OVERVIEW

We are a licensed money lender in Hong Kong focusing on providing unsecured loans through fintech while offering a convenient customer experience. Our mission is to empower digital finance and make unsecured money lending accessible to anyone who lacks access to traditional mainstream credit products in Hong Kong.

We started our journey in 2006, and since then, we have fostered creativity and innovation in our entrepreneurial endeavors. In 2015, we introduced VTMs, which are digital teller machines that provide loan drawdown and repayment services. In the following years, we constantly upgraded the functions of our VTMs by adopting various technologies. We also launched our online lending portal, K Cash App, and are committed to maintaining high ethical standards and technologically advanced credit assessment models and risk management systems through fintech application.

We believe that traditional lending process are cumbersome, inaccessible and heavily reliant on traditional credit assessment that focuses solely on an individual borrower's credit history. However, in today's connected world, where information exchange is seamless, we believe that traditional money lender businesses are struggling to keep pace with the speed of technological advancements in a digitalized world, resulting in the need for smart lending businesses supported by fintech applications.

Our loan products are tailored to meet the needs of underserved borrowers who face financial hardships, emergencies or unexpected expenses. We offer unsecured credit access through fintech, including loan application, credit assessment, drawdown and loan repayment. Our products can be classified into three categories:

- ***Unsecured Property Owner Loans:*** unsecured loans offered to borrowers who are property owners in Hong Kong, including owners of HOS Properties, without the need to provide any collaterals;

- ***Personal Loans:*** unsecured loans offered to individuals, including "7x24 AI Loans"; and

- ***SME Loans:*** unsecured loans offered to SMEs, with a personal guarantee typically provided by a director or a shareholder of the SME borrower.

We pride ourselves on providing highly automated, transparent, efficient, and digital borrowing experiences to our borrowers. We strive to make credit accessible to all, and we are dedicated to ensuring that our borrowers receive the best experience when borrowing from us.

VALUE PROPOSITION

We believe that with fintech adopted in our business process, we have successfully manifested our values and capabilities that allow us to stand out from our competitors:

- *Unmanned branches vs Labor-intensive branch model*. While most traditional money lenders adopt a labor-intensive branch model to serve customers only during the office hours, we can provide loan services to our customers through online lending portals and unmanned branches. Our VTMs offer real-time access to customer service officers located at our headquarters, who can address enquiries on a timely manner. Our VTMs are able to offer fully automated identity verification, drawdown and loan repayment services.

According to Frost & Sullivan, we were the first licensed money lender in Hong Kong to employ VTMs in operations and to adopt biometric vein scanning for identity verification at drawdown on VTMs. With the support of fintech, upon satisfying credit risk assessment, our 7x24 AI Loans can extend loan offers in a fully automated manner within 20 seconds after successful submission of the loan application through the K Cash App, and for most of our loan products, the process from loan application to drawdown can be completed within a day. During the Track Record Period, approximately 35.5%, 48.7% and 53.1% of our personal loan applications were verified and approved within 15 minutes. For details, see "— Our Fintech Application on the Loan Process — Personal Loans — Application".

- *Credit model assessment (IDCM) vs Traditional credit assessment.* While traditional money lenders only conduct analysis on the individual borrowers' credit history, our IDCM combines data analytics and machine learning technologies to analyze a borrower's credit data and behavior patterns, including re-borrowing pattern, frequency of loan inquiries and payroll method. This allows us to make an immediate and comprehensive credit assessment decision based on a borrower's risk profiles, and to charge different interest rates accordingly. By assessing borrower behavior patterns, we can expand our market exposure to borrowers that suit our risk appetite. For details, see "— Our Fintech Application on the Loan Process — Personal Loans — Credit review and approval".

- *Blockchain-based loan record vs Traditional record keeping*. Traditional record keeping rely on a single centralized database. With such approach, record is rather easy to be tampered with which goes undetected. To minimize the risk, blockchain-based loan record provides a more secure, transparent and fully traceable system where the loan record are decentralized when making loan applications. Any attempt to tamper with the record would not be successful or undetected because the original record cannot be easily modified. Our blockchain-based loan record also helps us verify the applicants' information and detect duplicate loan applications. This helps lower our credit risks, enhance operation efficiency and reduce our overhead expenses.

- *Fintech monitoring system vs Traditional data analysis*. For loans to SMEs, while traditional money lenders assess and manage risks by analyzing borrowers' audited financial statements, we operate a SME dashboard which connect to the POS system of our applicants or borrowers, which enables us to review their operational data in real-time and gain access to first hand data for loan recovery opportunities and manage risks more effectively.

- *Low cost vs high cost*. We strategically operate seven branches across Hong Kong island, Kowloon and the New Territories. As the borrowers could make enquiries, drawdown and repayment via our VTMs, we believe we enjoy a lower labor and operating cost comparing to our peers in Hong Kong. Our lower cost of operation allows us to offer loans at a more competitive interest rate while generating a reasonable profit.

With the adoption of fintech into our business process, our borrowers can apply and receive loans round-the-clock and at a lower cost compared to many traditional money lenders in Hong Kong.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors.

We are a licensed money lender in Hong Kong

We are a licensed money lender in Hong Kong focused on offering unsecured loans with top-rated customer experience through technologies such as blockchain and business process automation technology. We value creativity and innovation in our entrepreneurial endeavors to empower digital finance and create a highly accessible business in Hong Kong for our customers. Our mission is to make unsecured money lending accessible to the general public in Hong Kong, especially those who lack access to traditional mainstream credit products through delivering efficient lending service with competitive interest rate through fintech. According to Frost & Sullivan, we ranked fourth in terms of revenue in respect of the overall unsecured loan business among all licensed money lenders in Hong Kong in 2021.

We started our journey in 2006 with the idea that anyone who lack access to traditional mainstream credit products should be able to have access to unsecured money lending options so long as they are credit-worthy. We have a proven operating track record of over 15 years in Hong Kong's licensed money lending market, which helps establish and solidify our market position today. We introduced VTM in 2015. We also started the initiative of building our proprietary K Cash GO Platform in 2019 and further launched our K Cash App in the following years that enable online loan application.

We have developed our proprietary centralized fintech platform, K Cash GO Platform, to utilize and integrate our financial technologies throughout different stages of the loan cycle, from customer acquisition, loan application, to loan drawdown and to loan collection. K Cash GO Platform is adopted to roll, automate and streamline the entire lending process with our loan application system and loan management system. K Cash GO Platform is a high performing and secure platform which provides us the necessary centralized platform with integration capability to optimize the artificial features adopted. K Cash GO Platform provides us versatile integration options and focuses on automation and seamless performance to integrate necessary modules to perform different business functions, such as loan management work and risk monitoring process.

We believe our success is attributable to our innovative and adaptive corporate mindset towards embracing evolving technologies since our early years, so that we are now supported by technology-backed risk controls and can provide timely financial solutions to our customers.

We provide cost-effective money lending services through our adopted fintech applications

We aim to provide a well-rounded and convenient customer service experience by offering a wide range of automated lending and repayment services. With the support of various fintech applications, processing time of our Personal Loans and Unsecured Property Owner Loans from submission of complete loan application to loan approval can be completed within 15 minutes. In 2020, 2021 and 2022 and five months ended May 31, 2023, approximately 35.5%, 48.7%, 53.1% and 58.1%, respectively, of our personal loan applications were verified and approved within 15 minutes. According to Frost & Sullivan, it typically takes, on average, one to five days for a licensed money lender in Hong Kong to process an unsecured personal loan application with loan amount of less than HK$200,000, whereas it typically takes, on average, one week for authorized institutions to process the same type of loan application.

Our Personal Loans and SME Loans application processes are entirely online as supported by our various fintech such as blockchain, eKYC and cloud computing. Also, with our VTMs, customers are able to make drawdown on a 7x24 basis using the identity verification through biometric vein scanning, facial recognition and/or Hong Kong identity card authentication. The VTMs we own also allow customers to have real-time access to our customer service officers during office hours. In 2019, we rolled out our 7x24 AI Loans, which is a Personal Loan product currently available to our new customers with a borrowing limit of HK$10,000. Empowered by AI technology, our 7x24 AI Loans can achieve automation in approval process and can generate loan offers in a fully automated manner within 20 seconds.

During our credit assessment process, our IDCM assesses applicants' behavioral data, which helps us make an AI-facilitated and comprehensive credit assessment in short time based on a borrower's risk profile and assist us to make the loan approval/rejection decision more efficiently. For new customers who have already taken out loans elsewhere but nonetheless fulfill our IDCM pricing policy, we generally offer a discount to the interest rates that such prospective borrowers are currently borrowing at other authorized institutions and/or licensed money lenders in order to attract them to consolidate their debts to us.

We have integrated various fintech modules in our K Cash GO Platform to effectively and efficiently execute the lending process. On the front-end, we automate and digitalize the major credit cycle from loan application to loan repayment to improve user experience with the use of various fintech and automation technologies such as eKYC and VTMs. On the back-end, we continuously automate and streamline our credit assessment and risk management systems as well as the entire business process via the use of blockchain, IDCM and SME dashboard. We believe our fintech capabilities differentiate us from traditional licensed money lenders, which help us achieve more comprehensive credit assessment, higher efficiency and more precise risk prevention and control, as well as lower overhead expenditures and operational costs.

We believe that by adopting the fintech into our operation, we can improve operational efficiency as well as lower labor and operating costs, which enable us to compete for business in terms of pricing as well as speed.

We possess comprehensive credit risk management capability supported by technology and industry experience

We implement a comprehensive credit risk management methodology to control our credit risk exposure throughout the loan cycle for our loan products. In respect of our Personal Loan products, we utilize our IDCM model for credit review and approval, which comprises Credit Modeling System and AQM System. We engaged an overseas listed company specialising in IT service and consulting to develop our Credit Modeling System, which has machine learning capabilities, to analyze various attributes of our applicants such as payroll method, age range and employment industry, to evaluate the customers' risk profiles. We collaborate with a credit reference agency to perform credit check and obtain borrowers' credit report based on its database, which can also produce prediction on default probability for us. We then combine the application of big data and machine learning technologies in our Credit Modeling System which allow us to classify loan applicants into different credit ratings, enabling us to use risk-based pricing that reflects each borrower's unique risk profile.

For Unsecured Property Owner Loan, we collect and review information of the properties owned by borrowers as one of the factors for making loan approval decisions. For example, we use business risk engine to monitor the latest litigation record in local court and land registry encumbrance alert of the underlying assets. The business risk engine enables us to compare alert information with our internal loan information and apply pre-defined business logic to define risk scenarios and recommend appropriate follow-up actions against owners whose property has been identified by the alert. We also utilize the AVS Methodology to assess the value of the assets owned by borrowers of our Unsecured Property Owner Loans, which is one of the factors we consider when making an Unsecured Property Loan offer.

In respect of credit risk assessment and control of our SME Loans, we rely on financial performance and operational data of our SME borrowers, for ongoing risk monitoring. We also utilize our SME dashboard for both pre-loan credit assessment and post-loan monitoring. Our SME dashboard is capable of connecting to the POS system of our SME borrowers, thus enabling us to access real time and first hand data of the borrower that are less prone to manipulation, and respond to and follow up on business fluctuations and abnormalities in a timely manner.

Furthermore, we integrate blockchain technology with our daily operations by maintaining a blockchain-based loan record, which was designed specifically for our operations and helps us detect duplicate loan applications and prevent tampering of our loan records. Particularly, the applicant's personal or corporate verified identification information at the application stage is stored in the blockchain which is immutable. Furthermore, blockchain can ensure that there would be no duplication of loan application from the same borrower at the time of the credit assessment, which avoids the granting of multiple loans to the same borrower.

Our technology-backed operations allow us to respond to different stages of the economic cycle by quickly adjusting our credit assessment decisions and pricing parameters embedded in our systems. We also continuously validate and optimize our analysis parameters to capture expanding data, changing borrower behavior and market evolvement to optimize our credit modelling.

We deploy our online plus offline lending platform effectively and set up branches strategically, adopt diverse and effective marketing measures to more efficiently focus on our target customers

We operate our business under the brands of "K Cash" and "K Cash Supreme". We built up an efficient "Online plus Offline" lending platform that is open to all types of customers. Our "K Cash Supreme" is specifically designed to target borrowers with potentially better credit rating, such as civil servants and professionals. We are able to offer one-stop quality services through physical branches and our online lending portals, namely, our website and K Cash App. We currently have seven branches covering Hong Kong Island, Kowloon and the New Territories, alongside with our headquarters in Central. Our branches strategically cover the key and prime areas in Hong Kong for a wide reach of customers. Our branch network also serves as our brand-building and marketing tools.

We highly emphasize on our brand building. In 2022, we were the title sponsor for several major TV programs broadcasted on ViuTV, including FIFA World Cup Qatar 2022, Million Cohabitation Project (百萬同居計劃) and Love Staycation (戀愛Staycation). In addition to the traditional marketing through online and offline channels, we adopt intelligent precision marketing in which we conduct data analytics to extract useful market data in order to identify borrowing needs and trends and different target customer groups after which we allocate marketing resources strategically based on such analysis to achieve greater precision and continuously improve our service quality.

We have a dedicated and experienced management and fintech team

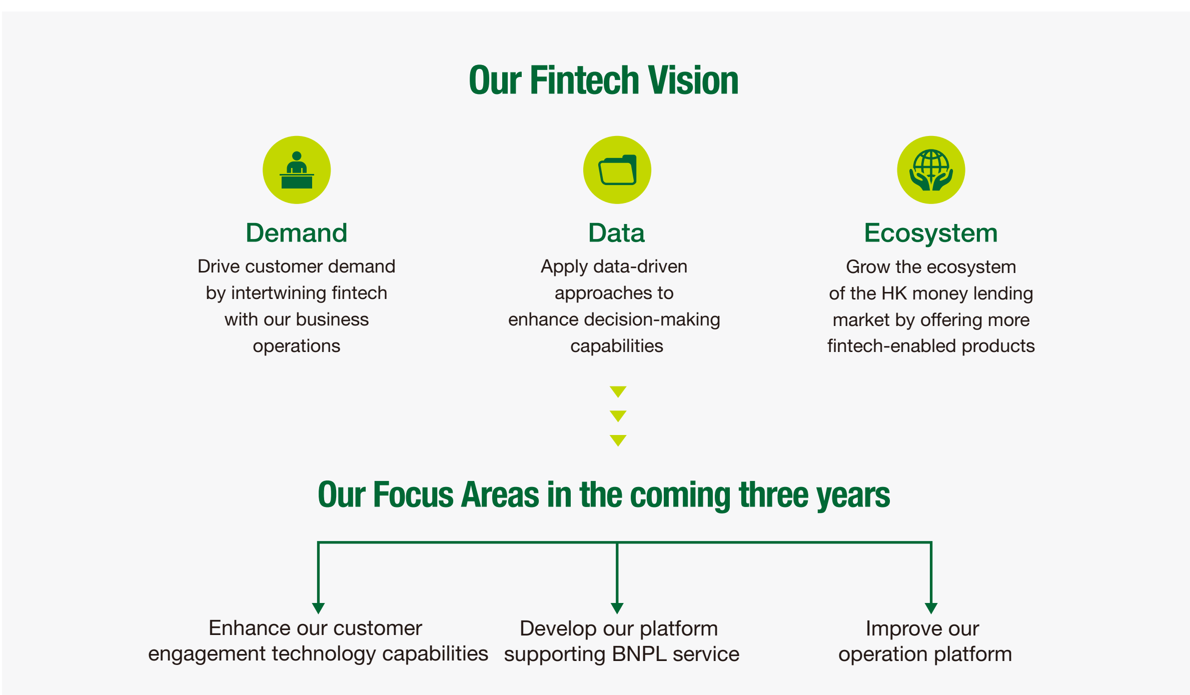
We have a senior management team with extensive experience and knowledge who aims to continue to strength our market position. In particular, Mr. Steven Lee, our executive Director and chief executive officer, has over 22 years of experience in the licensed money lending business, covering broad variety of loan products such as unsecured personal loans, corporate loans, mortgage loans and finance leasing. Mr. Steven Lee has also served as the director of Konew Fintech since December 2019. Ms. Wong, our executive Director and chief operating officer, also has over 20 years of experience in the licensed money lending business and has served various positions in our group where she gained experience in effectively managing our licensed money lending business. In addition, our non-executive Directors and senior management also have, on average, over 20 years of experience in money lending business and relevant operational experience.

We continually invested resources in developing our talent pool. Since the inception of our fintech initiative in 2018, we have established an in-house fintech team comprising information technology professionals and experts to strengthen our fintech capabilities and developed a sound organization structure and information management system to support the development and operations of all key stages of our money lending business, including risk management, data security and system development, while adding new features and functionalities to our existing fintech lending solutions. Since the deployment of our fintech initiative, we have attracted and fostered a fintech team comprising of young and talented persons with diverse technical expertise. Our fintech team is able to provide efficient, innovative and reliable technological solutions to develop and maintain different fintech functions and solutions performed by our platform, leading to our evolution into a fintech based company that has achieved commercial success. Our fintech team is led by a market professional who has more than 20 years of experience working as an IT professional in the investment banking, financial services and insurance sector. Riding on his proven experience for designing, managing, and delivering large scale enterprise-level digital platform, our fintech team has gradually expanded and has a demonstrated the ability to assist us in achieving our vision of delivering practical, cost effective and high-quality fintech solutions and module that optimize and streamline our business.

Through our operating history of over 15 years, we have cultivated a cohesive corporate culture that respects the credit cycle, understands credit risk, promotes sustainable and prudent growth, and encourages innovation. The majority of our senior management has been focusing on and specializing in the licensed money lending business, and they have provided, and will continue to provide, us with valuable strategic insights and helped us strengthen management capabilities, operational efficiency, fintech capabilities, and corporate governance.

OUR BUSINESS STRATEGIES

We plan to execute the following strategies to further expand our business.



We plan to continuously enhance our customers' borrowing experience and streamline our workflow through fintech

The core building block of our business is our fintech capabilities. We intend to improve our technology solutions and strengthen our fintech capabilities through upgrading and/or developing the following:

Enhanced K Cash GO Platform

Under the current market landscape of licensed money lending industry in Hong Kong, to stand out in the market, it is essential to constantly improve our efficiency in credit approval and provide innovative and customized services and products to retain and attract customers. In order to make our K Cash GO Platform future-proof, we intend to upgrade it such that our centralized platform will be able to meet all our functional requirements for our future business expansion and to integrate segregated systems into an unified platform. We also target to enhance its capabilities to make integration with business partners and third party service providers possible to strengthen our competitiveness in dynamic lending environment.

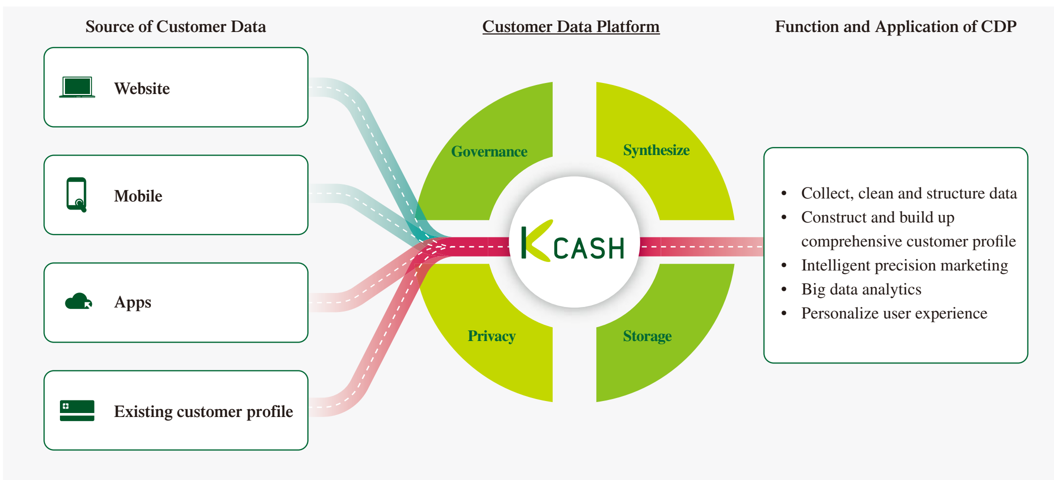
In terms of loan application and loan management, the ability to handle increasing demand for unsecured loans in the future with greater efficiency in credit approval is our first and foremost priority. We also seek to explore business collaborations and partnership with third parties through the enhanced K Cash GO Platform in order to diversify our customer base and to increase the competitiveness of our loan products.

As part of our continuous effort to upgrade our systems, we will also connect our enhanced K Cash GO Platform to the MCRA platform, which is expected to be completed in late 2023. As the MCRA platform will provide credit report service through API, our enhanced K Cash GO Platform will be able to significantly automate more manual operations through our business process automation technology.

We plan to enhance our K Cash GO Platform through upgrading our technology infrastructure to support our future business via (i) subscribing to the cloud computing infrastructures; (ii) engaging service providers to provide digital customer services solutions through omni-channel contract center solution and AI chatbot solution; (iii) attracting talents to enhance our K Cash GO Platform; and (iv) host our enhanced K Cash GO Platform on a subscription-based public cloud infrastructure and to engage different third party service or acquire software components and/or tools to facilitate various operation processes.

Our Customer Data Platform ("CDP")

We target to launch our CDP in late 2023, which is an integrated platform for managing processing and analyzing customer data, allowing us to deliver personalized customer experience by using the data to create targeted marketing campaigns, personalized product recommendations, and tailored content that matches the customers' interest and needs, which optimizes our customer acquisition effort. To build our CDP, we plan to (i) engage a market leading service provider to provide customer data platform solutions to help us collect, organize, and analyze customer data from multiple sources, such as our mobile app, website, social media pages and email campaigns; and (ii) attract and retain talents to customize our CDP.



We intend to further expand our existing loan portfolio and expand our business with our adoption of fintech

We intend to grow our existing loan portfolio by providing more loans to existing and new customers. The size of our loan business is mainly determined by the amount of deployable funds. By increasing the availability of funds through [**REDACTED**] from the [**REDACTED**] and access to capital markets after the [**REDACTED**], coupled with our fintech development, we will be in a position to further expand our business. At the same time, we will be offering more fintech-empowered loan products such as the following:

Buy Now, Pay Later

We intend to expand our business scope to provide "Buy Now, Pay Later" services to retail customers as a response to the evolving market trend. According to Frost & Sullivan, BNPL is in the initial stage of development in Hong Kong and is expected to grow rapidly with huge potential, where the online retail sales value of BNPL is expected to reach HK$9,097.0 million in 2027 from HK$2,549.8 million in 2023 with a CAGR of 37.4%.

We have entered into a collaboration agreement with a global credit card network provider to issue credit cards to our customers. Users of our credit cards will be able to enjoy the flexibility in payment options by splitting their bill into a series of smaller payments through using our BNPL service.

We also intend to partner up with designated merchants to offer customers interest-free BNPL option. When users of our credit card makes a purchase at our designated merchants and opt for BNPL at checkout, after paying a certain percentage of the overall purchase amount as the down payment, they can pay off the remaining amount in a series of interest-free instalments. Meanwhile, users of credit card spending at non-designated merchants will also be able to opt for the BNPL option, subject to the payment of interests on the outstanding balance. In both instances, late payments will be charged if instalments are not paid on time. From the merchant's perspective, designated merchants will be subject to a fee for every BNPL transaction. As at the Latest Practicable Date, we were still at a preliminary stage of identifying suitable merchants to form the collaboration and no partnership agreement has been signed.

Also, as with other credit cards, we will receive an interchange fee from the global credit card network provider for every purchase made using our credit card, and we will also offer card loans, which allows users of our credit card to borrow a fixed amount with interest. They will be subject to late payment fees if repayments are not made on time.

We plan to launch our BNPL services in 2024, and we are now preparing for the relevant infrastructure and technology such as credit card application and management, transaction management, payment transaction with BNPL features and customer service center setup. For details, see "Future Plans and [**REDACTED**].

Collaboration of blockchain platform with New World

In February 2023, we entered into a platform collaboration agreement with River Square Company Limited ("**River Square**"), a subsidiary wholly owned by New World Development Company Limited ("**New World**"), a leading conglomerate in Hong Kong whereby we will join the Riverchain, a blockchain platform developed by River Square. We are the first licensed money lender invited to join this blockchain platform.

The Riverchain is expected to be in operation in the first half of 2023. Through this platform, we would be able to review certain information and documents of the subcontractors necessary for our loan approval purpose, facilitating financial inclusion through supply chain financing. In addition, the Riverchain can decentralize certain subcontractors' data by use of blockchain technology and make the data storage more secure. The platform facilitates our access to subcontractors' information and documents, which provides the background information for us to conduct our own comprehensive credit analysis to evaluate the creditworthiness of these subcontractors and monitor their financial status.

Through Riverchain, subcontractors of New World's property development projects can obtain borrowings from us (apart from traditional authorized institutions) if they have financing needs. Given the size of the property development projects, it is believed that the loan principal requested by subcontractors would generally be larger to meet their cash flow needs. In addition, the default risk of these subcontractors are perceived to be lower as their participation in property development projects of New World can be seen through Riverchain, we believe that Riverchain will help us target more subcontractors for property development projects which are more capital intensive and grow our SME Loans portfolio in the long run.

OUR BUSINESS

Our business is built on fintech and deep industry expertise in Hong Kong's licensed money lending market and risk management. We provide a range of unsecured loans to borrowers who have been underserved by authorized institutions. Our loan products include (i) Personal Loans for individuals; (ii) Unsecured Property Owner Loans for property owners in Hong Kong; and (iii) SME Loans for SMEs.

We leverage our expertise in risk assessment empowered by fintech to offer these unsecured loans to our target borrowers. For further details on our use of fintech in our risk management measures, see "— Risk Management and Internal Control".

We implement a risk-based pricing strategy to provide loan products with varying interest rates based on each borrower's individual risk profile. As part of our risk-based approach, we consider the following major factors:

(i) age, occupation, income and expenses and property type (in the case of Unsecured Property Owner Loans) of the prospective borrower;

(ii) credit history of the prospective borrower;

(iii) the overall economic and business environment, as well as financial market conditions;

(iv) interest rates charged by our competitors; and

(v) our risk and interest rate appetite.

For further details, see "— Our Fintech Application on the Loan Process — Personal Loans — Credit review and approval".

OUR LOAN PORTFOLIO

We strategically target borrowers who have been underserved by traditional authorized institutions and during the Track Record Period, we offered three types of unsecured loans to our customers: Personal Loans, Unsecured Property Owner Loans and SME Loans. Each of these loan products was designed based on our credit analysis approach and risk-based pricing strategy, which is empowered by the application of fintech. For details about fintech application on each of our loan products, see "— Our Fintech Application on the Loan Process".

Personal Loans

We offer unsecured Personal Loans to borrowers who meet our credit policy. Our data analytics capabilities allow us to classify Personal Loan applicants into different credit ratings using our IDCM and offer risk-based pricing that reflects each borrower's unique risk profile. This allows us to manage default risks effectively. For more information on our credit assessment and risk-based pricing capabilities supported by IDCM, see "— Our Fintech Application on the Loan Process — Personal Loans — Credit review and approval".

As of May 31, 2023, we had 5,005 loan accounts with an aggregate gross principal receivables of approximately HK$247.0 million under Personal Loans.

In 2019, we launched our 7x24 AI Loans, a product under our Personal Loans, with a borrowing limit of HK$10,000 and empowered by our fintech capabilities. This product has achieved automation for application, approval and drawdown processes, shortening loan processing time significantly. The entire process from submission of an application to approval or rejection of a loan offer by our system takes only within 20 seconds. For more details on the application and approval process of our 7x24 AI Loans, see " — Our Fintech Application on the Loan Process — Personal Loans — Credit review and approval".

To attract prospective borrowers with stronger repayment capability, we launched the "K Cash Supreme" brand in 2019. This brand offers lending solutions specifically targeted at civil servants and professionals (such as accountants, engineers, lawyers, physicians, and surveyors) or individuals with a monthly salary of HK$40,000 or above, who typically have a stable source of income and stronger repayment capability. These borrowers typically have on-the-go lifestyles, appreciate convenient, customizable self-service user experiences and have growing consumption needs. We established one of the "K Cash Supreme" branches in East Tsim Sha Tsui Station to make it more accessible for our "K Cash Supreme" borrowers.

To attract new customers to consolidate their debts to us, we generally offer discounted interest rates to prospective borrowers who have already taken out loans elsewhere. However, such discounted interest rates must be consistent with our IDCM pricing and credit assessment policies as further elaborated below, and in general we will offer discount up to 20% off of the prevailing interest rate of their existing borrowing with other authorised institutions and/or licensed money lenders if the loan applicant passes our IDCM pricing and credit assessment policies.

Unsecured Property Owner Loans

We offer unsecured loans to borrowers who own properties in Hong Kong. Subject to satisfactory due diligence on the property and its ownership, we are generally able to offer a lower interest rate to these borrowers compared to borrowers under the Personal Loan product. We recognize all types of property ownership, including HOS Property and private properties for residential, commercial, industrial purposes and car parking spaces.

As of May 31, 2023, our Unsecured Property Owner Loans portfolio had 2,538 loan accounts with an aggregate gross principal receivables of HK$637.7 million.

Our Unsecured Property Owner Loans are a popular choice among property owners who own Restricted HOS Properties. The HOS Properties are sold to eligible persons at a price lower than the prevailing market price to help low-to-medium income families become homeowners. According to our External Legal Counsel, according to the Housing Ordinance, the HOS Properties are subject to alienation restrictions. Owners of Restricted HOS Properties must pay a premium to the Housing Authority to remove the alienation restrictions before they can let, sell or assign their property. The Housing Ordinance also requires HOS Property Owners who wish to mortgage or re-mortgage their flats with the restriction period set by Housing Authority or after the said period without paying the premium must obtain prior approvals from the Director of Housing. Therefore, unless owners of HOS Properties pay a premium to remove the alienation restriction, they would not be eligible for applying mortgage loan. As a result, our Unsecured Property Owner Loan provides financing feasibility to owners of HOS Properties. Also, they would prefer our Unsecured Property Owner Loan to Personal Loan in order to enjoy a lower interest rate.

To assess credit risk, we use our proprietary business risk engine, which is a business engine to monitor the latest litigation record in local courts and land registry encumbrance alert of the underlying assets. The business risk engine enables us to compare alert information with our internal loan information and apply pre-defined business logic to define risk scenarios and recommend appropriate follow-up actions against owners whose property has been identified by the alert. We also utilize the AVS Methodology to assess the value of the assets owned by borrowers of our Unsecured Property Owner Loans, which is one of the factors we consider when making an Unsecured Property Loan offer.

SME Loans

We offer SME Loans to qualifying companies that are typically underserved due to their credit score or relatively short operating history. These loans are also suitable for companies adopting an asset-light model or with limited recurrent cash inflows, making it more difficult for them to have access to traditional banking facilities. We only accept SME applicants who are incorporated and operate in Hong Kong with a minimum establishment of one year and an operating history of six months, and whose owner(s) are resided in Hong Kong. Our SME Loans require a personal guarantee provided by a director or shareholder of the borrower who holds a Hong Kong identity card. The guarantor shall go through the credit profile check conducted by us through a credit reference agency and shall meet our credit assessment policy. For more details on the approval process of our SME Loans, see "— Our Fintech Application on the Loan Process — SME Loans — Credit review and approval".

As of May 31, 2023, our SME Loan portfolio had 86 SME loan accounts with an aggregate gross principal receivables of HK$55.9 million.

By using the modern data visualization tool, our SME dashboard serves both pre-loan credit assessment and post-loan monitoring purposes. For details about the application of SME dashboards in our business, see "— Our Fintech Application on the Loan Process — SME Loans — Credit review and approval" and "— Our Fintech Application on the Loan Process — SME Loans — Post-drawdown".

Standard Terms of our Loan Products

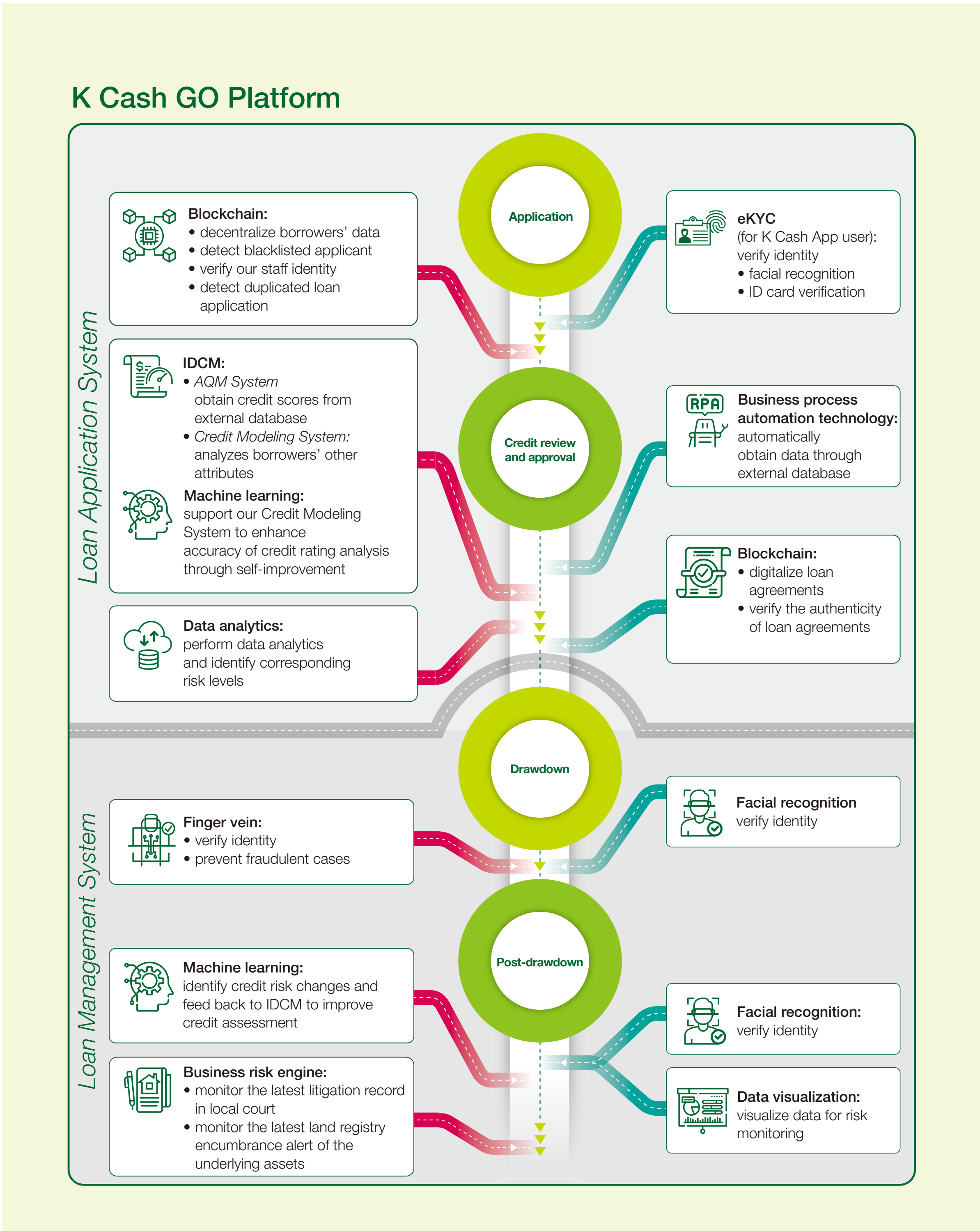
Standard terms of our loan products are set forth in the table below:

	Personal Loans	Unsecured Property Owner Loans	SME Loans
Interest rate:	fixed interest rate	fixed interest rate	fixed interest rate
Typical range of loan principal:	HK$10,000 – HK$200,000	HK$50,000 – HK$820,000	HK$150,000 – HK$5,000,000
Term:	12 to 60 months	12 to 120 months	6 to 48 months
Repayment:	• monthly repayment of principal and interest shall be made by the borrower according to the schedule stipulated in the loan agreement • when the borrower fails to repay the loan by the due date of the installment, the borrower shall pay interest on the outstanding amount at the interest rate stipulated in the loan agreement from the date of delinquency until the date when all outstanding amount is settled		
Others:	• we have the right to assign our rights, interests and/or titles under the loan agreement to anyone at any time without giving notice or obtaining the prior consent of the borrower • if there is any change in ownership in the properties owner by borrowers of the Unsecured Property Owner Loans, we have the right to request for early repayment of the loan • borrowers of SME Loans are subject to the customary undertakings and covenants, including but not limited to records of business to be kept complete, accurate and true; and to obtain, and promptly renew all authorizations, approvals, consents and licenses required under applicable law or regulation		

OUR FINTECH APPLICATION ON THE LOAN PROCESS

We have integrated various fintech into our business operation. On the front-end, we leverage various fintech tools to automate and digitalize our credit cycle from loan application to loan repayment, which continuously enhance user experience. Meanwhile, on the back-end, we utilize fintech applications to build on well-established technologies, including but not limited to AI, blockchain and business process automation technology, to automate and streamline our risk management systems and the entire business process. Our hybrid cloud K Cash GO Platform supports all these technologies, allowing us to achieve optimal operational efficiency.

We are able to position our business ahead of the market by embedding various fintech in our lending process. This approach enables us to achieve digitalization and automation across the lending process, including loan application, credit review and approval, drawdown and post-drawdown. We believe our fintech advantages set us apart from traditional licensed money lenders and enable us to achieve more comprehensive credit assessment, higher efficiency, more precise risk management and controls, as well as lower overhead and operating expenses.



Personal Loans

Application

Our Personal Loan's application process is entirely online and paperless. We incorporated various technologies such as blockchain, eKYC and cloud computing to ensure seamless borrowing experience during loan application.

To get started, prospective borrowers can submit a Personal Loan application through our K Cash App or our website at www.kcash.hk. The K Cash App allows borrowers to create an account using their mobile phone number and apply for loans anytime.

In addition, we also receive enquiries from prospective borrowers through various channels such as telephone or instant message. These borrowers may have seen our advertisements from different platforms (such as television and online media streaming platforms), referrals from partners, recommendations from our past or existing customers and via in-person visits to our branches or headquarters. Our experienced staff are always ready to provide guidance and support to assist borrowers to submit an online application and ensure a smooth application process.

As part of the online loan application process, applicants are required to complete identity verification and authentication processes under the "Identity Manager" operated by a credit reference agency. This allows us to perform a preliminary credit check at the database of a credit reference agency to determine a borrower's creditworthiness. In terms of verification and authentication via the K Cash App, to facilitate the eKYC (electronic Know Your Client), our K Cash App leverages Hong Kong identity card verification and facial recognition technology for digital on-boarding. We also use blockchain technology to prevent multiple loans from being granted to the same borrower in excess of the assessed credit limit assigned by us.

(verify Hong Kong identity card through eKYC)

Credit review and approval

Our credit review and approval process is supported by fintech applications such as IDCM, "eAML" system, machine learning and blockchain technology.

Our credit intelligence department reviews initial application based on the applicant's information, AQM Score and MLC Score generated by our IDCM. Currently, IDCM is only applicable to our Personal Loan product.

AQM System: We use the AQM System for generation of the AQM Score based on external credit data. The AQM Score considers all existing loan repayment records stored in such external database to predict the borrower's default probability for us.

Credit Modeling System: We engaged a global technology services provider to build and develop the Credit Modeling System as a starting point for our fintech initiative, which has machine learning capabilities. Using our industry-specific knowledge and experience, we consider certain behavioral attributes under Credit Modeling System, such as the borrowing pattern of the borrowers and loan enquiries status. Based on this, our Credit Modeling System generates an MLC Score, which is a machine-learning based credit score, for our consideration in our loan approval process. In addition, the Credit Modeling System also analyzes other various attributes of our applicants such as payroll method, age range and employment industry to identify potentially higher risk customers. Based on the MLC Score, we classify our loan applicants into three tiers, thereby allowing us to differentiate interest rate charged on different groups of borrowers or we will deny their application. The Credit Modeling System can self-improve the accuracy of its credit rating analysis by adjusting the weighting allocation to different attributes as it processes more data. Human input in this self-improvement process is generally only involved when we decide to initiate manual review, which is conducted on a regular basis. The AQM Score and the MLC Score are complementary in nature and together constitute our IDCM.

In particular for 7x24 AI Loans, combining the AQM Score and MLC Score, our IDCM is capable of generating an automatic offer without any human interaction. The anti-fraud, credit assessment, and loan approval processes run automatically in the background to complete the credit assessment, saving us time in the credit review and approval process.

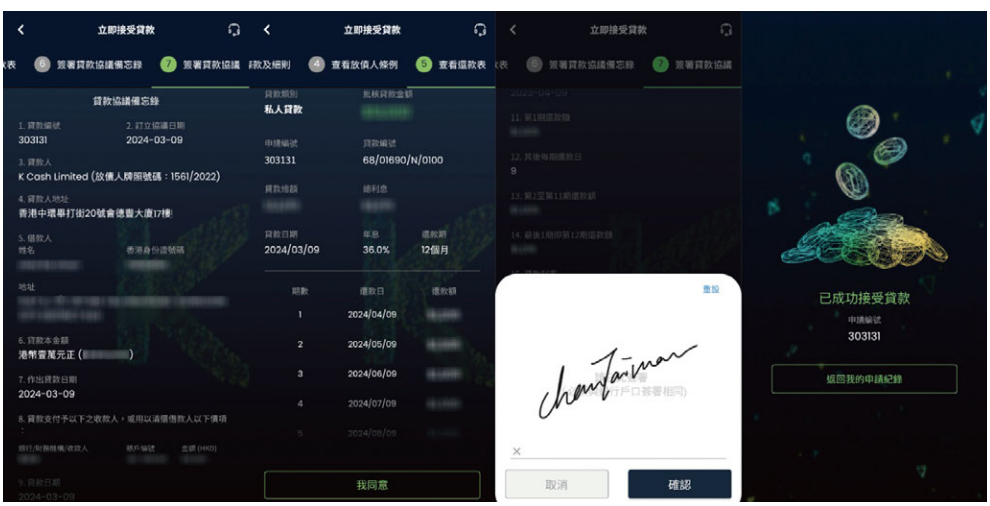
The credit report that we use for credit assessment shows the credit history and activity of borrowers. If the potential borrower has loan accounts at other authorized institution or licensed money lenders, the relevant reporting date recorded by those authorized institution or licensed money lenders will be indicated. We can identify borrowers with refinancing behavior if the loan accounts are opened and closed simultaneously at different authorized institution and licensed money lenders. The shared database we rely on also shows whether other lenders have assessed the borrower's credit rating. If we note multiple enquiries made by various sources within a short period of time, we may note that borrowers are urgently seeking financing from various sources, which signals a potential increase in their default risk. We will also study the borrower's spending behaviors through assessing transaction pattern in bank statements, for example, frequent bank transactions that indicate gambling habits, which reveal that the client may have a strong demand for capital.

Big data technology is generally applied during the credit assessment phase. Our data analytic application is refined by algorithmic rules and models trained with the large volume of data generated from our existing customer pool, for example, borrowing transactions and credit performance. Our Credit Modeling System analyzes the behavioral pattern of loan applicants and allows us to objectively find out the changes of magnitude on various attributes so as to identify the potential high risk customers. Whenever similar transaction patterns or credit performance occur, the application is able to identify the corresponding risk levels based on algorithmic rules and models, enhancing risk management capability and providing insights and visibility into credit assessment.

We are able to quickly assess the creditworthiness of borrowers once we have verified their identification through data analytics. Our loan application process includes various technology-based measures to confirm the borrower's identity, including uploading Hong Kong identity card and additional documents via our K Cash App for due diligence purposes.

Meanwhile, our risk control department uses business process automation technology to retrieve data from "eAML" system via their API to assess potential money laundering and terrorism financing risks in accordance with statutory requirements. For more details on these risk assessment process, see "— Risk Management and Internal Control".

Empowered by the blockchain technology we adopted during this process, the loan agreements executed online will be stored in our blockchain-based loan record system. It significantly reduces risks of duplicate loan applications as once they are recorded in the blockchain, they cannot be tampered with. Furthermore, we also implemented a blockchain-enabled digital contract verification system whereby Personal Loan agreements become decentralized and digitalized, in turn reducing the risk of unpermitted amendments to any of the relevant executed agreements. We use blockchain technology and cryptography to ensure that the loan application is tamper-proof and resistant to fraud, providing a secure and reliable system for us and the borrowers.



(Execution of E-contract via K Cash App)

Drawdown

To enhance security during the drawdown process, our VTMs adopt facial recognition technology. This technology is capable of matching a human face in a video in real time against the image of the person's Hong Kong identity card, making the drawdown process more secure than the Hong Kong identity card authentication method. Additionally, finger vein biometrics is another technology adopted by our VTMs for biometric authentication to ensure that the individual is physically present at the VTM to prevent fraudulent cases. This technology detects the vein patterns moving beneath the person's skin surface, which will be more accurate than fingerprint and has a lower false rejection rate and false acceptance rate. Furthermore, finger vein technology is contactless, so no latent prints will be left behind, providing additional security.

(Our VTM)

To further simplify the drawdown process, we have installed QR code scanners at our branches, allowing borrowers to enter our branch by presenting the QR code and use another QR code for drawdown purpose, enabling their drawdown request to be processed directly.

(QR code generated for drawdown purpose)

Our VTM is also equipped with a document scanner that allows borrowers to submit certain documents like address proof. In addition, our VTM has two separate screens for video conferencing and a touch screen for customer inputs. To minimize the maintenance costs, our VTM has a built-in cash recycler which allows the VTM to dispense the cash notes deposited through repayment to borrowers using the VTM for withdrawal.

To better support our customers, our VTM has video conferencing function. During office hours, our VTM provides borrowers with real-time access to our customer service officers stationed at our headquarters, who can answer enquiries raised by borrowers. Outside office hours, by virtue of our adoption of various technologies, our VTMs are able to perform fully automated identity verification and drawdown for our 7x24 AI Loans. Full automation of our 7x24 AI Loans means that human interaction is not required in the process of releasing funds, whether the loan applications are made within or outside our office hours. Our VTM has a drawdown limit of HK$100,000 per borrower.

For loans which have a principal amount of over HK$100,000, we will verify borrower's identity using the VTMs or facial recognition machines at our branches or headquarters before the drawdown process. These machines verify the Hong Kong identity card of the borrower and complete the facial recognition with its built-in dual camera. In each year or period during the Track Record Period, withdrawal of loan principal through the VTMs were approximately HK$55.1 million, HK$55.2 million, HK$20.2 million and HK$23.4 million, respectively, and the amounts repaid through the VTMs were approximately HK$33.0 million, HK$23.7 million, HK$10.9 million and HK$13.3 million, respectively.

Post-drawdown

After the loan has been disbursed, borrowers are required to make monthly repayments as per the repayment schedule outlined in the loan agreement. The repayment schedule can also be accessed through our K Cash App, providing borrowers with easy access to information about their loan obligations. Additionally, borrowers can make repayments using our VTMs located in our branches. By providing borrowers with a QR code, they can easily access our branches and make loan repayments through self-service channels, providing greater flexibility in repayment options. We maintain a record of all loan information and repayment schedules on our K Cash GO Platform, which is stored on cloud for ongoing risk monitoring purposes. Furthermore, we also implement business risk engine to monitor the creditability change of our borrowers based on monitoring their latest litigation record in local courts. For details relating to post-drawdown risk monitoring, see "— Risk Management and Internal Control — Credit risk management — Post-drawdown risk management".

Unsecured Property Owner Loans

Application

Applicants of our Unsecured Property Owner Loans can submit their application online or offline. Applicants are required to provide details about their owned properties, and verify ownership of the property, while we conduct land search with Land Registry. Once the applicant's title is confirmed, our credit department review the application based on our guidelines.

Credit review and approval

Our credit review and approval process for Unsecured Property Owner Loans is similar to that of our Personal Loans, with the exception of the integrated IDCM. To assess the loan application, we use business process automation technology to generate Land Registry searches on the borrower's property and seek valuation estimates provided by Hong Kong's major commercial banks. We also apply our AVS

Methodology, which fetches the latest data from a publicly available property market trend index to provide our credit intelligence department with a reference point when conducting valuations of the assets owned by borrowers. By referencing the latest market data, we believe we are able to estimate the value of the property more accurately. Based on our AVS Methodology, we update the database quarterly to reflect fluctuations in the publicly available property market trend index. Our borrowers can choose to execute loan agreements online through our K Cash App or website.

Drawdown

The drawdown process involves the physical cheque drawn in the borrower's name. For loans over HK$100,000, borrowers are usually required to visit our branches or headquarters to verify their identity using the facial recognition technology before the drawdown process.

Post-drawdown

During the post-drawdown process, we continuously utilize our AVS Methodology to monitor risks. By doing so, our credit intelligence department can closely monitor changes in the valuation of the properties owned by our borrowers. In addition, we also implement business risk engine to monitor the creditability change of our borrowers based on monitoring their latest litigation record in local court and the latest instruments registered against the properties owned by our borrowers in local land registry during our post-drawdown process. For details relating to post-drawdown risk monitoring, see "— Risk Management and Internal Control — Credit risk management — Post-drawdown risk management".

SME Loans

Application

Similar to our Personal Loans, the application process for our SME Loans can be entirely online and paperless. Loan enquiries and applications are generally received by our frontline sales teams, who are responsible for obtaining basic information such as the applicant's name, contact details, background information, desired loan amount and the loan use. Applicants are required to provide an executed consent form for credit history checking purposes at the database, of a credit reference agency along with supporting documents such as certificates of incorporation.

Credit review and approval

Upon receipt of all necessary supporting documents, our frontline sales teams will ensure that the prospective SME borrower (i) is incorporated for at least a year and operates in Hong Kong; (ii) has a relevant operating history of at least six months; and (iii) is owned by individuals who ordinarily reside in Hong Kong. If these criteria are satisfied, we will perform background searches, including company search and/or directorship search in respect of the SME applicant.

Our SME dashboard is able to connect to the POS system of our applicants or borrowers which enable us to collect and review the real-time transaction and operational data of such applicants. By doing so, we can assess their latest operating status and financial condition. For applicants who do not operate a compatible POS system, we will request documents such as audited financial statements, latest management accounts and the applicant's facility letter(s) (if any) granted by authorized institutions to verify the SMEs' financial performance. We will then prepare a credit assessment report based on the data collected and our analysis of the applicant's financial indicators. For further details about how we assess and manage the credit risk of our SME Loans, see "— Risk Management and Internal Control".

Using business process automation technology, our risk control department will perform a credit check at the database of the credit reference agency in respect of the applicant and the guarantor (typically a director or shareholder of the applicant) as well as a compliance risk assessment in relation to money laundering and terrorism financing risks following the same procedures as for Personal Loans.

We review SME Loans applications based on the credit assessment report, which is further endorsed by our executive Director(s). If the loan application is within acceptable risk, our risk control department prepares the necessary internal documentation for drawdown, and the applicant would be informed of its successful application and invited to our headquarters to execute the legal documentation.

We are in the process of applying our blockchain technology to SME Loans. We will use blockchain technology to ensure that the loan application is tamper-proof and resistant to fraud. The use of cryptographic techniques such as digital signatures ensures that the data cannot be altered.

When the representative of the borrower attends our headquarters or branches, they are required to present original identification documents and duly executed board minutes or written resolutions authorizing the signing of the loan agreements by the representative. The applicant's representative will be guided through the terms of the loan, upon his or her agreement we will arrange for execution of the relevant loan agreement, which contains a repayment schedule setting out the applicant's repayment obligations in detail. Similar to our Personal Loans, we also plan to adopt blockchain technology for the storage and management of SME Loans contracts, which will increase efficiency, reduce costs and provide a transparent and secure system.

Drawdown

During the drawdown process, we verify the borrower representative's identity using facial recognition machine installed at our headquarters, which match the human face in real-time against the image of his or her Hong Kong identity card.

Post-drawdown

After drawdown, we monitor the borrower's financial performance through the SME dashboard if that the SME borrowers operate a compatible POS system. This allows us to respond to business fluctuations and abnormalities in a more timely manner.

Our credit committee will discuss any borrower's business fluctuation or abnormality at their meeting, and decide on the next step to be taken. We may inform the borrower or have a site visit to discuss with them. The committee will also conduct projections and forecasts on the borrower's future business performance to analyze their risk profile. If we believe that the borrower's prospect remains promising, we may actively reach out to offer a top-up to support their expansion plans. Additionally, we also use business risk engine to monitor the creditability change of our customers based on monitoring their latest litigation record in local court.

Loan top-up and loan renewal

Occasionally, borrowers may wish to increase or top up the size of their loans after the initial drawdown. Application for a top-up is subject to the usual credit review and approval processes, which are similar to the procedures for new loan applications.

In addition to the usual considerations that are taken into account for a new loan application, we may also evaluate a borrower's repayment history and delinquency tendencies. Our IDCM credit model assessment on Personal Loans applications among existing borrowers predicts default probability as new borrowers, and we use business process automation technology for checking credit data on a credit reference agency. As for loan top-up, approval of loan top-up may be granted even if payment of existing loan or installments is late or outstanding, as the borrower can settle the late or outstanding installments by deducting that amount from the additional loan granted under the successful loan top-up application.

Apart from the tenor and interest rate of the loan, loans are usually renewed on the same terms as the existing loans. Amendments to key terms, such as the extension or reduction of the tenor or changes in interest rates, may be made upon the borrower's request, subject to the approval of our credit intelligence department, which will consider borrower's repayment record, prevailing market interest rates, market competition and any regulatory changes. However, it is our policy that the renewal will not be approved if the existing loan is overdue.

We adjust the terms of our loan offer to reflect changes against individual borrower subject to various factors, including but not limited to our risk appetite and interest rate tolerance among different loan products, and result of credit modelling, which affects the risk profile of the borrower. We may approve a loan application as long as we can meet the overall risk appetite among different loan products.

OUR FINTECH DEVELOPMENT AND SYSTEM MAINTENANCE

We have established a resilient, agile and secure information system infrastructure covering key functions of our fintech-powered operations including loan application, credit risk assessment and loan management. We have invested and will continue to invest in the development, maintenance and upgrade of our fintech system.

Our Fintech Team

Since the inception of our fintech initiative in 2018, we have established an in-house fintech team comprising information technology professionals and experts to strengthen our research and development capabilities and developed a sound organization structure and information management system to support the development and operations of all key stages of our money lending business, including risk management, data security and system development, while adding new features and functionalities to our existing fintech lending solutions.

Development of our Fintech System

We engaged reputable third-party service providers to work closely with our in-house experts in developing and upgrading our fintech systems to facilitate our fintech initiative and to integrate into our business. With fintech, our systems can perform upgrades and service enhancements. In May 2019, we have entered into a service agreement with the overseas listed company specialising in IT service and consulting to work with and assist our in-house fintech team to build our own fintech system which analyzes credit information of loan applicants. The fintech system also facilitates us to make precise credit decisions for approval of Personal Loans. Our proprietary fintech system makes credit assessment recommendations through machine learning. Since the engagement with the overseas listed company specialising in IT service and consulting for the development of our proprietary fintech system, we have leveraged their analytics solution to build and improve the reliability and efficiency of our system. By adopting machine learning in our operations and our credit decision model, we are able to scientifically and systematically evaluate creditworthiness of loan applicants and shorten loan handling time, visibly improving our efficiency. Due to the nature of our business, we are dependent on the risk and credit assessment of the unsecured loan application. Our machine learning credit assessment system for unsecured loan business is formulated and supported by two initial modules: (i) internal data sourcing and aggregation; and (ii) personal loan model development.

Through our operations, we have developed and accumulated our own data mart comprising a wealth of borrowers data, such as their personal attributes, repayment records, credit ratings and repayment behavior patterns, which serves as a centralized source of data for training our machine learning credit assessment system. With our data mart, our fintech team is given a solid foundation to train up the machine learning model in generating credit scores of our Personal Loans applicants. The repayment and post-drawdown behavior of Personal Loan borrowers are subsequently fed back to the machine learning credit assessment system, which enables us to continuously recalibrate and enhance the accuracy of our machine learning credit assessment system.

Since the development of the machine learning based Credit Modeling System, our in-house fintech team has engaged and worked with different service providers and gradually established different modules and integrated them with our fintech platforms. We have, subsequent to the successful development of our machine learning credit assessment model through the initial cooperation and support of a global technology services provider, adopted underpinning technologies such as blockchain, robotic process automation, cloud technology, data analytics and data visualization technologies. For further details of our deployment of the fintech, see "— Our Fintech Application on our Back-end Operation".

Maintenance and Gradual Enhancement of our Fintech System

With a vision to establish a comprehensive risk management system and to pioneer the real-life application of blockchain technology into our money lending business, we developed a blockchain-based platform to record, share and synchronize loan information in our respective electronic records and ledgers. By using blockchain technology instead of relying on a localized and centralized data record, we are able to vastly reduce the risk of fraud and manipulation. We utilize the blockchain-based platform where our loan records are stored and only authorised users can access it. Previously we have engaged service providers to work closely with our in-house fintech team to maintain the blockchain-based platform and provide necessary support on system maintenance, such as network management services and desktop support services. We have subsequently devoted more resources to grow our in-house fintech team for maintaining and operating the fintech system, including the blockchain system, without external support from third parties. With the expansion of our in-house fintech team, we are able to maintain and embrace rapid technological advancements with our proprietary algorithms, infrastructure and platform.

OUR FINTECH APPLICATION ON OUR BACK-END OPERATION

Blockchain Technology

We believe that preventing fraud is vital for our future development and success. Blockchain technology can help us achieve web-based record entry, enabling us to maintain reliable records of loan applications and transactions. Adopting blockchain technology in our operation also allows us to leave a footprint on borrowing cases that we previously placed into a blacklist due to identification of fake documents and information. Blockchain technology is able to assist us to identify the duplicated loan application by the same applicant.

Our proprietary blockchain-based loan record database is designed specifically for our operational needs and is maintained by a group of authorised users only to ensure that our data remains secure and confidential. We initially made use of the blockchain platform provided and maintained by MoneySQ, and after the expansion of our internal fintech capabilities, and in or around July 2022, our in-house fintech team maintained the blockchain platform ourselves. In particular, applicant's personal or corporate identification information initially verified at the loan application stage is stored in the blockchain and becomes immutable which serves as the source of truth that enables us to conveniently identify duplicate or multiple loan applications subsequently.

Information stored in our blockchain-based system encompasses Personal Loan and Unsecured Property Owner Loan agreements, which become decentralized and digitalized, thus reducing the risk of tampering. The blockchain-based platform, with its cryptographic techniques such as digital signatures, process each block in chronological order only. As such, transactions are recorded in a perpetual and immutable ledger which is irrevocable and can be updated in real time, ensuring any attempt to tamper with loan application can be traced.

The information of our frontline staff is digitalized and registered into our blockchain-based platform so that prospective and existing borrowers can validate the identity of our staff by scanning the QR code on the e-business card/physical business card via a standard QR Code scanner in their smartphone. This function enables our borrowers to verify the authenticity of our staff's identity to avoid any fraudulent lending possibility, enhancing borrowers' experience to enjoy a more secure and transparent lending process.

(QR code to validate staff's identity on their e-business card)

Cloud Computing

Our fintech systems are built on cloud infrastructure provided by external third parties. This allows us to process large volumes of data in real-time while also ensuring high-speed and stable loan processing procedures. With the deployment of cloud-based technology, we are able to promptly retrieve loan application data from our cloud the income, account information and credit score of applicants.

We are also able to drive the development of our credit model system with the support of AI, accentuating the predictive accuracy of credit assessment. The cloud-based technologies also maintain flexibility and safety of our systems and loan application data, rendering the loan processing systems to become more manageable and fault-tolerant. With the support of cloud-based technologies, we can analyze data in real-time to detect fraudulent loan applications and other anomalous activities. This culminates into better product offerings and overall improvement to loan applicant experience through increasing lending efficiency without disrupting our day-to-day operations.

Big Data Analytics

We improve our credit risk management and make better assessment of the creditworthiness of borrowers by using data analytics and machine learning algorithms to analyze a wide range of data points, including the history of our lending transactions and the borrower's credit performance. We engaged an external third party to design modeling datamart and develop credit scoring model. The Credit Modeling System is then subsequently enhanced and maintained by our in-house fintech team. The Credit Modelling System analyzes the behavioral pattern of loan applicants and allows us to objectively and systematically ascertain the changes to certain attributes and the magnitude of such change so as to identify potentially high risk customers. We have deployed various engineering techniques to the machine learning process of our credit modelling system. Supported by our big data analytics, we are able to utilize "extract, transform and load" system to process the borrower and repayment data to our credit modelling system and convert the raw data into desired loan behavioral features. The big data analytics also promote the foundation to deploy the machine learning technologies to optimize the credit assessment capability. This ultimately allows us to enhance our credit modelling system to identify more risk activity and behavior. Whenever similar transaction patterns or credit performance occurs, our credit scoring model is able to identify the corresponding risk levels based on algorithmic rules and models.

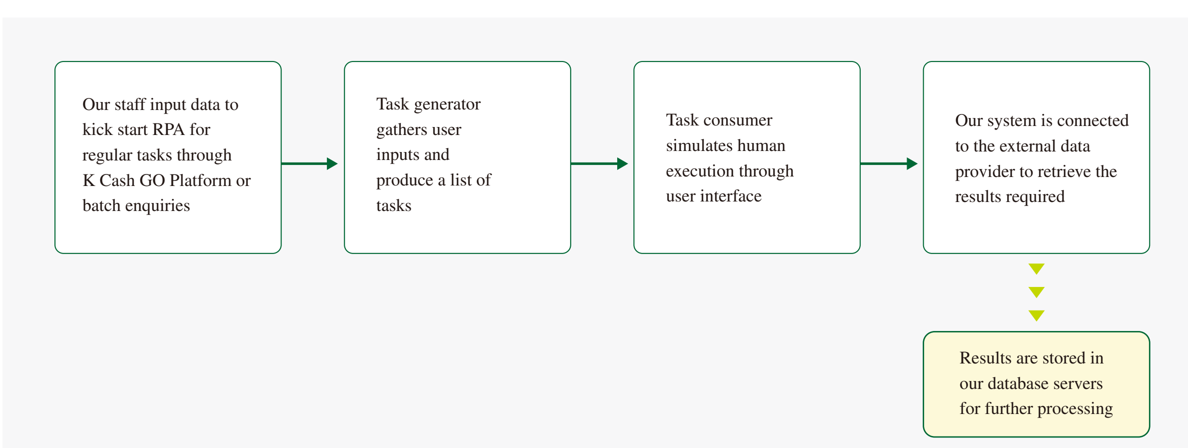
Machine Learning Technology

We adopt machine learning technologies which were firstly developed by an external third party in 2019 and further enhanced by our in-house fintech team to enhance our credit assessment process. For example, we apply machine learning technologies in our Credit Modeling System to analyze borrower's credit data and behavioral patterns. By feeding more borrower data to our model, it can indicate the significance of each feature towards our credit model. Our staff from our credit intelligence department utilize their expertise to select the features for the model. Our Credit Modelling System will generate a credit score for each Personal Loan borrower based on his/her respective risk profile.

Business Process Automation Technology

We adopt a form of business process automation technology based on software robots which were developed by our in-house fintech team. This streamlines the manpower required to perform routine or repetitive tasks, which in turn reduces processing time. Currently, we use business process automation technology to (i) perform searches at the database of the credit reference agency for Personal Loans; (ii) perform online property search at the Land Registry for Unsecured Property Owner Loans; and (iii) obtain valuation estimates provided by major commercial banks.

The below chart sets out how our searches are performed through business process automation technology:



Facial Recognition and Finger Vein Technologies

We have implemented facial recognition technology developed by GRG in our VTMs, enabling real-time matching of an individual's facial features with the image on their Hong Kong identity card. In addition to using Hong Kong identity card verification, the facial recognition technology can additionally offer a more secure method of identity authentication. We have also adopted finger vein biometrics to confirm the physical presence of an individual at the VTM. This reduces the chance of fraudulent cases as the finger vein biometrics technology detects the unique vein patterns beneath an individual's skin surface, providing more accurate results than fingerprint with lower false rejection and false acceptance rate.

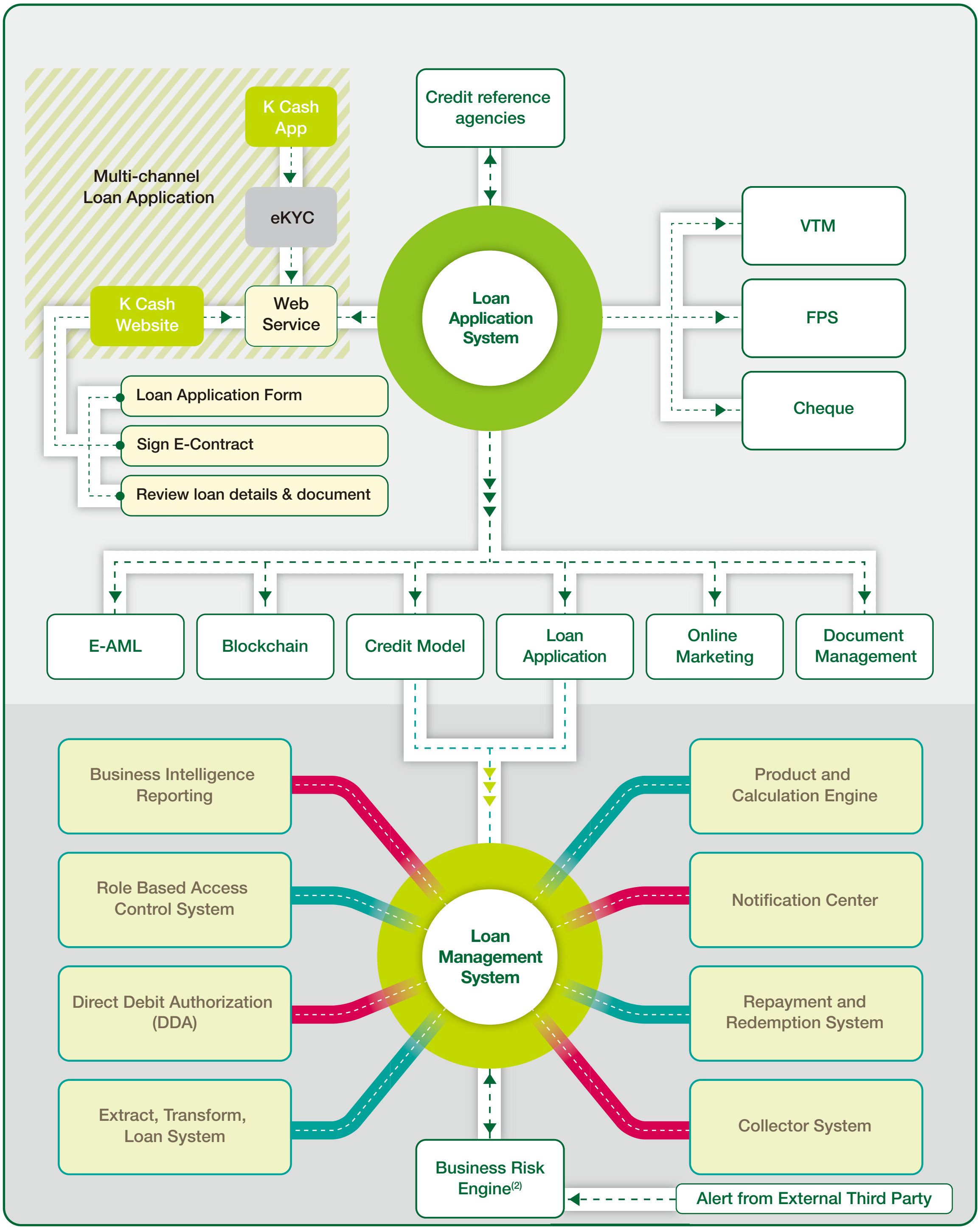
Business Risk Engine

The business risk engine developed by our in-house fintech team is designed to monitor and manage risks associated with our different loan products, and to suggest actions that can minimize those risks based on pre-set risk thresholds. The engine assigns a risk level and suggests relevant follow-up actions based on a pre-set risk matrix and actions will be taken if there is a high-risk change that could affect the recoverability of our loans.We have utilized our business risk engine, which assists us in monitoring the creditability of our customers. This is achieved through (i) litigation alerts from a third party service provider, the engine suggests actions based on the risk associated with the specific case where there is a possible match between our borrower and the individual mentioned in the latest records in local courts. For instance, if there is a monetary claim against a customer, it may lead to a change in their ability to repay; and (ii) property alerts for the latest encumbrances (such as mortgages or liens) being registered at the Land Registry against certain assets. The engine identifies the nature of the encumbrance and defines its potential impact on the recoverability of the loan.

OUR FINTECH PLATFORM — K CASH GO PLATFORM

We have developed our proprietary fintech platform, K Cash GO Platform to utilize and integrate our financial technologies throughout different stages of the loan cycle — from customer acquisition, loan application, to loan drawdown and to loan collection. Before the adoption of K Cash GO Platform, we had multiple standalone systems to deal with different stages of the loan cycle. The K Cash GO Platform has integrated these systems into one centralized system to streamline our work flow and our entire lending business cycle.

K Cash GO Platform is adopted to roll, automate and streamline the entire lending process with our loan application system and loan management system. Our loan officers who are responsible for handling and managing different components of the loan cycle can review, handle and process the necessary information by logging into and operating the centralized K Cash GO Platform to perform the business function.



(1): A host-to-host selection established between us and the credit reference agency allows automated transfer of the applicants' information we require for checking between both parties after applicants submitted their application for Personal Loans

(2): We use Business Risk Engine to process alerts received from external service provider and loan information from Loan Management System to conduct risk monitoring.

In order to deploy and utilize fintech developed by us and to effectively integrate and manage our fintech systems and business modules, we have developed our cloud-based fintech platform which is specifically tailored, customized and configured to meet loan operation needs and to integrate the entire loan process including the loan application system and loan management system. Therefore, K Cash GO Platform handles the major aspects of our critical loan business functions throughout the business cycle.

K Cash GO Platform, as the proprietary platform, was developed and operated for streamlining and optimizing the internal and back-end loan processing procedures. This also allows our staff to access all necessary and relevant loan application record to facilitate our loan application cycle and loan management cycle. For example, K Cash GO Platform allows us to effectively integrate and manage different loan modules, our risk assessment capability and optimize core business process of our loan application process which has integrated to our K Cash GO Platform. The function performed by K Cash GO Platform cannot be achieved by other off-the-shelf platform as it requires high degree of customization to suit our business needs.

K Cash GO Platform provides one single interface to control and manage the loan application process, which include loan approval and loan out procedures. With the K Cash GO Platform, our Loan Application System is synchronized with our Credit Modelling System loan out process systems, and external eKYC and AQM Systems. Our Loan Management System is integrated to and synchronized with our internal loan collection system, loan record system and external system maintained by banks such as the DDA system to process autopay instruction. Below are examples for the seamless integration of our different loan process modules operated under different stage of the loan business cycle:

Loan Application Stage

- **Customer Acquisition and Loan Application**: Our online lending portals, K Cash App and K Cash website, are supported by our K Cash GO Platform to connect and collect loan applications by providing electronic capability to collect electronic application forms and execute electronic contracts. E-contracts, benefiting from our cloud-computing technology and blockchain technology, will be automatically transmitted to the relevant departments required to review contracts.

- **Credit Review and Approval**: Our K Cash GO Platform is able to retrieve and review loan details and generate the necessary loan documentation for our staff and allow us to cover a full spectrum of credit review functions and processes through the entire credit assessment lifecycle, including blockchain, AQM System and the Credit Modelling System.

Loan Management Stage

- **Connecting Internal and External System**: Our Loan Management System which embeds different modules is integrated into our centralized K Cash GO Platform which allow us to maintain and manage our loan out record. With our K Cash GO Platform, the Loan Management System is able to integrate with the internal loan collection system and connect with external repayment channels which will allow our officers to utilize the centralized K Cash GO Platform to manage the repayment process, redemption process and collector process. For example, by connecting the different systems, the operation of K Cash GO Platform would reduce the time gap for processing the loan management which would reduce the delay to the processing time of different procedures.

- **Feature Engineering**: The internal loan application and processing data (for example, repayment history and collection record) we obtained from the loan management system will be analyzed and used in credit approval via the Credit Modelling System. K Cash GO Platform offers us the compatibility to embrace feature engineering techniques in our business cycle. In order to utilize feature engineering, we obtain scalable and representative source data from the Loan Management System and construct meaningful features for machine learning and predictive modelling in the Loan Application System. Based on our pre-determined schedule, the K Cash GO Platform is able to prepare, analyze and portray the business features for Credit Modelling System to assist the credit review and risk assessment. The K Cash GO Platform is able to compile our data and provide foundations to our feature engineering enables us to identify features and make better and data-driven decisions.

- **Business Intelligence Report**: K Cash GO Platform is able to provide data visualization to our staff as a way to observe and understand the trends, outlier and patterns of our loan applications based on the business intelligence tools provided by an external third party. With the business intelligence report module, we are able to create visually-driven insight from both the loan application stage from an intake perspective and the loan management stage from a post drawdown risk monitoring by generating a succinct report. The business intelligence reporting module provides direct data insights for the users based on their roles, which is necessary for performing their function. The business intelligence reporting module is able to generate credit risk reports to illustrate relevant trends and internalize the pattern of credit and risk-related information. With the support of business intelligence report empowered by the K Cash GO Platform, it helps our staff to observe, interact with and better understand the loan application data.

Compatible Platform for Versatile Integration

K Cash GO Platform is a secure platform with integration capability to optimize the artificial features adopted in the Loan Management System. The K Cash GO Platform provides versatile integration options and focuses on automation and seamless performance to integrate necessary modules to perform different business functions, such as loan management work and risk monitoring process. We believe our loan application and loan management are supported by the K Cash GO Platform as a fully integrated cycle instead of stand-alone function model.

From the information flow perspective, by utilizing the K Cash Go Platform, data collected from the repayment history and the collection record of our customers would be processed and analyzed in the machine learning system and help us identify common attributes of borrowers with high default risk, and thus, assist and enhance our credit risk assessment in the loan application stage.

From the loan application perspective, as our online lending portals are connected to the K Cash GO Platform, it facilitates the automation of the loan application process. The loan applicant's information would also be fed into the IDCM model to conduct credit assessment process. The full automation from loan application to credit assessment enables a higher efficiency in the loan out process, thereby improving the satisfaction and lending experience of our loan applicants.

From loan management perspective, our staff, through the centralized interface of the K Cash GO Platform, will be able to utilize the K Cash GO Platform to support various loan out methods and to accept various flexible payment method with reference to our loan out system.

Therefore our K Cash GO Platform will be able to facilitate and streamline the loan application process, digitalize various key loan processing functions, reduce operating cost, gain data and credit risk insight from our business operations, formulate a solid foundation by which business decisions can be made, and improve the scalability of our business by creating opportunities for further advancement.

Future Enhancement of K Cash GO Platform

In order to make our K Cash GO Platform future-proof, we intend to upgrade it such that it will be able to meet all our functional requirements and to integrate segregated systems into an unified platform. We also target to enhance its capabilities to integrate with business partners and third party service providers in future to strengthen our competitiveness in dynamic lending environment. For details, see "Future Plans and [**REDACTED**] — Enrichment of our fintech capabilities — Improvement of our operation platform — K Cash GO Platform".

As part of our continuous effort to upgrade our systems, we will also connect our K Cash GO Platform to the MCRA platform, which is expected to be completed in late 2023. As the MCRA platform will provide credit report service through API, our K Cash GO Platform will be able to significantly automate more manual operations through API. Currently, the portal used to download customer credit report provided by existing credit report agency requires manual input of customer information. By connecting to the MCRA, our K Cash GO Platform can reduce human capital required to perform repetitive tasks, shorten customer's application time and reduce the chance of human error during the data entry process since customer credit report will be downloaded through the API and information in the report will be directly extracted and imported into our platform. By removing the need for manual processing, we expect significant enhancement to the efficiency and accuracy of our back-end work.

KEY FINANCIAL AND OPERATING METRICS

Interest Income

Our principal source of revenue is interest income generated from the loans provided to our borrowers.

Interest rates for each borrower are charged on a risk basis and assessed individually. We mainly consider the AQM Score and MLC Score of the applicant under our IDCM in respect of our Personal Loans, and the applicant's operating history and financial condition in respect of our SME Loans, as well as a range of factors including interest rates offered by competitors. For details on other factors that would affect our decision on applicable interest rates, see "Financial Information — Major Factors Affecting our Results of Operations".

The following table sets out the breakdown of the interest income from our loan products and its percentage of our relevant interest income during the Track Record Period:

	Year ended December 31,						Five months ended May 31,			
Loan Product[1]	**2020**		**2021**		**2022**		**2022**		**2023**	
	HK$'million	*%*	*HK$'million*	*%*	*HK$'million*	*%*	*HK$'million*	*%*	*HK$'million*	*%*
							(Unaudited)			
Unsecured Property Owner Loans[2]	186.6	61.3	169.6	62.8	146.8	62.7	62.5	62.9	69.6	66.5
– HOS Property	176.7	58.1	161.3	59.7	140.1	59.9	59.5	60.0	65.4	62.5
– Private Property	9.9	3.2	8.3	3.1	6.7	2.8	3.0	2.9	4.2	4.0
Personal Loans	106.4	35.0	87.1	32.2	74.6	31.9	32.0	32.2	30.0	28.7
SME Loans	10.5	3.4	12.9	4.8	12.1	5.2	4.7	4.7	5.1	4.9
Total	**304.3**	**100.0**	**270.1**	**100.0**	**234.0**	**100.0**	**99.5**	**100.0**	**104.7**	**100.0**

(1) Our interest income also comprises income from subordinated mortgage loans, which were insignificant and such loan portfolio were transferred to the Excluded Group as of December 31, 2022 and excluded from this table. We have already ceased to provide any new loans under subordinated mortgage loans and will only focus on providing unsecured loans. For details, see "Financial Information — Principal Components of Our Consolidated Statement of Comprehensive Income — Interest income".

(2) Among the receivables of loan principal of HK$912.6 million as of December 31, 2022, on December 31, 2022, we acquired a loan portfolio from the Excluded Group at carrying amount of approximately HK$150.1 million. For details, see "— Key Financial and Operating Metrics — Receivables of Loan Principal and Loan Accounts — Loans Assignment and Transfer".

Loan receivables

Our loan receivables arise mainly from our money lending business. They are interest bearing and repayable on fixed terms agreed with our customers. During the Track Record Period, our loan receivables mainly comprised unsecured loan receivables.

The following table sets forth a breakdown of our loan receivables by loan type as of the dates indicated.

	As of December 31,			As of May 31,
	2020	2021	2022	2023
	(HK$'million)			
Loan receivables				
Unsecured Property Owner Loans	713.4	634.9	730.0	737.8
– HOS Property	682.4	609.3	693.9	684.2
– Private Property	31.0	25.6	36.1	53.6
Personal Loans	320.1	259.7	234.5	261.5
SME Loans	58.7	49.6	54.3	57.0
Others[1]	2.4	1.9	–	–
	1,094.6	946.1	1,018.8	1,056.3
Less: Provision for impairment	(108.6)	(101.6)	(105.0)	(108.1)
	986.0	**844.5**	**913.8**	**948.2**
Expected loss rates	9.9%	10.8%	10.3%	10.2%

(1) Others comprise of subordinated mortgage loan business prior to the [**REDACTED**]. We have already ceased to provide any new loans under subordinated mortgage business and will only focus on providing unsecured loans.

Receivables of Loan Principal and Loan Accounts

The following table sets out the breakdown of our receivables of loan principal of our loan products as of the respective dates as indicated:

Loan Product[1]	As of December 31,									As of May 31,		
	2020			2021			2022			2023		
	Number of loan accounts[(2)]	*HK$'000*	*%*	*Number of loan accounts*[(2)]	*HK$'000*	*%*	*Number of loan accounts*[(2)]	*HK$'000*	*%*	*Number of loan accounts*	*HK$'000*	*%*
Unsecured Property Owner Loans	2,767	663,966	64.5	2,424	575,664	66.1	2,502	638,498	70.0	2,538	637,675	67.8
– HOS Property	2,472	635,121	61.7	2,179	552,082	63.4	2,196	606,533	66.5	2,151	589,328	62.7
– Private Property	295	28,846	2.8	245	23,582	2.7	306	31,965	3.5	387	48,347	5.1
Personal Loans	5,279	305,813	29.8	4,802	246,747	28.3	4,786	220,891	24.2	5,005	246,982	26.3
SME Loans	59	58,125	5.7	82	48,554	5.6	90	53,167	5.8	86	55,916	5.9
Total[(3)]	**8,105**	**1,027,904**	**100.0**	**7,308**	**870,965**	**100.0**	**7,378**	**912,556**	**100.0**	**7,629**	**940,573**	**100.0**

(1) Our loan portfolio also comprises subordinated mortgage loans, which were transferred to the Excluded Group as of December 31, 2022 and excluded from this table. We have already ceased to provide any new loans under subordinated mortgage loans and will only focus on providing unsecured loans.

(2) Customers may have more than one loan account with us. Therefore, the number of loan accounts as of December 31, 2020, 2021 and 2022, respectively, may be greater than the number of actual customers as of the same date.

(3) Among the receivables of loan principal of HK$912.6 million as of December 31, 2022, on December 31, 2022, we acquired the Transferred Loans from the Excluded Group at a consideration of HK$150.1 million. For details, see "— Key Financial and Operating Metrics — Receivables of Loan Principal and Loan Accounts — Loans Assignment and Transfer".

Our receivables of loan principal before provision for impairment as of December 31, 2020, 2021 and 2022 and May 31, 2023 were HK$1,030.2 million, HK$872.8 million, HK$912.6 million and HK$940.6 million, respectively.

Loans Assignment and Transfer

As part of restructuring in connection with our [**REDACTED**], on December 31, 2022, we (i) acquired a unsecured loan portfolio from the Excluded Group at its carrying amount as of December 31, 2022; and (ii) transferred a secured loan portfolio to the Excluded Group at its carrying amount as of December 31, 2022. The unsecured loan portfolio acquired involved 458 loan accounts and had an aggregate carrying amount of approximately HK$150.1 million as of the date of transfer (the "**Transferred Loans**"), among which 454 loan accounts with a carrying amount of HK$146.8 million were Unsecured Property Owner Loans and four loan accounts with a carrying amount of HK$3.3 million were Personal Loans. For details of the ageing analysis of the Transferred Loans, please see "Financial Information — Discussion of Certain Line Items on the Consolidated Balance Sheets — Loan receivables — Loans Assigned". The loan portfolio transferred to the Excluded Group involved eight loan accounts with an aggregate carrying amount of approximately HK$1.4 million, which are all subordinated mortgage loans.

The consideration paid by us and the Excluded Group represents the fair values of such loans, and as the loan portfolio we acquired mainly comprises of Unsecured Property Owner Loans, the impact of expected credit loss is considered minimal. As advised by our External Legal Counsel, transfer of the abovementioned loan accounts was evidenced by loan assignment agreements entered into between us and the Excluded Group, and such transfer was in full compliance with the applicable laws and regulations, including the Personal Data (Privacy) Ordinance (Cap. 486), as all of our loan agreements and those of the Excluded Group stipulate that each of us are allowed to assign our rights, interests and/or titles under the loan agreement to anyone at any time without giving notice or obtaining the prior consent of the borrower. Upon entering into the loan assignment agreements, we shall have the right to demand, sue for, recover, receive and give receipt for all or any sums of the assigned loans and all payments of interest and all other sums from the borrowers. The Excluded Group also undertakes that in the event that it has received any sum from the borrowers in connection with the payment of any interest and/or principal on the Transferred Loans, it shall forthwith return all such sum to us after such receipt. After the Transferred Loans were assigned to us, notices were sent to the borrowers informing them about such arrangement and repayments shall be made to us going forward, and the Excluded Group and us monitors the repayment status of the Transferred Loans regularly such that any repayment of the Transferred Loans to the Excluded Group, or any repayment of loans that we have transferred to the Excluded Group but were wrongly repaid to us will be transferred back to the relevant lender at once.

Save for the loans mentioned above, no loans were transferred between us and the Excluded Group or associates of our Controlling Shareholders during the Track Record Period and up to the Latest Practicable Date. To the best knowledge of our Directors, the Transferred Loans are insignificant to the Excluded Group in terms of interest income and loan principal.

Number of Loan Agreements

The following tables provide an overview of our loan agreements by loan size range for each of our loan products as of the respective dates as indicated:

As of December 31, 2020

Amount of receivables of loan principal	Loan Product[1]: Unsecured Property Owner Loans – HOS Property	Loan Product[1]: Unsecured Property Owner Loans – Private Property	Loan Product[1]: Personal Loans	Loan Product[1]: SME Loans	Aggregate value
					HK$'000
Under HK$10,000	61	18	1,691	–	10,671
HK$10,000 – HK$100,000	819	175	2,866	4	146,668
HK$100,001 – HK$200,000	487	78	430	6	150,455
HK$200,001 – HK$400,000	516	20	201	10	214,212
HK$400,001 – HK$700,000	402	3	53	19	251,698
Over HK$700,000	187	1	38	20	254,200
Total	**2,472**	**295**	**5,279**	**59**	**1,027,904**

As of December 31, 2021

Amount of receivables of loan principal	Loan Product[1] Unsecured Property Owner Loans		Personal Loans	SME Loans	Aggregate value
	HOS Property	Private Property			
					HK$'000
Under HK$10,000	42	14	1,295	1	8,430
HK$10,000 – HK$100,000	762	152	2,962	9	138,822
HK$100,001 – HK$200,000	413	57	347	22	123,435
HK$200,001 – HK$400,000	468	16	131	21	184,863
HK$400,001 – HK$700,000	331	6	43	15	207,850
Over HK$700,000	163	–	24	14	207,565
Total	**2,179**	**245**	**4,802**	**82**	**870,965**

As of December 31, 2022

Amount of receivables of loan principal	Loan Product[1] Unsecured Property Owner Loans		Personal Loans	SME Loans	Aggregate value
	HOS Property	Private Property			
					HK$'000
Under HK$10,000	46	20	1,332	–	8,320
HK$10,000 – HK$100,000	641	178	3,014	8	141,047
HK$100,001 – HK$200,000	423	77	289	22	120,408
HK$200,001 – HK$400,000	549	23	104	24	202,095
HK$400,001 – HK$700,000	355	5	31	21	218,530
Over HK$700,000	182	3	16	15	222,156
Total	**2,196**	**306**	**4,786**	**90**	**912,556**

(1) Our loan portfolio also comprises subordinated mortgage loans, which were transferred to the Excluded Group as of December 31, 2022 and excluded from this table. We have already ceased to provide any new loans under subordinated mortgage loans and will only focus on providing unsecured loans.

Among the receivables of loan principal as of December 31, 2022, on December 31, 2022, we acquired the Transferred Loans from the Excluded Group at a consideration of HK$150.1 million. For details, see "— Key Financial and Operating Metrics — Receivables of Loan Principal and Loan Accounts — Loans Assignment and Transfer".

As of May 31, 2023

Amount of receivables of loan principal	Loan Product				Aggregate value
	Unsecured Property Owner Loans		Personal Loans	SME Loans	
	HOS Property	Private Property			
					HK$' 000
Under or equal to HK$10,000	186	29	1,337	1	9,888
HK$10,001-HK$100,000	514	194	3,202	10	147,804
HK$100,001-HK$200,000	397	99	292	17	120,332
HK$200,001-400,000	540	59	113	26	215,326
HK$400,001-HK$700,000	337	4	32	17	204,108
Over HK$700,000	177	2	29	15	243,115
Total	**2,151**	**387**	**5,005**	**86**	**940,573**

Average Loan Size

The tables below sets out the average loan size[(2)] of our loan products during the Track Record Period:

	For the year ended December 31,			For the five months ended May 31,
	2020	2021	2022	2023
		(HK$'000)		
Loan product[(1)]				
Unsecured Property Owner Loans	287.1	304.0	321.7	321.0
– HOS Property	310.7	327.5	343.2	351.2
– Private Property	118.0	125.4	138.6	148.1
Personal Loans	66.6	67.6	65.0	66.5
SME Loans	1,707.1	1,116.6	899.4	976.7
Overall	**144.2**	**147.7**	**141.1**	**151.1**

(1) Please refer to the note under "Number of loan agreements".

(2) Average loan size represents the arithmetic average of loan principal originally granted by us for loans which generated interest income during each year or period of the Track Record Period.

Loan Tenor

The tables below sets out the average loan tenor of our loan products as of the dates indicated:

As of December 31, 2020

	Number of loans by product type(1)					
	Unsecured Property Owner Loans					
Months	**HOS Property**	**Private Property**	**Personal Loans**	**SME Loans**	**Total**	**Receivables of loan principal**
						HK$'000
1 – 12	134	32	1,798	7	1,971	48,808
13 – 24	366	113	1,538	25	2,042	128,942
25 – 60	1,233	142	1,891	27	3,293	492,649
61 – 120	731	8	52	–	791	353,151
121 – 180	8	–	–	–	8	4,354
Total	**2,472**	**295**	**5,279**	**59**	**8,105**	**1,027,904**

As of December 31, 2021

	Number of loans by product type(1)					
	Unsecured Property Owner Loans					
Months	**HOS Property**	**Private Property**	**Personal Loans**	**SME Loans**	**Total**	**Receivables of loan principal**
						HK$'000
1 – 12	125	27	1,791	10	1,953	50,255
13 – 24	288	90	1,459	32	1,869	97,875
25 – 60	1,087	117	1,516	40	2,760	404,971
61 – 120	673	11	36	–	720	313,532
121 – 180	6	–	–	–	6	4,332
Total	**2,179**	**245**	**4,802**	**82**	**7,308**	**870,965**

As of December 31, 2022

	Number of loans by product type(1)					
	Unsecured Property Owner Loans					
Months	**HOS Property**	**Private Property**	**Personal Loans**	**SME Loans**	**Total**	**Receivables of loan principal**
						HK$'000
1 – 12	118	42	2,062	20	2,242	75,428
13 – 24	262	95	1,515	29	1,901	98,971
25 – 60	1,061	150	1,175	41	2,427	381,867
61 – 120	748	19	34	–	801	351,334
121 – 180	7	–	–	–	7	4,956
Total	**2,196**	**306**	**4,786**	**90**	**7,378**	**912,556**

As of May 31, 2023

	Number of loans by product type[1]					
	Unsecured Property Owner Loans					
Months	**HOS Property**	**Private Property**	**Personal Loans**	**SME Loans**	**Total**	**Receivables of loan principal**
						HK$'000
1 – 12	109	45	2,087	16	2,257	70,572
13 – 24	255	118	1,664	32	2,069	112,653
25 – 60	1,033	205	1,216	38	2,492	394,594
61 – 120	749	19	38	–	806	358,475
121 – 180	5	–	–	–	5	4,279
Total	**2,151**	**387**	**5,005**	**86**	**7,629**	**940,573**

(1) Please refer to the note under "Number of loan agreements".

Average Loan Tenor

The following tables provide an overview of our loan products by average loan tenor as of the respective dates as indicated:

	As of December 31,			As of May 31,
Loan Product[1]	**2020**	**2021**	**2022**	**2023**
		(months)		
Unsecured Property Owner Loans	56.0	57.1	59.2	58.7
– HOS Property	58.5	59.5	62.2	62.6
– Private Property	34.7	35.9	37.5	37.5
Personal Loans	27.8	25.9	23.3	23.2
SME Loans	29.1	29.0	27.5	28.0
Overall	**37.5**	**36.4**	**35.5**	**35.1**

(1) Please refer to the note under "Number of loan agreements".

Loan applications

The table below sets out the loan applications received and turned down for high value loans and non-high value loans during the Track Record Period:

Loan applications received

	Year ended December 31,						Five months ended May 31,			
	2020		2021		2022		2022		2023	
	Number	Loan principal requested	Number	Loan principal requested	Number	Loan principal requested	Number	Loan principal requested	Number	Loan principal requested
		(HK$ million)		*(HK$ million)*		*(HK$ million)*		*(HK$ million)*		*(HK$ million)*
Non-high value loans	15,882	1,554.1	14,875	1,379.1	14,103	1,319.5	5,554	501.2	8,163	818.4
High value loans	706	938.4	668	994.6	644	1,232.4	268	419.9	345	444.8
Total	**16,588**	**2,492.5**	**15,543**	**2,373.7**	**14,747**	**2,551.9**	**5,822**	**921.1**	**8,508**	**1,263.2**

Loan applications turned down

The table below sets out details of the turned down loan applications during the Track Record Period:

	Year ended December 31,									Five months ended May 31,					
	2020			2021			2022			2022			2023		
	Number	Loan principal requested	% turned down based on loan principal requested(1)	Number	Loan principal requested	% turned down based on loan principal requested(1)	Number	Loan principal requested	% turned down based on loan principal requested(1)	Number	Loan principal requested	% turned down based on loan principal requested(1)	Number	Loan principal requested	% turned down based on loan principal requested(1)
		(HK$ million)			*(HK$ million)*			*(HK$ million)*			*(HK$ million)*			*(HK$ million)*	
Non-high value loans	9,795	855.7	55.1%	9,721	807.9	58.6%	9,190	795.0	60.3%	3,427	275.4	54.9%	5,691	447.7	54.7%
High value loans	405	576.9	61.5%	441	735.5	74.0%	440	974.4	79.1%	171	291.1	69.3%	229	281.7	63.3%
Total/Overall	**10,200**	**1,432.6**	**57.5%**	**10,162**	**1,543.4**	**65.0%**	**9,630**	**1,769.4**	**69.3%**	**3,598**	**566.5**	**61.5%**	**5,920**	**729.4**	**57.7%**

(1) Calculated by dividing loan principal requested but became turned down loan applications over the total principal requested for the non-high value loans, or as the case may be, high value loans.

From 2020 to 2022, there has been a continuous increase in the loan principal requested by potential borrowers for high value loans. We believe that during economic downturn, borrowers may require larger loans to satisfy their cash flow needs. However, we have tightened our credit approval policy through the implementation of the Restrictive Aggregate Loan Out Policy and the Tightened Credit Assessment Policy since the COVID-19 outbreak, which was evidenced by the increased percentage of loan applications turned down for all loan types, especially in relation to high value loans whereby the turn down rate increased from 49.4% in 2019 to 61.5% in 2020 and further increased to 79.1% in 2022. As we became more selective in providing high value loans, the growth of our loan portfolio, and our interest income was restricted.

As economic activities picked up in 2023, loan applications we received experienced a significant increase, especially for non-high value loans. As we intend to gradually grow our loan portfolio and to remain in line with our credit assessment policy, we carefully assessed the background of each borrower and approved loan applications prudently even though we no longer implemented the Restrictive Aggregate Loan Out Policy and the Tightened Credit Assessment Policy, hence proportion of turned down loan applications remained stable, and is similar to the proportion of loans we turned down in 2020 prior the implementation of policies in response to the COVID-19 pandemic.

Early redemption

The table below sets out the loans that were early repaid by our borrowers for each of our loan products during the Track Record Period:

	Year ended December 31,									Five months ended May 31,					
	2020			2021			2022			2022			2023		
Loan product	Number	Loan principal	% of early redemption based on loan principal(1)	Number	Loan principal	% of early redemption based on loan principal(1)	Number	Loan principal	% of early redemption based on loan principal(2)	Number	Loan principal	% of early redemption based on loan principal(1)	Number	Loan principal	% of early redemption based on loan principal(1)
		(HK$ million)			*(HK$ million)*			*(HK$ million)*			*(HK$ million)*			*(HK$ million)*	
Unsecured Property Owner Loans	716	180.5	13.8%	568	164.8	14.6%	461	149.7	14.9%	186	56.6	6.0%	199	61.9	6.0%
– HOS Property	561	162.6	12.4%	457	151.2	13.4%	392	139.0	13.8%	157	52.1	5.5%	163	58.2	5.6%
– Private Property	155	17.9	1.4%	111	13.6	1.2%	69	10.7	1.1%	29	4.4	0.5%	36	3.7	0.4%
Personal Loans	1,316	91.2	7.0%	1,089	81.9	7.2%	978	71.9	7.1%	389	31.9	3.4%	435	26.9	2.6%
SME Loans	6	4.1	0.3%	10	11.4	1.0%	9	8.0	0.8%	1	4.0	0.4%	3	0.9	0.1%
Total/Overall	2,038	275.8	21.2%	1,667	258.1	22.8%	1,448	229.6	22.8%	576	92.5	9.8%	637	89.7	8.7%

(1): Calculated by dividing loan principal of the early redeemed loan over the sum of the outstanding loan balance as at the end of the relevant year or period and the loan principal of the early redeemed loans.

(2): Calculated by dividing the loan principal of the early redeemed loan over the sum of the outstanding loan balance before we acquired the Transferred Loans from the Excluded Group as at the end of 2022 and the loan principal of the early redeemed loans. For details, see "— Key Financial and Operating Metrics — Receivables of Loan Principal — Loans Assignment and Transfer".

The number of loans and loan principal repaid in advance was relatively high in 2020, and the percentage of early redeemed loan principal throughout the Track Record Period was higher than that of 2019, being 17.2%. The early redemption percentage increased from 13.8% in 2020 to 14.9% in 2022 for Unsecured Property Owner Loans and increased from 7.0% in 2020 to 7.1% in 2022 for Personal Loans. The redemption ratio remained at a relatively high level due to the cautious approach we adopted during the Track Record Period as we were less eager to adjust the terms of loans of borrowers who we perceived as high risk. This resulted in an increase in borrowers repaying their loans in advance, which in turn led to a decrease in the size of our loan portfolio.

As we no longer implemented the Restrictive Aggregate Loan Out Policy and the Tightened Credit Assessment Policy during our credit assessment process in 2023, we would be more eager to negotiate with borrowers to retain them when they consider to redeem their loans with us, hence the total loan principal or the proportion of loan receivables redeemed by our borrowers has decreased as compared to the corresponding period in 2022.

Interest Rates

The following table summarizes the range of interest rates that we typically charged in respect of our loan products during the Track Record Period:

	Year ended December 31,			Five months ended May 31,
	2020	2021	2022	2023
Loan Product[1]	Typical interest rate range (per annum)			
	(%)			
Unsecured Property Owner Loans	21.6 to 46.8	20.4 to 44.3	20.4 to 42.8	20.4 to 42.0
– HOS Property	21.4 to 42.0	20.4 to 42.0	20.4 to 42.0	20.4 to 42.0
– Private Property	24.0 to 48.0	21.3 to 48.0	21.6 to 48.0	20.4 to 46.8
Personal Loans	24.0 to 48.0	24.0 to 48.0	24.0 to 48.0	24.0 to 48.0
SME Loans	19.5 to 30.0	21.6 to 28.7	21.8 to 24.0	22.8 to 24.0
Overall	**19.5 to 48.0**	**20.4 to 48.0**	**20.4 to 48.0**	**20.4 to 48.0**

(1) Our loan portfolio also comprises subordinated mortgage loans, which were transferred to the Excluded Group as of December 31, 2022 and excluded from this table. We have already ceased to provide any new loans under subordinated mortgage loans and will only focus on providing unsecured loans.

Among the receivables of loan principal as of December 31, 2022, on December 31, 2022, we acquired the Transferred Loans from the Excluded Group at a consideration of HK$150.1 million. For details, see "— Key Financial and Operating Metrics — Receivables of Loan Principal — Loans Assignment and Transfer".

Average Effective Interest Rate

The table below sets out the average effective interest rate of our loan products during the Track Record Period:

	Year ended December 31,			Five months ended May 31,
	2020	2021	2022	2023
Unsecured Property Owner Loans	31.3%	30.6%	29.9%	29.2%
– HOS property	30.6%	30.1%	29.4%	28.7%
– Private property	36.1%	35.0%	34.6%	32.0%
Personal Loans	42.0%	41.8%	41.9%	40.0%
SME Loans	24.1%	24.1%	23.9%	24.0%
Overall[1]	**38.5%**	**38.2%**	**38.5%**	**36.6%**

Note: Average effective interest rate represents the average of effective interest rates in respect of the existing loan agreements during the year.

Recent changes in the Presumed Extortionate Rate

Since December 30, 2022, the effective rate of interest exceeding which a loan transaction would be presumed extortionate (the "**Presumed Extortionate Rate**") was lowered from 48% per annum to 36% per annum, and the statutory limit for effective interest rate (the "**Statutory Limit**") was lowered from 60% per annum to 48% per annum. Therefore, under the MLO any person who lends or offers to lend money at an effective rate of interest exceeding 48% per annum after December 30, 2022 commits an offence, and any loan in respect of which the effective interest rate exceeds 36% per annum after December 30, 2022 is, having regard to that fact alone, presumed to be extortionate. The current Presumed Extortionate Rate does not apply to loan agreements entered into before December 30, 2022, hence we will not be considered to have committed an offence under the MLO for existing loans granted with an interest rate over 36% per annum but lower than 48% per annum, and the transaction shall not become illegal or unenforceable solely due to the lowering of the Presumed Extortionate Rate. For details of the regulatory framework for the Presumed Extortionate Rate, see "Regulatory Overview — Money Lending — Enforceability of loan agreement".

We have been charging interest rates not exceeding 48% per annum during the Track Record Period and up to the Latest Practicable Date. We entered into loan agreements exceeding the current Presumed Extortionate Rate (i.e. 36% per annum) after December 31, 2022.

The change in the Presumed Extortionate Rate may (i) cause us to lose interest income and reduce our profitability if the court reopens the existing loans with effective interest rate above the Presumed Extortionate Rate and adjusts the interest rate; (ii) intensify market competition as our competitors who used to offer loans with interest rate higher than 36% may change their risk appetite and offer more loans with interest rate below 36% and our target customers may be more likely to be able to obtain loans from our competitors who charge lower interest rates than us.

Any loan with effective interest rate exceeding 36% per annum after December 30, 2022 is, having regard to that fact alone, presumed to be extortionate. Nonetheless, the presumption that loans with an interest rate exceeding the Presumed Extortionate Rate are extortionate is rebuttable, and the court will declare that the loan transaction is not extortionate if, having regard to all the circumstances, it is satisfied that such rate is not unreasonable or unfair. During the Track Record Period and up to the Latest Practicable Date, none of our loans were considered extortionate by the court, and we were never required by court to lower the interest rate stipulated in our loan agreements or return interest income received to our borrowers. Where the court considers that a loan is extortionate by virtue of it being grossly exorbitant and otherwise grossly contravenes ordinary principles of fair-dealings, albeit the loan contract is not illegal and unenforceable, the court may make orders or directions in respect of the terms of the loan or rights of parties as the court thinks fit which may affect the money lender's civil remedy in recovering the loan.

Based on case laws, our External Legal Counsel is of the view and the External Legal Counsel to the Joint Sponsors concurs, that unusual feature in the transaction (e.g. duress, oppression, etc.) is required in order for the court to consider loans with interest rate above the Presumed Extortionate Rate as extortionate. Even if the court considers a transaction to be extortionate, at most occasions it would only lower the interest rate chargeable and would not declare the transaction void. In those circumstances, the net results are that the lenders were still able to recover the loan principal and a substantial part of the interest. Nonetheless, the most serious order that the court could make would be a direction for the borrower to repay the principal sum to the lender without any interest. However, such direction is rare unless the transaction is highly unfair to the borrower and the lender's conduct is the most unbecoming since in commercial world a lender is always allowed to charge reasonable interest for a loan made. For details of risk of enforcement for the recovery of loan, see "Risk Factors — Risks relating to our business and industry — Our business may be affected by changes in laws and rules applicable to the money lending industry, in particular the Money Lenders Ordinance".

As advised by our External Legal Counsel, extension of relief for extortionate rate does not become activated merely because the interest rate exceeds the Presumed Extortionate Rate, instead, the lender must show that no unconscionable pressure was exerted on the loan applicant to enter into the loan transaction and there would be less likelihood of unconscionable pressure where the borrower is a businessman or a commercial entity taking a business decision in borrowing the money. With (a) stringent protocol on due diligence of our borrowers to ensure that they entered into the loan agreements on their own volition and under no apparent unconscionable pressure to eliminate undue influence being exerted on the borrower by third party or circumstances which may render the transaction unfair, (b) stringent protocol and constant review on staff training to ensure that no oppression will be, or is likely to be so apprehended by the customers, exerted on the customers in borrowing the loans, and (c) maintaining sufficient record of the circumstances leading to the borrowing of the loan to show that the transaction is not unconscionable, it will be unlikely for the court to consider such agreement as extortionate even if the effective interest rate exceeds the Presumed Extortionate Rate. The External Legal Counsel to the Joint Sponsors concurs with the view of the External Legal Counsel in this regard.

We have (i) updated our compliance assurance framework and provided internal training for our employees, where they are reminded that when they are handling loans with an interest rate that exceeds the Presumed Extortionate Rate, extra attention shall be paid to ensure that our borrowers are sophisticated enough to understand the terms and conditions of the loan, and they are in a proper mental condition when the loan agreements were executed; (ii) keep complete audio and/or video records showing that our employees explained the terms and conditions of the loans, and for the borrowers applying loans online, they will be required to listen to the terms and conditions of the loan in a prerecorded audio online before signing the loan agreement; and (iii) before signing the loan agreement, our borrowers are additionally required to declare that they understand that they were charged an interest rate exceeding the Presumed Extortionate Rate based on our assessment of their risk profile and they have entered into such transaction out of their own volition after understanding the terms and conditions ("**Additional Measures for High-Interest Loans**") to prevent our loans from being considered extortionate by the court. As advised by our External Legal Counsel and our External Legal Counsel to the Joint Sponsors concurs, implementing the Additional Measures for High-Interest Loans can help mitigate our exposure to the risk that our loans may be considered extortionate by the court because borrowers are well informed of the fact that they will have to pay an interest rate above the Presumed Extortionate Rate for the loan incurred with reference to the credit profile; and it would be easier for us to discharge our evidential burden by providing the unequivocal acknowledgment and record from borrowers when dispute ensues, and accordingly borrowers could not assert challenge that they have not been properly informed of the terms.

According to Frost & Sullivan, our Additional Measures for High-Interest Loans are in line with the industry practice of reducing the possibility that loan agreements with interest rates higher than the Presumed Extortionate Rate from considered extortionate by the court, and our Directors are of the view, and after taking into consideration of the advice of our External Legal Counsel and the External Legal Counsel to the Joint Sponsors, the Joint Sponsors concur, that the Additional Measures for High-Interest Loans are effective measures in achieving such purpose.

The following table sets forth our interest income from loans with an effective interest rate higher than 36% per annum during the Track Record Period:

	Year ended December 31,		From January 1 to December 30,	From December 31, 2022 to
	2020	**2021**	**2022** *(Note)*	**May 31, 2023**
			(Unaudited)	
		(HK$ million)		
Unsecured Property Owner Loans	21.4	18.8	15.4	6.0
– HOS property	18.1	16.4	13.7	5.3
– Private property	3.3	2.4	1.7	0.7
Personal Loans	49.1	42.3	37.8	12.7
SME Loans	–	–	–	–
Total	**70.5**	**61.2**	**53.2**	**18.7**

The following table sets forth loan principal amount from loans with an effective interest rate higher than 36% per annum as of the dates indicated:

	As of December 31,		As of December 30,	As of
	2020	**2021**	**2022** *(Note)*	**May 31, 2023**
			(Unaudited)	
	(HK$ million)			
Unsecured Property Owner Loans	53.4	45.2	44.5	38.2
– HOS property	45.9	40.7	39.6	33.9
– Private property	7.5	4.4	5.0	4.3
Personal Loans	110.8	93.2	90.0	63.3
SME Loans	–	–	–	–
Total	**164.3**	**138.3**	**134.5**	**101.4**

Note: The Presumed Extortionate Rate before December 30, 2022 and on or after December 30, 2022 was 48% per annum and 36% per annum, respectively.

We temporarily suspended granting new loans with interest rate above 36% per annum due to lack of clarity of the regulatory change, and we subsequently engaged the External Legal Counsel to review the impact of such regulatory change on our operations. After perusing the External Legal Counsel's advice, we were of the view that such regulatory change does not have impact on the enforceability of future loan agreements with interest rate above 36% per annum, and the impact (if any) on our business operations if the interest rate such loan agreements becomes the subject matter of any dispute is minimal, hence we resumed approving and granting loans with interest rate above 36% per annum since March 2023.

We continued to grant new loans or renew loans granted before December 30, 2022 with effective interest rate over 36% per annum going forward, and have not set any monetary cap on the loan principal to be granted where we charge an interest rate which is above the Presumed Extortionate Rate. During the five months ended May 31, 2023, the amount of loan principal granted after December 30, 2022 by us (including the new loan and new top-up loan) which exceeded the current Presumed Extortionate Rate amounted to HK$14.3 million. For the five months ended May 31, 2023, we derived interest income of HK$0.6 million from loans with an effective interest rate higher than 36% per annum which were granted after December 30, 2022. Since the loan receivables from loans granted after December 30, 2022 charging the Presumed Extortionate Rate or above accounted for only approximately 1.4% of our overall loan portfolio as at May 31, 2023, we consider the decrease in our interest income attributable to such loans, in the unlikely event of them being considered as extortionate by the court, shall not have material impact on our operations and financial performance.

Further and as advised by our External Legal Counsel, loan agreements with interest rate higher than 36% per annum (but below 48% per annum) that we enter after December 30, 2022 will not be regarded as unenforceable or non-compliance with the MLO solely because we charge an interest rate higher than the Presumed Extortionate Rate and hence, such loan agreements entered into by our Group before and after the changes to the Presumed Extortionate Rate under the MLO are in compliance with the relevant laws and regulations. After taking into consideration of the advice of our External Legal Counsel on the legal position of Presumed Extortionate Rate and corresponding factors which are relevant when considering whether the rate charged by a loan agreement above the Presumed Extortionate Rate is extortionate, and the Additional Measures for High-Interest Loans, our Directors are of the view and the Joint Sponsors concur that the change in the Presumed Extortionate Rate have not had and will not have a material impact on our operations and financial positions.

Interest Spread

The table below sets out the interest spread of our loan products during the Track Record Period:

Loan Product[(1)]	Year ended December 31, 2020	2021	2022	Five months ended May 31, 2023
		(%)		
Unsecured Property Owner Loans	25.3	24.7	23.0	20.4
– HOS property	24.6	24.1	22.5	19.9
– Private property	30.1	29.1	27.7	23.2
Personal Loans	36.0	35.8	35.0	31.2
SME Loans	18.0	18.2	17.1	15.3
Overall	**32.5**	**32.3**	**31.7**	**27.9**

Note: Calculated based on average effective interest rate less weighted average cost of borrowings.

Our interest spread remained stable in 2020 and 2021, and our interest spread decreased from 32.3% in 2021 to 31.7% in 2022 due to increase in proportion of Unsecured Property Owner Loans within our loan portfolio our increased cost of funding and while the average effective interest rate for the segment decreased from 30.6% in 2021 to 29.9% in 2022, which was attributable to the granting of loans to borrowers with better quality who are more sensitive to the interest rate offered by us. Our interest spread decreased from 31.7% in 2022 to 27.9% for the five months ended May 31, 2023 as the average interest rate of our loan portfolio decreased and cost of borrowings increased due to interest rate hikes.

Net Interest Margin

Our profitability is affected by the net interest margins of our loan products.

The table below sets forth the net interest margin of our loan products during the Track Record Period:

Loan Product[(1)]	Year ended December 31, 2020	2021	2022	Five months ended May 31, 2022[(3)]	2023[(3)]
				(Unaudited)	
Unsecured Property Owner Loans[(2)]	22.8%	21.6%	21.6%	8.9%	8.6%
– HOS Property	22.7%	21.5%	21.5%	8.8%	8.6%
– Private Property	24.5%	25.8%	24.1%	10.4%	8.3%
Personal Loans	26.6%	26.5%	27.9%	11.7%	11.2%
SME Loans	18.2%	20.3%	20.7%	8.1%	8.2%
Overall	**23.8%**	**22.9%**	**23.3%**	**9.6%**	**9.2%**

(1) Our loan portfolio also comprises subordinated mortgage loans, which were transferred to the Excluded Group as of December 31, 2022 and excluded from this table. We have already ceased to provide any new loans under subordinated mortgage loans and will only focus on providing unsecured loans.

(2) On December 31, 2022, we acquired the Transferred Loans from the Excluded Group at its carrying amount of approximately HK$150.1 million. The net interest margin in the table did not take into account the Transferred Loans. For details, see "— Key Financial and Operating Metrics — Receivables of Loan Principal and Loan Accounts — Loans Assignment and Transfer".

(3) The figures for the five months ended May 31, 2022 and 2023 were not annualized.

The decrease in net interest margin from 23.2% in 2022 to 22.0% (annualized) for the five months ended May 31, 2023 was due to the decrease in the average effective interest rate of loans we granted and the increase in effective interest rate of our borrowings as a result of interest rate hikes. For a further discussion on the fluctuation of our net interest margin during the Track Record Period, see "Financial Information — Results of Operations".

Overdue Cases

During the Track Record Period, we initiated 537 legal proceedings for overdue Unsecured Property Owner Loans and among these, we obtained 321 favorable judgments, and have not obtained any unfavorable judgments. Among these overdue loans, we have procured registration of 217 charging orders. In addition, we enforced ten orders for sale of the overdue Unsecured Property Owner Loans during the Track Record Period.

During the Track Record Period, we initiated four and 15 legal proceedings for overdue Personal Loans and SME Loans, respectively, and among these, we obtained two and 12 favorable judgments. We did not receive any unfavorable judgments during the Track Record Period.

For the remaining legal proceedings which we have initiated, they are still being handled by relevant court, and our Directors are not aware of any circumstances which would lead to an unfavorable judgment being handed down by the court against us.

For details about how we dealt with the overdue loans, see "— Risk Management and Internal Control — Loan Collection — Overdue Loans".

Credit Performance of Our Loans

Expected Loss Rates

The expected loss rate for each loan product is calculated by provision for impairment divided by the outstanding loan receivables balance of the corresponding loan type as of each respective year-end or period-end date.

As of December 31, 2020, 2021 and 2022 and May 31, 2023, our overall expected loss rates were approximately 9.9%, 10.8%, 10.3%, 10.2% respectively. Our expected loss rates increased across our loan portfolio from 2020 to 2021. In particular, the increase in our expected loss rates from 9.9% in 2020 to 10.8% in 2021 was primarily due to an increased amount of delayed repayments from our customers, resulting in additional provision being made for our loan receivables under our expected credit loss model during 2020.

The following table sets forth the breakdown of delayed repayments and their subsequent settlement by loan types as of the dates indicated.

	As of December 31,									As of May 31,		
	2020			2021			2022			2023		
	Number of loan accounts with overdue instalments	Loan receivables of overdue instalments	Subsequent settlement up to August 31, 2023	Number of loan accounts with overdue instalments	Loan receivables of overdue instalments	Subsequent settlement up to August 31, 2023	Number of loan accounts with overdue instalments	Loan receivables of overdue instalments	Subsequent settlement up to August 31, 2023	Number of loan accounts with overdue instalments	Loan receivables of overdue instalments	Subsequent settlement up to August 31, 2023
		(HK$'000)	*(HK$'000)*		*(HK$'000)*	*(HK$'000)*		*(HK$'000)*	*(HK$'000)*		*(HK$'000)*	*(HK$'000)*
Unsecured Property Owner Loans	686	87,553	35,504	674	106,107	33,253	990	161,592	24,500	926	171,731	11,005
Personal Loans	1,072	19,984	7,448	789	17,165	3,764	1,063	22,433	1,827	1,027	27,430	4,364
SME Loans	12	756	517	24	4,132	1,713	45	5,628	2,887	29	4,186	460
Total	**1,770**	**108,293**	**43,469**	**1,487**	**127,404**	**38,730**	**2,098**	**189,653**	**29,213**	**1,982**	**203,347**	**15,829**

During the COVID-19 pandemic, the number of loan accounts with delayed repayment decreased from 1,770 in 2020 to 1,487 in 2021 and increased to 2,098 in 2022. The decrease of number of loan accounts with delayed repayment in 2021 was mainly due to the decrease in the total number of loans we granted in 2021, and the increase in 2022 was a result of our acquisition of the Transferred Loans which comprised 197 loan accounts with overdue instalments. The amount of delayed repayment from our borrowers has been increasing from HK$108.3 million as of December 31, 2020 to HK$127.4 million as of December 31, 2021, HK$189.7 million as of December 31, 2022 (amongst which HK$29.9 million were overdue receivables of the Transferred Loans) was due to the economic fallout caused by COVID-19 as evidenced by the contraction of local economy and the increase in unemployment rate, which caused hardship for borrowers to repay their outstanding loans on time. The further increase of overdue loan receivables to HK$203.3 million as of May 31, 2023 was primarily due to the roll-over effect of loan accounts which were already overdue as of December 31, 2022, whereby approximately HK$202 million were overdue receivables of those loans, and the market is still recovering from the impact of the COVID-19 pandemic, and the repayment ability of our borrowers which were delinquent since December 31, 2022 has not substantially improved.

Amongst the increase in overdue loan receivables of HK$13.7 million as of May 31, 2023 (as compared to that on December 31, 2022), approximately 90% of such overdue loan receivables (i.e. HK$12.3 million) were granted to loan applicants prior to January 1, 2023 (i.e. before or during the COVID-19 period). Therefore, compared to the total amount of overdue loan receivables, the proportion of overdue loan receivables granted post-COVID-19 pandemic, taking into account the relaxation of the Restrictive Aggregate Loan Out Policy and Tightened Credited Assessment Policy we adopted, is less than approximately 10% of our overall overdue loan receivables. We believe that as compared to the overall growth of our loan portfolio, the increment in the overdue loan receivable resulted from the new loan granted post COVID-19 Pandemic, namely those granted in January to May 2023, is immaterial to our overall performance. As a result, we believe that the negative impact of the COVID-19 pandemic on the increase in delayed repayments from customers would not be propagative and will gradually minimize and phase out due to the general loan tenor period as loans granted during the COVID-19 pandemic will expire based on the average loan tenor of loans granted by it.

According to Frost & Sullivan, our expected loss rate diverged from [**REDACTED**] industry peers, which was attributable to our increasingly conservative provisioning methodologies and assumptions adopted, reflecting prudent modelling of potential future losses, and constant review and increase in loss reserves by management as a cautionary buffer amid rising macro-economic uncertainty. Besides, our sole focus on unsecured loans which inherently carries a higher credit risk than our peers who also provide secured loans, resulted in higher probability of delayed repayment and increasing overdue loan size and therefore a comparatively higher uncertainty and volatility of expected credit loss against industry peers. Our strategical focus on unsecured loans with a view to securing greater returns is to offset the additional ECL expenses while maintaining sound capital levels, and explains the Group's divergent ECL level and trends versus the industry.

Bad Debt Ratio

We classify certain loan receivables as bad debt when they have become irrecoverable. For Unsecured Property Owner Loans, our loan recovery assessment mainly focuses on the property owned by our borrowers as we may initiate legal proceedings to claim our debt as the last resort of loan recovery and will be likely to recover our debt even when there is no more repayment from the borrower as the value of property owned by the borrower is usually in excess of all debts owed by him (including the loan he took out with us). We recognize an Unsecured Property Owner Loan as bad debt when we consider that there is no reasonable expectation of substantially recovering the amounts owed to us by our borrowers through repossession and forced sale of property. For Personal Loans, our loan recovery assessment mainly focuses on the availability of repayment from the borrower. We will define a Personal Loan as bad debt when we confirm the chance of repayment from the borrower is very low when the borrower is unlikely to pay as a result of significant financial difficulties. We will also take into account objective factors such as whether the borrower has passed away or a bankruptcy order was obtained against him. For SME Loans, our loan recovery assessment mainly focuses on the availability of repayment from the borrower and its guarantor. We classify a SME Loan as bad debt when we confirm the chance of repayment from the borrower and guarantor is very low. For example, a bankruptcy order was obtained against the guarantor or the borrower has been wound up.

Our bad debt ratio is calculated by dividing the amount of bad debt by the aggregate amount of loan receivables and such bad debt as of the relevant year-end or period-end dates. The table below sets forth the bad debt ratio of for each of our loan products during the Track Record Period:

	Year ended December 31,			Five months ended May 31,	
Loan Product[1]	**2020**	**2021**	**2022**	**2022**	**2023**
				(Unaudited)	
Unsecured Property Owner Loans[2]	0.6%	0.5%	0.3%	0.0%	0.1%
– HOS property	0.6%	0.4%	0.3%	0.0%	0.1%
– Private property	1.4%	1.1%	0.1%	0.0%	0.0%
Personal Loans	12.8%	15.4%	12.7%	5.3%	5.8%
SME Loans	–	1.7%	7.3%	5.3%	4.0%
Overall	**4.5%**	**5.1%**	**3.8%**	**1.8%**	**1.8%**

(1) Our loan products also comprise a subordinated mortgage loan business prior to the [**REDACTED**], which were transferred to the Excluded Group as of December 31, 2022 and excluded from this table. We have already ceased to provide any new loans under subordinated mortgage loan business and will only focus on providing unsecured loans.

(2) On December 31, 2022, we acquired a loan portfolio from the Excluded Group at its carrying amount of approximately HK$150.1 million. For details, see "— Key Financial and Operating Metrics — Receivables of Loan Principal and Loan Accounts — Loans Assignment and Transfer".

Our bad debt policy has remained unchanged throughout the Track Record Period. During the Track Record Period, the fluctuations in our bad debt ratios for each of our product lines were determined by the fluctuations in (i) the amount of bad debt recorded by us and (ii) the amount of our loan receivables. In particular, the bad debt ratio of our Personal Loans demonstrated an increasing trend from 2020 to 2021. The increase from 12.8% as of December 31, 2020 to 15.4% as of December 31, 2021 was primarily due to an increased amount of bad debt recorded by us for this product line amidst the COVID-19 outbreak. The bad debt ratio in 2022 dropped back to a level similar to that in 2020 primarily since we took a more prudent approach to manage our credit risk. Our bad debt ratio for SME Loans increased from 1.7% as of December 31, 2021 to 7.3% as of December 31, 2022, which was primarily due to the write-off of a loan which had a loan principal of over HK$1.5 million, and contributed to more than 25% of the bad debt recorded by us as of December 31, 2022. The increase in bad debt ratio from 3.8% in 2022 to 4.2% (annualized) for the five months ended May 31, 2023 was due to the increase in proportion of Personal Loans in our loan portfolio, which had a higher chance to be written off as compared to our other loan products. According to Frost & Sullivan, the trend of our bad debt ratio from 2020 to 2022 is in line with industry norm.

Delinquency ratio

The following table sets forth the delinquency ratio of our loans as of the dates indicated:

	As of December 31,			As of May 31,
	2020	2021	2022	2023
30+ delinquency ratio[1]				
Unsecured Property Owner Loans	11.4%	15.8%	20.9%	22.2%
Personal Loans	5.2%	5.7%	8.3%	8.2%
SME Loans	0.3%	7.0%	7.2%	5.7%
Overall	**9.0%**	**12.5%**	**17.3%**	**17.8%**
60+ delinquency ratio[1]				
Unsecured Property Owner Loans	10.8%	15.1%	20.1%	21.4%
Personal Loans	4.5%	5.1%	7.3%	7.4%
SME Loans	0.2%	5.9%	5.8%	4.9%
Overall	**8.4%**	**11.9%**	**16.4%**	**17.0%**
90+ delinquency ratio[1]				
Unsecured Property Owner Loans	10.3%	14.6%	19.4%	20.6%
Personal Loans	3.9%	4.6%	6.5%	6.6%
SME Loans	0.1%	5.0%	4.3%	4.1%
Overall	**7.9%**	**11.3%**	**15.6%**	**16.3%**

Note:

(1) Calculated by dividing the outstanding loan receivables that were overdue over 30 days, 60 days or 90 days (as applicable) based on instalment by due date by our total outstanding loan receivables as of the respective year or period end date.

For the reason for the increase in the delinquency ratio as of the dates indicated above, see "Financial Information — Discussion of Certain Line Items on the Consolidated Balance Sheets — loan receivables". As a result of the increase in amount of delayed repayments, we have adopted additional measures to manage our credit risk. For details, please see "— Loan collection — Enhanced collection measures". According to Frost & Sullivan, as we focused on unsecured loans the trend of our delinquency ratio in 2020 to 2022 diverged from our industry peers. For details of such deviance, please refer to "— Credit performance of our loans — Expected loss rates" above.

The bad debt ratio for Personal Loans did not fluctuate in line with the expected credit loss rate and 90+ delinquency ratio for such loan product between 2021 and 2022. The expected credit loss rate for Personal Loans increased from 2021 to 2022 as we increased the provision for impairment in light of the increase in the overdue loan size in Personal Loans. On the other hand, the total loan receivables of overdue loans which were granted in the same year increased from 2021 to 2022. As write-off is a last resort, these newly granted loans would unlikely be written off in the same year. As such, the bad debt ratio for Personal Loans decreased in 2022, which did not reflect the trend shown in our expected credit loss rate. In addition, our expected credit loss rates and bad debt ratios may not be necessarily reconciled because the former is a reflection of our provision for impairment (i.e. estimated loss) made under our expected credit loss model which is determined by projecting the probability of default, exposure at default, and loss given default of each individual borrower whereas the latter is a reflection of actual bad debt written off by us (i.e. actual loss that we recognize if a borrower defaults on the loan when we consider such outstanding amount has become uncollectible) due to irregular events such as bankruptcy of borrowers. Our 90+ delinquency ratio and bad debt ratios may not be necessarily reconciled either as loans overdue 90 days are not the same as bad debt, and the former simply considers loan instalments which have been past due for a certain number of days without considering the risk profile of each borrower and the possibility of them defaulting on their loans, hence our Directors are of the view that it is a less meaningful indicator when assessing the quality of our loans.

Bad debt is the result from actual loan recovery assessment including assessment on repayment ability as well as available asset, while expected credit loss and 90+ delinquency ratio are calculated based on absolute thresholds of 90 days overdue scenario where we still expect to recover such amounts despite our borrowers failed to repay on time. Under our write-off policy, we will write off a loan receivable when all practical recovery efforts have been exhausted and has concluded there is no reasonable expectation of recovery. After closely scrutinizing and implementing follow-up measures, the Company has determined that the days of overdue payments by borrowers during the COVID-19 pandemic should not be simply extrapolated. Based on the experience of our Directors in the licensed money lending industry, borrowers who are delinquent in repayment may still be capable of repaying loans based on practical recovery efforts. Therefore, solely factoring in the number of days of delayed repayment to automate the default event may not be a representative indicator to determine whether borrowers are willing and able to make further repayments. In fact, in the past there have been occasions where we were able to recover outstanding installments once the financial situation and physical condition of borrowers have improved. Accordingly, we believe that, considering the unprecedented COVID-19 pandemic, the numerical references of outstanding days should not be solely relied upon for writing off outstanding receivables. Therefore the bad debt ratio and delinquency ratios shall not be construed as synchronized. Hence they may not fluctuate in line due to differences in assessment methodology.

For example, certain borrowers repay part of their overdue instalments intermittently which demonstrate their repayment tendency and the prospect of collection, or we can still recover outstanding amounts through enforcement action even if Unsecured Property Owner Loans were overdue for over 90 days, and our borrowers for Unsecured Property Owner Loans are more creditworthy as they generally have a better credit score. Hence, we generally set aside a longer observation period for Unsecured Property Owner Loans to evaluate their recoverability, and such outstanding amounts will not be immediately recognized as bad debt even though they had been overdue for over 90 days. Our borrowers may also make use of debt restructuring plan that allows them to propose a repayment plan to their creditors including us, and if creditors accept the proposal, the borrower is required to make regular payments as agreed, we may therefore ultimately still be able to collect a substantial part of the outstanding receivables. However, if borrower fails to make repayments, the arrangement may be terminated and we may take further actions such as initiating bankruptcy proceedings.

Fintech and Technology Support Related Expenses

We continually invested resources in enhancing our fintech to provide cost-effective lending services. Our fintech expenses during the Track Record Period mainly comprise of fintech staff costs and IT service fees. Our expenses in relation to IT services consist of IT related fees paid to associates of the Lee's Family and Independent Third Parties. Historically, we received IT support from MoneySQ and trustME to facilitate our fintech initiative and to integrate such functions into our business operations. We also required the tools and infrastructure provided by Independent Third Parties in our ordinary course of business.

We started to internalize IT support that was provided by external parties, including MoneySQ and trustME in 2020 with an aim to develop our own fintech team to provide in-house support to our operation and to cease to rely on IT support provided by external parties ultimately. We hired seven fintech-related staff members from MoneySQ who worked with MoneySQ and trustME to bolster our technological capabilities. In order to attain a smooth transition and internalisation, we did not cease the IT service from MoneySQ and trustME immediately after the hiring of the said previous MoneySQ IT staff. Instead, at the initial stage of internalisation, we continued to receive IT support from MoneySQ and trustME, thereby allowing our newly-formed fintech team to accumulate the necessary fintech knowledge and seamlessly adapting to our business operation. Simultaneously working with MoneySQ and trustME team to enhance and maintain our IT infrastructure, our fintech team further accelerating and excelling the Group's IT and fintech initiatives, including the development and enhancement of our K Cash GO platform. In or around June 2022, we believed that our fintech team has gained sufficient expertise and practical experience to run our fintech system and to master the operation of the corresponding fintech application in the absence of relying on external fintech service providers, namely by MoneySQ and trustME. Therefore, we have completed the internalization and terminated the relevant IT support service agreement with MoneySQ and trustME on June 30, 2022. Since 1 July 2022, our in-house fintech team is principally in charge of rolling out various fintech initiatives thereby enhancing our operational and cost efficiency. Save as mentioned above, during the Track Record Period and up to the Latest Practicable Date, no other employees for the fintech and technology support function were transferred from associates of the Lee's Family to us.

The following table sets forth a breakdown of our fintech and technology support related expenses during the Track Record Period:

	Year ended December 31,			**Five months ended May 31,**	
	2020	**2021**	**2022**	**2022**	**2023**
			(HK$' million)		
				(Unaudited)	
Fintech staff costs	4.6	4.2	5.3	2.2	2.7
IT service fees for the support provided by MoneySQ and trustME	1.5	1.6	0.8	0.7	–
IT service fees for services provided by Independent third parties	1.7	1.0	1.0	0.3	0.7
Total	**7.8**	**6.8**	**7.1**	**3.2**	**3.4**

IT service fees paid for services provided by Independent Third Parties increased for the five months ended May 31, 2023 as compared to the corresponding period is 2022 as we subscribed for additional services provided by a public cloud platform as we required additional resources for our ongoing fintech initiatives.

As at December 31, 2020, our fintech team comprised 12 members. As at December 31, 2021 and 2022, the number of staff of our fintech team decreased to 10 and 8, respectively, following the departure of our team members, who ventured into other opportunities. Despite the downsizing and our continuous effort to hire other technicians, our Directors are of the view that the turnover rate within our fintech team is in line with the industry norm and did not affect our fintech capabilities as a whole. As at May 31, 2023, our fintech team comprised nine IT specialists.

We did not directly enter into IT service agreements with MoneySQ or trustME during the Track Record Period, nor had any collaboration arrangements with trustME during the Track Record Period save as disclosed in the section headed "— IT Support from MoneySQ and trustME" in this section. Instead, in December 2019, Konew Credit engaged MoneySQ and trustME to provide IT service to our Group and the Excluded Group and the cost were equally shared between our two operating subsidiaries and three operating subsidiaries of the Excluded Group.

IT Support from MoneySQ and trustME

Set out below are salient terms regarding the service provided by MoneySQ and trustME for the provision of IT support services.

Scope:

- Blockchain platform support provided by MoneySQ
  - o To maintain and setup a dedicated blockchain platform and to provide ancillary services in relation to such platform.
- Data integration and SME dashboard support provided by MoneySQ
  - o Onboarding the SME borrowers to connect to our SME dashboard, tasks include:
    - o To collect financial data supplied by the prospective SME borrowers for credit assessment purposes and for post-drawdown credit monitoring;
    - o Data modeling for assessing creditworthiness and business performance of SME clients; and
    - o Data analysis through visualized dashboards with analysis and financial information of each client.
- IT support provided by trustME
  - o To provide IT infrastructure, network managed services and desktop support services, covering technical and operation support.

Term: For a term of three years from December 16, 2019, and was mutually terminated on June 30, 2022

Service fee: Blockchain platform and data integration and SME dashboard: approximately HK$46,000 per month in 2020, and approximately HK$50,000 per month in 2021 and 2022 *(Note 1)*

IT services: HK$80,000 per month from 2020 to 2022 *(Note 2)*

Notes:

(1) The relevant service fee was fully allocated to us during the Track Record Period because the blockchain platform and data integration and SME dashboard was entirely used by our Group only during the relevant years. The amount we paid to Konew Credit in this connection amounted to approximately HK$550,000, HK$600,000 and HK$300,000 in 2020, 2021 and 2022, respectively.

(2) The relevant service was used by five operating subsidiaries of Konew Credit before the Reorganization, which included K Cash and K Cash Express. 40% of the IT services fee paid by Konew Credit was apportioned to us on a monthly basis. The relevant service fee we paid to Konew Credit in this connection amounted to HK$960,000 in 2020 and 2021, and HK$480,000 in 2022.

The aggregate amount of service fees allocated to our Group by Konew Credit in relation to the IT services from MoneySQ and trustME during the Track Record Period are set out as follows:

	For the year ended December 31,			For the five months ended May 31,
	2020	2021	2022	2023
	(HK$'000)			
Blockchain platform and data integration and financial information dashboards	550	600	300	–
IT services	960	960	480	–

The intellectual property rights of the blockchain platform, though developed solely by MoneySQ, belonged exclusively to us after the end of the IT services arrangement and the External Legal Counsel is of the view that we own the intellectual property rights of the blockchain platform.

SALES AND MARKETING

The strategic adoption of fintech in our business has differentiated the operation of our unsecured loan business from our competitors and reinforced our unique brand image and positioning of our business.

We believe that engaging in various marketing and promotional activities is an effective strategy for increasing public awareness of our business and brand in Hong Kong. Our marketing team formulates the corporate business development plans, which covers our marketing initiatives, including advertising budgets and strategies.

In 2020, 2021 and 2022 and the five months ended May 31, 2023, our advertising and marketing expenses amounted to approximately HK$20.8 million, HK$19.2 million, HK$18.8 million and HK$6.1 million, respectively, representing approximately 7.8%, 8.2%, 8.9% and 6.4% of our net interest income, respectively.

As part of our business development plans and as a result of increased competition, we need to differentiate ourselves from our competitors. We expect to continue with our marketing efforts through various forms of advertising, including intelligent precision marketing via the digital media. The following are our major sales and marketing strategies and efforts:

Intelligent Precision Marketing

Relying on the transaction and customer satisfaction data that we have accumulated over our years of operation, we are able to conduct big data analytics to extract useful market data in order to identify the borrowing needs and trends of different target groups, thereby allowing us to conduct intelligent marketing with greater precision and continuously improve the quality of our services.

In addition to traditional marketing means, we adopt intelligent precision marketing through a considered and strategic approach to data management aimed at identifying and using the right data to extract useful insights and market intelligence. This allows us to reach our target audience with greater precision compared to traditional sales and marketing methods such as television commercials. We also engage the services of a marketing agency, AQ Communications, which is a connected person, to deliver tailored advertising messages to specific groups of customers.

Furthermore, we plan to build our CDP, which is able to identify new customer segments, create targeted acquisition campaigns, and optimize customer acquisition efforts. It aims to create unified profiles of customers across every interaction and consistently segment their audience for more tailored marketing efforts.

Our "K Cash Supreme" Branch

In 2019, we established the "K Cash Supreme" brand, which has since opened a branch in the East Tsim Shat Tsui MTR station. According to Frost & Sullivan, we are the first licensed money lender to set up a branch in an MTR station.

Branding

We adopt various measures to build the unique brand identity for our loan business. We made efforts to enhance the brand visibility of K Cash efficiently through advertising on electronic media. We source some of our customers through marketing and advertising efforts and referrals from our referral network. Our internal marketing guidelines to ensure that our marketing messages are fair and reasonable and do not contain any misleading information.

Mobile App

In 2022, we launched a new version of K Cash App, which adopted a new design that intends to attract younger generations to use our K Cash App. In addition, our new version of K Cash App is embedded with a user-friendly loan calculation function for potential customers to estimate the loan amount, tenor and approximate repayment amount for their consideration. Furthermore, existing customers can also check their loan information through the K Cash App at anytime.

loan calculation function on the K Cash App

Traditional Advertising Channels

During the Track Record Period, our major advertising and marketing activities included, among others:

- Title sponsorships for the broadcast of major sports events on ViuTV, such as the Premier League and Laliga from 2020 to 2022, European Soccer from 2021 to 2022, the 2020 Tokyo Olympics Games and the Qatar FIFA World Cup in 2022;

- Title sponsorships for programs broadcasted on ViuTV, such as Sometimes When We Touch (超感應學園), Battle Feel (水著考有Feel), Lucky Seven (七福星), Million Cohabitation Project (百萬同居計劃) and Love Staycation (戀愛Staycation); and

- Outdoor advertisements on public transportation, such as minibuses, trams and the MTR, as well as physical billboards and digital billboards at bus stops.

Loan Referral

The referral fees payable to our referrers, such as real estate agents and mortgage brokerage service providers are conditional upon us having entered into a duly executed loan agreement with the borrower referred by them, and the amount of fees is determined based on the prevailing market rate, which is 0.5% to 2.5% of the loan principal.

The following table sets forth figures related to loans referred to us by Independent Third Parties during the Track Record Period:

	Year ended December 31,			Five months ended May 31,
	2020	2021	2022	2023
Referral fees incurred	HK$39,700	HK$34,395	HK$3,900	HK$113,875
Number of loan agreements successfully referred	5	5	2	22
Loan principal granted through successful referral cases	HK$7.1 million	HK$4.2 million	HK$0.6 million	HK$11.2 million
Interest income from successful referral cases	HK$1.2 million	HK$0.8 million	HK$0.1 million	HK$0.6 million
Referral rate range as a percentage of loan principal (%)	0.3-1.0	0.5-1.0	0.5-0.7	0.4-1.5
Number of partners receiving referral fees	3	4	2	15

Partners who successfully referred loans to us were primarily real estate agents and mortgage brokerage service providers. Save as MoneySQ who referred one SME Loan to us in 2020, all partners who referred loan to us are Independent Third Parties.

Referral Service provided by MoneySQ

Konew Credit engaged MoneySQ to provide SME finance referral services to its group companies, including K Cash Express. Since K Cash Express is the only company amongst the group companies of Konew Credit which provides SME Loans, all referrals were directed to us and we shall fully bear the services fees payable to MoneySQ.

The SME finance referral services include the collection of financial information and to be the primary source of contact between the prospective borrower and ourselves. MoneySQ would also provide preliminary screening on the legitimacy of the loan applications.

The amount of service fees allocated to us by Konew Credit in relation to the referral services provided by MoneySQ during the Track Record Period are set out as follows:

	Year ended December 31,			Five months ended May 31,
	2020	2021	2022	2023
		(HK$'000)		
SME finance referral services	39	–	–	–

We have successfully built a strong reputation and established a robust network, fostering a positive brand image among SMEs. Our concerted efforts in promotional and marketing activities have made our services easily accessible to SMEs. Throughout the Track Record Period, given our reputation and marketing efforts, we did not rely on our partners for referrals of SME Loans, and the number of successful referrals is minimal. In view that MoneySQ was not an effective referral channel, we decided to terminate the engagement of MoneySQ for the provision of SME finance referral services in June 2022.

Marketing Partners

We work with various marketing partners with whom we have formed an alliance. As of the Latest Practicable Date, we had agreements with over 25 marketing partners, for example, interior design companies, solar panel suppliers and home renovation contractors. The agreements typically provide that our marketing partners and us shall conduct mutually beneficial sales and marketing activities in pursuit of our respective business opportunities. We distribute marketing material, such as leaflet & tent card at their physical branches and collaborate with them to create marketing posts on their social media platforms and websites.

Our marketing partners include a number of real estate agents and mortgage brokerage service providers such as Centaline Mortgage Brokers Limited and mReferral Corporation (HK) Limited, who introduce potential borrowers to us.

We have no obligation to grant any loans to the prospective borrower referred to us by such partners and retain absolute discretion in assessing the applications and deciding whether any loan shall be granted. The referral fees payable to our referrers, such as real estate agents and mortgage brokerage service providers are conditional upon us having entered into a duly executed loan agreement with the borrower referred by them, and the amount of fees is determined based on the prevailing market rate, which is 0.5% to 2.5% of the loan principal.

We treasure every single partner as an additional touch point to enhance brand awareness and a precise marketing channel to reach our targeted customers. We believe that it is mutually beneficial for our marketing partners and us to have such referral relationships, as our borrowers might be taking out loans for purposes such as renovation and we can recommend our partners to our borrowers if they need recommendations on vendors. In turn, people approaching our marketing partners can also have direct access to us should they need additional funding to meet their personal needs.

To the best knowledge, information and belief of our Directors, our marketing partners are all Independent Third Parties.

OUR CUSTOMERS

We generate income from interest received from loans provided to our borrowers. During the Track Record Period, some of our individual and corporate borrowers held multiple loan agreements with us. In addition, some of our corporate borrowers, each being a separate legal entity were owned by the same beneficial owner(s). As of December 31, 2020, 2021 and 2022 and May 31, 2023, we had 59, 82, 90 and 87 loan agreements, respectively, with corporate borrowers. As such, our top five customers have been determined, where applicable, by the aggregate interest payments received from the same ultimate or common beneficial owner(s) or same individual borrower, having considered the number of loan agreements beneficially held by them.

The following table sets forth the breakdown of the interest income from our Unsecured Property Owner Loans and Personal loans by the age of our borrowers during the Track Record Period.

Unsecured Property Owner Loans:

	For the year ended December 31,			For the five months ended May 31,	
	2020	**2021**	**2022**	**2022**	**2023**
			(HK$' million)		
				(Unaudited)	
18-30	3.1	3.1	2.1	1.1	1.2
31-40	17.2	15.3	14.6	6.1	7.2
41-50	50.0	42.5	34.8	15.6	16.4
51-60	68.9	62.4	52.5	22.7	23.5
Over 60	47.3	46.4	42.8	17.0	21.2
Total	**186.5**	**169.6**	**146.8**	**62.5**	**69.6**

Personal Loans:

	For the year ended December 31,			For the five months ended May 31,	
	2020	**2021**	**2022**	**2022**	**2023**
			(HK$' million)		
				(Unaudited)	
18-30	14.0	12.2	10.9	4.9	4.8
31-40	31.6	23.1	20.7	8.9	8.4
41-50	40.4	33.4	27.1	12.0	10.5
51-60	17.6	15.8	13.6	5.4	5.3
Over 60	2.7	2.5	2.3	0.9	1.0
Total	**106.4**	**87.1**	**74.6**	**32.0**	**30.0**

The following table sets forth the breakdown of our interest income for our Unsecured Property Owner Loans and Personal Loans by monthly income of our borrowers (as at the date of their loan application) during the Track Record Period.

Unsecured Property Owner Loans:

	For the year ended December 31,			Five months ended May 31,	
	2020	**2021**	**2022**	**2022**	**2023**
			(HK$' million)		
				(Unaudited)	
Under HK$10,000	32.6	23.9	17.6	7.7	6.6
HK$10,000-HK$30,000	101.5	92.4	79.7	33.9	37.3
HK$30,001-HK$60,000	38.6	39.1	36.6	15.4	19.3
HK$60,001-HK$100,000	10.8	10.4	9.5	3.9	4.9
Over HK$100,000	3.0	3.7	3.4	1.5	1.5
Total	**186.5**	**169.6**	**146.8**	**62.5**	**69.6**

Note: For borrowers with guarantor, the monthly income disclosed will be the aggregate of the monthly income of the borrower and the monthly income of the guarantor.

Personal Loans:

	For the year ended December 31,			Five months ended May 31,	
	2020	**2021**	**2022**	**2022**	**2023**
			(HK$' million)		
				(Unaudited)	
Under HK$10,000	2.2	0.4	0.2	0.1	0.1
HK$10,000-HK$30,000	48.2	39.5	33.4	14.3	13.1
HK$30,001-HK$60,000	39.3	32.6	28.2	12.2	11.1
HK$60,001-HK$100,000	11.3	10.4	9.0	3.8	3.6
Over HK$100,000	5.5	4.2	3.8	1.6	2.1
Total	**106.4**	**87.1**	**74.6**	**32.0**	**30.0**

Note: For borrowers with guarantor, the monthly income disclosed will be the aggregate of the monthly income of the borrower and the monthly income of the guarantor.

The following tables sets forth the breakdown of our interest income for our Unsecured Property Owner Loans and Personal Loans by the employment status of borrowers (as at the date of their loan application) during the Track Record Period:

Unsecured Property Owner Loans:

	Year ended December 31,			Five months ended May 31,	
	2020	**2021**	**2022**	**2022**	**2023**
			(HK$' million)		
				(Unaudited)	
Full-time employment	131.2	119.9	105.1	44.4	51.2
Part-time employment or freelance	1.5	1.0	0.7	0.4	0.4
Self-employed	22.5	22.6	20.6	9.0	9.1
Retired, housewives, students or unemployed	31.3	26.1	20.3	8.8	8.9
Total	**186.5**	**169.6**	**146.8**	**62.5**	**69.6**

Personal Loans:

	Year ended December 31,			Five months ended May 31,	
	2020	**2021**	**2022**	**2022**	**2023**
			(HK$' million)		
				(Unaudited)	
Full-time employment	97.7	80.4	68.5	29.4	27.3
Part-time employment or freelance	1.5	1.6	1.6	0.7	0.7
Self-employed	6.7	4.9	4.5	1.9	1.9
Retired, housewives, students or unemployed	0.5	0.2	0.1	0.1	0.1
Total	**106.4**	**87.1**	**74.6**	**32.0**	**30.0**

The following table sets forth the breakdown of the interest income from our SME loan borrowers by customers' industry during the Track Record Period.

	Year ended December 31,			Five months ended May 31,	
	2020	**2021**	**2022**	**2022**	**2023**
			(HK$' million)		
				(Unaudited)	
Catering	0.8	1.6	1.8	0.6	0.7
Construction	0.8	1.6	1.1	0.4	1.1
Manufacturing	0.5	0.8	0.6	0.2	0.3
Retail	0.8	1.5	1.5	0.6	0.6
Technology	4.6	3.6	2.9	1.2	1.0
Others	3.0	3.7	4.2	1.6	1.5
Total	**10.5**	**12.8**	**12.1**	**4.6**	**5.2**

The aggregate interest income generated from our top five customers (in the case of corporate borrowers, having aggregated all income attributable to those accounts held under common beneficial ownership) in each year or period during the Track Record Period amounted to approximately HK$6.9 million, HK$5.8 million, HK$4.8 million and HK$2.6 million, respectively, representing approximately 2.3%, 2.2%, 2.1% and 2.4% of our total revenue for the respective years or period. The aggregate value of outstanding loan receivables of our top five customers as of December 31, 2020, 2021 and 2022 and May 31, 2023 was approximately HK$20.3 million, HK$23.7 million, HK$20.9 million and HK$13.1 million, respectively, representing approximately 1.9%, 2.5%, 2.0% and 1.2% of our total loan receivables balance as of the same dates, respectively.

To the best knowledge, information and belief of our Directors, none of our Group, our Directors and their respective close associates and Shareholders who own more than 5% of our issued share capital, had any interest in any of our top five customers during the Track Record Period and up to the Latest Practicable Date. Since all of our customers, including the top five customers, took out loans with us on the basis of their own financial needs and preferences, and some of our top five customers were not the same throughout the Track Record Period, we are of the view that we do not have undue reliance on any major or single customer.

OUR SOURCE OF FUNDS

During the Track Record Period, our primary funding channels mainly include: (i) cash flows from our operating activities; (ii) funding from loans or facilities from local banks and other authorized institution; and (iii) loans from or advances provided by our related parties, Controlling Shareholders and their close associates (the "**Connected Advances**").

The following table sets out details of the average daily balance[3] and percentage of our funding channels (tax loans excluded) by type of source during the Track Record Period:

	Year ended December 31,							
	2020		2021		2022		Five months ended May 31, 2023	
	Average daily balance of funds advanced	Approximate % of average daily balance of funds advanced	Average daily balance of funds advanced	Approximate % of average daily balance of funds advanced	Average daily balance of funds advanced	Approximate % of average daily balance of funds advanced	Average daily balance of funds advanced	Approximate % of average daily balance of funds advanced
	(HK$'000)	%	*(HK$'000)*	%	*(HK$'000)*	%	*(HK$'000)*	%
Bank and other authorized institution	297,571	59.2	279,140	47.9	294,526	89.2	280,212	89.9
Interest bearing Connected Advances[1]	201,541	40.1	304,057	52.1	35,538	10.8	30,268	9.7
Non-interest bearing Connected Advances[2]	3,165	0.6	0	0.0	0	0.0	1,248	0.4
Total	**502,276**	**100.0**	**583,197**	**100.0**	**330,065**	**100.0**	**311,727**	**100.0**

Notes:

(1) These represented fundings passed on to us by our connected persons and related parties ("**CP/RP**"), whereby the transferor shall also bear interest in obtaining such funding, and the interest expenses borne by us was determined with reference to the cost of funding borne by the CP/RP.

(2) We may have non-interest bearing Connected Advances with certain CP/RP, as well as non-interest bearing fundings or advances provided by us to other CP/RP. The amount of Connected Advances includes (a) records which involved inflow and outflow of cash and cash equivalents between us and our CP/RP, ("**Cash Fund Flow**"), and (b) transactions between us and our CP/RP that affected our assets or liabilities but did not result in actual cash receipts or disbursement ("**Non-cash Entries**") as they together comprehensive information on our dealings with CP/RP, and it would only be representative if all dealings with our CP/RP which had an impact on our balance sheet had been taken into account.

Konew Credit performed a treasury function of our Group and the Excluded Group, and monitored the cash flow needs of each major operating subsidiary. Konew Credit then allocates surplus funds amongst major operating subsidiaries to satisfy each of their business needs. There was no pre-determined rationale or explicit criteria for transactions leading to Non-cash Entries, as they were due to transactions carried out based on business activities of the Enlarged Group, and transactions will be reconciled or eliminated as required.

The daily balance of our non-interest bearing Connected Advances has been net off with the daily balance of the non-interest bearing funding we provided to our CP/RP on the same day ("**Net Daily Balance of Connected Advances**"). A positive Net Daily Balance of Connected Advances indicates a net non-interest bearing amount due from us to CP/RP on that day, while a negative Net Daily Balance of Connected Advances indicates a net non-interest bearing amount due to us from CP/RP on that day. The average daily balance of non-interest bearing Connected Advances stated ("**Average Positive Net Daily Balance of Connected Advances**") is the sum of the Net Daily Balance of Connected Advances of all days on which a positive Net Daily Balance of Connected Advances is recorded divided by the number of days in the corresponding year/period, while the days with a negative Net Daily Balance of Connected Advances were excluded.

Likewise, our connected persons and related parties may owe us certain amounts. In 2020, 2021, 2022 and 5M2023, the average net amount due to us from CP/RP were HK$122.8 million, HK$249.3 million, HK$178.2 million and HK$68.7 million, respectively, calculated on the same basis (i.e. the sum of all days with a negative Net Daily Balance of Connected Advances divided by the number of days in the corresponding year/period). Hence, the abovementioned amount was greater than the Average Positive Net Daily Balance of Connected Advances, indicating that on average the balance due to us by our CP/RP outweigh the balance due to them from us.

(3) An average daily balance helps to analyze the amount we owe our fund provider during each year/period given that advances or transactions between us and our fund provider occurred frequently and in both ways as we flexibly make drawdown and repayments to meet our business needs, and such amount has considered the outstanding amount on each day during the year/period.

Our bank borrowings (tax loans excluded) and interest bearing Connected Advances for our working capital as of December 31, 2020, December 31, 2021, December 31, 2022 and May 31, 2023 amounted to approximately HK$592.4 million HK$586.9 million, HK$309.4 million and HK$278.5 million, respectively. The effective interest rates of such borrowings during the Track Record Period ranged from 5.5% to 8.76% per annum. In each year or period during the Track Record Period, interest payable to our largest fund provider (by interest expense and tax loans excluded) accounted for approximately 53.4%, 51.0%, 85.5% and 90.1% of our total interest expense for the respective year or period. All our banking facilities give the banks an unconditional right to call the loan at any time. As of May 31, 2023, we utilized HK$252.0 million of HK$322.0 million banking facilities that give the banks unconditional rights to call the loan at any time.

The average daily balance of funds provided by banks and authorised institutions to us has remained stable during the Track Record Period as the revolving bank facility provided to us remains to be the primary funding channel which we used to grow our loan portfolio. The average daily balance of interest bearing Connected Advances increased from approximately HK$202 million in 2020 to HK$304 million in 2021, however as the amount due to us from our connected persons and related parties has also increased during the same period, the overall impact on us is insignificant. The average daily balance of interest bearing Connected Advances substantially decreased in 2022 as less additional funds was required while we upheld the Restrictive Loan Out Policy and the fixed facility line provided by Konew Fintech was fully repaid, and further decreased for the five months ended May 31, 2023 as we made additional repayments to demonstrate that our Group can be financially independent from our Controlling Shareholders in contemplation of our [**REDACTED**]. The average daily balance of non-interest bearing Connected Balance for the five months ended May 31, 2023 mainly comprised dividend which was settled through current account with our shareholder.

According to Frost & Sullivan, the Net Daily Balance of Connected Advance is a commonly adopted metric for financial institutions. By calculating the net daily balance of connected accounts, companies are able to provide transparency into the real-time net position of non-interest-bearing connected advances, showing whether the company is in a net lending or net borrowing position with related parties on a given day, after offsetting advances made and received. The average net daily balance further allows analysis of the typical connected lending exposure over a period of time. Excluding days with a negative net balance avoids understating the true extent of net connected advance reliance.

Our Major Fund Providers

The following table sets out details of our major fund providers (by aggregate interest expense) during the Track Record Period:

2020

	Loan amounts as at December 31, 2020	Approximate % of our total source of funding (excluding cash flow from operations) as at December 31, 2020	Effective interest rate (per annum)	Interest expense	Approximate % of our interest expenses	Commencement of business relationship
	(HK$'000)	%		*(HK$'000)*		
DBS Bank (Hong Kong) Limited	306,000	48.6	6.25%	19,544	53.4	2007
Konew Fintech	250,759	39.8	5.69%	7,172	19.6	2020
Konew Credit[2]	–	–	7.30%	7,094	19.4	2007
Big Development	35,627	5.7	6.25%	2,237	6.1	2007
Total	**592,377**	**94.1**		**36,047**	**98.5**[1]	

2021

	Loan amounts as at December 31, 2021	Approximate % of our total source of funding (excluding cash flow from operations) as at December 31, 2021	Effective interest rate (per annum)	Interest expense	Approximate % of our interest expenses	Commencement of business relationship
	(HK$'000)	%		*(HK$'000)*		
DBS Bank (Hong Kong) Limited	291,000	48.8	6.25%	18,350	51.0	2007
Konew Fintech	262,948	44.1	5.50%	14,475	40.2	2020
Big Development	32,931	5.5	6.25%	2,087	5.8	2007
Total	**586,879**	**98.4**		**34,912**	**97.0**[1]	

2022

	Loan amounts as at December 31, 2022	Approximate % of our total source of funding (excluding cash flow from operations) as at December 31, 2022	Effective interest rate (per annum)	Interest expense	Approximate % of our interest expenses	Commencement of business relationship
	(HK$'000)	%		*(HK$'000)*		
DBS Bank (Hong Kong) Limited	282,000	88.1	6.88%	19,623	85.5	2007
Big Development	27,416	3.3	6.88%	2,224	9.7	2007
Konew Fintech	10,500	8.6	5.50%	73	0.3	2020
Total	**319,916**	**100.0**		**21,920**	**95.5**[(1)]	

Five months ended May 31, 2023

	Loan amounts as at May 31, 2023	Approximate % of our total source of funding (excluding cash flow from operations) as at May 31, 2023	Effective interest rate (per annum)	Interest Expense	Approximate % of our interest expenses	Commencement of business relationship
	(HK$' 000)	%		*(HK$' 000)*		
DBS Bank (Hong Kong) Limited	252,000	90.5%	8.76%	8,336	86.3%	2007
Big Development	26,452	9.5%	8.76%	919	9.5%	2007
Total	**278,452**	**100.0%**		**9,255**	**95.8%**[(1)]	

(1) The total number is not added up to 100% because we also took out tax loans, which was not considered as our funding channel, and the interest expenses for such loans amounted to approximately HK$0.5 million, HK$1.1 million and HK$1.0 million in 2020, 2021 and 2022, respectively.

(2) As at December 31, 2020, all funding provided by Konew Credit was fully repaid.

(3) As the non-interest bearing Connected Advances owed to our connected persons or related parties were not outstanding due to fundings provided by them for our principal business activities, such amounts were not accounted for in the above tables.

Save for Konew Credit, Konew Fintech and Big Development, to the best knowledge, information and belief of our Directors, none of our Group, our Directors and their respective close associates and Shareholders who own more than 5% of our issued share capital, had any interest in any of our major fund providers (by aggregate interest expense) during the Track Record Period and up to the Latest Practicable Date.

Connected Advances

Our Connected Advances had no maturity date and are repayable on demand. Amount due to a related party of HK$35.6 million, HK$32.9 million, HK$27.4 million and HK$26.5 million as at December 31, 2020, 2021 and 2022 and May 31, 2023, had an effective interest rates at 6.25%, 6.25%, 6.88% and 8.76% for 2020, 2021 and 2022 and five months ended May 31, 2023, respectively (for details, please refer to the section headed "— Our Source of Fund — Our Major Fund Providers"), and other amounts due to/from related party are all interest-free. As of May 31, 2023, our net amount due to Controlling Shareholders and their close associates was HK$102.9 million. All Connected Advances will be settled by cash received from our business operations prior to the [**REDACTED**], and we will ensure that Connected Advances that occur after our [**REDACTED**] shall comply with relevant requirements under the Listing Rules (especially the requirements under chapters 14 and 14A of the Listing Rules). During the Track Record Period, no financing arrangement similar to crowdfunding or peer-to-peer lending was entered into between us and our connected persons. For details, see "Financial Information — Indebtedness" and "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — Note 21 and Note 25".

For details of the average daily balance we and our related parties or connected persons owe each other during the Track Record Period, please refer to the section headed "— Our Source of Fund".

The tables below illustrates the impact on our results of operation and selected financial ratios if the non-interest bearing Connected Advances charged an interest rate at 6.5%, 4.45%, 9.29% and 9.59% per annum respectively, being 4.25 percentage points above the highest HIBOR in each year or period of the Track Record Period which is also the highest interest rate we paid for bank borrowings during the respective year or period (the "**Imputed Interest Rate**"). Assuming the non-interest bearing Connected Advances bore the Imputed Interest Rate and by applying it to the Average Net Daily Balance of Connected Advances (on days where such amount is positive), our interest expense for such advances during the Track Record Period would be HK$0.2 million, nil, nil and HK$0.1 million, respectively (the "**Imputed Interest Expense**"). No Imputed Interest Expense shall be borne by us during 2021 and 2022 as the amount of funds advanced by us to our related parties or connected persons is greater than the non-interest bearing advances provided by them to us during 2021 and 2022.

	Interest expense			
				Five months ended May 31,
	2020	**2021**	**2022**	**2023**
On the historical basis that no Imputed Interest Expense was charged	HK$36.6 million	HK$36.0 million	HK$23.0 million	HK$23.2 million
Assuming that Imputed Interest Expense was charged	HK$36.8 million	HK$36.0 million	HK$23.0 million	HK$23.5 million

	Net profit			
				Five months ended May 31,
	2020	2021	2022	2023
On the historical basis that no Imputed Interest Expense was charged	HK$91.0 million	HK$77.1 million	HK$67.9 million	HK$54.9 million
Assuming that Imputed Interest Expense was charged	HK$90.8 million	HK$77.1 million	HK$67.9 million	HK$54.6 million
Impact of the Imputed Interest Expense	HK$(0.2) million	nil	nil	HK$(0.3) million

	Overall net interest margin			
				Five months ended May 31,
	2020	2021	2022	2023(3)
On the historical basis that no Imputed Interest Expense was charged	23.8%	22.9%	23.3%	22.0%
Assuming that Imputed Interest Expense was charged	23.8%	22.9%	23.3%	21.9%
Impact of the Imputed Interest Expense	0 percentage points	nil	nil	(0.1) percentage points

	Overall interest spread			
				Five months ended May 31,
	2020	2021	2022	2023
On the historical basis that no Imputed Interest Expense was charged	32.5%	32.3%	31.7%	27.9%
Assuming that Imputed Interest Expense was charged	32.5%	32.3%	31.7%	27.9%
Impact of the Imputed Interest Expense	0 percentage points	nil	nil	0 percentage points

	Return on assets			
				Five months ended May 31,
	2020	2021	2022	2023(1)
On the historical basis that no Imputed Interest Expense was charged	7.0%	6.0%	5.7%	5.2%
Assuming that Imputed Interest Expense was charged	7.0%	6.0%	5.7%	5.1%
Impact of the Imputed Interest Expense	0 percentage points	nil	nil	(0.1) percentage points

	Return on equity			
				Five months ended May 31,
	2020	2021	2022	2023[2]
On the historical basis that no Imputed Interest Expense was charged	14.8%	12.4%	9.9%	8.1%
Assuming that Imputed Interest Expense was charged	14.8%	12.4%	9.9%	8.0%
Impact of the Imputed Interest Expense	0 percentage points	nil	nil	(0.1) percentage points

Notes:

(1) Return on assets for the five months ended May 31, 2023 is annualized based on profit for the period, as a percentage of the arithmetic mean of the opening and closing balances of total assets. Return on assets for the five months ended May 31, 2023 has been annualized. Accordingly, the annualized return on assets may not be indicative of that for the year ending December 31, 2023.

(2) Return on equity for the five months ended May 31, 2023 is annualized based on profit attributable to Shareholders of the Company for the period, as a percentage of the arithmetic mean of the opening and closing balances of equity attributable to Shareholders of the Company. Return on equity for the five months ended May 31, 2023 has been annualized. Accordingly, the annualized return on equity may not be indicative of that for the year ending December 31, 2023.

(3) Net interest margin for the five months ended May 31, 2023 is annualized based on interest income generated (net of interest expenses) for the period, as a percentage of the arithmetic mean of the opening and closing balances of gross loan receivables.

Our Directors are of the view that even if the non-interest bearing Connected Advances borne the Imputed Interest Rate, our key financial indicators (including overall net interest margin, return on assets, and return on equity) will only be slightly affected. Going forward, if more business opportunities emerges, our Directors do not consider there are major obstacles for us to obtain financing from Independent Third Parties at arm's length basis.

RISK MANAGEMENT AND INTERNAL CONTROL

As a licensed money lender, we are exposed primarily to (i) credit risks in respect of our loan portfolio; (ii) cybersecurity risks relating to our substantial use of the Internet, fintech and technology-based tools; (iii) operational risks relating to our internal processes, our employees and systems or from external events; (iv) market risks in respect of general market conditions, business environment and property market in Hong Kong; (v) liquidity risks in respect of our working capital; and (vi) legal and regulatory risks. For details, see "Risk Factors".

We recognize the importance of an effective risk management system and developed a risk management system tailored to ourselves, with a focus on managing the risks through comprehensive customer due diligence, independent information review and risk-based approval process. Meanwhile, we continue to monitor and review the operation and performance of our risk management system, and improve it from time to time to adapt to changes in market conditions and regulatory environment as well as our business model. In particular, we have developed our credit review and approval system, which is tailored to the characteristics of our business model and our risk appetite, to assist us in determining the risk exposure of our borrowers. As advised by our External Legal Counsel, we complied with the relevant laws and regulations in relation to each aspect of risk management set out below (if any), and there is no negative findings during the Track Record Period and up to the Latest Practicable Date which would have a material impact on the propriety of our Group's operations.

We believe that the deployment of the risk assessment fintech presents a significant opportunity for us. By leveraging the risk assessment fintech, we can comb through vast sources of non-traditional data such as education and current employment to evaluate an individual's creditworthiness and repayment capability, which enables us to cater to a previously underserved segment. Furthermore, the use of credit assessment fintech such as IDCM also enables us to review the credit ratings for loan applicants and to continuously refine the credit assessment model as a whole. In addition, with a significant number of applicants applying for unsecured loans, the use of fintech can significantly increase the level of automation throughout the lending process, including data entry, verification of the accuracy and authenticity of information and loan approval.

As part of our initiative to manage these risks, we have established a set of internal control procedures for the purpose of (i) ensuring that our business, lending practices, management, information systems, and overall operations are conducted in line with, among others, the Money Lenders Ordinance and all licensing conditions of Money Lenders Licenses issued by Companies Registry; (ii) reinforcing the integrity of our employees and reputation of our money lending business; and (iii) complying in full with all relevant laws and regulations. The following sets out the corresponding internal control procedures for the key risks for our money lending business.

Credit risk management

While we consider credit risks, including customer defaults and loan impairment, as inherent to our business, we believe our long-term business success and sustainability are dependent on our ability to effectively manage our credit risks at a reasonable and tolerable level relative to our business scale and profitability amid a constantly changing external credit and economic environment. In consideration of the foregoing, we continue to strive for an optimal balance between an acceptable and manageable credit risk level and efficient use of the available funds to expand our business and improve returns for our Shareholders.

Credit Risk Management for COVID-19 Outbreak

Since early 2020, the world experienced an outbreak of COVID-19, and in March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. COVID-19 lingered on in Hong Kong throughout the Track Record Period and Hong Kong experienced waves of COVID-19. In particular, from January 2022 to May 2022, Hong Kong was hit by the fifth wave of COVID-19 outbreak attributable to the SARS-CoV-2 Omicron variant.

In view of the emerging risks associated with our business activities, among which includes the volatility arising from the macroeconomic and microeconomic environment, as well as continuing impact of the outbreak of COVID-19, we have reviewed our credit risk strategy to consider, amongst others, (i) our risk tolerance level associated with different loan products; (ii) we expect to be affected by the new emerging risk triggered by COVID-19; and (iii) the industry development trend for formulating the risk appetite level to mitigate unforeseeable credit risk.

The goal of credit risk management is to maintain our credit risk exposure within our predetermined parameters. We have reviewed our overall credit risk policy and decided to lower our risk appetite and tighten our credit risk policy by implementing two tiers of credit risk control mechanism for our day-to-day business operations to minimize the financial impact on our Company arising from the uncertainties caused by COVID-19. Firstly, under the Restrictive Aggregate Loan Out Policy, we controlled the overall size of the loan portfolio. Secondly, under the Tightened Credit Assessment Policy we adopted a more prudent approach for loan applications by imposing more stringent approval requirements for loans. In particular, compared to the pre-COVID-19 period, we require a higher credit rating before approving the same loan principal for unsecured loans; and will charge higher interest rates or lower the loan principal approved to reflect the credit risk associated with the credit profile of loan applicant. More stringent control measures were adopted for loan applicants who we believed to be more vulnerable to microeconomic factors, among which includes: (i) those who, at the time of the loan application, were capable to repay their loan installments but their repayment ability might be adversely affected by specific personal factors, such as occupation; and (ii) those whose ability to repay their loan installments was already in question, especially where the loan applicant relied solely on their regular income stream to repay our loan, and such income stream was adversely affected by COVID-19.

Restrictive Aggregate Loan Out Policy

As part of credit risk management, we pre-determined the approximate loan principal to be granted to new customers (the "**Predetermined New Loan Outs**") annually. Prior to the COVID-19 outbreak, we strived to strike a balance between achieving stable loan growth and maintaining prudent credit risk management and took an entrepreneurial approach when granting new loans.

Since the COVID-19 outbreak, we believe the emerging risk might pose material financial impact to our potential and existing customers as a whole as they might be more vulnerable to the changing economic condition, potentially increasing their default risk. We have therefore, adopted a more risk-averse approach and shifted our emphasis to controlling our credit risk exposure instead of unilaterally pursuing loan growth. By adopting a risk-averse approach, we intentionally restricted the extension of loan principal to control our credit risk exposure and gradually reduced the size of our overall loan portfolio (the "**Restrictive Aggregate Loan Out Policy**") without substantially affecting the composition and structure of our loan portfolio. The Restrictive Aggregate Loan Out Policy assisted and facilitated us in controlling all-embracing credit risk exposure of actual risk.

Tightened Credit Assessment Policy

Since the COVID-19 outbreak, we had been reviewing our credit assessment criteria from time to time and had adhered to a more restrictive credit assessment criteria for approving and extending loan principal especially those of a higher risk exposures, such as relatively larger amount loans (the "**Tightened Credit Assessment Policy**"). For a similar loan application, we required borrowers to achieve higher credit rating or we would conduct further checks on the applicant such as on their outstanding financial obligations or property owned when considering whether to extend an offer. For loan applications assessed higher risk exposure, upon reviewing the associated credit profile which indicates a likely probability that the loan applicant will not be able to repay the loan principal and interest in full on time or that significant losses may be incurred, we would reject the loan application outright.

Our Tightened Credit Assessment Policy was implemented with a particular focus on assessing applications requesting large loan principal (the "**High Value Loans**"). As each High Value Loan application disproportionately increases the credit risk exposure of our loan portfolio, we are more inclined to offer lower loan principal to a wider pool of customers to diversify our risk. The principle of prudent and dispersed lower value loan portfolio was adopted to minimize our risk exposure by concentrating on a small pool of High Value Loans borrowers. Under the Tightened Credit Assessment Policy, we believed that High Value Loans might be affected by emerging risk factors. Accordingly, the loan principal offered to High Value Loans might be lower than the requested amount to avoid concentration risk.

We believe our credit policy allows us to conduct our business in a prudent manner while our technology safeguards us from taking excessive risk by allowing us to constantly monitor the financial condition and repayment status of our borrowers. We have mitigated credit risk exposure in light of new emerging risk and successfully maintained the bad debt ratio at a stable level amidst the economic downturn suffered by Hong Kong during the COVID-19 outbreak.

Adhere to Existing Credit Terms for Redemption request

Our borrowers from time to time request for early redemption to repay their outstanding loan owed to us due to reasons such as having surplus cash in hand, disposal of properties owned, or them being able to obtain more favorable credit terms from others. Prior to the adoption of our Tightened Credit Assessment Policy, we may offer similarly favorable credit terms to retain them. However, since the COVID-19 outbreak, we have been adhering to our original credit assessment policies for existing loans and are less inclined to offer more favorable terms.

Post-COVID-19

Given the gradual removal of restriction on social distancing and cross-border traveling in Hong Kong from the third quarter of 2022, we believe the effect of the COVID-19 is no longer considered as an emerging risk. Accordingly, we decided that the Restrictive Aggregate Loan Out Policy and Tightened Credit Assessment Policy no longer applies in early 2023, and our risk tolerance level has gradually returned to a pre-COVID-19 level. Going forward, we will take a more entrepreneurial approach when reviewing loan applications with a view to increase our loan portfolio and market share based on our risk-based pricing strategy.

ECL model review framework

We adopt our own ECL Model Review Framework (the "**Framework**"), which aims at providing guidance and procedure to build an appropriate mechanism that periodically reviews the criteria used to identify significant increase in credit risk and credit impairment. Details of the Framework are summarized below.

Roles and responsibilities

Our executive Directors approve the periodic review made by our chief financial officer and risk control department in respect of the ECL model review. Our executive Directors ensure that we have established and maintained proper systems and procedures to execute the Framework, and delegate authority to related departments to manage the Framework. Our chief financial officer reviews adjustment to the definition of significant increase in credit risk suggested by the risk control department, whilst our risk control department conducts periodic review to confirm if the criteria of the definition is still valid and suggest adjustments if the criteria is no longer met.

Periodic review

Our periodic review includes the following procedures:

- Revisit the current definition of the scenario of significant increase in credit risk and the scenario of credit impairment of the ECL model after every revision period

- Draw necessary data such as loan repayment data within the revision period from the operating system

- Analyze the update data to investigate if the benchmark criteria has been violated

- Review if the benchmark criteria was violated and was not due to individual circumstances

- Discuss and decide if it is necessary to redefine the benchmark criteria as well as the definition of significant increase in credit risk and credit impairment

"Three-stage" Model under HKFRS 9

We assess our loans for impairment, determining a level of allowance for expected credit losses in accordance with the requirements of HKFRS 9 during the Track Record Period. See "Financial Information — Critical Accounting Policies, Judgments and Estimates" and "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — Note 4". Our loans are reported net of impairment allowance on our statements of financial position.

During the Track Record Period, under the requirements of HKFRS 9, we classified our customer loans using a "three-stage" model:

(i) Stage 1 (Normal Credit Quality) refers to customer loans that have not had a significant increase in credit risk and expected credit losses in the next 12 months will be recognized;

(ii) Stage 2 (Significant Increase in Credit Risk) refers to customer loans that have had a significant increase in credit risk and for which the lifetime expected credit losses will be recognized; and

(iii) Stage 3 (Credit-impaired) refers to customer loans that have objective evidence of impairment and for which the lifetime expected credit losses will be recognized.

Reporting, Approval and Implementation

Our risk control department reports the review to our chief financial officer after every revision period. In case there is a suggestion to change the definition of Stage 2 and/or Stage 3, our chief financial officer will review and comment the suggestion, and such change shall be endorsed by our executive Directors. Analytic reports will be reviewed to determine if the violation of benchmark criteria is based on short term trend/individual circumstance or long-term change. If an adjustment is approved, our financial report will be prepared according to the updated model in the subsequent financial year.

Pre-drawdown risk management

We believe that our credit assessment process for each of our loan products, including IDCM System and our risk-based pricing capabilities allow us to effectively manage risks of default by the borrower.

Unsecured Property Owner Loans

Although Unsecured Property Owner Loans have no property collateral to reduce credit risks, we have adopted a set of procedures to effectively manage such risks, including procedures that may be utilized to recover overdue payments through selling the property owned by the borrower. Hence, as part of the loan approval process, the value of the applicant's property underlying the application will be estimated and reviewed. In addition, we review the applicant's credit history as well as the general economic conditions at the time of application. Furthermore, in respect of Unsecured Property Owner Loans with a loan principal of over HK$2.0 million, the application must be additionally approved by our chief executive officer.

Personal Loan

Although Personal Loans have no property collateral to reduce credit risks, we have adopted a set of procedures to effectively manage such risks. Our data analytics capabilities, particularly the classification of Personal Loan applicants into different credit ratings under our IDCM, enable us to use risk-based pricing that reflects each borrower's unique risk profile. We believe that we are able to offer cost-effective products compared to our market competitors as a result.

Our loan approval procedures involve the classification of the applicant's credit ratings under our IDCM, which entails the AQM Score and MLC Score.

While we evaluate our personal loan applicants by assigning a particular credit score through our IDCM Model, we also set out certain criteria to assist our review. These criteria are assessed holistically which forms the basis of our credit intelligence department's decision.

As part of the loan approval process, the applicant's debt service ratio and the general economic conditions at the time of application will be reviewed in addition to all supporting documentation provided by the applicant. In addition, in light of the additional licensing condition that took effect on March 16, 2021 and are imposed on our Money Lenders Licenses upon their next renewal, we have updated our internal control policies to include an assessment (both in the case of new applications and top-ups) on the borrower's (i) current income and expenditure and (ii) ability to make repayments by reviewing their asset to liability ratio in addition to debt service ratio. Furthermore, in respect of Personal Loans with loan principal of HK$0.5 million, the application must be additionally approved by our chief executive officer.

SME Loans

We may use qualitative information obtained during the due diligence process to help assess the risk exposure of our borrowers and verify the information provided by them, which have been integrated into our credit review process for SME Loans. Such qualitative information include feedback from the borrower's counterparties and independent third parties, and the controlling person's expertise and experience in the business. We consider such information a useful tool as it provides a more comprehensive appraisal of borrowers.

Review of the guarantors' risk exposure is also included in our review of a borrower's risk exposure. For example, while reviewing the guarantee provided by directors and shareholders of SMEs, we focus on their experience, wealth, personal credit history and information available in the public domain. In our review of SMEs, we focus on their operation history, business scale, and assets and liabilities.

For SME applicants who operate a compatible POS system, we review their latest operational data so that we may assess their operating history and financial condition. For applicants who do not operate a compatible POS system, we will request documents such as audited financial statements, latest management accounts and the applicant's facility letter(s) (if any) granted by other authorized institution. We will then prepare a credit assessment report based on the collected data in relation to the applicant's operating history and financial condition. We have determined the basic composition of financial metrics, which are to be included in the credit assessment report, including but not limited to revenue, gross profit margin and net profit margin, current ratio, working capital and EBITDA.

When we evaluate the prospective SME borrowers, we usually consider the following criteria to assist our review.

- *Reputation*: Includes a borrower's and its guarantor's credit records, social status, comments from counterparties, and previous dealings with us. Reputation effectively helps us to assess a borrower's creditworthiness and willingness to honor repayment obligations. We believe that borrowers with good reputation is less likely to default, compared with others.

- *Market*: Includes whether a borrower has a clear business model, a key business line, a diversified business model, competitive advantages, and current business demands.

- *Financing arrangement*: Includes whether a borrower has a specific and reasonable financing need, a borrower's current liability structure, future cash flow from operations, and access to financing.

- *Future plan*: Includes a customer's plan for its short-term, mid-term and long-term development, which will help us assess the reasonableness of a borrower's financing needs and develop further opportunities for cooperation with the borrower.

Our credit intelligence department reviews the due diligence report and the supporting documents submitted by our sales team and prepares a credit evaluation report, which typically contains the analysis of a SME borrower's strengths and weaknesses and includes a credit proposal setting out the proposed credit amount and interest rate, etc. This credit evaluation report forms the basis of our credit proposal, which shall be endorsed by our chief executive officer.

Post-drawdown risk management

We adopt a "hybrid" risk management methodology to ensure that our lending activities do not exceed our acceptable risk limit based on our internal risk management guidelines. We will receive an alert when our borrowers triggered any risk-related indicators. We also implement a systemic approach in monitoring and handling default cases. The set of post-drawdown monitoring measures that we adopt is detailed below (as applicable to our respective product lines).

- Alert monitoring. We closely monitor legal actions against our borrowers and change in ownership status of the borrowers' property with the help of our business risk engine.

- Default monitoring. We prepare a default list every week, based on which our frontline staff will follow up with customers on outstanding repayment installments. Cases requiring further attention from our credit committee, which includes representatives from our frontline team, credit intelligent and risk control department, is prepared every two weeks. Our credit committee will then determine the course of action to be taken in relation to these outstanding loan agreements.

- Ongoing property valuation. We will review valuation of underlying properties owned by borrowers of Unsecured Property Owner Loans from time to time.

- Bad debt monitoring. We conduct monthly review of bad debt.

- Debt collection monitoring. We conduct ongoing monitoring of default cases that have been referred to our debt collection agent in terms of settlement rate and effectiveness of collection.

Loan Collection

If a borrower defaults, we will first discuss with the borrower to understand his/her situation, and seek to agree on a repayment plan. If we cannot reach an agreement with the defaulted borrower on the repayment plan, we may take further actions as mentioned below.

Default procedure

A summary of our general collection process for Personal Loans is as follow:

Overdue	Action
Within 14 days	We will contact the borrower to remind that he/she is overdue in repayment
Over 14 days	We will consider to issue demand letter and instruct our debt collection agent to assist with collection of the outstanding installment
Over 180 days	We will consider instructing our solicitors to take legal action and further bankruptcy actions

A summary of our general collection process for Unsecured Property Owner Loans is as follow:

Overdue	Action
Within 14 days	We will contact the borrower to remind that he/she is overdue in repayment
Over 14 days	We will issue a default letter to the borrower to remind him/her of the outstanding installment
15 to 90 days	We will consider instructing our solicitors to issue demand letter, take legal action to obtain a charging order regarding the borrower's property
91 to 180 days	In cases where a charging order has been obtained, we will consider instructing our solicitors to obtain an order for sale in respect of the borrower's property
Over 180 days	We will consider instructing our solicitors to apply for execution of the order for sale

A summary of our general collection process for SME Loans is as follow:

Overdue	Action
Within 21 days	We will contact the borrower to remind that he/she is overdue in repayment
Over 21 days	We will consider issuing a demand letter instructing our debt collection agent to assist with collection of the outstanding installment
Over 180 days	We will consider instructing our solicitors to take legal action to obtain a judgement and consider further enforcement actions

Pre-Action Stage

Our risk control department gathers loan information and prepares a list of overdue loans weekly, and passes the list to our frontline staff to remind them to chase the borrower for repayment. Reminders will be directly issued to the borrower by post instant communication software. If the borrower still fail to make repayment, risk control department will pass the list of overdue loans to our top management, who will decide whether it is necessary to commence legal action against the borrower and/or instruct a debt collector.

Meanwhile, relying on our business risk engine, the risk control department monitors property or legal alert related to our borrower. If there is any alert triggering the event of default under the loan, the risk control department will inform frontline staff to request the borrower to remedy the default. If the borrower fails to remedy the default within a reasonable time, the risk control department will pass the relevant alert together with the loan information to the top management or credit intelligence department, who will decide whether legal action against the borrower and/or instructing debt collector are necessary.

Overdue Loans

The tables below set out details of overdue loans which were overdue 1 day or above as of May 31, 2023 for each of our loan products, and the latest status of such loans as at June 30, 2023:

	As at May 31, 2023		
	Unsecured Property Owner Loan	Personal Loan	SME Loan
Number of overdue loans	926	1,027	29
Loan receivables of overdue loans *(HK$'million)*	272.7	44.2	12.5
Interest receivables of overdue loans *(HK$'million)*	96.2	10.9	0.8

	As at June 30, 2023		
	Unsecured Property Owner Loan	Personal Loan	SME Loan
Number of overdue loans as at May 31, 2023*(Note 1)*	905	907	27
Loan receivables of overdue loans *(HK$'million)*	263.7*(Note 3)*	36.6	10.6
Interest receivables of overdue loans *(HK$'million)(Note 2)*	97.8	10.7	0.6
Amounts collected in June, 2023 *(HK$'million)*	(8.9)	(5.8)	(0.7)
Amounts written off in June, 2023 *(HK$'million)*	(0.2)	(3.6)	(1.6)

Notes:

1. 21, 120 and 2 Unsecured Property Owner Loans, Personal Loans and SME Loans were written off by us in June 2023, respectively.

2. Figures in this row has taken into account the interest receivable payable to us in June 2023.

3. We repossessed a property owned by a borrower with overdue loan receivables of HK$0.6 million in June 2023, and the overdue amount of such loan has been excluded.

Unsecured Property Owner Loans:

	As at June 30, 2023		
	Number of overdue loans	Loan receivables of overdue loans	Interest receivables of overdue loans
		(HK$'million)	*(HK$'million)*
Handled by internal collection team	254	74.2	5.3
Handled by debt collection agent	50	3.6	1.6
Legal proceedings initiated	264	82.9	22.9
Judgement or charging order granted	335	102.5	59.2
Order for sale or writ of possession granted	23	9.5	7.2
Total (including loans written off in June 2023)	**926**	**272.7**	**96.2**
Collected in June 2023	280	8.4	0.5
Written off in June 2023	21	0.08	0.2

Personal Loans:

	As at June 30, 2023		
	Number of overdue loans	**Loan receivables of overdue loans**	**Interest receivables of overdue loans**
		(HK$'million)	*(HK$'million)*
Handled by internal collection team	199	12.5	2.8
Handled by debt collection agent	824	31.6	8.0
Legal proceedings initiated	4	0.1	0.1
Judgement or charging order granted	0	0	0
Order for sale or writ of possession granted	0	0	0
Total (including loans written off in June 2023)	**1,027**	**44.2**	**10.9**
Collected in June 2023	340	4.7	1.1
Written off in June 2023	120	2.9	0.7

SME Loans:

	As at June 30, 2023		
	Number of overdue loans	**Loan receivables of overdue loans**	**Interest receivables of overdue loans**
		(HK$'million)	*(HK$'million)*
Handled by internal collection team	12	7.0	0.2
Handled by debt collection agent	6	1.5	0.2
Legal proceedings initiated	9	2.5	0.2
Judgement or charging order granted	2	1.4	0.2
Order for sale or writ of possession granted	0	0	0
Total (including loans written off in June 2023)	**29**	**12.4**	**0.8**
Collected in June 2023	15	0.4	0.3
Written off in June 2023	2	1.4	0.2

Legal Proceedings Stage

When our top management decides to commence legal action for a particular overdue loan, we will first instruct our solicitors to issue a demand letter requiring the borrower to repay the entire outstanding balance of the loan, interests, default interest, and other expenses (if any) within 7 days from the date of demand letter.

If the borrower remains in default or the client is involved in any legal dispute upon our legal alert, we shall instruct a debt collector or our panel solicitors to initiate legal proceedings against the borrower. A letter before action will be given to the borrower prior to taking our writ against the borrower.

If borrower still fails to repay the demanded amount, legal proceedings for recovery shall be initiated at the District Court or High Court. If the borrower fails to file an acknowledgment of service and defense, our Company shall apply for leave to set down the case and fix the trial date and the court shall grant us the money judgment in favor of us under non-contentious matter.

Even if legal proceedings have been commenced, we will continue our negotiation with the default customer in order to achieve settlement and speedy repayment.

During the Track Record Period, we initiated 556 legal proceedings (of which 537 were related to Unsecured Property Owner Loans; four were related to Personal Loans; and 15 were related to SME Loans) to recover delinquent payments from our borrowers in respect of overdue loans.

Enforcement of Judgment

For defaulting borrowers without property assets, we will consider commencing bankruptcy or winding up proceedings against the borrower. In addition, if guarantee was provided for that loan, we will also consider commencing bankruptcy or winding up proceedings against the guarantor.

For defaulting borrowers that own property, the most effective method of enforcement for us is to obtain a charging order over the borrowers' assets, which empowers the court to impose a charge upon the property of the judgment debtor for securing the payment of any money due under the judgment, and we will register charging orders obtained on the property in the Land Registry. The priority of the registered charging order is second to that of any prior registered mortgage or charge. If the defaulting borrower still does not satisfy the judgment after the charging order on land has been imposed, we may enforce the charging order by selling the land charged after obtaining an order for sale. After the order for sale is granted in favor of us by the court, the execution will be made in due course by scheduling an appointment with the bailiff officer for repossession of the property. Once we obtained possession of the property, unless the debtor pays the judgment debt, we will put the property for sale in the open market by public auction or private treaty in order to recover the judgment debt.

We do not immediately enforce charging orders obtained, and we will take into consideration factors such as the borrower's repayment pattern and whether the amount recovered through selling the borrower's property could cover the amount due to us. We prepare a default list for internal collection team staff to follow up and highlight cases which require further attention from our credit committee every two weeks. Our credit committee will then discuss whether to enforce the charging order based on the aforementioned consideration. Since the exact timing as to when we will be able to recover the delinquent loan through selling the repossessed property may be uncertain as the market for repossessed property may be less liquid and repossessed properties may be sold at a discount, taking immediate enforcement actions may not be entirely beneficial for us. However, we believe obtaining charging orders against borrowers is important as it exerts pressure on them, and additional efforts will be made by our borrowers to repay their outstanding amount in order to remove the encumbrance created against their property. We obtained favorable court judgments on 335 of the 556 legal proceedings we initiated during the Track Record Period (of which 117 charging orders were granted on properties owned by borrowers of Unsecured Property Owner Loans and 3 charging orders were granted on properties owned by guarantors of SME Loans), and 221 legal proceedings were pending since judgments were yet to be delivered as of May 31, 2023. 109 overdue cases were eventually settled by the borrower before judgment was delivered for the relevant court cases.

Debt collection agent

It is our policy to engage debt collection agent to assist with our loan collection process. Our debt collection agent employs various collection strategies such as making phone calls to the defaulting borrower's personal and office numbers. During the Track Record Period, we exclusively engaged Modern Creative, which is our connected person as our debt collection agent. During the Track Record Period and up to the Latest Practicable Date, to our best knowledge, Modern Creative has complied with applicable rules and regulations in respect of debt collection, and Modern Creative only provides exclusive debt collection services to us and our close associates. To our best knowledge, neither Modern Creative nor us have received any material complaints from our customers, or been involved in any non-compliance incidents, in respect of Modern Creative's debt collection services during the Track Record Period and up to the Latest Practicable Date.

We regularly conduct background checks, including desktop searches, litigation searches and AML checks, on our debt collection agents and their directors to ensure there are no negative news related to their business operations. We also conduct phone interviews with our debt collection agent and site visits for quality control purpose to monitor its activities thereby ensuring that they are in compliance with rules and regulations with respect to their collection activities on our behalf. Based on the aforementioned internal control measures in relation to the debt collection activities performed by our collection agent, we believe our internal control measures to monitor debt collection are adequate and effective. Further, no negative findings related to our debt collection agent was noted by us during the Track Record Period and up to the Latest Practicable Date.

Our frontline staff reviews the list of overdue Personal Loans daily, and studies the background and repayment history of our defaulting borrowers with a view to understand the reason of default, which in turn assists with our loan collection process, and makes it easier for us to agree on a revised repayment plan with the borrower. Additionally, our internal collectors work closely with our debt collection agent so that there is frequent information exchange on the collection status or any new information regarding the default.

When selecting our debt collection agent, we take into account certain factors, including experience, flexibility on terms of service, collection methods and their compliance with applicable laws and regulations, particularly their impact on our corporate image. We pay a fixed minimum quarterly fee plus an extra service fee (if applicable) to Modern Creative. The extra service fee represents the shortfall payable by us when the amount of debt collection service fee exceeds the minimum quarterly fee.

We generally do not engage services of our debt collection agent for outstanding repayment for Unsecured Property Owner Loans as we are able to obtain legal remedies by way of registering a charging order on property owned by the borrower and obtaining an order for sale as appropriate. However, we may engage our debt collection agent to collect the shortfall (if any) between the outstanding amount and amount of sale proceeds of the property that is the subject of an order for sale.

Enhanced collection measures

In view of the increasing delinquency ratio of our loans that was primarily due to the roll-over effect of loans granted before 2023, we have reviewed our loan collection policy and would proactively take more actions, including engaging our debt collection agent to assist us in collecting unsecured property owner loans, and our internal collection team would closely scrutinize and approach borrowers with overdue payments of over 90 days more frequently. If additional manpower and resources are required by our internal collection team, we will also consider reallocating our manpower from other business functions to handle such task, and we may also increase the number of headcounts of our internal collection team as required. We believe by taking more follow up actions and having more frequent contact with such borrowers to understand and keep track of their latest financial position and repayment plan, these measures will speed up our progress of recovering overdue loans or to assess whether supplemental collection and enforcement actions shall be taken promptly. Our credit committee will also devote extra time and attention to cases with overdue instalments for over 90 days, and weekly reports (as compared to bi-weekly reports) will be prepared for them such that they can promptly decide the next course of action that can be taken.

Cybersecurity risk management

The vast amount of data that we process and store and our reliance on fintech in our operations may attract and expose us to risks of cyberattacks, computer viruses, electronic break-ins or similar disruptions. We implement controls to ensure that our cybersecurity risks are managed and mitigated. For example, all communications between our branches and offices are conducted by way of encrypted virtual private network tunnels and our website is equipped with HTTPS protocol to ensure that a secure connection is established between our web server and the browser. We believe that our information security, network security and system security policies allow us to manage the material cybersecurity risks that we have faced so far.

Operational risk management

Our executive Directors are responsible for determining an overall operational risk control framework and devising and updating policies and procedures that are adequate for controlling operational risks. Our executive Directors meet monthly to review operational issues and are responsible for supervising our compliance with operational control procedures and maintenance of security documentation.

We have established internal reporting procedures to allow employees to report any suspected cases of misconduct (including but not limited to employee misconduct or fraud), through which our employees can directly report to the top management team, the compliance department or the human capital department, bypassing their immediate supervisors where necessary. We have formulated and continuously updated our credit monitoring policies and operational procedures. In addition, to reduce the operational risk caused by failures of information technology systems, we maintain backup of our operational data on a regular basis in accordance with our "Backup policy and Backup Restoration procedure". We believe our overall operational risk control framework allows us to effectively manage material operational risks that we face so far.

Liquidity risk management

Our objective in liquidity management is to be able to meet all our payment obligations and fund our investment and lending opportunities on a timely basis, even under adverse conditions. Our executive Directors are responsible for monitoring and managing our liquidity. Specifically, we monitor our cash inflow and outflow on a daily basis to ensure the accuracy of cash collection and deployment such that there is no shortfall in cash which may interrupt our business operations. We also maintain sufficient cash buffer on a rolling basis to meet the working capital requirement and liquidity needs for our operations. Up to the Latest Practicable Date, our banking facilities have comprised overdraft and revolving facilities available for drawdown and repayment at any time. During the Track Record Period, we did not experience any shortfall in cash for meeting our liquidity needs.

Interest rate risk

We are exposed to fair value interest rate risk in relation to bank borrowings, and lease liabilities. We are also exposed to cash flow interest risk in relation to variable-rate bank borrowings which carry prevailing market interests. For details, please see Note 21 in "Appendix I — Accountants' Report". We monitor our interest rate from fund providers and communicate with our credit intelligence department to ensure any significant change in interest rate for our source of funds is reflected in the interest rates we charge our borrowers. During the Track Record Period, the decrease in interest spread was mainly due to increase in cost of funding as a result of the increase in interest rate of our bank borrowings in 2022. We currently do not have an interest rate hedging policy to mitigate interest rate risk. We manage our interest rate risk exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. Our management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Legal and regulatory risk management

Money Lenders Ordinance

Our loan approval procedures ensure our business is operated in accordance with the Money Lenders Ordinance.

We operate in accordance with the allowable interest rates of loans under the Money Lenders Ordinance. During the Track Record Period and up to the Latest Practicable Date, we had complied with the regulatory requirement on effective interest rate charged on loans granted to customers. Moreover, pursuant to Section 18 of the Money Lenders Ordinance, our loan agreements are prepared according to the requirements set out therein and an extract of Part III "Money Lenders' Transactions" and Part IV "Excessive Interest Rates" of the Money Lenders Ordinance is provided to our borrowers upon signing of their loan agreements to inform them of our duties as a licensed money lender.

Anti-money laundering and counter-terrorist financing

Our Directors are of the view, and the Joint Sponsors concur, that our existing procedures and measures relating to anti-money laundering are effective and carried out properly during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period, there were no actual or suspected incidents of money laundering by us and we were not aware of any actual or suspected incidents of money laundering activities by our customers during this period. We have paid close attention to the statutory framework and have complied and will continue to comply with such regulations and guidelines.

We, being a legal entity carrying on business in Hong Kong, are subject to the financial sanctions system in Hong Kong and legislation prohibiting money laundering activities. The relevant policies are implemented under the Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong), Organized and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong), United Nations Sanctions Ordinance (Chapter 537 of the Laws of Hong Kong) and United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong), details of which are set out in "Regulatory Overview". Our External Legal Counsel has opined that the HKMA Guideline is for giving guidance to authorized institutions and intended for use by financial institutions and their officers and staff, and the SFC Guidelines are for giving guidance to licensed corporations and intended for use by financial institutions and their officers and staff. Since we are not an authorized institution regulated by HKMA or a licensed corporation under the SFO or a financial institution or DNFBP (designated non-financial businesses and professions) under the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong), we are not required to adopt the policies, procedures and controls in the relevant operational areas as set out in the HKMA Guideline and the SFC Guidelines.

Nevertheless, as required under the Money Lenders Licenses held by our subsidiaries, to prevent and detect money laundering and terrorist financing, we have established an "Anti-Money Laundering and Counter-Terrorist Financing Policy" according to the Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Licensed Money Lenders issued by the Registrar of Money Lenders, which includes procedures for customer due diligence, reporting suspicious transactions, record-keeping, and staff training.

Customer Due diligence

Before accepting our prospective borrowers' loan applications, we carry out know-your-customer procedures by verifying the customer's identity using reliable and independent source documents and such due diligence procedure should be completed before we enter into any business relationship with our customer. In particular, our VTMs are equipped with identity verification functionalities. We perform Land Registry searches to verify the ownership of the properties and ascertain whether the properties are under any charge.

We use documents, data and information obtained from reliable and independent sources, such as those from governments, third-party service providers and internal databases, to identify and verify the identity of our customer. If the customer is a corporation, we will inquire into the ownership structure of the corporation. If someone is acting on the authority of a corporate customer, we will verify the identity of the authorized person acting for that customer and whether the authorized person does have the authority to act for that customer. In addition, using the "eAML" system, we perform online searches in relation to the applicant for politically exposed persons and heightened risk individuals and organizations through a subscription to a renewed service platform that maintains a pertinent database on a global basis.

Reporting suspicious transactions

According to our "Anti-Money Laundering and Counter-Terrorist Financing Policy", when our employees suspect a transaction represents the proceeds of crime or terrorist property, they must make prompt disclosure to their department heads on a need-to-know basis as well as our money laundering reporting officer. Our executive Directors will make a final decision as to whether or not to file a suspicious transaction report to the Joint Financial Intelligence Unit, a unit jointly run by the Hong Kong Police Force and the Hong Kong Customs & Excise Department. In identifying suspicious customers or transactions, we focus on verifying the identities of our customers by inspecting his or her personal identification documents (for individual customers) and incorporation documents (for corporate customers) and their ownership. When we review the findings of our due diligence, we endeavor to identify any information that warrants our suspicion.

Measures or guidelines issued by HKMA

We ensure that no offering or promotion of loans was made to applicants to purchase properties that do not conform to the prudential measures or guidelines in relation to mortgage financing issued by HKMA through enquiring each loan applicant's purpose of taking out a loan with us. If any loan applicant indicated to us that they intend to use the loan provided by us to purchase property, we will not process the application.

Personal Data (Privacy) Ordinance ("PDPO")

The privacy of our borrowers and the security of their information is of utmost importance to us. In our daily operations, we obtain various types of personal data of our customers, including those collected in our loan application process as well as biometric finger vein patterns for identity verification purposes at our VTMs, which are protected by the PDPO. As such, we have set up internal control procedures to ensure our compliance with PDPO, which covers, among other things, (i) purpose and manner of collection of personal data; (ii) notification of collection of personal data; (iii) duration of personal data retention; and (iv) secured storage and transmission of personal data. We retain all essential personal data of our customers for seven years.

We comply with the data protection principles of the PDPO. Before we collect any information from our customers, we obtain their express authorization through our personal information collection statement and we only collect such information to the extent necessary for the provision of our services. In relation to customer data transferred to us by our referral agent for the purposes of making loan applications, appropriate data consent has been obtained by them before any such transfer occurs. However, no data transfer occurs from our marketing partners due to our mode of collaboration, which involves a mere referral from the marketing partners for our processing without any data or information collected by them on our behalf from the prospective customer. The types of data we collect and keep in possession include personal data such as name, mobile number, address and personal identification document details. All sensitive personal data are hashed or encrypted, and then stored in our encrypted database. According to our data privacy policy, all data is kept for a period ranging from five to seven years, depending on the type of data. The data is owned by the customer and we are only entitled to use such data pursuant to the authorization of the customer.

Our fintech team is devoted to maintaining a secure infrastructure for our platform and protecting the private data collected, and will be immediately notified upon any discovery of security bugs or threats that require urgent attention. Our staff has actively participated in periodic data security trainings.

It is our internal policy to use data encryption to ensure confidentiality for storage and transmission of customer data. Our network is configured with multiple layers of security modules to isolate our databases from unauthorized access and to ensure the reliability of our systems and services. We utilize software systems to automatically detect and protect against attacks from external sources. Within our internal operation, we limit and minimize access to protected information provided by customers through a variety of techniques, including network access authentication and division of network security domains.

In view of securing our customers' personal information and ensuring our data integrity, our data storage facilities are protected by regular backups. Furthermore, we implement appropriate levels of access control rights for our qualified staff as security shields for computer systems to safeguard our customers' privacy. Our group data privacy policy, which governs the collection, transfer, and subsequent processing of personal information, ensures that our qualified team and employees would properly handle personal information relating to our customers.

If we engage third-party service providers to handle or process personal data (whether within or outside Hong Kong) on our behalf, we would adopt contractual means to ensure that (i) upon the completion of data processing, the data would be erased; (ii) the data transferred would only be used for the specified purpose and that (iii) where data is transferred, proper logs must be kept to record the movement of data. The data processors or third parties to which personal data relating to our customers may be transferred or disclosed to include audit firms, banks, credit reference agencies, debt collection agencies, legal advisors, telecommunication companies, technology service providers and any governmental or regulatory authorities as required by law.

Market risk management

Our executive Directors are responsible for determining an overall market risk control framework, monitoring and assessing market conditions and devising refined policies in light of changes in economic conditions and business environment in Hong Kong. They meet from time to time as appropriate to discuss latest market conditions and are responsible for ensuring that the policies so developed are duly implemented. We believe our overall market risk control framework allows us to effectively manage material market risks that we face so far.

INTELLECTUAL PROPERTY RIGHTS

As of the Latest Practicable Date, we had three domain name ("**kcash.hk**") in Hong Kong and two registered trademarks in Hong Kong which we believe are material to our business. During the Track Record Period and up to the Latest Practicable Date, we have not received any material claim against us for infringement of any intellectual property rights nor were we aware of any pending or threatened claims in relation to any such infringement, nor had any material claim been made by us against third parties in relation to the infringement of intellectual property rights owned by us. For details of our intellectual property rights, see "Appendix IV — Statutory and General Information — B. Further Information about our Business — 3. Our material intellectual property rights".

INSURANCE

We maintain standard insurance, including employee compensation, public liability, fire and medical insurance. We obtain our insurance from reputable insurance carriers in accordance with commercially reasonable standards.

We believe that our insurance coverage is sufficient for present purposes and is consistent with the insurance coverage of other money lending companies in Hong Kong. We periodically review our insurance coverage to ensure that it remains sufficient. During the Track Record Period, we did not make any material insurance claims relating to our business. For a discussion on risks relating to business interruption caused by errors in our IT infrastructure for which we do not maintain any insurance, see "Risk Factors — Risks relating to our business and industry — Any undetected errors of or security breaches into our IT infrastructure, including cyberattacks, computer viruses, physical or electronic break-ins or similar disruptions, could adversely affect our business".

EMPLOYEES

As of December 31, 2020, 2021 and 2022 and May 31, 2023, we had 89, 80, 68 and 67 employees, all based in Hong Kong. The following table shows a breakdown of our employees by function in each year or period during the Track Record Period:

Functions	**As of December 31,**			**As of May 31,**
	2020	**2021**	**2022**	**2023**
Executive management	4	4	5	5
Frontline sales	25	24	26	25
Credit intelligence & risk control	7	7	7	8
Fintech and technology support	12	10	8	9
Legal	2	2	2	2
Audit & finance	7	7	5	3
Branch development	10	5	7	7
Corporate support	22	21	8	8
Total	**89**	**80**	**68**	**67**

As of May 31, 2023, we had a total of 67 employees. As of the same date, we had 17 employees age 30 or under, 28 employees between age 31 to 40, 14 employees between age 41 to 50 and 8 employees age 51 or above, representing 25%, 42%, 21% and 12% of our total workforce, respectively. As of the same date, we had 32 female employees and 35 male employees, representing 48% and 52% of our total workforce, respectively. All of our employees are permanent staff.

Our success depends on our ability to attract, retain and motivate qualified personnel. We recruit our employees based on a number of factors such as their work experience, educational background and vacancy demands. We hire employees based on their merits and it is our corporate policy to offer equal opportunities to our employees regardless of gender, age, race, religion or any other social or personal characteristics. We also provide regular training to our employees on topics such as land search case studies, property valuation, reading credit reports and loan product introduction. We enter into standard employment contracts with our employees covering matters such as salary, employee benefits and confidentiality obligations. In addition, we provide low interest personal loan of up to HK$200,000, and study subsidy of up to HK$100,000 as employee benefits.

In 2020, 2021 and 2022 and five months ended May 31, 2023, we incurred employee benefit expenses of HK$53.0 million, HK$58.2 million, HK$47.6 million and HK$16.3 million, respectively, representing approximately 19.8%, 24.9%, 22.6% and 17.2%, respectively, of our net interest income for the same years or period.

We believe that we maintain a good working relationship with our employees and we did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

In compliance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), we have participated in an MPF scheme operated by an approved MPF service provider, enrolled all qualifying employees in the MPF scheme and made MPF contributions for them during the Track Record Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We do not operate in a highly polluting industry, nor do we operate any manufacturing or warehousing facilities. Therefore, we are not subject to significant health, safety or environment risks and we do not currently foresee any materials risks in this regard. However, we give high regard for environment protection, and are committed to promoting corporate social responsibility and sustainable development. We seek to integrate these core values into our business operation through the adoption of a comprehensive policy on environmental, social and corporate governance responsibilities in accordance with the Listing Rules. It has come to our awareness that Environmental, Social and Governance ("**ESG**") factors are increasingly important to the way we operate and how we interact with our stakeholders who have an important role to play in our business success.

Compliance of ESG Matters

To comply with the Stock Exchange's reporting requirements on ESG following the [**REDACTED**], we shall formally adopt the ESG policy (the "**ESG Policy**") that has been developed in accordance with Appendix 27 ("**ESG Reporting Guide**") to the Listing Rules. Such ESG Policy will be reviewed on an annual basis. It will outline, among others, (a) the appropriate governance oversight; (b) ESG approach and practices including the process of materiality; (c) ESG risks, including climate-related risks and identification, management and monitoring mechanism of such risks; and (d) setting of key performance indicators ("**ESG KPIs**"). The ESG Policy sets forth our corporate social responsibility objectives and provides guidance on practicing corporate social responsibility in our daily operations. Set forth below are examples of our ESG Policy in different aspects:

- Employment — We are committed to creating a working environment with equal opportunities, and we have strict policies on equal employment opportunities, prohibiting any form of discrimination based on race, color, belief, religion, gender, sexual orientation, among others.

We have a zero-tolerance policy on sexual harassment within and outside the workplace, and we treat any complaints we receive seriously and in strict confidence. We have established effective reporting channels. Employees shall inform their manager, department head or the human capital department. Applying to all level of our staff, we adopt the following protocol when we hire employee:

– Attract and retain the most appropriate individuals for the position;

– Conduct talent search primarily focused in local labor market, wherever skills required are available locally, before searching regionally or internationally; and

– All processes and decisions shall be based on individuals' competencies, skills and experience, and should comply with our relevant internal policies and local regulatory requirements.

- Employee training — We place significant emphasis on employee trainings and development. We have formulated policies and provide training to staff from time to time, including but not limited to the following aspects: (i) conflict of interest policy; (ii) whistleblowing policy; (iii) anti-money laundering training; (iv) cybersecurity training; and (v) seminar on PDPO. We provide onboard training to all new employees. The onboarding program serves as a guide to assimilate our new employees. Our training covers leadership, management skills and information technology.

- Health, safety and wellbeing — Though our business does not involve significant health and work safety matters, we are committed to protect the physical and mental health, safety and wellbeing of our employees. We aim for ensuring employee's health and safety while limiting potential business and operational risks. We encourage our employees to pursue a healthy work-life balance. We organize social and team-bonding activities to ensure a positive and cohesive work environment. As an employer, we consistently follow local government regulatory requirements and take immediate actions to comply with the government's directions. We set out a series of workplace regulations in the employee's handbook. We believe that we were in compliance with health and work safety requirements in all material respects during the Track Record Period and up to the Latest Practicable Date.

- Social responsibility — We care about our social responsibility and aim to build a sustainable community with our customers, business partners and other external stakeholders through various initiatives which may include corporate philanthropy, establishing community partnerships, and mobilizing our employees to participate in volunteer work. We conduct trainings and compose staff handbook to strengthen our communication with our employees internally and organize community initiatives to maintain our bonds with external stakeholders.

- Environmental protection — We have established the "efficiency use of resources" policy. We encourage our employees to adopt sustainable practices to reduce our carbon footprint, including promoting recycling and reducing paper wastage. As part of our carbon neutrality initiatives, we have taken steps to move toward a low-carbon lifestyle. We have been a pioneer in the industry to embrace a paperless environment. We operate most of our businesses digitally and utilize cloud-based services to reduce consumption of paper from client end. Our customers can access our lending services through websites, VTMs and mobile apps. Our loan agreements and repayment schedule can be accessed by our borrowers online for their easy reference, thus eliminating paper applications, agreements and statements.

Our Board has an overall responsibility for overseeing and determining environmental and social risks and opportunities impacting us, establishing and adopting the ESG Policy and setting our ESG targets, and reviewing our performance annually against the ESG targets and revising the ESG strategies as appropriate if significant variance from the ESG targets is identified.

Governance of ESG Matters

Our Board and senior management will be primarily responsible for ensuring that ESG issues are taken into consideration in the operation of our business as well as embedding ESG principles into our overall business strategies through education, control and supervision procedures. After our [**REDACTED**], we will consider establishing an ESG committee to assist our Board to oversee ESG governance, ensure implementation of ESG policies, monitor ESG-related performance and targets, adjust ESG strategies as appropriate and prepare ESG reports. Where expertise on specific issue is needed, we may engage external service provider when necessary. Each department will be responsible for identifying its own ESG issues including ESG risks and designing, implementing its own and monitoring the compliance of such relevant ESG Policy as well as business continuity plans for ESG-related crisis.

A Board meeting will be held at least annually to discuss and review ESG issues. The ESG Policy will be reviewed, and performance will be monitored annually by the Board in the Board meeting on an ongoing basis. All the key ESG issues and ESG KPIs will be reported according to Appendix 27 of the Listing Rules.

Materiality Assessment and Stakeholder Engagement

Our Board will be responsible for determining materiality of ESG issues. Our Directors understand the importance of materiality assessment as a process to identify, prioritize and determine ESG issues that are relevant and important to our sustainable development, and are sufficiently important to disclose to investors and other stakeholders to fulfil our commitment to transparency. The materiality assessment process will be as follow:

Step 1: A list of potential issues will be compiled based on: (i) our stakeholder engagement; (ii) our corporate strategy as well as risk priorities; and (iii) with reference to established material topics in the relevant and global guidelines.

Step 2: Prioritization and stakeholder engagement will be conducted by: (i) identification of key stakeholder groups; (ii) regular special engagements; and (iii) determining the materiality by materiality matrix (in terms of legal, operation and reputation risk), and their importance to us under its enterprise risk management system.

Step 3: Validation will be conducted by our senior management's endorsement under the Board's review and supervision.

Stakeholders

Stakeholders will be prioritized in view of our strategies and business initiatives. We will engage with our stakeholders to seek their views on its business proposals and initiatives as well as to promote sustainability in the marketplace, workplace, community and environment. Key stakeholders that are important to our business include (i) government and regulatory authorities; (ii) shareholders and investors; (iii) employees; (iv) customers; (v) industry associations; (vi) members of the public and communities, and we will establish communication channels for them.

Managing ESG Risks

We are committed to an analysis and assessment process that will enable us to identify any material ESG risks and take actions to address these risks timely and effectively. We will have dedicated teams to identify, assess, manage and mitigate environmental and social-related risks. For example, our Board will assess the likelihood of such risks occurring and the estimated magnitude of any potential impact. We may also engage independent third parties to evaluate the ESG risks and review our existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate any major ESG risks identified.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material ESG risks. However, we have been actively observing policy trends, environmental risks and opportunities and incorporating them into our ESG related metric and targets so as to prepare for the possible impacts of relevant policy and environmental requirements on sustainable development on our business development and financial costs. We will continue to monitor risks associated and will strive to constantly update our ESG Policies upon its implementation to address latest changes in relation to relevant issues going forward.

ESG related metric and targets

As our business does not relate to manufacturing and production, our operations does not have any direct negative impacts on the environment. Nevertheless, we will regulate ourselves to reduce indirect negative impacts on the environment in our operations. In implementing our ESG related strategies, we will use certain ESG KPIs to evaluate our ESG performance to ensure that we meet our targets and take corrective actions when necessary.

Considering the nature of our business operation, the Board considers electricity and paper consumption to be our KPI to evaluate ESG performance. We have set the following ESG-related targets.

Material issues	Targets	Our response
Electricity consumption reduction	Keep the level of our electricity consumption between 80% and 100% of that in 2022 over the next three years	We have installed energy-saving LED lights to replace traditional tubes, and have arranged for the installation of smart meters to monitor real-time data for effective consumption management.
Paper consumption reduction	Keep the level of our paper consumption between 80% and 100% of that in 2022 over the next three years	We have advocated for a paperless office by reducing the use of paper materials in our day to day operations, and encourage our employees to recycle and use less paper.

The following sets out the total electricity and paper consumption of our headquarters during the Track Record Period:

	Year ended December 31,			Five months ended May 31,
	2020	2021	2022	2023
		(kWh)		
Total electricity consumption [(1)]	11,032	10,954	10,882	10,299
Average consumption amount per employee [(2)]	124.7	129.6	146.1	152.6

	Year ended December 31,			Five months ended May 31,
	2020	2021	2022	2023
		(metric tons)		
Total paper consumption [(1)]	7.7	8.8	5.4	3.6
Average consumption amount per employee [(2)]	0.09	0.10	0.07	0.05

Note:

(1) Calculated based on the percentage of the area used by our Group at the premise which was shared with the Excluded Group.

(2) Calculated based on the total consumption amount divided by the average number of employees at the beginning and the end of each year or period.

Our average electricity consumption amount per employee increased from 124.7 kWh in 2020 to 129.6 kWh in 2021 and further increased to 146.1 kWh in 2022. The increase was mainly due to the decrease in the average number of our employees throughout the Track Record Period. Our average electricity consumption amount per employee further increased to 152.6 kWh for the five months ended May 31, 2023 as a result of the increase in floor area occupied by our Group.

Compliance with our internal controls

We have established internal control procedures and policies to ensure our compliance with the above rules and regulations for our business operations. During the Track Record Period, our staff have complied with these internal control procedures and policies in all material respects. Our Directors believe there were no major internal control issues that would impact (i) loan or interest receivables cycle or (ii) our ability to borrow or continue to borrow from banks and other authorized institution.

To monitor the ongoing implementation of our risk management and internal control policies and our corporate governance measures after our proposed [**REDACTED**], we have adopted or will adopt, among other things, the following measures:

- the establishment of the Audit Committee responsible for overseeing our financial records, internal control procedures and risk management systems;
- the appointment of China Everbright Capital Limited as our compliance advisor upon the proposed [**REDACTED**] to advise us on compliance with the Listing Rules;
- the appointment of Ms. Lai Siu Kuen as our Company secretary and the engagement of external legal advisers to advise us on compliance with the Listing Rules and to ensure our compliance with relevant regulatory requirements and applicable laws, where necessary; and

- the implementation of internal policies and procedures to monitor the ongoing connected transactions and to ensure that they do not exceed the relevant annual caps.

We believe that compliance creates value for us and in turn for our Shareholders and are dedicated to cultivating a compliance culture among all our employees. To ensure that our compliance culture is embedded into everyday workflow and to set the expectations for individual behavior among our employees, we implemented strict policies and conducted compliance training.

Review of internal control systems

In preparation for the [**REDACTED**], we have engaged an independent third party consultant (the "**IC Consultant**") to perform a review over selected areas of our internal controls over financial reporting in December 2022 (the "**Internal Control Review**"). The selected areas of our internal controls over financial reporting that were reviewed by the IC Consultant included entity-level controls and business process level controls, including interest income, receivables and collection, procurement, account payable and payment, human resources and payroll, cash and treasury management, fixed assets, insurance, financial reporting and disclosure, taxes, general controls of information technology and intellectual properties. Significant deficiencies identified by the IC Consultant during its initial review conducted in December 2022 were in area including establishment of the required terms of reference of the Board (including the appointment of the required Directors such as Independent Non-executive Directors) and its committee such as audit committee, remuneration committee and nomination in accordance with the Listing Rules. The IC Consultant performed the follow-up reviews in March 2023 to review the status of the management actions taken by our Group to address the findings of the Internal Control Review (the "**Follow-up Review**"). The IC Consultant did not have any further recommendation in the Follow up Review except for the deficiencies mentioned above, which is expected to be completed by our Group before the [**REDACTED**]. The Internal Controls Review and the Follow-up Review were conducted based on information provided by our Group and no assurance or opinion on internal controls was expressed by the IC Consultant.

Customer complaints

We have a standard procedure for handling customer complaints. According to our complaints handling policy, all customer complaints are required to be reported to the relevant department heads. A complaint will not be investigated by the employee(s) involved in the subject matter. Upon receipt of a complaint, we will send a written acknowledgment to the complainant within seven working days of the filing of the complaint. Upon investigation and consultation with our senior management, we will provide a final response (or, in the case where required information is pending, an interim response) to the complainant within 30 days of the filing of the complaint. Any final response will also have to be approved by our chief executive officer or chief operating officer, detailing the outcome of our investigation as well as the remedies made or actions to be taken.

Corporate governance

We expect that we will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules after our proposed [**REDACTED**]. We have established three board committees, namely, the Audit Committee, the Nomination Committee and the Remuneration Committee, with respective terms of reference in compliance with the Corporate Governance Code. For more details, see "Directors and Senior Management".

In particular, one of the primary duties of our Audit Committee is to review the effectiveness of our internal audit activities, internal controls and risk management systems. Our Audit Committee consists of three of our independent non-executive Directors, whose biographies are set out in "Directors and Senior Management". Our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code each financial year and comply with the "comply or explain" principle in our corporate governance reports to be included in our annual reports after our proposed [**REDACTED**].

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material legal proceedings. To the best of our Directors' knowledge, information and belief, no member of our Group is engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against any member of our Group that would have a material and adverse effect on our business, results of operations, financial condition and prospects. For further details about legal proceedings initiated by us to recover delinquent payments during the ordinary course of our business, see "— Risk Management and Internal Control — Loan Collection".

As of the Latest Practicable Date, we are not aware of any threat of any legal, arbitral or administrative proceedings against our Directors which is likely to have a material and adverse effect on our business, results of operations, financial condition and prospects.

During the Track Record Period and up to the Latest Practicable Date, we have complied with relevant and applicable laws and regulations in Hong Kong (including but not limited to the Money Lenders Ordinance, the United Nations Sanctions Ordinance (Chapter 537 of the Laws of Hong Kong) and the United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong)) in all material aspects and have obtained the Money Lenders License for our operating subsidiaries as required under the Money Lenders Ordinance.

LICENSE, PERMITS AND APPROVALS

During the Track Record Period and up to the Latest Practicable Date, we had obtained all requisite licenses, permits, approvals, and certificates from the relevant government authorities that are material for our business operations in Hong Kong. The revised and additional licensing conditions of Money Lenders Licenses issued by Companies Registry that took effect on March 16, 2021 does not affect the prospect of renewal of our Money Lenders Licenses as we have adopted internal policies to ensure such licensing conditions are fulfilled. The following table sets out details of our material licenses and permits:

License/Permit	Holder	Issuing Authority	Effective Date	Expiry Date
Money Lenders License	K Cash	Licensing Court	August 21, 2022	August 22, 2023
Money Lenders License	K Cash Express	Licensing Court	March 30, 2023	March 31, 2024

We are in the process of renewing the Money Lenders License of K Cash. Our External Legal Counsel has opined that, (i) as of the Latest Practicable Date, there existed no foreseeable ground for the relevant regulatory authority to object to the renewal of such license, and the current licenses are renewable in the normal course of business; and any Money Lenders License in respect of which an application for renewal is made shall be deemed to continue in force until the determination of such application, unless such application is withdrawn, or the license is revoked or suspended.

We are of the view that there is no material risk that any of such licenses, permits and approvals will be revoked prior to their expiration dates. Moreover, given our successful track record in renewing such licenses, we do not envisage any legal impediments to such renewals in the future. For further information relating to the risks associated with obtaining and renewing licenses, permits and approvals, see "Regulatory Overview — Money Lending".

PROPERTIES

As of the Latest Practicable Date, we did not have any self-owned property. As of the Latest Practicable Date, we have leased or licensed the following premises in Hong Kong, which have lease expiration dates ranging from January 2024 to June 2027:

	Address
1.	17/F, Wheelock House, 20 Pedder Street, Central, Hong Kong
2.	Shop No. ETS 7 at MTR East Tsim Sha Tsui Station
3.	Shop 8 on G/F, Hoi Fung Centre, No. 2 Po Man Street, Shau Kei Wan, Hong Kong
4.	Shop No. 1A8 on G/F, Whampoa Estate, Nos. 99, 99A, 99B, 99D-99F, 99H, 99J, 101-109 Dock Street, Nos. 2-4, 8-16, 20-26, 30-34, 34A-34E Tak Man Street, Kowloon
5.	Shop No. SHT 21 at MTR Sha Tin Station
6.	Shop 6C on G/F Kwong Fuk Building, Nos. 114/124 Kwong Fuk Road, Nos. 31B/31C, 33A/33B & 39/41 Kwong Fuk Square, Tai Po, New Territories
7.	Unit A008 on 1st Floor of Nan Fung Centre, 264-298 Castle Peak Road, 64-98 Sai Lau Kok Road, Tsuen Wan, New Territories
8.	Shop A and Part of Shop B, Ground Floor, Shun Fat House, 54-66 Kau Yuk Road, Yuen Long, New Territories

As of the Latest Practicable Date, no single property accounted for 15% or above of our consolidated total assets by book value. Therefore, this document is exempt from the requirements under Chapter 5 of Hong Kong Listing Rules and Paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance that the interests in the lands and buildings shall be included in the valuation report according to section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

COMPETITION

We believe that the market for money lending services in Hong Kong is characterized by keen competition among money lenders operating under the Money Lenders Ordinance. According to the Frost & Sullivan Report, we were the fourth in terms of revenue in respect of the overall unsecured loan business among all licensed money lenders in Hong Kong in 2021.

We believe that our (i) early adoption of various fintech applications; (ii) efficient, flexible and customer-centered services; (iii) enhanced borrowing experience; (iv) experienced management team; and (v) positive corporate image enable us to maintain a competitive edge over other market players. We also regularly review our loan product lines and interest rates to ensure that we respond to changing market demands in a timely manner.

IMPACT OF OUTBREAK OF COVID-19 ON OUR BUSINESS

The COVID-19 outbreak had extensive and long-lasting impact on Hong Kong's economy and local business, and it may pose uncertainty for our business performance. In view of such emerging risks, we have adopted stringent credit risk policy. For details, see "— Risk Management and Internal Control — Credit risk management — Credit Risk Management for COVID-19 Outbreak".

In addition to the above, we also implemented certain other measures in response to the COVID-19 outbreak during the Track Record Period. For example, to comply with the Hong Kong Government's regulations on the prevention and control of COVID-19 (including prohibitions on gathering) imposed from time to time, we shorten our operating hours following the social distancing measures implemented by the Hong Kong government at different stages. From mid-February to end of February 2022, the opening hours of our headquarters was shortened by 1.25 hours on business days and from March to mid-April 2022, our opening hours was further shortened by an hour on business days. Our headquarters remained closed on Saturdays throughout the same period. This affected our on-site loan application and drawdown process and potential borrowers may opt for other financing options if they are unable to complete the loan application process with us. We continued to apply our IDCM risk-based pricing model while being highly cautious of loan applications from applicants involved in industries affected by COVID-19 outbreak. On the other hand, we put more emphasis on alternative data such as payroll method and consumption habits, in addition to attributes generated by a credit reference agency.

In February 2022, in the face of the fifth wave of COVID-19 in Hong Kong, we became more prudent in handling the risk of defaults and suspended our 7x24 AI Loans for applicants working in the catering, retail, hotel or tourism sectors and manually reviewed such loan applications. For details, see "Risk Factors — Risks relating to our business and industry — We face certain risks associated with the outbreak of COVID-19".

As of the Latest Practicable Date, notwithstanding as discussed herein and "Financial Information", we did not experience material business disruptions or operating difficulties due to the COVID-19 outbreak. We believe the impact of COVID-19 outbreak on our operations is temporary in nature, has not materially affected our business in the Track Record Period, and is not expected to have a material adverse impact on us in the long run. Nevertheless, the impact of COVID-19 remains an evolving situation, and there remain uncertainties as to the future development of the pandemic, which is beyond our control. If there are further waves of large-scale outbreaks, social distancing measures or travel restrictions might be imposed by the Hong Kong Government which would affect the overall economy and the demand for financing. In such circumstances, our operations and financial performance maybe adversely affected. Please also see "Risk factors — Risks relating to our business and industry — We face certain risks associated with the outbreak of COVID-19" in this document.