
INDUSTRY OVERVIEW

The information contained in this section and elsewhere in this Document have been extracted from various official government publications, available sources from public market research and other sources from independent suppliers, and from the independent research report prepared by Frost & Sullivan. We engaged Frost & Sullivan to prepare an independent industry report in connection with the [REDACTED]. The information from official government sources has not been independently verified by our Company, the Joint Sponsors, the [REDACTED], [REDACTED], [REDACTED] and the [REDACTED] or any of our or their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy. Accordingly, the information from official government sources contained herein may not be accurate and should not be unduly relied upon.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the Licensed Money Lending and BNPL Market. The report prepared by Frost & Sullivan for us is referred to in this [REDACTED] as Industry Report. We agreed to pay Frost & Sullivan a fee of HK\$450,000 which we believe reflects market rates for reports of this type.

Founded in 1961, Frost & Sullivan has 40 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. Frost & Sullivan’s services include technology research, independent market research, economic research, corporate best practices advising, training, client research, competitive intelligence, and corporate strategy.

We have included certain information from the Industry Report in this [REDACTED] because we believe this information facilitates an understanding of the Licensed Money Lending and BNPL Market for the [REDACTED]. The Industry Report includes information of the Licensed Money Lending and BNPL Market as well as other economic data, which have been quoted in the [REDACTED]. Frost & Sullivan’s independent research consists of both primary and secondary research obtained from various sources in respect of the Licensed Money Lending and BNPL Market. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan’s own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. Except as otherwise noted, all the data and forecasts contained in this section are derived from the Industry Report, various official government publications and other publications.

In compiling and preparing the research, F&S assumed that the social, economic, and political environments in the relevant markets are likely to remain stable in the forecast period, which ensures the steady development of the Licensed Money Lending and BNPL Market in Hong Kong.

OVERVIEW OF LICENSED MONEY LENDING MARKET IN HONG KONG

Definition and Classification

In Hong Kong, the scope of money lending services primarily includes (i) personal loans; (ii) business loans such as SME loans; and (iii) mortgage loans including first and subordinated mortgage loans.

Personal loans refer to loans and advances granted for personal use and purpose such as consolidating debt, paying for unexpected expenses, etc. Mortgage loans require borrowers to provide properties as collateral and the amount of mortgage loans primarily depends on the value of the property collateral.

Business loans are loans granted to SMEs and corporations facing liquidity issues. Loans granted may be used to manage short-term operational cash flows, facilitate business expansion or purchase machinery and equipment. Large amounts of loans are usually required to be backed by collaterals including properties, shares, accounts receivables, invoices, etc.

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There are two major types of legal money lenders in the money lending industry, namely authorized institutions and licensed money lenders. Major differences between authorized banks and licensed money lenders lie in interest rate and operation flexibility. Licensed money lenders usually charge a higher interest rate compared to banks and enjoy a greater operation flexibility in terms of loan sizes, requirement of income proof, types of collaterals and approval process.

- **Authorized institutions** include licensed banks, restricted license banks and deposit-taking companies, regulated by the HKMA and governed under the Banking Ordinance. Authorized institutions take up the largest share of the money lending industry in Hong Kong and offer loan products such as personal loans, corporate loans, mortgage loans, credit card facilities, etc. The market share in terms of turnover of loans and advances taken by authorized institutions in the entire unsecured money lending market is approximately 95.9% in 2022.
- **Licensed money lenders** are governed by Money Lenders Ordinance and offer an alternative source of financing for small and medium enterprises (SMEs) and individuals with financial needs outside the banking system. The scope of money lending services includes personal loans such as mortgage loans and credit card loans, and corporate loans. The market share in terms of turnover of loans and advances taken by licensed money lenders in the entire unsecured money lending market is approximately 4.1% in 2022.

Loan products can be categorized by types of borrowers and whether collateral is pledged against the loan, namely secured loans and unsecured loans. According to type of borrower, unsecured loans can be categorized into unsecured personal loan, unsecured property owner loan and unsecured SME loan.

Authorized institutions have traditionally served prime borrowers who meet strict underwriting criteria. With large deposit base and access to capital markets, authorized institutions can offer lower interest rates due to their lower cost of funds. However, they generally have a lower risk tolerance and avoid lending to subprime borrowers. Though expanding into near-prime segments in recent years, authorized institutions still conduct stringent credit checks and lengthy income verification compared to licensed money lenders.

Licensed money lenders retain key advantages stemming from their specialization in high-risk lending, the infrastructure to provide quick loans with minimal paperwork, as well as the flexible assessment procedures, which enable licensed money lenders to serve borrowers with urgent financing needs who may not have the time for authorized institutions to process their loan applications. With their focus on speed and accessibility, licensed money lenders fill an important niche and source of credit for underbanked segments in Hong Kong. Overall, authorized institutions compete based on lower rates from cost advantage, while licensed money lenders compete on flexibility, speed and serving subprime borrowers.

Core Competence of Licensed Money Lenders

Licensed money lenders compete with authorized institutions by offering more flexible, easier, and faster access to unsecured loans and willingness to lend to higher-risk borrowers. Below sets out the key core competence of licensed money lenders over authorized institutions.

- **Flexibility and ease of access:** Licensed money lenders typically have much more flexible requirements and a simpler application process for unsecured loans compared to banks. They can approve loans more quickly with fewer documentation requirements. This appeals to borrowers who need fast and easy access to funds. In Hong Kong, it is estimated that the application of unsecured personal loan in authorized institution such as licensed banks takes on average one week to process, whereas it can possibly take one day and up to five days for licensed money lenders to process the loan application, considering an unsecured personal loan value of less than HK\$200,000, which is attributable to the developed backend database platform and the streamlined internal approval procedure.

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- **Willingness to lend to higher-risk borrowers:** Money lenders tend to provide lower threshold to borrow for borrowers with relatively mediocre or limited credit histories, irregular incomes, or other risk factors that would likely disqualify them from getting a bank loan, which may involve a notable amount of individuals and SMEs.
- **Niche focus and customisation:** The niche focus allows money lenders to tailor their products, process, and service specifically to the needs of their target borrower groups.

Value Chain

Upstream of the licensed money lending market includes regulatory and supervision bodies which stipulate regulatory regime such as the Money Lenders Ordinance. Licensing Court is responsible for determination of applications for and granting of money lender’s licenses, registrar of Money Lenders is responsible for processing applications for money lender’s licences, renewal of licences and endorsement on licences. Commissioner of Police is responsible for enforcing the Money Lenders Ordinance, including carrying out examinations on applications for money lenders licences, renewal of licences and endorsements on licences; and investigations of complaints against money lenders. Financing service providers are the suppliers to provide funding for midstream licensed money lenders.

Licensed money lenders are required to obtain the Money Lender’s Licence and renew it annually before carrying on money lending business. Loan approval process of licensed money lenders starts when they receive the application. Licensed money lenders will collect personal or corporate information of the borrower and conduct review and assessment. For mortgage loans, licensed money lenders will review and conduct valuation of the collateral. Based on the credit score, business performance, and valuation of collateral, licensed money lenders will decide the amount to be granted and details such as interest rate, repayment conditions and period of the loan.

Value and Turnover of Advances Granted by Licensed Money Lenders

Total value of loans and advances granted by licensed money lenders in Hong Kong, including unsecured and secured loan, has grown steadily during 2017 to 2022 with a CAGR of 2.9%, reaching HK\$49.5 billion by the end of 2022. Supported by the growth of economy and increasing financing needs of individuals, licensed money lending market in Hong Kong has experienced an upward trend in terms of outstanding value and number of market participants. Personal loans took up a larger share of licensed money lending and enjoyed a higher CAGR of approximately 3.1% from 2017 to 2022.

In line with the expanding value of loans and advances granted by licensed money lenders in Hong Kong, turnover of advanced granted pursuant to secured and unsecured loans has shown a considerable growth from HK\$10.0 billion in 2017 to HK\$10.9 billion in 2022, representing a CAGR of approximately 2.2% from 2017 to 2022. Due to the rising financing needs from consumers, turnover of personal loans and advances has experienced a CAGR of approximately 1.8% from 2017 to 2022, recording HK\$7.2 billion by the end of 2022. Turnover of corporate loans has also shown a steady growth from HK\$3.4 billion in 2017 to HK\$3.7 billion in 2022, representing a CAGR of approximately 1.7%.

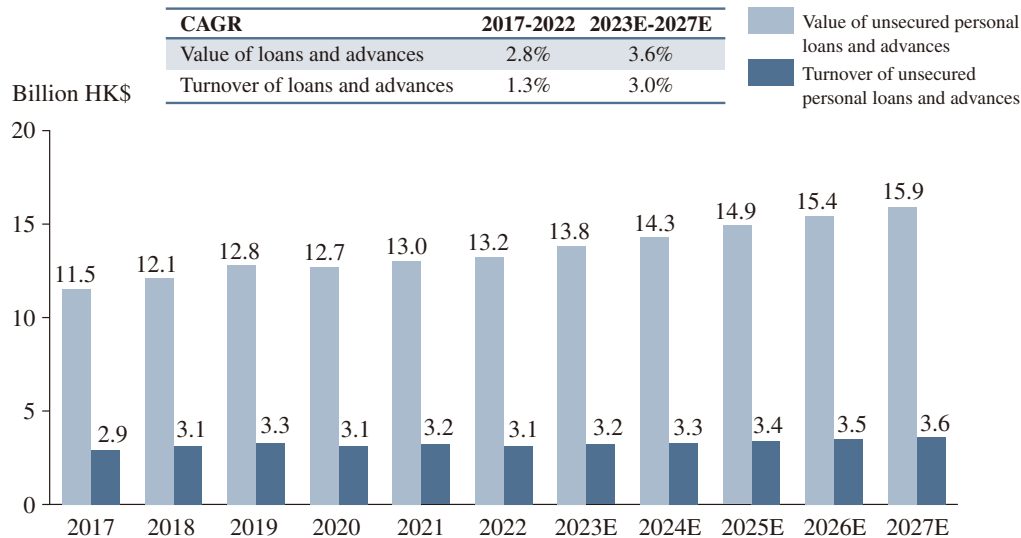
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Value and Turnover of Unsecured Personal Loans and Advances Granted by Licensed Money Lenders

In the licensed money lending industry, it is estimated that over 70% of the licensed money lenders are engaged in the provision of unsecured financing, including unsecured personal loans, unsecured property owners loan and unsecured SME loans, while the secured financing accounts for the remaining 30%. Unsecured personal loans have experienced steadily growth during 2017 to 2022, stimulated by the increasing income and expenditure of consumers. In particular, the nominal per capita gross national income has increased from HK\$375,400 to HK\$404,100 from 2017 to 2022, representing a CAGR of approximately 2.5%, while the average monthly household expenditure has increased from HK\$27,600 in 2015 to HK\$30,200 in 2020, representing a CAGR of approximately 1.8%. Total value of unsecured personal loans and advances rises from HK\$11.5 billion in 2017 to HK\$13.2 billion in 2022, representing a CAGR of approximately 2.8%. With the increasing demand to finance unexpected expenses from borrowers, value of unsecured personal loans and advances is projected to achieve HK\$15.9 billion in 2027, representing a CAGR of approximately 3.6% from 2023 to 2027.

The interest rate and loan terms of unsecured personal loans and advances are usually based on the credit of borrowers as collateral is not required. Interest rate charged by licensed money lenders is usually higher and ranges from 20% to 48%. From 2017 to 2022, turnover of unsecured loans and advances rose with a CAGR of approximately 1.3%, achieving HK\$3.1 billion in 2022. It is estimated that turnover will grow from HK\$3.2 billion in 2023 to HK\$3.6 billion in 2027, representing a CAGR of approximately 3.0%.

Value and Turnover of Unsecured Personal Loans and Advances Granted by Licensed Money Lenders in Hong Kong, 2017-2027E



Note: Latest available data of the average monthly household expenditure administered by the Census and Statistics Department is in 2020.

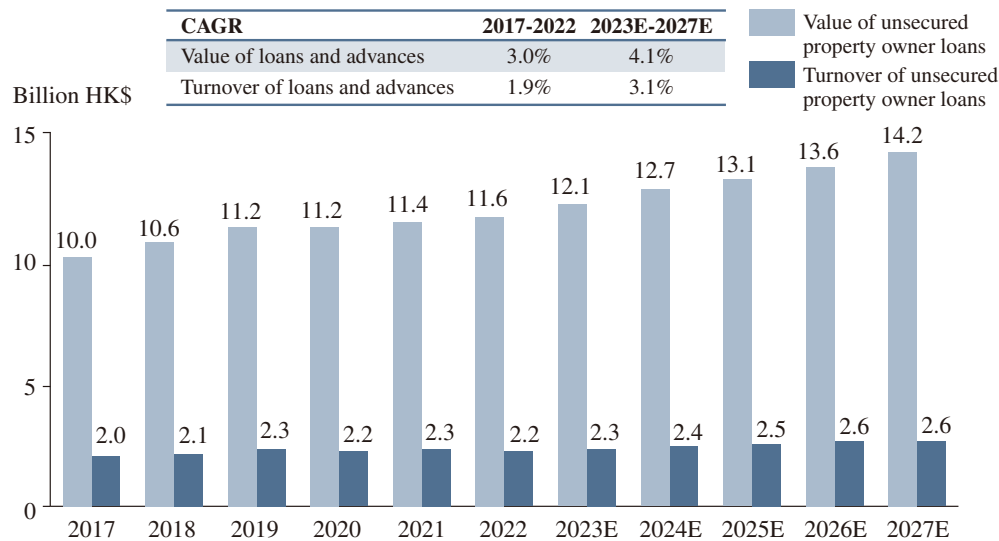
Source: Annual reports of listed companies, Frost & Sullivan

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Value and Turnover of Unsecured Property Owner Loans by Licensed Money Lenders

Unsecured property owner loans are targeted at borrowers who need quick access to funds but have difficulty obtaining mortgage loans from banks. In Hong Kong, owners of properties acquired under the Home Ownership Scheme are subject to such terms and conditions that the Director of Housing of the Hong Kong Housing Authority may impose, which includes restrictions on refinancing. According to the Housing Ordinance (Cap. 283), owners who wish to mortgage/remortgage their flats within the five-year restriction period or after the said period without paying the premium must obtain prior approvals from the Director of Housing who may impose, such terms and conditions as he or she thinks fit. The demand for unsecured property owner loans has witnessed a rapid growth, which is partly attributable to the growing number of subsidized sales flat which increased from 400,000 in 2017 to 437,000 in 2022, representing a CAGR of approximately 1.8%. The total value of unsecured property owner loans granted by licensed money lenders increased from approximately HK\$10.0 billion in 2017 to HK\$11.6 billion in 2022, representing a CAGR of 3.0%. The growing trend is likely to continue and the figure is projected to reach approximately HK\$14.2 billion in 2027, representing a CAGR of 4.1% from 2023 to 2027. Even though there is no property collateral under the unsecured property owner loans, the creditworthiness of the borrower is in general considered stronger than individuals who do not own any properties and hence licensed money lenders usually charge a lower interest rate for unsecured property owner loans. In line with the increase of the value of unsecured property owner loans granted by licensed money lenders, the total turnover generated from unsecured property owner loans grew from approximately HK\$2.0 billion in 2017 to HK\$2.2 billion in 2022, representing a CAGR of 1.9%. By 2027, driven by steadily growing demand, the total turnover in this sector is estimated to amount to approximately HK\$2.6 billion, representing a CAGR of 3.1% from 2023 to 2027.

Value and Turnover of Unsecured Property Owner Loans by Licensed Money Lenders in Hong Kong, 2017-2027E

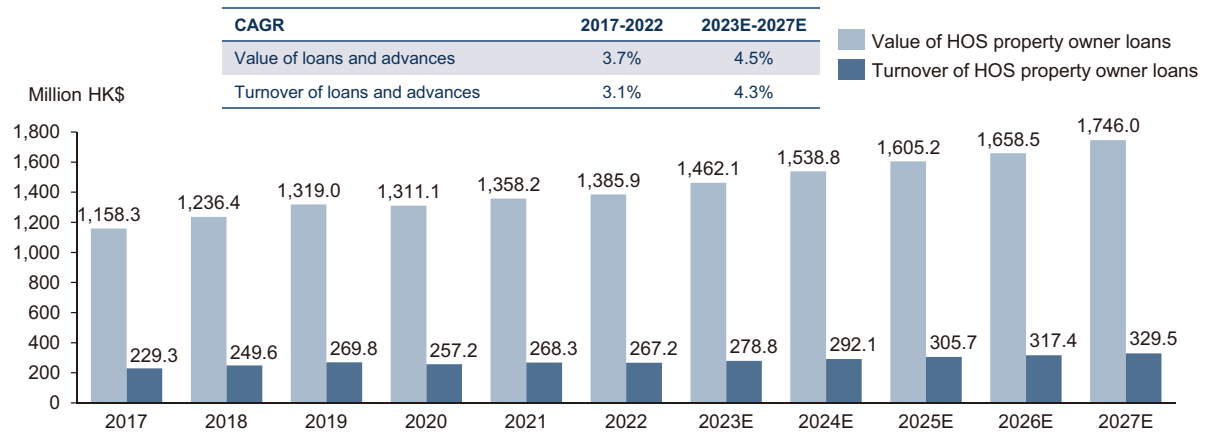


Source: Annual reports of listed companies, Frost & Sullivan

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During 2017 to 2022, the value of unsecured HOS property owner loans and advances has risen from HK\$1,158.3 million to HK\$1,385.9 million, representing a CAGR of approximately 3.7%, while the turnover of unsecured HOS property owner loans and advances has attained HK\$267.2 million in 2022, representing a CAGR of approximately 3.1% from 2017 to 2022. Going forward, outlined in the Chief Executive’s Policy Address in 2022, the Government will make available subsidised sale flats such as those under the Home Ownership Scheme to meet the home ownership aspirations of the public, the value and turnover of unsecured HOS property owner shall increase at CAGRs of approximately 4.5% and 4.3% respectively during 2023 to 2027.

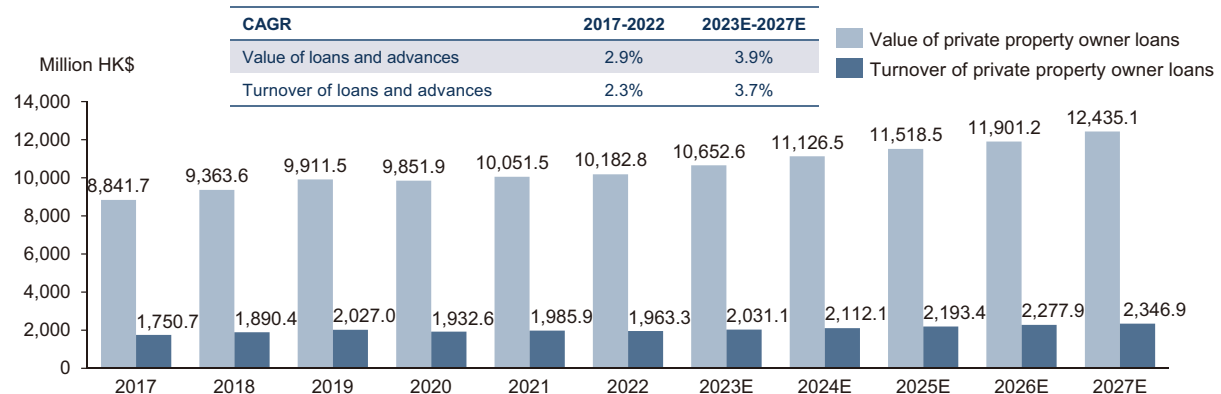
Value and Turnover of Unsecured HOS Property Owner Loans by Licensed Money Lenders in Hong Kong, 2017-2027E



Source: Annual reports of listed companies, Frost & Sullivan

During 2017 to 2022, the value of unsecured private property owner loans and advances has risen from HK\$8,841.7 million to HK\$10,182.8 million, representing a CAGR of approximately 2.9%, while the turnover of unsecured private property owner loans and advances has attained HK\$1,963.3 million in 2022, representing a CAGR of approximately 2.3% from 2017 to 2022. Going forward, the value and turnover of unsecured private property owner shall increase at CAGRs of approximately 3.9% and 3.7% respectively during 2023 to 2027.

Value and Turnover of Unsecured Private Property Owner Loans by Licensed Money Lenders in Hong Kong, 2017-2027E



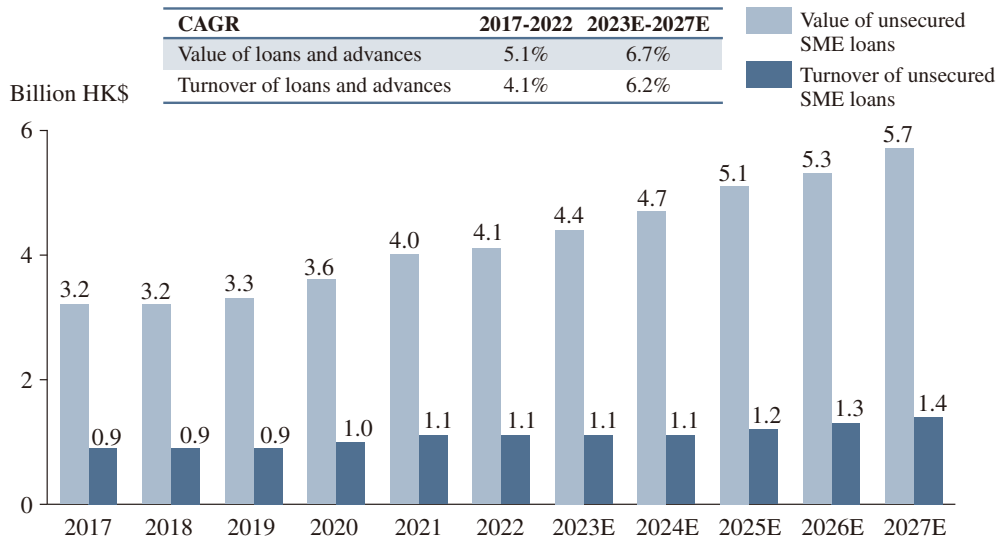
Source: Annual reports of listed companies, Frost & Sullivan

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Value and Turnover of Unsecured SME Loans by Licensed Money Lenders

SME in Hong Kong constitute more than 98% of business establishment and their vitality and business performance are of crucial importance to the economy. Owing to social unrest and the outbreak of the COVID-19, SMEs that are less resilient to the economy downturn may require loans and advances for temporary support for daily operation as working capital as well as to cover operating expenses such as rental and salaries. In turn, the value of unsecured SME loans and advances has risen from HK\$3.2 billion to HK\$4.1 billion from 2017 to 2022, representing a CAGR of approximately 5.1%, while the turnover of unsecured SME loans and advances has attained HK\$1.1 billion in 2022, representing a CAGR of approximately 4.1% from 2017 to 2022. The value and turnover of unsecured SME loans and advances are expected to grow at CAGRs of approximately 6.7% and 6.2% during 2023 to 2027. The growth is attributable to (i) the growing number of SMEs, increased from 331,000 in 2017 to 350,000 in 2022, representing a CAGR of approximately 1.1%; (ii) improving accessibility reaching licensed money lenders and convenience of obtaining loans; (iii) shortened application to approval turnaround time, streamlined loan application procedure and increasing flexibility in terms of debt repayments schedule are collectively stimulating the demand; and (iv) outlined in the Budget 2022-2023 by the Financial Secretary of Hong Kong, The SME Financing Guarantee Scheme (“SFGS”) which was launched in 2011 and assists SMEs in obtaining financing with respective guarantee coverage, has made further enhancements in regards to the maximum loan amount per enterprise and extension on maximum repayment period as well as loan guarantee period, which serve as an impetus to elevate confidence among SMEs to reach for financing.

Value and Turnover of Unsecured SME Loans by Licensed Money Lenders in Hong Kong, 2017-2027E



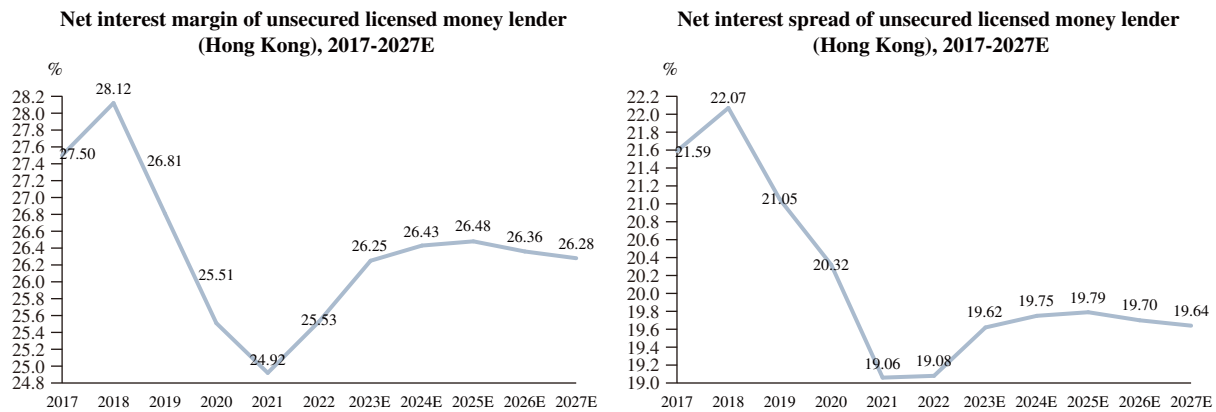
Source: Annual reports of listed companies, Frost & Sullivan

Net Interest Margin and Net Interest Spread

In the unsecured licensed money lending market, the net interest margin is a financial ratio that measures the difference between the interest income generated by assets and the interest expense on liabilities, divided by the average interest-earning assets, while net interest spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Higher figures for both indicates a more profitable business model for industry players. The fluctuation is mainly attributable to the change in cost of funds over the years, which is the interest rate that money lenders pay to acquire the funds that they lend out and is highly associated with the interest rate environment in recent years, the increasing competition in the industry that lenders may lower their interest rates to attract borrowers, and borrower’s demand. In particular, the decline in net interest margin during 2018 to 2020 and 2021 to 2022 was attributable to the overall increase in interbank offered rates and prime lending rates as these rates in Hong Kong follow interest rate moves in the US. When general interest rates rise, licensed money lenders see their funding costs increase but tend to not fully pass on increased funding costs to new customers in order to remain attractive and competitive for new customers, resulting in fierce competition, lowered lenders’ pricing power and diminished ability to maintain wider spreads in general. The net interest margin and net interest spread in the unsecured

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licensed money lending market in Hong Kong has hovered around 24.9% to 28.2% and 19.0% to 22.0% respectively during 2017 to 2022, and is expected to grow steadily during 2023 to 2027 considering the growing demand for money lending as well as the macroeconomy factors such as potential cut of interest rate.



Source: Hong Kong Monetary Authority, Annual reports of listed companies, Frost & Sullivan

Key Growth Drivers and Trends

Simplified and convenient approval procedure with the incorporation of Fintech – In regard to customer service and operational procedure, licensed money lending companies are adopting technologies such as artificial intelligence, robotic process automation, robotic advisors, and digital identification technologies. Empowered by digital-enabled information infrastructure, licensed money lenders are able to implement a simpler and more convenient approval procedure which helps to attract and retain customer base, as compared to authorized institution. Further, leading market participants are able to minimize the lead time between successful approval and the transfer of loan to reaching customers through deploying handy machinery for withdrawal or momentary bank transfer to saving accounts.

Robust development of SMEs – SMEs serve as the bedrock of Hong Kong’s economy, with the number of establishments attaining 340,000 in 2022, accounting for 98% of enterprises and employing 46% of the private sector workforce. In view of the constrained business scale with limited resources and financial capability, SMEs are generally faced with difficulties in sourcing funding from banks. The administrative cost could be hefty while some SME might find the urgent need to fulfill working capital requirement as well as operating expense such as the payment of wages and rents. Particularly in the construction industry, sufficient capital flow is important for construction contractors and subcontractors to satisfy their operational and capital needs. Upfront costs for new entrants may include purchase or deposits for materials and components, fees payable to subcontractors, recruitment of direct labor and provision of performance bonds to customers. The upfront cost incurred construction projects will range from approximately 5% to 50% of the respective contract sum. Taking into consideration that the Hong Kong government is keen to promote economic growth through infrastructural development which will foster the construction industry development in the future, with the gross value of construction works performed by main contractors and sub-contractors to be expected to grow at the CAGRs of 5.5% and 4.0% respectively from 2023 to 2027, the demand for money lending in the construction market is expected to rise steadily. Licensed money lenders provide highly flexible, well-organized and tailor-made financing offerings, with simpler procedures and lower collateral requirement that are suitable for SMEs regardless of the nature and size of businesses.

Further, as outlined in the Chief Executive’s Policy Address 2022, the Commercial Data Interchange has been launched in October 2022 by the Hong Kong Monetary Authority with a view to providing a one-stop platform for enterprises to share operational data. Such platform is conducive in enabling financial institutions including licensed money lenders to make accurate assessments on the operating condition of enterprises and providing SMEs with a better chance of securing loans. Accordingly, the growth in number of SMEs in Hong Kong is forecasted to drive the SME corporate loan segment of the licensed money lending market.

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While authorized institutions have also benefited to some degree from technological advancements amongst SMEs, their growth as lenders to this segment has been constrained due to more stringent regulatory requirements, traditional risk models and lower risk appetite. These factors contribute to lengthier loan approval processes, which may impede SMEs’ ability to obtain urgently needed working capital financing. Moreover, authorized institutions possess less flexibility to tailor customized loan amounts, terms, and structures compared to licensed money lenders. Consequently, new and small enterprises lacking robust credit histories often turn to licensed money lenders as an alternative source of financing and credit. In addition, through deep understanding of particular industries’ dynamics, credit cycles, as well as inherent risks and opportunities, certain licensed money lenders have developed specialized expertise in financing specific sectors such as construction or tailored offerings for distinct business life stages, including startups and emerging growth companies. Their niche expertise equips them to effectively serve SME segments that may be perceived as higher-risk or underserved by mainstream finance providers.

Consumption driven economy and steady growth of macroeconomies – The licensed money lending industry is highly associated with the scale and growth of consumer spending, especially for the personal loan sector. The GNI per capita in Hong Kong has increased from HK\$375,879 in 2017 to HK\$404,138 in 2022, representing a CAGR of approximately 1.5% during 2017 to 2022. The private consumption expenditure has, on the other hand, increased from HK\$1,784.4 billion in 2017 to HK\$1,882.4 billion in 2022, representing a CAGR of 1.1%. Further in 2023, the Hong Kong Government announced multiple relaxation measures in relation to mandatory quarantine for inbound visitors and infected person, cross-border restrictions and social distancing, the socio-economic activities is expected to gradually normalize. The resumption of cross-border activities and growing local consumption induces a rebounded in total retail sales in early 2023, with the figure attaining HK\$36.2 billion in January, 2023, recording an increase of approximately 7.0% compared to January, 2022. The greater purchasing power has driven the continuous demand for credit services such as bank credit cards and subsequently the related financial services including personal loans. For instance, the total volume of new card accounts has attained approximately 1,560 thousand in 2022. In particular, through unsecured personal loans, borrowers are able to streamline their monthly credit card payments at a lower interest rate and ease and simplify the financial consequence. As such, the steady willingness of purchase and growing consumption power, shall serve as the major impetus to the growth of the licensed money lending industry.

More frequent adoption of credit payment services – According to the HKMA, the total value of credit card transactions in Hong Kong has increased from HK\$155,076 million in the second quarter of 2017 to HK\$177,151 million in second quarter in 2022, representing a CAGR of approximately 2.7% during the period. The steady increment in credit payment services is expected to translate into increasing borrowing or even delinquency of credit card bills. Unsecured personal loan serves as a medium to resolve solvency issue of individuals, and is expected to be propelled by the proliferation of credit payment usage.

Regulation improvement – The enactment and continuous amendment of the Money Lenders Ordinance has posed stringent standard to the money lending market in Hong Kong. For instance, the interest rate cap will be lowered from 60% to 48% per annum, and the extortionate rate from 48% to 36% per annum coming into effect on December 30, 2022 as approved by the Legislative Council. Such enactment is expected to subdue small scale licensed money lenders charging aggressive rates and entail further market consolidation where medium and large players take up the residue market share. In 2021, the “Guideline on Fit and Proper Criteria for Licensing of Money Lenders” set out a series of criteria such as compliance records, financial status, ability to carry on money-lending business, reliability and integrity, business and operations, etc. by the Companies Registry in determining the license assessment and approval process.

Market Challenges and Threats

Subject to economic volatility – The licensed money lending industry is exposed to the volatility of macroeconomy and government policies. For instance, during the interest rate hike owing to continuous inflation in 2022, the investment needs of borrowers are subdued and hence the demand for refinancing might also be affected. During economic downturn such as during the outbreak of the COVID-19, demand could fluctuate when consumers are becoming conservative in their purchase while some corporates may seek additional source of financing when they are facing shortfall of income. Further, in order to maintain competitive rates and secure market foothold, licensed money lenders are required to assess precisely other perceived or actual general economic and social conditions, such as employment, job market conditions, levels of disposable consumer income and wealth, and consumer confidence in the economy.

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Risk of bankruptcy and default amount – Licensed money lending businesses is prone to credit risk, which is the possibility of loss due to a borrower’s defaulting on a loan or not meeting contractual obligations. During economic downturns, the risk of loan default increases as enterprises and individuals suffer bankruptcy and unemployment. In the wake of default concerns, licensed money lenders focusing on the unsecured loans segment shall identify risk by properly assessing and managing credit risk in order to lessen the severity of a loss. A few credit assessment criteria could be applied, such as the borrower’s capital, meaning their revenue or income, and cash flow as well as credit scores, and other conditions such as their financial condition, and credit history.

Potential changes to HOS restrictions in Hong Kong – According to the Housing Ordinance (Cap. 283), owners of HOS flats shall not mortgage within the 5-year alienation restriction period or after the said period without paying the land premium, unless prior approval obtained from the Director of Housing. Currently, refinancing through the mean of mortgage of HOS flats will only be allowed in cases of financial hardship. In the event of the government’s removal of the 5-year alienation restriction period, borrowers would be provided with more lending options including secured mortgages. Industry players participated in the unsecured HOS property owner loan market shall actively monitor and manage the alteration of government policies to reduce the volatility of business continuity.

Cost Structure Analysis

The licensed money lending market participants are primarily hiring workers engaged in the financial and insurance sector. Such monthly wage has increased from HK\$21,302 to HK\$23,125 from 2017 to 2022, representing a CAGR of approximately 1.7%. Going forward, as local economy is expected to normalize post COVID-19, the demand for workers in related industry is expected to rise, thereby driving the forecasted monthly wage to grow at a CAGR of approximately 3.3% during 2023 to 2027. A higher CAGR is expected given (i) a stable economic stability as compared to the historical period where the outbreak of the COVID-19 was occurred; and (ii) as financial technology is increasingly incorporated into the financial and insurance industry, there is increased requirement of workers to be acquainted with sophisticated industry technical know-how, and in turn, the average monthly wage is expected to rise correspondingly.

Information and communications personnel are primarily labor engaged in Fintech transformation in the licensed money lending market in Hong Kong and are accountable as Fintech staff. Such monthly wage has increased from HK\$21,600 in 2017 to HK\$25,100 in 2022, representing a CAGR of approximately 3.0%. Going forward, the average monthly wages of information and communications personnel is expected to reach HK\$29,600 in 2027, representing a CAGR of 3.4% during 2023 to 2027.

In the licensed money lending market in Hong Kong, market participants often leverage the presence of brick-and-mortar store as an establishment of touchpoints with downstream borrowers. The average monthly rental cost per square meter of private retail in Hong Kong has declined over the past 5 years, primarily owing to the outbreak of COVID-19, which subdued the demand for general brick-and-mortar retail. The average monthly rental cost per square meter of private retail has plummeted by 3.8%, 4.4% and 2.2% respectively in Hong Kong Island, Kowloon and New Territories during 2017 to 2022.

The adoption of fintech by leading industry players in the licensed money lending market implies lessened deployment of on-site labor and administrative machinery and equipment, while a fintech-incorporated machinery that is able to accommodate client’s requirement serves as a substitute. The streamlined setting of on-site resources and facilities is effective in alleviating the overhead cost of industry players.

COMPETITIVE LANDSCAPE OF LICENSED MONEY LENDING IN HONG KONG

The licensed money lending industry in Hong Kong is highly competitive with 2,414 licensed money lenders providing relevant services in Hong Kong as of December 31, 2022. As estimated, over 70% of the licensed money lenders are engaged in the provision of unsecured financing, including unsecured personal loans and unsecured property owner loans. In particular, the entry barrier of fintech-enabled money lenders is relatively higher as a large amount of initial investment is required for the application of big data and machine learning technology and the building of online platform. In addition, while increasing market consolidation is seen in the unsecured financing industry in Hong Kong, the leading market participants are leveraging the economies of scale to acquire more customers through more diverse sources of funding and lower operating cost, as well as developing more diversified and customized loan products.

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Competitive Landscape

The licensed unsecured financing market is relatively concentrated with top five market participants accounting for 84.4% of the overall market share by revenue. The Company’s revenue was HK\$233.5 million in 2022, representing a share of 3.6% in the licensed unsecured financing market in Hong Kong.

Ranking of Licensed Unsecured Money Lending by Revenue (Hong Kong), 2022

Rank	Market participants	Listing status	Estimated revenue in 2022 (HK\$ Million)	Estimated market share in 2022 (%)
1	United Asia Finance Limited	Subsidiary of 0086.HK	2,657.9	41.5%
2	PrimeCredit Limited	Private	1,230.1	19.2%
3	Aeon Credit Service (Asia) Company Limited	0900.HK	1,181.0	18.5%
4	The Group	Private	233.5	3.6%
5	Promise (Hong Kong) Co. Limited	Private	127.4	2.0%
		Subtotal	5,403.1	84.8%
		<i>Others</i>	996.9	15.2%
		Total	6,400.0	100.0%

Note: Only the revenue generated from the provision of unsecured financing is included in the ranking. The revenue of private companies is estimated and compiled by F&S based on the expert interviews conducted and information available in the public domain, including company websites. The revenue of listed companies are exacted from the annual reports or estimated based on the market segmentation.

United Asia Finance Limited is a subsidiary of Sun Hung Kai & Co. Limited (0086.HK). It was established in 1991 and is primarily engaged in the provision of personal and corporate lending, as well as other financial services such as credit cards and insurance products. The company has a strong presence in Hong Kong and has expanded its business to the Mainland China market in recent years. As of 2022, United Asia Finance Limited has more than 49 branches across Hong Kong.

PrimeCredit Limited was established in 1977 and is primarily engaged in the provision of personal and commercial loans, credit cards, and other financial services such as insurance and wealth management and has expanded its business to the Mainland China market in recent years. As of 2022, PrimeCredit Limited has more than 19 branches across Hong Kong.

AEON Credit Service (Asia) Company Limited was established in 1990 and is primarily engaged in the provision of consumer finance services, including personal loans and credit cards. AEON Credit Service (Asia) Company Limited is listed in Hong Kong Stock Exchange (0900.HK). As of 2022, the company has 15 branches across Hong Kong.

Promise (Hong Kong) Co. Limited was established in 1991 and is a private company primarily engaged in the provision of consumer finance services, including personal loans. As of 2022, Promise (Hong Kong) Co. Limited has 18 branches across Hong Kong.

Source: Annual reports of listed companies, Frost & Sullivan

In 2022, the Company recorded a revenue of HK\$140.1 million from the unsecured HOS property owners loan for the year 2022, representing a share of 10.1% in the licensed unsecured HOS property owners loan market in Hong Kong. In terms of the non-HOS property owners loan market in Hong Kong, the Company had a revenue of HK\$6.7 million from the unsecured HOS property owners loan for the year 2022, representing a share of 0.1%.

The total number of industry players in the unsecured financing industry in Hong Kong is 2,596, which includes 182 authorized institutions and 2,414 licensed money lenders as at December 31, 2022. The authorized institutions principally account for majority of the unsecured financing market size with a share of approximately 95.9% of the market size, while licensed money lenders account for approximately 4.1% of the market size in 2022. The unsecured financing market in Hong Kong is relatively concentrated with top three market participants accounting for 33.6% in 2022 of the overall market share by revenue. The Company recorded a share of 0.15% in 2022 in the unsecured financing market in Hong Kong.

The licensed unsecured HOS property and private property loans market is relatively concentrated. In 2022, top five market participants had a total revenue of HK\$1,503.5 million, accounting for 68.3% of the overall licensed unsecured personal loan and unsecured property owner loan market. The Company

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had a segment revenue of HK\$146.8 million in 2022, representing a share of 6.7% in the licensed unsecured HOS property and private property loans market in Hong Kong.

Rank	Market participants	Listing status	Estimated revenue in 2022 (HK\$ Million)	Estimated market share in 2022 (%)
1	United Asia Finance Limited	Subsidiary of 0086.HK	777.1	35.3%
2	PrimeCredit Limited	Private	464.3	21.1%
3	The Group	Private	146.8	6.7%
4	Aeon Credit Service (Asia) Company Limited	0900.HK	69.0	3.1%
5	Promise (Hong Kong) Co. Limited	Private	46.3	2.1%
		Subtotal	1,503.5	68.3%
		<i>Others</i>	696.5	31.7%
		Total	2,200.0	100.0%

Note: Only the revenue generated from the provision of unsecured HOS property and private property loans is included in the ranking.

The revenue of private companies are estimated and compiled by F&S based on the expert interviews conducted and information available in the public domain, including company websites. The revenue of listed companies are exacted from the annual reports or estimated based on the market segmentation.

Ranking of Authorized Institutions and Licensed Unsecured Money Lending by Revenue (Hong Kong), 2022

Rank	Market participants	Listing status	Estimated revenue in 2022 (HK\$ Billion)	Estimated market share in 2022 (%)
1	The Hongkong and Shanghai Banking Corporation Limited	0005.HK	33.0	21.0%
2	Bank of China (Hong Kong) Limited	3988.HK	10.7	6.8%
3	Industrial and Commercial Bank of China (Asia) Limited	1398.HK	9.1	5.8%
		Subtotal	52.8	33.6%
		<i>Others</i>	104.5	66.4%
		Total	157.3	100.0%

Note: Only the revenue generated from the provision of unsecured financing is included in the ranking. The revenue of private companies are estimated and compiled by F&S based on the expert interviews conducted and information available in the public domain, including company websites. The revenue of listed companies are exacted from the annual reports or estimated based on the market segmentation.

The Hongkong and Shanghai Banking Corporation Limited is a multinational banking and financial services company established in Hong Kong in 1865. It offers retail, commercial, investment banking, and wealth management services, including money lending. HSBC has a significant presence in Hong Kong, with a broad range of services and an extensive network of branches and ATMs.

Bank of China (Hong Kong) Limited was established in Hong Kong in 1912 and has grown to become one of the leading banks in the region. BOC's business scope includes commercial banking, investment banking, insurance, money lending, asset management services, among others.

ICBC was established in Hong Kong in 1984, the business scope includes commercial banking, investment banking, insurance, money lending, asset management services, among others.

Source: Frost & Sullivan

In the unsecured personal loan market of authorized institutions and licensed money lenders, the top three players are international scale authorized institutions. The top three players and their respective market shares in 2022 are The Hongkong and Shanghai Banking Corporation Limited (21.2%), Bank of China (Hong Kong) Limited (7.4%) and Standard Chartered Bank (Hong Kong) Limited (4.7%).

In the unsecured property owner loan market of authorized institutions and licensed money lenders, which includes unsecured HOS property and private property loan, the top players are mainly licensed money lenders, as authorized institutions predominantly focus on secured property owner loans, i.e. mortgages, with collateral requirements and lower risk tolerance. It is more prevalent for licensed money lenders to offer unsecured loans for property owners. The top three players and their respective market shares in 2022 are United Asia Finance Limited (35.3%), PrimeCredit Limited (21.1%) and The Group (6.7%).

In the unsecured HOS property owner loan market, the top three players and their respective market shares in 2022 are The Group (52.4%), United Asia Finance Limited (20.9%), and PrimeCredit Limited (13.2%).

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In the private property owner loan market, the top three players and their respective market shares in 2022 are United Asia Finance Limited (37.3%), PrimeCredit Limited (22.2%) and Aeon Credit Service (Asia) Company Limited (3.2%).

In the SME loan market of authorized institutions and licensed money lenders, the top three players are international scale authorised institutions, the top three players and respective market share in 2022 are The Hongkong and Shanghai Banking Corporation Limited (21.0%), Bank of China (Hong Kong) Limited (6.8%) and Industrial and Commercial Bank of China (Asia) Limited (6.2%).

Financial Technologies Adopted by Licensed Money Lenders

Cloud-based Loan Management System – Cloud-based loan management systems adopted by licensed money lenders in Hong Kong are software solutions that are hosted on remote servers and accessed by the lenders through the internet rather than being installed locally on individual computers, which provides the lenders with benefits like instant software updates, operational flexibility, cost savings, and enhanced security of their data and systems. Cloud-based loan management systems enable efficient loan origination through automated workflows where the lenders can configure customizable loan applications and decision rules on the platform and borrowers can submit all the required information and documents online, which allows the system to instantly validate credentials, run credit checks, assess affordability and approve loans within minutes, thus significantly improving lending turnaround times. In addition, the cloud-based systems facilitate easier loan servicing and collections by providing functionalities like automated reminders for loan repayments, tracking of repayment histories, and faster notifications in case of late payments by borrowers. The data analytics capabilities of the cloud-based systems also provide valuable business insights to the lenders for risk management and performance monitoring of their overall lending portfolio.

Artificial Intelligence (“AI”) – Artificial intelligence technologies, which refer to the simulation of human intelligence and decision-making capabilities by computer systems, are being rapidly adopted by licensed money lenders in Hong Kong to automate and enhance many aspects of the lending process including loan origination, credit underwriting, fraud detection, collections and customer service interactions. By incorporating advanced AI algorithms and machine learning models, the lenders can configure automated loan approval workflows that can quickly gather and analyze sizeable data points from documents and data submitted by borrowers online to generate instant credit risk assessments and lending decisions, thereby accelerating lending turnaround times. The AI systems continuously improve their underwriting accuracy and efficiency by learning from growing data sets of past lending performance and outcomes. The predictive analytics applications of AI are also assisting lenders with early delinquency warnings, optimal debt collection strategies for overdue accounts as well as insights for better portfolio management.

Virtual teller machines (“VTM”) – VTMs are an emerging technology being deployed by licensed money lenders in Hong Kong to enable more convenient and efficient customer service. VTMs provide an interactive video banking experience by connecting customers face-to-face with remote tellers via live video feeds. Customers can speak with tellers through the machine to get personalized assistance for account inquiries, loan applications, document submission and other services.

Blockchain Technologies – Blockchain is a distributed ledger system that establishes peer-to-peer transaction networks without intermediaries. Key benefits for lenders include transparent and tamper-proof loan documentation, automated loan execution through smart contracts, and faster loan sale and trading. By recording borrower information and lending terms on encrypted, decentralized ledgers, blockchain can enable instant, low-cost loan issuance and servicing while preventing fraud. blockchain’s capabilities of disintermediation, enhanced security, and transaction efficiency make it a promising emerging technology for licensed money lenders in Hong Kong.

Trend of Fintech development for Licensed Money Lenders

Promotion of New Personal-Lending Portfolio – As part of the initiatives to promote Smart Banking in Hong Kong, the Hong Kong Monetary Authority (HKMA) has established a “Banking Made Easy” taskforce in 2018 to identify and streamline regulatory frictions to smooth online customer experiences. The taskforce will initially focus its work on three areas, namely remote onboarding, online finance and online wealth management. To strike a better balance between improving customer banking experience and continuing to uphold prudent credit underwriting standards, the HKMA allows authorized institutions (AIs) to carve out a portion of their personal lending portfolio, in respect of which departure from conventional lending practices will be permitted. This arrangement will enable authorized institutions to explore new credit risk management practices, while keeping any possible financial and other impact under control. This “New Personal-Lending Portfolio” (NPP) is planned to be small initially, and may be expanded over time if the new risk management practices are proved to be effective. The HKMA will keep the NPP arrangement under regular review. The NPP will help the authorized

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institutions to offer a smoother customer journey in the online environment in Hong Kong, thus promoting the online lending platform and Fintech applications in Hong Kong.

Growing Acceptance of Young Generation – In 2021, over 90% of the population aged 18 and over in Hong Kong has access to the Internet, making online lending immensely accessible. As Generation Y enters into their twenties and thirties and gain higher purchasing power, they have become the center of attention that lenders seek for. Generation Y makes up the fastest growing segment of consumption in Hong Kong, and it is further estimated that they have greater demand for consumer loans. In general, Generation Y is tech-savvy, and often has a high degree of acceptance for online product and services, including online lending. The young generation is expected to play an important role in supporting the growth of online lending. As estimated, digital platforms, including those providing services through the internet, mobile apps, self-service machines (such as Automated Teller Machines (“ATMs”), Virtual Teller Machines (“VTMs”), etc.) and other digital/mobile devices, will contribute up to 30% of Hong Kong’s value of loans and advances of personal loans in 2027, up from 20% in 2022, driven largely by superior borrower experiences, growing acceptance from the young generation and supportive policies in promoting new credit risk management practices. It is expected that Fintech-enabled licensed money lenders would continue to take market share from traditional licensed money lenders at this same pace, or greater, as technology becomes even greater.

Increasing involvement in Fintech – Licensed money lenders increasingly invest in technology and innovation to increase their competitiveness and keep pace with the ever-changing market landscape. Investing in data and artificial intelligence partnership brings increased customer granularity and fuels a more effective, cost-conscious and long-term strategy for successful customer acquisition. Fintech-enabled licensed money lenders are using both physical branches and digital platforms, including those providing services through the internet, mobile apps, self-service machines (such as Automated Teller Machines (“ATMs”), Virtual Teller Machines (“VTMs”), etc.) and other digital/mobile devices, to provide lending services to customers. The multi-channel strategy allows the licensed money lenders to bring greater convenience for customers. Licensed money lenders have also adopted financial technology to manage credit risks related to personal lending business in a bid to improve customer experience in the digital environment. Instead of collecting borrowers’ income proof to assess their repayment ability, licensed money lenders may adopt new credit risk management techniques and practices enabled by innovative technology, such as big data and consumer behavior analytics, to approve and manage the related credit risks. The application of financial technology in personal lending business increases the efficiency of lending process and greatly shortens the loan approval time required, which comes as an distinguishable asset among the licensed money lenders in Hong Kong.

Entry Barriers

License Requirements – The money-lending regime has been tightening up since 2016 when the Registrar began to impose more stringent licensing conditions on money lender regulations. Anyone who wants to carry out money lending business are required to obtain money lending licence and compliance with the restrictions of licence strictly as stated in the Money Lenders Ordinance. It normally takes 3 to 4 months for the application to be approved and the licence has to be renewed yearly. The prerequisite for money lender’s license requires firms to be fit and proper. Matters that will be considered are compliance records, management structure, financial position, skills, knowledge and experience, reliability and integrity and disciplinary actions. Moreover, applicants are required to submit business plans in order to apply for a money lender license with their application to show that the applicants have comprehensive understanding of the money-lending business and are ready to carry on the business.

Strong Financial Capability – Money lending industry is generally considered to be a capital-intensive industry. In March 2021, a new licensing condition was adopted that require licensees to assess a borrower’s ability to repay. Although there are no minimum capital requirements for licensed money lenders in Hong Kong, strong cash flow and financial capability are fundamental for licenses money lenders to operate successfully. Only a significant amount of cash and liquidity at the beginning phase of business setup can allow quick turnover and immediacy in funding in the money lending business. New market entrants usually lack strong financial capability and fund-raising channels at the beginning, and may find it hard to enter the licensed money lending market in Hong Kong.

Application of Financial Technology – In the licensed money lending industry, application of financial technology is extremely crucial to customers as they value the convenience and efficiency of loan approval. In order to be competitive, a new entrant may need to devote substantial resources to develop and maintain the digital platform and adopt innovative technologies, such as big data and machine learning, in credit risk management. Further, they are also faced with the challenge of keeping up to date with technological innovations, for example the development of data analytics, in order to meet the changing demands.

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OVERVIEW OF BNPL MARKET IN HONG KONG

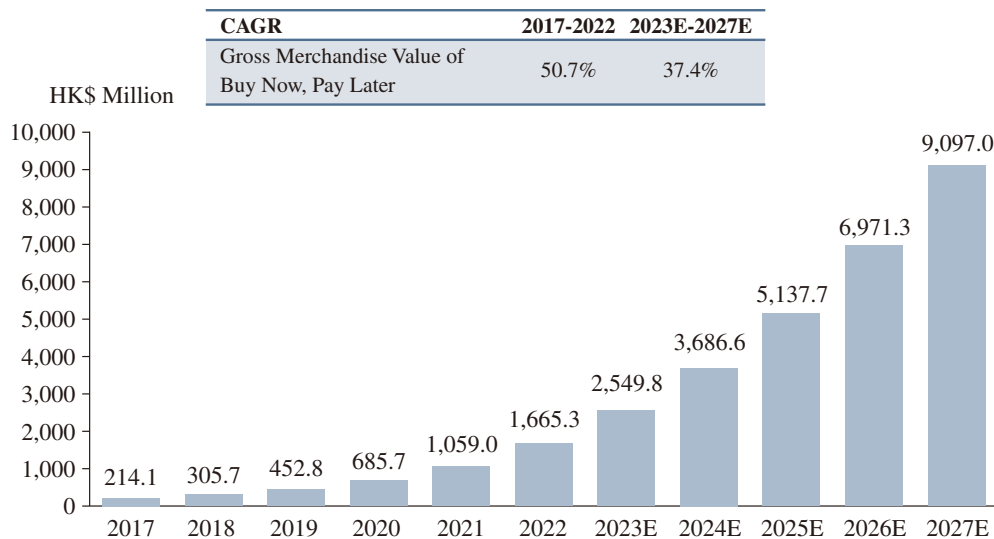
Definition and Classification

Buy now, Pay Later (BNPL) is a type of short-term financing that allows consumers to make purchases and pay for them at a future date, often interest-free. It is a type of unsecured personal loan, which means the loan does not require any type of collateral. There are two common business model adopted in the BNPL industry, which includes (i) BNPL providers who cooperate with selected merchants and allow consumers to pay by interest-free or low-interest installments and the BNPL providers would pay on behalf of the consumers. BNPL service providers essentially earn the handling fee as a proportion to the purchase price of the goods or services, which is borne by the merchant, while the merchant enjoy the benefit of offering customers the option to pay for purchases using BNPL which serves as potential impetus to the sales value; (ii) BNPL providers to cooperate with payment gateway i.e. credit card or digital wallet companies, allowing consumers to use BNPL services in any merchants that allow such digital payments and the BNPL providers earn the facilitation fee borne by consumer, the late fee charged or interest charged which is determined at the first place. Such business model enables customers to purchase anywhere as long as the designated credit card or digital wallet payment method is available in respective retail store, offering greater flexibility and convenience, which in turn significantly elevate the touchpoints and usage coverage.

Gross Merchandise Value of Buy Now, Pay Later

The gross merchandise value of BNPL in Hong Kong has rocketed from approximately HK\$214.1 million to HK\$1,665.3 million from 2017 to 2022, representing a CAGR of 50.7%. From 2017 to 2022, the penetration rate of BNPL payment method has rocketed from 0.0% to 0.5% of the total retail sales value in Hong Kong from 2017 to 2022. BNPL products have trended in the US and Europe in the past years, whereas this type of technological advancement has just emerged in Hong Kong and disrupted the traditional financial payment method. In recent years, the BNPL market has increased rapidly, recording a growth of 51.4%, 54.5% and 57.3% in 2020, 2021 and 2022, respectively. Factors such as increase in e-commerce, shift of payment method since COVID-19 towards contactless payment, willingness of the younger generations to use BNPL due to ease of set payments, simple approval process and lack of interest charges fostered the surge of BNPL in the past years. Looking forward, the online retail sales value of BNPL is expected to reach HK\$9,097.0 million in 2027 with a CAGR of 37.4% from 2023 to 2027. It is also expected that the BNPL payment method will account for 2.2% of the total retail sales value in 2027. The BNPL market will continue to expand along with higher consumer awareness, increased market regulation and technological advances in providing fintech-based unsecured personal loans.

Gross Merchandise Value of Buy Now, Pay Later (Hong Kong), 2017-2027E



Source: Frost & Sullivan

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Requirements and Licenses of BNPL Providers

According to the Money Lenders Ordinance, any person (including companies) who lends money in the ordinary course of business with interest or fees needs to obtain a money lenders license issued by the HKMA, and comply with the regulatory requirements under the licensing conditions. This includes BNPL providers that offer interest-free or low-interest installment payments for a fixed period. As regards provision of credit data to credit reference agency (“CRA”), the HKMA requires banks that provide BNPL services to submit credit data of customers to the CRA in accordance with the requirements stipulated in the Code of Practice on Consumer Credit Data. In fact, both banks and licensed money lenders have to provide credit data to the CRA, enabling these credit providers to share personal credit data with a view to assessing creditworthiness of consumers more accurately.

In terms of capital requirement, although there is no minimum paid-up capital requirements in obtaining the money lenders license, robust financial capacity and liquidity are crucial for licensed money lenders to operate viable businesses. Adequate cash and funding, especially in the initial stages of setting up the business, are necessary to enable quick and timely lending to customers.

Competitive Landscape

BNPL is a fast growing segment within the Hong Kong retail sales financing market. These payment platforms became increasingly popular following the shift to online shopping and merchants’ need to drive incremental revenue when physical stores were closed during COVID-19 outbreak. The BNPL industry in Hong Kong is at the early stage and sees the increased competition, primarily due to the rapid technological innovation, and increasing demand for higher levels of client experience and the increasing number of market entrants. As estimated, there are less than 10 BNPL service providers in Hong Kong in 2022. Below sets out the ranking and estimated market share of the top industry players.

Ranking of BNPL Market by Gross Merchandise Value in Hong Kong in 2022

Rank	Market participant	Estimated Market Share by Gross Merchandise Value of BNPL (2022)
1	Atome	39.4%
2	Livi Bank	31.3%
3	Pace	14.7%

Source: Frost & Sullivan

COMPETITIVE STRENGTHS OF OUR GROUP

Please refer to the paragraph headed “Business — Our Competitive Strengths” in this document for a detailed discussion of competitive strengths of our Group.