan, as guarantor to the Vendors and covenantor;

(vii) Mr. Li, as covenantor;

(viii) Silver Creation; and

(ix) Solomon Glory

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, each of the Vendors, Mr. Pan, Mr. Li and their respective ultimate beneficial owners/associates are Independent Third Parties. Silver Creation is a substantial Shareholder and Solomon Glory is a wholly owned subsidiary of Goldbond, which is a controlling Shareholder. Each of Silver Creation and Solomon Glory is a connected person of the Company.

4.3 Subject matter

Pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell, in aggregate, the Sale Shares, representing 51% of the equity interests in the Target Company. As at the Latest Practicable Date, the total number of issued shares of the Target Company was 800,000, which was owned as to 35%, 33%, 23% and 9% by Vendor A, Vendor B, Vendor C and Vendor D, respectively. Pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), Vendor A, Vendor B, Vendor C and Vendor D have conditionally agreed to sell 280,000 shares, 20,800 shares, 35,200 shares and 72,000 shares, respectively, of the Target Company, representing approximately 35%, 2.6%, 4.4% and 9% of the equity interest in the Target Company, respectively.

4.4 Consideration and Transfer Shares

According to the Letter from the Board, the Consideration for the Sale Shares is HK$32,640,000.

Pursuant to the Supplemental Agreements, the Consideration shall be settled by way of transfer of existing Shares. The maximum number of existing Shares payable as Consideration will be 70,415,288 Shares, subject to fulfilment of the guaranteed profits.

The Consideration of HK$32,640,000 (subject to adjustments as referred to in the below section headed "4.7 Adjustment to Consideration subject to the profit guarantee") shall be settled in the following order by (1) the transfer or procurement of transfer of existing Shares held by Shareholders namely (i) Silver Creation in the amount of 31,911,908 Shares; (ii) Solomon Glory in the amount of 38,503,380 Shares; and (2) cash in the amount of HK$3,831,256 to the Vendors at the Agreed Proportion by tranches, further details of which are set out in the below section headed "4.5 Transfer of Transfer Shares by tranches".

31,911,908 Shares will be directly transferred by Silver Creation to the Vendors to settle part of the Consideration. However, as the 38,503,380 Shares to be transferred to the Vendors were held by Yong Hua International Limited and charged to Solomon Glory (details of which are set out in the announcement of the Company dated 4 July 2019), such Shares would be procured by Solomon Glory to be transferred to the Vendors to settle part of the Consideration. The remaining amount of Consideration will be settled by Cash Consideration in the amount of HK$3,831,256 to be paid by the Purchaser.

4.5 Transfer of Transfer Shares by tranches

According to the Letter from the Board, pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), the settlement of the Consideration to the Vendors shall be as follows:

(i) as to HK$13,056,000, representing 40% of the Consideration, which shall be satisfied by the First Tranche Transfer Shares to be transferred by Silver Creation to the Vendors at the Agreed Proportion for settlement on the Completion Date;

(ii) subject to adjustments in accordance with clause (a) in the below section headed "4.7 Adjustment to Consideration subject to the profit guarantee", as to HK$6,528,000, representing 20% of the Consideration, which shall be satisfied by the Second Tranche Transfer Shares to be transferred under procurement by Solomon Glory to the Vendors at the Agreed Proportion for settlement on the 2nd Transfer Date;

(iii) subject to adjustments in accordance with clause (b) in the below section headed "4.7 Adjustment to Consideration subject to the profit guarantee", as to HK$6,528,000, representing 20% of the Consideration, which shall be satisfied by the Third Tranche Transfer Shares to be transferred under procurement by Solomon Glory to the Vendors at the Agreed Proportion for settlement on the 3rd Transfer Date;

(iv) subject to adjustments in accordance with clause (c) in the below section headed "4.7 Adjustment to Consideration subject to the profit guarantee", as to HK$6,528,000, representing 20% of the Consideration, which shall first be satisfied by the Fourth Tranche Transfer Shares to be transferred under procurement by Solomon Glory and then satisfied by Cash Consideration by the Company, to the Vendors at the Agreed Proportion for settlement on the 4th Transfer Date; and

(v) if the relevant partial Consideration settled or to be settled on the 2rd Transfer Date, the 3rd Transfer Date and/or the 4th Transfer Date (as the case may be) have been adjusted in accordance with clause (a), (b) and/or (c) in the below section headed "4.7 Adjustment to Consideration subject to the profit guarantee", addition Consideration (if any) shall (1) be settled by the Fifth Tranche Transfer Shares by way of transfer under procurement by Solomon Glory; and/or (2) be satisfied by Cash Consideration by the Company to the Vendors at the Agreed Proportion on the 4th Transfer Date in accordance with clause (d) in the below section headed "4.7 Adjustment to Consideration subject to the profit guarantee".

For the avoidance of doubt, the First Tranche Transfer Shares shall be transferred directly by Silver Creation to the Vendors at Completion. The Second Tranche Transfer Shares, the Third Tranche Transfer Shares, the Fourth Tranche Transfer Shares and the Fifth Tranche Transfer Shares (if any) shall first be transferred under procurement by Solomon Glory, and shall then be settled by the Cash Consideration by the Company to the Vendors.

In the event that part of the Consideration is adjusted according to clause (a), (b), (c) and (d) in the below section headed "Adjustment to Consideration subject to the profit guarantee", the number of Shares and cash that each Vendor will receive will be proportionately reduced.

4.6 The Promissory Notes

According to the Letter from the Board, in return for the transfer or procurement of transfer of the Transfer Shares by Silver Creation and Solomon Glory as partial settlement of the Consideration to the Vendors, the Purchaser shall issue the Promissory Notes by tranches in the aggregate principal amount equivalent to (i) number of respective Transfer Shares multiplied by (ii) 120% of the 20-day average closing price (as stated in the daily quotation sheet of the Stock Exchange) of the Shares immediately before the date of the First Supplemental Agreement, being HK$0.198, considering the prevailing market price of the Shares and the incentivising effect to the relevant Shareholders in return for transferring their Shares as payment for the Consideration on behalf of the Purchaser, to Silver Creation and Solomon Glory following each transfer. Based on the amount of 31,911,908 Transfer Shares and 38,503,380 Transfer Shares to be transferred by Silver Creation and to be transferred under procurement by Solomon Glory, the respective principal amounts of the Promissory Notes to be issued by the Purchaser will be approximately HK$6.32 million to Silver Creation and approximately HK$7.62 million to Solomon Glory.

The principal terms of the Promissory Notes to be issued by the Purchaser to Silver Creation and Solomon Glory, respectively, are summarised below:

Issuer:	The Purchaser	The Purchaser
Payee:	Silver Creation	Solomon Glory
Principal amount:	HK$6,318,558, calculated based on the amount of 31,911,908 Transfer Shares multiplied by 120% of the 20-day average closing price (as stated in the daily quotation sheet of the Stock Exchange) of the Shares immediately before the date of the First Supplemental Agreement, being HK$0.198.	HK$7,623,669 in aggregate, calculated based on the amount of 38,503,380 Transfer Shares multiplied by 120% of the 20-day average closing price (as stated in the daily quotation sheet of the Stock Exchange) of the Shares immediately before the date of the First Supplemental Agreement, being HK$0.198.

Interest:	Interest shall not accrue on the Promissory Notes.	
Maturity:	31 December 2021	13 months from the respective dates of issue of the Promissory Note
Early repayment:	The Purchaser may early repay the Promissory Note in whole or in part at any time and from time to time without premium or penalty with prior notice to Silver Creation.	The Purchaser may early repay the Promissory Note in whole or in part at any time and from time to time without premium or penalty.
Right of first refusal:	The Promissory Note (whether in whole or in part) is freely transferable or assignable, provided that Goldbond and its subsidiaries shall have rights of first refusal in acquiring the Promissory Note in the event that Silver Creation intends to transfer the Promissory Note to any third party, except where the transferee is a holding company (as defined in the Listing Rules) or a subsidiary (as defined in the Listing Rules) of Silver Creation or a subsidiary of the holding company of Silver Creation.	Not applicable

4.7 *Adjustment to Consideration subject to the profit guarantee*

(a) In the event that the sum of (i) the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the year ending 31 December 2021, as audited by the Auditor; and (ii) the interest expense arising from the Shareholders' Loan during the year ending 31 December 2021, shall be:

(i) HK$6,000,000 or more, the partial Consideration as to HK$6,528,000 shall be settled at the Agreed Proportion on the 2nd Transfer Date; or

(ii) less than HK$6,000,000, the partial Consideration to be settled on the 2nd Transfer Date shall be adjusted and calculated as follows,

$$E = F \times \frac{G}{H}$$

where:

"E" means the final partial Consideration to be settled on the 2nd Transfer Date (rounded down to the nearest whole number). In the event that E equals to or is less than zero, the relevant partial Consideration shall be deemed as zero;

"F" means HK$6,528,000;

"G" means the sum of (i) the actual amount of the audited consolidated net profits after tax of the Target Company for the year ending 31 December 2021 as shown in its audited consolidated financial statements; and (ii) the interest expense arising from the Shareholders' Loan during the year ending 31 December 2021; and

"H" means HK$6,000,000.

(b) In the event that the sum of (i) the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the year ending 31 December 2022, as audited by the Auditor; and (ii) the interest expense arising from the Shareholders' Loan during the year ending 31 December 2022, shall be:

(i) HK$8,250,000 or more, the partial Consideration as to HK$6,528,000 shall be settled on the 3rd Transfer Date; or

(ii) less than HK$8,250,000, the partial Consideration to be settled on the 3rd Transfer Date shall be adjusted and calculated as follows,

$$J = K \times \frac{L}{M}$$

where:

"J" means the final partial Consideration to be settled on the 3rd Transfer Date (rounded down to the nearest whole number). In the event that J equals to or is less than zero, the relevant partial Consideration shall be deemed as zero;

"K" means HK$6,528,000;

"L" means the sum of (i) the actual amount of the audited consolidated net profits after tax of the Target Company for the year ending 31 December 2022 as shown in its audited consolidated financial statements; and (ii) the interest expense arising from the Shareholders' Loan during the year ending 31 December 2022; and

"M" means HK$8,250,000.

(c) In the event that the sum of (i) the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the year ending 31 December 2023, as audited by the Auditor; and (ii) the interest expense arising from the Shareholders' Loan during the year ending 31 December 2023, shall be:

(i) HK$12,250,000 or more, the partial Consideration as to HK$6,528,000 shall be settled at the Agreed Proportion on the 4th Transfer Date; or

(ii) less than HK$12,250,000, the partial Consideration to be settled on the 4th Transfer Date shall be adjusted and calculated as follows,

$$P = Q \times \frac{R}{S}$$

where:

"P" means the final partial Consideration to be settled on the 4th Transfer Date (rounded down to the nearest whole number). Where P is less than or equal to HK$2,696,744, in respect of such part of the Consideration, part or all of the Fourth Tranche Transfer Shares will be transferred to the Vendors; where P is more than HK$2,696,744, the excess will be settled in cash in the maximum amount of HK$3,831,256. In the event that P equals to or is less than zero, the relevant partial Consideration shall be deemed as zero;

"Q" means HK$6,528,000;

"R" means the sum of (i) the actual amount of the audited consolidated net profits after tax of the Target Company for the year ending 31 December 2023 as shown in its audited consolidated financial statements; and (ii) the interest expense arising from the Shareholders' Loan during the year ending 31 December 2023; and

"S" means HK$12,250,000.

(d) In the event that the respective partial Consideration settled or to be settled on the 2nd Transfer Date, the 3rd Transfer Date and/or the 4th Transfer Date (as the case may be) have been adjusted in accordance with clause (a), clause (b) and/or clause (c) above (as the case may be), based on the aggregate actual audited consolidated net profits after tax achieved by the Target Company for the period from 1 January 2021 to 31 December 2023, additional Consideration shall be settled on the 4th Transfer Date which shall be calculated as follows,

$$N = \left(\frac{T}{U}\right) \times (F + K + Q) - (E + J + P)$$

where:

"N" means the additional Consideration that will be settled on the 4th Transfer Date (rounded down to the nearest whole number). Where N is less than or equal to HK$15,752,744, part or all of the Second Tranche Transfer Shares, the Third Tranche Transfer Shares and/or the Fourth Tranche Transfer Shares ("**Fifth Tranche Transfer Shares**") will be transferred to the Vendors; where N is more than HK$15,752,744, the excess will be settled in cash in the maximum amount of HK$3,831,256. In the event that N equals to or is less than zero, there shall be no additional Consideration;

"T" means the sum of (i) the actual amount of the audited consolidated net profits after tax of the Target Company for the period from 1 January 2021 to 31 December 2023 as shown in its audited consolidated financial statements; and (ii) the interest expense arising from the Shareholders' Loan during the period from 1 January 2021 to 31 December 2023; and

"U" means HK$26,500,000, provided that:

(i) the maximum Consideration subject to fulfilment of the guaranteed profits shall be capped at HK$19,584,000; and

(ii) $\left(\frac{T}{U}\right) \times (F + K + Q)$

shall be equal to or less than HK$19,584,000. In the event that it is larger than HK$19,584,000, it will be deemed to be HK$19,584,000 for the purpose of the above formula in calculating the additional Consideration to be settled on the 4th Transfer Date. Regarding clauses (a), (b), (c) and (d) of this section, the Purchaser and the Vendors shall jointly procure, within 70 Business Days after 31 December 2021, 31 December 2022 and 31 December 2023 respectively, the consolidated financial statements of the Target Company (including the consolidated balance sheets and consolidated profit and loss statements of the Target Company) in the relevant reporting period as stated in clause (a), clause (b) or clause (c) (as the case may be) to be drawn up in accordance with the Hong Kong Financial Reporting Standards and audited by the Auditor for delivery to the Purchaser. Solomon Glory shall procure the transfer of the Second Tranche Transfer Shares, the Third Tranche Transfer Shares, the Fourth Tranche Transfer Shares and the Fifth Tranche Transfer Shares (subject to adjustments in accordance with clause (a), clause (b), clause (c) and clause (d)) and the Company shall pay the Cash Consideration in accordance with clause (iv) in the above section headed "4.5 Transfer of Transfer Shares by tranches", subject to the audited consolidated financial statements (including the consolidated balance sheets and consolidated profit and loss statements of the Target Company) having been delivered to the Purchaser.

In the event that the Transfer Shares (or any part thereof) to be transferred to the Vendors (or any of them) involves fractions, the number of the Transfer Shares to be transferred to such Vendor(s) will be rounded down to the nearest whole number.

4.8 Conditions precedent

According to the Letter form the Board, Completion shall be subject to and conditional upon fulfillment (or waiver, where applicable) of the following conditions on or before the Long Stop Date:

(i) the Vendors' title to the Sale Shares being in order and free from all encumbrances;

(ii) all the warranties remaining true and accurate and not misleading as at Completion and no events having occurred that would result in any breach of any of the warranties or provisions of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) by Mr. Pan and/or by the Vendors (or any of them);

(iii) the Vendors having assisted the Purchaser to undertake a legal, financial and business due diligence investigation in respect of the Target Group, and the results of such due diligence investigation being reasonably satisfactory to the Purchaser;

(iv) the tax issue(s) (if any) between ALLF and the Target Company having been settled and the results of which being reasonably satisfactory to the Purchaser;

(v) the legal opinion having been duly issued by legal advisor as to the laws of the PRC and addressed to the Purchaser (in the form satisfactory to the Purchaser) in respect of the due execution, validity, binding effect and enforceability of the ALLF Agreements;

(vi) the Vendors, the Purchaser, Goldbond, Silver Creation and Solomon Glory having executed and delivered the Lock-up Agreement on the Completion Date;

(vii) all necessary consents, confirmations, permits, approvals, licenses and authorisations from all relevant governmental, regulatory and other authorities, agencies and departments in Hong Kong, the PRC, Singapore or elsewhere or otherwise required from any third parties in connection with the transactions contemplated under the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) having been obtained;

(viii) the Independent Shareholders having approved the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder at the EGM;

(ix) the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the year ended 31 December 2020, as audited by the Auditor, being not less than HK$5,000,000, or the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the period from 1 July 2020 to 31 December 2020, as audited by the Auditor, being not less than HK$2,500,000; and

(x) there being no material litigation or winding-up petition with respect to all members of the Target Group as at Completion.

The above conditions precedent may be waived by the Purchaser, save for conditions (vii) and (viii) which cannot be waived by any parties. The parties shall use their best endeavours to satisfy the conditions precedent as soon as practicable and in any event on or before the Long Stop Date. As at the Latest Practicable Date, condition (ix) had been fulfilled.

4.9 Completion

Completion shall take place on the Completion Date after all the conditions precedent to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) have been fulfilled (or waived, where applicable).

4.10 The Lock-up Agreement

According to the Letter from the Board, in consideration of the revised payment terms by way of transfer of existing Shares held by Silver Creation and Solomon Glory on behalf of the Purchaser pursuant to the Supplemental Agreements, the entering into the Lock-up Agreement was included as one of the conditions precedent to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) to restrict the disposal of Transfer Shares held by the Vendors during certain restricted periods, save as disclosed below. Given that only minority portion of the Consideration will be settled on Completion with majority portion to be settled by stages on 2nd Transfer Date, 3rd Transfer Date and 4th Transfer Date respectively subject to the profit guarantee during the three years ending 31 December 2023, which serves a relatively long term commitment of the Vendors as to the business performance of the Target Group, the parties to the Lock-up Agreement further negotiated that the Transfer Shares could only be disposed of during the respective restricted periods under the following circumstances.

With respect to the First Tranche Transfer Shares

The restricted period with respect to disposal of the First Tranche Transfer Shares shall be 18 months immediately following the date of transfer from Silver Creation. In respect of the First Tranche Transfer Shares only, after 6 months following the date of transfer of the First Tranche Transfer Shares, the Vendors (or any of them) could, by notice in writing sent to the Purchaser, notify the Purchaser of their intention to dispose of all or part of the First Tranche Transfer Shares in the open market through the Stock Exchange during the aforesaid 18-month restricted period but the Vendor shall sell the First Tranche Transfer Shares to independent third party(ies) in the open market through the Stock Exchange at the prevailing market price. In the event that the relevant First Trache Transfer Shares were disposed of in the open market through the Stock Exchange at a price of less than HK$0.4 per Share, the shortfall amount (being the difference between HK$0.4 and the average trading price of the relevant First Tranche Transfer Shares being sold in the open market) shall be compensated by the Purchaser to the relevant Vendor(s) in cash. Such shortfall amount shall be paid by the Purchaser on the 10th business day after the completion of the sales of the relevant First Tranche Transfer Shares by the relevant Vendor(s). For the avoidance of doubt, such arrangement in relation to the shortfall amount shall only be applicable to the relevant Vendor disposing the relevant First Tranche Transfer Shares through the Stock Exchange in the open market at a price of less than HK$0.4 per Share during the 7th month to 18th month of the restricted period. In the event that the relevant First Tranche Transfer Shares were disposed of in the open market through the Stock Exchange at a price of HK$0.4 or above, no compensation shall be made by the Purchaser to the Vendor(s).

In assessing the fairness and reasonableness of the cash compensation arrangement, we considered that (i) the cash compensation would be made only if the purchase price of the First Tranche Transfer Shares falls below HK$0.4 per Share, which represents an implied price calculated by dividing the Consideration of HK$32,640,000 by the number of existing Shares of 79,779,772 required for the same shareholding of 19.34%; (ii) the implied price of the First Tranche Transfer Shares of HK$0.4, is higher than the market price as at the date of the Sale and Purchase Agreement of 26 June 2020 (i.e. HK$0.36) as the entering into of the Supplemental Agreements would result in a decrease in number of Shares to be received by the Vendors from 98,909,989 Shares to 79,779,772 Shares, assuming the Consideration will be settled by way of transfer of existing Shares; (iii) the actual commitment of the Purchaser under the current settlement terms of HK$30,538,246, being the sum of (a) the aggregate principal amount of the Promissory Notes of HK$13,942,227, (b) the cash amount of HK$3,831,256 and (c) the maximum shortfall amount to be compensated by the Purchaser to the Vendors in respect of the First Tranche Transfer Shares under the Lock-up Agreement of HK$12,764,763, is less than the Consideration of HK$32,640,000; (iv) there was a declining trend in the share price since the date of the entering into of the Sale and Purchase Agreement in June 2020; (v) there were 171 days out of the total number of trading days of 246 days from 30 March 2019 to 29 March 2020 on which the Shares recorded closing prices of HK$0.4 per Share or above, therefore we concur with the management of the Company that it is not unrealistic for the Shares to be traded at or above HK$0.4 at the time when the Shares are disposed of after 6 months following the date of transfer of the First Tranche Transfer Shares, taking into account the potential growth of the Enlarged Group's business and financial performance; and (vi) there is no term requiring the Company to purchase the Transfer Shares in respect of the Second Tranche Transfer Shares, Third Tranche Transfer Shares, Fourth Tranche Transfer Shares and Fifth Tranche Transfer Shares, nor any term imposing any obligation to make cash compensation which is similar to the arrangement for the First Tranche Transfer Share, we concur with the Directors' view that it is justifiable to provide the compensatory arrangement in favour of the Vendors and the cash compensation arrangement is fair and reasonable.

With respect to the remaining Transfer Shares

The restricted period with respect to disposal of the Second Tranche Transfer Shares, Third Tranche Transfer Shares, Fourth Tranche Transfer Shares and Fifth Tranche Transfer Shares shall be 12 months immediately following the respective dates of transfer from Solomon Glory (except that the Vendors (or any of them) could dispose of or transfer the Transfer Shares to Goldbond or its subsidiaries only within the period from the seventh month following the respective dates of transfer from the Solomon Glory to the expiry of the aforesaid corresponding 12-month restricted period); and if the disposal of Transfer Shares proceeds within the 12-month period upon expiry of the corresponding restricted period, the relevant Vendor should provide the first right of refusal to Solomon Glory and Goldbond for acquiring the Transfer Shares, in the maximum number equivalent to the aggregate number of existing Shares procured to transfer by Solomon Glory to the Vendors at the time of such proposed disposal.

In the event that the Vendors (or any one of them)(as the case may be) sells or transfers the Transfer Shares within the 12-month period after the expiry of the relevant restricted period, the Vendors (or any one of them)(as the case may be) should issue written notice ("**Transfer Notice**") to Goldbond and Solomon Glory offering to sell the relevant Transfer Shares at the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the 20 business days immediately preceding the date of the Transfer Notice ("**Fair Market Price**"). The Transfer Notice shall contain the offer price ("**Transfer Price**"), which shall be the Fair Market Price, and the identity of the third party purchaser. Within 10 business days of the date of the Transfer Notice, Goldbond and Solomon Glory have the right to issue written notice to Vendors (or any one of them) (as the case may be) accepting the offer in relation to the sale of the relevant Transfer Shares. In the event that Goldbond and Solomon Glory do not accept the offer, within 45 days upon expiry of the aforesaid 10 business days, the Vendors (or any one of them)(as the case may be) may sell the Transfer Shares to the third party purchaser at the Transfer Price (which could be adjusted, only to the extent of deducting the amount of dividend paid or equivalent amount distributed by the Company prior to the completion of sale of the Transfer Shares to the third party purchaser).

There is no term requiring the Company to purchase the Transfer Shares in respect of the Second Tranche Transfer Shares, Third Tranche Transfer Shares, Fourth Tranche Transfer Shares and Fifth Tranche Transfer Shares, nor any term imposing any obligation on the Company to make cash compensation which is similar to the arrangement for the First Tranche Transfer Shares, under the Lock-up Agreement. As part of the effort to engage Solomon Glory (being a wholly owned subsidiary of Goldbond) for the settlement of the Consideration by way of existing Shares on behalf of the Company and in order to facilitate the arrangement regarding the transfer of existing Shares by Solomon Glory, the Company has included Goldbond as a party eligible for purchasing the relevant Transfer Shares in the maximum amount equivalent to the aggregate number of existing Shares transferred by Solomon Glory. If such purchase materialises, Goldbond will make necessary announcement(s) as and when appropriate in compliance with Chapter 14 and/or 14A of the Listing Rules.

As part of our analysis, we have identified transactions (the "**Comparable Transactions**") based on the following selection criteria (the "**Criteria**"):

(i) acquisitions involving issue of shares as part of the consideration; and

(ii) were announced by the companies listed on the Stock Exchange from 1 October 2020 to 29 March 2021 (i.e. six months period prior to the date of the First Supplemental Agreement) which we considered as sufficient and appropriate for the analysis because (a) comparable transactions during such period are close to the date of the First Supplemental Agreement; and (b) there are sufficient comparable transactions in this period for our analysis.

Based on the said Criteria, we have identified 19 Comparable Transactions which we consider to be exhaustive. Independent Shareholders should be noted that the subject companies involved in the Comparable Transactions may have different nature of business operations, market capitalizations, financial performance and financial position as compared with those of the Company. However, as the Comparable Transactions fulfilling the Criteria can provide a general reference of the lock-up arrangement in the market, we consider the Comparable Transactions may be used as a reference to assess the fairness and reasonableness of the lock-up period pursuant to the Lock-up Agreement.

Date of initial announcement	Company (stock code)	Approximate duration of lock-up period *(Note 1)*
20-Oct-20	Golden Faith Group Holdings Limited (2863)	N/A
22-Oct-20	Vongroup Limited (318)	N/A
26-Oct-20	Hengten Networks Group Limited (136)	12 months
09-Nov-20	7Road Holdings Limited (797)	0 to 60 months *(Note 2)*
12-Nov-20	China Hanking Holdings Limited (3788)	12 to 36 months
13-Nov-20	Forgame Holdings Limited (484)	N/A
27-Nov-20	Elife Holdings Limited (223)	N/A
09-Dec-20	Suoxinda Holdings Limited (3680)	15 to 27 months
14-Dec-20	China Fordoo Holdings Limited (2399)	N/A
14-Dec-20	Union Medical Healthcare Limited (2138)	6 months *(Note 3)*
24-Dec-20	Yeahka Limited (9923)	35 to 59 months
27-Dec-20	Maxnerva Technology Services Limited (1037)	N/A
28-Dec-20	CA Cultural Technology Group Limited (1566)	N/A
13-Jan-21	Jiayuan International Group Limited (2768)	N/A
18-Jan-21	State Energy Group International Assets Holdings Limited (918)	22 months
10-Feb-21	C-MER Eye Care Holdings Limited (3309)	1 month
11-Feb-21	Pan Asia Data Holdings Inc. (1561)	N/A
09-Mar-21	Vestate Group Holdings Limited (1386)	N/A
24-Mar-21	Xiaomi Corporation (1810)	N/A
	Minimum:	1 month
	Maximum:	60 months
	The Company *(Note 5)*	Not less than 6 months

Source: the website of the Stock Exchange and relevant announcements and/or circular posted on the website of the Stock Exchange (https://www.hkexnews.hk)

Notes:

1. N/A represents that information in relation to lock-up arrangement is not available in the respective announcement and/or circular.

2. According to the announcement of 7Road Holdings Limited dated 9 November 2020, the consideration shares shall be released to vendors in three batches upon fulfilling different guaranteed profit levels during the guaranteed period.

3. According to the announcement of Union Medical Healthcare Limited dated 14 December 2020, upon the expiry of the lock-up period, if the volume weighted average price of the shares for the twenty (20) trading days immediately before the date of expiry of the lock-up period ("**End of Lock-up Issue Price**") is lower than the issue price, the purchaser shall reimburse the seller a cash amount equivalent to (A) the remaining number of Consideration Shares in a designated account, being multiplied by (B) the difference of End of Lock-up Issue Price and the issue price, which shall in any event be no greater than HK$108,000,000 within five (5) Business Days upon the expiry of the lock-up period.

4. To the best of our knowledge and as far as we are aware, save as disclosed above, no other material conditions to the lock-up arrangement of the Comparable Transactions are materially different from the Company's lock-up arrangement.

5. According to the Letter from the Board, in respect of the First Tranche Transfer Shares, after 6 months following the date of transfer of the First Tranche Transfer Shares, the Vendors (or any of them) could, by notice in writing sent to the Purchaser, notify the Purchaser of their intention to dispose of all or part of the First Tranche Transfer Shares in the open market through the Stock Exchange during the 18-month restricted period.

   In respect of the Second Tranche Transfer Shares, Third Tranche Transfer Shares, Fourth Tranche Transfer Shares and Fifth Tranche Transfer Shares, the Vendors (or any of them) could dispose of or transfer the Transfer Shares to Goldbond or its subsidiaries within the period from the seventh month following the respective dates of transfer from Solomon Glory to the expiry of the corresponding 12-month restricted period.

As shown in the above table, only eight out of the 19 Comparable Transactions are subject to lock-up arrangement while the lock-up period of such ranged from approximately one month to approximately 60 months. Considering that (i) only six out of the 19 Comparable Transactions are subject to a lock-up period of more than 6 months; and (ii) the lock-up period of not less than 6 months under the Lock-up Agreement falls within the range of those of the Comparable Transactions, we are of the view that the lock-up period under the Lock-up Agreement is no less favourable than those of the Comparable Transactions and is fair and reasonable so far as the Company and Independent Shareholders are concerned.

We consider that (i) the lock-up arrangement indicates the confidence of the Vendors in the Group's future growth and prospects after the Acquisition; (ii) the lock-up arrangement ensures Vendors to commit to a longer-term view when holding the Transfer Shares given that only minority portion of the Consideration will be settled on Completion with majority portion to be settled by stages on 2nd Transfer Date, 3rd Transfer Date and 4th Transfer Date respectively subject to the profit guarantee during the three years ending 31 December 2023; (iii) the lock-up arrangement would prevent the Transfer Shares being sold in the market in short term which may exert pressure on the price of the Shares; (iv) as discussed above, the lock-up period of not less than 6 months under the Lock-up Agreement is in line with the market practice. Therefore, we concur with the Directors that the Lock-up Agreement is fair and reasonable and in the interests of the Company and the existing Shareholders as a whole.

5. Reasons for and benefits of entering into the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements)

According to the Letter from the Board, the Target Group is principally engaged in the debt collection business based in the PRC which, together with the Group's existing financial leasing operation, are business branches under the same roof (i.e. financial service industry). The debt recovery service via dispute mediation, as provided by the Target Group, could play a key role as an alternative for the investors in the debt collection market. On the other hand, as overdue/ defaulted payment forms part of the inherent risk of the financial leasing business currently engaged by the Group, the acquisition of the Target Group which specialises in debt recovery actions is expected to augment the Group's business. In view of (i) the potential demand for debt collection service in particular with respect to commercial accounts receivable; (ii) the established reputation of "Alpha & Leader" and geographical coverage of the Target Group in the PRC, Hong Kong and Singapore, as well as its customer base built by the management team comprising specialists with extensive experience accumulated over the past years; and (iii) the improving performance of the Target Group, the Company believes that the Acquisition would diversify the income sources of the Group and improve its cash flow as seen from the improving cash level of the Target Group in the past years, thereby enhancing the Shareholder's value as a whole.

(i) The growing demand for debt collection service in particular with respect to commercial accounts receivable

According to the statistics from the National Bureau of Statistic of China and China Banking and Insurance Regulatory Commission, (http://www.stats.gov.cn/english/), we noted that the total accounts receivable of industrial enterprises in the PRC increased from approximately RMB11,455 billion in 2015 to approximately RMB16,410 billion in 2020, respectively, representing a CAGR of approximately 7.5%, and that the balance of non-performing loans of commercial banks amounted to approximately RMB2,700 billion as of 31 December 2020, with a non-performing loan ratio of commercial banks of approximately 1.8%. Furthermore, according to the General Situation of the Operation of Payment System in 2020*（2020年支付體系運行總體情況）, a report published by the People's Bank of China (http://www.pbc.gov.cn/), as of 31 December 2020, the total amount of bank card credit was approximately RMB18,960 billion, representing a year-on-year increase of approximately 9.18%; and the total outstanding credit of credit cards overdue for more than half year was approximately RMB1.1 billion, amounted to approximately 1.06% of the total credit card balance.

We have also reviewed the Monthly Statistical Bulletin (April 2021 – Issue No. 320) issued by the Hong Kong Monetary Authority (https://www.hkma.gov.hk/eng/) in April 2021, and noted that the total amount of domestic loans in Hong Kong reached from approximately HK$22,038 billion as of 31 December 2015 to approximately HK$29,607 billion as of 31 December 2020, representing a CAGR of approximately 6.08% from 2015 to 2020.

In light of the above, we concur with the management of the Company that there is a growing demand for management of receivables as well as debt recovery services with respect to overdue receivables in both the PRC and Hong Kong, and the Acquisition will enable the Group to tap into the debt and account receivable management and collection service market thereby enabling the Group to remain competitive in the market.

* *For identification purpose only*

(ii) Enhance the revenue and profitability of the Group

As disclosed in the Letter from the Board, upon Completion, the Target Company will become a direct 51%-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated with those of the Group. For the year ended 31 December 2020, the Target Group recorded revenue and net profit of approximately HK$29.8 million and HK$5.5 million, respectively. As advised by the management of the Company, while the Group is principally engaged in financial leasing in Wuhan and Hubei Province of the PRC and the Target Group is engaged in debt and accounts receivable management and collection services business across different cities in the PRC, to augment the Group's principal business in financial leasing, upon Completion, the Company intends to actively engage in the debt and accounts receivable management and collection services segment with one-stop solution focusing on resolving clients' receivables and non-performing loan issues through the provision of legal and debt collection services by fully utilising the Target Group's well established business network and existing advantages on specialists with extensive experience on debt collection services to further enrich the Group's service offerings to not only Wuhan and Hubei Province of the PRC but across different cities in the PRC and enhance its market competitiveness, business scale and synergy effects, and in turn improve the Group's profitability.

Further, as advised by the management of the Company, due diligence and credit investigation is important to the financial leasing business of the Group as the sustainability of its financial leasing business and future growth depends largely on its ability to effectively manage the credit risk and to maintain the quality of its receivables portfolio. The Group had to manage the risks through comprehensive customer due diligence, independent information review and multi-level approval process, which the whole process had been conducted by its internal credit risk management team. Since the financial leasing business of the Group had been carried out in Hubei Province, the PRC and it has the plan to expand its financial leasing business to other cities across the PRC. Given that it is costly and time consuming to set up an experienced internal credit risk management team all over different cities in the PRC, the Group could only focus their financial leasing business in Hubei in the past years. As the Target Group is also engaged in the provision of due diligence and credit investigation services, we were advised by the management of the Company that the Group intends to utilise the expertise of the Target Group in due diligence and credit investigation service in its current financial leasing services, so to expand its service network from Hubei Province to different cities across the PRC, without having to set up its credit risk management team across the PRC. The Target Group would assist the Group in verifying the authenticity and validity of the financial leasing application and materials collected during the pre-approval process. Specifically, the Target Company could check the consistency of copies and originals, conduct on-site verification for the business address and operating conditions of the lessee, and collect credit information of the lessee and relevant guarantors (where applicable) from its internal database or through direct field investigation, lateral investigation and market research as well as interviews.

Furthermore, according to the Letter from the Board, the debt recovery service via dispute mediation as provided by the Target Group could play a key role as an alternative for the investors in the debt collection market. On the other hand, as overdue/defaulted payment forms part of the inherent risk of the financial leasing business currently engaged by the Group, the acquisition of the Target Group which specialises in debt recovery actions is expected to augment the Group's business.

Accordingly, we concur with the Directors' view that the Target Group is expected to contribute to the Group's revenue and profitability upon Completion.

(iii) Guaranteed profit as a compensation mechanism to safeguard the Company's interest

Apart from the opportunity for the Group to diversify its business, we understood from the management of the Company that part of the reasons they proceed with the Acquisition despite the unsatisfactory financial performance of the Target Group in previous years was because the Acquisition is supported by the guaranteed profit for the Guarantee Period given by the Vendors, which will provide a safeguard for the performance of the Target Group.

Taking into account that (i) there is the compensation mechanism to provide the Company with extra comfort in the event that the financial performance of the Target Group fail to meet the Company's expectation during the Guaranteed Period; (ii) the number of Transfer Shares to be transferred to the Vendors will be proportionally reduced if the audited consolidated net profit after tax of the Target Group for the respective Guaranteed Period does not meet the respective guaranteed profits; (iii) the Transfer Shares will be transferred by tranches to adequately mitigate counterparty risk; and (iv) there is no upward adjustment in the event that the audited consolidated net profit after tax of the Target Group exceeds the aggregated guaranteed profits during the Guaranteed Period; (v) the guaranteed profit given by the Vendors have indicated their level of confidence in the Target Group's future growth; and (vi) the guaranteed profit and the compensation mechanism together will provide safeguard to the Group from underperformance of the Target Group within the prescribed period without incurring any extra costs, we concur with the Directors' view that such mechanism will be a favourable arrangement for the Company as it serves as safeguard to the Group against the potential risk of unsatisfactory financial performance of the Target Group to a reasonable extent.

(iv) The growth prospect of the Target Group

In order to assess the feasibility of the growth prospect of the debt and accounts receivable management and collection services of the Target Group, we have, among others, reviewed the Letter of Undertaking and the Master Cooperation Agreement (the "**ALLF Agreements**"), and noted that the entering into of the ALLF Agreements would enable the Target Group to secure exclusive roles from certain clients of ALLF who needs debt collection services, in addition to the existing client base of the Target Group, which is expected to diversify the customer base and broaden the income stream of the Target Group. While the Target Group and ALLF have been providing services to clients corresponding to their respective business scope under the same "Alpha & Leader" brand, certain debt recovery services have been carried out by ALLF the nature of which is similar to that of Alpha (Guangzhou). In order to delineate the roles and responsibilities of Alpha (Guangzhou) and ALLF, and identify the revenue intake by each of Alpha (Guangzhou) and ALLF in carrying out their respective services following the Completion, the Master Cooperation Agreement shall be entered into by the parties to facilitate such business cooperation. The Master Cooperation Agreement provides procedures in place to identify, review and confirm the respective income amount entitled to by each of Alpha (Guangzhou) and ALLF on a monthly basis, which shall be conducted and settled within the prescribed period every month. In the event of disputes, documentary evidence or proofs in support of the calculations will be required to be presented to the counterparty for the parties to mutually agree on and confirm the service income or costs incurred in the previous month.

As discussed with the management of the Company, they have performed certain due diligence on the Target Group, including, among others, (i) engaged the PRC legal adviser to conduct legal due diligence; and (ii) reviewed the legal due diligence report on the Target Group prepared by the PRC legal adviser in respect of the due execution, validity, binding effect and enforceability of the ALLF Agreements. We also understand from the management of the Company that upon Completion, the Target Group plans to expand its business by recruiting more staff to enhance its one-stop debt collection service and/or setting up new regional offices in Taiwan and Kuala Lumpur. Coupled with the Target Group's continuous efforts to expand and diversify its client portfolio and the opportunities within the debt recovery service sector, as advised by the management of the Company, it is expected that the Target Group would broaden its revenue base in the coming years. In assessing the growth prospect of the Target Group, we noted the income from debt collection services and credit investigation services of the Target Group, based on the accountants' report on the Target Group as set out in Appendix II to the Circular, increased from approximately HK$15.3 million for the year ended 31 December 2018 to approximately HK$29.8 million for the year ended 31 December 2020, representing a CAGR of approximately 39.6%, which is close to the Guaranteed Profits CAGR. We have also discussed with the management of the Company on the potential industry growth for the debt collection services and noted that there is a growing demand for management of receivables as well as debt recovery services with respect to overdue receivables in both the PRC and Hong Kong. For details of our assessment on the growth prospect of the Target Group, please refer to section headed "7. Profit guarantee".

In light of the above, we concur with the management of the Company that the Acquisition is expected to diversify the customer base and broaden the income stream of the Target Group.

(v) Leveraging the Vendors' experiences in debt and accounts receivable management and collection services industry

As stated in the Letter from the Board, the settlement of majority portion of the Consideration by way of transfer of existing Shares to the Vendors would enable the Company to engage the Vendors (including Vendor B and Mr. Lam who beneficially and wholly owned Vendor C who have been and will continue to be primarily engaged in the Target Group's business) to become Shareholders and strategic partner of the Group to cooperate and facilitate the operations of the Target Group upon Completion. We have also reviewed the biographical profiles and experience of and conducted desktop search on the senior management of the Target Group, and noted that (i) the managing director and regional general manager have over 30 years of experience in debt collection services; (ii) the assistant general manager of their client servicing operations in China and the head of due diligence and analysis division have over 10 years of experience in credit consulting and investigation field; and (iii) the majority of the senior management has relevant professional qualifications such as fellow member of the Hong Kong Credit and Collection Management Association and Certified Collection Agency Executive of ACA International in the United States.

In light of the above, we concur with the management of the Company's view that the Acquisition will enable the Target Group to secure exclusive roles from certain clients of ALLF who needs debt collection services, in addition to the existing client base of the Target Group, enabling the Target Group to diversify the customer base and broaden the income stream of the Target Group thereby enabling the Target Group to remain competitive in the market.

Taking into consideration that (i) the potential demand for debt collection service in particular with respect to commercial accounts receivable; (ii) the Acquisition would enhance the revenue and profitability of the Group; (iii) the guaranteed profit as a compensation mechanism is in place to safeguard the Company's interest; (iv) the growth prospect of the Target Group; (v) the support from the Vendors as the strategic partner; and (vi) the Acquisition is in line with the Company's objective to broaden its income source and bring stable cash inflow to the Company, we concur with the Directors' view that the Acquisition is in the interest of the Company and the Shareholders as a whole.

6. Assessment of the Consideration

In order to assess the fairness and reasonableness of the Consideration, we attempted to identify companies that are (i) listed on the Stock Exchange; and (ii) are principally engaged in debt recovery business and credit analysis services, which are similar to that of the Target Group. However, no companies could be identified and hence, we have extended our selection criteria to cover profit-making companies that are (i) listed in other regions of the world; and (ii) are principally engaged in the provision of debt recovery solutions.

To the best of our knowledge and as far as we are aware, an exhaustive list of four comparable companies (the "**Comparable Companies**") has been identified based on the aforesaid selection criteria on our best-efforts basis. Independent Shareholders should be noted that the Comparable Companies are listed in other regions of the world and have different principal places of business, which may be subject to different risks and regulations. However, considering the similarity of principal business of the Comparable Companies to that of the Target Group, we consider the samples are fair and representative to provide us with the recent relevant information on the market conditions and sentiments and are fair and representative sample for reference.

According to the Letter from the Board, the management of the Company has taken into account the price-to-earnings ratio (the "**P/E ratio**") of profit-making comparable companies which are listed on the Stock Exchange with principal activities including finance leasing or factoring business with accounts receivable management/collection services in arriving the implied valuation of the Target Company. We consider the use of P/E ratio is appropriate as (i) the P/E Ratio is a common benchmark for valuation of profit-making corporations with positive historical financial performance; (ii) the ability to generate earnings is taken into account in the calculation of P/E ratio, and (iii) the P/E Ratio of the comparable companies could reflect how the market values the company taking part in the management of receivables business. We have also considered the use of price-to-book ratio in appraising the valuation of the Target Group. However, as the price-to-book ratio is normally used for the company with substantial tangible assets, which is not suitable for asset-light industry where Target Group operates as the business of the Target Group is service-oriented and it does not generate its revenue based on its assets, we considered that it is not meaningful and appropriate to apply the price-to-book ratio. Nonetheless, we adopt the Comparable Companies listed in other regions of the world in our analysis as we consider the similarity of the principal business of the Comparable Companies to that of the Target Group could provide a fair assessment on the market value of the Target Group. Set out below are our analysis on the Comparable Companies:

Stock exchange	Company name (Stock code)	Principal business	Principal place of business	P/E ratio as at the date of the Sale and Purchase Agreement *(Note 1)* *(times)*	P/E Ratio as at the date of the First Supplemental Agreement *(Note 1)* *(times)*
NASDAQ	Encore Capital Group, Inc. (ECPG)	Provision of debt recovery solutions	The United States and Europe	6.0	6.1
NASDAQ	PRA Group, Inc. (PRAA)	Provision of debt recovery solutions	The United States and the United Kingdom	19.4	11.4
Stockholm Stock Exchange	Intrum AB (INTRUM)	Provision of debt recovery solutions	Europe	N/A *(Note 2)*	17.9
Warsaw Stock Exchange	Kruk S.A. (KRU)	Provision of debt recovery solutions	Europe	7.2	61.6 *(Note 3)*
			Minimum:	6.0	6.1
			Maximum:	19.4	17.9
			Average:	10.9	11.8
		Implied P/E ratio of the Target Group			
		– Based on the guaranteed profit *(Note 4)*		7.7	6.8
		– Based on the historical profit *(Note 5)*		N/A *(Note 2)*	10.8

Notes:

1. P/E Ratio of the Comparable Companies are calculated based on their respective market capitalisation as at the dates of the Sale and Purchase Agreement (i.e. 26 June 2020) and First Supplemental Agreement (i.e. 29 March 2021) divided by the audited profits attributable to owners from the respective latest annual reports of the Comparable Companies for the most recent financial year prior to the respective dates of the Sale and Purchase Agreement and First Supplemental Agreement. The market capitalisation of the Comparable Companies are calculated on the basis of their respective closing prices of the shares and their total number of issued shares as at the date of the First Supplemental Agreement.

2. N/A represents that the respective Comparable Company and Target Group reported losses attributable to owners for the most recent financial year prior to the date of Sale and Purchase Agreement and thus are excluded for the calculation of average P/E ratio and the analysis.

3. In the view that the P/E ratio of Kruk S.A. as at the date of First Supplemental Agreement appears to be abnormally high as compared to the rest of the Comparable Companies, it is considered as an outlier which may skew the overall results and was excluded from the analysis.

4. According to the Letter from the Board, the then P/E ratio for the Target Group was calculated by dividing the consideration for the Acquisition by 51% of the average guaranteed profit of approximately HK$8.29 million over the length of Guaranteed Period of 3.5 years (i.e. the period from 1 July 2020 to 31 December 2023). Accordingly, by dividing the consideration of the Target Company of HK$64,000,000 by the average guaranteed profit per year of approximately HK$8.29 million, the implied average P/E ratio of the Target Company amounted to approximately 7.7 times.

In view of (i) the predetermined guaranteed profits for the Guaranteed Period, in particular the significant increase in profits for the years ending 31 December 2022 and 2023, are factually supportable considering the increase in income from debt collection services and credit investigation services of the Target Group from approximately HK$15.3 million for the year ended 31 December 2018 to approximately HK$29.8 million for the year ended 31 December 2020, representing a CAGR of approximately 39.6% and the potential industry growth for the debt collection services, as discussed in section headed "7. Profit Guarantee"; (ii) the implied P/E ratio of approximately 7.7 times adopted in deriving the Consideration is within the range and below the average P/E ratio of the Comparable Companies as at date of the Sale and Purchase Agreement which is considered to be beneficial to the Group; (iii) the average guaranteed profit per year of approximately HK$8.29 million used in determining the Consideration could better reflect the earning potential of the Target Group given the loss-making position of the Target Group for the year ended 31 December 2019 and the fluctuating historical performance due to the onset of COVID-19 in early 2020; and (iv) the implied P/E ratio as at the date of Sale and Purchase Agreement calculated based on the guaranteed profit of the Target Group falls within the range of the P/E ratio of Comparable Companies as shown in the above table which is favourable to the Company, we concur with the management of the Company that the basis of determination of the Consideration is fair and reasonable.

As time goes by, in view of (i) the guaranteed period and the aggregated profit guaranteed had been revised; and (ii) the Share price declined from HK$0.36 as at the date of the Sale and Purchase Agreement to HK$0.165 as at the date of the First Supplemental Agreement, we considered that value of settlement to be made by the Group could better reflect the implied value of the Consideration in assessing the fairness and reasonable of the Consideration. Therefore, for the purpose of computing the implied P/E ratio, we have calculated the implied consideration by the sum of (i) multiplying 120% of the 20-day average closing price (as stated in the daily quotation sheet of the Stock Exchange of the Shares immediately before the date of the First Supplemental Agreement (i.e. HK$0.198) by the maximum number of existing Shares payable as Consideration of 70,415,288 shares, (ii) the cash amount of HK$3,831,256; and (iii) the maximum shortfall amount to be compensated by the Purchaser to the Vendors in respect of the First Tranche Transfer Shares under the Lock-up Agreement of HK$12,764,763 the implied consideration is HK$30,538,246. For the average guaranteed profit over the Guaranteed Period, it is computed based on the aggregate guaranteed profit of HK$26,500,000 for the Guaranteed Period and the length of Guaranteed Period of 3 years. Accordingly, the implied P/E ratio of the Target Group is approximately 6.8 times.

5. In addition to the implied P/E ratio calculated based on guaranteed profit, we also adopt the implied P/E ratio calculated based on historical profit of the Target Group as an alternative assessment. The implied P/E ratio of the Target Company based on historical profit is computed by dividing the implied consideration of the Target Company of HK$30,538,246, by 51% of the profit of the Target Group for the year ended 31 December 2020 of approximately HK$5,540,000. Accordingly, the implied P/E ratio is approximately 10.8 times.

We noted from the Letter from the Board that the Company has arrived at the implied valuation of the Target Group after considering (i) the guaranteed profit for the Guaranteed Period; (ii) the length of the Guaranteed Period; (iii) the P/E Ratio of profit-making comparable companies which are listed on the Stock Exchange with principal activities including finance leasing or factoring business with accounts receivable management/collection services and are considered to be similar to the Target Group's business; and (iv) the business prospect of the Target Group were taken into account.

Regarding the P/E ratio, as shown in the above table, the P/E ratio of the Comparable Companies as at the date of First Supplemental Agreement range from a minimum of approximately 6.1 times to a maximum of approximately 17.9 times with an average of approximately 11.8 times. The implied P/E of the Target Group based on guaranteed profit of approximately 6.8 times and the implied P/E of the Target Group based on historical profit of approximately 10.8 times indicate that the value of the Target Group implied by the Consideration fall within the range of the value and is lower than the average value of the Comparable Companies.

Taking into account (i) the amount of Guaranteed Profit, the length of Guaranteed Period, the Consideration adjustment mechanism and the predetermined guaranteed profits for the Guaranteed Period are factually supportable as discussed in paragraph headed "5. Reasons for and benefits of entering into the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) – (iii) Guaranteed profit as a compensation mechanism to safeguard the Company's interest"; (ii) the P/E Ratio as an alternative analysis is in line with or better than the Comparable Companies; and (iii) the business prospect of the Target Company as discussed in section headed "5. Reasons for and benefits of entering into the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements – (iv) the growth prospect of the Target Group", we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

7. Profit guarantee

According to the Letter from the Board, it is expected that the sum of (i) the audited consolidated net profit after tax of the Target Company; and (ii) the interest expense arising from the Shareholders' Loan shall not be less than (i) HK$6,000,000 for the year ending 31 December 2021; (ii) HK$8,250,000 for the year ending 31 December 2022; and (iii) HK$12,250,000 for the year ending 31 December 2023, representing increments of 37.5% and 48.5% for 2022 and 2023, respectively.

According to the Letter from the Board, in determining the guaranteed profit for the year ending 31 December 2021, the Company and the Vendors have primarily made reference to (i) the actual revenue of the Target Group for the three years ended 31 December 2020 and the period from 1 January to 30 April 2021 and the growth of average monthly revenue during the four months ended 30 April 2021 over the average monthly revenue for the year ended 31 December 2020; (ii) the historical revenue of ALLF derived from Debt Recovery Business for the three years ended 31 December 2020 where following Completion, the Target Group shall recognise the income generated therefrom through the Master Cooperation Agreement in accordance with the terms and conditions therein; (iii) the expected growth in revenue upon implementation of the business expansion plan of the Target Group including the setting up of new regional offices in other cities in the PRC and Malaysia in 2021 and 2022; and (iv) relevant cost and expense components of the Target Group's business taking into account historical costs and expenses.

According to the Letter from the Board, in determining the respective guaranteed profits for the two years ending 31 December 2023, the Company and the Vendors have primarily made reference to (i) the estimated financial performance for the year ending 31 December 2021 particularly after taking into account the set-up of new office in Wuhan during 2021 and the market demand for the debt recovery services; (ii) the expected growth in revenue upon implementation of expansion plan by the Target Group including the setting up of new offices in other cities in the PRC and Malaysia, enabling the Target Group to capture additional market shares and therefore enhance its earnings; and (iii) the expected growth in the Target Group's business in view of the latest improving business performance, as well as the optimistic prospects of the debt collection market.

Income derived from existing or new clients of Target Group

We are advised by the management of the Group that the revenue generated from the existing or new clients of the Target Group is expected to contribute the majority of the total revenue for the three years ending 31 December 2023.

According to the Letter from the Board, the Target Group would recruit additional staff to enhance its one-stop debt collection services and plans to set up new regional offices in Wuhan, the PRC, Kuala Lumpur and Taiwan which is in line with its expansion plan.

As advised by the Vendors, as at the Latest Practicable Date, (i) the new regional office in Wuhan is currently undergoing the business registration process and it is expected that the set-up of such new company will complete by June 2021; and (ii) owing to travel restriction due to the COVID-19, the set-up of the new regional office in Kuala Lumpur is expected to complete by June 2022. In respect of the new office in Kuala Lumpur, the Target Group has been liaising with the local registration company for the set-up of the new office including preparation of the relevant required documents and/or information for submission of the application for incorporation of Malaysia private company and the conducting of market feasibility study with respect to debt recovery/credit investigation services market in Malaysia.

In addition to catering local demand in Wuhan and Kuala Lumpur, setting up new office in Kuala Lumpur is expected to help capture a new business stream from overseas clients to place debt collection claims in the PRC. It is expected that the language capability advantages of Malaysian being biliterate and trilingual would further help build the Target Group as an international hub in South Asia to attract Chinese related business from all parts of the world. Apart from gaining new customer base and capturing additional market shares in the PRC, Malaysia and globally, the newly-established regional offices would enable the Target Group to provide service more efficiently to the existing customers who has business operations in those regions. As advised by the Vendors, a major recurring customer (who was the largest customer of the Target Group for each of the three years ended 31 December 2020) has entered into a framework agreement with the Target Group relating to comprehensive debt collection and litigation services in Kuala Lumpur, specifying the rates of service fee that correspond to various range of recovered amounts and the fee quotes for different types of investigation including those relating to refusal case, bankruptcy, fraudulent claims, guarantee authenticity which may be involved, subject to the scope of debt collection service to be agreed upon entering into the actual engagement, pending the set-up of new office in Kuala Lumpur. According to the Vendors, the cost structure in Malaysia is also much lower than in Hong Kong and Singapore. With reference to the data published by Bank Negara Malaysia (http://www.bnm.gov.my), being the Central Bank of Malaysia, the amount of non-performing/impaired loans as recorded in the banking system of Malaysia exhibited a year-on-year growing trend from an average of approximately RM25.7 billion in 2018 to an average of approximately RM26.8 billion in 2020, and further rose to an average of approximately RM29.3 billion during the first four months of 2021, representing a growth of approximately 10.9% as compared to the average amount of non-performing/impaired loans from 2018 to 2020. Considering the potential demand for the debt recovery services and the relatively lower cost structure, it is expected that the Target Group's earnings would be enhanced.

We have requested and were provided with the expected number of staff of the Target Group for the years ending 31 December 2021, 2022 and 2023 and noted that the total number of staff of the Target Group is expected to increase from 118 as at 31 December 2020 to 146 as at 31 December 2021, and further to 158 as at 31 December 2022 and 166 as at 31 December 2023. We have also obtained (i) the supporting documents for the business registration process of the new regional offices and (ii) the framework agreement entered into by the Target Group with major recurring customer in relation to comprehensive debt collection and litigation services in Kuala Lumpur. We noted that (i) the entering into of the framework agreement by the major recurring customer of the Target Group indicates the customer's intention to continue their business relationship with the Target Group; (ii) the framework agreement covers general terms and conditions for the provision of comprehensive debt collection and litigation services by the Target Group which includes, among others, amicable collection and collection by litigation of non-performing debts, and investigation services such as refusal case investigations, bankruptcy services, fraudulent investigation, etc.; (iii) service fee for debt collection would be charged at various rates depending on the size of recovered amounts while fixed fees would be charged on investigation services. Given the potential growth of the debt collection market in Malaysia as discussed above and the entering into of the framework agreement with major recurring customer, we concurred with the Directors' view that the Target Group's business plan on setting up new office in Kuala Lumpur is well supported and the Target Group's earnings is expected to be enhanced.

Further, we have requested and were provided with the management accounts of the Target Group for the four months ended 30 April 2021 and noted that the average monthly revenue of the Target Group has increased from approximately HK$2.5 million for the year ended 31 December 2020 to approximately HK$3.1 million for the four months ended 30 April 2021, representing an increase of approximately 24.0%. It is considered that the latest growth in net profit of the Target Group for the first four months in 2021 is generally in line with the expected growth rate of approximately 7.8% from the year ended 31 December 2020 to the year ending 31 December 2021.

It is also noted that Guaranteed Profit during the Guaranteed Period represents a CAGR of approximately 42.9% (the "**Guaranteed Profits CAGR**"). Based on the accountants' report on the Target Group as set out in Appendix II to the Circular, we noted the income from debt collection services and credit investigation services of the Target Group increased from approximately HK$15.3 million for the year ended 31 December 2018 to approximately HK$29.8 million for the year ended 31 December 2020, representing a CAGR of approximately 39.6%, which is close to the Guaranteed Profits CAGR. Further, the ratio of income to total cost and expenses increased from approximately 79% for the year ended 31 December 2018 to approximately 93% for the year ended 31 December 2019, and further to approximately 114% for the year ended 31 December 2020, which indicated that the Target Group has been improving its cost control efficiency. As a result, the Target Group turnaround from loss-making of approximately HK$1.0 million of the year ended 31 December 2019 to profit-making of approximately HK$5.5 million with net profit margin of approximately 18.6%, despite the impact brought by COVID-19, which is close to the guaranteed profit for the year ending 31 December 2021 of HK$6.0 million. Assuming that the Target Group achieves an annual income growth of 39.6% and maintains a net profit margin of 18.6% in the three years ending 31 December 2023, the Target Group would be able to generate approximately HK$7.7 million, HK$10.8 million and HK$15.1 million in the year ending 31 December 2021, 2022 and 2023, respectively, which would be higher than the respective amount of guaranteed profit.

As discussed in the section headed "5. Reasons for and benefits of entering into the Sale and Purchase Agreement – (vi) The growing demand for debt collection service in particular with respect to commercial accounts receivable", According to the statistics from the National Bureau of Statistic of China and China Banking and Insurance Regulatory Commission, (http://www.stats.gov.cn/english/), we noted that the total accounts receivable of industrial enterprises in the PRC increased by a CAGR of approximately 7.5% from 2015 to 2020, while according to the General Situation of the Operation of Payment System in 2020* (2020年支付體系運行總體情況), a report published by the People's Bank of China (http://www.pbc.gov.cn/), as of 31 December 2020, the total amount of bank card credit recorded a year-on-year increase of approximately 9.18%. The Guaranteed Profits CAGR is generally in line with the growing demand of the debt recovery services.

* *For identification purpose only*

Income derived from ALLF with respect through the Master Cooperation Agreement

According to the Letter from the Board, upon the entering into of the Master Cooperation Agreement, it is expected that a considerable amount of income from Debt Recovery Business which has been recognised under ALLF previously would be recognised under the Target Group instead. As advised by the Vendors, the revenue of ALLF derived from Debt Recovery Business for the three years ended 31 December 2018, 2019 and 2020 amounted to HK$18.2 million, HK$18.6 million and HK$17.1 million, respectively. While the Vendors have been actively persuading its new and existing clients to engage Alpha (Guangzhou) with respect to Debt Recovery Business since the entering into of the Sale and Purchase Agreement, the client can decide the signing party to the engagement letter, it is expected that the Target Group would derive income from ALLF with respect to the Debt Recovery Business through the Master Cooperation Agreement in the amount of approximately HK$16.0 million, HK$16.8 million and HK$18.8 million for the three years ending 31 December 2021, 2022 and 2023, respectively, as determined with reference to (i) the historical revenue of ALLF with respect to Debt Recovery Business; and (ii) the expected majority portion of ALLF's clients who would continue to engage ALLF for provision of Debt Recovery Business considering the historical insignificant number of ALLF's clients that transferred to Alpha (Guangzhou) during the past years; and (iii) the potential new clients to be recruited and engaged with ALLF, such that the income to be derived therefrom would be recognised by the Target Group through the arrangement under the Master Cooperation Agreement (as detailed in the section headed "Non-competition and ALLF Agreements – Master Cooperation Agreement" of the Circular).

We have reviewed the Master Cooperation Agreement and noted there are arrangements in place to secure the service fees arising from future cooperation with ALLF. We noted ALLF shall assign business, including but not limited to assisting client in handling accounts receivable, credit valuation, due diligence and other related business to the Target Group. Notwithstanding the abovementioned arrangements, as stipulated under the Master Cooperation Agreement, both ALLF and the Target Group should avoid to engage in activities that may likely to compete with each other. As advised by the management of the Target Group, the majority of expected income to be derived from ALLF with respect to the Debt Recovery Business through the Master Cooperation Agreement for the years ending 31 December 2021, 2022 and 2023 of approximately HK$16.0 million, HK$16.8 million and HK$18.8 million, respectively, was generated from existing clients who engaged ALLF for the provision of Debt Recovery Business in the past years. We further requested and were provided with the breakdown of revenue derived from Debt Recovery Business of ALLF for the year ended 31 December 2020 and noted that approximately HK$16.7 million was recorded as the revenue derived from Debt Recovery Business in ALLF's books, of which approximately 51% was generated from the five largest clients of Debt Recovery Business of ALLF which were engaged in the banking, insurance, parcel delivery and clean power industries. We were advised that ALLF has maintained a business relationship with these five largest clients for over five years. We further noted that in determining such expected income for the years ending 31 December 2021, 2022 and 2023, the management of the Target Group has taken into account (i) the historical revenue from existing clients; (ii) the established business relationship with the five largest clients; and (iii) the nature of services provided to such clients. In view of the above, we considered that the Target Group management's view on the expected income to be derived from ALLF with respect to the Debt Recovery Business through the Master Cooperation Agreement for the years ending 31 December 2021, 2022 and 2023 of approximately HK$16.0 million, HK$16.8 million and HK$18.8 million, respectively, is justifiable.

Based on the information available to us so far, in particular, (i) the latest growth in net profit of the Target Group for the first four months in 2021 being in line with the implied growth rate under the Guaranteed Profit, the Target Group appears to be on track to achieve a level of profitability for 2021 consistent with the Guaranteed Profit; (ii) the robust historical growth as represented by recording loss for the year of approximately HK$3.3 million and HK$1.0 million for the year ended 31 December 2018 and 2019, respectively, to a profit of approximately HK$5.5 million for the year ended 31 December 2020; (iii) the Target Group's success in improving its cost control efficiency as represented by the increase in the ratio of income to total cost and expenses for the three years ended 31 December 2020; (iv) the expansion plan including but not limited to the hiring of additional staff and the setting up of new regional office in Kuala Lumpur, which is well supported by the potential market growth in Malaysia and the entering into of the framework agreement with major recurring customer; (v) the growing demand of the debt recovery services in the PRC; and (iv) the arrangements in place to secure the service fees arising from future cooperation with ALLF, in particular, the expected income to be derived from ALLF with respect to the Debt Recovery Business through the Master Cooperation Agreement of approximately HK$16.0 million, HK$16.8 million and HK$18.8 million for the years ending 31 December 2021, 2022 and 2023, respectively, of which the five largest clients with established business relationship are expected to contribute the majority, we concur with the management of the Company that the level of Guaranteed Profit and the relevant adjustment terms as discussed in section headed "4.7 Adjustment to Consideration subject to the profit guarantee" are fair and reasonable.

8. Settlement of the Consideration

According to the Letter from the Board, pursuant to the Supplemental Agreements, the Consideration shall be settled in the following order by (1) the transfer or procurement of transfer of existing Shares held by Shareholders namely (i) Silver Creation in the amount of 31,911,908 Shares; (ii) Solomon Glory in the amount of 38,503,380 Shares; and (2) cash in the amount of HK$3,831,256, to the Vendors at the Agreed Proportion by tranches.

Taking into account (i) the settlement of majority portion of the Consideration by way of transfer of existing Shares to the Vendors with the lock-up agreement would enable the Company to engage the Vendors to become Shareholders and strategic partner of the Group to cooperate and facilitate the operations of the Target Group upon Completion; (ii) the settlement by transfer or procurement of transfer of existing Shares held by Shareholders and Cash Consideration would not result in dilution on other Shareholders' interest while the issue of new shares will create an immediate significant dilution effect on the shareholding interests of existing Shareholders without offering them opportunities to participate in the enlargement of the capital base of the Company; (iii) it will allow the Group to maintain financial flexibility as opposed to alternative settlement arrangements of the Consideration such as bank borrowings or cash payment in full which may weaken the balance sheet of the Company due to its relatively low cash level and the high costs associated with bank borrowings and hence not adopted; and (iv) the Lock-up Agreement and cash compensation arrangement are fair and reasonable as discussed in above section headed "4.10. The Lock-up Agreement", we consider that the settling the Consideration by way of transfer of existing Shares is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

9. The Promissory Notes

In respect of the issuance of Promissory Notes, we have firstly compared the Promissory Notes against other possible means. Taking into account the facts that (i) settling the Consideration by cash would incur an immediate impact on the working capital of the Group as the cash and cash equivalents of the Group was approximately HK$16.0 million as at 30 September 2020; (ii) based on the Annual Report 2020, as at 31 March 2020, the Group's fixed-rate borrowings carry interest at the rate of 8.05% per annum, while the Promissory Notes bear zero interest rate; (iii) issue of new shares and placing of new shares will create an immediate significant dilution effect on the shareholding interests of existing Shareholders without offering them opportunities to participate in the enlargement of the capital base of the Company; (iv) rights issue will not result in any dilution to shareholdings but it would require finding a suitable underwriter and the fund raising exercise would be more costly and time consuming; and (v) issue of the Promissory Notes would, on the contrary, not incur an immediate impact on the working capital of the Group nor dilute the shareholding of the existing Shareholders, as such we are of the view that the issuance of the Promissory Notes is in the interests of the Company and the Shareholders as a whole.

In order to assess the fairness and reasonableness on the terms of the Promissory Notes, we tried to identify notifiable transactions involving settling the Consideration with existing shares held by the existing shareholders and which the Company will in turn issue the promissory notes to them as settlement. We have also attempted to identify notifiable transactions involving issue of promissory notes as all or part of the consideration for an acquisition of target company with similar nature of business and transaction size, by similar size of listed company, announced by companies listed on the Stock Exchange from 1 October 2020 to 29 March 2021, being a 6-month period ending on the date of the First Supplemental Agreement. However as at the Latest Practicable Date, we are unable to identify any. As an alternative, we have identified notifiable transactions involving issue of promissory notes as all or part of the consideration for an acquisition, announced by companies listed on the Stock Exchange (the "**PN Comparables**") during the Comparable Period. To the best of our knowledge and as far as we are aware, we have identified an exhaustive list of a total of six transactions which meet the said criteria.

We consider that the Comparable Period is appropriate (i) to reflect the prevailing market conditions and sentiments in the Hong Kong stock market; and (ii) to provide a general reference of the recent promissory notes transactions being conducted under similar market condition. Therefore, we consider the Comparable Period sets an appropriate basis for our analysis and accordingly the exhaustive list of six PN Comparables is sufficient and applicable for us to assess the recent market trend.

Shareholders should note that the businesses, operations, financial performance and prospects of the Company are not the same as the subject companies in the PN Comparables, and thus the PN Comparables are for reference only.

Stock code	Company name	Maturity (Years)	Interest rate (%)
362	Xinyang Maojian Group Limited	1	Nil
474/1341	Aceso Life Science Group Limited/Hao Tian International Construction Investment Group Limited	1	4%
720	Auto Italia Holdings Limited	3	8%
1909	Fire Rock Holdings Limited	4.1	3%
8055	China E-information Technology Group Limited	3	3%
8195	L & A International Holdings Limited	2	3%
	Minimum:	1.0	Nil
	Maximum:	4.1	8.0%
	Average:	2.4	3.5%
	Promissory Note to Silver Creation *Note*	0.5	Nil
	Promissory Note to Solomon Glory	1.1	Nil

Note: Assuming that the Completion will take place on 30 June 2021

We noted from the above table that (i) the duration of the PN Comparables ranged from one to approximately 4.1 years with an average of approximately 2.4 years and the interest rates ranged from nil to 8% with an average of approximately 3.5%; (ii) despite the maturity date of the Promissory Note to Silver Creation as at 31 December 2021 (representing approximately six months from the expected issue date of the Promissory Note, i.e. the Completion Date) is shorter than the range of the maturity dates of the PN Comparables, it is non-interest bearing; (iii) the duration of the Promissory Note to Solomon Glory of 13 months is within the range of the maturity dates of the PN Comparables; and (iv) the interest rate of the Promissory Note of nil is within the range of the PN Comparables and lower than the average of the PN Comparables.

We noted that the Promissory Note to Silver Creation will mature on 31 December 2021. We have reviewed and we noted that the Directors have reviewed the Enlarged Group's cash flow projections which cover a period of not less than twelve months from the date of the Circular. As discussed with the management of the Company, the cash flow projection has been arrived at after taking into account, among others, (i) revenue which was determined with reference to the balance of the Group's lease receivables as at 31 March 2021 and their maturity profile, and the expected revenue generated by the Target Group as detailed in section headed "7. Profit Guarantee"; (ii) the cost of debt which was determined with reference to the current interest rates charged on the banking facilities of the Enlarged Group assuming that the Enlarged Group will be able to renew the bank borrowings as forecast; (iii) the staff costs which was determined with reference to the revenue growth and the expected increase in the number of staff of the Enlarged Group; and (iv) the cash outlay in relation to the repayment of the Promissory Notes upon its maturity. As disclosed in the financial information of the Group as set out in Appendix I to the Circular, the Directors, after making due and careful enquiry and after taking into account the measures and plans and the reasonably possible changes in the operational performance, are of the opinion that the Enlarged Group will have sufficient working capital for its normal business operation for at least the next twelve months from the date of this circular, in the absence of unforeseeable circumstances. As such, we concur with the Directors that the Group would be able to redeem the Promissory Note to Silver Creation at its maturity.

Taking into account (i) the Promissory Note bear zero interest rate, which is to the benefit of the Company as a whole; (ii) the Promissory Note as repayment method does not involve issue of new shares, there is no dilution effect to existing Shareholders, while other equity financing alternatives would either result in an immediate significant dilution in the shareholding interests of existing Shareholders or be more costly and time consuming than the issuance of the Promissory Note; (iii) the issuance of Promissory Note can reduce the amount of initial cash outflow of the Company and enable the Group to retain more cash for working capital purposes; (iv) according to the management accounts of the Group for the year ended 31 March 2021 provided by the Company, the cash balance as at 31 March 2021 amounted to approximately RMB10.3 million, which is more than sufficient for the repayment of the Promissory Note to Silver Creation; (v) as advised by the management of the Group and according to the schedule of lease receivables as at 31 March 2021 provided to us, considerable amount of lease receivables would mature in late 2021 and the cash level of the Group in December 2021 is expected to be higher which matches with the expected maturity date of the Promissory Note to Silver Creation; and (vi) as the maturity date of the Promissory Note to Solomon Glory is 13 months from the 2nd Transfer Date, which is expected to be in 2023, we consider that the issuance of the Promissory Note to settle the Consideration would not incur an immediate impact on the working capital of the Group nor dilute the shareholding of the existing Shareholders, and thus is in the interests of the Company and the Independent Shareholders as a whole and that the terms of Promissory Note are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

10. Possible financial effects of the Acquisition

According to the Letter from the Board, upon Completion, the Target Company will become a direct 51%-owned subsidiary of the Company and thus the financial results, assets and liabilities of the Target Group will be consolidated into those of the Group. For details of the unaudited pro forma financial information on the Enlarged Group, please refer to Appendix IV to this circular.

10.1 Net assets

Upon Completion, as stated in the "Unaudited pro forma financial information on the Enlarged Group" set out in Appendix IV to the Circular, assuming that Completion had taken place on 30 September 2020, the net assets of the Enlarged Group as at is expected to increase to approximately HK$42.0 million.

10.2 Earnings

Based on the accountant's report of the Target Group set out in Appendix II to the Circular, the Target Group recorded a profit of approximately HK$5.5 million for the year ended 31 December 2020. In view of the improved financial results and the future prospect of the Target Group, the Directors expect that the earnings of the Enlarged Group will be enhanced by the Acquisition.

Based on the aforementioned potential financial impacts of the Acquisition on the Group, in particular, the positive impact to the Group future earnings, we concur with the management of the Company's view that the Acquisition is in the interests of the Company and its Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable; and (ii) the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions for approving the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Giraffe Capital Limited
Johnson Chen
Managing Director

Mr. Johnson Chen is a licensed person registered with the Securities and Futures Commission and a responsible officer of Giraffe Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and to undertake work as a sponsor. He has over 13 years of experience in the field of corporate finance advisory.

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 March 2018, 2019, 2020 and for the six months ended 30 September 2020 are disclosed in the following annual reports of the Company for the years ended 31 March 2018, 2019 and 2020 and the interim report of the Company for the six months ended 30 September 2020, respectively, which have been published and are available on the website of the Stock Exchange (https://www.hkexnews.hk) and the website of the Company (https://www.chinarzfh.com):

- the annual report of the Company for the year ended 31 March 2018 (available on: https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0719/ltn20180719623.pdf), please refer to pages 47 to 92 in particular;
- the annual report of the Company for the year ended 31 March 2019 (available on: https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0718/ltn20190718549.pdf), please refer to pages 50 to 104 in particular;
- the annual report of the Company for the year ended 31 March 2020 (available on: https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0930/2020093000296.pdf), please refer to pages 53 to 108 in particular; and
- the interim report of the Company for the six months ended 30 September 2020 (available on: https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1211/2020121100292.pdf), please refer to pages 2 to 17 in particular.

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 May 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding indebtedness as follows:

Borrowings

As at the close of business on 31 May 2021, the Enlarged Group had outstanding borrowings comprising (i) bank borrowings of approximately HK$128,915,000 which are secured by charges over receivables arising from sale and leaseback arrangements of the Enlarged Group and guaranteed by a joint venture of a major shareholder of the Company and a director of the Company's subsidiary; (ii) bank borrowings of approximately HK$24,936,000 which are secured by charges over bank deposits of the Enlarged Group and guaranteed by a joint venture of a major shareholder of the Company and a director of the Company's subsidiary; (iii) bank borrowings of approximately HK$510,885,000 which are secured by charges over receivables arising from sale and leaseback arrangements of the Enlarged Group and guaranteed by a joint venture of a major shareholder, three independent third parties and a director of the Company's subsidiary; and (iv) bank borrowings of approximately HK$5,000,000 are unsecured and guaranteed by two directors of the Target Company; and (v) amounts due to related parties of approximately HK$2,179,000 which are unsecured.

Lease liabilities

As at the close of business on 31 May 2021, the Enlarged Group had outstanding lease liabilities of approximately HK$2,251,000 measured at the present value of the remaining lease payments using a discount rate ranged from 4.75% to 6.00%.

Contingent liabilities or guarantees

As at the close of business on 31 May 2021, the Enlarged Group did not have any contingent liabilities or guarantees.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, the Enlarged Group did not have any other debt securities issued and outstanding, or authorised or otherwise created but unissued, any term loans, any other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, which were either guaranteed, unguaranteed, secured and unsecured, any mortgages and charges or any contingent liabilities or guarantees at the close of business on 31 May 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular.

3. WORKING CAPITAL STATEMENT

As at 31 May 2021, the Group and the Target Group had total bank borrowings amounted to approximately HK$664,736,000 and HK$5,000,000 respectively, which bank borrowings of approximately HK$462,420,000 and HK$1,200,000 would be due for repayment within twelve months respectively. In addition, there are significant slow-down in the collection of the Group's lease receivables and receivables arising from sale and leaseback arrangements in recent years.

Should the Group fail to extend the relevant bank borrowings and/or unable to collect the receivables, the liquidity position of the Group may be adversely affected and the sufficiency of working capital for the Enlarged Group to continue its operation may become uncertain.

In view of these circumstances, the Directors have the following plans to improve the Group's liquidity and financial position:

(i) Taking active measures to collect lease receivables and receivables arising from sale and leaseback arrangements through various channels including lawsuit, debt restructuring, and any effective methods to improve operating cash flows and its financial position;

(ii) Taking active measures to control administrative costs to improve operating cash flows and its financial position continuously; and

(iii) Negotiating with the banks on the renewal of and extension for repayments of certain bank borrowings and arranging new banking facilities when necessary. Based on the previous experience in dealing with the banks and recent discussion with the banks, the Directors considered that the Group is making positive progress in its negotiations in connection with the extension of the repayment of the relevant bank borrowings to at least twelve months from the date of the Circular. Although the discussions with the relevant banks are positive, there are no binding agreements with the relevant banks.

The Directors have reviewed the Enlarged Group's cash flow projections which cover a period of not less than twelve months from the date of this Circular. The Directors, after making due and careful enquiry, based on the assumptions that the Group will be able to renew the bank borrowings as forecast and after taking into account the abovementioned measures, are of the opinion that the Enlarged Group will have sufficient working capital for its normal business operation for at least the next twelve months from the date of this circular, in the absence of unforeseeable circumstances.

4. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The Group is principally engaged in the business of provision of financial leasing services, including sales and leaseback leasing and direct financial leasing, in Hubei Province, PRC.

The intensifying international trade disputes, the tightening of the financial regulatory environment and the keen competition within the industry due to the growth in number of new finance lease establishments and operations have slowed down the growth of the Group. However, with the continuous promotion of national policies in the PRC such as "supply-side structural reform", "One Belt and One Road" and "Made in China 2025", the operating environment of the financial leasing industry continues to be optimised.

With the outbreak of COVID-19 epidemic in 2020, various local provincial governments in the PRC issued notices and required enterprises to suspend their operations temporarily. As the Group's head office is located in Wuhan, Hubei Province, the PRC, the operations have been significantly impacted by the COVID-19 epidemic. Due to the suspension of work since late January 2020 and the inability of the staff in affected provinces and municipalities to return to business units and resume work as planned, the Group suspended its operations in Wuhan. Since the second half of April 2020, certain restrictions imposed on enterprises in Wuhan had been gradually lifted and thus the employees of the Group in Wuhan have now returned to office and resumed work gradually. However, despite certain restrictions that was previously imposed had been gradually lifted and the Group is making its best effort to restore its normal operation after months of lock down, the Group's operation and productivity is still subject to material challenges and uncertainties. The Board expects such factor may to a certain extent have a material adverse impact over the operation and financial performance of the Group for the financial year of 2021. While the duration of the COVID-19 epidemic remains uncertain and the global political tensions had seriously affected the global economy, the domestic economic recovery remains under pressure. Subject to recovery from the pandemic situation, the Company expects such challenges and uncertainties may have an ongoing impact on the Group's business. The Board will closely monitor the development of COVID-19 epidemic and the risks and uncertainties faced by the Group as a result of COVID-19 epidemic. The Company will also take appropriate measures as necessary and make further announcements as and when appropriate.

Amid the challenging operating environment and the delay in the Group's loan approval process of the Group owing to COVID-19, the Group has been proactively developing its business by continuous assessment and evaluation of other potential low risk/geographically diversified business such as entrustment loan applications as well as gathering loan applications outside of Hubei Province since late 2019 in order to mitigate business risk, while strengthening its internal control in respect of loans and credit approvals to protect the interests of the Shareholders and the Group's assets. It is notable that the financial performance of the Group has gradually improved, as shown in the unaudited interim results for the six months ended 30 September 2020, that the Group has recorded a net profit of approximately HK$18.8 million. On this basis, the Group has been actively reviewing and processing loan applications including finance lease and entrusted loan applications within and outside of Hubei Province, while balancing the risk exposure by requiring additional collaterals such as land and properties in addition to any finance lease assets pledged subject to credibility of the customers. The Company is confident that some of the pipeline businesses will eventually be signed and generate new revenues for the Company. The Company is continuously receiving and reviewing new loan applications. From 1 October 2020 and up to the Latest Practicable Date, the Company has received 1 new finance lease application with loan amount of RMB4 million and 3 new entrusted loan applications with loan amount of up to RMB30 million. As at the Latest Practicable Date, the Company is considering 12 finance lease applications and 5 entrusted loan applications with an aggregate loan amount of up to approximately RMB430.5 million and approximately RMB1,030 million, respectively. The Group has also been exploring new business opportunities including the Acquisition with a view to diversify its source of income and create synergy across multiple verticals while effectively utilising the Group's nation-wide coverage finance lease license. Benefitting from the solid foundation of the Group's business experience in relation to financial leasing, the Company also intended to tap into the operating lease business in the PRC which is expected to complement the Group's existing business and diversify its business portfolio. As at the Latest Practicable Date, the Company has completed the setting-up of a new subsidiary in the PRC for engaging in the automobile operating lease business.

In light of (i) the established reputation of the "Alpha & Leader" brand and geographical coverage of the Target Group in the PRC, Hong Kong and Singapore as well as future expansion plan; and (ii) the customer base built by the management team of the Target Group as well as the extensive experience of the specialists, the management of the Group believes that the Acquisition would enhance the Company's credit review capability in screening finance lease transactions and is complementary to the Group's financial leasing business concerning the handling of overdue receivables or disputed debts, allowing the Group to capture the opportunities arising from the scalable debt collection market and therefore diversify the income source of the Enlarged Group.

Looking forward, with various vaccines begin their gradual deployment and the anticipated economic revival over the long term, the Group remains committed to adhere to place strong emphasis on the recovery of past due lease receivables and receivables arising from sale and leaseback arrangements and to amplify the coverage of risk prevention. Apart from the Acquisition, the Group would also explore all avenues and has plans to diversify its business outside of Hubei Province, as well as to develop new business in the PRC and Asia Pacific region as a new source of income to diversify its business risk, in order to enhance its financial performance and Shareholders' value.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

The following is the text of a report received from the Company's reporting accountant, BDO Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA RONGZHONG FINANCIAL HOLDINGS COMPANY LIMITED

Introduction

We report on the historical financial information of Alpha & Leader Risks And Assets Management Company Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages 118 to 181, which comprises the consolidated statements of financial position as at 31 December 2018, 2019 and 2020 and the statements of the financial position of the Target Company as at 31 December 2018, 2019 and 2020, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages 118 to 181 forms an integral part of this report, which has been prepared for inclusion in the circular of China Rongzhong Financial Holdings Company Limited (the "**Company**") dated 30 June 2021 in connection with the proposed acquisition of the 51% equity interest in the Target Company and its subsidiaries, but excluding Alders Translation Services Company Limited (安迪氏翻譯服務(廣州)有限公司, the "**Excluded Company**"), which was a wholly owned subsidiary of the Target Company before 10 June 2020.

Directors' responsibility for the Historical Financial Information

The directors of China Rongzhong Financial Holdings Company Limited (the "**Company**") are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Target Company and Target Group as at 31 December 2018, 2019 and 2020 and of the Target Group's financial performance and cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 118 have been made.

BDO Limited
Certified Public Accountants
Wong Kwok Wai
Practising Certificate no. P06047

Hong Kong, 30 June 2021

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The underlying financial statements of the Target Group for the Track Record Period, on which the Historical Financial Information is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Hong Kong Dollars ("**HK$**") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2018	**2019**	**2020**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Income from debt collection services	7	6,967	11,500	19,049
Income from credit investigation services	7	8,309	8,936	10,752
Other income	7	188	449	2,115
Cost of services		(868)	(2,440)	(5,467)
Employee benefit expenses		(12,349)	(13,444)	(14,903)
Depreciation expenses		(305)	(334)	(789)
Operating lease expenses		(1,960)	–	–
Short-term lease expenses		–	(156)	(96)
Other expenses		(3,853)	(5,359)	(4,866)
Finance costs	8	–	(146)	(132)
(Loss)/profit before income tax	9	(3,871)	(994)	5,663
Income tax expense	11	(10)	(21)	(123)
(Loss)/profit for the year		(3,881)	(1,015)	5,540
Other comprehensive income for the year				
Items that may be reclassified subsequently to profit or loss:				
– Exchange differences on translation of financial statements of foreign operations		101	33	128
– Release of translation reserve upon disposal of a subsidiary		–	–	(19)
		101	33	109
Total comprehensive income for the year		(3,780)	(982)	5,649

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2018	2019	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*13*	546	409	2,286
Deposits	*16*	403	317	114
		949	726	2,400
Current assets				
Trade receivables	*15*	2,884	2,776	4,892
Prepayments, deposits and other receivables	*16*	403	371	524
Cash and cash equivalents	*17*	2,901	2,123	9,238
		6,188	5,270	14,654
Current liabilities				
Trade payables	*18*	81	98	35
Accruals and other payables	*19*	1,450	1,200	2,115
Amounts due to directors	*20*	2,206	2,956	2,438
Contract liabilities	*21*	3,353	3,680	3,689
Lease liabilities	*22*	–	1,337	1,399
Tax payables		826	838	947
Bank borrowings	*23*	–	–	419
		7,916	10,109	11,042
Net current (liabilities)/assets		(1,728)	(4,839)	3,612
Total assets less current liabilities		(779)	(4,113)	6,012
Non-current liabilities				
Lease liabilities	*22*	–	693	588
Bank borrowings	*23*	–	–	4,581
		–	693	5,169
Net (liabilities)/assets		(779)	(4,806)	843
EQUITY				
Share capital	*24*	800	800	800
Reserves	*25*	(1,579)	(5,606)	43
Total (capital deficiency)/equity		(779)	(4,806)	843

STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2018	**2019**	**2020**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*13*	85	48	819
Investments in subsidiaries	*14*	10	10	1,032
Deposits	*16*	289	289	–
		384	347	1,851
Current assets				
Trade receivables	*15*	2,170	1,002	1,999
Prepayments and deposits	*16*	80	52	342
Amounts due from subsidiaries	*20*	12	12	1,218
Cash and cash equivalents	*17*	2,002	1,248	6,307
		4,264	2,314	9,866
Current liabilities				
Trade payables	*18*	81	98	35
Accruals and other payables	*19*	921	809	1,030
Amounts due to directors	*20*	1,192	1,992	2,438
Contract liabilities	*21*	747	1,010	751
Lease liabilities	*22*	–	807	795
Tax payables		817	817	817
Bank borrowings	*23*	–	–	419
		3,758	5,533	6,285
Net current assets/(liabilities)		506	(3,219)	3,581
Total assets less current liabilities		890	(2,872)	5,432
Non-current liabilities				
Lease liabilities	*22*	–	599	51
Bank borrowings	*23*	–	–	4,581
		–	599	4,632
Net assets/(liabilities)		890	(3,471)	800
EQUITY				
Share capital	*24*	800	800	800
Reserves	*25*	90	(4,271)	–
Total equity/(capital deficiency)		890	(3,471)	800

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Reserves		
	Share capital *HK$'000* *(Note 24)*	Retained profits/ (accumulated losses) *HK$'000*	Translation reserve *HK$'000* *(Note 25)*	Total *HK$'000*
At 1 January 2018	800	2,342	(141)	3,001
Loss for the year	–	(3,881)	–	(3,881)
Other comprehensive income				
Exchange differences on translation of financial statements of foreign operations	–	–	101	101
Total comprehensive income for the year	–	(3,881)	101	(3,780)
At 31 December 2018	800	(1,539)	(40)	(779)
Impact on initial application of HKFRS 16	–	(3,045)	–	(3,045)
At 1 January 2019	800	(4,584)	(40)	(3,824)
Loss for the year	–	(1,015)	–	(1,015)
Other comprehensive income				
Exchange differences on translation of financial statements of foreign operations	–	–	33	33
Total comprehensive income for the year	–	(1,015)	33	(982)
At 31 December 2019 and 1 January 2020	800	(5,599)	(7)	(4,806)
Profit for the year	–	5,540	–	5,540
Other comprehensive income				
Exchange differences on translation of financial statements of foreign operations	–	–	128	128
Release of translation reserve upon disposal of a subsidiary	–	–	(19)	(19)
	–	–	109	109
Total comprehensive income for the year	–	5,540	109	5,649
At 31 December 2020	800	(59)	102	843

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2018	2019	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from operating activities				
(Loss)/profit before income tax		(3,871)	(994)	5,663
Adjustments for:				
Depreciation of property, plant and equipment	*9*	305	334	789
Provision for/(reversal of) impairment loss on property, plant and equipment	*9*	17	305	(686)
Bank interest income	*7*	(2)	(2)	(3)
Interest on bank borrowings	*8*	–	–	24
Interest on lease liabilities	*8*	–	146	108
Gain on disposal of a subsidiary	*27*	–	–	(287)
Operating (loss)/profit before working capital changes		(3,551)	(211)	5,608
Decrease/(increase) in trade receivables		1,575	108	(2,118)
(Increase)/decrease in prepayments, deposits and other receivables		(57)	77	45
(Decrease)/increase in trade payables		(63)	17	(63)
Increase in accruals and other payables		196	190	1,220
(Decrease)/increase in contract liabilities		(22)	327	9
Cash (used in)/generated from operations		(1,922)	508	4,701
Income tax paid		–	(9)	(14)
Net cash (used in)/generated from operating activities		(1,922)	499	4,687
Cash flows from investing activities				
Purchase of property, plant and equipment		(228)	(59)	–
Disposal of a subsidiary, net of cash disposal of		–	–	(54)
Interest received		2	2	3
Net cash used in investing activities		(226)	(57)	(51)

	Notes	Year ended 31 December 2018 HK$'000	2019 HK$'000	2020 HK$'000
Cash flows from financing activities	*32*			
Advance from/(repayment to) directors		708	767	(508)
Payment of principal portion of lease liabilities		–	(1,847)	(1,850)
Payment of interest portion of lease liabilities		–	(146)	(108)
Proceeds from bank borrowings		–	–	5,000
Interest paid on bank borrowings		–	–	(24)
Net cash generated from/(used in) financing activities		708	(1,226)	2,510
Net (decrease)/increase in cash and cash equivalents		(1,440)	(784)	7,146
Cash and cash equivalents at the beginning of the year		4,267	2,901	2,123
Effect of foreign exchange rates, net		74	6	(31)
Cash and cash equivalents at the end of the year	*17*	2,901	2,123	9,238

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. General information

The Target Company was incorporated in Hong Kong with limited liability on 27 July 1995. The Target Company's registered office and the principal place of business is at Unit 2303-05, 23/F, Prosperity Place, 6 Sing Yip Street, Kwun Tong, Kowloon, Hong Kong.

The Target Company and its subsidiaries are principally engaged in provision of debt collection services and credit investigation services in the People's Republic of China (the "**PRC**"), Hong Kong and Singapore.

As at the date of this report, particulars of the Target Company's subsidiaries are as follows:

Name	Place and date of incorporation	Principal activities	Issued and fully paid up/registere share capital	Percentage of equity attributable to the Target Company (Directly)
Alpha & Leader Business Management Consulting (Guangzhou) Company Limited 安華理達企業管理諮詢（廣州）有限公司 *(Note 1)*	PRC 27 August 2009	Provision of credit investigation and debt collection services	United States Dollars ("**US$**") 300,000	100%
Alpha & Leader Risk and Asset (Singapore) Pte. Ltd. *(Note 1)*	The Republic of Singapore 28 March 2017	Provision of debt collection services	Singapore Dollars 50,000	100%
Wave Leader Limited *(Note 2)*	Hong Kong 11 January 2013	Dormant	HK$10,000	100%

Note 1: No audited financial statements of these entities were issued for the years ended 31 December 2018, 2019 and 2020 as these entities were exempted from audit under the statutory requirements of their respective place of operation.

Note 2: The audited financial statements for this entity for the years ended 31 December 2018, 2019 and 2020 were yet to be issued as of the date of this report.

2. Basis of preparation and presentation

(a) The Historical Financial Information has been prepared in accordance with applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), Hong Kong Accounting Standards ("**HKAS**") and Interpretations (hereinafter collectively referred to as the "**HKFRSs**") issued by the HKICPA. The Historical Financial Information also complies with the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued a number of new and revised HKFRSs during the Track Record Period. For the purpose of preparing and presenting these Historical Financial Information, the Target Group has consistently applied all those new and revised HKFRSs throughout the Track Record Period, except that the Target Group adopted HKFRS 16 Leases ("**HKFRS 16**") on 1 January 2019 and HKAS 17 Leases ("**HKAS 17**") prior to 1 January 2019. Target Group has applied HKFRS 16 in accordance with the transition provisions set out in HKFRS 16 as further detailed in note 3(a).

Target Group has not adopted any other new standards or interpretations that are yet to be effective in the Historical Financial Information, except that the Target Group has early adopted the amendment to HKFRS 16 Covid-19 – Related Rent Concessions ahead of the effective date and applied the amendment from 1 January 2020. The new and revised accounting standards and interpretations issued but neither effective until the accounting period beginning on 1 January 2021 nor adopted by the Target Group are set out in note 3(b).

(b) The financial information of the Excluded Company

The Historical Financial Information also includes the assets and liabilities of the Excluded Company because the Excluded Company was not managed separately and was financially controlled within the Target Group, and its operations were an integral part of the business of the Target Group during the Track Record Period. The financial information of the Excluded Company during the Track Record Period is as follows:

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	35	46	–
Total liabilities	(306)	(335)	–
Net liabilities	(271)	(289)	–

	Year ended 31 December		Period from 1 January 2020 to 10 June
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/profit and total comprehensive income for the year	(244)	40	21

On 10 June 2020, the Target Group disposed of its entire equity interest in the Excluded Company as detailed in note 27.

(c) Basis of measurement

The Historical Financial Information has been prepared under the historical cost basis.

(d) Functional and presentation currency

The Historical Financial Information is presented in HK$, which is also the functional currency of the Target Company.

3 Adoption of HKFRSs

(a) Changes in accounting policies

HKFRS 16 – Leases

The Target Group has adopted HKFRS 16 on 1 January 2019. The Target Group has not restated financial information from 1 January 2018 to 31 December 2018. The impacts of the adoption are described below:

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17.

For details of HKFRS 16 regarding its new definition of a lease, its impact on the Target Group's accounting policies and the transition method adopted by the Target Group as allowed under HKFRS 16, please refer to sections (i) to (iii) of this note.

(i) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

(ii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statements of financial position of the lessee.

Under HKFRS 16, all leases are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise leases which are short-term leases. The Target Group has elected not to recognise right-of-use assets and lease liabilities for leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Target Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The Target Group measures the right-of-use assets applying a cost model. Under the cost model, the Target Group measures the right-of-use asset at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Target Group shall use the Target Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) re-measuring the carrying amount to reflect any reassessment or lease modification, or to reflect revised in substance fixed lease payments.

When the Target Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

(iii) Transition

The Target Group has applied HKFRS 16 using the modified retrospective approach. The adjustments arising from the adoption of HKFRS 16 are therefore not reflected in the statements of financial position as at 31 December 2018, but are recognised in the statement of financial position on 1 January 2019. Accordingly, the information presented for 2018 does not reflect the requirements of HKFRS 16 but rather those of HKAS 17.

The right-of-use asset for property lease was measured at the amount equal to the lease liability, adjusted by the amount of any prepayments relating to that lease recognised in the statement of financial position as at 31 December 2018.

The Target Group has recognised these lease liabilities at the date of 1 January 2019 for lease previously classified as operating lease applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The following tables summarised the impact of transition to HKFRS 16 on statements of financial position as of 31 December 2018 and 1 January 2019 as follows (increase/(decrease)):

	HK$'000
Consolidated statement of financial position as at 1 January 2019	
Prepayments, deposits and other receivables	(41)
Lease liabilities (non-current)	1,753
Lease liabilities (current)	1,691
Provisions	(440)
Accumulated losses	(3,045)

	HK$'000
Statement of financial position as at 1 January 2019	
Lease liabilities (non-current)	1,406
Lease liabilities (current)	908
Provisions	(283)
Accumulated losses	(2,031)

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 as at 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the statements of financial position as at 1 January 2019:

Target Group

	HK$'000
Operating lease commitment as at 31 December 2018	3,739
Less: short-term leases for which lease terms end on or before 31 December 2019	(90)
Gross lease liabilities at 1 January 2019	3,649
Less: future interest expenses	(205)
Lease liabilities as at 1 January 2019	3,444
Of which are:	
– current lease liabilities	1,691
– non-current lease liabilities	1,753
	3,444

Target Company

	HK$'000
Operating lease commitment as at 31 December 2018	2,476
Less: future interest expenses	(162)
Lease liabilities as at 1 January 2019	2,314
Of which are:	
– current lease liabilities	908
– non-current lease liabilities	1,406
	2,314

The Target Group has applied the follow practical expedients: (i) applied a single discount rate to a portfolio of lease with reasonably similar characteristic; and (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application and accounted for those leases as short-term leases. In addition, the Target Group has also applied the practical expedients that HKFRS 16 is applied to all of the Target Group's lease contracts that were previously identified as leases applying HKAS 17.

Impairment of right-of-use assets

For all these right-of-use assets, the Target Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

At 1 January 2019, the management identified impairment indicator of the right-of-use assets due to operating loss in the Target Group. The Target Group assessed the recoverable amounts of the right-of-use assets allocated to their respective cash-generating units ("**CGU(s)**") and as a result the carrying amount of the right-of-use assets was written down to their recoverable amount. An impairment loss was recognised in the accumulated losses at 1 January 2019.

The following tables summarised the impact of transition to HKFRS 16 on the opening balance of accumulated losses as of 1 January 2019:

Target Group

	HK$'000
Accumulated losses as at 31 December 2018	(1,539)
Impairment loss of right-of-use assets	(3,045)
Restated accumulated losses as at 1 January 2019	(4,584)

Target Company

	HK$'000
Retained profits as at 31 December 2018	90
Impairment loss of right-of-use assets	(2,031)
Restated accumulated losses as at 1 January 2019	(1,941)

Amendments to HKFRS 16 – Covid-19-Related Rent Concessions

Amendments to HKFRS 16 provides a practical expedient for leasees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic and only if (i) change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the lease have been reduced by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to terms of the leases. The Target Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK$17,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and credited to profit or loss for the year ended 31 December 2020.

(b) New/revised HKFRSs that have been issued but are not yet effective

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKAS39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[1]
Amendments to HKFRS 16	Covid-19 - Related Rent Concessions beyond 30 June 2021[2]
Amendments to HKAS 16	Proceeds before Intended Use[3]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an investor and its Associate or Joint Venture[5]
Amendments to HKFRS 17	Insurance Contracts[4]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[3]
Amendments to HKAS 1	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4]
Amendments to HKAS 1	Disclosure of Accounting Policies[4]
Amendments to HKAS 8	Definition of Accounting Estimates[4]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[4]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 April 2021
3 Effective for annual periods beginning on or after 1 January 2022
4 Effective for annual periods beginning on or after 1 January 2023
5 No mandatory effective date yet determined but available for adoption

The Target Group is in the process of making an assessment of what the impact of these amendments are expected to be in the period of initial application. So far it has concluded that the adoption of these amendments are unlikely to have a significant impact on the financial information of the Target Group.

4. Significant accounting policies

The significant accounting policies adopted in the preparation of the Historical Financial Information of the Target Group are set out below, which have been consistently applied to the Track Record Period, unless otherwise stated.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Target Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries disposed of during the Track Record Period, are included in the consolidated statements of profit or loss and other comprehensive income up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Target Group.

When the Target Group loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for on the same basis as would be required if the relevant assets or liabilities were disposed of.

(b) Subsidiaries

A subsidiary is an investee over which the Target Company is able to exercise control. The Target Company controls an investee if all three of the following elements are present: (i) power over the investee, (ii) exposure, or rights, to variable returns from the investee, and (iii) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Target Company's statements of financial position, investments in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Target Company on the basis of dividends received and receivable.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write off the cost of each item of property, plant and equipment to its estimated residual value over its estimated useful life, as follows:

Leasehold improvements	Over the shorter of the lease terms and 5 years
Furniture and office equipment	3 to 6 years
Motor vehicles	3 to 5 years
Other properties leased for own use	Over the shorter of the lease terms and expected useful lives

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(d) Leasing

(i) Accounting policies applied from 1 January 2019

Accounting as a lessee

All leases are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise leases which are short-term leases. The Target Group has elected not to recognise right-of-use assets and lease liabilities for leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The Target Group measures the right-of-use assets applying a cost model. Under the cost model, the Target Group measures the right-to-use asset at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Target Group uses the Target Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Target Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in substance fixed lease payments.

When the Target Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

Lease modifications

When the Target Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Target Group renegotiates the contractual terms of a lease with the lessor, if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease, in all other cases, where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount. With the exception to which the practical expedient for Covid-19-Related Rent Concessions applies (see note 3(a)), if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date and the right-of-use asset is adjusted by the same amount.

(ii) Accounting policies applied until 31 December 2018

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

Accounting as a lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(e) Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Target Group's business model for managing the asset and the cash flow characteristics of the asset. The following is the measurement category into which the Target Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

(ii) Impairment loss on financial assets

The Target Group recognises loss allowances for expected credit loss ("**ECL**") on trade receivables and financial assets measured at amortised cost. The ECL are measured on either of the following bases: (1) 12 months ECL: these are the ECL that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECL: these are ECL that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECL is the maximum contractual period over which the Target Group is exposed to credit risk.

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and all the cash flows that the Target Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Target Group measured loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECL based on lifetime ECL. The Target Group has established a provision matrix that is based on the Target Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets at amortised cost, the ECL are based on the 12 months ECL. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Target Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Target Group's historical experience and informed credit assessment and including forward-looking information.

The Target Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Target Group considers a financial asset to be in default when: (1) the debtor is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

The Target Group considers a financial asset to be credit-impaired when:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Target Group on terms that the Target Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The Target Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

The Target Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are past due for a number of years. Financial assets written off may still be subject to enforcement activities under the Target Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Target Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade payables, accruals and other payables, amounts due to directors and bank borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Target Company are recognised at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Target Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

(f) Cash and cash equivalents

Cash and cash equivalents include cash at banks and on hand.

(g) Income taxes

Income taxes for the year comprise current tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income tax.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(h) Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Target Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Target Group performs; or
- does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Target Group and the customer at contract inception.

Where the contract contains a financing component which provides a significant financing benefit to the Target Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) Service income

Debt collection service income and credit investigation services income is recognised when services are rendered.

(ii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Contract assets and liabilities

A contract asset represents the Target Group's right to consideration in exchange for services that the Target Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Target Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Target Group's obligation to transfer services to a customer for which the Target Group has received consideration (or an amount of consideration is due) from the customer.

Contract asset is recognised when the customers retain retention money to secure the due performance of the contracts. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the considerations (including advances received from customers) exceeds the revenue recognised to date under the output method then the Target Group recognises a contract liability for the difference.

Contract costs

The Target Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

(i) Government grant

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(j) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(k) Impairment of assets other than financial assets

At the end of each reporting period, the Target Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- investments in subsidiaries

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss.

Value in use is based on the estimated future cash flows expected to be derived from the asset, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

(l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) Foreign currencies

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Target Group (i.e. Hong Kong dollars) at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as translation reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long term monetary items forming part of the Target Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as translation reserve.

(n) Related parties

(i) A person or a close member of that person's family is related to the Target Group if that person:

(a) has control or joint control over the Target Company;

(b) has significant influence over the Target Company; or

(c) is a member of the key management personnel of the Target Company or the parent of the Target Company.

(ii) An entity is related to the Target Group if any of the following conditions apply:

(a) the entity and the Target Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(b) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(c) both entities are joint ventures of the same third party;

(d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(e) the entity is a post-employment benefit plan for the benefit of the employees of the Target Group or an entity related to the Target Group;

(f) the entity is controlled or jointly controlled by a person identified in (i);

(g) a person identified in (i) (a) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity); and

(h) the entity, or any member of a group of which it is a part, provides key management personnel services to Target Company or to the parent of the Target Company.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. Critical accounting judgements and estimates

In the application of the Target Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

(i) Impairment of financial assets

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At each reporting date, the Target Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Target Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

(ii) Income taxes

The Target Group is mainly subject to income taxes in jurisdictions in Hong Kong and the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax provisions in the period in which such determination is made.

(iii) Impairment of non-financial assets

The management assesses whether there is an indication that an asset may be impaired at the end of each reporting period. If any such indication exists, the management makes an estimate of the recoverable amount of the asset. This may require an estimation of the value-in-use of the CGU to which the asset is allocated. Estimating the value-in-use requires the management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

6. Segment information

The Target Group operates only one business segment, being that is engaged in debt collection services and credit investigation services in Hong Kong, the PRC and Singapore during the Track Record Period. Accordingly, no operating segment results is presented.

(a) Geographical information

The Target Group's operations and non-current assets are mainly located in Hong Kong, the PRC and Singapore. Geographical information of revenue from customers is based on the location of the customers and the geographical location of the non-current assets (other than financial assets) is based on the physical location of the assets.

Target Group

Revenue from external customers

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong	4,322	3,347	2,507
PRC	10,919	16,731	26,529
Singapore	35	358	765
	15,276	20,436	29,801

Non-current assets

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong	85	48	819
PRC	461	361	1,391
Singapore	–	–	76
	546	409	2,286

Target Company

All the revenue and non-current assets of the Target Company are principally attributed to Hong Kong and the PRC.

(b) Information about major customers

Revenue attributed from customers that contributing for 10% or more of the Target Group's total revenue during the Track Record Period are as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Customer A *(Note)*	2,966	7,059	10,088

Note: It is a customer from debt collection services.

7. Revenue and other income

Revenue represents the income from debt collection services and credit investigation services. The amounts of revenue recognised within the scope of HKFRS 15 during the Track Record Period are as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Debt collection services	6,967	11,500	19,049
Credit investigation services	8,309	8,936	10,752
	15,276	20,436	29,801
Timing of revenue recognition:			
At a point in time	14,977	20,143	29,501
Transferred over time	299	293	300
	15,276	20,436	29,801

An analysis of the Target Group's other income is as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	2	2	3
Training service income	139	114	55
Translation service income	15	186	52
Reversal of impairment loss on property, plant and equipment	–	–	686
Rent concession related to Covid-19	–	–	17
Government grants *(Note)*	–	–	735
Gain on disposal of a subsidiary *(note 27)*	–	–	287
Others	32	147	280
	188	449	2,115

Note: It represents the government grants from the employment support scheme under the Anti-epidemic Fund launched by the Government of the Hong Kong Special Administrative Region.

8. Finance costs

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Interest on lease liabilities	–	146	108
Interest on bank borrowings	–	–	24
	–	146	132

9. (Loss)/profit before income tax

The Target Group's (loss)/profit before income tax is arrived at after charging/(crediting):

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Exchange loss, net	48	41	14
Depreciation of property, plant and equipment	305	334	789
Provision for/(reversal of) impairment loss on property, plant and equipment	17	305	(686)
Operating lease charges in respect of properties	1,960	–	–
Short-term lease expenses	–	156	96
Rent concession related to Covid-19	–	–	(17)
Employee costs (including directors' emoluments) *(note 10)*:			
– Salaries, allowances and other benefits	11,286	12,312	14,322
– Pension scheme contributions	1,063	1,132	581
	12,349	13,444	14,903

10. Directors' remuneration and five highest paid individuals

(a) Directors' remuneration

For the year ended 31 December 2018

	Fees	**Salaries, allowances and other benefits**	**Pension scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Rozario Bobby Roberto	852	383	14	1,249
Lam Tat Cheong	588	312	16	916
Li Jianhui	–	480	18	498
	1,440	1,175	48	2,663

For the year ended 31 December 2019

	Fees	Salaries, allowances and other benefits	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Rozario Bobby Roberto	852	288	14	1,154
Lam Tat Cheong	588	312	16	916
Li Jianhui	–	516	18	534
	1,440	1,116	48	2,604

For the year ended 31 December 2020

	Fees	Salaries, allowances and other benefits	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Rozario Bobby Roberto	775	357	16	1,148
Lam Tat Cheong	588	304	15	907
Li Jianhui	–	273	12	285
	1,363	934	43	2,340

(b) Five highest paid individuals

The five highest paid individuals of the Target Group included all directors for the years ended 31 December 2018 and 2019 and two directors for the year ended 31 December 2020, whose emoluments are reflected in note 10(a). The emoluments of the five highest paid individuals were as follows:

	For the year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and other benefits	4,261	4,416	4,225
Pension scheme contributions	84	84	84
	4,345	4,500	4,309

The emoluments of the five highest paid individuals were within the following bands:

	For the year ended 31 December		
	2018	2019	2020
Nil to HK$1,000,000	3	3	3
HK$1,000,001 to HK$1,500,000	2	2	2
	5	5	5

During the years ended 31 December 2018, 2019 and 2020, no director or any of the highest paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Target Group to the directors or any of the highest paid individuals of the Target Group as an inducement to join or upon joining the Target Group or as compensation for loss of office.

11. Income tax expense

	Year ended 31 December		
	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
Enterprise income tax ("**EIT**")	10	21	123

The Target Group is subject to EIT, which is provided on the estimated assessable profits of the subsidiaries operating in the PRC, which are qualified small and thin-profit enterprises and entitled to a reduced EIT rate of 10% for year ended 31 December 2018 and 5% for years ended 31 December 2019 and 2020.

No provision for Hong Kong Profits Tax had been provided as the Target Group did not derive any assessable profits for the years ended 31 December 2018, 2019 and 2020.

No provision for Singapore Corporate Tax had been provided as the Target Group had no estimated assessable profits in Singapore during the Track Record Period.

The income tax expense can be reconciled to the (loss)/profit before income tax per the consolidated statements of profit or loss and other comprehensive income during the Track Record Period as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/profit before income tax	(3,871)	(994)	5,663
Tax calculated at the rates applicable to (loss)/profit in the tax jurisdictions concerned	(596)	(303)	523
Tax effect of non-deductible expenses	144	55	8
Tax effect of non-taxable income	–	–	(136)
Tax effect of temporary difference not recognised	2	–	(1)
Tax effect of tax losses not recognised	460	269	–
Utilisation of tax losses	–	–	(271)
	10	21	123

The Target Group did not recognise deferred income tax assets of HK$525,000, HK$794,000 and HK$523,000 in respect of losses amounting to HK$3,189,000, HK$4,818,000 and HK$3,173,000 that can be carried forward against future taxable income due to uncertainty of availability of future taxable income. The tax loss may be carried forward indefinitely.

12. Dividend

No dividend has been paid or declared by the Target Company during the Track Record Period.

13. Property, plant and equipment

Target Group

	Furniture and office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Other properties leased for own use HK$'000	Total HK$'000
Cost:					
At 1 January 2018	466	680	617	–	1,763
Additions	26	202	–	–	228
Exchange realignment	(8)	(39)	(14)	–	(61)
At 31 December 2018	484	843	603	–	1,930
Impact on adoption of HKFRS 16	–	–	–	3,485	3,485
At 1 January 2019	484	843	603	3,485	5,415
Additions	59	–	–	–	59
Lease modification	–	–	–	449	449
Exchange realignment	(3)	(15)	(4)	(24)	(46)
At 31 December 2019 and 1 January 2020	540	828	599	3,910	5,877
Additions	–	–	–	103	103
Lease modification	–	–	–	1,791	1,791
Written off	–	–	–	(978)	(978)
Exchange realignment	14	53	16	119	202
At 31 December 2020	554	881	615	4,945	6,995
Accumulated depreciation and impairment:					
At 1 January 2018	331	244	525	–	1,100
Depreciation	50	162	93	–	305
Impairment loss	2	15	–	–	17
Exchange realignment	(8)	(15)	(15)	–	(38)
At 31 December 2018	375	406	603	–	1,384
Impact on adoption of HKFRS 16	–	–	–	3,485	3,485
At 1 January 2019	375	406	603	3,485	4,869
Depreciation	54	136	–	144	334
Impairment loss	–	–	–	305	305
Exchange realignment	(4)	(8)	(4)	(24)	(40)
At 31 December 2019 and 1 January 2020	425	534	599	3,910	5,468
Depreciation	51	127	–	611	789
Reversal of impairment loss	(1)	(16)	–	(669)	(686)
Written off	–	–	–	(978)	(978)
Exchange realignment	11	40	16	49	116
At 31 December 2020	486	685	615	2,923	4,709
Net carrying amount:					
At 31 December 2018	109	437	–	–	546
At 31 December 2019	115	294	–	–	409
At 31 December 2020	68	196	–	2,022	2,286

Notes:

(a) During the years ended 31 December 2018 and 2019, the management identified an impairment indicator of property, plant and equipment due to operating loss in the business. The Target Group assessed the recoverable amounts of these property, plant and equipment allocated to the CGUs of debt collection services and credit investigation services respectively and as a result the carrying amounts of these property, plant and equipment were written down to their recoverable amounts of HK$546,000 and HK$409,000 as at 31 December 2018 and 2019 respectively. Impairment loss was recognised in the consolidated statement of profit or loss and comprehensive income of the respective years.

For the year ended 31 December 2020, the management identified impairment reversal indicator due to operating profit in the business. The management estimated the recoverable amount of these property, plant and equipment of HK$2,286,000 and reversal of impairment loss was recognised to in the consolidated statement of profit or loss and comprehensive income.

The recoverable amount of the CGU is determined based on value in use calculation, covering a detailed 3-year budget plan plus an extrapolated cash flow projection by applying a long term estimated growth rate of 2% to this three-year plan, with a pre-tax discount rate of 5%.

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Other properties leased for own use, carried at depreciated cost	–	–	2,022

The followings are the amounts in relation to leases recognised in profit or loss:

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Depreciation charge of other properties leased for own use	–	144	611
Provision for/(reversal of) impairment loss on other properties leased for own use	–	305	(669)
Interest on lease liabilities *(note 8)*	–	146	108
Short-term lease expenses	–	156	96
Rent concession related to Covid-19	–	–	(17)
Aggregate undiscounted commitments for short-term leases	–	290	–

Target Company

	Furniture and office equipment *HK$'000*	Leasehold improvements *HK$'000*	Other properties leased for own use *HK$'000*	Total *HK$'000*
Cost:				
At 1 January 2018	310	348	–	658
Additions	14	–	–	14
At 31 December 2018	324	348	–	672
Impact on adoption of HKFRS 16	–	–	2,314	2,314
At 1 January 2019, 31 December 2019 and 1 January 2020	324	348	2,314	2,986
Lease modification	–	–	387	387
Written off	–	–	(254)	(254)
At 31 December 2020	324	348	2,447	3,119
Accumulated depreciation and impairment:				
At 1 January 2018	195	255	–	450
Depreciation	44	93	–	137
At 31 December 2018	239	348	–	587
Impact on adoption of HKFRS 16	–	–	2,314	2,314
At 1 January 2019	239	348	2,314	2,901
Depreciation	37	–	–	37
At 31 December 2019 and 1 January 2020	276	348	2,314	2,938
Depreciation	33	–	145	178
Reversal of impairment loss	–	–	(562)	(562)
Written off	–	–	(254)	(254)
At 31 December 2020	309	348	1,643	2,300
Net carrying amount:				
At 31 December 2018	85	–	–	85
At 31 December 2019	48	–	–	48
At 31 December 2020	15	–	804	819

Note: For the year ended 31 December 2020, the management identified impairment reversal indicator due to operating profit in the business. The management estimated the recoverable amount of these property, plant and equipment of HK$819,000 and reversal of impairment loss was recognised to in the consolidated statement of profit or loss and comprehensive income.

14. Investments in subsidiaries

Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares, at cost	2,626	2,626	2,626
Provision for impairment	(2,616)	(2,616)	(1,594)
	10	10	1,032

Particulars of the directly held subsidiaries of the Target Company are set out in note 1 of this report.

15. Trade receivables

The ageing analysis of trade receivables based on the invoice date as at the end of the Track Record Period is as follows:

Target Group

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
0 to 30 days	2,028	2,356	4,070
31 to 60 days	225	265	394
61 to 90 days	147	27	154
Over 90 days	484	128	274
	2,884	2,776	4,892

Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
0 to 30 days	1,403	686	1,566
31 to 60 days	222	199	118
61 to 90 days	137	6	112
Over 90 days	408	111	203
	2,170	1,002	1,999

Further details on the Target Group's and the Target Company's credit policy and credit risk arising from trade receivables are set out in note 29(c).

The credit terms of the trade receivables are ranged from 0 to 60 days from the date of billing.

16. Prepayments, deposits and other receivables

Target Group

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Non-current asset			
Deposits	403	317	114
Current assets			
Prepayments	197	100	84
Deposits	172	225	406
Other receivables	34	46	34
	403	371	524

Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Non-current asset			
Deposits	289	289	–
Current assets			
Prepayments	69	41	42
Deposits	11	11	300
	80	52	342

17. Cash and cash equivalents

Target Group

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Cash at banks	2,283	1,571	7,835
Cash on hand	618	552	1,403
	2,901	2,123	9,238

Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Cash at banks	1,997	1,243	6,300
Cash on hand	5	5	7
	2,002	1,248	6,307

18. Trade payables

The ageing analysis of trade payables based on the invoice date as at the end of the Track Record Period is as follows:

Target Group and Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
0 to 30 days	53	70	35
31 to 60 days	28	16	–
Over 60 days	–	12	–
	81	98	35

19. Accruals and other payables

Target Group

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Accruals	204	618	1,531
Other payables	268	14	62
Other tax payables	78	108	62
Dividend payables	460	460	460
Provisions	440	–	–
	1,450	1,200	2,115

Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Accruals	178	349	536
Other payables	–	–	34
Dividend payables	460	460	460
Provisions	283	–	–
	921	809	1,030

20. Amounts due to directors/due from subsidiaries

(i) Amounts due to directors

Target Group

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Rozario Bobby Roberto	947	1,355	1,565
Lam Tat Cheong	1,259	1,601	873
	2,206	2,956	2,438

Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Rozario Bobby Roberto	947	1,355	1,565
Lam Tat Cheong	245	637	873
	1,192	1,992	2,438

The amounts were unsecured, interest-free and repayable on demand as at 31 December 2018, 2019 and 2020.

(ii) Amounts due from subsidiaries

Target Company

The amounts were unsecured, interest-free and repayable on demand as at 31 December 2018, 2019 and 2020.

21. Contract liabilities

The contract liabilities represented the advance consideration received from customers. The Target Group and Target Company will recognise revenue when the services are completed.

Target Group

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Contract liabilities related to credit investigation services	3,353	3,680	3,689

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Revenue recognised during the year that was included in the contract liabilities at the beginning of the year	1,823	1,577	1,920

Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Contract liabilities related to credit investigation services	747	1,010	751

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Revenue recognised during the year that was included in the contract liabilities at the beginning of the year	329	275	471

22. Leases liabilities

Target Group

	Total minimum lease payments			Present value of minimum lease payments		
	At 1 January 2019	At 31 December 2019	At 31 December 2020	At 1 January 2019	At 31 December 2019	At 31 December 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Not later than one year	1,824	1,403	1,457	1,691	1,337	1,399
Later than one year and not later than two years	1,176	707	427	1,117	693	410
Later than two years and not later than three years	649	–	181	636	–	178
	3,649	2,110	2,065	3,444	2,030	1,987
Less: total future interest expenses	(205)	(80)	(78)			
Present value of lease liabilities	3,444	2,030	1,987			
Analysis as reporting purpose as:						
Current liabilities				1,691	1,337	1,399
Non-current liabilities				1,753	693	588
				3,444	2,030	1,987

The Target Group had total cash flow for leases of HK$1,993,000 and HK$1,958,000 during the years ended 31 December 2019 and 2020 respectively.

Target Company

	Total minimum lease payments			Present value of minimum lease payments		
	At 1 January 2019	At 31 December 2019	At 31 December 2020	At 1 January 2019	At 31 December 2019	At 31 December 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Not later than one year	1,004	860	816	908	807	795
Later than one year and not later than two years	860	612	51	807	599	51
Later than two years and not later than three years	612	–	–	599	–	–
	2,476	1,472	867	2,314	1,406	846
Less: total future interest expenses	(162)	(66)	(21)			
Present value of lease liabilities	2,314	1,406	846			
Analysis as reporting purpose as:						
Current liabilities				908	807	795
Non-current liabilities				1,406	599	51
				2,314	1,406	846

The Target Company had total cash outflows for leases of HK$1,004,000 and HK$1,013,000 during the years ended 31 December 2019 and 2020 respectively.

23. Bank borrowings

Target Group and Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Bank loan – unsecured			
Repayable based on the scheduled payment date set out in the loan agreements			
– Within one year	–	–	419
– After one year but within two years	–	–	1,886
– After two years but within five years	–	–	2,695
	–	–	5,000

Bank borrowings are denominated in HK$ and are guaranteed by Lam Tat Cheong and Rozario Bobby Roberto, directors of the Target Company. As at 31 December 2020, the bank borrowings carried floating interest rate of 2.75% per annum.

24. Share capital

Target Group and Target Company

	Number of shares	*HK$'000*
Issued and fully paid		
At 31 December 2018, 31 December 2019 and 31 December 2020	800,000	800

In accordance with section 135 of Hong Kong Companies Ordinance, the ordinary shares of the Target Company do not have par value.

25. Reserves

Target Group

The amounts of the Target Group's reserves and the movements therein for the Track Record Period are presented in the consolidated statements of changes in equity on page 122 of this report.

Translation reserve

Foreign exchange gains/(losses) arise from translation of net assets of foreign operations into the presentation currency of the Target Group at the end of reporting period.

Target Company

	Retained profits/ (accumulated losses)
	HK$'000
At 1 January 2018	3,368
Loss and total comprehensive income for the year	(3,278)
At 31 December 2018	90
Impact on adoption of HKFRS 16	(2,031)
At 1 January 2019	(1,941)
Loss and total comprehensive income for the year	(2,330)
At 31 December 2019 and 1 January 2020	(4,271)
Profit and total comprehensive income for the year	4,271
At 31 December 2020	–

26. Operating lease commitment

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

Target Group as lessee

	2018
	HK$'000
Within one year	1,915
After one year but within two years	1,175
After two years but within five years	649
	3,739

Target Company as lessee

	2018
	HK$'000
Within one year	1,004
After one year but within two years	860
After two years but within five years	612
	2,476

27. Disposal of a subsidiary

On 10 June 2020, the Target Group disposed of its entire equity interest in the Excluded Company, at cash consideration of RMB1. The Excluded Company is principally engaged in translation service in the PRC. The net liabilities of the Excluded Company at the date of disposal were as follows:

	HK$'000
Trade receivables	2
Prepayments, deposits and other receivables	5
Cash and cash equivalents	54
Accruals and other payables	(7)
Amount due to the Target Group	(298)
Lease liabilities	(24)
Net liabilities disposed of	(268)
Gain on disposal of a subsidiary:	
Consideration receivable (Note)	–*
Release of translation reserve upon disposal of a subsidiary	19
Net liabilities disposed of	268
Gain on disposal of a subsidiary	287
Net cash outflow arising from disposal:	
Cash and bank balances disposed of	(54)

* *Represent amount of less than HK$1,000*

Note: The consideration receivable of RMB1 in relation to the disposal of the Excluded Company was not received as at 31 December 2020 and was included in other receivables.

28. Financial instruments by category

Categories of financial instruments as at the reporting date are as follows:

Target Group

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
At amortised costs			
Trade receivables	2,884	2,776	4,892
Deposits and other receivables	609	588	554
Cash and cash equivalents	2,901	2,123	9,238
	6,394	5,487	14,684
Financial liabilities			
At amortised costs			
Trade payables	81	98	35
Accruals and other payables	932	1,092	2,053
Amounts due to directors	2,206	2,956	2,438
Bank borrowings	–	–	5,000
Lease liabilities	–	2,030	1,987
	3,219	6,176	11,513

Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
At amortised costs			
Trade receivables	2,170	1,002	1,999
Deposits	300	300	300
Amounts due from subsidiaries	12	12	1,218
Cash and cash equivalents	2,002	1,248	6,307
	4,484	2,562	9,824
Financial liabilities			
At amortised costs			
Trade payables	81	98	35
Accruals and other payables	638	809	1,030
Amounts due to directors	1,192	1,992	2,438
Bank borrowings	–	–	5,000
Lease liabilities	–	1,406	846
	1,911	4,305	9,349

29. Financial risk management objectives and policies

The Target Group's and the Target Company's financial instruments comprise trade receivables, deposits and other receivables, cash and cash equivalents, amounts due from subsidiaries, trade payables, accruals and other payables, amounts due to directors, bank borrowings and lease liabilities. These financial instruments mainly arise from its operations and financing activities. The Target Group and the Target Company has not used any derivatives and other instruments for hedging purposes.

The main risks arising from the Target Group's and the Target Company's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and fair value risk. The board of the directors of the Target Company reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value or future cash flows of financial instruments which arise from changes in interest rates. Floating interest rate instruments will result in the Target Group facing the risk of changes in market interest rate.

The Target Group's and the Target Company's interest rate risk primarily relates to the interest bearing bank balances and bank borrowings. The Target Group and the Target Company currently have not used any interest rate swaps to hedge its exposure to interest rate but may enter into interest rate hedging instruments in the future to hedge any significant interest rate exposure should the need arise.

The directors of the Target Company are of the opinion that the impact of the Target Group's sensitivity to the change in interest rate is insignificant.

(b) Foreign currency risk

Foreign exchange risk arises when the Target Group enters into transactions denominated in a currency other than its functional currency. The Target Group is exposed to foreign currency risk primarily with respect to RMB and US$ denominated transactions. Foreign currency risk arises from future commercial transactions and financial instruments.

The Target Group manages its exposures to foreign currency transactions by monitoring exchange rate movements closely to ascertain if any material exposure may arise.

As at 31 December 2018, 2019 and 2020, the Target Group's cash and bank balances are mainly denominated in HK$, RMB and US$.

Since HK$ is pegged to US$, the Target Group believes the exposure of transactions denominated in US$ which are entered into by the Target Group to be insignificant.

(c) Credit risk

The Target Group's credit risk is primarily attributed to its trade and other receivables and bank balances. The Target Group reviews individual outstanding amount regularly depending on individual circumstance or market condition.

The Target Group has concentration of credit risk with 1, 1, and 1 customer with trade receivables of HK$1,610,000, HK$648,000 and HK$1,690,000 as at 31 December 2018, 2019 and 2020 respectively.

For trade receivables, the Target Group reassesses the lifetime ECL at the end of the reporting period to ensure the adequate impairment losses are made for significant increases in the likelihood or risk of default occurring since initial recognition.

The Target Group applies provision matrix to measure the ECL. As at 31 December 2018, 2019 and 2020, the Target Group has established a provision matrix that reference to the debtors' characteristics, including historical actual loss on the trade receivables and adjusted forward-looking information. The Target Group assessed that no loss allowance recognised for trade receivable as the customers have a good track repayment record and considered as financially healthy at the end of each reporting period.

For other receivables, the Target Group has assessed and concluded that the ECL for these receivables is insignificant based on the risk of default of those counterparties under 12-month ECL approach. Thus, no loss allowance was recognised as at 31 December 2018, 2019 and 2020.

The credit risk for bank balances is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(d) Liquidity risk

The Target Group is exposed to liquidity risk in respect of settlement of trade payables, accruals and other payables, amounts due to directors and bank borrowings and its financing obligations, and also in respect of its cash flow management.

The Target Group's policy is to regularly monitor its liquidity requirements to ensure the Target Group maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at each reporting period of the Target Group's financial liabilities, based on undiscounted cash flows and the earliest date the Target Group can be required to pay.

Target Group

	Carrying amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within one year or on demand *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*
At 31 December 2018					
Trade payables	81	81	81	–	–
Accruals and other payables	932	932	932	–	–
Amounts due to directors	2,206	2,206	2,206	–	–
	3,219	3,219	3,219	–	–

	Carrying amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within one year or on demand *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*
At 31 December 2019					
Trade payables	98	98	98	–	–
Accruals and other payables	1,092	1,092	1,092	–	–
Amounts due to directors	2,956	2,956	2,956	–	–
Lease liabilities	2,030	2,110	1,403	707	–
	6,176	6,256	5,549	707	–

	Carrying amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within one year or on demand *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*
At 31 December 2020					
Trade payables	35	35	35	–	–
Accruals and other payables	2,053	2,053	2,053	–	–
Amounts due to directors	2,438	2,438	2,438	–	–
Bank borrowings	5,000	5,325	555	1,989	2,781
Lease liabilities	1,987	2,065	1,457	427	181
	11,513	11,916	6,538	2,416	2,962

Target Company

	Carrying amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within one year or on demand *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*
At 31 December 2018					
Trade payables	81	81	81	–	–
Accruals and other payables	638	638	638	–	–
Amounts due to directors	1,192	1,192	1,192	–	–
	1,911	1,911	1,911	–	–

	Carrying amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within one year or on demand *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*
At 31 December 2019					
Trade payables	98	98	98	–	–
Accruals and other payables	809	809	809	–	–
Amounts due to directors	1,992	1,992	1,992	–	–
Lease liabilities	1,406	1,472	860	612	–
	4,305	4,371	3,759	612	–

	Carrying amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within one year or on demand *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*
At 31 December 2020					
Trade payables	35	35	35	–	–
Accruals and other payables	1,030	1,030	1,030	–	–
Amounts due to directors	2,438	2,438	2,438	–	–
Bank borrowings	5,000	5,325	555	1,989	2,781
Lease liabilities	846	867	816	51	–
	9,349	9,695	4,874	2,040	2,781

(e) Fair value

The directors of the Target Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Target Group's financial statements approximate to their fair values.

30. Capital management

The Target Group's capital management objectives include:

(i) to safeguard the Target Group's ability to continue as a going concern, so that it continues to provide returns for owners and benefits for other stakeholders;

(ii) to support the Target Group's stability and growth; and

(iii) to provide capital for the purpose of strengthening the Target Group's risk management capability.

The Target Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder's returns, taking into consideration the future capital requirements of the Target Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The capital structure of the Target Group consists of equity attributable to owners of the Target Company, comprising issued share capital.

31. Related party transactions

Save as disclosed elsewhere in this report, the Target Group and Target Company had the following material related party transactions during the Track Record Period:

(i) Related party transactions

Target Group and Target Company

		Year ended 31 December		
		2018	**2019**	**2020**
		HK\$'000	*HK\$'000*	*HK\$'000*
Alpha Focus International Limited *(Note)*	Service fee paid	321	1,377	2,513
	Management fee paid	835	2,428	336
		1,156	3,805	2,849

Note: The Target Group entered into agreements with Alpha Focus International Limited ("**Alpha Focus**"), the shareholder of the Target Company. Pursuant to the agreements, Alpha Focus would provide research services to the Target Group for the provision of credit investigation services. The transaction amounts during the Track Record Period incurred the service fee and the associated service expenses charged to the Target Group.

(ii) ***Compensation of key management personnel***

The emoluments of the directors of the Target Company who are also identified as the sole members of key management of the Target Company during the Track Record Period are set out in note 10.

32. Reconciliation of liabilities arising from financing activities

	Amounts due to directors *HK$'000*	Lease liabilities *HK$'000*	Bank borrowings *HK$'000*
At 1 January 2018	1,547	–	–
Change from financing cash flows:			
Advance from directors	708	–	–
	2,255	–	–
Other change:			
Exchange realignment	(49)	–	–
At 31 December 2018	2,206	–	–
Impact on initial application of HKFRS 16	–	3,444	–
At 1 January 2019	2,206	3,444	–
Changes from financing cash flows:			
Advance from directors	767	–	–
Payment of principal portion of lease liabilities	–	(1,847)	–
Payment of interest portion of lease liabilities	–	(146)	–
	767	(1,993)	–
Other changes:			
Lease modification	–	449	–
Interest on lease liabilities	–	146	–
Exchange realignment	(17)	(16)	–
	(17)	579	–
At 31 December 2019	2,956	2,030	–

	Amounts due to directors HK$'000	Lease liabilities HK$'000	Bank borrowings HK$'000
At 1 January 2020	2,956	2,030	–
Changes from financing cash flows:			
Repayment to directors	(508)	–	–
Payment of principal portion of lease liabilities	–	(1,850)	–
Payment of interest portion of lease liabilities	–	(108)	–
Interest paid	–	–	(24)
Proceeds from bank borrowings	–	–	5,000
	(508)	(1,958)	4,976
Other changes:			
Disposal of a subsidiary	–	(24)	–
New leases	–	103	–
Lease modification	–	1,791	
Interest on lease liabilities	–	108	–
Interest on bank borrowings	–	–	24
Rent concession related to Covid-19	–	(17)	–
Exchange realignment	(10)	(46)	–
	(10)	1,915	24
At 31 December 2020	2,438	1,987	5,000

33. Impact of covid-19 pandemic

The emergence and spread of novel Coronavirus ("**Covid-19**") in early 2020 has affected business and economic activity in the PRC and beyond. The Target Group has assessed the overall impact of the situation on the operation of the Target Group and taken all possible effective measures to limit and keep the impact in control. The Target Group will keep continue attention to the development of the Covid-19 outbreak and evaluate its impact on the financial position and operating results.

34. Events after the reporting period

There is no significant event after the Track Record Period.

III SUBSEQUENT FINANCIAL STATEMENT

No audited financial statements have been prepared by the Target Group and the Target Company in respect of any period subsequent to 31 December 2020 and up to the date of this report.

*Set out below is the management discussion and analysis of the Target Group for the three years ended 31 December 2018, 2019 and 2020 (the "**Track Record Period**") based on the accountants' report of the Target Group as set out in Appendix II to this circular.*

A. OVERVIEW

The Target Company is a company incorporated in Hong Kong with limited liability, and together with its subsidiaries, are principally engaged in provision of debt and accounts receivable management and collection services in the PRC, Hong Kong and Singapore. During the Track Record Period, the Target Group comprised of the Target Company and its subsidiaries, namely Alpha (Guangzhou), Alpha (Singapore), Wave Leader and Alders Translation Services Company Limited.

B. OPERATING RESULTS OF THE TARGET GROUP

Revenue

The Target Group recorded revenue of approximately HK$15,276,000, HK$20,436,000 and HK$29,801,000 for the years ended 31 December 2018, 2019 and 2020, respectively.

The increase in the revenue for the year ended 31 December 2019 was primarily due to the increase in the income arising from debt collection services from HK$6,967,000 to HK$11,500,000 during the year. Despite the business disruption brought by the COVID-19 epidemic, the revenue for the year ended 31 December 2020 further increased, as compared to previous year which was mainly due to the increase in debt collection services income from HK$11,500,000 to HK$19,049,000 during the year.

The Target Group operates one business segment throughout the Track Record Period, being the provision of debt collection services and credit investigation services in Hong Kong, the PRC and Singapore. Accordingly, no operating segment results are presented.

The following table sets out information as to the geographical location of the Target Group's revenue from external customers. The geographical information of the revenue is presented based on the location of the customers.

Revenue from external customers

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong	4,322	3,347	2,507
PRC	10,919	16,731	26,529
Singapore	35	358	765
	15,276	20,436	29,801

During the Track Record Period, the Target Group derived majority of its revenue from the PRC which accounted for approximately 71.5%, 81.9% and 89.0% of total revenue for the years ended 31 December 2018, 2019 and 2020, respectively.

The following tables set forth information about the Target Group's five largest customers during the three years ended 31 December 2020:

For the year ended 31 December 2018

Customer	**Business profile**	**Years of business relationship**	**Revenue derived for the year** *(Note)*	**Percentage to the total revenue of the Target Group**	**Whether the customer is a recurring customer as at the Latest Practicable Date**	**Services provided/to be provided to such recurring customer**	**Total agreed/ proposed contract sum**
		years	*HK$'000*	*%*	*(Yes/No)*		*HK$'000*
Customer A	a state-funded insurance company in the PRC that focuses on provision of credit insurance-related services	8	2,966	19.4	Yes	Credit investigation services, debt collection services, litigation services	47,509
Customer B	a company principally engaged in the commercial banking business in Hong Kong	11	578	3.8	No	–	–
Customer C	a company principally engaged in commodity procurement, supply and integrated logistics services in the PRC	5	499	3.3	Yes	Credit investigation services	4,224
Customer D	a company principally engaged in provision of payment processing solutions, serving merchants and online operations in the Asia Pacific	14	397	2.6	Yes	Credit investigation services	1,500
Customer E	a service platform of business credit information and commercial collection in the PRC	15	369	2.4	No	–	–
	Total		**4,809**	**31.5**			

For the year ended 31 December 2019

Customer	Business profile	Years of business relationship *years*	Revenue derived for the year *(Note)* *HK$'000*	Percentage to the total revenue of the Target Group *%*	Whether the customer is a recurring customer as at the Latest Practicable Date *(Yes/No)*	Services provided/to be provided to such recurring customer	Total agreed/ proposed contract sum *HK$'000*
Customer A	a state-funded insurance company in the PRC that focuses on provision of credit insurance-related services	8	7,059	34.5			
Customer F	a company principally engaged in the production of agricultural products	5	573	2.8	Yes	Credit investigation services, debt collection services, litigation services	3,590
Customer G	a PRC leading supplier of pumps, valves and related systems that are used in various spectrums from building services, industry and water transport to waste water treatment and power plant processes	3	545	2.7	Yes	Credit investigation services, debt collection services, litigation services	2,956
Customer D	a company principally engaged in provision of payment processing solutions, serving merchants and online operations in the Asia Pacific	14	522	2.6			
Customer H	a company principally engaged in the distribution of electronic components and computer products and provision of related value-added services	7	480	2.3	Yes	Credit investigation services	2,960
	Total		**9,179**	**44.9**			

For the year ended 31 December 2020

Customer	Business profile	Years of business relationship *years*	Revenue derived for the year *(Note)* *HK$'000*	Percentage to the total revenue of the Target Group *%*	Whether the customer is a recurring customer as at the Latest Practicable Date *(Yes/No)*	Services provided/to be provided to such recurring customer	Total agreed/ proposed contract sum *HK$'000*
Customer A	a state-funded insurance company in the PRC that focuses on provision of credit insurance-related services	8	10,088	33.9			
Customer I	a company principally engaged in purchase storage and trading business of grain and oil in the PRC	2	1,000	3.4	Yes	Credit investigation services, debt collection services, litigation services	7,000
Customer J	a company principally engaged in the design, production, advertising agent and release of domestic and foreign advertisements in the PRC	5	831	2.8	Yes	Debt collection services, litigation services	6,653
Customer K	a company principally engaged in the provision of full range circuit protection components and solutions in the PRC	1	783	2.6	Yes	Debt collection services, litigation services	5,068
Customer F	a company principally engaged in the production of agricultural products	5	744	2.5			
	Total		**13,446**	**45.2**			

Note: For illustrative purpose only, the conversion of revenue into HK$ has been made at the respective rates of RMB1 to HK$1.2 and USD1 to HK$7.8. The conversion should not be construed as a representation that the RMB or USD amounts actually represented have been, or could be, converted into such currency at this or any other rate.

The above figures are subject to rounding adjustments.

Cost of services

The cost of services of the Target Group mainly comprised research fees for the provision of credit investigation services, legal services fees and subcontracting fees.

The Target Group recorded cost of services of approximately HK$868,000, HK$2,440,000 and HK$5,467,000 for the years ended 31 December 2018, 2019 and 2020, respectively, which is in line with the growth in revenue.

Other income

The other income of the Target Group comprised bank interest income, training service income, translation service income and sundry income among others.

The Target Group recorded other income of approximately HK$188,000, HK$449,000 and HK$2,115,000 for the years ended 31 December 2018, 2019 and 2020, respectively. The substantial increase in other income for the year ended 31 December 2020 was owing to (i) the government grants of HK$735,000 from the employment support scheme under the Anti-epidemic Fund launched by the Hong Kong government; (ii) reversal of impairment loss on property, plant and equipment of HK$686,000.

Employee benefit expenses

The employee benefit expenses of the Target Group comprised pension scheme contributions, salaries, allowances and other benefits.

The Target Group recorded employee benefit expenses of approximately HK$12,349,000, HK$13,444,000 and HK$14,903,000 for the years ended 31 December 2018, 2019 and 2020, respectively.

Other expenses

The other expenses of the Target Group mainly comprised travelling expenses, computer expenses and legal expenses.

The Target Group recorded other expenses of approximately HK$3,853,000, HK$5,359,000 and HK$4,866,000 for the years ended 31 December 2018, 2019 and 2020, respectively.

Profit/(loss) and total comprehensive income/(loss) for the year

The Target Group recorded loss of approximately HK$3,881,000 and HK$1,015,000 and total comprehensive loss of approximately HK$3,780,000 and HK$982,000 for the years ended 31 December 2018 and 2019, respectively. For the year ended 31 December 2020, the Target Group achieved a turnaround and recorded a profit for the year of approximately HK$5,540,000 and total comprehensive income for the year of approximately HK$5,649,000 primarily resulted from the increase in revenue during the year. The Target Group recorded negative profit margins of 25.4% and 5.0% for the two years ended 31 December 2018 and 2019, respectively, and reversed to a positive profit margin of 18.6% for the year ended 31 December 2020. The fluctuation in profit margins was primarily resulted from the significant increase in income from debt collection services during each of the years ended 31 December 2019 and 2020 as compared to that of the previous year, which was partially offset by the corresponding increased cost of services and other expenses reported for the two years ended 31 December 2019 and 2020, resulted in the overall improving profit margins for the two years ended 31 December 2019 and 2020, respectively.

C. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, 2019 and 2020, the Target Group had total current assets of approximately HK$6,188,000, HK$5,270,000 and HK$14,654,000, respectively, which mainly comprised trade receivables and cash and cash equivalents.

As at 31 December 2018, 2019 and 2020, the Target Group had total current liabilities of approximately HK$7,916,000, HK$10,109,000 and HK$11,042,000, respectively, which comprised accruals and other payables, contract liabilities, amounts due to directors, lease liabilities and tax payables.

As at 31 December 2018, 2019 and 2020, the Target Group had cash and cash equivalent of approximately HK$2,901,000, HK$2,123,000 and HK$9,238,000, respectively, and were mainly denominated in HK$, RMB and USD. As at 31 December 2018, 2019 and 2020, total bank borrowings of the Target Group amounted to nil, nil and approximately HK$5 million, which are denominated in HK$ and carried floating interest rate of 2.75% per annum.

The liquidity requirements of the Target Group are to finance working capital and the expansion of operations.

The net gearing ratio of the Target Group (representing net debt divided by total equity, where net debt is calculated as total bank borrowings less cash and cash equivalents) as at 31 December 2018, 2019 and 2020 maintained at zero due to net cash position.

D. FOREIGN EXCHANGE EXPOSURE AND TREASURY POLICY

The Target Group principally conducts business operation in the PRC, Hong Kong and Singapore which exposes the Target Group to foreign exchange risk, primarily with respect to RMB and USD denominated transactions. Foreign currency risk arises from future commercial transactions and financial instruments.

Since HK$ is pegged to USD, the management of the Target Group believes the exposure of transactions denominated in HK$ which are entered into by the Target Group to be insignificant. The management is aware of the possible foreign currency risk exposure of the Target Group due to the fluctuation of RMB and will closely monitor its impact on the performance of the Target Group and hedge its currency risk when appropriate. As of 31 December 2020, the Target Group has not entered into any financial instrument for foreign currency hedging purpose.

E. PLEDGE OF ASSETS

As at 31 December 2018, 2019 and 2020, the Target Group had no pledge of assets.

F. CONTINGENT LIABILITIES

As at 31 December 2018, 2019 and 2020, the Target Group had no material contingent liabilities.

G. MATERIAL INVESTMENT, ACQUISITION AND DISPOSALS

On 10 June 2020, the Target Group disposed of its entire equity interest in Alders Translation Services Company Limited (安迪氏翻譯服務(廣州)有限公司), a company principally engaged in translation service in the PRC, at a cash consideration of RMB1. Such disposal resulted in a gain on disposal of approximately HK$287,000 which was recognised as other income in the consolidated profit or loss statements of the Target Group for the year ended 31 December 2020.

Save as disclosed, during the year ended 31 December 2018, 2019 and 2020, the Target Group did not have any material acquisition, disposals or significant investment. The Target Group had no future plan of material investments or capital assets in the coming year after the completion of the Acquisition.

H. EMPLOYEE AND REMUNERATION POLICIES

The Target Group had a total of 67, 59 and 90 employees as at 31 December 2018, 2019 and 2020, respectively. The total staff costs for the year ended 31 December 2018, 2019 and 2020 were approximately HK$12,349,000, HK$13,444,000 and HK$14,903,000, respectively.

In order to attract and retain high quality professional staff and to enable smooth operation within the Target Group, competitive remuneration packages, allowance and other benefits (with reference to market conditions and individual qualifications and experience) and various in-house training courses were provided to the staff on a regular basis.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the Company's reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong. in respect of the unaudited pro forma financial information on the Enlarged Group.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(A) BASIS OF PREPARATION OF UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group which has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Listing Rules, with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountant ("**HKICPA**"), and on the basis of the notes set out below for the purpose of illustrating the effect on the assets and liabilities of the Group if the Acquisition had been taken place on 30 September 2020.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group is prepared, in accordance with the accounting policies of the Group under Hong Kong Financial Reporting Standards, based on the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2020 as extracted from the published unaudited interim report of the Group for the six months ended 30 September 2020, and the audited consolidated statement of financial position of the Target Group as at 31 December 2020 as extracted from the accountants' report as set out in Appendix II to this circular, as if the Acquisition had been completed on 30 September 2020.

The accompanying unaudited pro forma consolidated statement of assets and liabilities has been prepared for illustrative purpose only and is based on certain assumptions, estimates, uncertainties and other currently available information. Accordingly, and because of its hypothetical nature, the unaudited pro forma consolidated statement of assets and liabilities may not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 September 2020 for the financial position or any future date.

(B) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group as at 30 September 2020	The Target Group as at 31 December 2020	Pro forma adjustments				The Enlarged Group as at 30 September 2020
	HK$'000 (Note 1)	*HK$'000* (Note 2)	*HK$'000* (Note 3)	*HK$'000* (Note 4)	*HK$'000* (Note 5)	*HK$'000* (Note 6)	*HK$'000*
ASSETS AND LIABILITIES							
Non-current assets							
Property, plant and equipment	102	2,286					2,388
Goodwill	–	–			24,177		24,177
Lease receivables and receivables arising from sale and leaseback arrangements	110,663	–					110,663
Deposits	–	114					114
	110,765	2,400					137,342
Current assets							
Lease receivables and receivables arising from sale and leaseback arrangements	812,476	–					812,476
Trade receivables	–	4,892					4,892
Loan receivable	6,621	–					6,621
Prepayments, deposits and other receivables	8,335	524					8,859
Security deposits	7,519	–					7,519
Short term bank deposits with original maturity within three months	11,625	–					11,625
Bank balances and cash	4,340	9,238					13,578
	850,916	14,654					865,570
Current liabilities							
Deposits from customers	210,739	–					210,739
Trade payables	–	35					35
Other payables and accrued charges	19,252	2,115		2,438		2,889	26,694
Contract liabilities	–	3,689					3,689
Lease liabilities	758	1,399					2,157
Tax liabilities	61,218	947					62,165
Bank borrowings	354,471	419					354,890
Amounts due to directors	–	2,438		(2,438)			–
	646,438	11,042					660,369
Net current assets	204,478	3,612					205,201
Total assets less current liabilities	315,243	6,012					342,543
Non-current liabilities							
Lease liabilities	238	588					826
Bank borrowings	279,872	4,581					284,453
Promissory note	–	–	5,879				5,879
Contingent consideration payables	–	–	9,425				9,425
	280,110	5,169					300,583
Net assets	35,133	843					41,960

Notes to unaudited pro forma consolidated statement of assets and liabilities

1. The unaudited consolidated statement of assets and liabilities of the Group as at 30 September 2020 was extracted from the unaudited condensed consolidated statement of financial position of the Group as set out in the published unaudited interim report of the Group for the six months ended 30 September 2020.

2. The audited consolidated statement of assets and liabilities of the Target Group as at 31 December 2020 was extracted from the consolidated statement of financial position of the Target Group as set out in the Appendix II to this circular.

3. Pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements), the Consideration shall be settled in the following order by the transfer or procurement of transfer of existing Shares held by Shareholders namely (i) Silver Creation in the amount of 31,911,908 Shares; and (ii) Solomon Glory in the amount of 38,503,380 Shares; and Cash Consideration of HK$3,831,256 to the Vendors at the Agreed Proportion by tranches, further details of which are set out in the section headed "Transfer of Transfer Shares by tranches".

   To compensate Silver Creation and Solomon Glory, the Company will issue to Silver Creation and Solomon Glory certain Promissory Notes at the issue price of HK$0.198 per Transfer Share. The Promissory Notes are not interest bearing. The Promissory Note to be issued to Silver Creation will be matured on 31 December 2021 while the Promissory Notes to be issued to Solomon Glory will have a maturity period of 13 months from the respective issue dates in settlement of the relevant Transfer Shares by tranches.

   The number of First Tranche Transfer Shares to be issued is fixed and the respective Promissory Note will be issued on the Completion Date. Such Promissory Note will be initial recognised at fair value and subsequently accounted for as financial liability measured at amortised cost. The number of Second Tranche Transfer Shares to Fifth Tranche Transfer Shares to be issued are variable and subject to adjustment. The relevant Promissory Notes will be initial recognised at fair value and subsequently accounted for as financial liabilities measured at fair value through profit or loss and included in contingent consideration payables in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group.

   For the purpose of this unaudited pro forma consolidated statement of assets and liabilities, the fair values of Promissory Notes and contingent consideration payables are arrived by discounting the relevant maximum expected settlements to the Completion Date assumed. The actual settlement amount is subject to adjustments as mentioned in section headed "Adjustment to Consideration subject to the profit guarantee".

   For the First Tranche Transfer Shares, Second Tranche Transfer Shares, Third Tranche Transfer Shares and Fourth Tranche Transfer Shares of 31,911,908 Shares, 15,955,954 Shares, 15,955,955 Shares and 6,591,471 Shares respectively, the relevant Promissory Notes are expected to be settled in December 2021, April 2023, April 2024 and April 2025 respectively. The Promissory Notes are interest free. To consider the fair values of the Promissory Notes, the directors of the Company applied notional discount rate of 5.9392% p.a. on the Promissory Notes. As such, the fair values of these four tranches of Promissory Notes to be issued at the Completion Date are HK$5,879,000, HK$2,722,000, HK$2,570,000 and HK$1,002,000 respectively. HK$5,879,000 will be presented as "Promissory Notes" while HK$6,294,000, which related to the second to fourth tranches of Promissory Notes, will be presented as "Contingent consideration payables" in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group.

Cash Consideration of HK$3,831,256 will be settled by the Company in March 2024. To consider the fair value of the liabilities to be included in contingent consideration payables at the Completion Date, the directors of the Company applied notional discount rate of 5.9392% p.a. on the Cash Consideration to be settled. The fair value of the Cash Consideration at the Completion Date is HK$3,131,000.

For initial recognition, the aggregate fair value of the Promissory Note and contingent consideration payables are approximated to HK$15,304,000, in which approximately HK$5,879,000 will be booked as promissory note, and HK$9,425,000 will be booked as contingent consideration payables.

For the purpose of this unaudited pro forma consolidated statement of assets and liabilities, presuming the maximum number of Transfer Shares will be issued for first to fourth tranches, no Fifth Tranche Transfer Shares will be issued.

4. It represents the reclassification of amounts due to directors of the Target Company but presented as other payables of the Enlarged Group.

5. In accordance with Hong Kong Financial Reporting Standard ("**HKFRS**") 3 (Revised) "Business Combination", the Group will apply acquisition method to account for the Acquisition. In applying acquisition method, the identifiable assets and liabilities of the Target Group, have to be measured at their fair values. The excess of the fair value of consideration over the fair value of the identifiable assets and liabilities of the Target Group is account for as goodwill as below:

	Notes	*HK$'000*
Total consideration	7	24,607
Add: Fair value of the net identifiable assets acquired of the Target Group	*2,(a)*	(843)
Non-controlling interests		413
Goodwill	*(b)*	24,177

(a) The directors of the Company considered that the carrying amount of the net identifiable asset acquired of the Target Group are approximated to their fair value.

(b) The amount represents the goodwill arising from the Acquisition provisionally determined based on the fair value of the identifiable assets and liabilities of the Target Group, and the fair value of the total consideration on the Completion Date. For the purpose of this unaudited pro forma consolidated statement of assets and liabilities, the goodwill of HK$24,177,000 arising from the Acquisition, which represents the amount by which the purchase consideration exceeds the fair value of the identifiable assets and liabilities of the Target Group to be acquired, is computed as if the transaction had been completed on 30 September 2020.

The Group's accounting policies for goodwill are in accordance with the applicable accounting standards. Goodwill is initially measured at cost, being the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the net of acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 March. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Target Group are assigned to those units or groups of units.

The directors of the Company confirm that the basis used in the preparation of the unaudited pro forma consolidated statement of assets and liabilities is consistent with the accounting policies of the Group. The Group will adopt accounting policies for goodwill, save for compliance to any new or revised HKFRSs that would be issued by the HKICPA, to perform impairment test of the Enlarged Group's goodwill during the future accounting periods of the Enlarged Group. If the goodwill allocated to a cash-generating unit was acquired in a business combination during an annual period, that unit will be tested for impairment before the end of that annual period.

The directors of the Company have assessed whether there is any impairment in respect of goodwill expected to arise from the Acquisition in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" which is consistent with the Group's accounting policies. The directors of the Company are not aware of any indication that impairment of the Enlarged Group's goodwill is required immediately after the completion of the Acquisition. The fair values of the Consideration and the identifiable net assets of the Target Group will be reassessed at the Completion Date and accordingly, the goodwill amount may be different from the amounts presented in the unaudited pro forma consolidated statement of assets and liabilities.

6. The adjustment represents the estimated legal and professional fees and other direct expenses in relation to the Acquisition of approximately HK$2,889,000. This adjustment is not expected to have a continuing financial effect on the Enlarged Group.

7. HKFRS 3 (Revised) "Business Combinations" issued by the HKICPA requires the consideration transferred in a business combination to be measured at fair value at the acquisition date. An analysis of the total estimated consideration of the Acquisition assuming the Acquisition had taken place on 30 September 2020 is set out as follows:

   The Transfer Shares will be paid to the Vendors at the Agreed Proportion by tranches in the following manner: (i) First Tranche Transfer Shares (being 31,911,908 Transfer Shares) to be transferred on the Completion Date; and (ii) Second Tranche Transfer Shares, Third Tranche Transfer Shares, Fourth Tranche Transfer Shares and Fifth Tranche Transfer Shares (being totalling 38,503,380 Transfer Shares) shall be settled after the Completion Date, which are subject to adjustment in accordance with the terms of the Supplemental Agreements as referred to the section headed "Adjustment to Consideration subject to the profit guarantee" in "Letter from the Board" to this circular. The remaining Consideration will be settled by Cash Consideration by the Company as detailed in the section headed "Transfer of Transfer Shares by tranches" in "Letter from the Board" to this circular.

	Notes	**Fair value** *HK$'000*
First Tranche Transfer Shares	*(a)*	9,733
Second Tranche Transfer Shares to Fifth Tranche Transfer Shares	*(b)*	11,743
Cash Consideration	*(c)*	3,131
Total consideration		24,607

(a) For the purpose of this unaudited pro forma consolidated statement of assets and liabilities, the fair value of the First Tranche Transfer Shares at the Completion Date is assumed to be HK$0.305 per Share which represented the market price of the Company per share on 30 September 2020.

(b) For the purpose of this unaudited pro forma consolidated statement of assets and liabilities, the total fair value of the Second Tranche Transfer Shares to Fifth Tranche Transfer Shares is calculated based on the closing price of HK$0.305 per Share of the Company as quoted on the Stock Exchange on 30 September 2020 multiplied by the expected number of Second Tranche Transfer Shares to Fifth Tranche Transfer Shares to be issued.

(c) For the purpose of this unaudited pro forma consolidated statement of assets and liabilities, the fair value of Cash Consideration is assessed by discounting the expected amount to be paid as mentioned in note 3 above.

As the fair value of the Transfer Shares at the Completion Date may be substantially different from the closing price of the Company's Shares at 30 September 2020, the actual fair value of the Consideration of the Acquisition may be different from those presented in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group.

8. Pursuant to the Lock-up Agreement, the restricted period with respect to disposal of the First Tranche Transfer Shares by Vendors shall be 18 months immediately following the date of transfer from Silver Creation. In respect of the First Tranche Transfer Shares only, after 6 months following the date of transfer of the First Tranche Transfer Shares, the Vendors (or any of them) could, by notice in writing sent to the Company, notify the Company of their intention to dispose of all or part of the First Tranche Transfer Shares in the open market through the Stock Exchange during the aforesaid 18-month restricted period but the Vendor shall sell the First Tranche Transfer Shares to independent third party(ies) in the open market through the Stock Exchange at the prevailing market price. In the event that the relevant First Tranche Transfer Shares were disposed of in the open market through the Stock Exchange at a price of less than HK$0.4 per Share, the shortfall amount (being the difference between HK$0.4 and the average trading price of the relevant First Tranche Transfer Shares being sold in the open market) shall be compensated by the Company to the relevant Vendor(s) in cash. For the purpose of this unaudited pro forma consolidated statement of assets and liabilities, the directors of the Company assumed no shortfall amount has to be compensated by the Company to the relevant Vendor(s) in cash as if the transaction has been completed on 30 September 2020.

   The shortfall amount is depended on the price per Share from the sale of the subject Shares to such potential purchaser, the actual shortfall amount to be compensated by the Company to the relevant Vendor(s) in cash may be different from those assumed by the directors of the Company in the unaudited pro forma consolidated statement of assets and liabilities.

9. Saved as aforesaid, no other adjustments have been made to reflect any trading result or other transactions of the Enlarged Group entered into subsequent to 30 September 2020.

(C) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountant, in respect of the unaudited pro forma consolidated statement of assets and liabilities as set out in this Appendix and prepared for the sole purpose of incorporation in this circular.

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To the directors of China Rongzhong Financial Holdings Company Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Rongzhong Financial Holdings Company Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") and Alpha & Leader Risks and Assets Management Company Limited (the "**Target Company**") and its subsidiaries by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 September 2020 and related notes as set out on pages 191 to 196 to the circular dated 30 June 2021 (the "**Circular**") issued by the Company, in connection with the proposed acquisition of 51% equity interest in the Target Company (the "**Proposed Acquisition**"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described in page 191 to the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Proposed Acquisition on the Group's consolidated financial position as at 30 September 2020 as if the Proposed Acquisition had taken place on 30 September 2020. As part of this process, information about the Group's consolidated financial position has been extracted by the directors of the Company from the Company's unaudited interim report for the six months ended 30 September 2020, on which no audit or review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountant ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisition at 30 September 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants
Hong Kong

30 June 2021

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 circular 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 circular misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised:		*HK$*
10,000,000,000	Shares of HK$0.01 each	100,000,000
Issued and fully paid or credited as fully paid:		*HK$*
412,509,000	Shares of HK$0.01 each	4,125,090

3. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in Shares, underlying Shares and debentures

As at the Latest Practicable Date, 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 corporation(s) (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 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), to be notified to the Company and the Stock Exchange or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("**Model Code**"), to be notified to the Company and the Stock Exchange were as follows:

		Number of Shares/underlying Shares *(Note 1)*				
Name of Directors	**Capacity/nature of interest**	**Personal Interest**	**Corporate Interest**	**Other Interest**	**Total Interest**	**Approximate % of total issued Shares as at the Latest Practicable Date**
Ms. Wong Emilie Hoi Yan	Interest of beneficial owner	400,000 (L)	–	–	400,000 (L)	0.10%
Ms. Jacqueline Wong	Interest of beneficial owner, interest of controlled corporations/founder of a discretionary trust and beneficiary of a trust	400,000 (L)	20,234,242 (L) *(Note 2)*	143,805,903 (L) *(Note 3)*	164,440,145 (L)	39.86%
	Beneficiary of a trust	–	–	38,503,380 (S) *(Note 4)*	38,503,380 (S)	9.33%
Ms. Michelle Wong	Interest of beneficial owner, interest of controlled corporations and beneficiary of a trust	400,000 (L)	20,234,242 (L) *(Note 2)*	143,805,903 (L) *(Note 3)*	164,440,145 (L)	39.86%
	Beneficiary of a trust	–	–	38,503,380 (S) *(Note 4)*	38,503,380 (S)	9.33%
Mr. Wong Ming Bun David ("**Mr. David Wong**")	Interest of beneficial owner	4,000,000 (L)	–	–	4,000,000 (L)	0.97%
Mr. Lie Chi Wing	Interest of beneficial owner	22,000 (L)	–	–	22,000 (L)	0.01%
Mr. Ng Wing Chung Vincent	Interest of beneficial owner	22,000 (L)	–	–	22,000 (L)	0.01%
Mr. Yu Yang	Interest of beneficial owner	22,000 (L)	–	–	22,000 (L)	0.01%

Notes:

1. The letters "L" and "S" denote the Directors' long position and short position in the Shares or underlying Shares of the Company respectively.

2. Such interests include 10,127,176 Shares held by Legend Crown International Limited ("**Legend Crown**") and 10,107,066 Shares held by Plenty Boom Investments Limited ("**Plenty Boom**"). Ms. Jacqueline Wong founded the discretionary trust (the "**Ace York Management Trust**") of which the property included the entire issued share capital of Legend Crown and Plenty Boom. The trustee of the Ace York Management Trust is Ace York Investment Management Limited ("**Ace York Management**", a company owned as to 50% by Ms. Jacqueline Wong and 50% by Ms. Michelle Wong), where the beneficiaries are Ms. Jacqueline Wong and Ms. Michelle Wong and their respective issue(s). By virtue of the above, Ms. Jacqueline Wong, Ms. Michelle Wong and Ace York Management are taken to have a duty of disclosure in relation to the said Shares held by Legend Crown and Plenty Boom under the SFO.

3. Such Shares represent 143,805,903 Shares held by Perfect Honour Limited ("**Perfect Honour**"), which is a wholly owned subsidiary of Goldbond. Mr. Wong Charles Yu Lung and Mrs. Wong Fang Pik Chun, parents of Ms. Michelle Wong and Ms. Jacqueline Wong established the Allied Luck Trust and Ms. Michelle Wong and Ms. Jacqueline Wong established the Aceyork Trust, where both Ms. Jacqueline Wong and Ms. Michelle Wong and their respective issue(s) are the beneficiaries of such trusts. The assets of the Allied Luck Trust include all the Goldbond's shares held by Allied Luck Trading Limited ("**Allied Luck**", a company wholly-owned by the Allied Luck Trust), being approximately 30.99% of the total issued share capital of Goldbond, and the assets of the Aceyork Trust included all the Goldbond's shares held by Ace Solomon Investments Limited ("**Ace Solomon**") being approximately 26.06% of the total issued share capital of Goldbond. Ace Solomon is a company jointly owned by Allied Golden Investment Limited ("**Allied Golden**") and Aceyork Investment Limited ("**Aceyork**"), which (in each of the cases of Allied Golden and Aceyork) in turn are wholly-owned by the Aceyork Trust. Ms. Jacqueline Wong and Ms. Michelle Wong being beneficiaries of the Allied Luck Trust and the Aceyork Trust, in turn, holds approximately 34.86% of the issued share capital of the Company through Perfect Honour. By virtue of the above, Ms. Jacqueline Wong and Ms. Michelle Wong are taken to have a duty of disclosure in relation to the said Shares held by Perfect Honour under the SFO. Such shareholding disclosure is based on the disclosure of interests of the relevant Directors filed.

4. On 3 May 2018, Solomon Glory, which is a wholly owned subsidiary of Goldbond, as lender, enforced its rights under the security of a loan agreement pursuant to which Yong Hua International Limited ("**Yong Hua**") has charged its assets including the shares (the "**Charged Shares**") of the Company held by Yong Hua by way of floating charge, which has been crystalised into a fixed charge. On 2 July 2019, the Board was notified that an order was issued on 13 March 2019 by The High Court of The Hong Kong Special Administrative Region to the effect that, among others, the Charged Shares shall be sold by China Galaxy International Securities (Hong Kong) Co., Limited (as agent) provided that each of the Charged Shares shall not be sold at a price of more than 10% discount to the average closing prices of the shares of the Company as quoted on The Stock Exchange of Hong Kong Limited for the previous 10 consecutive trading days prior to the date of sale of the Charged Shares or any of them.

Save as disclosed above, as at the Latest Practicable Date, 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 any of its associated corporation(s) (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 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 which were required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders' interests and short positions in the Shares and underlying Shares

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons had, or were deemed to have, interests or short positions in the Shares or underlying shares of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Capacity/nature of interest	Number of Shares/underlying Shares *(Note 1)*	Total Interest	Approximate % of total issued Shares as at the Latest Practicable Date
Ms. Jacqueline Wong	(i) Interest in controlled corporations/founder of a discretionary trust	20,234,242 (L) *(Note 2)*		
	(ii) Beneficial owner	400,000 (L)		
	(iii) Beneficiary of a trust	143,805,903 (L) *(Note 3)*	164,440,145 (L)	39.86%
	(iv) Beneficiary of a trust	38,503,380 (S) *(Note 4)*		9.33%
Ms. Michelle Wong	(i) Interest in controlled corporations	20,234,242 (L) *(Note 2)*		
	(ii) Beneficial owner	400,000 (L)		
	(iii) Beneficiary of a trust	143,805,903 (L) *(Note 3)*	164,440,145 (L)	39.86%
	(iv) Beneficiary of a trust	38,503,380 (S) *(Note 4)*		9.33%

Name of Shareholders	Capacity/nature of interest	Number of Shares/underlying Shares *(Note 1)*	Total Interest	Approximate % of total issued Shares as at the Latest Practicable Date
Mr. Wong Charles Yu Lung ("**Mr. Wong**")	Trustee	143,805,903 (L) *(Note 3)*		34.86%
	Trustee	38,503,380 (S) *(Note 4)*		9.33%
Mrs. Wong Fang Pik Chun ("**Mrs. Wong**")	Trustee	143,805,903 (L) *(Note 3)*		34.86%
	Trustee	38,503,380 (S) *(Note 4)*		9.33%
Goldbond	Interest in controlled corporation	143,805,903 (L) *(Note 3)*		34.86%
	Interest in controlled corporation	38,503,380 (S) *(Note 4)*		9.33%
Perfect Honour	Beneficial owner	143,805,903 (L) *(Note 3)*		34.86%
Solomon Glory	Having a security interest in shares	38,503,380 (S) *(Note 4)*		9.33%
Mr. Zhao John Huan ("**Mr. Zhao**")	Interest in controlled corporation	77,527,255 (L) *(Note 5)*		18.79%
Silver Creation	Beneficial owner	77,527,255 (L) *(Note 5)*		18.79%
Hony Capital Fund 2008, L.P. ("**Hony Capital**")	Interest in controlled corporation	77,527,255 (L) *(Note 5)*		18.79%
Hony Capital Fund 2008 GP, L.P. ("**Hony GP, L.P.**")	Interest in controlled corporation	77,527,255 (L) *(Note 5)*		18.79%
Hony Capital Fund 2008 GP Limited ("**Hony GP**")	Interest in controlled corporation	77,527,255 (L) *(Note 5)*		18.79%
Hony Group Management Limited ("**Hony Management**")	Interest in controlled corporation	77,527,255 (L) *(Note 5)*		18.79%
Hony Managing Partners Limited ("**Hony Partners**")	Interest in controlled corporation	77,527,255 (L) *(Note 5)*		18.79%
Exponential Fortune Group Limited ("**Exponential Fortune**")	Interest in controlled corporation	77,527,255 (L) *(Note 5)*		18.79%

Name of Shareholders	Capacity/nature of interest	Number of Shares/underlying Shares *(Note 1)*	Total Interest	Approximate % of total issued Shares as at the Latest Practicable Date
Mr. Xie Xiaoqing (“**Mr. Xie**”)	Interest in controlled corporation	12,704,220 (L) *(Note 6)*		
	Interest in controlled corporation	38,503,380 (L) *(Note 7)*	51,207,600 (L)	12.41%
	Interest in controlled corporation	38,503,380 (S) *(Note 7)*		9.33%
Yong Hua	Beneficial Owner	38,503,380 (L) *(Note 7)*		9.33%
	Beneficial Owner	38,503,380 (S) *(Note 7)*		9.33%

Notes:

1. The letters “L” and “S” denote a person’s/an entity’s long position and short position in the Shares or underlying Shares of the Company respectively.

2. Reference to the 20,234,242 Shares relates to the same block of Shares held by Legend Crown and Plenty Boom. For further details, please refer to note 2 of the section headed “Directors’ and chief executive’s interests and short positions in Shares, underlying Shares and debentures” in this appendix. By virtue of the above, Ms. Jacqueline Wong and Ms. Michelle Wong are taken to have duty of disclosure in relation to these Shares held by Legend Crown and Plenty Boom.

3. The six references to the 143,805,903 Shares relate to the same block of Shares held by Perfect Honour. For further details, please refer to note 3 of the section headed “Directors’ and chief executive’s interests and short positions in Shares, underlying Shares and debentures” in this appendix. By virtue of the above, Ms. Jacqueline Wong, Ms. Michelle Wong, Mr. Wong, Mrs. Wong, Perfect Honour and Goldbond are taken to have a duty of disclosure in relation to these Shares held by Perfect Honour. Such shareholding disclosure is based on the disclosure of interests of the relevant substantial Shareholders filed.

4. Reference to the 38,503,380 Shares relate to the same block of Shares held by Solomon Glory. For further details, please refer to note 4 of the section headed “Directors’ and chief executive’s interests and short positions in Shares, underlying Shares and debentures” in this appendix. By virtue of the above, Ms. Jacqueline Wong, Ms. Michelle Wong, Mr. Wong, Mrs. Wong, Solomon Glory and Goldbond are taken to have a duty of disclosure in relation to these Shares held by Solomon Glory.

5. The eight references to the 77,527,255 Shares relate to the same block of Shares held by Silver Creation. Silver Creation is wholly-owned by Hony Capital. Hony Capital is controlled by its sole general partner Hony GP, L.P., which in turn is controlled by its sole general partner, Hony GP. Hony GP is wholly-owned by Hony Management, which is owned as to approximately 80.00% by Hony Partners. Hony Partners is 100% owned by Exponential Fortune, which is a company owned as to approximately 49% by Mr. Zhao. By virtue of the above, Mr. Zhao, Silver Creation, Hony Capital, Hony GP, L.P., Hony GP, Hony Management, Hony Partners and Exponential Fortune are taken to have a duty of disclosure in relation to these Shares held by Silver Creation.

6. Such interests include 2,117,370 Shares held by Capital Grower Limited ("**Capital Grower**"), and 10,586,850 Shares held by Clifton Rise International Limited ("**Clifton Rise**"), which are all companies owned as to 100% by Mr. Xie. By virtue of the above, Mr. Xie is taken to have a duty of disclosure in relation to the said Shares held by Capital Grower and Clifton Rise under the SFO.

7. Such Shares are held by Yong Hua, a company owned as to 100% by Mr. Xie. For further details, please refer to note 4 of the section headed "Directors' and chief executive's interests and short positions in Shares, underlying Shares and debentures" in this appendix. By virtue of the above, Mr. Xie is taken to have a duty of disclosure in relation to the said Shares held by Yong Hua under the SFO.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no other person had interests or short positions in the Shares or underlying Shares of the Company which were recorded in the register kept by the Company pursuant to section 336 of the SFO which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, the following Directors are considered to have interests in businesses which compete or may compete, either directly or indirectly, with the business of the Group:

Name of Directors	**Name of companies**	**Nature of business considered to compete or likely to compete with the business of the Group**	**Nature of interest of the Directors in the companies**
Wong Emilie Hoi Yan	Certain subsidiaries of Rongzhong Group Limited *(Note)*	Investment holding	A director of certain subsidiaries of Rongzhong Group Limited
	Legend Crown	Investment holding	A director
	Plenty Boom	Investment holding	A director
	Yancheng Goldbond Supply Chain Management Company Limited	Provision of non-bank financial services to SMEs in the PRC	A director and legal representative

Name of Directors	Name of companies	Nature of business considered to compete or likely to compete with the business of the Group	Nature of interest of the Directors in the companies
Chen Shuai	Hony Capital	Private equity firm engaged in investment holding	Managing director
	Rongzhong Group Limited and its subsidiaries *(Note)*	Investment holding	A director of Rongzhong Group Limited and its subsidiaries
	Rongzhong Capital Investments Group Limited and its subsidiaries	Provision of non-bank financial services to SMEs in the PRC	A director of Rongzhong Capital Investments Group Limited and its subsidiaries
Wong Jacqueline Yue Yee	Legend Crown	Investment holding	Having certain deemed interest and a director
	Plenty Boom	Investment holding	Having certain deemed interest and a director
	Certain subsidiaries and an associate of Goldbond	Provision of finance leasing and factoring services	A director of certain subsidiaries and an associate of Goldbond
Wong Michelle Yatyee	Legend Crown	Investment holding	Having certain deemed interest and a director
	Plenty Boom	Investment holding	Having certain deemed interest and a director
	Goldbond and its subsidiaries	Provision of finance leasing and factoring services	A director of Goldbond and directors of certain of its subsidiaries
Wong Ming Bun David	Goldbond and its subsidiaries	Provision of finance leasing and factoring services	A director of Goldbond and director of certain of its subsidiaries

Note: Rongzhong Group Limited is owned as to 40% by Goldbond through Perfect Honour, 40% by Hony Capital through Silver Creation, approximately 12.42% by Yong Hua; approximately 3.79% by Legend Crown and approximately 3.79% by Plenty Boom.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Enlarged Group which does not expire or is not determinable by the relevant member of the Enlarged Group within one year without payment of compensation other than statutory compensation.

6. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 March 2020 (the date to which the latest published audited consolidated accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the date of this circular, none of the Directors was materially interested in any contract or arrangement subsisting which was significant in relation to the business of the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Enlarged Group) were entered into by members of the Enlarged Group within two years immediately preceding the date of this circular and are or may be material:

(a) the asset disposal agreement dated 5 May 2020 entered into by Rongzhong International Financial Leasing Co., Ltd ("**Rongzhong PRC**") and a purchaser in relation to the disposal of the rights and interests of the 7 finance leases, which were past due as at 5 May 2020 at a cash consideration of RMB16,000,000 (equivalent to approximately HK$17.8 million), the disposal of which was subsequently terminated on 9 November 2020;

(b) the asset disposal agreement dated 9 November 2020 entered into by Rongzhong PRC and a purchaser in relation to the disposal of the rights and interests of 2 finance leases, which were past due as at 9 November 2020 at a cash consideration of RMB6,400,000 (equivalent to approximately HK$7.3 million), which had been fully settled; and

(c) the Sale and Purchase Agreement, the First Supplemental Agreement and the Second Supplemental Agreement.

8. LITIGATIONS

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group.

9. QUALIFICATION OF EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice, which are contained or referred to in this circular:

Name	Qualification
BDO Limited	Certified Public Accountants
Giraffe Capital Limited	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Jingtian & Gongcheng	PRC legal adviser

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, which has been prepared for inclusion in this circular, and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of the above experts did not have any shareholding interest in any member of the Group or the right (where legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2020, being the date to which the latest published audited consolidated accounts of the Company were made up.

10. MISCELLANEOUS

(a) The secretary of the Company is Ms. Cheng Choi Ha.

(b) The registered office of the Company is at Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman KY1-1103, Cayman Islands, and the principal place of business in Hong Kong is at Room 1306, 13/F, Tai Yau Building, No. 181 Johnston Road, Wan Chai, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The English texts of this circular shall prevail over the Chinese texts in case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Room 1306, 13/F, Tai Yau Building, No. 181 Johnston Road, Wan Chai, Hong Kong during normal business hours from 9:30 a.m. to 6:00 p.m. (except Saturdays and public holidays) for a period of 14 days from the date of this circular:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for each of the three financial years ended 31 March 2018, 2019 and 2020, and the interim report of the Company for the six months ended 30 September 2020;

(c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 61 to 62 of this circular;

(d) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 63 to 109 of this circular;

(e) the accountants' report on the Target Group, the text of which is set out in Appendix II to this circular;

(f) the report on the unaudited pro forma financial information on the Enlarged Group issued by BDO Limited set out in Appendix IV to this circular;

(g) the material contracts as referred to in the section headed "7. Material Contracts" in this appendix;

(h) the written consent of the expert as referred to in the section headed "9. Qualification of Experts and Consents" in this appendix;

(i) the Sale and Purchase Agreement, the First Supplemental Agreement and the Second Supplemental Agreement; and

(j) this circular.

RONGZHONG

CHINA RONGZHONG FINANCIAL HOLDINGS COMPANY LIMITED
中國融眾金融控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03963)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**EGM**") of China Rongzhong Financial Holdings Company Limited 中國融眾金融控股有限公司 (the "**Company**") will be held at 10:30 a.m. on Thursday, 29 July 2021 at 2/F, J Plus, 35-45B Bonham Strand, Sheung Wan, Hong Kong to consider and, if thought fit, pass the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) (as defined in the circular dated 30 June 2021 despatched to the shareholders of the Company (the "**Circular**")), a copy of which has been produced to this meeting marked "A" and signed by the chairman hereof for the purpose of identification, and all the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

(b) any one director of the Company be and is hereby authorised to do such acts and deeds in his/her sole and absolute discretion and opinion deemed expedient and appropriate to implement and effect the Sale and Purchase Agreement (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder."

By Order of the Board
China Rongzhong Financial Holdings Company Limited
Wong Emilie Hoi Yan
Executive Director

Hong Kong,
30 June 2021

Principal Place of Business in Hong Kong registered under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
Room 1306, 13/F
Tai Yau Building
No. 181 Johnston Road
Wan Chai, Hong Kong

Notes:

1. A shareholder of the Company entitled to attend and vote at the above meeting (or at any adjournment of it) is entitled to appoint one or more proxies to attend and vote on his/her behalf. The proxy does not need to be a shareholder of the Company.

2. A form of proxy in respect of the above meeting is enclosed. Whether or not you intend to attend the above meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed therein.

3. In order to be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the above meeting or adjourned meeting (as the case may be).

4. Completion and return of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting or any adjournment thereof. In such event, the form of proxy shall be deemed to have been revoked.

5. Where there are joint holders of any share of the Company, any one of such holders may vote at the above meeting (or at any adjournment of it), either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such holders are present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased shareholder in whose name any share stands shall for this purpose be deemed joint holders hereof.

6. For the purposes of determining shareholders' eligibility to attend and vote at the above meeting, the register of members of the Company will be closed. Details of such closures are set out below:

   (i) For determining eligibility to attend and vote at the above meeting:

Latest time to lodge transfer documents for registration:	4:30 p.m. on Friday, 23 July 2021
Closure of register of members:	Monday, 26 July 2021 to Thursday, 29 July 2021 (both dates inclusive)
Record date:	Thursday, 29 July 2021

   During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

7. The health of our shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing novel coronavirus (COVID-19) epidemic, the Company will implement the following precautionary measures at the EGM to protect attending shareholders, staff and stakeholders from the risk of infection:

   (i) Compulsory body temperature checks will be conducted for every shareholder, proxy or other attendee at each entrance of the meeting venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the meeting venue or be required to leave the meeting venue.

   (ii) Each attendee must wear a surgical face mask throughout the meeting and inside the meeting venue, and to maintain a safe distance between seats.

   (iii) No refreshment will be served, and there will be no corporate gift.

   (iv) Each attendee may be asked whether (a) he/she travels outside of Hong Kong within the 14-day period immediately before the EGM; and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the meeting venue or be required to leave the meeting venue.

   In addition, the Company reminds all shareholders that physical attendance in person at the meeting is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting instead of attending the meeting in person, by completing and return the proxy form attached to this document.

   If any shareholder chooses not to attend the meeting in person but has any question about any resolution or about the Company, or has any matter for communication with the board of directors of the Company, he/she is welcome to send such question or matter in writing to our registered office or to our email at info@chinarzfh.com. If any shareholder has any question relating to the meeting, please contact Tricor Investor Services Limited, the Company's Hong Kong branch share registrar and transfer office as follows:

   Tricor Investor Services Limited
   Level 54, Hopewell Centre 183 Queen's Road East, Hong Kong
   Email: is-enquiries@hk.tricorglobal.com
   HK Tel: (852) 2980 1333
   Fax: (852) 2810 8185