
SUMMARY

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to [REDACTED] in the [REDACTED].

There are risks associated with any [REDACTED]. For more details, see “Risk Factors”. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

OVERVIEW

We are the fourth largest licensed money lender in Hong Kong in respect of the overall unsecured loan business with a proven operating track record.

We started our journey in 2006, and since then, we have fostered creativity and innovation in our entrepreneurial endeavors. In 2015, we introduced Video Teller Machines or 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, and are committed to maintaining high ethical standards and technologically advanced credit assessment models and risk management systems.

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 applications.

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

- **Unsecured Property Owner Loans:** unsecured loans offered to borrowers who are property owners in Hong Kong, mostly 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.

The market share of licensed money lenders as a percentage of the entire unsecured loan market in Hong Kong is approximately 4.1% as in 2022. In terms of the entire unsecured loan market (comprising of authorised institutions and licensed money lenders) and the licensed unsecured money lenders market in Hong Kong, our market share in terms of revenue is approximately 0.15% and 3.6% in 2022, respectively. Further, the licensed unsecured financing market is relatively concentrated with top three market participants accounting for 79.2% of the overall market share by revenue in 2022.

Our loan receivables amounted to HK\$986.0 million, HK\$844.5 million, HK\$913.8 million and HK\$948.2 million as of December 31, 2020, 2021 and 2022 and May 31, 2023, respectively. In addition, our net interest income was HK\$267.7 million, HK\$234.1 million, HK\$211.0 million and HK\$95.0 million in 2020, 2021 and 2022 and May 31, 2023, respectively.

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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.

Our business is built on deep industry expertise in Hong Kong’s licensed money lending market and risk management. We provide a range of unsecured loans to borrowers whose financing needs were not satisfied by authorized institutions. We implement a comprehensive credit risk management methodology to control our credit risk exposure throughout the loan cycle of our loan products.

We have also integrated various technologies into our business operation to achieve digitalization and automation across the lending process, including loan application, credit review and approval, drawdown and post-drawdown. The deployed financial technologies, inter alia, blockchain technology, cloud computing, big data analytics, machine learning technology, and business process automation technology, are technologies adopted and implemented at various stages of our company’s business process. On the front-end, we leverage various technology 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 use applications to leverage established technologies, such as AI, blockchain and business process automation technology, to automate and streamline our risk management systems and business process. Our K Cash GO Platform is built on a hybrid cloud environment which supports all these technologies, allowing us to achieve optimal operational efficiency.

OUR COMPETITIVE STRENGTHS

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

- We are the fourth largest licensed money lender in Hong Kong in respect of the overall unsecured loan business with a proven operating track record.
- We provide cost-effective money lending services through our application of technologies.
- We possess comprehensive credit risk management capability enhanced by technology and industry experience.
- 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 have a dedicated and experienced management team.

OUR BUSINESS STRATEGIES

We will execute the following strategies to further expand our business:

- We plan to continuously enhance our customers’ borrowing experience and streamline our workflow, including enhancing our K Cash GO Platform and launching our Customer Data Platform.
- We intend to further expand our existing loan portfolio and expand our business. For example, we intend to expand our business scope to provide “Buy Now, Pay Later” services, and intend to collaborate with River Square on a blockchain technology platform.

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[REDACTED]

We estimate that we will receive [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] million (after deducting [REDACTED] and other estimated expenses in connection with the [REDACTED]), assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the [REDACTED], and that the [REDACTED] is not exercised. We intend to use the [REDACTED] from the [REDACTED] for the following purposes:

- approximately [REDACTED] or approximately HK\$[REDACTED] million, will be used to enrich our technology capabilities;
- approximately [REDACTED] or approximately HK\$[REDACTED] million, will be used to expand our loan portfolio; and
- not more than [REDACTED] or approximately HK\$[REDACTED] million, will be used for general working capital and general corporate purposes.

For details, see “Future Plans and [REDACTED]”.

RISK FACTORS

Our operations and the [REDACTED] involve certain risks and uncertainties, some of which are beyond our control and may affect your decision to invest in us or the value of your investment. See “Risk Factors” for details, which we strongly urge you to read in full before making an investment in our Shares. Some of the major risks we face include the following:

- We are exposed to credit risks of our customers who may default on their loans.
- If we fail to promote our financial technology-based services to a satisfactory level of market acceptance, or if we fail to continuously enhance our technologies at a competitive pace, we may lose certain businesses and not be able to recover our investment on adopting relevant technologies.
- If the credit or other information of a prospective borrower we receive from other parties is inaccurate or unreliable, the accuracy or effectiveness of our credit assessment and risk-based pricing may be compromised.
- If we fail to control our credit risk exposure, our bad debt ratio may increase, and our business and results of operations may be adversely affected.
- We are in a highly competitive industry. If we are not able to compete effectively, it could impact our profitability.
- Our provision for expected credit losses may not be adequate to cover actual credit losses.
- Our future expansion plans are subject to uncertainties and risks.
- We may not be able to obtain sufficient funding on terms acceptable to us to finance our operation; we may not be able to comply with covenants in our borrowings, and our lenders may request loan repayment without prior notice.

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OUR CONTROLLING SHAREHOLDERS

Mr. Steven Lee through Lee Trust, Chairman Lee, Mrs. Lee and Mr. Edwin Lee will own 28.5%, 25.0%, 25.0%, and 21.5% respectively of the issued share capital of Konew Group which in turn indirectly holds [REDACTED] of the issued capital of our Company through its wholly-owned subsidiary, Konew Fintech, immediately following the completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] or options which may be granted under the Share Option Scheme). Chairman Lee and Mrs. Lee are spouses and the parents of Mr. Steven Lee and Mr. Edwin Lee. Accordingly, Konew Group, Konew Fintech, Chairman Lee, Mrs. Lee, Mr. Steven Lee and Mr. Edwin Lee are regarded as a group of Controlling Shareholders of our Company.

To avoid any actual or potential competition between the business of the Controlling Shareholders and our Company, our Controlling Shareholders have provided non-competition undertakings to us to the effect that each of them shall not, and shall procure its close associates not to, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on its own account or with each other or in conjunction with or on behalf of any person or company, any business directly or indirectly in competition with or likely to be in competition with the Unsecured Loan Business.

KEY OPERATIONAL DATA

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 |
| | <i>(HK\$'million)</i> | | | |
| Loan receivables | | | | |
| – Unsecured Property Owner Loans | 713.4 | 634.9 | 730.0 | 737.8 |
| – 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.

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Interest Income

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

| Loan Product ⁽¹⁾ | Year ended December 31, | | | | | | Five months ended May 31, | | | |
|-----------------------------|-------------------------|--------------|--------------|--------------|--------------|--------------|---------------------------|--------------|--------------|--------------|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | HK\$'million | % | HK\$'million | % | HK\$'million | % | HK\$'million | % | HK\$'million | % |
| | (Unaudited) | | | | | | | | | |
| Unsecured Property Owner | | | | | | | | | | |
| Loans | 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 | 4.8 |
| 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”.

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 “Business — Key Financial and Operating Metrics — Receivables of Loan Principal and Loan Accounts — Loans Assignment and Transfer”.

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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, | | | Five months ended May 31, | |
|--------------------------------|-------------------------|--------------|--------------|---------------------------|---------------------|
| | 2020 | 2021 | 2022 | 2022 ⁽²⁾ | 2023 ⁽²⁾ |
| | | | | (Unaudited) | |
| Unsecured Property Owner Loans | 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% | 23.2% | 9.6% | 9.2% |

- (1) Our loan products also comprise subordinated mortgage loan business prior to the [REDACTED], which were 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.

On December 31, 2022, we acquired a loan portfolio 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 loan portfolio transferred to us. For details, see “Business — Key Financial and Operating Metrics — Receivables of Loan Principal and Loan Accounts — Loans Assignment and Transfer”.

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

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, | | | Five months ended |
|--------------------------------|-------------------------|-------------|-------------|-------------------|
| | 2020 | 2021 | 2022 | 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: Our interest spread is calculated based on average effective interest rate less weighted average cost of borrowings.

The decrease in net interest margin from 23.2% in 2022 to 22.0% (annualized) for the five months ended May 31, 2023 was mainly due to (i) the decrease in the average effective interest rate of loans we granted because of the decrease in the proportion of loans with interest rate over 36% per annum in our portfolio as we temporarily withhold granting new loans with interest rate over 36% per annum in 2023 after the Presumed Extortionate Rate was lowered from 48% to 36% per annum since December 30, 2022 (for details, see “Business — Key financial and operating metrics — Recent changes in the Presumed

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Extortionate Rate”.); and (ii) the increase in effective interest rate of our borrowings as a result of interest rate hikes, which contributed to the decrease in net interest margin of approximately 1.1% and 0.1%, respectively. 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.

Interest spread represents the difference between our (i) average effective interest rate charged and (ii) average cost of borrowings, which focuses on interest-bearing liabilities and more sensitive to increase in borrowing costs. Meanwhile, net interest margin focuses on the profit arising from the interest-earning assets and is computed by interest income (net of interest expenses) divided by the average of the opening and closing balance of the gross loan receivables, therefore fluctuations of net interest margin is less sensitive to fluctuation in borrowing costs and increase in borrowing cost has a larger impact on interest spread than it has on net interest margin.

Credit performance of our loans

We classify certain loan receivables as bad debt after we have determined that such receivables have become irrecoverable. For details of our assessment process, see “Business — Credit performance of our loans — Bad debt ratio” 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 dates. The table below sets forth the bad debt ratio of for each of our loan products as of the dates indicated:

| <u>Loan Product⁽¹⁾</u> | <u>As of December 31,</u> | | | <u>As of May 31,</u> | |
|-----------------------------------|---------------------------|-------------|-------------|----------------------|-------------|
| | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2022</u> | <u>2023</u> |
| | | | | (Unaudited) | |
| Unsecured Property Owner Loans | 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% |

The following table sets forth the 90+ delinquency ratio of our loans as of the dates indicated:

| | <u>As of December 31,</u> | | | <u>As of</u> |
|--------------------------------|---------------------------|--------------|--------------|----------------|
| | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>May 31,</u> |
| | | | | <u>2023</u> |
| 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% |

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Average Loan Size

The tables below sets out the average loan size⁽³⁾ of our loan products during the Track Record Period:

| <u>Loan Product⁽¹⁾</u> | <u>Year ended December 31,</u> | | | <u>Five months ended May 31,</u> |
|-----------------------------------|--------------------------------|----------------|--------------|--------------------------------------|
| | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
| | <i>(HK\$'000)</i> | | | |
| 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 | <u>1,707.1</u> | <u>1,116.6</u> | <u>899.4</u> | <u>976.7</u> |
| Overall | 144.2 | 147.7 | 141.1 | 151.1 |

Average Loan Tenor

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

| <u>Loan Product⁽¹⁾</u> | <u>As of December 31,</u> | | | <u>As of May 31,</u> |
|-----------------------------------|---------------------------|-------------|-------------|--------------------------|
| | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
| | <i>(months)</i> | | | |
| 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 | <u>29.1</u> | <u>29.0</u> | <u>27.5</u> | <u>28.0</u> |
| Overall | 37.5 | 36.4 | 35.5 | 35.1 |

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Average Effective Interest Rate

The table below sets out the average effective interest rate⁽²⁾ of our loan products during the Track Record Period:

| Loan Product ⁽¹⁾ | Year ended December 31, | | | Five months ended May 31, |
|--------------------------------|-------------------------|--------------|--------------|---------------------------------|
| | 2020 | 2021 | 2022 | 2023 |
| | <i>(per annum)</i> | | | |
| 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 | 38.5% | 38.2% | 38.5% | 36.6% |

Notes:

- (1) Our loan portfolio also comprises a residual subordinated mortgage loan business which were transferred to the Excluded Group at 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.

On December 31, 2022, we acquired the Transferred Loans at the carrying amount of approximately HK\$150.1 million.

- (2) Average effective interest rate represents the average of effective interest rates in respect of the existing loan agreements during the year or period.
- (3) 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.

HOS Property Market

A majority of our income from Unsecured Property Owner Loans are granted to HOS Property Owner. The HOS flats are opened for application by (i) Green Form applicants, who are primarily Public rental housing tenants and eligible public rental house applicants; and (ii) White Form applicants, who are private housing tenants and family members of public housing tenants who have passed the asset assessment. Buyers of HOS Housing are subject to eligibility requirement in buying Home Ownership through Green Form, subject to detailed eligibility criteria, among others, on age, family composition, property ownership restriction to be announced by the HA prior to the launch of each sale exercise. For details of the eligibility and further details of the HOS Properties market, see Industry Overview — Overview of the HOS Properties.

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SUMMARY OF FINANCIAL INFORMATION

The following tables set forth summary of our financial data during the Track Record Period, which are extracted from the Accountant’s Report set out in “Appendix I — Accountant’s Report”. The summary financial data set forth below should be read together with our consolidated financial statements and the accompanying notes, as well as “Financial Information”.

Consolidated statements of comprehensive income

| | Year ended December 31, | | | Five months ended May 31, | |
|--|-------------------------|-------------|-------------|---------------------------|-------------|
| | 2020 | 2021 | 2022 | 2022 | 2023 |
| | <i>(HK\$'million)</i> | | | (Unaudited) | |
| Interest income | 304.3 | 270.1 | 234.0 | 99.5 | 104.7 |
| Interest expenses | (36.6) | (36.0) | (23.0) | (9.3) | (9.7) |
| Net interest income | 267.7 | 234.1 | 211.0 | 90.2 | 95.0 |
| Other income | 5.7 | 3.9 | 10.1 | 3.8 | 1.1 |
| Other (losses)/gains, net | (0.3) | 0.2 | (0.2) | 0.1 | 0.8 |
| Selling expenses | (39.9) | (35.1) | (34.4) | (9.5) | (12.1) |
| General and administrative expenses | (57.7) | (68.4) | (66.1) | (27.6) | (33.5) |
| Expected credit losses, net | (69.7) | (41.9) | (37.7) | (17.7) | (21.3) |
| Operating profit | 105.8 | 92.8 | 82.7 | 39.3 | 30.0 |
| Other finance cost | (0.3) | (0.5) | (0.8) | (0.3) | (0.2) |
| Profit before income tax | 105.5 | 92.3 | 81.9 | 39.0 | 29.8 |
| Income tax expenses | (14.5) | (15.2) | (14.0) | (6.5) | (6.9) |
| Profit and total comprehensive income for the year/period | 91.0 | 77.1 | 67.9 | 32.5 | 22.9 |

Non-HKFRS Measure

We believe the non-HKFRS measure set out below provides useful information to investors about our operating performance, and enhances the overall understanding of our past performance and future prospects in the same manner as our management. We define adjusted net profit (non-HKFRS measure) as profit for the year or period adjusted by expenses for the [REDACTED]. Given such expenses were incurred for the purpose of the [REDACTED], the adjustment has been consistently made during the Track Record Period.

The non-HKFRS measure shall not be considered in isolation from, or as substitute for analysis of, our consolidated statement of profit or loss or financial condition as reported under HKFRS. In addition, the non-HKFRS measure may be defined separately from similar terms used by other companies and therefore may not be comparable to similar measures presented by other companies.

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The table below sets forth our adjusted net profit (non-HKFRS measure) during the Track Record Period:

| | <u>Year ended December 31,</u> | | | <u>Five months ended May 31,</u> | |
|--|--------------------------------|-------------|-----------------------|----------------------------------|-------------|
| | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2022</u> | <u>2023</u> |
| | | | <i>(HK\$'million)</i> | | |
| | | | | (Unaudited) | |
| Profit for the year/period | 91.0 | 77.1 | 67.9 | 32.5 | 22.9 |
| <i>Adjustment for:</i> | | | | | |
| [REDACTED] | — | — | [REDACTED] | — | [REDACTED] |
| Adjusted net profit for the year/period (non-HKFRS measure) | <u>91.0</u> | <u>77.1</u> | <u>73.2</u> | <u>32.5</u> | <u>34.1</u> |

Our adjusted net profit (non-HKFRS measures) increased by approximately HK\$1.6 million from approximately HK\$32.5 million for the five months ended May 31, 2022 to approximately HK\$34.1 million for the five months ended May 31, 2023 primarily due to the growth of our loan portfolio as a result of the gradual recovery of economy after COVID-19. Nonetheless, the growth is rather stagnant due to the cautious market sentiment in the property market, price pressures on major goods and services as a result of inflation and increase in pressure faced by our SME borrowers due to increase in domestic business cost, and all of these factors affected borrowers' spending power which forced them to cut out unnecessary spending or expansion plans, and in turn affected the demand for financing.

Our profit and total comprehensive income decreased from HK\$91.0 million in 2020 to HK\$77.1 million in 2021 as a result of the decrease in interest income because as compared to the pre-COVID period (i.e. before the Track Record Period commenced), we were (i) more conservative in granting loans, and (ii) there was an increase in early redemption by our borrowers in 2020 which reduced our interest income and thus, affected our profit in subsequent years. Our profit and total comprehensive income decreased from HK\$77.1 million in 2021 to HK\$67.9 million in 2022 as our credit approval policy remained tightened as a result of COVID-19's persistent impact on Hong Kong's economy, which led to a decrease in the actual size of our loan portfolio (without taking into account the Transferred Loans) and interest income derived from our loans.

Our profit and total comprehensive income decreased from HK\$32.5 million for the five months ended May 31, 2022 to HK\$22.9 million for the five months ended May 31, 2023 as a result of the increase in [REDACTED] and net expected credit losses due to increase in loan receivables, which has offset the increase in interest income as we gradually grow our loan portfolio.

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Consolidated Balance Sheets

The following table sets forth line items from our consolidated balance sheets as of the dates indicated:

| | As of December 31, | | | As of May 31, |
|--------------------------|-----------------------|---------|---------|---------------|
| | 2020 | 2021 | 2022 | 2023 |
| | <i>(HK\$'million)</i> | | | |
| Total assets | 1,265.1 | 1,309.1 | 1,087.3 | 1,043.6 |
| Total liabilities | 671.7 | 656.4 | 366.8 | 400.2 |
| Total equity | 593.4 | 652.7 | 720.5 | 643.4 |

Our total equity increased from HK\$593.4 million as of December 31, 2020 to HK\$652.7 million as of December 31, 2021, mainly due to profit for the year of HK\$77.1 million which was offset by dividends of HK\$17.8 million distributed in 2021. Our total equity further increased from HK\$652.7 million as of December 31, 2021 to HK\$720.5 million as December 31, 2022, mainly due to profit for the year of HK\$67.9 million. Our total equity decreased to approximately HK\$643.4 million as of May 31, 2023 mainly due to the distribution of a special dividend of HK\$100.0 million in 2023.

Consolidated statements of cash flow

| | Year ended December 31, | | | Five months ended May 31, | |
|--|-------------------------|-------------|-------------|---------------------------|-------------|
| | 2020 | 2021 | 2022 | 2022 | 2023 |
| | <i>(HK\$'million)</i> | | | (Unaudited) | |
| Net cash generated from operating activities | 164.5 | 207.0 | 169.3 | 64.9 | 0.4 |
| Net cash used in investing activities | (316.4) | (162.0) | (111.4) | (10.1) | (6.5) |
| Net cash generated from/(used in) financing activities | 160.3 | (45.3) | (62.7) | (17.5) | 16.5 |
| Net increase/(decrease) in cash and cash equivalents | 8.4 | (0.3) | (4.8) | 37.3 | 10.4 |
| Cash and cash equivalents at the beginning of year/period | 20.8 | 29.2 | 28.9 | 28.9 | 24.1 |
| Cash and cash equivalents at the end of year/period | <u>29.2</u> | <u>28.9</u> | <u>24.1</u> | <u>66.2</u> | <u>34.5</u> |

SUMMARY

SELECTED FINANCIAL RATIOS

The following table sets forth our selected financial ratios during the Track Record Period.

| | As of/year ended December 31, | | | As of/five months ended May 31, | |
|--|-------------------------------|-----------|-----------|------------------------------------|-----------|
| | 2020 | 2021 | 2022 | 2022 | 2023 |
| | | | | (Unaudited) | |
| Gearing ratio ⁽¹⁾ | 1.06 | 0.96 | 0.47 | 0.50 | 0.54 |
| Return on Assets ⁽²⁾ | 7.0% | 6.0% | 5.7% | 2.4% | 2.2% |
| Return on Equity ⁽³⁾ | 14.8% | 12.4% | 9.9% | 4.7% | 2.2% |
| Interest coverage ratio ⁽⁴⁾ | 3.9 times | 3.6 times | 4.6 times | 5.2 times | 4.1 times |

- (1) Gearing ratio is calculated by dividing net debts (being total debt including borrowings, amounts due to the ultimate holding company, the immediate holding company and related parties and lease liabilities less cash and cash equivalents) by total equity as of the respective year-end or period-end dates.
- (2) Return on assets is calculated by dividing net profit for the year or period by the average total assets as of the beginning and end of the corresponding year/period.
- (3) Return on equity is calculated by dividing net profit for the year or period by the average total equity as of the beginning and end of the corresponding year/period.
- (4) Interest coverage ratio is calculated by dividing profit before tax and interest (excluding interest expenses on lease liabilities) by the interest expenses for the corresponding year or period.

Our Source of Funds

Our primary funding channels mainly include: (i) funding from loans or facilities from local banks and other authorized institution; (ii) Connected Advances; and (iii) cash flows from our operating activities.

Certain portion of the Connected Advances we received was non-interest bearing, which may have affected our financial performance (such as net profit) and key financial ratios (such as return on equity) if interest expenses shall be borne by us. The non-interest bearing Connected Advances only attributed insignificant portion of our source of fund during the Track Record Period, thus the Directors consider that non-interest bearing Connected Advances are immaterial to the Group’s operation and has no significance on the Group’s financial performance and business position. For an analysis of how non-interest bearing Connected Advances might have impacted us if they were interest-bearing, see “Business — Our Source of Funds — Our major fund providers — Connected Advances”.

Prior to our [REDACTED], existing Connected Advances (if any) owed to our connected persons or related parties shall also be settled by cash, and financial assistance provided to us after our [REDACTED] shall also comply with the Listing Rules. Any potential changes in our funding channels may affect our results of operations and financial condition. For details, see “Risk factors — Our financial performance may be adversely affected as we shift away from obtaining financing from related parties to financing from independent fund providers.”

RECENT DEVELOPMENTS

Our loan receivables has increased from HK\$1,056.3 million as of May 31, 2023 to HK\$1,106.5 million as of August 31, 2023, and the number of our loan accounts increased from 7,629 as of May 31, 2023 to 8,233 as of August 31, 2023 which was primarily due to recovery of the economy from the relaxation of restrictions on travel and social distancing in Hong Kong in relation to the COVID-19 pandemic and the loosening of our credit assessment policy, which led to the growth of our loan portfolio.

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Our expected loss rate, 90+ delinquency ratio and bad debt ratio was 10.2%, 16.3% and 4.2% (annualized) as of May 31, 2023 and 10.1%, 15.9% and 4.3% (annualized) as of August 31, 2023.

Due to increase in our [REDACTED], we expect a decrease in the forecast profit for the year ending December 31, 2023.

Subsequent to the Track Record Period and up to the Latest Practicable Date, as part of the implementation of our development strategies, we have entered into the following initiatives.

Loan Participation Scheme

As of the Latest Practicable Date, we are negotiating with a subsidiary of a Japanese financial institution to establish a loan participation scheme. Under the proposed loan participation scheme, we will act as a grantor and our partner acts as the sole participant who participate in loans granted by us, and they are entitled to a certain portion of economic interest under the participation arrangement so that we are able to utilize the capital contribution of our partner, to provide loans as the sole lender to grant loan to borrowers. Our business partner could participate in our loans which have and receive certain extent of interest income based on the participation arrangement. We believe we can leverage this opportunity to expand our business and to diversify our risk exposure.

We will retain control over the credit assessment process and negotiate terms of the loans with borrowers directly, hence the loans under the loan participation scheme will be approved by us based on our own assessment model and loans will be disbursed to the borrowers using our own funds before our partner is invited to participate. After the disbursement of the loan to the borrower, we will invite our partner for fund contribution. According to the External Legal Counsel, our business partner will be in the position of a money lender and be subject to the regulatory regime of money lenders in Hong Kong. It is observed by the External Legal Counsel that the intended arrangement has not violated the regulatory scheme applicable in Hong Kong and there is no reason at this negotiation stage, to suspect our business partner would not abide by the relevant laws and regulations had the loan participation scheme come into operation.

Collaboration of blockchain technology 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 built by River Square. We are the first licensed money lender invited to join this blockchain platform. The Riverchain is expected to be in operation by the end of 2023. As of the Latest Practicable Date, as the collaboration has not formally commenced, no revenue has been generated from our participation of the said blockchain platform.

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 that the loan principal requested by subcontractors would generally be larger to meet their cash flow needs, and the default risk of these subcontractors are perceived to be lower as their participation in property development projects of New World can be ascertained 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.

Note: Bad debt ratio for the five months ended May 31, 2023 and six months ended June 30, 2023 are annualized based on bad debt for the period, as a percentage of the arithmetic mean of the opening and closing balances of our loan receivables.

SUMMARY

Through this platform, we would be able to review certain information and documents of the subcontractors necessary for our loan approval purpose. 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.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since May 31, 2023, being the latest period reported on in the Accountant’s Report, and there has been no event since May 31, 2023 that would materially affect the information shown in the Accountant’s Report set out in Appendix I.

[REDACTED]

| | Based on an [REDACTED] of | |
|--|----------------------------------|----------------------------------|
| | HK\$[REDACTED] per [REDACTED] | HK\$[REDACTED] per [REDACTED] |
| [REDACTED] ⁽¹⁾ | HK\$[REDACTED] million | HK\$[REDACTED] million |
| [REDACTED] adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share ⁽²⁾ | HK\$[REDACTED] | HK\$[REDACTED] |

(1) The calculation of [REDACTED] is based on [REDACTED] shares expected to be in issue immediately upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised).

(2) See “Appendix II — Unaudited [REDACTED] Financial Information — Unaudited [REDACTED] Statement of Adjusted Consolidated Net Tangible Assets” for further details regarding the assumptions used and the calculations method.

DIVIDENDS

In 2020, 2021 and 2022 and five months ended May 31, 2023, we declared a dividend of HK\$121.0 million, HK\$17.8 million, nil and HK\$100.0 million, respectively. The dividends were non-cash transactions settled through current account with related parties.

Following completion of the [REDACTED], our Shareholders will be entitled to receive dividends only when declared by our Board. The payment and amount of dividends declared by our Board will depend on our (i) overall results of operation; (ii) financial position; (iii) capital requirements; (iv) Shareholders’ interests; (v) prospects; and (vi) other factors which our Board deems relevant. We cannot assure our Shareholders that we will be able to declare or distribute dividends in any amount each year or in any year. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and Companies Act, including, among others, the approval of the Shareholders. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

SUMMARY

[REDACTED]

The [REDACTED] primarily represent fees paid to professional parties for our [REDACTED]. Based on the mid-point [REDACTED] of HK\$[REDACTED] and assuming [REDACTED] not exercised, the total estimated [REDACTED] in relation to the [REDACTED] is HK\$[REDACTED] million including estimated [REDACTED] expenses of HK\$[REDACTED] million, and [REDACTED] expenses consisting of (i) estimated fees and expenses of legal advisor(s) and accountant(s) of HK\$[17.3] million, (ii) estimated other fees and expenses of HK\$[16.0] million, and (iii) miscellaneous fees of HK\$0.4 million. During the Track Record Period, [REDACTED] of HK\$[REDACTED] million were incurred of which HK\$[REDACTED] million were charged to our consolidated statement of comprehensive income and HK\$[REDACTED] million were recognized to our consolidated balance sheet. We estimate that we will further incur [REDACTED] of HK\$[REDACTED] million of which HK\$[REDACTED] million will be charged to our consolidated statement of comprehensive income and HK\$[REDACTED] million, which mainly includes [REDACTED], is expected to be accounted for as a deduction from equity upon the completion of [REDACTED] and the [REDACTED]. Our [REDACTED] as a percentage of gross [REDACTED] is [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per Share and that the [REDACTED] is not exercised.

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 “Business — 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 shortened 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”.

SUMMARY

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.