The following discussion and analysis should be read in conjunction with our consolidated financial statements included in "Appendix I — Accountant's Report," together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with HKFRS.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis that we make in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed in "Risk Factors" and "Forward-Looking Statements" and elsewhere in this document.

OVERVIEW

We are a licensed money lender in Hong Kong focusing on providing unsecured loans through adopting various technologies while offering a convenient customer experience. We target subprime customers with financial hardship, emergency or unexpected spending for which they do not have money budgeted. Our customers enjoy the benefits of the unsecured credit access by using technology for our lending services, including but not limited to loan application, credit assessment, drawdown and loan repayment. During the Track Record Period, we mainly offered the following types of unsecured loans:

- ***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 Loan"; and

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

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 five months ended May 31, 2023, respectively, while our profit for the year or period was HK$91.0 million, HK$77.1 million and HK$67.9 million and HK$22.9 million for the relevant period, respectively.

BASIS OF PRESENTATION

Our combined financial information has been prepared in accordance with HKFRS issued by the HKICPA. The net assets of the combining companies were combined using the existing book values, and no amount is recognized in consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party's interest. Accordingly, the Reorganization is regarded as a business combination under common control, and for the purpose of this report, the historical financial information has been prepared on a combined basis.

The combined financial statements of the Group have been prepared under the historical cost convention. For more information on the basis of presentation and preparation of the historical financial information, see note 2.1 of the Accountant's Report in Appendix I.

The preparation of our combined financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to our consolidated financial information are disclosed in note 4 of the Accountant's Report in Appendix I.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, including the following:

Net interest margin and cost of funding

Our operational results and profitability depend on the net interest margin of our loan products. As such, our operating results and financial condition will rely heavily on the ability to maintain our net interest margin. In 2020, 2021 and 2022 and five months ended May 31, 2023, our overall net interest margin was approximately 23.8%, 22.9%, 23.2% and 9.2%, respectively. For a discussion on the fluctuation of our net interest margin during the Track Record Period, see "— Results of Operations — Year ended December 31, 2020 compared to year ended December 31, 2021 — Net interest margin", "— Results of Operations — Year ended December 31, 2021 compared to year ended December 31, 2022 — Net interest margin" and "— Results of Operations — Five Months Ended May 31, 2022 Compared to Five Months Ended May 31, 2023 — Net interest margin".

Capital base and source of funding

Our capital base and our ability to raise adequate and timely funds affect the successful execution of our business expansion and other strategies. During the Track Record Period, our operations and capital requirements were financed principally through (i) cash flow from our operating activities; (ii) funding from loans or facilities provided by banks; and (iii) loans from Controlling Shareholders and their close associates. Our borrowings (tax loans excluded) remained stable at approximately HK$306.0 million, HK$291.0 million, HK$282.0 million and HK$252.0 million as of December 31, 2020, 2021 and 2022 and May 31, 2023, respectively, which were for our working capital. Based on our current and anticipated levels of operations and barring any unforeseen circumstances in market conditions, our source of funding following our [**REDACTED**] will also include the [**REDACTED**] from the [**REDACTED**] and loans from banks in Hong Kong. Our loan portfolio and the expansion of our business rely principally on the sufficiency of our source of funding. The size of our loan portfolio has historically been directly correlated to the amount of funding available to us. As such, the expansion of our business will be limited by our ability to obtain adequate funding.

Risk management capability

Our business is inherently subject to various risks, in particular, credit risk. We implement a comprehensive credit risk management methodology to control our credit risk exposure throughout the loan cycle of our loan products. On the front-end, we leverage various 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 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 entire business process. Our hybrid cloud K Cash GO Platform supports all these technologies, allowing us to achieve optimal operational efficiency.

We utilize our IDCM model for credit review and approval, which comprises Credit Modelling System and AQM System for our Personal Loans. For Unsecured Property Owner Loans, we collect and review information of the properties owned by borrowers, and use the AVS Methodology to assess the value of such properties, so that our credit intelligence department is able to have a more accurate valuation and closely monitor changes in the valuation. In respect of our SME Loans, we rely on financial performance and operational data of our borrowers for ongoing risk monitoring. We will also utilize our SME dashboard for pre-loan credit assessment and post-loan monitoring. A comprehensive and effective risk management system can help mitigate our risk exposure and control our bad debt ratios, and enable us to reduce bad debt and thus manage impairment cost. Any significant deficiency or ineffectiveness in our risk management system will directly or indirectly result in an increase in our bad debt ratio or failure of our debt collection agent to collect overdue loans, which may in turn impact our results of operation and financial condition.

Competition

Competition across our business line is intense. According to Frost & Sullivan, there were over 2,000 licensed money lenders in Hong Kong as of December 31, 2022. We compete primarily on capital base, source of fundings, efficiency, pricing, and accessibility. To effectively compete with our competitors and maintain or increase our market share, we may need to continue enhancing our competitive strengths, in particular, our ability to offer cost-effective and speedy financial solutions to our customers. If we fail to maintain our competitive strengths, we may lose market share and our interest income may decrease.

Macroeconomic and market conditions in Hong Kong

Our business activities are based in Hong Kong and we are directly affected by any change or development in the local economic, social, political and legal situations as well as government policies in Hong Kong. Such changes or developments are subject to numerous factors, such as the global economy and political conditions which are beyond our control. Events with adverse impact on borrowers' confidence and risk appetites, such as unemployment, COVID-19 related restrictions and anything that will cause the Hong Kong economy to deteriorate, may lead to a reduction in borrowings and in turn affect our business performance. Poor economic conditions also reduce our borrowers' ability to repay their obligations to us which reduces our interest income, size of our loan portfolio and increases our credit losses. Any adverse change in the local economic, social and political environment may lead to a prolonged period of sluggish market activities and a deterioration in investment and trading activities, which may in turn adversely affect our business, results of operations, financial conditions and prospects.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Judgments and Estimates

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of loan receivables

We assess expected credit losses on loan receivables based on assumptions about risk of default based on probability of default, loss given default and exposure at default discussed in "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — 3. Financial, Risk and Capital Risk Management — Note 3.1(b)". Management judgment will be involved in making assumptions and selecting the inputs to its expected credit losses calculation, based on our past history, present market conditions as well as forward looking information at the end of each reporting period. For details of the estimation techniques, key assumptions and inputs used, see "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — 3. Financial, Risk and Capital Risk Management — Note 3.1(b)".

Accounting Policies

We have identified certain accounting policies that are significant to the preparation of our financial information. These significant accounting policies are important for an understanding of our financial condition and results of operations and are set forth in "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — Note 2". The following paragraphs discuss certain significant accounting policies applied in preparing the Financial Information.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost. Any difference between the [**REDACTED**] (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of banking facilities are recognized as transaction costs of the borrowings to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Repossessed assets

Upon derecognition of related loan receivables, foreclosed assets are recognized as "Repossessed assets" on the consolidated balance sheets. Repossessed assets are measured at the lower of the carrying amount and the fair value less cost to sell at the end of each reporting period. When the fair value less cost to sell is lower than the carrying amount, impairment loss is recognized in profit or loss.

Gain or loss on disposal of repossessed assets is recognized in profit or loss within "other (losses)/gain, net".

Impairment of non-financial assets

Assets that are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Financial assets

Classification

The classification depends on our business model for managing the financial assets and the contractual terms of the cash flows.

Where our business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, we assess whether the financial instruments' cash flows represent solely payments of principal and interest ("**SPPI**"). In making this assessment, we consider whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Debt instruments are those instruments that meet the definition of a financial assets from our perspective. During the years ended December 31, 2020, 2021 and 2022 and five months ended May 31, 2023, we only hold debt instruments, including cash and cash equivalents, loan receivables, other receivables and deposit, amount due from a director, amounts due from fellow subsidiaries, and amounts due from related parties, which are held for collection of contractual cash flows where those cash flows represent SPPI thus measured at amortized cost.

We reclassify debt investments when and only when our business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which we commit to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and we has transferred substantially all the risks and rewards of ownership.

Measurement

Initial measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount; (iii) for financial assets, adjusted for any loss allowance.

Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e., its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets and is included in our interest income, except for:

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets and is included in "Interest income", except for:

- purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and

- financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

Impairment of financial assets

We assess on a forward-looking basis the expected credit losses associated with our debt instruments carried at amortized cost. We recognize a loss allowance for such losses at the end of each reporting period. The measurement of expected credit losses reflect:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcome;

- The time value of money; and

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For details of how our provision for impairment is measured, see "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — 3. Financial, Risk and Capital Risk Management — Note 3.1(b)".

PRINCIPAL COMPONENTS OF OUR CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The following table sets forth our consolidated statements of comprehensive income for the years or periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2020	2021	2022	2022	2023
			(HK$'million)		
				(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 expense	(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.

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

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

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.

Interest income

During the Track Record Period, we derived revenue through interest income generated from our money lending business. We mainly offer unsecured loans, comprising unsecured property owner, personal and SME loans. In 2020, 2021 and 2022 and five months ended May 31, 2023, we generated interest income of HK$304.3 million, HK$270.1 million, HK$234.0 million and HK$104.7 million, respectively.

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

	Year ended December 31,						Five months ended May 31,			
	2020		2021		2022(2)		2022		2023	
	(HK$'million)	*%*	*(HK$'million)*	*%*	*(HK$'million)*	*%*	*(HK$'million)*	*%*	*(HK$'million)*	*%*
							(Unaudited)			
Unsecured property owner loans										
– 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
	186.6	61.3	169.6	62.8	146.8	62.7	62.5	62.9	69.6	66.5
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
Others(1)	0.8	0.3	0.5	0.2	0.5	0.2	0.2	0.2	–	–
Total	**304.3**	**100.0**	**270.1**	**100.0**	**234.0**	**100.0**	**99.4**	**100**	**104.7**	**100.0**

(1) Others comprise of subordinated mortgage loan business during the Track Record Period. We have already ceased to provide any new loans under subordinated mortgage 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 "Business — Key Financial and Operating Metrics — Receivables of Loan Principal".

Our interest income was primarily affected by us becoming more prudent to the risk of defaults since the COVID-19 outbreak; and the temporary deterioration of Hong Kong economy and imposition of social distancing measures and travel restrictions caused by the persistence of COVID-19 throughout most of the Track Record Period. These factors are partially attributable to precautionary measures that we took out on our own volition to prevent ourselves from being exposed to additional risk instead of deterioration of the viability of our operations due to reasons such as changes in the market environment or demand for our services, hence our Directors are of the view that the COVID-19 outbreak has not materially affected our business during the Track Record Period. For details of the tightening of our credit risk management policy during the COVID-19 outbreak and the impact of COVID-19 on our operations, see "Summary — Impact of outbreak of COVID-19 on our business" and "Business — Risk management and internal control — Credit risk management".

After the COVID-19 outbreak, we believe that the repayment pattern of our borrowers was further disrupted as their day-to-day cash flow has been affected by the interruption of business activities caused by the COVID-19 outbreak, hence to balance-out the impact on our financial performance if a single borrower defaults, we became more conservative in granting loans, especially High Value Loans, as compared to the pre-COVID-19 period, and the terms of loans we offered to the same borrower were less favorable in aspects such as interest rate and the principal amount. We also increased scrutiny on loan applications received, especially for applicants who were involved in industries which were most affected by COVID-19 due to social distancing measures or travel restrictions imposed by the Hong Kong Government, such as catering, retail or tourism, by requiring borrowers to achieve higher credit rating, further analyzed the applicants' outstanding financial obligations or the property owned, or put more emphasis on alternative data such as payroll method and consumption habits, in addition to conventional attributes offered by a credit reference agency, which all affected the terms of our loan offers provided to borrowers. Hence there is an increasing trend in the proportion of turned down loan applications, in terms of the number of applications received, from 2019 to 2021 and remained at a high level in 2022, as well as in terms of the loan principal requested for High Value Loans, throughout the Track Record Period.

Further, we from time to time received requests from borrowers seeking to repay their loan principal in advance when they have surplus cash, or when they receive more competitive loan offers from other market players because they may seek to consolidate their debts including the loan provided by us at more favorable terms offered by other market players. We believe early redemptions made by borrowers increased particularly in 2020 because they were able to obtain more competitive loan offers elsewhere or were more cautious in financial management. Upon receiving such requests from our borrowers, we may re-assess the existing terms of their loan and negotiate with them amicably with a view of retaining them as our customer if they still required our loans. However, throughout the Track Record Period, given the uncertain outlook on the economy, we remained conservative when negotiating with borrowers regarding their existing loans with us by adjusting our terms for borrowers that we continue to perceive as high risk when they request for early repayment. As less efforts were made to retain our borrowers, the amount of early redemption received by us from our borrowers has remained at a relatively high level since the COVID-19 outbreak which adversely affected our interest income in subsequent periods and led to a decrease in our loan portfolio.

Interest expenses

During the Track Record Period, our interest expenses mainly comprised interest expenses on bank borrowings, to a related party, a fellow subsidiary and the immediate holding company. In 2020, 2021 and 2022 and five months ended May 31, 2023, our interest expenses were HK$36.6 million, HK$36.0 million, HK$23.0 million and HK$9.7 million, respectively. The loan from the immediate holding company was relating to the interest-bearing loans originally from Konew Credit which was fully repaid in June 2020, and we simultaneously borrowed from Konew Fintech instead. Such loan from Konew Fintech was fully settled in January 2022. The loan from a related party refers to the loan from Big Development. Both of these loans are used for our working capital.

The table below sets forth a breakdown of our interest expenses for the years or periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2020	2021	2022	2022	2023
			(HK$'million)		
				(Unaudited)	
Interest expenses on bank borrowings	19.1	18.5	19.7	8.3	8.7
Interest expenses on bank overdraft	0.0	0.0	0.0	–	0.0
Banking facilities handling fees	1.0	0.9	1.0	–	0.0
Interest expenses to the immediate holding company	7.2	14.5	0.1	0.1	–
Interest expenses to a fellow subsidiary	7.1	–	–	–	–
Interest expenses to a related party	2.2	2.1	2.2	0.9	0.9
	36.6	36.0	23.0	9.3	9.6
Other finance cost					
Interest expenses on lease liabilities	0.3	0.5	0.8	0.3	0.2

Other income

We generate other income primarily from rental income from a related party and fellow subsidiaries as well as government grant. In 2020, 2021 and 2022 and five months ended May 31, 2023, our other income was HK$5.7 million, HK$3.9 million, HK$10.1 million and HK$1.1 million, respectively. During the Track Record Period, we mainly derived our rental income from MoneySQ Limited which is a related party, and fellow subsidiaries mainly including Konew Capital, Honip Credit and Maxcolm Finance, which we received from sub-leasing office premise to them. Government grant received was mainly a subsidy provided by the Hong Kong Government in 2020 and 2022 in light of the outbreak of COVID-19.

The following table sets forth a breakdown of our other income for the years or periods indicated.

	Year ended December 31,			Five months ended May 31,	
	2020	2021	2022	2022	2023
			(HK$' million)		
				(Unaudited)	
Rental income from fellow subsidiaries	1.1	3.9	8.3	3.5	0.1
Rental income from a related party	0.1	0.0	0.0	0.0	1.0
Government grant	4.5	–	1.8	0.3	–
Others	–	0.0	0.0	0.0	0.0
	5.7	3.9	10.1	3.8	1.1

Note: The increase in rental income from fellow subsidiaries in 2022 was due to the subleasing of 4/F Wheelock House to Konew Capital since June 15, 2021.

General and Administrative Expenses

The breakdown of our general and administrative expenses during the Track Record Period are set out as follows:

	Year ended December 31,			Five months ended May 31,	
	2020	2021	2022	2022	2023
			(HK$'million)		
				(Unaudited)	
Employee benefit expenses (1)	38.8	47.6	37.1	17.1	12.5
Depreciation of right-of-use assets (2)	2.2	5.9	9.6	4.0	1.7
Depreciation of property equipment	2.6	2.6	2.3	1.0	0.7
Office expenses	2.7	2.3	1.9	0.8	1.2
IT services fee	1.5	1.6	0.8	0.7	–
Expenses related to short-term lease (2)	2.7	1.4	1.0	0.2	1.5
Subscription fee	1.1	1.1	1.1	0.4	0.5
Collection fee	1.5	0.7	1.0	0.7	0.0
Search fee and valuation	1.0	0.9	1.1	0.4	0.5
[**REDACTED**]	–	–	[**REDACTED**]	–	[**REDACTED**]
Legal and professional fees	0.5	0.6	1.1	0.9	0.4
Auditor's remuneration	0.4	0.2	0.2	0.1	0.1
Others (3)	2.7	3.5	3.6	1.3	3.2
Total	**57.7**	**68.4**	**66.1**	**27.6**	**33.5**

(1) Only comprise (i) salaries and bonus; (ii) pension and retirement benefits; and (iii) other staff benefits and welfare related to employees excluding frontline staffs who are responsible for our sales and marketing. For employee benefit expenses related to frontline staffs who are responsible for our sales and marketing, see "— Principal Components of our Consolidated Statement of Comprehensive Income — Selling expenses".

(2) Only includes depreciation of right-of-use assets related to, and short-term lease where the premises are used for, our general operation and administration. For depreciation of right-of-use assets and for short term lease related to our sales and marketing, see "— Principal Components of our Consolidated Statement of Comprehensive Income — Selling expenses".

(3) Others comprise, among others, bank charges, donations, repair and maintenance, motor vehicle expenses, recruitment and trading expenses, utility expenses and building management fee.

During the Track Record Period, our general and administrative expenses mainly comprised employee benefit expenses, office expenses as well as depreciation of right-of-use assets and property equipment. Particularly, our employee benefit expenses are consisted of (i) salaries and bonus; (ii) pension and retirement benefits; and (iii) other staff benefits and welfare.

Selling expenses

The following table sets forth the breakdown of selling expenses for the years or periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2020	**2021**	**2022**	**2022**	**2023**
			(HK$'million)		
				(Unaudited)	
Advertising and marketing expenses	20.8	19.2	18.8	3.6	6.1
Employee benefit expenses(1)	14.2	10.6	10.5	4.0	3.9
Depreciation of right-of-use assets(2)	2.1	2.4	2.7	0.9	1.5
Expenses related to short-term lease(2)	2.7	2.9	1.9	1.0	0.6
Sales Commission(3)	–	–	0.4	–	–
Referral Fee(3)	0.1	0.0	0.1	0.0	0.1
Total	**39.9**	**35.1**	**34.4**	**9.5**	**12.1**

(1) Only comprise (i) salaries and bonus; (ii) pension and retirement benefits; and (iii) other staff benefits and welfare related to frontline staffs who are responsible for our sales and marketing. This item, together with the line item of employee benefit expenses under the "General and Administrative Expenses", constitute the total amount of employee benefit expenses set out in Note 6 in the Appendix I.

(2) Only includes depreciation of right-of-use assets and short term lease related to our sales and marketing. This item, together with the line item of depreciation of right-of-use assets and short term lease under the "General and Administrative Expenses", constitute the total amount of depreciation of right-of-use assets and short term lease set out in Note 6 in the Appendix I.

(3) Sales commission and referral fee are categorized as "Others" in "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — Note 6".

During the Track Record Period, our selling expenses mainly comprised (i) advertising and marketing expenses such as TV commercials fees, online search engines and social media advertising expenses; (ii) employee benefit expenses for frontline sales staffs; (iii) depreciation of right-of-use assets related to leases of branches; and (iv) expenses related to short-term lease of branches.

Technology related expenses

In 2020, 2021 and 2022 and five months ended May 31, 2023, our technology related expenses, comprising IT staff costs and IT service fee, was approximately HK$7.8 million, HK$6.8 million, HK$7.1 million and HK$3.4 million, respectively. The following table sets forth a breakdown of our technology related expenses for the years or periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2020	2021	2022	2022	2023
			(HK$'million)		
				(Unaudited)	
IT staff costs[1]	4.6	4.2	5.3	2.2	2.7
IT service fees	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**

(1) Such costs are included in the employment benefit expenses under the "General and Administrative Expenses".

Our IT service fees are paid to MoneySQ Limited for their IT support. The decrease in 2022 was because we started to bring IT support functions in-house and no longer required the IT support from MoneySQ Limited in June 2022.

Expected credit losses, net

In 2020, 2021 and 2022 and five months ended May 31, 2023, we recorded net expected credit losses of HK$69.7 million, HK$41.9 million, HK$37.7 million and HK$21.3 million, respectively. The decrease of our net expected credit loss from HK$69.7 million in 2020 to HK$41.9 million in 2021 was mainly due to decrease in loan receivables from HK$1,094.6 million as of December 31, 2020 to HK$946.1 million as of December 31, 2021 which reduced our exposure of credit loss in 2021. The decrease of our net expected credit loss from HK$41.9 million in 2021 to HK$37.7 million in 2022 was because our loan portfolio continued to decrease before taking into account the Transferred Loans, and we acquired an unsecured loan portfolio which consists of 454 loan accounts with fair values of HK$146.8 million of Unsecured Property Owner Loans and four loan accounts with fair values of HK$3.3 million of Personal Loans from the Excluded Group in 2022, which led to an increase in the proportion of Unsecured Property Owner Loans and the decrease in the proportion of Personal Loans in our loan portfolio in 2022. Since the relevant loan portfolio acquired mainly comprised of Unsecured Property Owner Loans which requires less provisions to be made, the impact of these Transferred Loans on expected credit loss is minimal. We perform regular review of our loan receivables and assess provision for impairment by taking into account the underlying risk profile, historical loss experience, historical loss rate of loans with similar attributes and forward-looking information.

Income tax expenses

Our principal tax liability arises from Hong Kong profits tax as our operation is based in Hong Kong. We were subject to a profits tax at a rate of 16.5% on our estimated assessable profits during the Track Record Period. In 2020, 2021 and 2022 and five months ended May 31, 2023, our income tax expenses amounted to HK$14.5 million, HK$15.2 million, HK$14.0 million and HK$6.9 million, respectively, and the effective tax rate was 13.7%, 16.5%, 17.1% and 23.2%, respectively. The lower effective income tax rate for 2020 compared to that in 2021 was mainly due to over-provision of tax from previous years and certain non-taxable government subsidies of HK$4.5 million we received in 2020. The higher effective income tax rate for 2022 compared to that in 2021 was because of the [**REDACTED**] incurred in 2022, which were not subject to tax deduction.

During the Track Record Period and as of the Latest Practicable Date, we had fulfilled all our tax obligations and did not have any unresolved tax disputes with the applicable tax authorities.

The following table sets forth a breakdown of our income tax expenses for the years or periods indicated.

	Year ended December 31,			**Five months ended May 31,**	
	2020	**2021**	**2022**	**2022**	**2023**
			(HK$'million)		
				(Unaudited)	
Current income tax					
– Hong Kong profits tax	20.1	14.3	14.6	6.6	7.4
– (Over)/under-provision in prior years	(2.2)	(0.0)	(0.1)	–	–
Deferred income tax	(3.4)	0.9	(0.5)	(0.0)	(0.5)
	14.5	15.2	14.0	6.6	6.9

Net interest margin

The table below sets forth the net interest margin of our loans products for the years or periods indicated:

	Year ended December 31,			**Five months ended May 31,**	
	2020	**2021**	**2022**	**2022**	**2023**
				(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%

Note: The figures for the five months ended May 31, 2022 and 2023 were not annualized.

RESULTS OF OPERATIONS

Five Months Ended May 31, 2023 Compared to Five Months Ended May 31, 2022

Interest income

Our interest income increased by 5.2% from HK$99.5 million in the five months ended May 31, 2022 to HK$104.7 million in the five months ended May 31, 2023 due to the increase in our loan portfolio as we no longer implemented the Restrictive Aggregate Loan Out Policy and the Tightened Credit Assessment Policy after the local economy is gradually recovering from the COVID-19 outbreak.

Unsecured Property Owner Loans

Our interest income from Unsecured Property Owner Loans increased by 11.4% from HK$62.5 million in the five months ended May 31, 2022 to HK$69.6 million in the five months ended May 31, 2023. The increase was primarily due to the increase in our average loan balance to HK$733.9 million for the five months ended May 31, 2023 from HK$634.0 million for the corresponding period in the previous year.

Personal Loans

Our interest income from Personal Loans decreased by 6.3% from HK$32.0 million in the five months ended May 31, 2022 to HK$30.0 million in the five months ended May 31, 2023. The decrease was primarily due to the decrease in our average loan balance to HK$248.0 million for the five months ended May 31, 2023 from HK$252.6 million for the corresponding period in the previous year as our focus was to grant more Unsecured Property Owner Loans which has a lower bad debt ratio as the likelihood for us to recover the borrower's overdue amount is higher.

SME Loans

Our interest income from SME Loans increased from HK$4.7 million in the five months ended May 31, 2022 to HK$5.1 million in the five months ended May 31, 2023. The increase was primarily due to the increase in our average loan balance to HK$55.6 million for the five months ended May 31, 2023 from HK$51.6 million for the corresponding period in the previous year because business activities of SMEs were stalled following a major COVID outbreak in early 2022.

Interest expenses

Our interest expenses increased by 4.3% from HK$9.3 million in the five months ended May 31, 2022 to HK$9.7 million in the five months ended May 31, 2023. The increase was primarily due to the increase in interest rate of our major banking facility.

Interest expenses on bank borrowings

Our interest expenses on bank borrowings increased by 4.8% from HK$8.3 million in the five months ended May 31, 2022 to HK$8.7 million in the five months ended May 31, 2023. The increase was primarily due to the increase in interest rate of our major banking facility.

Net interest margin

Our overall net interest margin slightly decreased from 9.6% in five months ended May 31, 2022 to 9.2% in five months ended May 31, 2023. The decreases in the overall net interest margins were primarily due to the decrease in net interest margin of Unsecured Property Owner Loans to 8.6% for the five months ended May 31, 2023 from 8.9% for the corresponding period in the previous year; and the decrease in net interest margin of Personal Loans to 11.2% for the five months ended May 31, 2023 from 11.7% for the corresponding period in the previous year.

Other income

Our other income decreased by 69.9% from HK$ 3.8 million in five months ended May 31, 2022 to HK$1.1 million in five months ended May 31, 2023. The decrease was primarily due to termination of the sub-lease arrangement of an office premise to Konew Capital and Maxcolm Finance, hence we ceased to receive rental income under such arrangement.

General and administrative expenses

Our general and administrative expenses increased by 21.4% from HK$27.6 million in five months ended May 31, 2022 to HK$33.5 million in five months ended May 31, 2023. The increase was mainly due to the increase in [**REDACTED**], which was offset by the decrease in employee benefit expense and depreciation of right-of-use assets as certain staff member of our Group were transferred to the Excluded Group in mid 2022 and we ceased to occupy one of the office premises in 2023.

Selling expenses

Our selling expenses increased by 28.4% from HK$9.5 million in five months ended May 31, 2022 to HK$12.1 million in five months ended May 31, 2023, primarily due to the launch of a new advertising campaign.

Expected credit losses, net

Our net expected credit losses increased by 20.3% from a net loss of HK$17.7 million in five months ended May 31, 2022 to a net loss of HK$21.3 million in five months ended May 31, 2023, primarily due to the increase in our exposure at default as a result of the increase in amount of overdue repayments.

Profit before income tax

As a result of the foregoing, our profit before income tax decreased by 23.6% from HK$39.0 million in five months ended May 31, 2022 to HK$29.8 million in five months ended May 31, 2023.

Income tax expense

Our income tax expenses increased by 4.5% from HK$6.6 million in five months ended May 31, 2022 to HK$6.9 million in five months ended May 31, 2023, primarily due to increases in our taxable income which was in line with the increase of our loan portfolio.

Profit for the Period

As a result of the foregoing, our profit and total comprehensive income for the period decreased by 29.5% from HK$32.5 million in five months ended May 31, 2022 to HK$22.9 million in five months ended May 31, 2023.

Year ended December 31, 2021 compared to year ended December 31, 2022

Interest income

Our interest income decreased by 13.4% from HK$270.1 million in 2021 to HK$234.0 million in 2022 due to the decreases in the interest income from our three types of unsecured loans resulting from the combined effect of our more tightened credit approval policy which led to a decrease in our loan portfolio as a result of COVID-19, which impacted our interest income in 2022.

Unsecured Property Owner Loans

Our interest income from Unsecured Property Owner Loans decreased by 13.4% from HK$169.6 million in 2021 to HK$146.8 million in 2022. The decrease was primarily due to the decrease in average loan balance (i.e. the average of our gross loan receivables at the beginning and the end of the year) by 9.8% from HK$674.1 million in 2021 to HK$607.9 million in 2022.

This was the result of us remaining prudent and selective in granting loans to borrowers through the adoption of more stringent credit risk management measures since the COVID-19 outbreak. In 2020 and 2021, less efforts were also made to retain our borrowers upon receiving their request for early redemption, hence the amount of early redemption received by us has remained at a high level. The amount of loan principal repaid in advance by borrowers of Unsecured Property Owners Loans increased from approximately HK$88.7 million in the second half of 2019 to HK$111.6 million and HK$101.2 million in the first half and second half of 2020, respectively, which contributed to the decrease in our loan portfolio, and these early redemptions significantly impacted our interest income in subsequent periods. Coupled with the high proportion of turned down loan applications for High Value Loans, our loan portfolio has been constantly under pressure of contraction.

Personal Loan

Our interest income from Personal Loans decreased by 14.4% from HK$87.1 million in 2021 to HK$74.6 million in 2022. The decrease was primarily attributable to a decrease in average loan balance by 15.4% from HK$289.9 million in 2021 to HK$245.2 million in 2022.

Our loan portfolio for Personal Loans decreased as our credit approval process remained tightened because our assessment on how Personal Loans borrowers' ability to payback loans were affected by COVID-19 outbreak; and we continued to adopt a more tightened credit risk management policy under the principle that the growth of our loan portfolio for Personal Loans shall be restricted given borrowers' higher risk of default as compared to borrowers of our other loan products. Demand for our Personal Loans based on the applications received and the amounts requested remained steady, yet we were unable to satisfy such demand due to our tightened credit risk management policy, and the amount of loan principal approved by us as compared to those requested by applicants decreased from approximately 56.2% in 2021 to 45.6% in 2022, which restricted the potential growth of the loan portfolio of our personal loans in such years. The number of new loan accounts for Personal Loans was also affected by the partial suspension of our 7x24 AI Loans since February 2022, which was one of our means to attract new customers given its efficiency and accessibility.

SME Loan

Our interest income from SME Loans decreased by 6.2% from HK$12.9 million in 2021 to HK$12.1 million in 2022. The decrease was primarily due to a decrease in average loan balance by 4.1% from HK$54.1 million to HK$51.9 million in 2022. This was the result of the economic recession caused by the Hong Kong Government's social distancing restrictions, particularly during the 5th wave of COVID-19 outbreak in Hong Kong from January to May 2022, resulting in the shortening of business hours, reduction in business activities, continuously low number of visitors which seriously impacted the operation activities of SMEs, and the number of SMEs in sectors such as retail and catering demonstrated a year-on-year decrease in 2020 and 2021. Based on the operational and financial data that we were able to retrieve from borrowers of our SME Loans, we also noticed a downward trend of their performance, and our SME borrower and its guarantor failed to repay its debt. In view of the deterioration of the overall economy in Hong Kong and in line with our tightened credit risk policy during the COVID-19 outbreak, we became more cautious in approving SME loans especially those in industries which were adversely affected by COVID-19.

Interest expenses

Our interest expense decreased from HK$36.0 million in 2021 to HK$23.0 million in 2022. The decrease was primarily due to a decrease in the interest expenses to the immediate holding company, offset by a slight increase in our interest expenses on bank borrowings.

Interest expenses on bank borrowings

Our interest expenses on bank borrowings increased slightly from HK$18.5 million for the year ended December 31, 2021 to HK$19.7 million for the year ended December 31, 2022. The increase was mainly due to the increase in the Hong Kong dollar prime rate at authorized financial institutions from which we obtained fundings from 5.375% per annum to 5.875% per annum, offset by a decrease in our bank borrowings balance from HK$328.1 million as of December 31, 2021 to HK$303.1 million as of December 31, 2022.

Interest expenses to the immediate holding company

Our interest expenses to the immediate holding company decreased from HK$14.5 million in 2021 to HK$0.07 million in 2022, because the interest-bearing loan from Konew Fintech was repaid in full in January 2022.

Interest expenses to a related party

Our interest expenses to a related party remain relatively stable at HK$2.1 million in 2021 and HK$2.2 million in 2022.

Net interest margin

Our overall net interest margin slightly increased from 22.9% in 2021 to 23.2% in 2022, which generally reflects the increases in the net interest margins across most of our loan types. During 2021 and 2022, the net interest margins of our Unsecured Property Owner Loans, Personal Loans and SME Loans remained stable at 21.6%, increased from 26.5% to 27.9% and 20.3% to 20.7%, respectively. The increases in our net interest margins were primarily due to the decrease in our average loan receivables which outpaced the decrease in net interest income in 2022. The closing balance of the loan receivables in 2022 did not take into account the loan portfolio transferred to us from the Excluded Group.

Other income

Our other income increased significantly from HK$3.9 million in 2021 to HK$10.1 million in 2022, primarily due to the significant increase in the rental income from fellow subsidiaries from HK$3.9 million in 2021 to HK$8.3 million in 2022 resulting from our receipt of rental income of office premise sub-leased to Konew Capital and Maxcolm Finance since June 2021, where income was recognized for the whole year in 2022 as compared to the same income which was only received and recognized during the second half of 2021.

Other (losses)/gain, net

We recorded net other gains of HK$0.2 million in 2021, while we had net other losses of HK$0.2 million in 2022. The change was primarily due to a decrease in the reversal of impairment of repossessed assets in 2022 and a loss on disposal resulted from a termination of a lease for one of our branches in 2022.

General and administrative expenses

Our general and administrative expenses decreased slightly from HK$68.4 million in 2021 to HK$66.1 million in 2022. The decrease was primarily due to a decrease in employee benefit expenses offset by an increase in depreciation of right-of-use assets and [**REDACTED**].

Our employee benefit expenses decreased by 22.1% from HK$47.6 million in 2021 to HK$37.1 million in 2022. The decrease was primarily due to (1) the distribution of a one-time special bonus in 2021 to reward our employees for their performance, which did not recur in 2022; and (2) our staff and those of the Excluded Group were designated based on their responsibilities and duties in us or the Excluded Group since mid-2022 and new employment contracts were entered into with the respective company. Our depreciation of right-of-use assets increased from HK$5.9 million in 2021 to HK$9.6 million in 2022 due to K Cash Express's rental of office premise commenced in June 2021 and depreciation of 12 months in 2022 as compared to 6 months in 2021. The increase in the [**REDACTED**] was mainly due to our preparation of [**REDACTED**] in 2022.

Selling expenses

Our selling expenses remain stable at HK$35.1 million in 2021 and HK$34.4 million in 2022.

Expected credit losses, net

Our net expected credit losses decreased from a net loss of HK$41.9 million in 2021 to a net loss of HK$37.7 million in 2022. The decrease was because our loan portfolio continued to decrease before taking into account the Transferred Loans, and we acquired an unsecured loan portfolio which consists of 454 loan accounts with fair values of HK$146.8 million of Unsecured Property Owner Loans and four loan accounts with fair values of HK$3.3 million of Personal Loans from the Excluded Group in 2022, which led to an increase in the proportion of Unsecured Property Owner Loans and the decrease in the proportion of Personal Loans in our loan portfolio in 2022. Since the relevant loan portfolio acquired mainly comprised of Unsecured Property Owner Loans which requires less provisions to be made, the impact of these Transferred Loans on expected credit loss is minimal.

Other finance cost

Our other finance cost represents interest expenses incurred on lease liabilities. Our other finance cost increased by 60.0% from HK$0.5 million in 2021 to HK$0.8 million in 2022. The increase was primarily due to a new lease entered into by K Cash Express in June 2021, resulting in an increase in interest expenses for 12 months in 2022 compared to 6 months in 2021 incurred on the lease liability.

Profit before income tax

As a result of the foregoing, our profit before income tax decreased by 11.3% from HK$92.3 million in 2021 to HK$81.9 million in 2022.

Income tax expense

Our income tax expense slightly decreased by 7.9% from HK$15.2 million in 2021 to HK$14.0 million in 2022. The decrease was primarily due to the decrease in profit before tax in 2022.

Profit for the year

As a result of the foregoing, our profit and total comprehensive income decreased by 11.9% from HK$77.1 million in 2021 to HK$67.9 million in 2022.

Year ended December 31, 2020 compared to year ended December 31, 2021

Interest income

Our interest income decreased by 11.2% from HK$304.3 million in 2020 to HK$270.1 million in 2021 due to the decreases in the interest income from Personal Loans and Unsecured Property Owner Loans which were attributable to our decision to tighten our credit approval policy, and such decreases were offset by an increase in our interest income from SME Loans.

Unsecured Property Owner Loan

Our interest income from Unsecured Property Owner Loans decreased by 9.1% from HK$186.6 million in 2020 to HK$169.6 million in 2021. The decrease was primarily due to decrease in average loan balance by 5.8% from HK$715.6 million in 2020 to HK$674.1 million in 2021, and attributable to the deterioration of Hong Kong economy and imposition of social distance measures caused by the persistence of COVID-19; and us becoming more prudent to the risk of defaults. We immediately took actions to tighten our credit risk management policy after the COVID-19 outbreak, especially towards borrowers who intend to take out High Value Loans with us, and such measures remained in place throughout 2020 and 2021, which led to an increase in proportion of turned down loan applications for High Value Loans, and adversely affected the growth of our loan portfolio. Given our consistently tightened credit risk management policy, our performance in 2021 demonstrates the combined effect of such tightening in both 2020 and 2021. The increase in early redemption amount in 2020 and the relatively high level sustained in 2021 also reduced the size of our loan portfolio.

Personal Loan

Our interest income from Personal Loans decreased by 18.1% from HK$106.4 million in 2020 to HK$87.1 million in 2021. The decrease was primarily attributable to the decrease in average loan balance by 18.6% from HK$356.1 million in 2020 to HK$289.9 million in 2021, which was attributable to our tightened approval policy on Personal Loans; and restricted the growth of our loan portfolio despite having more cash on hand to rejuvenate our loan portfolio.

The demand for quick financing remains strong amid the COVID-19 outbreak, and number of Personal Loan applications received by us, and the loan principal requested by loan applicants of Personal Loans has increased by 6.4% from approximately HK$916 million in 2020 to HK$973 million in 2021. Nevertheless, the proportion of turned down loan applications for Personal Loans had a year-to-year increase in 2020 and 2021 since (i) the loan offers approved by us may not be considered attractive by loan applicants, especially when the loan principal approved by us may be lower than their desired amount or not sufficient for their purpose, hence more loan applicants declined our loan offers even when after receiving our offer; and (ii) our additional scrutiny on Personal Loan applications received, especially for applicants who were involved in industries which were most affected by COVID-19 outbreak.

SME Loan

Our interest income from SME Loans increased by 22.9% from HK$10.5 million in 2020 to HK$12.9 million in 2021. The increase was primarily due to the continuous development of our SME Loan in 2020 since its commencement in 2019, which resulted in an increase of average loan balance by 10.7% from HK$48.9 million in 2020 to HK$54.1 million in 2021.

Interest expenses

Our interest expense slightly decreased from HK$36.6 million in 2020 to HK$36.0 million in 2021. The decrease was primarily due to a decrease in the interest expenses on bank borrowings and interest expenses to a fellow subsidiary, offset by an increase in our interest expenses to the immediate holding company.

Interest expenses on bank borrowings

Our interest expenses on bank borrowings slightly decreased from HK$19.1 million in 2020 to HK$18.5 million in 2021. The decrease was primarily due to a decrease in the average balance of our bank borrowing during 2021.

Interest expenses to the immediate holding company

Our interest expenses to the immediate holding company significantly increased from HK$7.2 million in 2020 to HK$14.5 million in 2021. The loan from the immediate holding company was relating to the interest-bearing loans originally from Konew Credit which was fully repaid in June 2020 and we simultaneously borrowed from Konew Fintech instead. The increase was primarily due to the transfer in June 2020, resulted in interest expenses payable to Konew Fintech for 6 months in 2020 comparing to interest expenses payable for 12 months in 2021.

Interest expenses to a related party

Our interest expenses to a related party remain stable at HK$2.2 million in 2020 and HK$2.1 million in 2021. The loan from a related party refer to the loan from Big Development, which is unsecured, interest bearing at a range from 6.25% to 6.88% per annum, repayable on demand, and is used for our working capital.

Interest expenses to a fellow subsidiary

Our interest expenses to a fellow subsidiary decreased from HK$7.1 million in 2020 to nil in 2021. The loan from a fellow subsidiary refers to the loan from Konew Credit which was fully repaid in June 2020, and we simultaneously borrowed from Konew Fintech instead. Therefore, the decrease in 2021 was primarily due to no interest expense was payable to Konew Credit subsequent to the full repayment to it by Konew Fintech in June 2020.

Net interest margin

Our overall net interest margin slightly decreased from 23.8% in 2020 to 22.9% in 2021. The decreases in the overall net interest margins were primarily due to the decrease in the net interest margin for Unsecured Property Owner Loans from 22.8% in 2020 to 21.6% in 2021, partially offset by the increase in the net interest margin for SME Loans from 18.2% in 2020 to 20.3% in 2021, as the interest income from Unsecured Property Owner Loan was the largest component of our interest income, representing 61.3% and 62.8% of our interest income in 2020 and 2021, respectively, while the interest income from SME Loans was the smallest component of our interest income, representing 3.4% and 4.8% of our interest income in 2020 and 2021, respectively. Our net interest margin for Personal Loans remained stable at 26.6% in 2020 and 26.5% in 2021. The decrease in the net interest margin for Unsecured Property Owner Loans was mainly due to the decrease in interest income from Unsecured Property Owner Loans from 2020 to 2021, which outpaced the decrease in the average loan receivables of Unsecured Property Owner Loans during the same year.

Other income

Our other income decreased by 31.6% from HK$5.7 million in 2020 to HK$3.9 million in 2021, primarily due to a one-off government grant of HK$4.5 million in 2020 which did not recur in 2021, offset by the increase in rental income by HK$3.9 million in 2021 as part of the office leased by K Cash Express and sub-leased to Konew Capital and Honip Credit Limited.

Other (losses)/gain, net

We recorded net other losses of HK$0.3 million in 2020 but net other gains of HK$0.2 million in 2021. The change was mainly due to increase in provision made to repossessed assets in 2020 and increase in reversal of provision on repossessed assets in 2021.

General and administrative expenses

Our general and administrative expenses increased by 18.5% from HK$57.7 million in 2020 to HK$68.4 million in 2021. The increase in 2021 was mainly due to an increase in employee benefit expense and an increase in depreciation of right-of-use assets. Our employee benefit expenses increased by 22.7% from HK$38.8 million in 2020 to HK$47.6 million in 2021, which was primarily due to the distribution of a one-time special bonus in 2021 to reward our employees for their performance. Our depreciation of right-of-use assets sharply increased from HK$2.2 million in 2020 to HK$5.9 million in 2021 as K Cash Express leased a new office premise in June 2021.

Selling expenses

Our selling expenses decreased by 12.0% from HK$39.9 million in 2020 to HK$35.1 million in 2021, primarily due to the decrease in employee benefit expenses and the advertising and marketing expenses. The decrease in the employee benefit expenses from HK$14.2 million to HK$10.6 million was mainly due to a decrease in the number of frontline sales staffs in 2021 resulting from the normal employee turnover and our decision to optimize our organization structure in light of the uncertainties in the local economy. The decrease in the advertising and marketing expense was mainly due to the adoption of precision marketing measures, which resulted in a reduced level of mass media advertisement.

Expected credit losses, net

Our net expected credit losses decreased by 39.9% from a net loss of HK$69.7 million in 2020 to a net loss of HK$41.9 million in 2021. The decrease was primarily due to the decrease in our loan receivables before provision for impairment from HK$1,094.6 million as of December 31, 2020 to HK$946.1 million as of December 31, 2021.

Other finance cost

Our other finance cost increased from HK$0.3 million in 2020 to HK$0.5 million in 2021. The increase was primarily due to our lease of new office premise in 2021, resulting in an increase in interest expenses incurred on the lease liability.

Profit before income tax

As a result of the foregoing, our profit before income tax decreased by 12.0% from HK$105.5 million in 2020 to HK$92.3 million in 2021.

Income tax expense

Our income tax expense slightly increased by 4.8% from HK$14.5 million in 2020 to HK$15.2 million in 2021. The increase was primarily due to an increase in our deferred income tax despite the decrease in current income tax. Our deferred income tax increased from negative HK$3.4 million to HK$0.9 million due to the decrease in expected credit loss charged to the income statement in 2021. Our current income tax decreased from HK$17.9 million in 2020 to HK$14.3 million in 2021 due to a decrease in operating income available and a decrease in non-taxable income arising from government grants.

Profit for the year

As a result of the foregoing, our profit and total comprehensive income decreased by 15.3% from HK$91.0 million in 2020 to HK$77.1 million in 2021.

DISCUSSION OF CERTAIN LINE ITEMS ON THE CONSOLIDATED BALANCE SHEETS

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

	As at December 31,			As at May 31,
	2020	2021	2022	2023
	(HK$'million)			
ASSETS				
Cash and cash equivalents	29.2	28.9	24.1	34.5
Amounts due from fellow subsidiaries	213.4	374.6	90.2	1.7
Amounts due from other related parties	0.3	0.3	0.6	1.0
Amount due from a director	0.9	0.7	0.6	–
Loan receivables	986.0	844.5	913.8	948.2
Prepayments, deposits and other receivables	2.8	5.6	12.1	12.3
Repossessed assets	4.2	6.6	5.8	9.4
Income tax recoverable	–	6.1	0.1	–
Deferred income tax assets	17.8	16.9	17.4	17.9
Property, plant and equipment	6.3	4.7	3.6	3.6
Right-of-use assets	4.2	20.2	19.0	15.0
Total assets	**1,265.1**	**1,309.1**	**1,087.3**	**1,043.6**
EQUITY				
Equity attributable to the owners of the Company				
Share capital	0.0	0.0	0.0	0.0
Reserves	593.4	652.7	720.5	643.4
Total equity	**593.4**	**652.7**	**720.5**	**643.4**
LIABILITIES				
Amount due to the ultimate holding company	–	0.0	0.0	0.0
Amount due to the immediate holding company	250.8	263.0	10.5	10.5
Amounts due to fellow subsidiaries	37.2	9.6	–	68.5
Amounts due to other related parties	35.6	33.3	28.5	26.5
Accruals and other payables	1.7	1.8	5.5	7.9
Income tax payable	12.7	–	–	7.3
Bank borrowings	329.2	328.1	303.1	265.4
Lease liabilities	4.5	20.6	19.1	14.1
Total liabilities	**671.7**	**656.4**	**366.8**	**400.2**
Total equity and liabilities	**1,265.1**	**1,309.1**	**1,087.3**	**1,043.6**

The following discussion compares certain key line items on our consolidated balance sheets during the Track Record Period.

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
– 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.

The increase of our expected loss rate from 9.9% as of December 31, 2020 to 10.8% as of December 31, 2021 was mainly due to increase in expected credit loss rate adopted in 2021 as we expected an increase in probability of default in 2021 due to the negative impact of COVID-19. The decrease of our expected loss rate from 10.8% as of December 31, 2021 to 10.3% as of December 31, 2022 was because the positive impact of the Transferred Loans we acquired in 2022 outweighed the negative impact of the COVID-19 outbreak. We acquired the Transferred Loans in 2022, which predominantly consisted of Unsecured Property Owners Loans and led to an increase in the proportion of Unsecured Property Owners Loans and the decrease in the proportion of Personal Loans in our loan portfolio as of December 31, 2022. The higher proportion of Unsecured Property Owner Loans with a lower expected loss rate in the entire loan portfolio consequentially lowered, the overall expected credit loss rate of our entire loan portfolio. Our expected loss rate as of May 31, 2023 has remained stable as the decrease in expected credit loss rate adopted for Unsecured Property Owner Loans. Such effect was offset by increase in proportion of Personal Loans, typically with much higher expected credit loss rate, in our loan portfolio.

The following table sets forth an aging analysis of loan receivables for our loan products based on instalments by due date:

	As of December 31,						As of May 31,	
	2020		2021		2022		2023	
	Loan Receivables	ECL	Loan Receivables	ECL	Loan Receivables	ECL	Loan Receivables	ECL
	(HK$'000)							
Unsecured Property Owner Loans								
Current	625,804	9,116	528,811	8,289	568,368	8,315	566,093	5,635
Overdue 1-30 days	6,471	298	6,099	275	9,091	318	8,191	221
Overdue 31-60 days	3,999	270	3,972	242	5,744	288	5,732	197
Overdue 61-90 days	3,563	246	3,620	223	5,299	273	5,540	193
Overdue over 90 days	73,520	5,142	92,416	5,718	141,458	7,365	152,268	5,337
	713,357	15,072	634,918	14,747	729,960	16,559	737,824	11,583
Personal Loans								
Current	300,171	66,386	242,515	55,852	212,120	50,347	234,061	57,886
Overdue 1-30 days	3,330	2,143	2,428	1,507	3,009	2,159	6,084	2,741
Overdue 31-60 days	2,205	1,970	1,468	1,370	2,191	2,067	2,099	1,984
Overdue 61-90 days	2,022	1,854	1,295	1,216	1,963	1,881	1,893	1,802
Overdue over 90 days	12,427	11,655	11,974	11,317	15,270	14,944	17,354	16,585
	320,155	84,008	259,680	71,262	234,553	71,398	261,491	80,998
SME Loans								
Current	57,912	9,209	45,461	11,764	48,675	12,298	52,774	11,903
Overdue 1-30 days	576	132	668	564	1,703	932	955	544
Overdue 31-60 days	70	58	547	504	782	752	443	423
Overdue 61-90 days	65	53	454	423	811	780	443	423
Overdue over 90 days	45	42	2,462	2,328	2,332	2,282	2,345	2,242
	58,668	9,494	49,592	15,583	54,303	17,044	56,960	15,535

As of December 31, 2020, 2021 and 2022 and May 31, 2023, our total loan receivables that were past due were HK$108.3 million, HK$127.4 million, HK$189.7 million and HK$203.3 million, respectively, accounting for 9.9%, 13.5%, 18.6% and 19.3% of our total loan receivables (excluding loan receivables of the subordinated mortgage loans as of December 31, 2020 and 2021), respectively, as of the same dates, respectively.

As of December 31, 2020, 2021 and 2022 and May 31, 2023, our loan receivables over 90 days past due were HK$86.0 million, HK$106.9 million, HK$159.1 million and HK$172.0 million, respectively, accounting for 7.9%, 11.3%, 15.6% and 16.3% of our total receivables (excluding loan receivables of the subordinated mortgage loans as of December 31, 2020 and 2021), respectively, as of the same dates. The increase in our loan receivables overdue over 90 days was mainly due to the acquisition of the Transferred Loans from the Excluded Group (among which 125 accounts were over 90 days past due with overdue loan receivables of approximately HK$58.6 million), and the roll-over effect of overdue loan receivables for loan accounts which we have already took legal proceedings.

As of December 31, 2020, 2021 and 2022 and May 31, 2023, our loan receivables over 60 days past due were HK$91.8 million, HK$112.4 million, HK$167.1 million and HK$179.8 million, respectively, accounting for 8.4%, 11.9%, 16.4% and 17.0% of our total receivables (excluding loan receivables of the subordinated mortgage loans as of December 31, 2020 and 2021), respectively, as of the same dates. Apart from the reasons mentioned above, the increase in our loan receivables overdue over 60 days was mainly due to the subsiding effect of COVID-19.

As of December 31, 2020, 2021 and 2022 and May 31, 2023, our loan receivables over 30 days past due were HK$98.1 million, HK$118.4 million, HK$175.9 million and HK$188.1 million, respectively, accounting for 9.0%, 12.5%, 17.3% and 17.8% of our total receivables (excluding loan receivables of the subordinated mortgage loans as of December 31, 2020 and 2021), respectively, as of the same dates. Apart from the reasons mentioned above, the increase in our loan receivables overdue over 30 days was mainly due to the subsiding effect of COVID-19.

As of May 31, 2023, 132 and 210 charging orders that we have obtained against overdue loan receivables of approximately HK$43.9 million and HK$72.8 million were rolled-over from December 31, 2021 and December 31, 2022, respectively. There may be uncertainties as to when we could recover delinquent loans via selling the repossessed property as the market for repossessed property may be less liquid and repossessed properties may be sold at a discount. Hence, we will not immediately enforce charging orders obtained, which led to accumulation of loans overdue over 90 days. The increase in our 30+ delinquency ratio and 60+ delinquency ratio are in line with that of our 90+ delinquency ratio.

In addition, the Temporary Protection Measures for Business Tenants (COVID-19 Pandemic) Ordinance (Cap. 644) that came into effect in 2022 barred lenders, including licensed money lender like us, from taking certain actions in respect of a repayment default where certain conditions are satisfied. Despite such ordinance only applies to secured loans, in order to play our part in supporting the local community while it is facing temporary difficulties, we have also eased up enforcement actions which are not encouraged, including but not limited to, taking possession order of the property. As we were less aggressive in taking enforcement actions during 2022, the repayment pattern of our borrowers were affected, which led to an increase in loan receivable over 90 days past due in 2022.

As of August 31, 2023, HK$185.3 million, or 17.5%, of our total loan receivables as of May 31, 2023 had been subsequently settled.

The following table sets forth an analysis of the expected credit loss rate for our loan products in as of the dates indicated:

	Stage 1	Stage 2	Stage 3	Overall
As of December 31, 2020				
Unsecured Property Owner Loans	0.4%	5.4%	7.0%	2.1%
Personal Loans	14.5%	65.0%	93.8%	26.2%
SME Loans	14.5%	65.0%	93.8%	16.2%
	Stage 1	**Stage 2**	**Stage 3**	**Overall**
As of December 31, 2021				
Unsecured Property Owner Loans	0.5%	5.3%	6.2%	2.3%
Personal Loans	18.2%	88.4%	94.5%	27.4%
SME Loans	18.2%	88.4%	94.5%	31.4%
	Stage 1	**Stage 2**	**Stage 3**	**Overall**
As of December 31, 2022				
Unsecured Property Owner Loans	0.3%	3.2%	5.2%	2.3%
Personal Loans	16.5%	84.3%	97.9%	30.4%
SME Loans	16.5%	84.3%	97.9%	31.4%
	Stage 1	**Stage 2**	**Stage 3**	**Overall**
As of May 31, 2023				
Unsecured Property Owner Loans	0.2%	2.3%	3.5%	1.3%
Personal Loans	18.9%	89.2%	95.6%	29.4%
SME Loans	18.9%	89.2%	95.6%	27.3%

Our management reviews the expected credit loss rate on a quarterly basis and based on our borrowers' historical repayment patterns. For details of how our ECL rate is measured, please see "— Definition of default and credit-impaired — Measurement of ECL". The increase in the expected credit loss rate for Personal Loans and SME Loans from 65.0% in 2020 to 88.4% in 2021 was due to the disruption of our borrowers' repayment pattern when the impact of COVID-19 outbreak just emerged. The expected credit loss rate for Unsecured Property Owner Loans slightly decreased during the Track Record Period due to a decrease in the likelihood of us being unable to recover the overdue loans and the decrease in expected losses that we will incur in the event of a default. Fewer loans were also granted to borrowers which we perceived as high risk, and the expected credit loss rate for our Unsecured Property Owner Loans also took into account the value of properties owned by our borrowers which was relatively stable during the Track Record Period.

Loans Assigned

The following table sets forth an aging analysis of the Transferred Loans as of December 31, 2022:

	As at December 31, 2022	
	Loan Receivables	**ECL**
	HK$	*HK$*
Unsecured Property Owner Loans		
Current	119,217,893	1,385,972
Overdue 1-30 days	2,267,752	36,315
Overdue 31-60 days	1,307,042	29,484
Overdue 61-90 days	1,195,184	28,749
Overdue over 90 days	25,020,836	731,123
	149,008,707	2,211,643
Personal Loans		
Current	3,685,320	367,788
Overdue 1-30 days	10,223	7,502
Overdue 31-60 days	10,223	7,502
Overdue 61-90 days	10,223	7,502
Overdue over 90 days	40,365	29,621
	3,756,354	419,914

The expected credit loss rates applied to the Transferred Loans represented the expected credit loss rates previously adopted by the Excluded Group prior to the year end date which was due to a longer deemed default period assumed when measuring the expected credit loss over the relevant loan portfolios, while the expected credit loss rates applied by us represented the expected credit loss rates following the measurement of the expected credit loss under the HKFRS 9 model after consideration of overall relevant information. Hence, the expected credit loss rates applied on the Transferred Loans in the corresponding period resulted is different from that applied on our overall loan receivables.

Discussion on our loan provision policy, credit control procedures and sufficiency of loan provision made

We apply the "three-stage" approach on loan receivables to provide for expected credit loss. The maximum period considered when measuring expected credit loss is the maximum contractual period over which we are exposed to credit risk. The "three-stage" approach is summarized as follows:

- Stage 1: financial instruments that are not credit-impaired on initial recognition and have their credit risk continuously monitored by us. Provision for impairment is measured at an amount equal to the portion of lifetime expected credit loss that result from default events possible within the next 12 months;

- Stage 2: financial instruments with significant increase in credit risk since initial recognition, but are not yet deemed to be credit-impaired. Provision for impairment is measured based on expected credit losses on a lifetime basis ("**lifetime expected credit loss**"); and

- Stage 3: financial instruments that are credit impaired where provision for impairment is measured based on lifetime expected credit loss.

We use various criteria to determine whether credit risk has increased significantly, and we presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are past due for more than 30 days for Unsecured Property Owner Loans, Personal Loans and SME Loans, unless identified at an earlier stage.

We take into account the following factors when assessing whether credit risk has increased significantly:

- significant deterioration in external market indicators of credit risk;
- any actual or expected significant deterioration in operating results or financial conditions of customers;
- existing or forecast adverse changes in business, financial economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations; and
- an actual or expected significant adverse change in the regulatory economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Definition of default and credit-impaired

We determine that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay; or
- the loan is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

Therefore, the definitions of credit-impaired and default are aligned as far as possible so that Stage 3 represents all loans that are considered defaulted or otherwise credit-impaired.

For more details, see "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — 3. Financial, Risk and Capital Risk Management — Note 3.1".

The grouping by exposure into loan portfolios is performed on the basis of shared risk characteristics, such that the risk exposures in a group of financial instruments are homogeneous. The Unsecured Property Owner Loans are grouped for collective measurement taking into account the type of product, loan-to-value ratio and repayment pattern. Personal Loan is grouped for collective measurement based on industry of principal activities of customer and repayment pattern. The appropriateness of grouping of loan portfolio for assessment is monitored and regularly reviewed.

Unsecured Property Owner Loans

We perform regular review on the value of properties owned by our borrowers when (i) there is a significant change in the property price index in Hong Kong; or (ii) when the Unsecured Property Owner Loans are renewed. We generally consider that default has occurred when it is necessary to execute the order for sale on the property owned by the borrower, which is also the point of time that we would not expect to receive full repayments (including interests on deferred payments) from customers. The following qualitative factors would be considered in determining whether default has occurred:

- the customer is deceased;
- the customer is insolvent;
- the customer is experiencing significant financial difficulties; or
- it is becoming probable that the customer will enter bankruptcy.

Personal Loans

We have a set of loan approval procedures that takes into account the external credit data and behavioral patterns to assess the creditworthiness of prospective borrowers. These assessments focus on the individual credit reports obtained from a credit reference agency, occupation and background of the customers, proof of ownership of property by customers, the general business and economic conditions at the time of application and corroborate with the supporting documents provided by the customers.

We also engage debt collection agents to handle the collection of outstanding repayments of overdue loans. The debt collection agents would then perform various procedures to approach and follow up with the customers on the outstanding repayments. When we and our debt collection agents fail to get in touch with customers and have exhausted all other possible means to recover the outstanding loan receivables, we will then consider the procedures performed are not effective and initiate legal proceedings against the customers to recover the outstanding amounts if necessary. We continuously monitor the behavior of our customers and work closely with debt collection agents on the outstanding repayments of overdue loans.

We also perform back-testing of our provision on a regular basis and assesses whether the drivers of increase in credit risk that led to default were accurately and timely reflected in our credit assessment procedures.

The following qualitative factors would also be considered in determining whether default has occurred:

- the customer is deceased;
- the customer is insolvent;
- the customer is experiencing significant financial difficulties; or
- it is becoming probable that the customer will enter bankruptcy.

Write off policy

We write off financial assets, in whole or in part, when we have exhausted all practical recovery efforts and have concluded there is no reasonable expectation of recovery. Indications that there is no reasonable expectation of recovery include (i) ceasing enforcement activity; and (ii) where recovery method is through collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

We may write-off financial assets that are still subject to enforcement activity. The outstanding loan receivables written off during the years ended December 31, 2020, 2021 and 2022 and five months ended May 31, 2023 were HK$51.3 million, HK$51.0 million, HK$40.2 million and HK$19.3 million, respectively. We still seek to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

While cash and cash equivalents, deposits and other receivables, amount due from a director, amounts due from fellow subsidiaries and amounts due from related parties are also subject to impairment assessment required by HKFRS 9, we make periodic assessments on their recoverability based on historical settlement records and past experience, and considered the relevant expected credit losses are immaterial.

Measurement of ECL

We measure expected credit losses, net of financial assets under HKFRS 9 ECL model. The ECL is measured on either a 12-month or lifetime basis, depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The estimation of ECL are unbiased and probability weighted and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at each of the reporting date. The measurement of ECL is a function of PD, EAD and LGD that are defined below:

- Probability of Default ("**PD**"): The PD represents the likelihood of a customer defaulting on the corresponding loan and interest receivable (as per "Definition of default and credit-impaired" above), either over the next 12 months or over the remaining lifetime of the loan;

- Exposure at Default ("**EAD**"): The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime; and

- Loss given Default ("**LGD**"): The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realized and the time value of money. LGD is calculated on either 12-month or lifetime basis, representing the percentage of loss expected to be made if the default occurs in the next 12 months or over the remaining expected lifetime of the loan respectively.

We determine the ECL by projecting the PD, EAD and LGD of each individual exposure for each future month. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month and further aggregated.We measure ECL from the initial recognition of the financial assets. The maximum period considered when measuring ECL should either be on a 12-month or a lifetime basis is the maximum contractual period over which we are exposed to credit risk.

The lifetime PD is calculated by applying a maturity profile to the 12-month PD. The maturity profile set out how defaults develop on a loan portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical data and is assumed to be the same across all loans in a portfolio supported by historical analysis. The 12-month and lifetime EADs are determined based on the expected payment profile that varies by different loan products.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made after default occurs:

- For Unsecured Property Owner Loans, this is based on the type and expected fair value of assets owned by our borrowers, time to repossession and estimated recovery costs. The LGD is minimal if the outstanding loan and interest receivable could be substantially recovered through repossession and forced sales of assets owned by our borrowers;

- For Personal Loans and SME loans, this is influenced by our collection strategies.

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD, whereas the lifetime ECL is calculated using the lifetime PD.

Forward-looking information incorporated in the ECL model

The assessment of ECL incorporates forward-looking information based on economic forecasts, apply these assumption to the ECL model to estimate future credit losses and probability weight the result to determine an unbiased ECL estimate and is performed on a quarterly basis at a portfolio level. The criteria used in the assessment are monitored and reviewed periodically for appropriateness by the management. We consider forward-looking information with reference to the local gross domestic products; and unemployment rates.

For sensitivity analysis which provides an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions, see "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — 3. Financial, Risk and Capital Risk Management — Note 3.1(b)(vii)".

Amounts due from fellow subsidiaries

Our amounts due from fellow subsidiaries increased from HK$213.4 million as of December 31, 2020 to HK$374.6 million as of December 31, 2021, and decreased to HK$90.2 million as of December 31, 2022. Amounts due from fellow subsidiaries as of December 31, 2020, 2021 and 2022 and May 31, 2023 was mainly non-interest-bearing fund transferred between related companies for the purpose of working capital needs. During the Track Record Period, our amounts due from fellow subsidiaries were of a non-trade nature and any outstanding amounts will be settled immediately prior to our proposed [**REDACTED**]. The increase in the amount in 2021 was because of the increased need of working capital by the Excluded Group as they focused on providing secured loans which are less risky than those provided by us, while our surplus cash increased as we tightened our credit risk management policy and were less active in granting new loans. The substantial decrease in the amount in 2022 was mainly due to settlement of amounts payable pursuant to the transfers of loans among us and the Excluded Group with amount due to immediate holding company and fellow subsidiaries in 2022. Our amounts due from fellow subsidiaries decreased from HK$90.2 million as of December 31, 2022 to HK$1.7 million as of May 31, 2023, primarily due to declaration of a special dividend of HK$100 million in February 2023 which was settled through current account with Konew Credit.

Prepayments, deposits and other receivables

During the Track Record Period, our prepayments, deposits and other receivables primarily represent prepayments for rental and advertising, deposits and other receivables, mainly including advances made to staffs and rental deposits. As of December 31, 2020, 2021 and 2022 and May 31, 2023, our prepayments, deposits and other receivables amounted to HK$2.8 million, HK$5.6 million, HK$12.1 million and HK$12.3 million, respectively. The increase in 2021 was primarily attributable to increase in deposits from HK$1.7 million to HK$3.9 million as of December 31, 2020 and 2021, respectively, and other prepayments from HK$0.5 million to HK$1.0 million as of December 31, 2020 and 2021, respectively, as a result of rental deposits paid for our newly leased office and payable arising from the new office lease. The increase in 2022 was primarily attributable to increase in prepaid [**REDACTED**] from nil as of December 31, 2021 to HK$3.8 million as of December 31, 2022 and prepayments for advertising from HK$0.1 million as of December 31, 2021 to HK$1.1 million as of December 31, 2022 as a result of a prepayment for a new advertisement in 2022. Our prepayment, deposit and other receivables increased from HK$12.1 million as of December 31, 2022 to HK$12.3 million as of May 31, 2023, primarily due to increase in prepaid [**REDACTED**] which was partially offset by decrease in other receivables such as novation of staff advance.

Right-of-use assets

During the Track Record Period, our right-of-use assets mainly represent properties and office equipment leased by us. As of December 31, 2020, 2021 and 2022 and May 31, 2023, our right-of-use assets amounted to HK$4.2 million, HK$20.2 million, HK$19.0 million and HK$15.0 million, respectively. The increases of right-of-use assets from December 31, 2020 to 2021 were primarily due to our entering into a lease agreement for the new office in 2021. The decrease of right-of-use assets in 2022 were primarily due to depreciation. Our right-of-use assets decreased from HK$19.0 million as of December 31, 2022 to HK$15.0 million as of May 31, 2023, primarily due to depreciation of right-of-use assets over the five months ended May 31, 2023 and the termination of lease of an office premise which we no longer used.

Repossessed assets

Repossessed assets represent amounts of foreclosed loan receivables to be recovered by us through sales of properties as a result of default. We held six, seven and eight repossessed assets as of December 31, 2020, 2021 and 2022, respectively. In 2020, 2021 and 2022 and May 31, 2023, our repossessed assets amounted to HK$4.2 million, HK$6.6 million, HK$5.8 million and HK$9.4 million, respectively, all of which were due to default by Unsecured Property Owner Loan customers who defaulted on repayment, which had led to legal action being taken by us to repossess relevant assets. Further details of the repossessed assets have been disclosed in "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — Note 18". The reason for the increase of our repossessed assets in 2021 is that there were only two loan receivables with an outstanding balance of over HK$1.0 million in 2020. The reason for the decrease of our repossessed assets in 2022 is that the average balance of our repossessed assets decreased from HK$946,000 in 2021 to HK$724,000 in 2022 and the number of loans with balance over HK$1.0 million decreased from four in 2021 to three in 2022. The reason for the increase of our repossessed assets as of May 31, 2023 is due to the increase in number of repossessed assets from eight on December 31, 2022 to 13 on May 31, 2023.

INDEBTEDNESS

Borrowings

The following table sets forth our borrowings as of the respective dates indicated:

	As of December 31,			As at May 31,	As at August 31,
	2020	2021	2022	2023	2023
			(HK$' million)		
					(Unaudited)
Bank borrowings	329.2	328.1	303.1	265.4	293.3
Amount due to the ultimate holding company	–	0.0	0.1	0.1	0.1
Amount due to the immediate holding company	250.8	263.0	10.5	10.5	10.5
Amounts due to fellow subsidiaries	37.2	9.6	–	68.5	116.3
Amounts due to other related parties	35.6	33.3	28.5	26.5	13.1
Lease liabilities	4.5	20.6	19.1	14.1	11.0
Total	**657.3**	**654.6**	**361.3**	**385.1**	**444.4**

Bank borrowings

Our bank borrowings consist of loans from DBS Bank (Hong Kong) Limited and The Bank of East Asia, Limited which amounted to HK$329.2 million, HK$328.1 million and HK$303.1 million and HK$265.4 million as of December 31, 2020, 2021 and 2022 and May 31, 2023, respectively. In particular, during the Track Record Period, our bank loans and bank overdrafts were secured by (i) unlimited joint guarantees provided by the Controlling Shareholders and certain of our related parties; (ii) a floating charge against all assets duly executed by K Cash Express; and (iii) a property held by a related party. Our Directors confirm that, the guarantees provided by our Controlling Shareholders and related parties will be released upon [**REDACTED**] and replaced by corporate guarantees provided by our Company. As of December 31, 2020, 2021 and 2022 and May 31, 2023, all bank borrowings are denominated in the Hong Kong dollar and their carrying amounts approximate their fair values. We have complied with the relevant covenants of our banking facilities and borrowing during the Track Record Period.

As of August 31, 2023, being the latest practicable date for the purpose of indebtedness statement, we had aggregate banking facilities of approximately HK$331.3 million, of which approximately HK$38.0 million was unutilized. We are not committed to draw down the unutilized amount.

Amounts due to ultimate holding company

As of December 31, 2020, 2021 and 2022 and May 31, 2023, our amounts due to the ultimate holding company mainly represent secretarial and filing fees made on behalf of us by our ultimate holding company, and was approximately nil, HK$30,000, HK$84,000 and HK$97,000, respectively. The increase from December 31, 2020 to 2021 was mainly because no such payment incurred in 2020. During the Track Record Period, our amounts due to the ultimate holding company were of a non-trade nature and any outstanding amounts will be settled prior to our [**REDACTED**]. As of August 31, 2023, being the latest practicable date for the purpose of the indebtedness statement, our amounts due to the ultimate holding company was approximately HK$97,000.

Amounts due to the immediate holding company

As of December 31, 2020, 2021, 2022, May 31, 2023 , our amounts due to the immediate holding company were HK$250.8 million, HK$263.0 million, HK$10.5 million, HK10.5 million, respectively. During the Track Record Period, our amounts due to the immediate holding company represent advances from the ultimate holding company in respect of loan provided by Konew Fintech. The proceeds were lent to us for our working capital. Other payment representing IT service fees also contributed to our amounts due to the immediate holding company. Our amounts due to immediate holding company remained stable in 2020 and 2021. The significant decrease in 2022 compared to 2021 was mainly due to the expiry of the aforementioned loan facility in January 2022 and there were no such advances for the remainder of 2022. During the Track Record Period, our amounts due to the immediate holding company were of a non-trade nature and any outstanding amounts will be settled prior to our [**REDACTED**]. For more information, see "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — Note 25". As of August 31, 2023, being the latest practicable date for the purpose of the indebtedness statement, our amounts due to the immediate holding company was HK$10.5 million.

Amounts due to fellow subsidiaries

As of December 31, 2020, 2021, 2022, May 31, 2023 , our amounts due to fellow subsidiaries was HK$37.2 million, HK$9.6 million, nil and HK$68.5 million, respectively, all of which, were non-trade nature. Any outstanding amounts will be settled prior to our [**REDACTED**]. The decrease in 2021 and 2022 are mainly due to repayment to fellow subsidiaries. Our amount due to Honip Credit was HK$9.5 million, nil and nil in 2020, 2021 and 2022, respectively. Our amount due to Konew Capital was HK$27.7 million, HK$9.6 million and nil in 2020, 2021 and 2022, respectively. The balance with Honip Credit and Konew Capital are non-interest-bearing funds for our working capital. For more information, see "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — Note 25". As of August 31, 2023, being the latest practicable date for the purpose of the indebtedness statement , our amounts due to fellow subsidiaries was HK$116.3 million.

Amounts due to other related parties

As of December 31, 2020, 2021, 2022, May 31, 2023, our amounts due to related parties was HK$35.6 million, HK$33.3 million, HK$28.5 million and HK$26.5 million, respectively among which HK$35.7 million, HK$32.9 million, HK$27.4 million and HK$26.5 million, respectively, were non-trade nature, and nil, HK$0.4 million, HK$1.1 million and nil, respectively, were trade nature, primarily being payable for advertising agency fee. Any outstanding amounts will be settled prior to our [**REDACTED**]. The decrease in 2021 and 2022 are mainly due to repayment to related parties. Our amount due to Big Development was HK$35.6 million, HK$32.9 million and HK$27.4 million in 2020, 2021 and 2022, respectively. The loan from Big Development was provided to us as working capital, and was unsecured, interest bearing from 6.25% to 6.88% per annum, and repayable on demand. Our amount due to AQ Communications represents advertising expenses and was nil, HK$0.4 million and HK$1.1 million in 2020, 2021 and 2022, respectively. For more information, see "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — Note 25". As of August 31, 2023, being the latest practicable date for the purpose of the indebtedness statement, our amounts due to related parties was HK$13.1 million.

Save as disclosed above, we did not have any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to issue), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness, finance leasing commitments, hire purchase commitments, any guarantees or other material contingent liabilities.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our working capital principally from (i) cash flow from our operating activities; (ii) funding from loans or facilities from local banks; and (iii) loans from Controlling Shareholders and their close associates.

Based on our current and anticipated levels of operations and barring any unforeseen circumstances in market conditions, our source of funding following our [**REDACTED**] will include our cash and cash equivalents, the [**REDACTED**] from the [**REDACTED**] and bank borrowings.

We had cash and cash equivalents of HK$29.2 million, HK$28.9 million, HK$24.1 million and HK$34.5 million as of December 31, 2020, 2021 and 2022 and May 31, 2023, respectively. Our cash and cash equivalents primarily consist of cash at bank and cash on hand.

Taking into account the estimated [**REDACTED**] from the [**REDACTED**] and the financial resources presently available to us, including our cash and cash equivalents, cash flows from operating activities and our available loan facilities, our Directors are of the opinion that we have sufficient funds to meet our working capital requirements for at least the next 12 months from the date of this document.

Cash Flow

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2020	**2021**	**2022**	**2022**	**2023**
			(HK$'million)		
				(Unaudited)	
Cash flows from operating activities					
Cash generated from operations	227.3	276.1	200.8	74.2	10.1
Interest paid	(36.6)	(36.0)	(23.0)	(9.3)	(9.7)
Income tax paid	(26.2)	(33.1)	(8.5)	–	–
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	**29.2**	**28.9**	**24.1**	**66.2**	**34.5**

Net cash generated from operating activities

During the Track Record Period, our cash generated from operations were principally from interest income received from our loans and proceeds from disposal of repossessed assets, and our cash used in operations were mainly in connection with the loans granted by us.

During the five months ended May 31, 2022 and 2023, we recorded net cash generated from operating activities of HK$64.9 million and HK$0.4 million, respectively. The decrease was mainly due to the increase of our loan receivables by HK$52.2 million from the corresponding period of the previous year.

In 2020 and 2021, we recorded net cash generated from operating activities of HK$164.5 million and net cash generated from operating activities of HK$207.0 million, respectively. The increase in cash generated from operating activities from 2020 to 2021 was mainly due to an increase in changes in loan receivables by HK$91.5 million offset by decrease in profit for the year by HK$13.2 million. The decrease in changes in loan receivables was resulted from a more prudent approach adopted by us during the pandemic.

In 2021 and 2022, we recorded net cash generated from operating activities of HK$207.0 million and HK$169.3 million, respectively. The decrease was mainly due to a decrease in changes in loan receivables by HK$56.5 million offset by decrease in profit for the year of HK$10.4 million. The decrease in changes in loan receivables was resulted from a more prudent approach adopted by us during the pandemic.

Net cash used in investing activities

During the Track Record Period, our net cash used in investing activities primarily related to the amounts used to procure property, plant and equipment. In 2020 and 2021, we recorded net cash used in investing activities of HK$316.4 million and HK$162.0 million, respectively. The decrease in net cash used in investing activities was mainly due to the decrease in advances to fellow subsidiaries by HK$154 million. In 2022, we recorded net cash used in investing activities of HK$111.4 million. The decrease in 2022 compared to 2021 in net cash used in investing activities was mainly due to decrease in advances of fellow subsidiaries by HK$51 million during 2022. During the five months ended May 31, 2022 and 2023, we recorded net cash used in investing activities of HK$10.1 million and HK$6.6 million, respectively. The decrease was mainly due to decrease in advances to fellow subsidiaries.

Net cash used in financing activities

During the Track Record Period, our cash generated from and used in financing activities primarily represent repayments of bank borrowings, advances to related parties and to fellow subsidiaries, advances from the immediate holding company and the ultimate holding company and proceeds from bank borrowings.

In 2020, we recorded net cash generated from financing activities of HK$160.3 million, and net cash used in financing activities of HK$45.3 million and HK$62.7 million in 2021 and 2022, respectively. The decrease in cash generated from financing activities in 2021 was mainly due to the additional drawing made from one of the banking facilities in 2020. The increase in cash used in financing activities in 2022 was mainly due to increase in repayment of bank borrowings in 2022 when compared to 2021. During the five months ended May 31, 2022 and 2023, we recorded net cash used in financing activities of HK$17.5 million and net cash generated from financing activities of HK$16.5 million, respectively. The increase was mainly due to increase in advances from fellow subsidiaries of HK$63.1 million during the five months ended May 31, 2023 to repayments to fellow subsidiaries of HK$6.5 million during the five months ended May 31, 2022, offset by increase in repayment on bank borrowings from HK$6.3 million during the five months ended May 31, 2022 to HK$37.7 million during the five months ended May 31, 2023.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liabilities, guarantees or any other litigations or claims of material importance, pending or threatened against us that is likely to have a material and adverse effect on our business, financial condition or results of operations.

CAPITAL EXPENDITURE

We have no significant commitment for capital expenditure in the near future.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in this document, our Directors are of the opinion that these transactions were conducted on normal commercial terms or terms more favorable to us. Save for the sharing of IT services provided by trustME with the Excluded Group and portion of office premises that we shared with smartME and/or the Excluded Group, as well as miscellaneous office equipment, our Directors are not aware of other allocation or non-allocation of material common expenses between us and other companies held or businesses ran by the Lee's Family in which such other allocation or non allocation of common expenses, if any, taken as a whole, would not impose any material impact on the business, financial or trading position or condition of the Group, and such common expenses were allocated on a reasonable basis. For analysis of related party transactions, see "Appendix I — Accountant's Report" in addition to the transactions detailed elsewhere in this document.

OFF BALANCE SHEET TRANSACTIONS

We did not enter into any material off balance sheet transactions or arrangements during the Track Record Period.

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, amongst 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.

DISTRIBUTABLE RESERVES

As of May 31, 2023, the Company had no distributable reserves available for distribution to our shareholders.

SELECTED FINANCIAL RATIOS

The following table sets forth our selected financial ratios during the Track Record Period or as of the dates indicated.

	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 debts 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.

Gearing ratio

As of December 31, 2020, 2021 and 2022 and May 31, 2023, our gearing ratio was 1.06, 0.96, 0.47 and 0.54, respectively. The decrease of our gearing ratio from 1.06 as of December 31, 2020 to 0.96 as of December 31, 2021 was mainly due to the increase in equity available to us while the reliance on debt remains the same. The decrease from 0.96 in 2021 to 0.47 in 2022 was mainly due to the substantial decrease in amount due to the immediate holding company. The increase of our gearing ratio to 0.54 as of May 31, 2023 was mainly due to the decrease in our retained earnings.

Return on Assets

In 2020, 2021 and 2022 and five months ended May 31, 2023, our return on assets was 7.0%, 6.0%, 5.7% and 5.2% (annualized), respectively. The decrease of our return on assets from 7.0% in 2020 to 6.0% in 2021 was mainly due to a decrease in interest income in 2021. The decrease of our return on assets from 6.0% in 2021 to 5.7% in 2022 was mainly due to a decrease in net profit, partly offset by a decrease in average total assets for the year. The decrease in assets was a result of settlement on amounts due from fellow subsidiaries in 2022. The decrease of our return on assets to 5.2% (annualized) as of May 31, 2023 was mainly due to the decrease in our profit for the period and the increase in our [**REDACTED**].

Return on Equity

In 2020, 2021 and 2022 and five months ended May 31, 2023, our return on equity was 14.8%, 12.4%, 9.9% and 8.1% (annualized), respectively. The decrease of our return on equity from 14.8% in 2020 to 12.4% in 2021 was mainly due to a decrease in interest income in 2021. The decrease of our return on equity from 12.4% in 2021 to 9.9% in 2022 was mainly due to an increase in equity and decrease in profit for the year. The decrease in profit for 2022 was mainly due to the decrease in interest income resulted from decrease in loan receivables for the year (without taking into account the loan portfolio transferred from the Excluded Group on December 31, 2022). The decrease of our return on equity to 8.1% (annualized) as of May 31, 2023 was mainly due to the larger proportion of decrease in our profit as compared to the decrease in our equity.

Interest coverage ratio

In 2020, 2021 and 2022 and five months ended May 31, 2023, our interest coverage ratio was 3.9 times, 3.6 times, 4.6 times and 4.1 times, respectively. The decrease of our interest coverage ratio from 3.9 times in 2020 to 3.6 times in 2021 was mainly due to a decrease in interest income in 2021. The increase of our interest coverage ratio from 3.6 times in 2021 to 4.6 times in 2022 was mainly due to a decrease in interest expenses in 2022 as a result of reduced borrowings. The decrease of our interest coverage ratio to 4.1 times as of May 31, 2023 was mainly due to the decrease in our profit for the period and the increase in our interest expense as a result of interest rate hikes.

UNAUDITED [REDACTED] ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of our unaudited [**REDACTED**] adjusted consolidated net tangible assets is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the [**REDACTED**] on our consolidated net tangible assets as of December 31, 2022 as if the [**REDACTED**] had taken place on that date.

Our unaudited [**REDACTED**] adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of May 31, 2023 or at any future dates following the [**REDACTED**]. No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to May 31, 2023.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as of May 31, 2023	Estimated [REDACTED] from the [REDACTED]	Unaudited [REDACTED] adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as of May 31, 2023	Unaudited [REDACTED] adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share
		HK$'000		*HK$*
	Note 1	*Note 2*		*Note 3*
Based on an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**]	643,414	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**]	643,414	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

1. The audited consolidated net tangible assets of the Group attributable to the owners of the Company as of May 31, 2023 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as of May 31, 2023 of approximately HK$643,414,000.

2. The estimated [**REDACTED**] from the [**REDACTED**] are based on the indicative [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] and HK$[**REDACTED**] per [**REDACTED**], being the low end and high end of the indicative [**REDACTED**], respectively, after deduction of the [**REDACTED**] fees and other related expenses (excluding HK$[**REDACTED**] which have been accounted for in the consolidated statement of comprehensive income up to May 31, 2023), without taking into account of any Shares which may be allotted and issued upon the exercise of the [**REDACTED**], or (a) any Shares which may be allotted and issued upon the exercise of the options granted or to be granted under the Share Option Scheme, or (b) any Shares which may be allotted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.

3. The unaudited [**REDACTED**] adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [**REDACTED**] Shares were in issue assuming the [**REDACTED**] and [**REDACTED**] had taken place on May 31, 2023, without taking into account of any Shares which may be allotted and issued upon the exercise of the [**REDACTED**], or (a) any Shares which may be allotted and issued upon the exercise of the options granted or to be granted under the Share Option Scheme, or (b) any Shares which may be allotted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.

4. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to May 31, 2023.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our business activities expose us to various types of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. Our overall risk management framework seeks to minimize potential adverse effects to our financial performance.

Credit risk

Credit risk is the risk that our customers or counterparties will default on their respective contractual obligations resulting in financial loss to us. Our main income generating activity is lending to customers and therefore credit risk is a principal risk. Our credit risk arises from cash and cash equivalents, amounts due from fellow subsidiaries, amounts due from related parties, amount due from a director, loan receivables, and deposits and other receivables. We have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. For more details, see "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — 3. Financial, Risk and Capital Risk Management — Note 3.1(b)".

Cash flow and fair value interest rate risk

Our interest rate risk arises from our cash and cash equivalents, loan receivables, bank borrowings and amounts due from/to related parties. Cash and cash equivalents and bank borrowings are entitled to interest at variable rates that expose us to cash flow interest rate risk. Loan receivables and amounts due to the immediate holding company, fellow subsidiary and related party are entitled to interest at fixed rates.

For the years ended December 31, 2020, 2021 and 2022 and five months ended May 31, 2023, if market interest rates had been 1% higher or lower with all other variables held constant, our profit before income tax in 2020, 2021 and 2022 and five months ended May 31, 2023 would have been HK$3.3 million, HK$3.3 million, HK$3.0 million and HK$1.1 million lower or higher as a result of an increase in net interest expense on the borrowings netted with loan receivables, respectively.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facility. Our management team performs cash flow forecasting. We monitor rolling forecasts of our liquidity requirements based on cash flow forecasting to ensure we have sufficient cash to meet operational needs, while maintaining sufficient headroom on our undrawn committed borrowing facilities at all times so that we do not breach borrowing limits or covenants (where applicable) on any of our borrowing facilities. Such forecasting takes into consideration our debt financing plans, covenant compliance, compliance with internal financial position ratio targets and, if applicable, legal requirements.

As of December 31, 2020, 2021 and 2022 and May 31, 2023, we have undrawn banking facilities of HK$16.0 million, HK$31.0 million, HK$40.0 million and HK$70.0 million, respectively. All the undrawn borrowing facilities expire within one year and are subject to annual review by bank. Our primary cash requirements, apart from granting loans to customers, are for payment of bank and other borrowings and for operating expenses. For more details, see "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — 3. Financial, Risk and Capital Risk Management — Note 3.1(c)".

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospect since May 31, 2023 (being the date on which the latest audited consolidated financial information of us was prepared) and there is no event since May 31, 2023 that would materially affect the information shown in our consolidated financial statements included in "Appendix I — Accountant's Report".

DISCLOSURE REQUIREMENT UNDER THE LISTING RULES

Our Directors confirmed that, as of the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

[**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.