THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED, you should at once hand this circular together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED
添利工業國際(集團)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 00093)

(1) EXTREME AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY
(2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE AND
(3) NOTICE OF SPECIAL GENERAL MEETING

Financial adviser to the Company

中國通海企業融資
CHINA TONGHAI CAPITAL

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

中國銀河國際
CHINA GALAXY INTERNATIONAL

A letter from the board of directors of Termbray Industries International (Holdings) Limited (the "**Company**") is set out on pages 9 to 22 of this circular.

A notice convening the special general meeting of the Company to be held at 35/F, Central Plaza, No. 18 Harbour Road, Wanchai, Hong Kong on Thursday, 15 October 2020 at 11:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular. Whether or not you intend to attend the meeting, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the head office and principal place of business of the Company at Flat B, 8th Floor, Waylee Industrial Centre, 30-38 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong as soon as possible and in any event not later than 48 hours (i.e. Tuesday, 13 October 2020 at 11:00 a.m.) before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the proxy form will not prevent shareholders of the Company from attending and voting at the meeting if they so wish.

PRECAUTIONARY MEASURES FOR THE SGM

Please refer to page 1 of this circular for the measures to be implemented at the SGM by the Company to safeguard the health and safety of the attendees and to prevent the spreading of the Novel Coronavirus ("COVID-19") pandemic, including:

1. **compulsory body temperature check**
2. **compulsory wearing of surgical face mask**
3. **no refreshments or drinks will be served**

Attendees who do not comply with the precautionary measures (1) and (2) above may be denied entry into the SGM venue, at the absolute discretion of the Company as permitted by law. The Company wishes to advise the Shareholders that they may appoint the Chairman of the meeting as their proxy to vote on the relevant resolutions at the SGM as an alternative to attend the SGM in person.

Hong Kong, 25 September 2020

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PRECAUTIONARY MEASURES FOR THE SGM

In view of the ongoing COVID-19 epidemic and recent requirements for prevention and control of its spread (as per guidelines issued by the Hong Kong government at www.chp.gov.hk/en/features/102742.html), the Company will implement necessary preventive measures at the SGM to protect attending Shareholders, Directors, proxies and other attendees from the risk of infection, including:

(1) Compulsory body temperature check will be conducted on every Shareholder, proxy and other attendees at the entrance of the SGM venue. Any person with a body temperature of over 37.2 degrees Celsius, or is exhibiting flu-like symptoms may be denied entry into the SGM venue or be required to leave the SGM venue.

(2) Attendees are required to wear surgical face masks inside the SGM venue at all times, and to maintain a safe distance between seats and as such, the Company may limit the number of attendees at the SGM as may be necessary to avoid over-crowding.

(3) No refreshments or drinks will be served.

Attendees who do not comply with the precautionary measures (1) and (2) above may be denied entry into the SGM venue, at the absolute discretion of the Company as permitted by law, or be required to leave the SGM venue in order to ensure the safety of the attendees at the SGM.

In the interest of all attendees' health and safety, the Company wishes to advise all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions duly completed, the Shareholders may appoint the Chairman of the SGM as their proxy to vote on the relevant resolution at the SGM instead of attending the SGM in person.

The proxy form is attached to this circular and can be downloaded from the Company's website (http://www.termbray.com.hk). If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

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

"Across Glorious"	Across Glorious Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
"Agreement"	the sale and purchase agreement dated 23 September 2020 entered into between the Purchaser, the Vendor and the Vendor's Guarantor in relation to the Proposed Acquisition
"APP"	software application
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"China Tonghai"	China Tonghai Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to the Company in respect of the Proposed Acquisition
"Company"	Termbray Industries International (Holdings) Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Stock Exchange
"Completion"	completion of the Proposed Acquisition in accordance with the terms of the Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the total consideration for the Proposed Acquisition
"Consideration Shares"	710,000,000 new Shares to be allotted and issued by the Company to the Vendor for partial settlement of the Consideration
"Controlled Companies"	any company or entity (other than a company within the Group) in which Mr. Tommy Lee is directly or indirectly interested so as to exercise more than 50% of the voting power at general meetings, or to control the composition of a majority of the board of its directors or its decision-making body
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules

"COVID-19"	coronavirus disease of 2019
"Deed of Non-competition"	has the meaning ascribed to it under the section headed "Deed of Non-competition" in Appendix I – INFORMATION OF THE TARGET GROUP – 8. RELATIONSHIP WITH CONTROLLING SHAREHOLDERS to this circular
"Deed of Undertaking"	has the meaning ascribed to it under the section headed "Interests in Assets and/or Contracts and Other Interests" in Appendix V to this circular
"Director(s)"	the director(s) of the Company
"Disposed Subsidiaries"	Max Goal, Across Glorious, Sunninghill Global, Zero Magnesium, Zero Titanium and ZF Limited
"ECL"	expected credit losses
"Enlarged Group"	the enlarged Group immediately after Completion
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HOS"	the Home Ownership Scheme, a subsidised housing scheme in Hong Kong managed by the Hong Kong Housing Authority
"Independent Board Committee"	an independent committee of the Board comprising all independent non-executive Directors established to give recommendation to the Independent Shareholders in relation to the Proposed Acquisition
"Independent Financial Adviser" or "China Galaxy"	China Galaxy International Securities (Hong Kong) Co., Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition

"Independent Shareholders"	Shareholders who are entitled to attend and vote at the SGM, other than: (i) Mr. Tommy Lee and his associates; and (ii) all other Shareholders (if any) who are involved or interested in the Proposed Acquisition
"Independent Third Party(ies)"	individual(s) or company(ies) who or which as far as the Directors (or directors of the Target Group) are aware after having made all reasonable enquiries is/are not connected with the Company (or the Target Company) and its connected persons
"Initial Consideration"	has the meaning ascribed to it under the section headed "The Agreement – Consideration" in the Letter from the Board in this circular
"Issue Price"	the issue price of approximately HK$0.289 per Consideration Share
"King Shine"	King Shine Group Limited, a company incorporated under the laws of the British Virgin Islands
"King Shine Loan"	has the meaning ascribed to it under the section headed "Secured loans – Share mortgage loan" in Appendix I – INFORMATION OF THE TARGET GROUP – 5. BUSINESS to this circular
"Last Trading Day"	23 September 2020, being the last trading day of the Shares before the signing of the Agreement
"Latest Practicable Date"	22 September 2020, being the latest practicable date prior to the bulk printing of this circular for ascertaining certain information contained herein
"Lee & Leung (B.V.I.)"	Lee & Leung (B.V.I.) Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by Lee & Leung Family Investment
"Lee & Leung Family Investment"	Lee & Leung Family Investment Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by HSBC International Trustee Limited as trustee for the Lee & Leung Family Trust
"Lee & Leung Family Trust"	a family trust set up by Mr. Lee Lap, the discretionary beneficiaries of which are the spouse and certain children of Mr. Lee Lap (including Mr. Tommy Lee) and the offspring of such children

"Legal Advisers"	Mr. Wong, Anson M.K., S.C., and Mr. Lau, Cheuk Kei Kevin, barristers-at-law in Hong Kong
"Licensing Conditions"	the conditions imposed on the Money Lender's Licence by the Licensing Court pursuant to the Money Lenders Ordinance
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"majority-controlled company"	has the meaning ascribed to it under the Listing Rules
"Max Goal"	Max Goal International Limited, a company incorporated in the British Virgin Islands with limited liability
"Money Lender's Licence"	the money lender's licence issued by the Licensing Court (a magistrate sitting alone in a Magistrates' Court in Hong Kong) pursuant to the Money Lenders Ordinance and Money Lenders Regulations for carrying on money lending business in Hong Kong
"Money Lenders Ordinance"	Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Money Lenders Regulations"	Money Lenders Regulations (Chapter 163A of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"MPF Scheme"	the mandatory provident fund scheme registered under the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong)
"Mr. Tommy Lee"	LEE, Tommy, an executive Director, and the ultimate controlling shareholder and a director of the Target Company
"Non-HKFRS Adjustments"	has the meaning ascribed to it under the section headed "Information on the Target Group" in the Letter from the Board in this circular
"PDPO"	Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

"Petro-king"	Petro-king Oilfield Services Limited, a company incorporated in the British Virgin Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2178)
"PRC"	the People's Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
"PRC Business"	has the meaning ascribed to it under the section headed "Excluded Business" in Appendix I – INFORMATION OF THE TARGET GROUP – 8. RELATIONSHIP WITH CONTROLLING SHAREHOLDERS to this circular
"Proposed Acquisition"	the proposed acquisition of the Target Group by the Purchaser pursuant to the Agreement
"Purchaser"	Termbray Wealth Investment Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company
"Restructuring"	the restructuring undergone by the Target Group in preparation of the Proposed Acquisition, as further described in the section headed "Restructuring" in Appendix I – INFORMATION OF THE TARGET GROUP – 4. HISTORY AND DEVELOPMENT and the section headed "Interests in Assets and/or Contracts and Other Interests" in Appendix V to this circular
"Rumsey Street Rented Premises"	has the meaning ascribed to it under the section headed "Leased Properties" in Appendix I – INFORMATION OF THE TARGET GROUP – 5. BUSINESS to this circular
"Sale Shares"	292,603,752 issued shares of the Target Company, representing 100% of the issued ordinary shares of the Target Company
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"SGM"	the special general meeting of the Company to be convened for the purposes of, among other matters, considering and, if thought fit, approving the Agreement and the transactions contemplated thereunder
"Share(s)"	share(s) of HK$0.08 each in the share capital of the Company

"Shareholder(s)"	holder(s) of Share(s)
"Specific Mandate"	a specific mandate proposed to be granted to the Directors pursuant to an ordinary resolution to be passed at the SGM to issue and allot the Consideration Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Sunninghill Global"	Sunninghill Global Limited, a company incorporated in the British Virgin Islands with limited liability
"Target Company"	aEasy Credit Investment Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Vendor as at the Latest Practicable Date
"Target Group"	the Target Company and its subsidiaries
"Three Properties"	has the meaning ascribed to it under the section headed "Restructuring" in Appendix I – 4. HISTORY AND DEVELOPMENT to this circular
"Titanium Ions"	Titanium Ions Investments Limited, a company incorporated in Hong Kong with limited liability and indirectly wholly-owned by Mr. Tommy Lee as at the Latest Practicable Date
"TPS"	Tenants Purchase Scheme, a scheme introduced by the Hong Kong Housing Authority to enable public rental housing tenants to buy the flats they lived in at a discounted price
"Track Record Period"	the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020
"TransUnion"	TransUnion Limited, a company which is principally engaged in the provision of credit information management services
"Vendor"	Earth Axis Investment Limited, a company incorporated in the British Virgin Islands with limited liability which is ultimately owned as to 99.99% by Mr. Tommy Lee and 0.01% by Mr. Lee Lap as at the Latest Practicable Date

"Vendor Group"	Mr. Tommy Lee and his majority-controlled companies, excluding the Target Group
"Vendor's Guarantor"	Mr. Tommy Lee, as the guarantor of the Vendor under the Agreement
"X Wallet"	a mobile APP developed and used by Zero Finance to provide a fully-automated and around-the-clock online loan application and approval platform since April 2018
"X8 Finance"	X8 Finance Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
"Zero Credit"	Zero Credit Limited (formerly known as Money Touch Finance Company Limited), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Zero Finance as at the Latest Practicable Date
"Zero Finance"	Zero Finance Hong Kong Limited (formerly known as aEasy Credit Hong Kong Limited), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target Company as at the Latest Practicable Date
"Zero Magnesium"	Zero Magnesium Limited, a company incorporated in Hong Kong with limited liability
"Zero Titanium"	Zero Titanium Limited, a company incorporated in Hong Kong with limited liability
"ZF Limited"	Zero Finance Limited, a company incorporated in Hong Kong with limited liability
"%"	per cent

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments and, accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED
添利工業國際(集團)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 00093)

Directors:

Executive Directors:
Lee Lap *(Chairman)*
Tommy Lee *(Vice Chairman & Chief Executive Officer)*
Wong Shiu Kee

Independent Non-Executive Directors:
Lo Yiu Hee
Tong Hin Wor
Ching Yu Lung

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business:
Flat B, 8th Floor
Waylee Industrial Centre
30-38 Tsuen King Circuit
Tsuen Wan, New Territories
Hong Kong

Hong Kong, 25 September 2020

To the Shareholders

Dear Sir or Madam,

(1) EXTREME AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY
(2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE
AND
(3) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 23 September 2020 in relation to the Proposed Acquisition.

On 23 September 2020 (after trading hours), Termbray Wealth Investment Limited (an indirect wholly-owned subsidiary of the Company) as Purchaser entered into the Agreement with the Vendor and the Vendor's Guarantor in relation to the sale and purchase of the entire issued share capital of the Target Company.

The purpose of this circular is to provide the Shareholders with, inter alia, (i) further details of the Proposed Acquisition; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Proposed Acquisition; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition; (iv) further information about the Target Group; (v) certain financial information of the Group; (vi) the accountant's report on the Target Group; (vii) the unaudited pro forma financial information of the Enlarged Group; and (viii) a notice of the SGM.

THE AGREEMENT

The principal terms of the Agreement are set out as follows:

Date

23 September 2020

Parties

(1) The Purchaser;

(2) the Vendor; and

(3) the Vendor's Guarantor.

Subject matter

Subject to the terms and conditions of the Agreement, the Purchaser has agreed to purchase and the Vendor has agreed to sell the Sale Shares.

Consideration

The initial amount of the Consideration is HK$404,109,000 (the "**Initial Consideration**"), which is subject to the post-Completion adjustments mentioned below. The Consideration shall be payable by the Purchaser to the Vendor in the manner set out below:–

(1) HK$205,229,444 will be settled by the issue of 710,000,000 Consideration Shares at the Issue Price by the Company to the Vendor at Completion;

(2) HK$20 million will be settled by the Purchaser in cash to the Vendor on or before 31 December 2021;

(3) HK$20 million will be settled by the Purchaser in cash to the Vendor on or before 31 December 2022; and

(4) the balance of the Consideration will be settled by the Purchaser in cash to the Vendor on or before 31 December 2023.

The Purchaser shall have the discretion to make early payment of the cash portion of the Consideration prior to the aforesaid payment dates. The Company may procure the Purchaser to exercise such early payment discretion if it considers that the Group has sufficient cash available for such purpose after setting aside the cash required for the Group's working capital. No interest will be payable to the Vendor on the deferred portions of the Consideration.

The Initial Consideration was determined after arm's length negotiations between the Purchaser and the Vendor taking into account (i) the unaudited net asset value of the Target Group of approximately HK$111.5 million as at 31 July 2020; (ii) that the aforesaid unaudited net asset value of the Target Group as at 31 July 2020 would have increased by approximately HK$292.6 million as a result of the capitalisation of the equivalent amount of loan owing by the Target Group to the Vendor on 15 September 2020 (if it had taken place on 31 July 2020); and (iii) the price to book ratio of 1 to 1. The price to book ratio of 1 to 1 was adopted after arm's length negotiation between the parties having taken into account the nature of the Target Group's money lending business where most assets are in the form of loan receivables and cash and cash equivalents (after the disposal of the Three Properties) in an income yielding and well collateralised portfolio.

The Initial Consideration will be subject to post-Completion dollar-for-dollar adjustments based on the net asset value of the Target Group as at Completion. However, no adjustment will be made if the amount of difference between the net asset value of the Target Group as at Completion and the Initial Consideration is less than HK$1 million.

Conditions precedent

Completion is subject to the satisfaction of the following conditions:

(i) the approval of the Agreement by the Independent Shareholders;

(ii) the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares (and such permission not having been revoked);

(iii) no material adverse change on the financial position, business or prospects of the Target Group having occurred and continuing; and

(iv) all representations and warranties made by the Vendor and the Vendor's Guarantor in the Agreement being true and correct in all material respects as at Completion.

Representations and warranties

The Agreement contains representations and warranties of the Vendor, the Vendor's Guarantor and the Purchaser which are usual and customary for a transaction of this nature and scale.

Completion

Completion shall take place on 30 October 2020 or on such other date as may be agreed by the parties.

Upon Completion, the Target Company will become the Company's wholly-owned subsidiary. Accordingly, the financial information of the Target Group will be consolidated into the accounts of the Group following Completion.

Guarantee

The Vendor's Guarantor has irrevocably and unconditionally guaranteed, as primary obligor but not merely as surety, as a continuing obligation the full performance of all obligations of the Vendor as contained in the Agreement, and shall fully indemnify the Purchaser for all losses and damages, costs and expenses of whatever nature which the Purchaser may suffer or incur as a result of or in connection with any default by the Vendor of any such obligations.

CONSIDERATION SHARES

As at the Latest Practicable Date, the Company had 1,957,643,050 Shares in issue. The Consideration Shares represent approximately 36.27% of the existing issued share capital of the Company and approximately 26.62% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no other change in the issued share capital of the Company).

The Consideration Shares, when allotted and issued, will rank pari passu in all respects among themselves and with the existing Shares then in issue on the date of allotment and issue, and be entitled to receive all dividends and distributions which may be declared by the Company on or after the date of allotment and issue of the Consideration Shares.

The Consideration Shares will be allotted and issued to the Vendor under the Specific Mandate at Completion. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

As 710,000,000 Consideration Shares will be issued for the settlement of HK$205,229,444 as part of the Consideration, the Issue Price is equivalent to approximately HK$0.289 per Consideration Share. The Issue Price represents:

(i) a discount of approximately 6.77% to the closing price of HK$0.310 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 6.17% to the average closing price of the Shares as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day of approximately HK$0.308 per Share;

(iii) a discount of approximately 5.86% to the average closing price of the Shares as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day of approximately HK$0.307 per Share;

(iv) a discount of approximately 3.02% to the average closing price of the Shares as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day of approximately HK$0.298 per Share; and

(v) a discount of approximately 6.77% to the closing price of HK$0.310 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Issue Price was determined after arm's length negotiations among the parties taking into account the prevailing market prices of the Shares.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon allotment and issue of all the Consideration Shares (assuming that there is no other change in the issued share capital of the Company):

	As at the Latest Practicable Date		**Immediately upon allotment and issue of all the Consideration Shares**	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*
Lee & Leung (B.V.I.) *(Note)*	1,252,752,780	63.99%	1,252,752,780	46.96%
Mr. Tommy Lee and his associates (including the Vendor but excluding Lee & Leung (B.V.I))	0	0	710,000,000	26.62%
Public Shareholders	704,890,270	36.01%	704,890,270	26.42%
Total	1,957,643,050	100.00%	2,667,643,050	100.00%

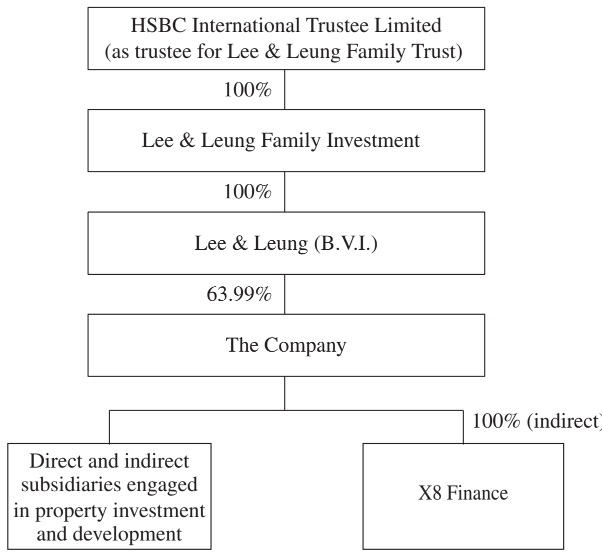
Note: Lee & Leung (B.V.I) is indirectly wholly-owned by HSBC International Trustee Limited as trustee for the Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust, and the discretionary beneficiaries of the Lee & Leung Family Trust are the spouse and certain children of Mr. Lee Lap (including Mr. Tommy Lee) and the offspring of such children.

As a result of the allotment and issue of the Consideration Shares to the Vendor, Mr. Tommy Lee will own approximately 26.62% of the enlarged issued share capital of the Company indirectly through the Vendor immediately after Completion. As demonstrated in the table above, Lee & Leung (B.V.I.) will remain to be the controlling Shareholder immediately after Completion and thus there will not be any change in control of the Company as a result of the Proposed Acquisition.

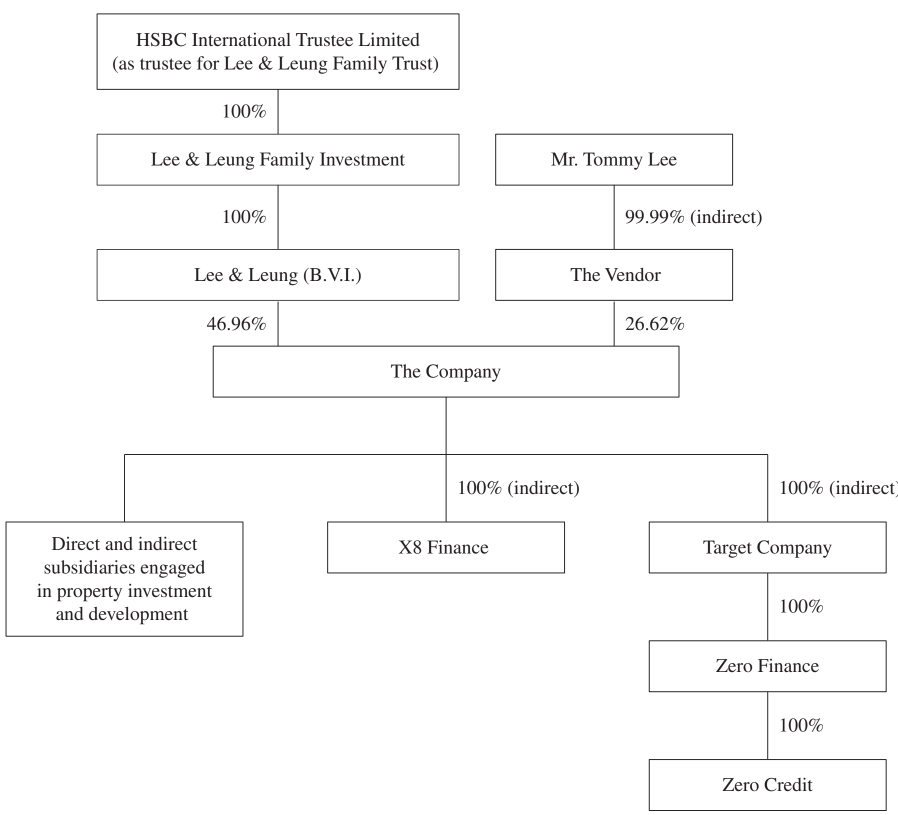
CORPORATE STRUCTURE OF THE GROUP

The following charts illustrate the simplified structure of the Group (i) as at the Latest Practicable Date; and (ii) immediately after Completion:

(i) As at the Latest Practicable Date



(ii) Immediately after Completion



REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Group has a long history of over 20 years of engaging in property investment and development as its principal business. In August 2018, the Group acquired 100% shareholding interest in X8 Finance, which holds a Money Lender's Licence for money lending business in Hong Kong. After the acquisition, X8 Finance has commenced property mortgage money lending business in Hong Kong, which has then become a principal business of the Group. The Group has been exploring investment opportunities which will result in a steady growth in its performance in the long run.

The Company expects that the merger of the Group's existing property mortgage loan business with the secured and unsecured loan businesses of the Target Group will bring about synergy effect to the money lending business of the Enlarged Group as a whole after the Proposed Acquisition. The current traditional mortgage loan model of X8 Finance can be improved and optimised with inspirations from the business model and technological characteristics of "X Wallet", a mobile APP developed and used by Zero Finance.

(i) In terms of business model:

(a) The Company believes that after the Proposed Acquisition, the network of "X Wallet" and the experience in attracting customers on the online platform could provide potential mortgage loan customers to the Enlarged Group and facilitate the Enlarged Group to expand its customers base directly through the online channel, thereby reducing its reliance on customer referral by agencies and lowering the costs of its loan business.

(b) Zero Finance has allocated a significant amount of resources to the brand building of Zero Finance, and particularly "X Wallet", since the launch of "X Wallet" in 2018. The Company is of the view that after the Proposed Acquisition, its loan business could greatly benefit from the brand names of Zero Finance and "X Wallet".

(c) Furthermore, the Company could maintain better and more efficient customer relations with its mortgage loan clients by exploring the introduction of online customer services and communication via "X Wallet" or other online platform to be set up with the technologies developed for "X Wallet".

(ii) In terms of technology:

(a) In respect of "X Wallet", various technologies have been developed and introduced in its online loan business, including the live face detection and recognition system for identifying identity fraud, the credit scoring model, the fully-automated procedures from loan application to transmission of funds, as well as the data security measures. The Company expects that after the

Proposed Acquisition, the Enlarged Group could utilise the technologies developed for "X Wallet" to streamline and modernise its mortgage loan business model and procedures, as well as to improve the risk control for such business.

(b) More importantly, those technologies could assist the Enlarged Group to screen out fraudulent cases and facilitate the Enlarged Group to design a data-based credit rating system specifically for its mortgage loan business by building up, learning and/or modifying from the model and experience in respect of the automated credit rating system developed for and deployed by "X Wallet". In this way, the decision-making of the money lending business of the Enlarged Group will be more driven by data and involve fewer human factors, and the risk control will be enhanced as a whole.

With the benefit of expected synergy after merging the Group's existing property mortgage loan business with that of the Target Group as described above, the Group expects that the property mortgage loan business of the Enlarged Group will further expand. Nonetheless, the Enlarged Group will at the same time adopt a prudent policy in approving mortgage loan applications in light of the recent economic downturn and possible declining trend of property prices in Hong Kong.

The Group sees a growing demand for convenient and efficient money lending services in Hong Kong, and is optimistic about the prospect of the "X Wallet" personal loan business of the Target Group despite challenges due to intense competition from other market players, as "X Wallet" provides around-the-clock, fully-automated and fast and convenient money lending services, which fits in well with the trend of increased usage of mobile APPs. After Completion, the Enlarged Group will continue to develop and expand the unsecured loan business via "X Wallet" to generate revenue for the Enlarged Group.

Having considered the above, the Directors (including the independent non-executive Directors whose opinion is set out in the letter from the Independent Board Committee in this circular) believe that the Proposed Acquisition is in line with the development strategy of the Group and will enable the expansion and diversification of the Group's existing money lending business, and the terms of the Agreement are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE TARGET GROUP

The Target Company is incorporated in Hong Kong and is an investment holding company with no business operation other than its investment in Zero Finance.

Zero Finance, the only operating company within the Target Group, is a direct wholly-owned subsidiary of the Target Company which possesses a Money Lender's Licence and is principally engaged in the money lending business of providing secured loans and unsecured loans in Hong Kong.

Zero Credit, a wholly-owned subsidiary acquired by Zero Finance in June 2018, also possesses a Money Lender's Licence but has been inactive since its acquisition by Zero Finance up to the Latest Practicable Date.

The key audited financial information of the Target Group for the Track Record Period is set out in the table below:

	Three months ended 31 March	**Year ended 31 December**		
	2020	**2019**	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	*(Audited)*	*(Audited)*	*(Audited)*
Revenue	16,891	58,663	56,102	51,862
Profits before taxation	5,383	9,827	26,390	30,720
Profits after taxation and total comprehensive income for the year/period	4,487	6,039	22,283	25,616

If adjustments had been made (not pursuant to the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants) to exclude the financial results of the Disposed Subsidiaries, which have been disposed of by the Target Group under the Restructuring (the "**Non-HKFRS Adjustments**"), the unaudited adjusted profits before taxation and unaudited adjusted profits after taxation and total comprehensive income for the year/period of the Target Group for the Track Record Period, and the unaudited adjusted net asset value of the Target Group (excluding the Disposed Subsidiaries) as at 31 December 2017, 2018 and 2019 and 31 March 2020, would have been as follows:

	Three months ended 31 March	**Year ended 31 December**		
	2020	**2019**	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Profits before taxation for the year/period	5,383	9,827	26,390	30,720
Add:				
Loss before taxation for the year/period of the Disposed Subsidiaries	1,617	15,027	2	–
Adjusted profits before taxation for the year/period of the Target Group, excluding the Disposed Subsidiaries	**7,000**	**24,854**	**26,392**	**30,720**

	Three months ended 31 March	Year ended 31 December		
	2020	**2019**	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Profits after taxation and total comprehensive income for the year/period	4,487	6,039	22,283	25,616
Add:				
Loss after taxation and total comprehensive losses for the year/period of the Disposed Subsidiaries	1,839	15,027	2	–
Adjusted profits after taxation and total comprehensive income for the year/period of the Target Group, excluding the Disposed Subsidiaries	**6,326**	**21,066**	**22,285**	**25,616**

Note: The Disposed Subsidiaries did not generate any revenue during the Track Record Period.

	As at 31 March	As at 31 December		
	2020	**2019**	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Net asset value of the Target Group	83,876	79,390	73,351	57,056
Less:				
Net asset value of the Disposed Subsidiaries	(26,680)	(28,519)	(8)	–
Adjusted net asset value of the Target Group, excluding the Disposed Subsidiaries *(Note)*	**57,196**	**50,871**	**73,343**	**57,056**

Note: The adjusted net asset values of the Target Group, excluding the Disposed Subsidiaries, have not taken into account (i) the waiver of inter-company balances among the remaining companies in the Target Group and the Disposed Subsidiaries pursuant to the relevant deeds of waiver; (ii) the consideration received by the Target Group for the disposal of the Disposed Subsidiaries pursuant to the relevant sale and purchase agreements; and (iii) the assignment to the Vendor of amount due to a director by the Target Company and subsequent capitalization of the loan pursuant to the relevant loan capitalisation *agreement. Such deeds of waiver, sale and purchase agreements and loan capitalisation agreement were part of the Restructuring Documents as set out under the section headed "Interests in Assets and/or Contracts and Other Interests" in Appendix V – GENERAL INFORMATION to this circular. The pro forma financial impact on the net asset value of the Target Group assuming the Restructuring had been completed on 31 March 2020 is presented under the column headed "Restructuring adjustments" in the table in note 2 to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular.*

For further information on the Target Group, please refer to Appendix I to this circular.

INFORMATION ON THE GROUP AND THE VENDOR

The Group is principally engaged in property investment and development, and money lending business.

As at the Latest Practicable Date, 1,252,752,780 Shares (representing 63.99% of the total issued Shares) were held by Lee & Leung (B.V.I.), which is in turn indirectly wholly-owned by HSBC International Trustee Limited as trustee for the Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust, and the discretionary beneficiaries of the Lee & Leung Family Trust are the spouse and certain children of Mr. Lee Lap (including Mr. Tommy Lee) and the offspring of such children.

The Vendor is a company incorporated in the British Virgin Islands and is an investment holding company. As at the Latest Practicable Date, the Vendor was ultimately held as to 99.99% by Mr. Tommy Lee and 0.01% by Mr. Lee Lap, both being executive Directors.

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION ON THE GROUP

Based on the pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, the Proposed Acquisition will have the following financial effects on the Group after Completion:

Earnings

Following Completion, the Target Company will become a wholly-owned subsidiary of the Company and the assets, liabilities, revenue and expenses from the Target Group will be consolidated into those of the Group. The audited loss of the Company for the year ended 31 March 2020 was approximately HK$26,983,000. Based on the Accountant's Report of the Target Company as set out in Appendix III to this circular, the Target Group recorded a profit of approximately HK$6,039,000 for the year ended 31 December 2019. If the Non-HKFRS Adjustments had been made, the unaudited adjusted profit of the Target Group for the year ended 31 December 2019 would have been HK$21,066,000. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular, assuming the Proposed Acquisition had been completed on 1 April 2019, the pro forma profit of the Enlarged Group attributable to the owners of the Company would have been approximately HK$11,318,000 for the year ended 31 March 2020.

Assets and Liabilities

The audited consolidated total assets, total liabilities and net assets of the Group as at 31 March 2020 were approximately HK$933,687,000, HK$25,327,000 and HK$908,360,000, respectively. Based on the unaudited pro forma financial position of the Enlarged Group as set out in Appendix IV to this circular, assuming that Completion had taken place on 31 March 2020, the pro forma total assets, total liabilities and net assets of the Enlarged Group would have been increased to approximately HK$1,330,214,000, HK$194,383,000 and HK$1,135,831,000, respectively.

LISTING RULES IMPLICATIONS

The highest applicable percentage ratio under the Listing Rules in respect of the Proposed Acquisition exceeds 100%. The Listing Committee of the Stock Exchange has resolved that the Proposed Acquisition is an extreme transaction and the reverse takeover rules do not apply. Further, the Vendor is a majority-controlled company of Mr. Tommy Lee (an executive Director) and hence is a connected person of the Company. Therefore, the Proposed Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As such, the Proposed Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. The Company is required to prepare a transaction circular under an enhanced disclosure comparable to prospectus standard and China Tonghai has been appointed as the financial adviser of the Company to conduct due diligence on the Proposed Acquisition.

Since (i) Mr. Tommy Lee, an executive Director, is the indirect controlling shareholder and a director of the Vendor and (ii) Mr. Lee Lap, an executive Director, is the father of Mr. Tommy Lee, they are deemed to have material interests in the Proposed Acquisition. As such, each of them has abstained from voting on the board resolutions approving the Proposed Acquisition and the transactions contemplated thereunder.

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Proposed Acquisition. China Galaxy, the Independent Financial Adviser, has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Proposed Acquisition.

As at the Latest Practicable Date, 1,252,752,780 Shares (representing 63.99% of the total issued Shares) were held by Lee & Leung (B.V.I.), which is in turn indirectly wholly-owned by HSBC International Trustee Limited as trustee for the Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust, and the discretionary beneficiaries of the Lee & Leung Family Trust are the spouse and certain children of Mr. Lee Lap (including Mr. Tommy Lee) and the offspring of such children. As Mr. Tommy Lee, being the indirect controlling shareholder and a director of the Vendor, is materially interested in the Proposed Acquisition, he and his associates, including Lee & Leung (B.V.I.) will abstain from voting on the resolution in relation to the Proposed Acquisition at the SGM. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save for Mr. Tommy Lee and his associates, no Shareholder has a material interest in the resolution in respect of the Proposed Acquisition or should be required to abstain from voting on the resolution to be proposed at the SGM.

Since the Proposed Acquisition is subject to the fulfillment of the conditions precedent set out in the Agreement, and may or may not proceed to Completion, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

SGM

The SGM will be convened and held at 35/F, Central Plaza, No. 18 Harbour Road, Wanchai, Hong Kong on Thursday, 15 October 2020 at 11:00 a.m. for the purpose of considering and, if thought fit, approving the Proposed Acquisition.

The Notice of SGM is set out on pages SGM-1 to SGM-2 of this circular. A proxy form for use at the SGM is enclosed herewith. Whether or not you intend to attend the SGM, you are requested to complete the proxy form and return it to the head office and principal place of business of the Company at Flat B, 8th Floor, Waylee Industrial Centre, 30-38 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong not less than 48 hours (i.e. Tuesday, 13 October 2020 at 11:00 a.m.) before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the proxy form will not prevent Shareholders from attending and voting at the SGM if they so wish.

VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the general meeting of Shareholders will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of Shareholders who will be entitled to attend and vote at the SGM, the register of members of the Company will be closed from Friday, 9 October 2020 to Thursday, 15 October 2020 (both days inclusive), during which no transfer of Shares will be effected. In order to qualify for attendance of the SGM, all completed transfer forms accompanied with the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Standard Limited, not later than 4:30 p.m. on Thursday, 8 October 2020. The address of Tricor Standard Limited is Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee on pages 23 to 24 of this circular which sets out the recommendation from the Independent Board Committee to the Independent Shareholders on the Proposed Acquisition; and (ii) the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders on pages 25 to 58 of this circular in respect of the Proposed Acquisition.

The Board (including the independent non-executive Directors whose recommendation is set out in the letter from the Independent Board Committee) consider that the Agreement has been negotiated on an arm's length basis and entered into on normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Proposed Acquisition.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Termbray Industries International (Holdings) Limited
Lee Lap
Chairman

TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED
添利工業國際(集團)有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 00093)

Independent Board Committee:
Lo Yiu Hee
Tong Hin Wor
Ching Yu Lung

Hong Kong, 25 September 2020

To the Independent Shareholders

Dear Sir or Madam,

(1) EXTREME AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY AND (2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

We refer to the circular of the Company dated 25 September 2020 (the "**Circular**"), of which this letter forms a part. Capitalised terms used herein shall have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to give you recommendation in respect of the Proposed Acquisition. China Galaxy has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of the advice of the Independent Financial Adviser, together with the principal factors and reasons they have taken into account, are contained in their letter set out on pages 25 to 58 of the Circular. Your attention is also drawn to the Letter from the Board and the additional information set out in the appendices to the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Adviser in relation to the Proposed Acquisition as stated in its letter, we consider that though the entering into of the Agreement is not in the ordinary and usual course of business of the Group, the terms and conditions of the Agreement are fair and reasonable and on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM in respect of the Proposed Acquisition.

Yours faithfully,
For and on behalf of
Independent Board Committee

Lo Yiu Hee	**Tong Hin Wor**	**Ching Yu Lung**
Independent Non-Executive Director	*Independent Non-Executive Director*	*Independent Non-Executive Director*

The following is the text of a letter of advice from China Galaxy to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.

中國銀河國際
CHINA GALAXY INTERNATIONAL

20/F, Wing On Centre
111 Connaught Road Central
Sheung Wan, Hong Kong

25 September 2020

To: The Independent Board Committee and the Independent Shareholders of Termbray Industries International (Holdings) Limited

Dear Sir or Madam,

(1) EXTREME AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY AND (2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

I. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition. Details of the aforesaid transaction are set out in the letter from the Board contained in the circular of the Company to its Shareholders dated 25 September 2020 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

As stated in the Circular, the Board announced that on 23 September 2020 (after trading hours), Termbray Wealth Investment Limited (an indirect wholly-owned subsidiary of the Company) as Purchaser entered into the Agreement with the Vendor and the Vendor's Guarantor in relation to the sale and purchase of the entire issued share capital of the Target Company at the initial Consideration of HK$404,109,000 (subject to adjustments), which shall be satisfied as to HK$205,229,444 by the issue of 710,000,000 Consideration Shares at the Issue Price of approximately HK$0.289 per Consideration Share and as to HK$198,879,556 in cash by three stages. The Target Company is an investment holding company incorporated in Hong Kong. Zero Finance, the only operating company within the Target Group, is a direct wholly-owned subsidiary of the Target Company which possesses a Money Lender's Licence and is principally engaged in the money lending business of providing secured loans and unsecured loans in Hong Kong.

The highest applicable percentage ratio under the Listing Rules in respect of the Proposed Acquisition exceeds 100%. The Listing Committee of the Stock Exchange has resolved that the Proposed Acquisition is an extreme transaction and the reverse takeover rules do not apply. Further, the Vendor is a majority-controlled company of Mr. Tommy Lee (an executive Director) and hence is a connected person of the Company. Therefore, the Proposed Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As such, the Proposed Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. The Company is required to prepare a transaction circular under an enhanced disclosure comparable to prospectus standard and China Tonghai Capital Limited has been appointed as the financial adviser of the Company to conduct due diligence on the Proposed Acquisition.

Since (i) Mr. Tommy Lee, an executive Director, is the indirect controlling shareholder and a director of the Vendor; and (ii) Mr. Lee Lap, an executive Director, is the father of Mr. Tommy Lee, they are deemed to have material interests in the Proposed Acquisition. As such, each of them has abstained from voting on the board resolutions approving the Proposed Acquisition and the transactions contemplated thereunder.

As at the Latest Practicable Date, 1,252,752,780 Shares (representing approximately 63.99% of the total issued Shares) were held by Lee & Leung (B.V.I.), which is in turn indirectly wholly-owned by HSBC International Trustee Limited as trustee for the Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust, and the discretionary beneficiaries of the Lee & Leung Family Trust are the spouse and certain children of Mr. Lee Lap (including Mr. Tommy Lee) and the offspring of such children. As Mr. Tommy Lee, being the indirect controlling shareholder and a director of the Vendor, is materially interested in the Proposed Acquisition, he and his associates, including Lee & Leung (B.V.I.) will abstain from voting on the resolution in relation to the Proposed Acquisition at the SGM. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save for Mr. Tommy Lee and his associates, no Shareholder has a material interest in the resolution in respect of the Proposed Acquisition or should be required to abstain from voting on the resolution to be proposed at the SGM.

The Independent Board Committee (comprising all the independent non-executive Directors), namely Mr. Lo Yiu Hee, Mr. Tong Hin Wor and Mr. Ching Yu Lung, has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Proposed Acquisition. China Galaxy International Securities (Hong Kong) Co., Limited, the Independent Financial Adviser, has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Company, its subsidiaries, the Vendor, the Target Group or any of their respective core connected persons or close associates that could reasonably be regarded as relevant to our independence. We have not acted, within the last two years, as an independent financial adviser or a financial adviser to the Company, the Vendor, the Target Group or any of their respective core connected persons or close associates. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser, no arrangements exist whereby we had received any fees or benefits from the Company, its subsidiaries, the Vendor, the Target Group or any of their respective core connected persons or close associates. Accordingly, we are qualified to give independent advice in respect of the Proposed Acquisition.

II. BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete in all respects as at the date thereof and may be relied upon.

We have also assumed that all views, opinions and statements of intention provided by the Directors and the Management have been arrived at after due and careful enquiry. The Directors have confirmed to us that no material facts have been withheld or omitted from the information supplied and opinions expressed. We consider that we have been provided with, and have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view and to provide a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position, plans, projections or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading. The Company will notify the Shareholders of any material changes as soon as possible subsequent to the Latest Practicable Date and up to the date of the SGM. If we shall become aware of any such material change, we will notify the Independent Shareholders of the potential impact, if any, on our opinion and/or recommendation set out in this letter as soon as possible.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Proposed Acquisition, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Proposed Acquisition, we have considered the following principal factors and reasons:

1. Information on the Group

The Group has a long history of over 20 years of engaging in property investment and development as its principal business. In August 2018, the Group acquired 100% shareholding interest in X8 Finance, which holds a Money Lender's Licence for money lending business in Hong Kong. After the acquisition, X8 Finance has commenced property mortgage money lending business in Hong Kong, which has then become a principal business of the Group. The key financial information of the Group for the three years ended 31 March 2020 is summarized as below:

	For the year ended 31 March		
	2020	**2019**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	*(Audited)*	*(Audited)*
Revenue	14,869	30,594	34,089
Gross profit	11,663	20,737	20,826
(Loss)/Profit for the year	(26,983)	(19,880)	83,193

	As at 31 March		
	2020	**2019**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	*(Audited)*	*(Audited)*
Total assets	933,687	970,484	979,199
Total liabilities	25,327	26,158	21,792
Net assets	908,360	944,326	957,407

As mentioned in the paragraph headed "5. Management Discussion and Analysis of the Group – For the year ended 31 March 2019" in Appendix II to the Circular, the loss for the year ended 31 March 2019 as opposed to profit for the year ended 31 March 2018 was primarily due to (i) non-recurring items recorded for the year ended 31 March 2018, which included the recognition of a fair value gain of approximately HK$24.7 million on an investment property and the recognition of a gain of approximately HK$64 million on assets distributed to the

Shareholders resulting from distribution in specie of all shares of the Company's associate, Petro-king Oilfield Services Limited (stock code: 2178.HK), held by the Group; and (ii) the recognition of foreign exchange loss arising from the devaluation of the Renminbi currency by approximately 6.5% for the year ended 31 March 2019. The loss for the year further increased by approximately HK$7.1 million from approximately HK$19.9 million for the year ended 31 March 2019 to approximately HK$27.0 million for the year ended 31 March 2020, which was mainly derived from (i) a decrease in gross profit by approximately HK$9.1 million primarily due to a decrease in revenue from the sales of properties in the PRC by approximately HK$20.4 million, partially offset by an increase of approximately HK$5.1 million in interest income from money lending business; (ii) recognition of a fair value loss of approximately HK$7.0 million on an investment property; and (iii) recognition of foreign exchange loss arising from the devaluation of the Renminbi currency by approximately 6.6% during the year ended 31 March 2020, and partially offset by a decrease of HK$6.0 million in income tax expense for the same year.

The total assets of the Group primarily comprised properties and loan receivables. Due to the losses for the two consecutive years ended 31 March 2020, the net assets of the Group were in a decreasing trend over the three years ended 31 March 2020.

The following sets out the breakdown of revenue of the Group by business segments for the three years ended 31 March 2020:

	For the year ended 31 March		
	2020	**2019**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	*(Audited)*	*(Audited)*
Sales of properties in the PRC	4,264	24,673	29,413
Rental income	3,776	4,199	4,676
Interest income from money lending business	6,829	1,722	–
	14,869	30,594	34,089

As illustrated above, interest income from money lending business had increasing contribution to the total revenue of the Group since the acquisition of X8 Finance by the Group in August 2018. Although interest income from money lending business only accounted for approximately 5.6% of the total revenue of the Group for the year ended 31 March 2019, the percentage surged to approximately 45.9% for the year ended 31 March 2020. As mentioned in the section headed "Chairman's Statement" in the annual report of the Company for the year ended 31 March 2020, the money lending business of the Group achieved satisfactory and healthy growth during the year ended 31 March 2020 and the Group is looking forward to earning stable interest income. Besides, as discussed in the letter from the Board in the Circular, the Group has been exploring investment opportunities which will result in a steady growth in its performance in the long run. In view of the above, the Proposed Acquisition, which involves the acquisition of a company engaging in money lending business in Hong Kong, is in line with the latest business development of the Group with increasing revenue contribution from money lending business and consistent with the stated intentions of the Group to explore investment opportunities which will result in a steady growth in the Group's long term performance.

2. Information on the Target Group

(a) Background of the Target Group

The Target Company is incorporated in Hong Kong and is an investment holding company with no business operation other than its investment in Zero Finance.

Zero Finance, the only operating company within the Target Group, is a direct wholly-owned subsidiary of the Target Company which possesses a Money Lender's Licence. Zero Finance commenced money lending business in May 2015 and has been able to renew the Money Lender's Licence every year since its commencement of business. The current Money Lender's Licence of Zero Finance was granted on 11 June 2020 for a period of 12 months from 21 April 2020 and it will cease to have effect on 22 April 2021.

Zero Credit, a wholly-owned subsidiary acquired by Zero Finance in June 2018, also possesses a Money Lender's Licence but has been inactive since its acquisition by Zero Finance up to the Latest Practicable Date.

Zero Finance is principally engaged in the money lending business of providing secured loans and unsecured loans. The secured loan business of Zero Finance comprises loans to individual and corporate customers secured by properties and listed securities. During the Track Record Period, mortgage loans accounted for a majority portion of the secured loans granted by Zero Finance and were secured against real estate assets located in Hong Kong, including residential, commercial and industrial real estate assets such as apartments, tenement houses, village houses, commercial and industrial units. The unsecured loan business of Zero Finance provides loans to individual customers without any guarantee or pledge on assets. In April 2018, Zero Finance started to offer unsecured personal loans to individuals through "X Wallet" mobile APP, a platform for fully-automated and around-the-clock online loan application and approval without human intervention.

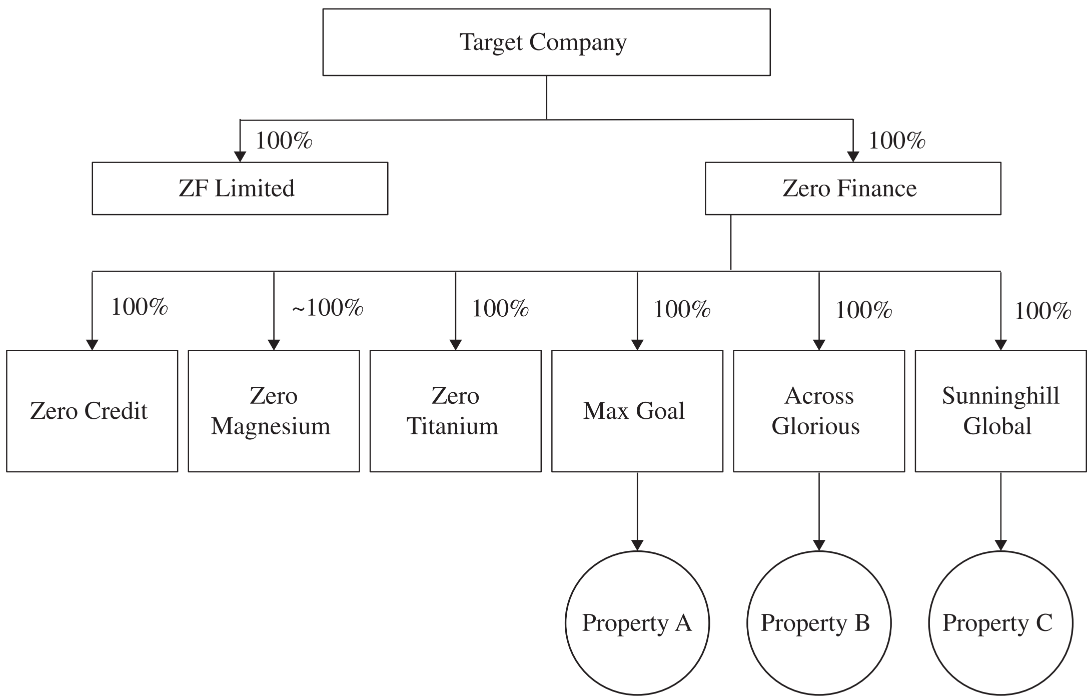
As at 31 December 2017, 2018 and 2019 and 31 March 2020, Zero Finance had a total of 81, 71, 80 and 98 current secured loan customer accounts, 127, 858, 773 and 595 current offline unsecured loan customer accounts, and 0, 1,110, 2,703 and 3,101 current "X Wallet" customer accounts, respectively. As at 31 December 2017, 2018 and 2019 and 31 March 2020, the total outstanding loan balance of Zero Finance amounted to approximately HK$253.5 million, HK$319.8 million, HK$345.6 million and HK$382.3 million, respectively.

The following table sets out the breakdown of Zero Finance's outstanding loan portfolio in terms of loan products as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively:

	As at 31 March	**As at 31 December**		
	2020	**2019**	**2018**	**2017**
	HK$'000 (% of the total)	*HK$'000 (% of the total)*	*HK$'000 (% of the total)*	*HK$'000 (% of the total)*
Secured loan	**291,981**	**257,738**	**254,097**	**226,789**
	(76.3%)	**(74.6%)**	**(79.4%)**	**(89.4%)**
– First mortgage loan	100,306	94,354	66,985	79,484
– Subordinated mortgage loan	161,675	133,384	142,112	147,305
– Share mortgage loan	30,000	30,000	45,000	–
Unsecured loan	**90,338**	**87,844**	**65,720**	**26,759**
	(23.7%)	**(25.4%)**	**(20.6%)**	**(10.6%)**
– Personal loan provided via "X Wallet"	52,224	45,477	12,314	N/A
– Other personal loan	38,114	42,367	53,406	26,759
Total outstanding loan balance	**382,319**	**345,582**	**319,817**	**253,548**

(b) Restructuring of the Target Group

To prepare for the Proposed Acquisition, the Target Group has undergone a restructuring (the "**Restructuring**"). Below is the simplified corporate chart of the Target Group immediately before the Restructuring.



Notes:

(1) Prior to the Restructuring, the Target Company indirectly owned three office units in COSCO Tower, Sheung Wan, Hong Kong, which are shown as Property A, Property B and Property C ("**Three Properties**") in the above chart, through Max Goal, Across Glorious and Sunninghill Global, respectively.

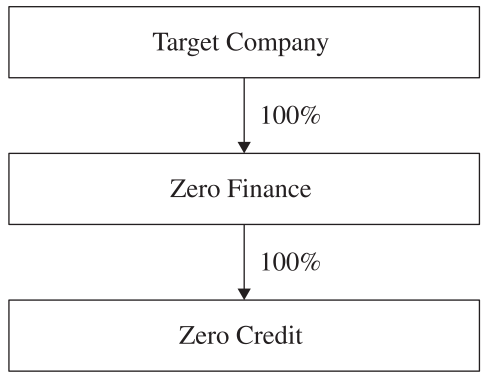
(2) Max Goal, Across Glorious and Sunninghill Global, so long as they were controlled by the Vendor or the Target Group prior to the Restructuring, had not had any operations other than the holding of the Three Properties respectively. All the Three Properties have been disposed to the Vendor Group on 23 July 2020 for a total consideration of HK$179,678,000 and hence do not form part of the assets to be acquired by the Company under the Proposed Acquisition.

(3) Zero Magnesium, Zero Titanium and ZF Limited have never had any operations and have been transferred to the Vendor Group on 20 August 2020 for a total consideration of HK$10,002.

(4) Prior to the Restructuring, Zero Finance owned 1,999,999,999 shares and Mr. Tommy Lee owned 1 share in Zero Magnesium, respectively.

Upon completion of the Restructuring, the Target Group only comprises the Target Company, Zero Finance and Zero Credit. Set out below is the simplified corporate chart of the Target Group immediately after the Restructuring and as at Completion:

Immediately after the Restructuring and as at Completion



(c) Financial information of the Target Group

Set out below is the key financial information of the Target Group for the Track Record Period:

	For the three months ended 31 March		**For the year ended 31 December**		
	2020	**2019**	**2019**	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	*(Unaudited)*	*(Audited)*	*(Audited)*	*(Audited)*
Revenue	16,891	13,372	58,663	56,102	51,862
Profits before taxation	5,383	9,131	9,827	26,390	30,720
Profits after taxation and total comprehensive income for the period/year	4,487	8,167	6,039	22,283	25,616

If adjustments had been made (not pursuant to the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants) to exclude the financial results of the Disposed Subsidiaries, which have been disposed of by the Target Group under the Restructuring, the unaudited adjusted profits after taxation and total comprehensive income for the period/year of the Target Group (excluding the Disposed Subsidiaries) for the Track Record Period would have been as follows:

	For the three months ended 31 March		**For the year ended 31 December**		
	2020	**2019**	**2019**	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Adjusted profits after taxation and total comprehensive income for the period/year of the Target Group, excluding the Disposed Subsidiaries	6,326	5,165	21,066	22,285	25,616

Note: The Disposed Subsidiaries did not generate any revenue during the Track Record Period.

Set out below is the breakdown of the interest income generated by the Target Group for the Track Record Period with respect to its loan products:

	For the three months ended 31 March	**For the year ended 31 December**		
	2020	**2019**	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured loans	9,964	33,833	42,322	43,340
Unsecured loans	6,927	24,830	13,780	8,522
Total	16,891	58,663	56,102	51,862

Three months ended 31 March 2020 compared with three months ended 31 March 2019

Revenue for the three months ended 31 March 2020 amounted to approximately HK$16.9 million, represented an increase of approximately 26.3% from approximately HK$13.4 million in the corresponding period in 2019. The overall increase of approximately 26.3% arose from the increase from the secured loans of approximately 17.5% and unsecured loans of approximately 41.6% due to the growth of the loan portfolio of the Target Group, and as such, derived more interest income.

Despite the increase in revenue, the Target Group recorded a decrease of approximately HK$3.7 million in profit and comprehensive income for the three months ended 31 March 2020, which was mainly derived from a fair value loss from revaluation of investment properties of approximately HK$1.8 million for the three months ended 31 March 2020 as compared with a fair value gain of approximately HK$3.6 million for the three month ended 31 March 2019, representing an increase of approximately HK$5.4 million in fair value loss from revaluation of investment properties for the three months ended 31 March 2020. If adjustments had been made (not pursuant to the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants) to exclude the financial results of the Disposed Subsidiaries, which have been disposed of by the Target Group under the Restructuring, the unaudited adjusted profits after taxation and total comprehensive income for the period of the Target Group (excluding the Disposed Subsidiaries) would have been increased from approximately HK$5.2 million for the three months ended 31 March 2019 to approximately HK$6.3 million for the three months ended 31 March 2020.

Year ended 31 December 2019 compared with year ended 31 December 2018

Revenue slightly increased by approximately 4.6% from approximately HK$56.1 million for the year ended 31 December 2018 to approximately HK$58.7 million for the year ended 31 December 2019. Despite the decrease in interest income derived from both secured loan of approximately HK$8.5 million or 20.1% and offline unsecured personal loans of approximately HK$0.2 million or 1.5%, the overall increase was mainly driven by the increased contribution of "X Wallet" from approximately HK$2.5 million for the year ended 31 December 2018 to approximately HK$13.7 million for the year ended 31 December 2019, as a result of the overall increase in the loan portfolio balance of the Target Group.

The significant decrease in the profit and total comprehensive income for the year ended 31 December 2019 was mainly due to the recognition of a fair value loss from revaluation of investment properties of HK$15.0 million. If adjustments were had been made (not pursuant to the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants) to exclude the financial results of the Disposed Subsidiaries, which have been disposed of by the Target Group under the Restructuring, the unaudited adjusted profits after taxation and total comprehensive income for the year of the Target Group (excluding the Disposed Subsidiaries) would have been only slightly decreased by approximately HK$1.2 million, which was primarily attributable to an increase in provision for impairment of loans and interest receivables.

Year ended 31 December 2018 compared with year ended 31 December 2017

The increase by approximately 8.2% in revenue for the year ended 31 December 2018 of approximately HK$56.1 million when compared to approximately HK$51.9 million for the year ended 31 December 2017 was primarily driven by the increase in interest income generated from (i) a share mortgage loan amounted to approximately HK$12.1 million which was granted during the year ended 31 December 2018; and (ii) unsecured loan business from approximately HK$8.5 million for the year ended 31 December 2017 to approximately HK$13.8 million for the year ended 31 December 2018 which was partially offset by the decrease in interest income of property mortgage loans by approximately HK$13.1 million.

Notwithstanding the increase in revenue, the Target Group recorded a decrease of approximately HK$3.3 million in profit and total comprehensive income for the year ended 31 December 2018, which was mainly due to an increase in administrative expenses of approximately HK$9.5 million which was mainly attributable to the growth of the business of the Target Group.

Set out below are selected items of combined statements of financial position of the Target Group as at 31 December 2017, 2018 and 2019 and 31 March 2020:

	As at 31 March	**As at 31 December**		
	2020	**2019**	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	*(Audited)*	*(Audited)*	*(Audited)*
Non-current assets	426,313	409,936	137,057	116,453
Current assets	136,606	301,796	268,657	225,038
Total assets	562,919	711,732	405,714	341,491
Non-current liabilities	46,956	47,569	–	913
Current liabilities	432,087	584,773	332,363	283,522
Total liabilities	479,043	632,342	332,363	284,435
Net assets	**83,876**	**79,390**	**73,351**	**57,056**

The total assets of the Target Group during the Track Record Period primarily comprised investment properties, loan receivables and cash and cash equivalents. Total liabilities of the Target Group mainly comprised bank borrowings used to finance the acquisition of the Three Properties and amount due to a director.

The net assets of the Target Group increased by approximately HK$16.3 million from approximately HK$57.1 million as at 31 December 2017 to approximately HK$73.4 million as at 31 December 2018, which was mainly due to (i) increase in outstanding loan receivables by approximately HK$54.2 million; and (ii) increase in cash and cash equivalents by approximately HK$15.0 million, offset by an increase in amount due to a director of approximately HK$55.3 million.

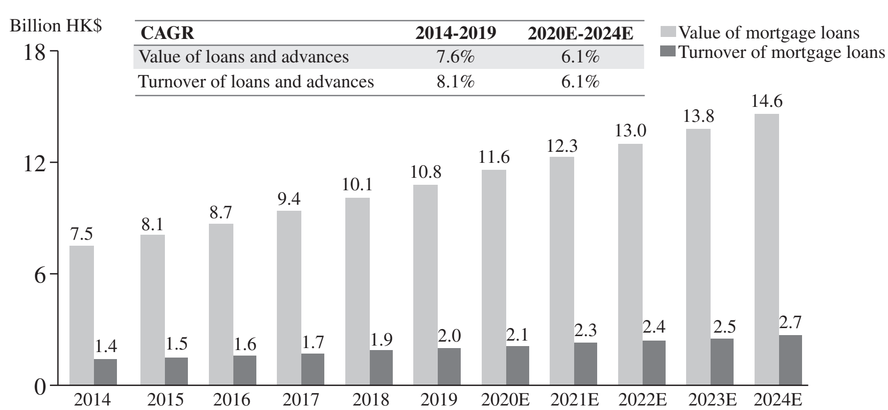
The total assets of the Target Group increased from approximately HK$405.7 million as at 31 December 2018 to approximately HK$711.7 million as at 31 December 2019, which was primarily due to (i) addition of investment properties of approximately HK$165.0 million; (ii) increase in outstanding loan receivables by approximately HK$14.9 million; and (iii) increase in cash and cash equivalents by approximately HK$162.8 million, partially offset by (a) decrease in prepayment for investment properties and acquisition of a subsidiary by approximately HK$33.7 million; (b) increase in bank borrowings by approximately HK$48.9 million; and (c) increase in amount due to a director by approximately HK$251.2 million. As a result, the net assets of the Target Group only increased slightly by approximately HK$6.0 million from approximately HK$73.4 million as at 31 December 2018 to approximately HK$79.4 million as at 31 December 2019. The net assets of the Target Group further increased by approximately HK$4.5 million to approximately HK$83.9 million as at 31 March 2020 primarily as a result of the increase in outstanding loan receivables.

3. Industry overview

Mortgage loans

As disclosed in the section headed "2. Industry Overview" in Appendix I to the Circular, the value of mortgage loans and advances granted by licensed money lenders in Hong Kong has increased from HK$7.5 billion in 2014 to HK$10.8 billion in 2019, demonstrating a CAGR of approximately 7.6%. In the future, the value is expected to keep rising as the government has raised the mortgage entitlements for borrowers. Total value of mortgage loans and advances is expected to rise at a CAGR of approximately 6.1%, reaching HK$14.6 billion in 2024. Total turnover of mortgage loans and advances has experienced a growth from HK$1.4 billion in 2014 to HK$2.0 billion in 2019, registering a CAGR of approximately 8.1%. It is expected that the turnover of mortgage loans and advances will rise at a CAGR of approximately 6.1% from 2020 to 2024, reaching HK$2.7 billion in 2024.

Value and Turnover of Mortgage Loans and Advances Granted by Licensed Money Lenders in Hong Kong, 2014-2024E

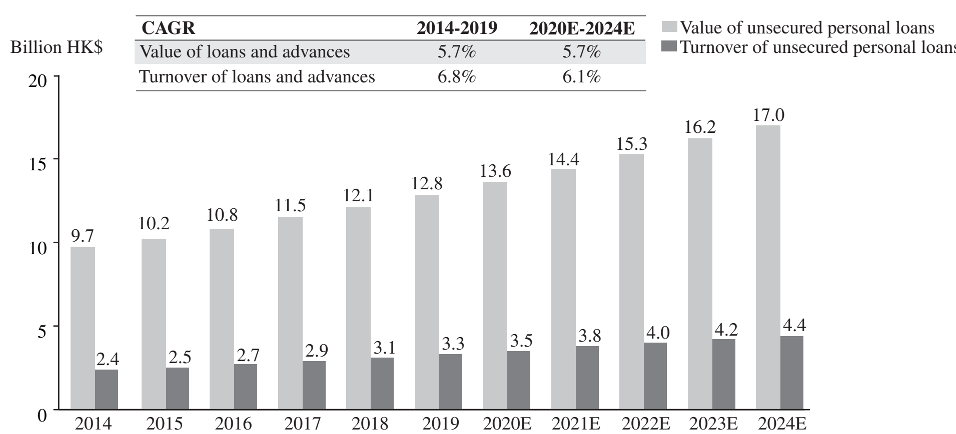


Source: Frost & Sullivan

Unsecured personal loans

Unsecured personal loans have experienced steadily growth during the period from 2014 to 2019, stimulated by the increasing income and expenditure of consumers. Total value of unsecured personal loans and advances rises from HK$9.7 billion in 2014 to HK$12.8 billion in 2019, representing a CAGR of approximately 5.7%. With the increasing demand in financing unexpected expenses of borrowers, value of unsecured personal loans and advances is projected to achieve HK$17.0 billion in 2024, representing a CAGR of approximately 5.7% from 2020 to 2024. Turnover of unsecured loans and advances rose with a CAGR of approximately 6.8%, achieving HK$3.3 billion in 2019. It is estimated that turnover will grow from HK$3.5 billion in 2020 to HK$4.4 billion in 2024, representing a CAGR of approximately 6.1%.

Value and Turnover of Unsecured Personal Loans and Advances Granted by Licensed Money Lenders in Hong Kong, 2014-2024E



Source: Frost & Sullivan

Online lending

In Hong Kong, online licensed money lenders have emerged in the market and a number of existing market participants have been investing in online platforms. The use of online channels in granting loans is gradually gaining popularity among borrowers and licensed money lenders. Online channels provide borrowers with fast, flexible and convenient loan services, reduce manual intervention during loan approval process and minimise operation costs of licensed money lenders. The rapid growth and wide application of innovative technologies such as big data analytics, cloud computing, artificial intelligence algorithm, etc. is expected to support the development of online lending platforms and services.

The stable growth in the market size of both mortgage loans and unsecured loans in Hong Kong and the increasing popularity of online lending platforms will favor the development of the Target Group in the long run. In this regard, we are of the view that the Proposed Acquisition represents a good opportunity for the Group to expand and diversify its existing money lending business and is in the interests of the Company and the Shareholders as a whole.

4. Reasons for and benefits of the Proposed Acquisition

The Group has commenced the money lending business of providing mortgage loans in Hong Kong since its acquisition of X8 Finance in August 2018, which is a company holding a Money Lender's Licence for money lending business in Hong Kong. As advised by the Company, the Group only engaged in the property mortgage money lending business in Hong Kong through X8 Finance as at the Latest Practicable Date. X8 Finance has achieved a satisfactory and healthy growth for the year ended 31 March 2020. Its loan receivables amounted to approximately HK$110.8 million as at 31 March 2020, which were all secured by mortgages over properties located in Hong Kong. Revenue from money lending business of the Group grew approximately 4 times from approximately HK$1.7 million for the year ended 31 March 2019 to approximately HK$6.8 million for the year ended 31 March 2020. Despite the outbreak of "COVID-19" in early 2020 may affect the business of X8 Finance, the Group will continue to cautiously carry out its money lending business in Hong Kong and is looking forward to earning stable interest income. In particular, the Group sees a growing demand for convenient and efficient money lending services in Hong Kong such as online personal loans and is optimistic about the prospect of the "X Wallet" personal loan business of the Target Group despite challenges due to intense competition from other market players. Therefore, the Group expects the Proposed Acquisition will enable the expansion and diversification of its existing money lending business. It is expected that the merger of the Group's existing property mortgage loan business with the secured and unsecured loan businesses of the Target Group will bring about synergy effect to the money lending business of the Enlarged Group as a whole after the Proposed Acquisition by leveraging the Target Group's business model and technology of online lending.

We have discussed with and understood from the Company that it considers the Target Group as an appropriate target after assessing certain criteria, including (i) diversity of loan portfolio and customer base; (ii) technologies of its products; (iii) brand name; (iv) financial track record; (v) experience and qualification of management team; and (vi) industry growth. It is believed that the current traditional mortgage loan model of X8 Finance can be improved and optimized with inspirations from the business model and technological characteristics of "X Wallet", a mobile APP developed and used by Zero Finance.

(i) Diversity of loan portfolio and customer base

The Target Group is principally engaged in providing both secured loans (property mortgage loans and share mortgage loan) and unsecured loans (online personal loans provided via "X Wallet" and offline personal loans). Set out below is the breakdown of the Target Group's outstanding loan portfolio and customer portfolio by loan products as at 31 March 2020:

By loan products	**In terms of outstanding loan balances**		**In terms of number of current customer accounts**	
	HK$'000	*% of total*		*% of total*
Secured loans	291,981	76.3%	98	2.6%
Unsecured loans	90,338	23.7%	3,696	97.4%
Total	**382,319**	**100.0%**	**3,794**	**100.0%**

After taking into account the loan portfolio of the Target Group, the Company is of the view that the Proposed Acquisition will enable the Group to expand the product offerings of its money lending business to include unsecured loan business.

Besides, as advised by the Company, it is of the view that the Proposed Acquisition will directly and efficiently broaden its customer base of money lending business and eventually lower its customer acquisition costs. As disclosed in the paragraph headed "5. Business – Principal Business Activities" in Appendix I to the Circular, as at 31 March 2020, "X Wallet" had 32,325 registered users, among which 3,101 users had been granted loans through "X Wallet" which remained outstanding. As at the Latest Practicable Date, there were more than 35,000 registered users of "X Wallet". Therefore, the Company believes that after the Proposed Acquisition, the network of "X Wallet" and the experience in attracting customers on the online platform could provide potential mortgage loan customers to the Enlarged Group and facilitate the Enlarged Group to expand its customers base directly through the online channel, thereby reducing its reliance on customer referral by agencies and lowering the costs of its loan business. Furthermore, the Company could maintain better and more efficient customer relations with its mortgage loan clients by exploring the introduction of online customer services and communication via "X Wallet" or other online platform to be set up with the technologies developed for "X Wallet" as discussed in the paragraph below.

(ii) Technologies of "X Wallet"

The Target Group launched its key product "X Wallet" in April 2018, which is a mobile APP providing around-the-clock, fully-automated, fast and convenient money lending services from application to drawdown in Hong Kong. Various technologies have been developed and introduced in "X Wallet", including the live face detection and recognition system for identifying identity fraud, the credit scoring model, the fully-automated procedures from loan application to transmission of funds, as well as the data security measures. The Company expects that after the Proposed Acquisition, the Enlarged Group could utilise the technologies developed for "X Wallet" to streamline and modernise its mortgage loan business model and procedures, as well as to improve the risk control for such business.

More importantly, those technologies could assist the Enlarged Group to screen out fraudulent cases and facilitate the Enlarged Group to design a data-based credit rating system specifically for its mortgage loan business by building up, learning and/or modifying from the model and experience in respect of the automated credit rating system developed for and deployed by "X Wallet". In this way, the decision-making of the money lending business of the Enlarged Group will be more driven by data and involve fewer human factors, and the risk control will be enhanced as a whole.

Based on the above, it is expected that the Proposed Acquisition will benefit the development of the money lending business of the Enlarged Group in terms of both operational efficiency and risk control.

(iii) Brand name

Zero Finance has allocated a significant amount of resources to the brand building of Zero Finance, and particularly "X Wallet", since the launch of "X Wallet" in 2018. As at the Latest Practicable Date, there were more than 35,000 registered users of "X Wallet". Therefore, the Company is of the view that after the Proposed Acquisition, its loan business could greatly benefit from the brand names of Zero Finance and "X Wallet".

(iv) Financial track record

As disclosed in the paragraph headed "2. Information on the Target Group – (a) Background of the Target Group" and "2. Information on the Target Group – (c) Financial Information of the Target Group" in this section above, the Target Group demonstrated a stable business growth during the Track Record Period. Its outstanding loan portfolio increased by approximately 26.2% from approximately HK$253.5 million as at 31 December 2017 to approximately HK$319.8 million as at 31 December 2018 and further by approximately 8.1% to approximately HK$345.6 million as at 31 December 2019. The revenue of the Target Group increased by approximately 8.2% from approximately HK$51.9 million for the year ended 31 December 2017 to approximately HK$56.1 million for the year ended 31 December 2018, and further by approximately 4.6% to approximately HK$58.7 million for the year ended 31 December 2019. In respect of profitability, despite the decrease in unaudited adjusted profits after taxation and total comprehensive income for the year of the Target Group (excluding the Disposed Subsidiaries) by excluding the financial results of the Disposed Subsidiaries during the three years ended 31 December 2019, it was able to maintain a profit level (adjusted by excluding the financial results of the Disposed Subsidiaries) of over HK$20 million throughout the three years ended 31 December 2019.

On the other hand, as discussed in the paragraph headed "1. Information on the Group" in this section above, over the past three financial years, the Group recorded declining financial performance both in terms of revenue and profitability. In particular, the Group recorded loss for two consecutive years ended 31 March 2020 and the loss increased by approximately HK$7.1 million from approximately HK$19.9 million for the year ended 31 March 2019 to approximately HK$27.0 million for the year ended 31 March 2020.

After taking into account the historical financial performance of the Target Group, it is expected that the Proposed Acquisition provides an opportunity to strengthen the declining financial performance of the Group by providing a new and stable revenue stream with proven profitability.

(v) Experience and qualification of management team

The senior management team of the Target Group comprises Mr. Chau Hau Shing and Mr. Lo Kin On, both of them have approximately 20 years of experience in the money lending industry. Mr. Chau Hau Shing started working in the money lending industry in 1996. Prior to joining the Vendor Group to manage the business of Zero Finance, Mr. Chau Hau Shing worked at Chongqing Jiangbei District Huizhong Micro Credit Co., Ltd. (重慶市江北區惠中小額貸款股份有限公司) from February 2010 to January 2014 and his last position was general manager and executive director. Prior to joining Zero Finance, Mr. Lo Kin On worked at OK Finance Limited from April 2012 to August 2017 as acting head of network. It is intended that, upon Completion, the existing management team of the Target Group will continue to serve the Enlarged Group. Therefore, it is expected that the money lending business of the Enlarged Group will be benefited by the continuous contribution from the seasoned management team of the Target Group with extensive industry knowledge and proven track record.

(vi) Industry growth

As disclosed under paragraph headed "3. Industry overview" in this section, value of mortgage loans and unsecured personal loans reached HK$10.8 billion and HK$12.8 billion in 2019, representing a CAGR of 7.6% and 5.7% from 2014 to 2019, respectively. It is projected that the value of both products will maintain a similar CAGR from 2020 to 2024. With a diversified product portfolio upon Completion, the Enlarged Group will not only benefit from the expected market growth of mortgage loans but also the growth of unsecured loans. In addition, the online product "X Wallet" of the Target Group will enable the Enlarged Group to benefit from increasing popularity of online lending platforms in Hong Kong.

After taking into account the above factors considered by the Company and the potential synergy effect to the money lending business of the Enlarged Group as a whole after the Proposed Acquisition, we consider the Proposed Acquisition is in line with the development strategy of the Group and will enable the expansion and diversification of the Group's existing money lending business and therefore is in the interests of the Company and its Shareholders as a whole.

5. Principal terms of the Agreement

The principal terms of the Agreement are set out in letter from the Board in the Circular. In summary, the Company, through Termbray Wealth Investment Limited (an indirect wholly-owned subsidiary of the Company) as Purchaser, has agreed to purchase and the Vendor has agreed to sell the Sale Shares.

The initial amount of the Consideration is HK$404,109,000 (the "**Initial Consideration**"), which is subject to the post-Completion adjustments mentioned below. The Consideration shall be payable by the Purchaser to the Vendor in the manner set out below:

(1) HK$205,229,444 will be settled by the issue of 710,000,000 Consideration Shares at the Issue Price by the Company to the Vendor at Completion;

(2) HK$20 million will be settled by the Purchaser in cash to the Vendor on or before 31 December 2021;

(3) HK$20 million will be settled by the Purchaser in cash to the Vendor on or before 31 December 2022; and

(4) the balance of the Consideration will be settled by the Purchaser in cash to the Vendor on or before 31 December 2023.

The Purchaser shall have the discretion to make early payment of the cash portion of the Consideration prior to the aforesaid payment dates. The Company may procure the Purchaser to exercise such early payment discretion if it considers that the Group has sufficient cash available for such purpose after setting aside the cash required for the Group's working capital. No interest will be payable to the Vendor on the deferred portions of the Consideration.

The Initial Consideration will be subject to post-Completion dollar-for-dollar adjustments based on the net asset value of the Target Group as at Completion. However, no adjustment will be made if the amount of difference between the net asset value of the Target Group as at Completion and the Initial Consideration is less than HK$1 million.

Completion is subject to the satisfaction of, among others, (i) the approval of the Agreement by the Independent Shareholders; and (ii) the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares (and such permission not having been revoked).

6. Our assessment of the Consideration

The Initial Consideration of HK$404,109,000 (subject to adjustments) was determined after arm's length negotiations between the Purchaser and the Vendor taking into account (i) the unaudited net asset value of the Target Group of approximately HK$111.5 million as at 31 July 2020; (ii) that the aforesaid unaudited net asset value of the Target Group as at 31 July 2020 would have increased by approximately HK$292.6 million as a result of the capitalisation of the equivalent amount of loan owing by the Target Group to the Vendor on 15 September 2020 (if it had taken place on 31 July 2020); and (iii) the price to book ratio of 1 to 1. The price to book ratio of 1 to 1 was adopted after arm's length negotiation between the parties having taken into account the nature of the Target Group's money lending business where most assets are in the form of loan receivables and cash and cash equivalents (after the disposal of the Three Properties) in an income yielding and well collateralised portfolio. The Initial Consideration will be subject to post-Completion dollar-for-dollar adjustments based on the net asset value of the Target Group as at Completion. However, no adjustment will be made if the amount of difference between the net asset value of the Target Group as at Completion and the Initial Consideration is less than HK$1 million. Taking into account that, upon completion of the Restructuring, the principal underlying assets of the Target Group have been loan assets which are capable of realization into cash within defined time horizons and are income-yielding, we consider such basis of consideration with reference to the net asset value of the Target Group as at Completion to be reasonable.

To assess the fairness and reasonableness of the Consideration, we consider it relevant to take into account precedent transactions involving acquisition of controlling equity interests in Hong Kong based money lending companies by companies listed on the Stock Exchange. We have conducted research on the website of the Stock Exchange for the period from 1 July 2017 and up to the Latest Practicable Date and identified those transactions (the "**Transaction Comparables**") based on the following criteria: (i) the buyer is a company listed on the Stock Exchange; (ii) the transaction involves acquisition of controlling equity interests (i.e. being more than 50% shareholding) in the target company; and (iii) the target company is a licensed money lender in Hong Kong and is principally engaged in money lending business with its entire revenue for the latest financial year at the time of announcement of acquisition being contributed by money lending business in Hong Kong. We consider such list as an exhaustive list of relevant Transaction Comparables.

Table A

Date of initial announcement	Company name	Stock code	Details of the transaction	Consideration *(HK$)*	Net asset value[1] *(HK$)*	Price to book ("P/B") ratio *(times)*
10 September 2019	Hao Tian International Construction Investment Group Limited	1341	Acquisition of 100% equity interests of a licenced money lender in Hong Kong.	213,000,000	213,738,000	1.00
18 June 2019	New Century Group Hong Kong Limited	234	Acquisition of 60% equity interests of a licenced money lender in Hong Kong.	457,640,000	457,641,000	1.00
6 March 2019	Season Pacific Holdings Limited (Currently known as DL Holdings Group Limited)	1709	Acquisition of 100% equity interests of a licenced money lender in Hong Kong.[2]	410,000	net liabilities	N/A
27 December 2018	Success Dragon International Holdings Limited	1182	Acquisition of 100% equity interests of a licenced money lender in Hong Kong.[3]	400,000	net liabilities	N/A
29 September 2017	Sun International Group Limited	8029	Acquisition of 100% equity interests of a licenced money lender in Hong Kong.	378,000,000	375,000,000	1.01

Date of initial announcement	Company name	Stock code	Details of the transaction	Consideration *(HK$)*	Net asset value[1] *(HK$)*	Price to book ("P/B") ratio *(times)*
26 July 2017	Future Bright Mining Holdings Limited	2212	Acquisition of 100% equity interests of a licenced money lender in Hong Kong.[4]	7,240,000[5]	1,740,000	4.16
					Max	**4.16**
					Min	**1.00**
					Average	**1.00[6]**
23 September 2020	**The Company**	**93**	**Acquisition of 100% equity interests of the Target Company**	**404,109,000**	**404,109,000[7]**	**1.00**

Notes:

1. The net asset value is the latest net asset value of the target company extracted from the relevant circular or announcement of the listed company and is proportionally adjusted according to the percentage of equity interests acquired.

2. The entire transaction includes the acquisition of companies engaging in SFC regulated activities and money lending business. However, only information in relation to the acquisition of the company engaging in money lending business is presented in the table.

3. The target company did not record any revenue since the date of incorporation up to the end of the latest financial year on the date of announcement. However, based on the announcement, there was not any other information indicating that the target company was engaging in business other than money lending. Therefore, this transaction has been included as one of the Transaction Comparables.

4. The revenue of the target company was not disclosed in the relevant announcement. However, as there was not any other information in the announcement indicating that the target company was engaging in business other than money lending, this transaction has been included as one of the Transaction Comparables.

5. The consideration included a premium of HK$5.5 million on top of the net assets of the target company as the vendor represented and warranted that the target company will execute the drawdowns of two loans (with principal amount of HK$7.0 million in total) with its clients within one year from the date of the agreement.

6. When calculating the average P/B ratio of the Transaction Comparables, the P/B ratio of the transaction of Future Bright Mining Holdings Limited of 4.16 times is treated as an outlier and is excluded from the average.

7. The net asset value of the Target Company is the sum of (i) the unaudited consolidated net asset value of the Target Group of approximately HK$111.5 million as at 31 July 2020, and (ii) the amount of loan owing by the Target Group to the Vendor of approximately HK$292.6 million as at 31 July 2020, the same amount had been subsequently capitalised into shares of the Target Company on 15 September 2020.

As set out in Table A above, except for Season Pacific Holdings Limited ("**Season Pacific**"), Success Dragon International Holdings Limited ("**Success Dragon**") and Future Bright Mining Holdings Limited ("**Future Bright Mining**", together with Season Pacific and Success Dragon are referred as "**Excluded Transaction Comparables**"), other Transaction Comparables were valued at a P/B ratio of approximately 1.0 time to 1.01 times with an average of approximately 1.00 time. We consider Future Bright Mining as an outlier as its exceptionally high P/B ratio had taken into account the specific representation and warranty given by the vendor which was materially different with other Transaction Comparables and the Proposed Acquisition. Although the P/B ratios of Season Pacific and Success Dragon are not available as the relevant target companies recorded net liabilities, the consideration actually represented a premium over the book values of the target companies as opposed to the fact that the Consideration is approximate to the estimated net asset value of the Target Group as at Completion for the Proposed Acquisition. In conclusion, the P/B ratio of the Target Company of 1.0 time (i) is approximate to the range of P/B ratios and the average P/B ratio of the Transaction Comparables (excluding the Excluded Transaction Comparables); and (ii) is more favorable to the Purchaser than the Excluded Transaction Comparables.

In addition, taking into account that the Target Group is qualified to apply for listing on the Main Board of the Stock Exchange in accordance with the Listing Rules and the Vendor may determine the valuation of the Target Group by making reference to initial public offering ("**IPO**") multiples of its peers in the same industry, we have also made reference to the IPO multiples of listed peers in the Hong Kong money lending industry. In this regards, we have identified a list of companies which (i) were listed on the Stock Exchange by way of IPO from 1 January 2011 and up to the Latest Practicable Date; and (ii) were principally engaged in money lending business in Hong Kong at the time of listing with entire revenue being contributed by money lending business in Hong Kong for the latest financial year as stated in their respective prospectus (the "**IPO Comparable Companies**"). An exhaustive list of four IPO Comparable Companies were identified and their respective IPO statistics are set out in Table B below.

Table B

Company (Stock code)	**Date of listing**	**Market capitalization at IPO** *(HK$'000)*	**Latest adjusted net asset value as per respective prospectus**[1] *(HK$'000)*	**P/B ratio at IPO**[2] *(times)*	**P/E ratio at IPO**[3] *(times)*
Global International Credit Group Limited (HK 1669)	12 December 2014	540,000	353,345	1.53	12.13
Hong Kong Finance Group Limited (HK 1273)	2 October 2013	427,450	245,373	1.74	11.94

Company (Stock code)	Date of listing	Market capitalization at IPO *(HK$'000)*	Latest adjusted net asset value as per respective prospectus[1] *(HK$'000)*	P/B ratio at IPO[2] *(times)*	P/E ratio at IPO[3] *(times)*
Oi Wah Pawnshop Credit Holdings Limited (HK 1319)	12 March 2013	392,000	190,387	2.06	11.74
First Credit Finance Group Limited (HK 8215)	13 December 2011	300,000	201,998	1.49	30.18
			Average	**1.71**	**16.50**

	Consideration *(HK$'000)*	Net asset value *(HK$'000)*	P/B ratio *(times)*	P/E ratio *(times)*
Target Company	**404,109[4]**	**404,109[4]**	**1.00**	**66.92[5]**

Notes:

1. Latest adjusted net asset value equals to the net asset value as at the latest balance sheet date per respective prospectus plus shareholders' loan as at the latest balance sheet date to be capitalized prior to listing.

2. P/B ratio at IPO of the IPO Comparable Companies equals to market capitalization at IPO divided by latest adjusted net asset value as per respective prospectus.

3. P/E ratio at IPO of the IPO Comparable Companies equals to market capitalization at IPO divided by profit attributable to owners of the company for the latest financial year as per respective prospectus.

4. The net asset value of the Target Company is the sum of (i) the unaudited consolidated net asset value of the Target Group of approximately HK$111.5 million as at 31 July 2020, and (ii) the amount of loan owing by the Target Group to the Vendor of approximately HK$292.6 million as at 31 July 2020, the same amount had been subsequently capitalised into shares of the Target Company on 15 September 2020.

5. The P/E ratio of the Target Company equals to the Initial Consideration divided by profit for the year ended 31 December 2019 of the Target Group.

As illustrated in Table B above, although the IPO Comparable Companies were listed at different timing under different market environment, their P/B ratios at IPO did not vary significantly. The P/B ratios at IPO of the IPO Comparable Companies ranged from approximately 1.49 times to 2.06 times, which were all higher than 1.0 time, being the P/B ratio of the Target Company. On the other hand, the P/E ratio at IPO of the IPO Comparable Companies ranged from approximately 11.74 times to approximately 30.18 times with an average of approximately 16.50 times. Notwithstanding that the P/E ratio of the Target Company of approximately 66.92 times is much higher than the average P/E ratio at IPO of the IPO Comparable Companies, if adjustments (not pursuant to the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants) have been made to exclude the financial results of the Disposed Subsidiaries, the adjusted P/E ratio of the Target Group (excluding the Disposed Subsidiaries) would have been equal to approximately 19.18 times, which falls within the range of P/E ratio at IPO of the IPO Comparable Companies. However, we consider P/B ratio is more relevant to the Proposed Acquisition as the Consideration is principally determined with reference to the estimated net asset value of the Target Group as at Completion.

In addition to the IPO Comparable Companies, as at the Latest Practicable Date, we did not identify any other listed companies in Hong Kong with its entire revenue being contributed by money lending business in Hong Kong. Set out in Table C below are the respective trading statistics of the IPO Comparable Companies as at the Latest Practicable Date. We observed that all the IPO Comparable Companies were trading at discounts to their latest net asset value as at the Latest Practicable Date. However, we consider that comparing the Consideration with the latest market valuation of the IPO Comparable Companies is not meaningful as the trading volume of the shares of the IPO Comparable Companies is very thin and such trading prices do not reflect any control premium in takeover situation similar to the Proposed Acquisition. Therefore, information set out in Table C is solely for illustrative purpose only.

Table C

Company (Stock Code)	**Closing price as at the Latest Practicable Date**	**Percentage of average daily trading volume to total number of issued shares for the 30 consecutive trading days immediately prior to and including the Latest Practicable Date**	**P/B ratio as at the Latest Practicable Date**	**P/E ratio as at the Latest Practicable Date**
	(HK$)	*(%)*	*times*	*times*
Global International Credit Group Limited (HK 1669)	0.440	0.004%	0.22	2.82
Hong Kong Finance Group Limited (HK 1273)	0.400	0.006%	0.27	2.99
Oi Wah Pawnshop Credit Holdings Limited (HK 1319)	0.285	0.004%	0.62	5.14
First Credit Finance Group Limited[1] (HK 8215)	0.108	N/A	0.56	N/A

Note 1: First Credit Finance Group Limited has suspended trading since 24 November 2017.The price as at Latest Practicable Date represents last closing price before trading suspension. It recorded loss for the latest financial year.

Moreover, under normal circumstances of a willing buyer and a willing seller and assuming that the owner is not in a distressed or forced sale situation, it is unlikely that any owner would be prepared to dispose of his/her interests in an income yielding and well collateralised portfolio at a discount to net assets value. In respect of the Target Group, as at 31 March 2020, approximately 76.3% of its total outstanding loan balance were secured loan which were substantially secured by properties in Hong Kong or listed securities in Hong Kong. Therefore, it is considered reasonable for the Vendor to sell the Target Group at a P/B of approximately 1.0 time.

Notwithstanding that the P/B ratio and the P/E ratio of the Target Company are higher than the latest trading multiples of the IPO Comparable Companies which we considered as not meaningful to compare as discussed above, after taking into account that (i) the principal underlying assets of the Target Group are loan assets which are capable of realization into cash within defined time horizons and are income-yielding; (ii) the P/B ratio of the Target Company of 1.0 time (a) is approximate to the range of P/B ratios and the average P/B ratio of the Transaction Comparables (excluding the Excluded Transaction Comparables); and (b) is more favorable to the Purchaser than the Excluded Transaction Comparables; (iii) the P/B ratio of the Target Company of 1.0 time is lower than the P/B ratio at IPO of the IPO Comparable Companies; and (iv) it is unlikely that any owner would dispose of his/her interests in an income yielding and well collateralised portfolio at a discount to net assets value under normal circumstances of a willing buyer and a willing seller, we are of the view that the basis of the Consideration, which is determined based on the Target Company's net asset value as at Completion with P/B ratio of 1.0 time, is fair and reasonable and in line with market practice of this type of transaction.

7. Settlement method of the Consideration

The Initial Consideration shall be satisfied (i) as to HK$205,229,444 by the allotment and issue of 710,000,000 Consideration Shares upon Completion; and (ii) as to HK$198,879,556 in cash by three stages: HK$20 million each on or before 31 December 2021 and 2022 and the balance of approximately HK$158.88 million on or before 31 December 2023. The Purchaser shall have the discretion to make early payment of the Consideration prior to the aforesaid payment dates. The Company may procure the Purchaser to exercise such early payment discretion if it considers that the Group has sufficient cash available for such purpose after setting aside the cash required for the Group's working capital. No interest will be payable to the Vendor on the deferred portions of the Consideration.

We were advised by the Company that it has considered other settlement alternatives for the Proposed Acquisition including entire cash payment and debt financing such as bank borrowings or convertible bonds. Taking into account the Group's audited consolidated cash and bank balances of approximately HK$187.8 million as at 31 March 2020, it is not possible for the Company to satisfy the entire Consideration of approximately HK$404.11 million in cash solely by internal resources. Therefore, the Company has considered other financing methods to settle part of the Consideration.

In respect of bank borrowings, after considering (i) the potential lengthy application and approval process with banks which are relatively uncertain and time consuming; (ii) the potential adverse impact on profitability and working capital of the Enlarged Group due to finance costs and regular interest payments; and (iii) the increase in the gearing position of the Enlarged Group given both the Group and the Target Group had no leverage as at 31 March 2020 and up to the Latest Practicable Date, the Company is of the view that obtaining bank borrowings to finance the Proposed Acquisition is not in the interests of the Shareholders.

In respect of issue of convertible bonds, notwithstanding that convertible bonds can be non-interest bearing and can save regular interest payments for the Group comparing with bank borrowings as mentioned above, after taking into account (i) it will constitute a financial liability of the Group as part of the convertible bond will be recognized as debt on the financial statement of the Group and hence increase the gearing ratio of the Group; and (ii) the implied finance costs from the liability component of a convertible bonds will impair the profits of the Enlarged Group, the Company is of the view that issue of convertible bonds to finance the Proposed Acquisition is not in the best interests of the Shareholders.

After considering the above, the Company is of the view that a combination of equity financing and cash settlement is a preferred option. Satisfaction of a substantial portion of the Consideration by the issue of the Consideration Shares shall reduce the cash outlay for the Proposed Acquisition to a level which is within the Group's financial capacity and reserve sufficient working capital for the operations of the Enlarged Group, and most importantly, will not impair the profitability of the Enlarged Group. On the other hand, although the remaining approximately HK$198.88 million of the Consideration will be settled by the Company in cash, it will be settled by stages as aforementioned after Completion and a substantial portion of it will be settled in the last stage (ie. on or before 31 December 2023). No interest will be payable by the Group on the deferred portions of the Consideration. Therefore, the settlement method of the Proposed Acquisition will not impose any immediate cashflow or funding cost pressure to the Group upon Completion and provide flexibility to the Group to settle the Consideration by stages with early repayment option. The Group will be able to decide its own repayment schedule if it has sufficient working capital.

Based on the above, we are of the view that the settlement method of the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

8. Consideration Shares

Pursuant to the Agreement, HK$205,229,444 of the Consideration shall be satisfied by the allotment and the issue of 710,000,000 Consideration Shares. The Consideration Shares represent approximately 36.27% of the existing issued share capital of the Company and approximately 26.62% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no other change in the issued share capital of the Company).

The Issue Price of approximately HK$0.289 per Consideration Share represents:

(i) a discount of approximately 6.77% to the closing price of HK$0.310 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 6.17% to the average closing price of the Shares as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day of approximately HK$0.308 per Share;

(iii) a discount of approximately 5.86% to the average closing price of the Shares as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day of approximately HK$0.307 per Share;

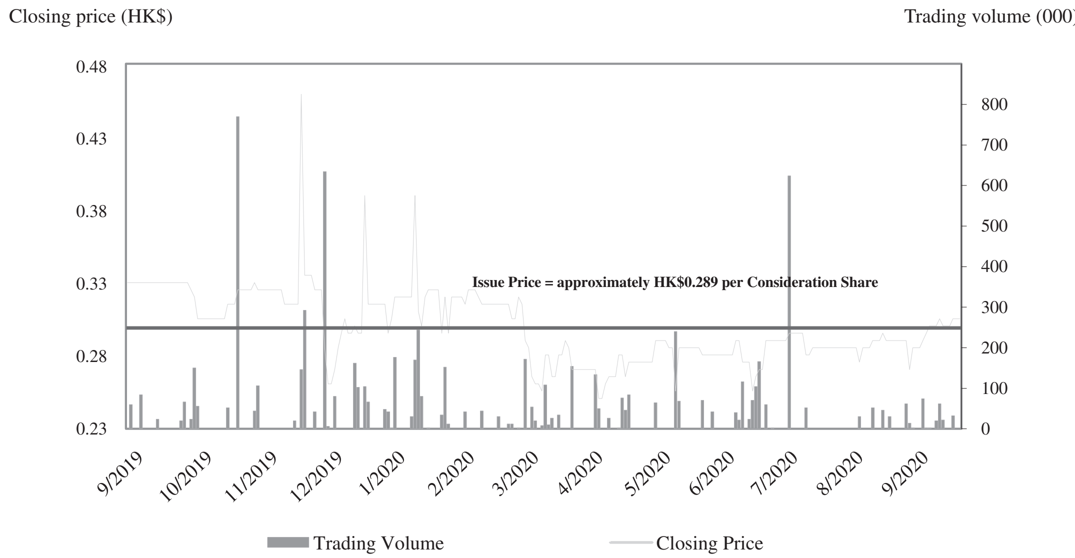
(iv) a discount of approximately 3.02% to the average closing price of the Shares as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day of approximately HK$0.298 per Share; and

(v) a discount of approximately 6.77% to the closing price of HK$0.310 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Issue Price was determined after arm's length negotiations among the parties taking into account the prevailing market prices of the Shares.

For the purposes of assessing the fairness and reasonableness of the Issue Price, we have reviewed the movement in closing prices of the Shares during the period from 23 September 2019, being a year immediately preceding the date of the Agreement, to the Last Trading Day (the "**Review Period**"), as set out in the chart below. We consider such Review Period is adequate to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the closing prices of the Shares and the Issue Price because (i) it has substantially reflected the changes in market sentiment and investor appetite towards the Company, if any, caused by the outbreak of COVID-19, the latest development of global and Hong Kong economic and political environment as well as the announcement of the latest financial results of the Company for the year ended 31 March 2020; and (ii) having a longer period may have been too distant in time and making the analysis on the Issue Price less relevant to the recent market trends.

Chart 1 – Closing prices of the Shares during the Review Period



Source: Capital IQ as at 23 September 2020

As illustrated in the above chart, during the Review Period, the Share price fluctuated between HK$0.255 per Share (on 20 April 2020 and 21 April 2020) and HK$0.465 per Share (on 6 December 2019). The average closing price during the Review Period was approximately HK$0.304 per Share. The Issue Price of approximately HK$0.289 per Consideration Share represents (i) a discount of approximately 4.93% to the average closing price of the Shares during the Review Period; and (ii) a premium of approximately 13.33% over the lowest closing price of the Shares during the Review Period.

In addition to reviewing the movement in closing prices of the Shares during the Review Period, we have also considered precedent acquisitions conducted by Hong Kong listed companies which involved the issue of consideration shares from 1 June 2020, being three months immediately preceding the date of the Agreement, to the Latest Practicable Date (the "**Price Comparables**") and compared their respective premium/(discount) of issue price of consideration shares over/(to) closing price on the last trading day (i.e. date of initial announcement) and average closing prices for the last 5, 10 and 30 trading days up to and including the last trading day, as set out in Table D below. We consider the number and review period of Price Comparables are adequate to illustrate the recent pricing trend of issue price of consideration shares issued by Hong Kong listed companies for acquisitions.

Table D

Company Name	Stock Code	Date of Initial Announcement	Premium/(discount) of the issue price of the consideration shares over/(to) closing price on the last trading day or average closing prices of the last 5, 10 or 30 trading days up to and including the last trading day			
			Last trading day	Last 5 trading days	Last 10 trading days	Last 30 trading days
Viva Biotech Holdings	1873	21 September 2020	(7.68%)	(0.48%)	2.40%	(3.34%)
Coolpad Group Limited	2369	13 September 2020	(8.45%)	(16.77%)	(24.46%)	(33.17%)
ZZ Capital International Limited	8295	10 September 2020	(43.90%)	(45.60%)	(47.50%)	(50.30%)
Hao Tian International Construction Investment Group Limited	1341	4 September 2020	(21.90%)	(22.60%)	(21.10%)	(11.41%)
C-MER Eye Care Holdings Limited	3309	28 August 2020	0.08%	0.15%	0.00%	(5.29%)
Sansheng Holdings (Group) Co. Ltd.	2183	24 August 2020	1.59%	0.34%	(1.13%)	0.30%
Shen You Holdings Limited	8377	18 August 2020	2.38%	(7.33%)	(9.28%)	(13.94%)
E-House (China) Enterprise Holdings Limited	2048	31 July 2020	(15.57%)	(10.12%)	(6.79%)	(1.65%)
China Ever Grand Financial Leasing Group Co., Ltd	379	29 July 2020	(11.43%)	(15.07%)	(14.76%)	(14.98%)
Boill Healthcare Holdings Limited	1246	24 July 2020	(10.26%)	(14.63%)	(16.67%)	(9.33%)
Union Medical Healthcare Limited	2138	20 July 2020	4.22%	(1.18%)	(1.18%)	0.21%
Man Sang International Limited	938	14 July 2020	(9.76%)	(9.09%)	(10.63%)	(13.42%)
GTI Holdings Limited	3344	7 July 2020	0.00%	0.00%	0.00%	(6.25%)
Greater China Financial Holdings Limited	431	29 June 2020	1.00%	1.00%	1.01%	0.84%
China Rongzhong Financial Holdings Company Limited	3963	26 June 2020	(8.33%)	(8.33%)	(8.33%)	6.45%
Differ Group Holding Company Limited	6878	18 June 2020	(12.09%)	(11.31%)	(10.71%)	(9.54%)

Company Name	Stock Code	Date of Initial Announcement	Premium/(discount) of the issue price of the consideration shares over/(to) closing price on the last trading day or average closing prices of the last 5, 10 or 30 trading days up to and including the last trading day			
			Last trading day	Last 5 trading days	Last 10 trading days	Last 30 trading days
Xinming China Holdings Limited	2699	17 June 2020	(4.76%)	(4.76%)	(5.93%)	(5.27%)
Golden Faith Group Holdings Limited	2863	8 June 2020	1.75%	1.40%	(0.17%)	(3.44%)
Jiyi Household International Holdings Limited (Currently known as Jiyi Holdings Limited)	1495	4 June 2020	(7.14%)	(5.25%)	(5.93%)	(5.89%)
		Max	**4.22%**	**1.40%**	**2.40%**	**6.45%**
		Min	**(43.90%)**	**(45.60%)**	**(47.50%)**	**(50.30%)**
		Average	**(7.91%)**	**(8.93%)**	**(9.54%)**	**(9.44%)**
Proposed Acquisition			**(6.77)%**	**(6.17)%**	**(5.86)%**	**(3.02)%**

As illustrated in Table D above, the discount to the closing price on the Last Trading Day and the discounts to the average closing prices of the last 5, 10 and 30 trading days prior to the Last Trading Day of the Issue Price fall within the respective ranges of discount/premium of the Price Comparables and are close to the respective average discounts of the Price Comparables. Therefore, the discounts/premiums of the issue price of the consideration shares to/over the closing prices of the Price Comparables are generally in line with the Proposed Acquisition.

Given that the Issue Price (i) represents a minimal discount ranging from approximately 3.02% to 6.77% to the closing price on the Last Trading Day and the average closing prices of the last 5, 10 or 30 trading days up to and including the Last Trading Day; and (ii) the discounts/premiums of the issue price of the consideration shares to/over the closing prices of the Price Comparables are generally in line with the Proposed Acquisition, we are of the view that the issue price of the Consideration Shares is fair and reasonable so far as the Independent Shareholders are concerned and is on normal commercial terms.

9. Financial effects of the Proposed Acquisition on the Group

Upon Completion, the Target Company shall become a wholly-owned subsidiary of the Company and the financial statements of the Target Group shall be consolidated into the consolidated financial statements of the Group. The unaudited pro forma financial information of the Group (the "**Unaudited Pro Forma Financial Information**") is set out in Appendix IV to the Circular.

(i) Earnings

The audited loss of the Company for the year ended 31 March 2020 was approximately HK$27.0 million. Based on the Accountant's Report of the Target Company as set out in Appendix III to the Circular, the Target Group recorded a profit of approximately HK$6.0 million for the year ended 31 December 2019. If adjustments were had been made (not pursuant to the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants) to exclude the financial results of the Disposed Subsidiaries, the unaudited adjusted profits after taxation and total comprehensive income of the Target Group (excluding the Disposed Subsidiaries) for the year ended 31 December 2019 would have been approximately HK$21.1 million. According to the Unaudited Pro Forma Financial Information, assuming the Proposed Acquisition had been completed on 1 April 2019, the pro forma profit of the Enlarged Group attributable to the owners of the Company would have been approximately HK$11.3 million for the year ended 31 March 2020.

(ii) Assets and Liabilities

The audited consolidated total assets and total liabilities of the Group as at 31 March 2020 were approximately HK$933.7 million and HK$25.3 million, respectively. Based on the Unaudited Pro Forma Financial Information, assuming that Completion had taken place on 31 March 2020, the pro forma total assets and total liabilities of the Enlarged Group would have been increased to approximately HK$1,330.2 million and HK$194.4 million, respectively.

(iii) Equity attributable to the Shareholders

The audited consolidated equity attributable to the Shareholders ("**NAV**") as at 31 March 2020 was approximately HK$908.4 million. As set out in the Unaudited Pro Forma Financial Information, assuming that Completion had taken place on 31 March 2020, the pro forma NAV of the Enlarged Group would have been increased to approximately HK$1,135.8 million. Taking into account that 710,000,000 Consideration Shares would have been issued upon Completion, the total number of Shares in issue would have been increased to 2,667,643,050 Shares upon Completion (assuming that there is no other change in the issued share capital of the Company). Therefore, assuming that Completion had taken place on 31 March 2020, the pro forma NAV per Share would have been decreased to approximately HK$0.43 as compared to approximately HK$0.46 per Share as at 31 March 2020 per the audited consolidated financial statements of the Group.

(iv) Working capital

As the cash portion of the Consideration will be settled by the Company by three stages: HK$20 million each on or before 31 December 2021 and 2022 and the remaining balance on or before 31 December 2023, other than the consolidation of the working capital of the Target Group, there will not be any other impact on the working capital of the Enlarged Group immediately upon Completion.

10. Potential dilution effect on shareholding interest

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon allotment and issue of all the Consideration Shares (assuming that there is no other change in the issued share capital of the Company):

	As at the Latest Practicable Date		**Immediately upon allotment and issue of all the Consideration Shares**	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*
Lee & Leung (B.V.I.) (*Note*)	1,252,752,780	63.99%	1,252,752,780	46.96%
Mr. Tommy Lee and his associates (including the Vendor but excluding Lee & Leung (B.V.I))	–	–	710,000,000	26.62%
Public Shareholders	704,890,270	36.01%	704,890,270	26.42%
Total	**1,957,643,050**	**100.00%**	**2,667,643,050**	**100.00%**

Note: Lee & Leung (B.V.I) is indirectly wholly-owned by HSBC International Trustee Limited as trustee for the Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust, and the discretionary beneficiaries of the Lee & Leung Family Trust are the spouse and certain children of Mr. Lee Lap (including Mr. Tommy Lee) and the offspring of such children.

As a result of the allotment and issue of the Consideration Shares to the Vendor, Mr. Tommy Lee will own approximately 26.62% of the enlarged issued share capital of the Company indirectly through the Vendor immediately after Completion. As demonstrated in the table above, Lee & Leung (B.V.I.) will remain to be the controlling shareholder of the Company immediately after Completion and thus there will not be any change in control of the Company as a result of the Proposed Acquisition.

As shown in the above table, for illustrative purpose only, the shareholding of the public Shareholders shall be diluted from approximately 36.01% to approximately 26.42% upon Completion. Having considered the fairness and reasonableness of the Consideration and the Issue Price and the potential benefits of the Proposed Acquisition as discussed in the paragraph headed "4. Reasons for and benefits of the Proposed Acquisition" in this section above, we consider that the dilution effect on the shareholding interests of the existing public Shareholders is acceptable.

IV. RECOMMENDATION

Having considered the aforementioned principal factors and reasons, we are of the opinion that the Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Proposed Acquisition.

Yours faithfully,
For and on behalf of
China Galaxy International Securities
(Hong Kong) Co., Limited
Jessica Lee
Managing Director
Investment Banking

Note: Ms. Jessica Lee is a licenced person registered with the SFC and is a responsible officer of China Galaxy International Securities (Hong Kong) Co., Limited to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Ms. Jessica Lee has over 15 years of experience in securities and investment banking industry.

RISKS RELATING TO THE PROPOSED ACQUISITION

Completion is subject to the fulfilment of conditions precedent as set out in the Agreement, and may not take place as contemplated, or at all

Completion is subject to the fulfilment of conditions precedent to completion as set out in the Agreement. Certain of these conditions precedent involve the actions and decisions of third parties, including relevant regulatory authorities, which are not within the control of the parties to the Agreement. The Company cannot assure its Shareholders that all or any of the conditions precedent as set out in the Agreement will be fulfilled or Completion will take place as contemplated, or at all.

RISKS RELATING TO THE BUSINESS OF THE TARGET GROUP

The business of the Target Group is vulnerable to adverse changes in economic and social conditions in Hong Kong, in particular the real estate and the stock markets

The money lending business of the Target Group is particularly susceptible to perceived or actual general economic and social conditions, such as employment, job market conditions, levels of disposable consumer income and wealth and consumer confidence in the economy. As the Target Group generates income solely from its business and operations in Hong Kong, general economic and social conditions in Hong Kong, together with the business environment and its development, could affect consumer demand for loans, reduce economic activities or lower the value of pledged assets and their liquidity, thereby having a significant and direct impact on the business, financial performance and results of operations of the Target Group.

Assets pledged to the Target Group for secured loans include properties located in Hong Kong and Hong Kong-listed shares, and the value of such pledged assets may fluctuate or decline due to various economic and social factors. For example, for mortgaged properties, a slowdown in the Hong Kong economy or any changes in the laws, regulations or even policies in relation to the real estate market may result in a decline in the value of the underlying properties in respect of the mortgage loans of the Target Group to levels below the outstanding principal amounts of such loans or a higher loan-to-value ratio. Likewise, the value of pledged listed shares is closely correlated with the stock market and the performance of the company issuing such pledged shares, which may be vulnerable to adverse changes in economic and social conditions.

Furthermore, in the event of reduced liquidity in the real estate or the stock markets, such pledged assets may not be able to be readily realised in the market after the Target Group exercises its enforcement rights in the pledged assets in the case of any loan default. Any delay in the timetable for the realisation of mortgaged properties or pledged shares may adversely affect the Target Group's liquidity.

There is no assurance that any changes in the economic, social and business environment in Hong Kong will continue to have a positive effect on the business and operations of the Target Group in the future. There is no assurance that the market trend of property and stock prices will continue to increase in future, and therefore the value of the pledged assets may not be sufficient to cover the secured loans granted by the Target Group to its customers.

The value or the residual value of the pledged assets may not be sufficient to cover the outstanding loan balance

The Target Group has granted secured loans, including first mortgage loans and subordinate mortgage loans and share mortgage loans to its customers, the outstanding balance of which amounted to approximately HK$227 million, HK$254 million, HK$258 million and HK$292 million as at 31 December 2017, 2018 and 2019 and 31 March 2020 respectively. During the Track Record Period, the Target Group offered secured loans with loan-to-value ratio of not more than 80% in the majority of cases.

However, if the value or the residual value of the mortgaged assets declines and the borrower is unable to repay the loan in full, the safety margin of such loans will reduce and the risk of recovering the exposure of the Target Group to such loans will increase. Failure to recover the exposure to any loan would adversely affect the profitability of the business of the Target Group.

Subordinate mortgage is subject to higher-ranked mortgage and therefore has higher credit risks

Subordinate mortgage has a lower level of priority than higher-ranked mortgage in terms of repayment obligation. Subordinated mortgage loan accounted for approximately 58.1%, 44.4%, 38.6% and 42.3% of the total outstanding loan balance as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively.

In the event that (i) the customer obtains a further advance or re-advance loan from the first mortgagee who is an authorised institution under the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong) (the "**CPO**"); (ii) the customer sells the property for early repayment of the outstanding loan to the first mortgagee below market price; or (iii) the first mortgagee enforces its first mortgagee right (e.g. that customer enters into the second mortgage without its consent) by demanding the borrower to make repayment and sell the property, it is possible that there may not be sufficient proceeds to repay the Target Group its subordinate mortgage loan after the outstanding loan of the first mortgagee has been repaid in full. Please refer to the section headed "**5. BUSINESS – Loan Approval Procedures**" in this Appendix for more details of the measures of the Target Group to mitigate the risks associated with its subordinate mortgage loans.

The customers may default on their loans

The Target Group is principally engaged in a money lending business which provides financing to customers and is premised on the fact that such loans will be repaid together with interest, and therefore is subject to risks that its customers may fail to perform their contractual obligations and default on payment of interest and/or the principal.

For the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, provision for impairment of loans and interest receivables amounted to approximately HK$5.6 million, HK$4.9 million, HK$10.8 million and HK$2.7 million, respectively. As at 31 December 2017, 2018 and 2019 and 31 March 2020, the total provision for impairment of loan receivables accounted for approximately 11.9%, 13.2%, 15.4% and 14.6% of the total gross loan receivable balances. For the details for provision for impairment of loans and interest receivables for each of the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020, please refer to the section headed "**7. MANAGEMENT DISCUSSION AND ANALYSIS**" in this Appendix.

Please refer to the section headed "**5. BUSINESS – Loan Collection**" in this Appendix for more details of the measures of the Target Group to mitigate the risks associated with loan and interest repayment default. If the customers of the Target Group delay or default on their payments, the Target Group may have to incur additional expenses to engage external debt collection agents, legal costs and expenses to enforce its security and/or make provision for impairment or write-off the relevant loans and interest receivables, which in turn may adversely affect its financial position and profitability.

The unsecured loan portfolio of the Target Group is exposed to higher credit risks

The Target Group's loan portfolio comprises secured and unsecured loans. During the Track Record Period, the provision for impairment of its secured loan had been lower than that of its unsecured loan. Notwithstanding the above, the Target Group typically charges higher interest rates on unsecured loans to generate more interest income.

However, as the Target Group does not hold any assets as security for unsecured loans, it is exposed to higher credit risks of unsecured loans than that of secured loans. Consequently, losses for unsecured loans are higher in the event of default. The Target Group's unsecured loans represented approximately 10.6%, 20.6%, 25.4% and 23.6% of the Target Group's total outstanding loan balance as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively.

There is no assurance that the financial position of the customers of the Target Group will remain sound in the future and that the Target Company will be able to collect payments from its customers on time. If the Target Group is unable to maintain the quality of its loan portfolio effectively, the Target Group will be exposed to losses from unrecoverable loans. In the event of default in loan and/or interest receivables, the Target Group's liquidity, and thus the funds available for lending, may decrease, which in turn may materially and adversely affect the financial performance of the Target Group.

The Target Group may not be able to maintain or renew its Money Lender's Licence in a timely manner

The money lending business of the Target Group is subject to licensing requirements under the provisions of the Money Lenders Ordinance and the Licensing Conditions. For details of the qualification criteria of licensed money lenders in Hong Kong, please refer to the section headed "**3. REGULATORY OVERVIEW**" in this Appendix.

There is no assurance that the Licensing Conditions or requirements of the Money Lender's Licence which the Target Group may be required to satisfy or meet will not change from time to time, and the Target Group may fail to renew its Money Lender's Licence or the Licensing Court may suspend or revoke its Money Lender's Licence. If the Target Group fails to maintain its Money Lender's License, the Target Group may not be able to operate its money lending business until such time as the Target Group receives an effective licence, which may have a material adverse effect on the business, financial performance and results of operations of the Target Group.

The Target Group may be subject to civil claims or legal challenges in relation to its money lending business

Under section 25 of Money Lenders Ordinance, where proceedings are taken in any court by any person for the recovery of any money lent or the enforcement of any agreement or security in respect of any loan and there is evidence which satisfies the court that the transaction is extortionate, the court may reopen the transaction. An effective rate of interest exceeding 48% per annum is presumed to be extortionate. For details of section 25 of Money Lenders Ordinance, please refer to the section headed "**3. REGULATORY OVERVIEW**" in this Appendix.

During the Track Record Period, the Target Group, after considering each loan application in accordance with the internal credit policy and guidelines, has granted unsecured personal loans with interest rate exceeding 48% per annum (but not exceeding 60% per annum) (the "**High Interest Loan Agreements**"). For details of the High Interest Loan Agreements, please refer to the section headed "**5. BUSINESS – Interest Rates**" in this Appendix. The directors of the Target Group confirmed that the Target Group was not and has not been involved in any proceedings for the recovery of any loan in which section 25 of Money Lenders Ordinance has been raised during the Track Record Period and as at the Latest Practicable Date. However, there can be no assurance that legal proceedings will not be brought in future and that section 25 of Money Lenders Ordinance will not be raised by the borrower in seeking to set aside or vary the terms of any such loan agreements. Accordingly, it is possible for the court to declare that such High Interest Loan Agreements are extortionate for the purposes of section 25(3) of Money Lenders Ordinance, in which case, part or the whole of the interest components under such High Interest Loan Agreements may not be recoverable. This will have an adverse impact on the financial performance and profitability of the Target Group.

The Target Group depends on the continued services of key management personnel

The success of the Target Group is dependent to a large degree on the services of its senior management team including its directors and senior management identified in the section headed "**6. DIRECTORS AND SENIOR MANAGEMENT**" in this Appendix.

In particular, the unsecured loan business of the Target Group, including the development and operation of its notable "X Wallet", depends on the vision, experience, expertise and managerial skills of its senior management, most of them having more than 20 years of solid experience in the money lending industry in Hong Kong and the PRC. The development of the Target Group is dependent on the continued efforts, performance and abilities of such key management. The loss of the services of any of the key management personnel could hinder the ability of the Target Group to manage its business and implement its growth and development strategies effectively.

In addition, its ability to recruit and train skilled credit personnel is also a vital factor to the success of the business activities of the Target Group. If the Target Group is not successful in recruiting and training such personnel, its business, financial performance and results of operations could be materially and adversely affected.

The Target Group relies on TransUnion credit reports in its loan approval process

The Target Group approves loan applications and the terms of offering (including the loan principal amount, interest rate and tenure) based on, amongst other factors, the rating of intending borrowers in the TransUnion credit report. TransUnion is a long-established company which provides consolidated information on the credit history of individuals collected from all TransUnion members. Please refer to the section headed "**5. BUSINESS – Loan Approval Procedures**" in this Appendix for more details.

There is no assurance that the Target Group's membership with TransUnion will continue or its subscriber agreement with TransUnion will continue to operate as they did during the Track Record Period. If the direct and automatic transmission of TransUnion credit report from TransUnion to the Target Group has been terminated, the Target Group will have to rely on its borrowers to apply for a TransUnion credit report from TransUnion individually, and this could extend the loan approval process, thereby materially and adversely affecting the business and competitive position of the Target Group.

There is no assurance that the future plans of the Target Group will be successfully implemented

The Target Group has incurred, and will continue to incur expenditures associated with "X Wallet" to capture growth opportunities, increase its market share and expand its brands online. The Target Group plans to further expand its loan portfolio online through "X Wallet" and develop systems with strong big data analysis capabilities to offer a fast and convenient lending platform to its customers. There is no assurance that such future plans will be successfully implemented or result in profitability as expected or that the revenue of the Target Group will continue to grow in the future at the same rate as it did during the Track Record Period, or at all.

Nor is there any assurance that increased expenditure on marketing and advertising campaigns will attract new customers and increase the market share of the Target Group in the foreseeable future. For the planned growth and expansion, the Target Group may require additional capital and need to incur substantial costs to develop its business and to hire, train and retain employees who share its business philosophy and culture. Also, there is no assurance that the business partners of the Target Group, including referral agents, if any, will continue to cooperate with the Target Group or to refer loan applications under the relevant cooperation agreements or arrangements.

Failure of or deficiency in internal control system to detect procedural errors, fraud and misconduct may affect the operations of the Target Group

The money lending business may be exposed to fraud or other misconduct committed by the employees, representatives, agents or customers of the Target Group or other third parties that could result in financial losses, and negative publicity relating to such incidents could have an adverse effect on the reputation of the Target Group, thereby materially and adversely affecting the business, financial performance and results of operations of the Target Group.

The Target Group has internal control procedures in place to monitor the operations and ensure overall compliance. During the Track Record Period, the Target Group did not experience any serious errors committed by its employees or other misconduct committed by its representatives, agents or customers that had a material adverse effect on its business, reputation or financial position. Nevertheless, the Target Group cannot assure that the internal control procedures in place has identified or will be able to identify all incidents of non-compliance or suspicious transactions in a timely manner.

The reputation and brand image of the Target Group may be affected by its external debt collection agents

As illustrated in the section headed "**5. BUSINESS – Loan Collection**" in this Appendix, the Target Group engages external debt collection agencies to recover outstanding debts. During the Track Record Period, the Target Group has a panel of four external debt collection agents, all of which are Independent Third Parties, for debt collection. Such engagements with external debt collection agents are on non-exclusive basis with no fixed terms, so the Target Group may terminate any of these engagements any time and assign the debts to other debt collection agents instead if the services provided are unsatisfactory.

The Target Group has systems and procedures in place for the selection of debt collection agents and the monitoring of their performance. The Target Group has also incorporated express provisions in the agreements with all its external debt collection agents to oversee such debt collection services. For instance, such agreements stipulate that the external debt collection agents shall not resort to any illegal acts, intimidation or violence, either verbal or physical, against the debtors, shall not employ harassment or improper tactics and shall not sub-contract the collection of debts to any other third parties.

It is however noted that external debt collection agents are not subject to any specific regulatory or licensing control in Hong Kong. There is no assurance that the external debt collection agents the Target Group engaged will follow the provisions set out in the respective agreements with the Target Group.

In the event that the external debt collection agents resort to illegal methods in collecting debts for the Target Group, whilst they are independent contractors and accordingly the Target Group will not be held liable for any act of the external debt collection agents, the reputation of the Target Group may nevertheless be tainted which will adversely affect its brand name in the money lending industry. As further illustrated in the section headed "**2. INDUSTRY OVERVIEW – Key Success Factors**" in this Appendix, the brand and image of a licensed money lender are key consideration factors for borrowers in their decision to borrow from one lender over another. Any adverse publicity may deter potential customers from borrowing from the Target Group or may cause existing customers to redeem their loans, which may not only cause harm to the reputation of the Target Group, but may also adversely affect its financial performance and results of operations, or even its ability to raise additional funds from external parties.

The Target Group may not be able to prevent others from unauthorised use of its intellectual property and data

"X Wallet" of the Target Group has been considered as one of its key assets in its online unsecured loan business. The Target Group relies on a combination of copyright, trademark and trade secret laws, as well as non-disclosure agreements and other methods to protect its intellectual property rights and data. After the launch of "X Wallet" in 2018, the APP has been managed and updated directly by the internal IT Department of the Target Group.

The steps which the Target Group has taken may, however, be inadequate to prevent the misappropriation of its technology or unauthorised use of its brands or application codes. Reverse engineering, unauthorised copying or misappropriation of its brands, designs or technologies, or unauthorised access or use of its data could harm the business, reputation and competitive position of the Target Group. The Target Group may have to enforce its intellectual property rights and brands through litigation, which may result in substantial costs and diversion of resources and management attention.

The Target Group may experience systems disruptions, software defects, computer virus and breakdowns, distributed denial of service attacks, or other hacking or phishing attacks

The Target Group is dependent on the stable operation of its information technology systems including "X Wallet", its data processing systems, telecommunication networks, computer systems, servers and other hardware. In particular, "X Wallet" is intended to offer fast and easy instant loans online, and its automatic loan approval process relies on the automatic transmission of TransUnion credit report and data through its host-to-host Application Programming Interface (API). Any system outage or other disruption owing to the events that may be beyond the control of the Target Group could cause damage to its business, reputation and competitive position.

The Target Group may seek financing from external parties in the future which may increase its finance costs

During the Track Record Period, the money lending business of the Target Group had been funded by advances from Mr. Tommy Lee, a director and controlling shareholder of the Target Company, as well as funds generated from its money lending business. Upon completion of the Proposed Acquisition, the money lending business of the Target Group is expected to be financed by cash flow generated from the business operations of the Enlarged Group and internal resources of the Enlarged Group. The Target Group may also consider to broaden its source of funding, such as obtaining bank loans, to further expand its loan portfolio.

There is no assurance that the Target Group will be able to obtain financing from external sources on acceptable terms or at all. Any expansion plan may be hindered by the Target Group's capability to obtain sufficient external financing. In addition, if external financing is obtained, the profitability of the Target Group will be highly correlated to the net interest margin, being the difference between the interest rate charged to its customers and the finance costs, and any increase in general interest rates or deterioration of the Target Group's credit position may raise finance costs.

RISKS RELATING TO THE MONEY LENDING INDUSTRY

The Target Group faces intense competition in the money lending industry in Hong Kong

The money lending business in Hong Kong is highly competitive with licensed money lenders operating under various scales and conditions, some of which may or may not be the direct competitors of the Target Group. As disclosed in the section headed "**2. INDUSTRY OVERVIEW – Competitive landscape**" in this Appendix, in 2019 there were 2,300 licensed money lenders in Hong Kong, and it is expected that competition will continue to increase in the near future with the rise of alternative lenders offline and online.

Some of the competitors of the Target Group in the money lending industry may have certain competitive advantages over the Target Group, including extensive financial resources, dominant market position, stronger brand recognition, broader product and service offerings, lower cost of funding and an established branch network with wider geographic coverage. Failure to maintain or enhance competitiveness within the money lending industry or maintain the customer base with good credit standing may result in a decrease in profit. Consequently, the financial performance and profitability of the Target Group may be adversely affected.

Any occurrence of natural disasters, widespread health epidemics or other events could have a material adverse effect on the business, financial performance and results of operations of the Target Group

The occurrence of natural disasters, prolonged outbreak of an epidemic or other adverse public health developments in Hong Kong or globally could materially affect the economy in general and disrupt the business and operations of the Target Group. For the recent outbreak of COVID-19 epidemic in late 2019, the measures implemented to control the spread of the virus have significantly disrupted travel and local businesses globally. In Hong Kong, domestic demand has weakened markedly in the first quarter of 2020, reflecting the serious disruptions caused by the threat of COVID-19 and subdued business sentiment.

The Target Group considers that its operations have not been materially affected by the outbreak of COVID-19 as at the Latest Practicable Date. Nonetheless, the outbreak of COVID-19 could directly disrupt operations of the Target Group if any of the employees of the Target Group were suspected of contracting the disease as such, requiring the Target Group to quarantine some or all of the employees or disinfect the offices used for the Target Group's operations and cause a temporary suspension of business activities of the Target Group. There is also no assurance that the epidemic could be contained effectively or the economy could recover once the epidemic is contained. The business, financial performance and results of operations of the Target Group could also be materially affected to the extent that any natural disasters, epidemics or other events harm the Hong Kong and the global economy in general.

Money lending business may be affected by changes in applicable rules and regulations

The business operations of the Target Group are mainly regulated under the Money Lenders Ordinance and the Licensing Conditions, and full compliance with such regulations and Licensing Conditions is essential to carry on its business. Please refer to the section headed "**3. REGULATORY OVERVIEW**" in this Appendix for details.

Notwithstanding this, the relevant regulatory authorities may from time to time amend the Money Lenders Ordinance or the Licensing Conditions, or adopt new laws and regulations applicable to licensed money lenders in Hong Kong. As such, there is no assurance that the Target Group will be able to comply with such changes or new requirements on a timely basis, and its failure to do so may materially and adversely affect the business, financial performance and results of operations of the Target Group.

RISKS RELATING TO THIS CIRCULAR

This circular contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

– the business strategies and plans to execute these strategies;

– the operations and business prospects, including development plans for the existing and new businesses;

– the financial performance;

– the ability to reduce costs;

– the future developments trends, conditions and competitive environment in the industry;

– the effect of the global financial markets and economic crisis;

– changes or volatility in interest rates and overall market changes;

– the regulatory environment for the industry in general; and

– the general economic trend of Hong Kong and general economic conditions.

The words "anticipate", "believe", "consider", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "potential", "project", "seek", "will", "would", and similar expressions and the negative of these words, as they relate to the Company or the Target Group, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect the current views of the Directors with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this circular. Investors are cautioned that reliance on any forward-looking statements involves risks and uncertainties. The uncertainties in this regard include, but are not limited to, those identified in this Appendix, many of which are beyond the Company's control. In light of these and other uncertainties, the inclusion of forward-looking statements in this circular should not be regarded as representations by the Company or the Directors that its plans or objectives will be achieved. If any or all of these risks or uncertainties materialise, or the underlying assumptions prove to be incorrect, the financial performance of the Company or the Target Group may be materially and adversely affected and actual outcomes may differ materially from those described in this circular as anticipated, believed or expected.

Subject to the requirements of the Listing Rules, the Company does not intend to publicly update or otherwise revise the forward-looking statements in this circular, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this circular might not occur in the way the Company expects, or at all. Accordingly, investors should not place undue reliance on any forward-looking information. All forward-looking statements in this circular are qualified by reference to this cautionary statement.

The information that appears in this Industry Overview has been prepared by Frost & Sullivan and reflects estimates of market conditions based on (i) desktop research; and (ii) primary research, including interviews with key stakeholders, including but not limited to licensed money lenders and industry experts in Hong Kong. References to Frost & Sullivan should not be considered as the opinion of Frost & Sullivan as to the value of any security or the advisability of investing in the Company. The Directors believe that the sources of information contained in this Industry Overview are appropriate sources for such information and have taken reasonable care in reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Frost & Sullivan and set out in this Industry Overview has not been independently verified by the Group, China Tonghai or any other party involved in the Proposed Acquisition and neither they nor Frost & Sullivan give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.

SOURCE AND RELIABILITY OF INFORMATION

The Group commissioned Frost & Sullivan, an independent market search company to conduct an analysis of, and to report on, the licensed money lending market in Hong Kong (the "**Frost & Sullivan Report**"). A total fee of HK$300,000 was charged by Frost & Sullivan for the preparation of the Frost & Sullivan Report. The Frost & Sullivan Report was prepared by Frost & Sullivan independent of the Group's influence. Except as otherwise noted, the information and statistics set forth in this section were extracted from the Frost & Sullivan Report.

Frost & Sullivan is an independent global consulting firm founded in 1961, which offers industry research and market strategies, and provides growth consulting and corporate training on a variety of industries.

The Frost & Sullivan Report has included information on the licensed money lending market in Hong Kong. The information contained in the Frost & Sullivan Report was derived by means of data and intelligence gathering which were consisted of: (i) desktop research; and (ii) primary research, including interviews with key stakeholders, including but not limited to licensed money lenders and industry experts in Hong Kong.

Information gathered by Frost & Sullivan was analysed, assessed and validated using Frost & Sullivan's in-house analysis models and techniques. According to Frost & Sullivan, this methodology ensured a full circle and multilevel information sourcing process, in which information gathered can be cross-referenced to ensure accuracy. All statistics were based on information available as at the date of the Frost & Sullivan Report. Other sources of information, including government, trade associations or market place participants, may had provided some of the information on which the analysis or data was based.

Frost & Sullivan developed its estimates or forecast based on the following principal bases and assumptions: (i) it is assumed that the global economy remains a steady growth across the forecast period; and (ii) it is assumed that there is no external shock such as financial crisis or natural disaster that will affect the demand and supply of the licensed money lending market in Hong Kong during the forecast period.

LICENSED MONEY LENDING INDUSTRY OVERVIEW

Definition and Segmentation

Money lending industry in Hong Kong has two major types of legal money lenders, namely authorised institutions and licensed money lenders. Major differences between authorised institutions and licensed money lenders lie in interest rate and operational flexibility. Licensed money lenders usually charge a higher interest rate as compared to banks and enjoy a greater operational flexibility in terms of loan sizes, requirements of income proof, types of collaterals and approval process.

- Authorised institutions include licensed banks, restricted licence banks and deposit-taking companies, which are regulated by the Hong Kong Monetary Authority and governed by the Banking Ordinance (Chapter 155 of the Laws of Hong Kong). Authorised institutions take up the largest share of the money lending industry in Hong Kong and offer loan products such as personal loans, corporate loans, mortgage loans, credit card facilities, etc.

- Licensed money lenders are governed by the Money Lenders Ordinance and offer an alternative source of financing for small and medium enterprises ("**SMEs**") and individuals with financial needs outside the banking system. The scope of money lending services includes personal loans such as mortgage loans, credit card loans, and corporate loans.

Loan products can be categorised by types of borrower and whether collateral is pledged against the loan.

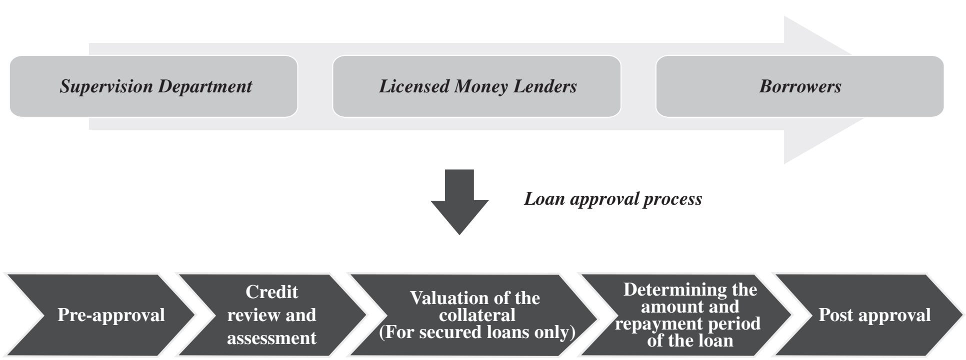
- Personal loans refer to loans and advances granted for personal use and with purposes such as consolidating debts, paying for unexpected expenses, paying for property ownership, etc. depending on whether mortgaged properties are required, and personal loans can be divided into unsecured loans and mortgage loans. Mortgage loans require borrowers to provide properties as collaterals and the amount of mortgage loans primarily depends on the value of the collaterals.

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

- According to type of borrower, unsecured loans can be categorised into unsecured personal loan, unsecured property owner loan and unsecured SME loan.

Value Chain and Business Process Analysis

Licensed money lenders are required to obtain the Money Lender's Licence and renew it annually before carrying out money lending business. Currently, the Licensing Court, the Police and the Money Lenders Unit of the Companies Registry have respective roles to play under the regulatory regime of the Money Lenders Ordinance. Loan approval process of licensed money lenders starts when they receive the application. Licensed money lenders will collect personal or corporate information of the borrower and conduct review and assessment. For mortgage loans, licensed money lenders will review and conduct valuation of the collaterals. Based on the credit score, business performance, and valuation of the collaterals, licensed money lenders will decide on the amount to be granted and details such as interest rate, repayment conditions and period of the loan.

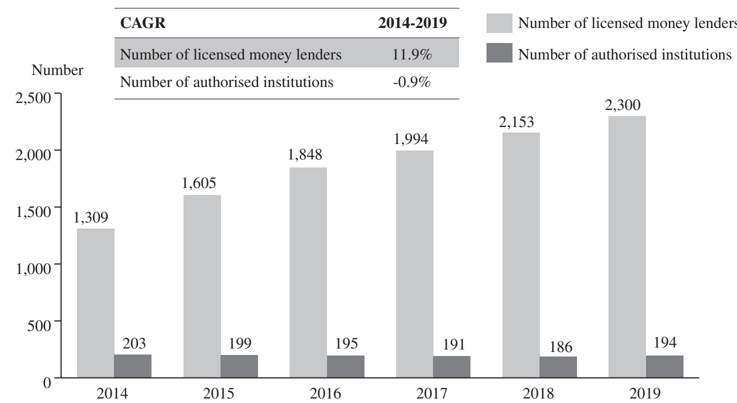


Source: Frost & Sullivan

Number of Licensed Money Lenders and Authorised Institutions

Due to the increasing demand for money lending services and a series of flexibilities of licensed money lending, licensed money lending market continued on an upward trend during the period from 2014 to 2019 with the number of licensed money lenders increasing significantly from 1,309 in 2014 to 2,300 in 2019, representing a compound annual growth rate ("**CAGR**") of approximately 11.9%. However, the annual growth rate had decelerated during the period due to the intense market competition and increasingly rigorous regulatory environment. The number of authorised institutions in Hong Kong had shown a slight decrease with a CAGR of approximately -0.9% from 2014 to 2019, registering a number of 194 by the end of 2019.

Number of Licensed Money Lenders and Authorised Institutions in Hong Kong, 2014-2019



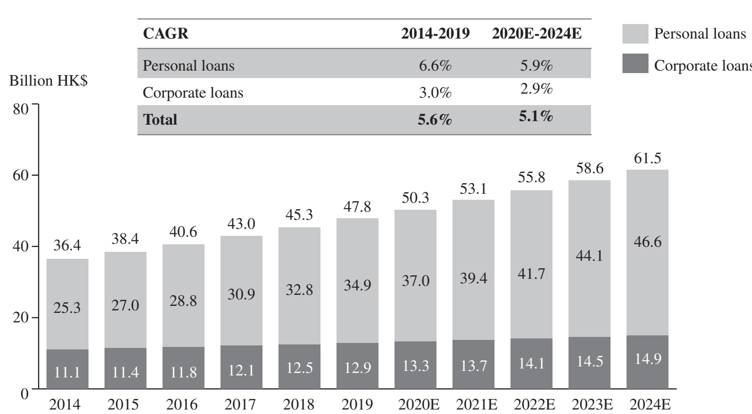
Source: Hong Kong Monetary Authority, Companies Registry of Hong Kong, Frost & Sullivan

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

Total value of loans and advances granted by licensed money lenders in Hong Kong had grown steadily during the period from 2014 to 2019 with a CAGR of 5.6%, reaching HK$47.7 billion by the end of 2019. Supported by the growth of economy and increasing financing needs of individuals, licensed money lending market in Hong Kong experienced an upward trend in terms of outstanding value and number of market participants. Personal loans took up a larger share of licensed money lending and enjoyed a higher CAGR of approximately 6.6% from 2014 to 2019.

The forecast for the licensed money lending industry in Hong Kong remains positive from 2020 to 2024. The unsettling social environment in 2019 and 2020 is expected to bring a sudden influx of relief requests from individuals and corporate clients, driving the growth of licensed money lending market at a CAGR of approximately 5.1% from 2020 to 2024.

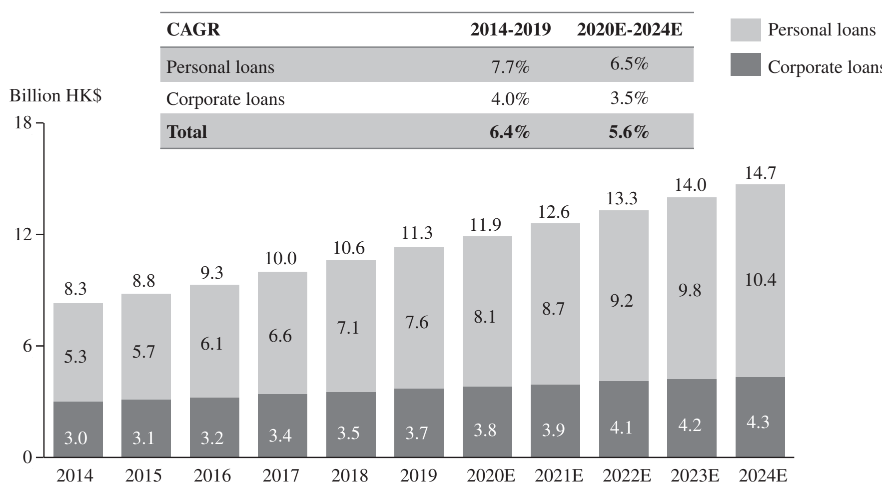
Value of Loans and Advances Granted by Licensed Money Lenders in Hong Kong, 2014-2024E



Source: Frost & Sullivan

In line with the expanding value of loans and advances granted by licensed money lenders in Hong Kong, turnover had shown a considerable growth from HK$8.2 billion in 2014 to HK$11.2 billion in 2019, representing a CAGR of approximately 6.4%. Due to the rising financing needs from consumers, turnover of personal loans and advances had experienced a CAGR of approximately 7.7% from 2014 to 2019, recording HK$7.6 billion by the end of 2019. Turnover of corporate loans had also shown a steady growth from HK$3.0 billion in 2014 to HK$3.7 billion in 2019, representing a CAGR of approximately 4.0%. It is expected that both turnovers of personal loans and corporate loans will rise at CAGRs of 6.5% and 3.5% respectively, reaching HK$10.4 billion and HK$4.3 billion respectively by the end of 2024.

Turnover of Loans and Advances Granted by Licensed Money Lenders in Hong Kong, 2014-2024E

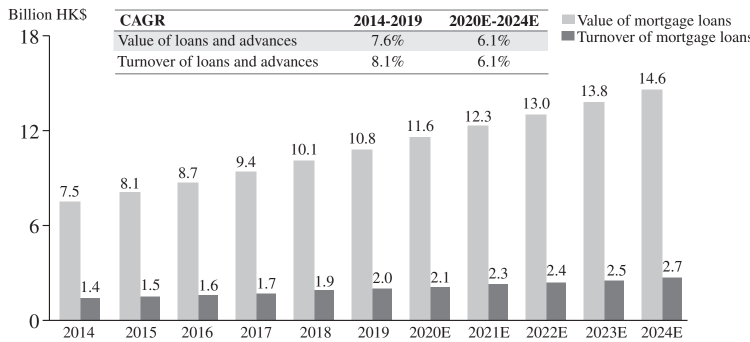


Source: Frost & Sullivan

Value and Turnover of Mortgage Loans and Advances Granted by Licensed Money Lenders

Attributed to the higher level of flexibility on the loan terms of licensed money lenders, a number of borrowers prefer to turn to licensed money lenders for mortgage loans and advances. The value of mortgage loans and advances granted by licensed money lenders in Hong Kong had increased from HK$7.5 billion in 2014 to HK$10.8 billion in 2019, demonstrating a CAGR of approximately 7.6%. In the future, the value is expected to keep rising as the government has raised the mortgage entitlements for borrowers. Total value of mortgage loans and advances is expected to rise at a CAGR of approximately 6.1%, reaching HK$14.6 billion in 2024. The interest rate of mortgage loans usually ranges from 15% to 30% based on the value of the real estate property collateral and the terms of loan. Therefore, total turnover of mortgage loans and advances had experienced a growth from HK$1.4 billion in 2014 to HK$2.0 billion in 2019, registering a CAGR of approximately 8.1%. It is expected that the turnover of mortgage loans and advances will rise at a CAGR of approximately 6.1% from 2020 to 2024, reaching HK$2.7 billion in 2024.

Value and Turnover of Mortgage Loans and Advances Granted by Licensed Money Lenders in Hong Kong, 2014-2024E



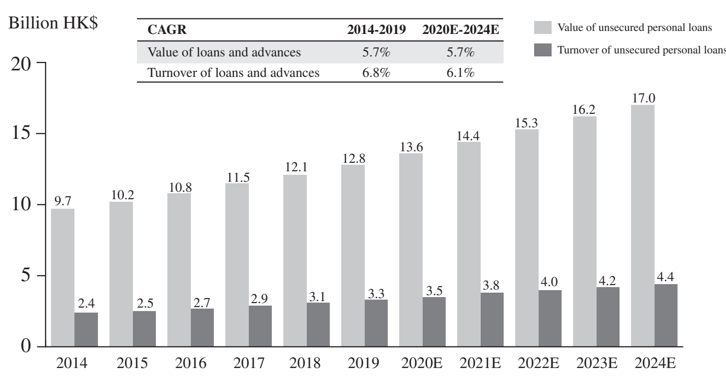
Source: Frost & Sullivan

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

Unsecured personal loans have experienced steadily growth during the period from 2014 to 2019, stimulated by the increasing income and expenditure of consumers. Total value of unsecured personal loans and advances rises from HK$9.7 billion in 2014 to HK$12.8 billion in 2019, representing a CAGR of approximately 5.7%. With the increasing demand in financing unexpected expenses of borrowers, value of unsecured personal loans and advances is projected to achieve HK$17.0 billion in 2024, representing a CAGR of approximately 5.7% from 2020 to 2024.

The interest rate and loan terms of unsecured personal loans and advances are usually based on the credit of borrowers as collaterals are not required. Interest rate charged by licensee is usually higher and ranges from 20% to 48%. From 2014 to 2019, turnover of unsecured loans and advances rose with a CAGR of approximately 6.8%, achieving HK$3.3 billion in 2019. It is estimated that turnover will grow from HK$3.5 billion in 2020 to HK$4.4 billion in 2024, representing a CAGR of approximately 6.1%.

Value and Turnover of Unsecured Personal Loans and Advances Granted by Licensed Money Lenders in Hong Kong, 2014-2024E



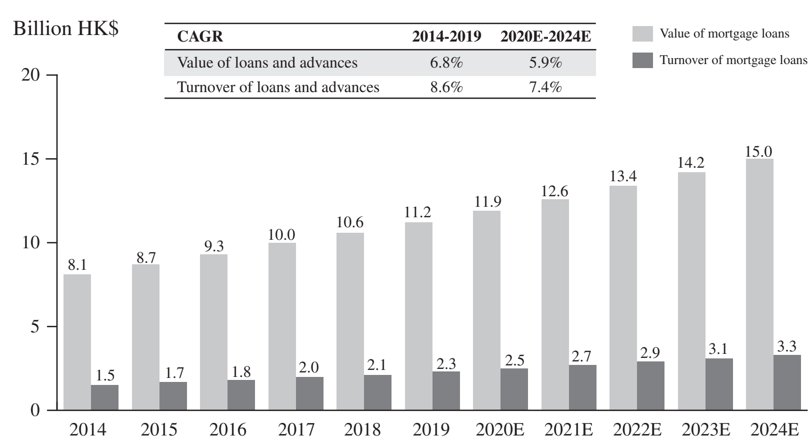
Source: Frost & Sullivan

Value and Turnover of Property Owner Loans and Advances Granted by Licensed Money Lenders

With the rising number of property owners, the demand for property owner loan also experienced a considerable growth. The value of property owner loans and advances granted by licensed money lenders rose from HK$8.1 billion in 2014 to HK$11.2 billion in 2019, representing a CAGR of approximately 6.8% from 2014 to 2019. Turnover of property owner loans and advances granted by licensed money lenders also rose from HK$1.5 billion in 2014 to HK$2.3 billion in 2019, registering a CAGR of approximately 8.6%.

It is expected that the value and turnover of property owner loans and advances granted by licensed money lenders will grow at CAGRs of 5.9% and 7.4% respectively from 2020 to 2024, reaching HK$15.0 billion and HK$3.3 billion respectively by the end of 2024.

Value and Turnover of Property Owner Loans and Advances Granted by Licensed Money Lenders in Hong Kong 2014-2024E

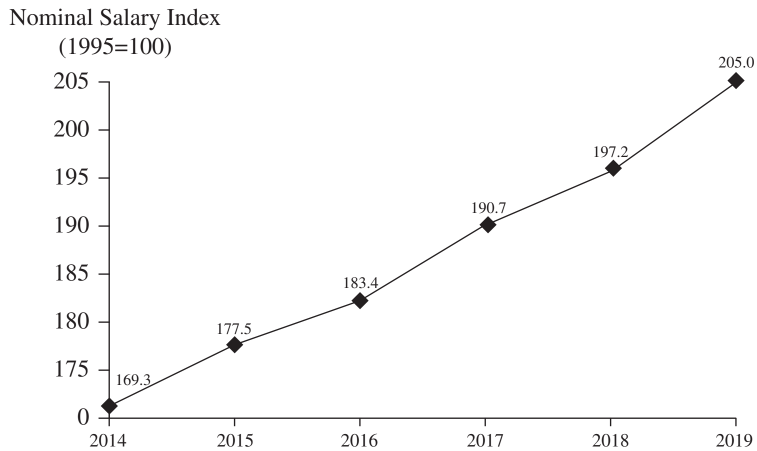


Source: Frost & Sullivan

Nominal Salary Indices Analysed by Financing and Insurance Industry

Licensed money lending industry is the subset of financing and insurance industry. With the sustained development of the industry, the nominal salary indices analysed by financing and insurance industry in Hong Kong increased from 169.3 in 2014 to 205.0 in 2019, at a CAGR of 3.9%.

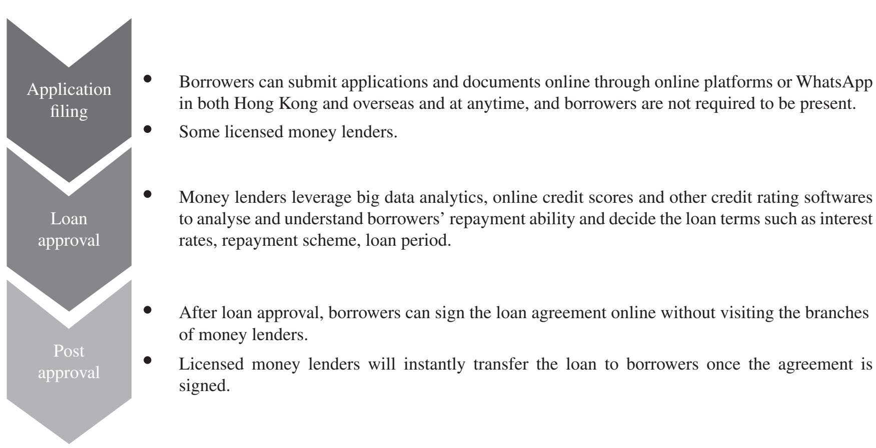
Nominal Salary Indices Analysed by Financing and Insurance Industry in Hong Kong, 2014-2019



Source: Frost & Sullivan

The Use of Online Channels in Granting Loans

With an ever-faster pace of data generation and comprehensive data gathering through e-commerce, social networks, and other use cases of mobile Internet, financial institutions have invested heavily in data collection, data analytics, and related technologies. By leveraging on their strengthened technology capabilities, financial institutions have facilitated various technological advancements in the online loan platform, such as workflow automation and borrower profiling based on big data. In Hong Kong, online licensed money lenders have emerged on the market and a number of existing market participants have been investing in online platforms. The use of online channels in granting loans has been gradually gaining popularity among borrowers and licensed money lenders. Online channels provide borrowers with fast, flexible and convenient loan services, reduce manual intervention during loan approval process and minimise operation costs of licensed money lenders.



Source: Frost & Sullivan

Promotion of New Personal-Lending Portfolio

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

Growing Acceptance of Young Generation

In 2019, over 90% of the population aged 10 and over in Hong Kong has access to the Internet, making online lending immensely accessible. As the Y generation enters into their thirties and twenties with a higher purchasing power, they have become the center of attention whom lenders sought for. The generation Y makes up the fastest growing segment of consumption in Hong Kong, and it is further estimated that they have greater demand for consumer loans. In general, the Y generation is tech-savvy, and often has a high degree of acceptance to online product and services, including online lending. The young generation is expected to play an important role in supporting the growth of online lending.

As estimated, online lending platforms will contribute up to 20% of Hong Kong's value of loans and advances of personal loans in 2024, driven largely by superior borrower experiences, growing acceptance of young generation and supportive policies in promoting new credit risk management practices. It is expected that online lending platform would continue to take share from traditional lenders at this same pace, or greater, as technology becomes an even greater differentiator over time.

MARKET DRIVERS AND TRENDS

The development of licensed money lending market is closely related to technological innovation, regulatory change and demand from consumers and SMEs, and the market is expected to benefit from the following market drivers and trends:

1. Demand Underpinned by Consumption-driven Economy

The rising private consumption expenditure serves as the market driver to the licensed money lending market in Hong Kong. The per capita nominal gross domestic product ("**GDP**") in Hong Kong has increased at a CAGR of 4.2% during the period from 2014 to 2019, and is expected to increase at a CAGR of 4.1% during the period from 2020 to 2024. In light of the rising per capital nominal GDP, Hong Kong has been a consumption-driven economy, with the private consumption expenditure increasing from HK$1,502.8 billion in 2014 to HK$1,942.6 billion in 2019, at a CAGR of 6.6%. Along with growing consumption power, the consumption-driver model will continue to increase the demand for financial services in the personal consumption space in Hong Kong, including the demand for personal loans.

2. Rising Number of SMEs

The rising number of SMEs in Hong Kong has translated into growth opportunities for the licensed money lending market. In 2019, the number of private companies in Hong Kong reached 123,700, most of which were SMEs. Due to the small business sizes, limited resources and lack of financial capability, SMEs are generally faced with difficulties in sourcing funding from banks. Licensed money lenders' offerings that are convenient and flexible meet SMEs' increasing funding needs. With the simplified application procedures and lower collateral requirements, the licensed money lenders provide SMEs with multiple loan options, regardless of the nature and size of business. The growth in number of SMEs in Hong Kong is forecasted to drive the licensed money lending market.

3. Simplified and Convenient Approval Procedure

Compared to the personal loans issued by other financial institutions, such as licensed banks, the approval procedure of personal loans issued by licensed money lenders is much simpler and more convenient, which helps to attract more clients and hence drives the development of the licensed money lending industry. It is estimated that it takes on average 5 weeks and 2 weeks for a licensed bank to process the application of mortgage loan and unsecured personal loan in Hong Kong respectively, while it only takes on average 4 days and 1 day for a licensed money lender to process the abovementioned applications respectively. In particular, for unsecured personal loan, the borrower can access to the funds of personal loan issued by licensed money lenders within half an hour for their existing clients, especially for clients with saving accounts.

4. Industry Consolidation

A number of new market entrants and small and medium sized money lenders have quitted the market with less than three-year operation in recent years, due to the low collection rate of unsecured loans. Hence, in order to expand business scope and enhance competitiveness in the market, large-scale money lenders are expected to acquire and merge with relatively smaller money lenders. In addition, the giants with sufficient capital from other industries may choose to acquire existing market participants in order to enter and compete in the licensed money lending industry. Therefore, industry consolidation is expected to become the market trend in the future.

5. Regulation Improvement

Licensed money lending industry is currently regulated under the Money Lenders Ordinance which has been enacted for 40 years with no major reform. In view of the rapid evolvement of consumer lending practices and technologies, a number of associations and market participants are calling for improvements and enhancements of current regulation system. For example, Consumer Council has issued a report in 2019 which set out a range of recommendations for consideration by the government. Hence it is expected that the laws and regulations of the licensed money lending industry will become more stringent in the next five years.

6. Rise of Online Lending

The rapid growth and wide application of innovative technologies such as big data analytics, cloud computing, artificial intelligence algorithm, etc. is expected to support the development of online lending platforms and services. Online lending services allow borrowers to submit applications and documents online, without the limitation of time and place. This simplifies application processes and reduces the bias in lending process, as advanced algorithm is applied when analysing applications. In addition, with the application of artificial intelligence, mobile and web apps, etc., services including application filing, enquiry services and loan granting can be transferred to online platforms, lowering the operation costs of licensed money lenders.

MARKET CHALLENGES

Licensed money lenders are undergoing the following potential challenges in Hong Kong:

1. Intense Market Competition

The increasing number of market participants has caused fiercer market competition, especially to small and medium sized licensed money lenders. Furthermore, authorised institutions account for a significant share of money lending industry in Hong Kong, imposing challenges to licensed money lenders. In recent years, authorised institutions have reinforced presence with special personal loans and corporate loans to simplify the application procedures and shorten the approval process. For example, some licensed banks offer personal instalment loan which allows borrowers to get funds in five minutes. In addition, as authorised institutions usually have good reputation and offer loans at lower interest rates, some borrowers are more willing to get loans from authorised institutions, which bring pressure to licensed money lenders.

2. Volatility of Economy and Property Market

Money lending industry is exposed to volatility of macroeconomy and property market. During economic downturns, the risk of loan default increases as enterprises and individuals suffer from bankruptcy and unemployment. Meanwhile, as mortgage loans and some collateral loans are issued based on initial loan-to-value ratio of pledged properties, the price fluctuations of property market will directly affect the value of collaterals. Licensed money lenders may have to write off some uncollectable repayments as bad debts.

COMPETITIVE LANDSCAPE

Competition Overview

Given the relatively low entry barrier, the money lending industry in Hong Kong is highly competitive with 2,300 licensed money lenders providing relevant services in Hong Kong as at 31 December 2019. Most market participants cover both personal loans and corporate loans, while many of them usually choose one area as their business focus. The overall licensed money lending market is relatively concentrated. In 2019, top five market participants had a total turnover of HK$7.6 billion, accounting for 67.9% of the overall licensed money lending market. Zero Finance had a revenue of approximately HK$58.7 million for the year ended 31 December 2019, representing a share of 0.5% of the total revenue of the licensed money lending market in Hong Kong for the same period.

Rank	Market participants	Year of establishment	Listing status	Service scope	Estimated revenue in 2019 *(Billion HK$)*	Estimated market share in 2019 *(%)*
1	Company A	1991	Subsidiary of 0086.HK	• Personal loan • Corporate loan	4.2	37.5%
2	Company B	1977	Private	• Personal loan	1.4	12.5%
3	Company C	1990	0900.HK	• Personal loan	1.3	11.6%
4	Company D	1991	Private	• Personal loan	0.5	4.5%
5	Company E	2013	1273.HK	• Personal loan	0.2	1.8%
			Subtotal		**7.6**	**67.9%**
			Others		3.6	32.1%
			Total		**11.2**	**100%**

Source: Frost & Sullivan

Key Success Factors

1. Reputable Brand and Image

Brand and image are key consideration factors for borrowers when choosing licensed money lenders, as a professional image and a trustworthy reputation usually offer borrowers more confidence in the operation and services of money lenders. Therefore, a number of established market participants choose to place commercials and advertisements as channels of marketing, in order to raise brand awareness and gain more shares in the market.

2. Diversified and Customised Loan Products

Under intense market competition in the licensed money lending industry in Hong Kong, it is essential to provide innovative and customised services and products to stand out in the intense market competition. For example, online lending services and tailor-made loan products are more preferred by individuals and contribute to the building up of a diverse customer base, which is crucial to licensed money lenders in sustaining the business and generating continuous revenue.

3. Close Monitoring of Liquidity Levels

As licensed money lending industry is sensitive to economic volatility, it is vital to reduce and control risks caused by delinquency, default and liquidity issues. In order to ensure sound operation and long-term stability, market participants are required to keep close monitoring of liquidity levels to reduce financial risks and remain competitive in the licensed money lending market in Hong Kong.

Entry Barrier

1. Financial Capability

Money lending industry is generally considered to be a capital-intensive industry, although there is no minimal capital requirement for licensed money lenders in Hong Kong. Licensed money lenders should have strong financial capability including sufficient cash flow and liquidity and solid fund-raising channels in order to succeed in the market competition. However, new market entrants usually lack strong financial capability and fund-raising channels at the beginning, and may find it hard to enter the licensed money lending market in Hong Kong.

2. License Requirements

Anyone who wants to carry out money lending business in Hong Kong is required to obtain a Money Lender's Licence and comply strictly with the Licensing Conditions and the requirements of the licence as stated in the Money Lenders Ordinance. It normally takes months for the application for Money Lender's Licence to be approved and the licence has to be renewed yearly. This may hinder the setup and business development of new market entrants, and present a barrier to new market entrants to compete with existing market participants.

3. Team of Professionals

Competition for experienced and skilled employees presents an entry barrier to new market entrants in the licensed money lending market in Hong Kong. Employees who are familiar with credit assessment, financial analysis and due diligence are desirable to ensure the efficiency, transparency and scrutiny of loan approval and assessment process. However, as talents tend to choose established money lenders with better reputation and higher wages, new market entrants are facing increasing pressure in attracting skilled employees.

The Target Group operates as a money lender in Hong Kong, holding a Money Lender's Licence granted under the Money Lenders Ordinance. This section summarises the principal laws and regulations which are relevant to the Target Group's business.

THE REGULATORY AUTHORITIES AND THE RELEVANT LAWS AND REGULATIONS IN HONG KONG REGARDING MONEY LENDING BUSINESS

The Money Lenders Ordinance and the Money Lenders Regulations provide that a person must obtain a Money Lender's Licence in order to operate business as a money lender in Hong Kong. Money Lender's Licence shall be subject to the Licensing Conditions (the Money Lenders Ordinance, the Money Lenders Regulations and the Licensing Conditions are collectively referred to as the "**Relevant Statutes**").

The Relevant Statutes contain provisions for, inter alia:

(i) the licensing requirements for Money Lender's Licences and the Licensing Conditions;

(ii) the control and regulation of money lenders and their money lending transactions;

(iii) the permissible level of interest rates chargeable by money lenders regarding loans made to their customers; and

(iv) the appointment of the Registrar of Money Lenders (the "**Registrar**").

Governing authorities

There are three authorities governing money lending businesses in Hong Kong, namely the Registrar, the Licensing Court and the Commissioner of Police (the "**Commissioner**").

The Registrar, whose role is presently performed by the Registrar of Companies, is responsible for, amongst others things, processing new and renewal applications for Money Lender's Licences, endorsement on licences and maintaining a register of money lenders which is open for inspection by members of the public.

The Licensing Court is responsible for the determination of applications for and granting of Money Lender's Licences.

The Commissioner is responsible for enforcing the Money Lenders Ordinance, including carrying out investigations in relation to the applications for and endorsements on Money Lender's Licences and complaints against money lenders.

Money Lender's Licence

Section 7 of the Money Lenders Ordinance states that no person shall carry on business as a money lender (i) without a Money Lender's Licence; (ii) at any place other than the premises specified in such Money Lender's Licence; or (iii) otherwise than in accordance with the conditions of the Money Lender's Licence. Generally, except under the circumstances specified in section 15 of the Money Lenders Ordinance, a Money Lender's Licence is not transferrable, and it only entitles the person or any entity named in the licence to conduct money lending business.

Section 12 of the Money Lenders Ordinance provides that every Money Lender's Licence shall authorise the person and/or entity named therein to carry on business as a money lender for a period of 12 months from the date on which it is granted, and the licensee may apply for renewal of the licence for another 12 months annually. The licence will be renewed from, irrespective of whether the renewal of the licence was made prior to, upon or after its expiration, the day immediately following the day on which it would have, but for its renewal, or has, as the case may be, expired. Section 13 of the Money Lenders Ordinance provides that the licensee may apply for such renewal within three months prior to the expiration of the licence or subsequent renewed licences.

The licensing history of the Target Group

Zero Finance

Zero Finance, the only operating subsidiary of the Target Group, first commenced its money lending business upon obtaining the Money Lender's Licence granted by the Licensing Court on 21 April 2015 and its present licence will expire on 22 April 2021.

Zero Credit

Zero Credit, a subsidiary of the Target Group acquired in 2018, holds a Money Lender's Licence which will expire on 11 April 2021. As at the Latest Practicable Date, Zero Credit had not commenced any money lending business.

Since the first granting of the Money Lender's Licence to Zero Finance and Zero Credit up to the Latest Practicable Date, Zero Finance and Zero Credit had never received any objection from the Registrar or the Commissioner nor been investigated by the Registrar or the Commissioner regarding its applications for and renewal of licences.

Zero Finance and Zero Credit have successfully obtained renewals of their respective Money Lender's Licences granted by the Licensing Court annually since commencement of the money lending business of the Target Group in 2015.

Application for and renewal of Money Lender's Licence by the Licensing Court

Grant or renewal of Money Lender's Licences by the Licensing Court – Section 11 of the Money Lenders Ordinance

Section 11 of the Money Lenders Ordinance states that the Licensing Court will not grant a Money Lender's Licence to an applicant who is convicted of an offence under the Money Lenders Ordinance and whom there is in force an order made by a court disqualifying such person from holding a Money Lender's Licence.

The Licensing Court shall not grant or renew a Money Lender's Licence, if the application has been subject to an objection by the Registrar or the Commissioner or any other person who has served notice of his intention to object, or any other person who is granted leave by the Licensing Court to make such objection unless the Licensing Court is satisfied that:

(i) the applicant is a fit and proper person to carry on business as a money lender, or, in case the applicant is a company, then the person who, is in control of the company, is a fit and proper person to be conducting the money lending business;

(ii) any person responsible (or proposed to be responsible) for the management of the applicant's business, or, in case the applicant is a company, any director, secretary or officer of the company, is a fit and proper person to be conducting the money lending business;

(iii) the applicant's name under which the Money Lender's Licence is applied for is not misleading or otherwise undesirable;

(iv) the premises to be used in the applicant's money lending business are suitable for conducting the money lending business;

(v) the applicant has complied with the relevant provisions and regulations relating to the application; and

(vi) in all the circumstances the grant of such licence is not contrary to public interest.

The Licensing Court may impose any Licensing Condition as it deems fit in the licence.

If a licensee intends to conduct business as a money lender at other premises other than or in addition to the premises specified in his licence, he may apply to the Licensing Court to have such additional premises endorsed on his licence.

Investigation and lodgement of application – Section 9 of the Money Lenders Ordinance

When submitting the application to the Registrar, the applicant must also at the same time send a copy of the application to the Commissioner and the Commissioner may, if it thinks fit, conduct an investigation to be carried out in respect of the application.

The Commissioner may in writing require the applicant to produce such books, records or documents or to furnish any other information which deems necessary for investigation purpose.

No step other than the registration of application for a Money Lender's Licence shall be taken by the Registrar prior to (i) the date on which a period of 60 days after the date on which the application is made expires; or (ii) the date on which the Commissioner notifies the Registrar that any investigation carried out in respect of the application has been completed, whichever is the earlier (the "**Material Date**").

In the event that the Registrar or the Commissioner wishes to object to an application for a Money Lender's Licence on any ground, he shall serve on the applicant a notice of his intention to object and the ground(s) of objection thereon not later than seven days after the Material Date, and where such notice is served by the Commissioner, he shall send a copy to the Registrar. The Registrar shall then lodge the application for a Money Lender's Licence with the Licensing Court (together with any notice of objection) on the expiry of a period of seven days after the Material Date.

Grounds for suspension or revocation of Money Lender's Licence

The Registrar or the Commissioner may apply to the Licensing Court, and the Licensing Court may make an order suspending or revoking any Money Lender's Licence granted by the Licensing Court if it is of the opinion that:

(i) the licensee has seriously breached any condition specified on the Money Lender's Licence or has not been able to satisfy any other conditions relating to his money lending business; or

(ii) the licensee has ceased to become a fit and proper person to conduct money lending business; or

(iii) the premises specified in the Money Lender's Licence have become unsuitable for conducting the money lending business; or

(iv) the business of the licensee has been carried on at any time or on any occasion since the date on which the licence was granted by recourse to use of any methods, or in any manner, contrary to the public interest.

Relevant Statutes, other relevant laws and regulations

(I) Money Lenders Ordinance

There are a number of regulations imposed by the Money Lenders Ordinance regarding money lending transactions and arrangements which may be conducted by a licensed money lender including, amongst others, the following:

(a) Duty to notify the Registrar of changes of certain particulars – Section 17 of the Money Lenders Ordinance

The following changes to certain particulars entered in the register in respect of any licensee which is a company, must be notified by the licensee to the Registrar in writing within 21 days after such changes taking place:

(i) the officers;

(ii) the control by any person; and

(iii) the number of shares of the licensee, or shares of a prescribed class, therein held by any person whereby the number of any such shares held by that persons exceeds such proportion of the number of issued shares or of the number of shares of that class (as the case may be).

(b) Written memorandum of agreement to be signed by borrowers – Section 18 of the Money Lenders Ordinance

No agreement between a borrower and a licensed money lender regarding the repayment of money and the payment of interest and any security given to the licensed money lender shall be enforceable, unless a note or memorandum in writing of the agreement containing all the terms of such agreement is signed personally by the borrower within seven days after the making of the agreement, and that a copy of such memorandum is given by the licensed money lender to the borrower at the time of signing. No such agreement or security shall be enforceable if it is proved that the note or memorandum was not signed by the borrower before the money was lent or the security was given.

(c) Duty to give information to borrower – Section 19 of the Money Lenders Ordinance

A licensed money lender shall, on demand in writing being made by the borrower at any time during the continuance of the loan agreement, and, on tender by the borrower of the prescribed fee for expenses, provide a statement (consisting of the original and a copy) signed by the licensed money lender or his agent, to the borrower or any other person specified by the borrower in his demand, showing, amongst others, the following information:

(i) the date on which the loan was made, the amount of principal and interest rate charged;

(ii) the amount of any payments already received by the money lender and the date(s) of such payments; and

(iii) the amount not yet due which remains outstanding, and the date on which it will become due.

A licensed money lender who fails to comply with Section 19 of the Money Lenders Ordinance without reasonable excuse within one month after the demand has been made by the borrower shall not, as long as the default continues, be entitled to sue the borrower for recover of any sum due, whether for principal or interest, under the agreement, and that interest shall not be chargeable during the period of default.

However, this duty does not apply to any licensed money lender in respect of any demand made by a borrower within one month after a previous demand relating to the same agreement has been complied with.

(d) Entitled to early repayment – Section 21 of the Money Lenders Ordinance

Any borrower under any agreement for money lent by a licensed money lender is entitled to, by giving written notice to the licensed money lender at any time, make early repayment of all outstanding principal under the agreement together with the relevant interest calculated up to the date of such early payment.

(e) Provision against compound interest, increase of interest by default, and prohibition of repayment by instalment – Section 22 of the Money Lenders Ordinance

It is illegal for any loan agreement between a money lender and a borrower to provide for, whether directly or indirectly:

(i) the payment of compound interest;

(ii) prohibition of repayment of the loan by instalments; or

(iii) the rate or amount of interest being increased by reason of any default in the payment of sums due under the agreement. Such a provision may however be permissible if default is made in the payment upon the due date of any sum payable under the agreement, whether in respect of principal or interest, the money lender shall be entitled to charge simple interest, subject to Part IV of the Money Lenders Ordinance, on that sum from the date of the default until the sum is paid at an effective rate not exceeding the effective rate payable in respect of the principal apart from any default, and any interest so charged shall not be reckoned for the purposes of the Money Lenders Ordinance as part of the interest charged in respect of the loan. (According to Section 2 of the Money Lenders Ordinance, effective rate, in relation to interest, means the true annual percentage rate of interest calculated in accordance with Schedule 2 of the Money Lenders Ordinance.)

However, when deciding on the legality of any agreement, if the court is satisfied that in all the circumstances of a particular case, it would be inequitable for any agreement which does not comply with section 22 of the Money Lenders Ordinance to be held unenforceable, the court may order that such agreement is enforceable to such extent, and subject to such modifications or exceptions, as the court considers equitable.

(f) Loan etc. not recoverable unless money lender licensed – Section 23 of the Money Lenders Ordinance

A money lender without a Money Lender's Licence at the date of the loan or the making of the agreement or the taking of the security shall not be entitled to enforce any agreement made or security taken in respect of any loan made. Provided that if the court is satisfied that it would be inequitable if a money lender is not entitled to enforce such agreement or security pursuant to this section, the court may order that such agreement or security may be enforced to such extent as the court considers equitable.

(g) Prohibition of excessive interest rate – Section 24 of the Money Lenders Ordinance

Section 24 of the Money Lenders Ordinance stipulates that it is a criminal offence for any person (whether a licensed money lender or not) to lend or offers to lend money at an effective rate of interest which exceeds 60% per annum. No agreement for the repayment of any loan or for the payment of interest on any loan and no security given in respect of any such agreement or loan shall be enforceable in any case in which the effective rate of interest exceeds 60% per annum.

Contravention of section 24 of the Money Lenders Ordinance carries a maximum penalty of:

(i) a fine of HK$500,000 and two-year imprisonment, on summary conviction; or

(ii) a fine of HK$5,000,000 and ten-year imprisonment, on conviction upon indictment.

(h) Re-opening of certain transactions – Section 25 of the Money Lenders Ordinance

Section 25 of the Money Lenders Ordinance provides that if in any proceedings for the recovery of any money lent or the enforcement of any agreement or security in respect of any loan, the court is satisfied that the transaction is extortionate, the court may re-open any transaction and make such orders and give such directions as it may think fit. A transaction is extortionate if it requires the borrower or a relative of his to make payments (i) which are grossly exorbitant; or (ii) which grossly contravenes ordinary principles of fair dealing. Any agreement for the repayment of a loan or for the payment of interest on a loan in respect of which the effective rate of interest exceeds 48% per annum shall be presumed to be a transaction which is extortionate.

If the court, having regard to all circumstances relating to that transaction in question, is satisfied that such rate is not unreasonable or unfair, the court may (except where such rate exceeds 60% per annum) declare that a particular transaction is not extortionate, if, having regard to all circumstances relating to that transaction in question, the court is satisfied that such rate is not unreasonable or unfair even if it exceeds 48% per annum.

Factors and evidence which the court may take into account when deciding whether a transaction is extortionate or not include, but not limited to the following:

(i) interest rate prevailing at the time;

(ii) the borrower's age, experience, business capacity and state of health;

(iii) the degree to which, at the time of entering into the transaction, the borrower was under financial pressure and the nature of that pressure; and

(iv) the degree of risk accepted by the money lender in that particular transaction, having regard to the nature and value of any security provided by the borrower.

(i) Charges for expenses etc. are not recoverable by licensed money lenders – Section 27 of the Money Lenders Ordinance

Any agreement entered into between a licensed money lender and a borrower (or intending borrower) to provide for the payment by the borrower to the licensed money lender of any sum for or on account of costs, charges or expense (other than stamp duties or similar duties) incidental to or relating to the negotiations for or the granting of the loan or proposed loan or the guaranteeing or securing of the repayment is illegal.

It is also illegal for any licensed money lender or his partner, employer, employee, principal or agent or any person acting for or in collusion with any licensed money lender to charge, recover or receive any sum as for or on account of any such costs, charges or expenses (other than stamp duties or similar charges) or to demand or receive any remuneration or reward whatsoever from a borrower or intending borrower for or in connection with or preliminary to procuring, negotiating or obtaining any loan made or guaranteeing or securing the repayment of a loan.

(j) Exempted Loans under Part 2, Schedule 1 of the Money Lenders Ordinance

Certain types of loan granted by licensed money lenders are exempted from the provisions of the Money Lenders Ordinance (except sections 24 and 25, which apply to any person (whether a licensed money lender or not)). These include, but are not limited to: (i) loans made bona fide by an employer to its employee; (ii) loans made to a company secured by a mortgage, charge, lien or other encumbrance; (iii) loans made under bona fide credit card schemes; (iv) loans made bona fide for the purchase of immovable property on the security of a mortgage; (v) loans made to a company the shares or debentures of which are listed on a recognised stock market; (vi) loans made to a company that has paid up share capital of not less than HK$1 million or an equivalent amount in any other currencies freely convertible into Hong Kong dollars, or any currencies approved in writing by the Registrar; and (vii) loans made by a company or a firm or individual whose ordinary business does not primarily or mainly involve the lending of money.

(II) Money Lenders Regulations

The Money Lenders Regulations is the subsidiary legislation of the Money Lenders Ordinance. They primarily govern the administrative aspects and certain procedures for application and renewal of Money Lender Licences such as regulating the procedures, formats and the fees for the application and renewal of Money Lender Licences.

(III) Licensing Conditions

A Money Lender's Licence shall be subject to such conditions as the Licensing Court may impose, and a licensee must abide by the conditions imposed on the licence.

(a) Licensing Conditions of the Money Lender's Licences of the Target Group

In summary, the current Money Lender's Licences of the Target Group are subject to the Licensing Conditions set out below:

(i) under Conditions 1, 2 and 3, the money lender shall undertake certain due diligence checks and obtain certain documents in respect of third parties for or in relation to the procuring, negotiation, obtaining or application of the loan, guaranteeing or securing the repayment of the loan before entering into a loan agreement with an intending borrower;

(ii) under Condition 4, the money lender shall not knowingly allow or permit any person to charge, recover, demand or receive any fees, charges, reward or consideration, however named, from any borrower or intending borrower for or relating to the procuring, negotiation, obtaining or application of a loan or guaranteeing or securing the repayment of a loan;

(iii) under Condition 5, the money lender shall give explanation to the intending borrower of all the terms of the agreement, in particular the terms in relation to repayment, and shall keep written or video or audio records which show compliance with such requirement;

(iv) under Condition 6, the money lender shall take steps to ensure that when collecting or receiving personal data from another person, they will not take part in any unlawful disclosure or use of personal data in contravention of the provisions of the PDPO;

(v) under Condition 7, the money lender shall not accept a subsidised flat provided by the Hong Kong Housing Authority as collateral unless the borrower has produced to the money lender the required written confirmation or approval;

(vi) under Condition 8, the money lender must ensure that the number of the Money Lender's Licence must be clearly indicated and shown in the Chinese version of any advertisement issued or published for the purpose of the money lender's business;

(vii) under Condition 9, any advertisement in relation to the money lending business of a money lender issued or published by the money lender, in his own name or through any other person must contain (a) the money lender's telephone hotline for handling complaints; and (b) a risk warning statement;

(viii) under Condition 10, the money lender shall undertake certain obligations in connection with debt collection activities;

(ix) under Condition 11, the money lender must provide information relating to their money lending businesses during the term of the respective licences as may be required by the Registrar or the Commissioner, and such information shall be provided within time as the Registrar or the Commissioner may specify;

(x) under Condition 12, the money lender must establish and maintain proper systems and procedures to ensure that the money lender, or his partners, employers, employees, principals or agents, any persons acting for him and any appointed third parties shall be informed of and observe the licensing conditions and the provisions of the Money Lenders Ordinance;

(xi) under Condition 13, where any referee is provided in respect of the loan application, the money lender shall obtain the written consent signed by the referee before entering into a loan agreement with an intending borrower and shall attach the written consent to the loan agreement;

(xii) under Condition 14, the money lender shall comply with the Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Licensed Money Lenders;

(xiii) a distinct office, which is physically separated from any other business and located at the premises specified on the licence, must be designated by the company for conducting money lending business; and

(xiv) all books, records and documents of the money lending business of the money lender must be kept in the premises or the distinct office specified in the licence.

During the Track Record Period, Conditions 13 and 14 were laid down and introduced to the proforma list of Licensing Conditions of the Registrar with effect from 11 October 2018.

(b) Guidelines on Licensing Conditions of Money Lenders Licence

The Guidelines on Licensing Conditions of Money Lenders Licence are issued by the Registrar to provide guidance to money lenders which hold a Money Lender's Licence granted under the Money Lenders Ordinance to carry on business as a money lender in Hong Kong on the requirements of the Licensing Conditions 1 to 14 stated above.

(IV) Laws and regulations in respect of anti-money laundering

In addition to the Relevant Statutes, there are other laws and regulations in force in Hong Kong which also concern the money lending business of the Target Group and the most important of which relates to anti-money laundering.

(a) Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong), Organized and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong), United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong) and United Nations Sanctions Ordinance (Chapter 537 of the Laws of Hong Kong)

These Hong Kong legislations concern primarily money laundering. They also provide that it is an offence for any person to carry on a transaction with an aim to conceal, or disguise the identity and origin of criminal proceeds or funds. It is also illegal under these legislations for any person to deal in any property which represents proceeds obtained from drug trafficking or any indictable offence. They also require disclosure by any person of his knowledge or suspicion of any such property, or of Terrorist Property (as defined below).

(i) Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong) and Organized and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong)

The Drug Trafficking (Recovery of Proceeds) Ordinance came into force in September 1989. It provides for the tracing and confiscation and recovery of the proceeds of drug trafficking and creates a criminal offence of money laundering in relation to such proceeds. The Organized and Serious Crimes Ordinance came into operation in December 1994. It extends the money laundering offence to cover the proceeds of indictable offences in addition to drug trafficking.

(ii) United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong)

The United Nations (Anti-Terrorism Measures) Ordinance came into force in August 2002. This ordinance seeks to implement the mandatory elements of the United Nations Security Council Resolution aimed at combating international terrorism on various fronts. The ordinance provides that it would be a criminal offence to: (i) provide or collect properties (by any means, directly or indirectly) with the intention or knowledge that the funds will be used to commit, in whole or in part, one or more terrorist acts; or (ii) make any properties or financial (or related) services available, directly or indirectly, to or for the benefit of a person knowing that, or being reckless as to whether, such person is a terrorist or terrorist associate. The ordinance also requires a person to report his knowledge or suspicion of Terrorist Property to an authorised officer, and failure to make such disclosure constitutes an offence under the ordinance. Terrorist Property, as defined in Section 2, refers to property of a terrorist or terrorist associate; or any other property that is intended to be used to finance or otherwise assist the commission of a terrorist act; or was used to finance or otherwise assist the commission of a terrorist act.

Sections 7 and 8 of the United Nations (Anti-Terrorism Measures) Ordinance prohibit a person from providing any property knowing that the property will be used, in whole or in part, to commit one or more terrorist acts. It also prohibits a person from making any property or financial services available to or for the benefit of a person knowing that, or being reckless as to whether, the person is a terrorist or terrorist associate, except under the authority of a licence granted by the Secretary for Security in Hong Kong.

Section 12 of the United Nations (Anti-Terrorism Measures) Ordinance regulates the disclosure of knowledge or suspicion that property is Terrorist Property. Where a person knows or suspects that any property is Terrorist Property, the person shall disclose to the Police Department, the Customs and Excise Department, the Immigration Department, or the Independent Commission Against Corruption (the "**Authorised Officer**") the information or other matter on which the knowledge or suspicion is based; and as soon as is practicable after that information or other matter comes to the person's attention. It is an offence for failing to disclose to the Authorised Officer such information, and it is also an offence to disclose any information to other parties that may prejudice the investigation.

(iii) United Nations Sanctions Ordinance (Chapter 537 of the Laws of Hong Kong)

The United Nations Sanctions Ordinance implements in Hong Kong the United Nations Security Council resolutions to impose target sanctions against certain jurisdictions as instructed by the Ministry of Foreign Affairs of the PRC. As at the Latest Practicable Date, there were 91 regulations made under this ordinance relating to around 13 jurisdictions, including but not limited to Liberia, Libya, Afghanistan, Eritrea and the Democratic Republic of the Congo. There are prohibitions against trade-related activities, which include making available to, or for the benefit of, certain persons, entities funds or other financial assets or economic resources, or dealing with funds or other financial assets or economic resources of certain persons or entities from the above jurisdictions.

Section 3(3) of the United Nations Sanctions Ordinance provides that a contravention or breach of different sanctions or trade restrictions in the regulations shall be punishable on summary conviction by a fine not exceeding HK$500,000 and imprisonment for a term not exceeding two years; on conviction on indictment by an unlimited fine and imprisonment for a term not exceeding seven years. These penalties can deter trading activities breaching the sanctions or trade restrictions imposed under the Laws of Hong Kong, or by the United Nations.

*(b) Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Licensed Money Lenders (the "**Registrar Guideline**")*

The Registrar Guideline is issued by the Registrar to provide guidance to licensed money lenders in Hong Kong for the implementation of effective measures to mitigate the risks of money laundering and terrorist financing. The Registrar Guideline is promulgated by reference to the requirements set out in the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong) (the "**AMLO**").

In general, licensed money lenders are required to:

(i) take all reasonable measures to mitigate the risk of money laundering and/or terrorist financing; and

(ii) ensure that, among other things, the anti-money laundering and counter-terrorist financing requirements under the AMLO are complied with.

To fulfil the above-mentioned obligations, licensed money lenders must assess the money laundering and/or terrorist financing risk of their businesses, develop and implement policies, procedures and controls on risk assessment, customer due diligence measures, ongoing monitoring of customers, suspicious transactions reporting, record keeping and staff training.

Compliance with the Registrar Guideline is one of the licensing conditions of the Money Lender's Licence. If any provision set out in the Registrar Guideline appears to the court to be relevant to any question arising in any proceedings, the provision may be taken into account in determining that question.

Details of the compliance of the above laws and regulations are set out in the section headed "**5. BUSINESS – Legal Compliance**" in this Appendix.

(V) Other laws and regulations

Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong)

The nature of the money lending business inevitably requires that the Target Group collect, keep and make use of the personal data of its customers and potential customers on a frequent and regular basis. It is stipulated under Licensing Conditions 6 and 10 that the money lender shall comply with the PDPO in the collection, use, holding and processing of information or personal data collected in the course of his business. The Target Group falls within the definition of "data user" as defined under the PDPO.

The PDPO provides that a data user shall not do an act, or engage in a practice, that contravenes a data protection principle unless the act or practice, is required or permitted under the PDPO. The PDPO also places a statutory duty on data users to comply with the requirements of the following six data protection principles contained in Schedule 1 of the PDPO:

(i) Principle 1: Purpose and manner of collection of personal data. This principle provides for the lawful and fair collection of personal data and sets out the information a data user must give to a data subject when collecting personal data from that data subject.

(ii) Principle 2: Accuracy and duration of retention of personal data. This principle provides that personal data should be accurate, up-to-date and kept no longer than necessary.

(iii) Principle 3: Use of personal data. This principle prohibits the use of personal data for any new purpose which is not or is unrelated to the original purpose when collecting the data, unless with the data subject's express and voluntary consent.

(iv) Principle 4: Security of personal data. This principle requires that data users take all practicable steps to protect the personal data (including data in a form in which access to or processing of the data is not practicable) they hold against unauthorised or accidental access, processing, erasure, loss or use.

(v) Principle 5: Information to be generally available. This principle obliges data users to take all practicable steps to ensure openness of their personal data policies and practices, the kind of personal data held and the main purposes for holding it.

(vi) Principle 6: Access to personal data. This principle provides data subjects with the right to request access to and correction of their personal data.

Although the Target Group owes a duty of confidentiality to its customers under the relevant laws and regulations on protection of data privacy, the Target Group is required, and is entitled to report any suspicious cases to the relevant authorities. Legislation in Hong Kong such as the Drug Trafficking (Recovery of Proceeds) Ordinance requires that disclosure of certain suspicious transactions be made under the legislation. Such disclosures are not be treated as a breach of any restriction upon the disclosure of information imposed by contract or by any enactment, rule of conduct or other legislation provision, and any person making such disclosure shall not be liable in damages for any loss which may arise out of such disclosure.

Further, section 58 of the PDPO provides that if personal data are used for any of the purposes referred to in section 58(1) of the PDPO (which includes but not limited to prevention or detection of crimes, prosecution or detention of offenders and prevention, preclusion or remedying of unlawful or seriously improper conduct or dishonesty or malpractice by persons etc.) (the "**Exempted Matters**") and the application of the personal data protection principle in relation to such use would be likely to prejudice any of the Exempted Matters, then (i) such personal data are exempted from the provisions of certain data protection principle; and (ii) if there is proceeding against any person for a contravention of any of those provisions of the PDPO, it shall be a defence if that person can show that he has reasonable grounds for believing that failure to so use the data would have been likely to prejudice any of the Exempted Matters.

Part 6A of the PDPO regulates the use and provision of personal data in direct marketing by business entities. If personal data of customers are intended to be used in direct marketing, customers must be notified and their consent must be obtained before using or transferring any of their personal data to another person, and they must be notified of their opt-out right when using their personal data in direct marketing for the first time. Data subject is entitled to require the data user to cease using their personal data in direct marketing at any time, and the data user shall comply with such request without charge.

Non-compliance with the data protection principles may lead to a complaint being lodged to the Privacy Commissioner for Personal Data (the "**Privacy Commissioner**") and the Privacy Commissioner may serve an enforcement notice to direct the data user to take steps to remedy the contravention. Contravention of an enforcement notice is an offence under the PDPO which could result in a fine and imprisonment. A claim for compensation may also be made by a data subject who suffers damage by reason of a contravention of a requirement under the PDPO.

Electronic Transactions Ordinance (Chapter 553 of the Laws of Hong Kong) (the "ETO")

As the Target Group operates an online loan business platform on which loan applications and arrangements are conducted electronically, it has to follow the requirements under the ETO to ensure that such online loan arrangements, in particular, the execution of documentation, are valid and enforceable.

The ETO aims to facilitate the use of electronic transactions for commercial and other purposes, and establish the legal framework for the recognition of electronic records and signatures, giving them the same legal status as their paper counterparts. The ETO provides that:

(i) under section 5 of the ETO, if a rule of law requires or permits information to be or given in writing, the use of electronic records satisfies the requirement if the information contained in the electronic record is accessible so as to be usable for subsequent reference;

(ii) under section 6 of the ETO, where a rule of law requires the signature of a person on a document and neither the person whose signature is required nor the person to whom the signature is to be given is or is acting on behalf of a government entity, an electronic signature (subject to the fulfilment of certain conditions) satisfies the requirement;

(iii) under section 7 of the ETO, where a rule of law requires that certain information be presented or retained in its original form, the requirement is satisfied by presenting or retaining the information in the form of electronic records (subject to the fulfilment of certain conditions); and

(iv) under section 8 of the ETO, where a rule of law requires certain information to be retained, whether in writing or otherwise, the requirement is satisfied by retaining electronic records (subject to the fulfilment of certain conditions).

Mortgagee action under the CPO

Pursuant to the CPO, a mortgagee who initiates a mortgagee action can exercise his power to take possession of the mortgaged land (which includes properties or buildings erected on land) and, for that purpose, to take any legal proceedings after notice requiring payment of the mortgage money has been served on the mortgagor, and default has been made in payment of the mortgage money or part thereof for one month after such service.

If a mortgagee exercises the power of sale in the event of a default, the sale proceeds obtained have to be applied pursuant to the priorities stated in section 54 of the CPO as follows: (a) to discharge all rent, taxes, rates and other outgoings due and affecting the mortgaged land; (b) if the mortgaged land is sold subject to a prior encumbrance, to discharge that prior encumbrance; (c) to pay the receiver's lawful remuneration, costs, charges and expenses and all lawful costs and expenses properly incurred in the sale or other dealing; (d) to pay mortgage money, interest and costs due and owing under the mortgage, and any residue shall be paid to the person who, immediately before any sale or other dealing, is entitled to the mortgaged land or authorised to give a receipt for the proceeds of the sale of that land.

Land Registration Ordinance (Chapter 128 of the Laws of Hong Kong) (the "LRO")

Land registration in Hong Kong is currently a system of registration of instruments, that is, the Land Registry simply keeps a record of the instruments which affect land. Registration of instruments is not evidence of title and neither the Land Registry nor any government authorities can and will guarantee that the title to a certain piece of land is good. The LRO provides that:

(i) the following instruments are registrable, namely, all deeds, conveyances and other instruments in writing and judgments by which any land (immovable property) in Hong Kong may be affected. A mortgage document is a registrable instrument and should be registered with the Land Registry. Generally, the priority of the registered instruments depends on the priority of their registration dates of registration;

(ii) under section 5 of the LRO, if an instrument is registered within one month of its date of execution, it is entitled to priority from the date of execution. If an instrument is registered after one month of its execution, it is only entitled to priority from the date of registration; and

under section 3(2) of the LRO, all registrable instruments in writing which are not registered shall, as against any subsequent bona fide purchaser or mortgagee for valuable consideration of the same property, be null and void.

HISTORY AND DEVELOPMENT

The Target Company is a limited company incorporated in Hong Kong on 11 November 2014. It is an investment holding company which holds 100% shareholding in Zero Finance. The Target Group was set up by Mr. Lee Lap.

The principal business of the Target Group is money lending business in Hong Kong, which is solely carried out through Zero Finance, the only operating subsidiary of the Target Group. Zero Finance (formerly known as aEasy Credit Hong Kong Limited) was incorporated on 11 November 2014 with limited liability in Hong Kong. Zero Finance commenced money lending business in May 2015 after obtaining its first Money Lender's Licence on 21 April 2015. Zero Finance has been able to renew the Money Lender's Licence every year since its commencement of business. The current Money Lender's Licence of Zero Finance was granted on 11 June 2020 for a period of 12 months from 21 April 2020 and it will cease to have effect on 22 April 2021.

On 22 June 2018, Zero Finance acquired 100% shareholding in Zero Credit (formerly known as Money Touch Finance Company Limited), a company incorporated on 28 November 1995 with limited liability in Hong Kong, at a consideration of HK$1,890,000. Zero Credit also possesses a Money Lender's Licence. The current Money Lender's Licence of Zero Credit was granted on 30 June 2020 for a period of 12 months from 10 April 2020 and it will cease to have effect on 11 April 2021. However, since its acquisition by Zero Finance, Zero Credit has never commenced any business.

MILESTONES

The following table sets forth certain key milestones in the Target Group's history:

November 2014	The Target Company and Zero Finance (formerly known as aEasy Credit Hong Kong Limited) were incorporated in Hong Kong
April 2015	Zero Finance obtained the first Money Lender's Licence
May 2015	Zero Finance commenced money lending business of providing mortgage loans and offline personal loans
May 2017	Zero Finance started to design and develop the "X Wallet"
September 2017	Zero Finance changed its company name from "aEasy Credit Hong Kong Limited" to "Zero Finance Hong Kong Limited"
April 2018	Zero Finance launched the "X Wallet"

June 2018	Zero Credit (formerly known as Money Touch Finance Company Limited) was acquired by Zero Finance
August 2018	Zero Credit changed its company name from "Money Touch Finance Company Limited" to "Zero Credit Limited"
December 2018	Due to the issue of new shares in the ultimate holding company of Zero Finance to Mr. Tommy Lee, the Target Group had become ultimately owned as to 99.99% by Mr. Tommy Lee and as to 0.01% by Mr. Lee Lap

SHARE CAPITAL

As at the date of its incorporation, the issued share capital of the Target Company comprised one ordinary share of HK$1. On 15 September 2020, an amount due to the Vendor from the Target Company of approximately HK$293.0 million was capitalised by the allotment and issue of 292,603,751 new ordinary shares in the Target Company, credited as fully paid. Consequently, as at the Latest Practicable Date, the Target Company had a share capital of HK$292,603,752, comprising a total of 292,603,752 issued ordinary shares.

SHAREHOLDERS

The Target Company was wholly-owned by Fairweather (Nominees) Limited since its incorporation in November 2014 and until 25 November 2014. Between 26 November 2014 and 6 December 2017, the sole shareholder of the Target Company was Mr. Lee Lap. Since 6 December 2017 and as at the Latest Practicable Date, the sole shareholder of the Target Company was Earth Axis Investment Limited (i.e. the Vendor).

Since the incorporation of the Vendor on 8 May 2017, it had been indirectly wholly-owned by Mr. Lee Lap. On 31 December 2018, new shares in the ultimate holding company of the Vendor were allotted to Mr. Tommy Lee and since then, the Vendor and the Target Group have been ultimately owned as to 99.99% by Mr. Tommy Lee and as to 0.01% by Mr. Lee Lap.

MEMBERS OF THE TARGET GROUP

The Target Company is a limited company incorporated in Hong Kong on 11 November 2014 and is an investment holding company. As at the Latest Practicable Date, it had an issued share capital of 292,603,752 ordinary shares with a par value of HK$1.00 and was wholly-owned by the Vendor.

Zero Finance (formerly known as aEasy Credit Hong Kong Limited) is a limited company incorporated in Hong Kong on 11 November 2014. As at the Latest Practicable Date, it had an issued share capital of 270,500,000 ordinary shares with a par value of HK$1.00 each and was wholly-owned by the Target Company. Zero Finance possesses a Money Lender's Licence and has been principally engaged in the money lending business of providing secured and unsecured loans in Hong Kong since May 2015. Zero Finance has been the only operating company within the Target Group.

Zero Credit (formerly known as Money Touch Finance Company Limited) is a limited company incorporated in Hong Kong on 28 November 1995 and was acquired by Zero Finance on 22 June 2018 at a consideration of HK$1,890,000. As at the Latest Practicable Date, it had an authorised share capital of 100,000 shares with a par value of HK$1.00 each and was wholly-owned by Zero Finance. Zero Credit also possesses a Money Lender's Licence but has never commenced any operation since its acquisition by Zero Finance.

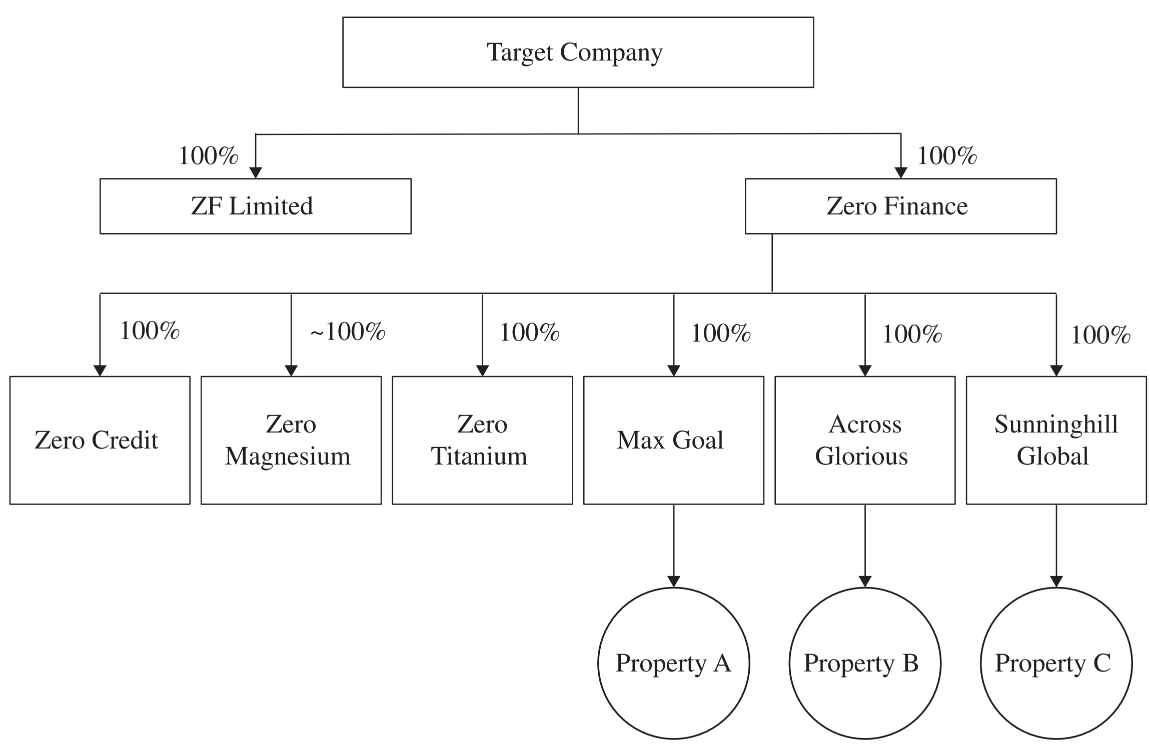
RESTRUCTURING

To prepare for the Proposed Acquisition, the Target Group has undergone the Restructuring, pursuant to which, among other things, all of the Target Company's direct and indirect shareholding interests in companies other than Zero Finance and Zero Credit (and therefore, the Target Company's indirect interests in three office units in COSCO Tower, Sheung Wan, Hong Kong (the "**Three Properties**")) have been disposed of to the Vendor Group.

Simplified corporate charts of the Target Group immediately before and after the Restructuring

Simplified corporate charts of the Target Group immediately before and after the Restructuring are set out as below:

Immediately before the Restructuring



Notes:

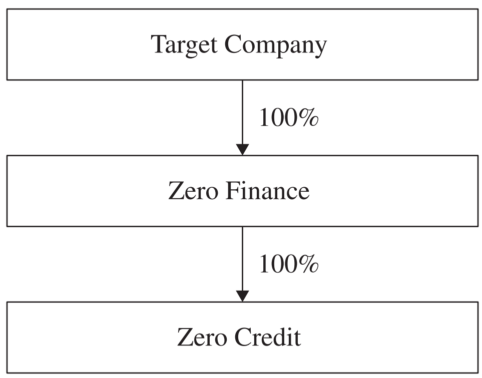
(1) *Prior to the Restructuring, the Target Company indirectly owned the Three Properties, which are shown as Property A, Property B and Property C in the above chart, through Max Goal, Across Glorious and Sunninghill Global, respectively.*

(2) *Max Goal, Across Glorious and Sunninghill Global, so long as they were controlled by the Vendor or the Target Group prior to the Restructuring, had not had any operations other than the holding of the Three Properties respectively.*

(3) *Zero Magnesium, Zero Titanium and ZF Limited have never had any operations.*

(4) *Prior to the Restructuring, Zero Finance owned 1,999,999,999 shares and Mr. Tommy Lee owned 1 share in Zero Magnesium respectively.*

Immediately after the Restructuring and as at Completion



Reasons for the Restructuring

The Three Properties were acquired by the Target Group for investment purposes, and not for the main operation of, or essential to, the money lending business of the Target Group. It was the intention of the Group to acquire a money lending business only but not the Three Properties as the latter are not considered to be of value to the Group. Therefore, the Three Properties had been disposed of by the Target Group under the Restructuring so that they will not form part of the assets to be acquired by the Group under the Proposed Acquisition. Also, after Completion, the Target Group could use the Rumsey Street Rented Premises as its principal place of business and only two small rooms which account for approximately 4.18% of the total gross floor area of the Three Properties have been leased back to the Target Group for use as the principal business office of Zero Credit and additional business office of Zero Finance since 1 August 2020 after the disposal of the Three Properties by the Target Group to the Vendor Group under the Restructuring.

As Zero Magnesium, Zero Titanium and ZF Limited have been inactive since incorporation and do not own any material asset, the detachment of them from the Target Group would result in a simple corporate structure for the Proposed Acquisition.

For further details of the transactions taken place under the Restructuring, please refer to the section headed "Interests in Assets and/or Contracts and Other Interests" in Appendix V to this circular.

OVERVIEW

Zero Finance commenced its money lending business under a Money Lender's Licence in Hong Kong in May 2015 and provides secured loans and unsecured loans to customers in Hong Kong. The secured loan business of Zero Finance comprises loans to individual and corporate customers secured by properties and listed securities. The unsecured loan business of Zero Finance comprises loans provided to individual customers without any guarantee or pledge on assets.

Mortgage loans provided by Zero Finance are secured against real estate assets located in Hong Kong, including residential, commercial and industrial real estate assets such as apartments, tenement houses, village houses, commercial and industrial units. In accordance with the internal credit policy of Zero Finance, the amount and interest rate of loans granted to customers depend on various factors, including the type and value of the property proposed to be mortgaged. The mortgage loans provided by Zero Finance include first mortgage loans, which are secured by first mortgage on the customer's properties; and subordinated mortgage loans, which are secured by mortgages subordinated to first or higher-ranking mortgages charged on the pledged properties. During the Track Record Period, Zero Finance offered both first and subordinated mortgage loans on residential properties with loan-to-value ratio of not more than 80% in the majority of cases. Zero Finance typically offers loans with lower loan-to-value ratio in respect of non-residential properties. During the Track Record Period, mortgage loans granted by Zero Finance to customers ranged in size from around HK$0.08 million to HK$68 million with tenures ranging from 12 months to 300 months. During the Track Record Period, Zero Finance had provided loan in the aggregate amount of HK$100 million secured by a pledge over shares of a listed company in Hong Kong, the outstanding balance of which was HK$30 million as at 31 March 2020.

For the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, the secured loan business of Zero Finance has contributed approximately 83.6%, 75.4%, 57.7% and 59.0% of the total revenue of the Target Group for the same period respectively.

Since the commencement of its business, Zero Finance had provided unsecured personal loans, which contributed to about 16.4%, 24.6%, 42.3% and 41.0% of the total revenue of the Target Group for each of the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, respectively. This product was conducted through face-to-face execution only initially. The offline unsecured loans granted ranged in size from HK$5,000 to HK$5,000,000, with tenure ranging from four months to 240 months.

In April 2018, Zero Finance started to offer unsecured personal loans to individuals through "X Wallet" mobile APP, a platform for fully-automated and around-the-clock online loan application and approval without human intervention. "X Wallet" is accessible anytime and anywhere in Hong Kong and does not require the physical presence of the customers to apply. Based on the internal record of Zero Finance, in general, it only takes approximately five seconds for the loan applicant to receive the results of application and approximately 10 minutes for the transfer of funds to the customer. "X Wallet" targets the extension of smaller sized loans of HK$5,000 to HK$30,000, with tenure of 18 months or 24 months. Since the launch of "X Wallet" in April 2018, the focus of the unsecured loan business of Zero Finance has shifted to "X Wallet". "X Wallet" contributed to about 4.4%, 23.3% and 30.9% of the total revenue of the Target Group for each of the two years ended 31 December 2018 and 2019 and the three months ended 31 March 2020, respectively.

As at 31 December 2017, 2018 and 2019 and 31 March 2020, Zero Finance had a total of 81, 71, 80 and 98 current secured loan customer accounts, 127, 858, 773 and 595 current offline unsecured loan customer accounts, and 0, 1,110, 2,703 and 3,101 current "X Wallet" customer accounts, respectively. Current customer accounts of secured loan and offline unsecured loan refer to those which had outstanding balance, whereas current customer accounts of "X Wallet" include those which had outstanding balance and those without outstanding balance but have not been closed yet. As at 31 December 2017, 2018 and 2019 and 31 March 2020, the total outstanding loan balance of Zero Finance amounted to approximately HK$253.5 million, HK$319.8 million, HK$345.6 million and HK$382.3 million, respectively.

COMPETITIVE STRENGTHS

Diverse base of customers

Zero Finance maintains parallel development of both of its secured and unsecured loan business, which has allowed it to build up a diverse customer base for its secured and unsecured loan products and achieved a balanced portfolio of its secured and unsecured loans. Such diverse customer base mitigates the risk of reliance on a small number of customers and particular loan product type and provides security in terms of revenue to the Target Group.

Fast and convenient money lending services through "X Wallet"

The directors of Zero Finance consider that "X Wallet" stands out in the local market as it provides around-the-clock, fully-automated and fast and convenient money lending services from application to drawdown, which enables Zero Finance to build up its brand name and seize market share. "X Wallet" is accessible anytime and anywhere in Hong Kong and does not require the customers' physical presence at the office of Zero Finance to apply. "X Wallet" is convenient and it provides quickly accessible funds and fits in well with the trend of increased usage of mobile APPs.

The directors of Zero Finance believe that "X Wallet" was the first fully-automated online loan application platform in Hong Kong and thus enjoyed a first-mover advantage. The unsecured loan business of Zero Finance has seen a significant growth since the launch of "X Wallet". Further details of "X Wallet" are set out in the paragraph headed "Principal Business Activities – Unsecured Loans" in this Appendix.

Effective risk management

For secured loan and offline unsecured loan, the credit review procedures of Zero Finance focus on the identification and creditworthiness of the applicants together with the ownership and valuation of the real estate asset to be mortgaged (if applicable). Zero Finance has also formulated operation and credit manuals to provide its employees with detailed guidelines for handling applications. Please refer to the section headed "Risk Management and Internal Control" in this Appendix for more details.

For "X Wallet", approval of applications and the terms of offering (including the loan amount, interest rate and tenure) are decided by "X Wallet" without human intervention. Such decisions are primarily based on the rating of the customer in the TransUnion credit report and the credit assessment of the customer according to a set of credit rules specifically designed by Zero Finance, and also with reference to the risk score of the customer generated by the credit scoring model. In order to avoid fraudulent identities, "X Wallet" integrates technology into its risk management system through the use of face recognition technology to check the applicant's face against the blacklist maintained by Zero Finance and smart liveness detection technology to verify the applicant as a genuine individual. It also checks the IP address, device ID and ID number of the applicant against the blacklists maintained by Zero Finance. The applicant will also be asked certain personal questions generated by the system based on the information extracted from the credit report obtained from TransUnion, as further verification of his/her identity.

BUSINESS STRATEGIES

Continuing to develop and expand the unsecured loan business via "X Wallet"

Zero Finance is constantly optimising and improving its online loan platform and services and focusing on the development of its personal loan business by integrating it with innovative financial technology in order to seize market opportunities and gain market share.

Zero Finance will also promote "X Wallet" with the aim of increasing the number of users and it will gradually increase individual loan size offered (currently the maximum loan size offered on "X Wallet" is HK$30,000) to broaden the customer base. To expand the business of "X Wallet" further, Zero Finance is also contemplating to cooperate with e-commerce platforms to provide consumption loans should suitable opportunities arise.

Maintaining balanced secured and unsecured loan portfolio

The Target Group will adopt a balanced approach to maintain parallel development of its secured and unsecured loan business. The diversity in products would enable the Target Group to further develop its loan portfolio in different market conditions.

Broaden source of funding

During the Track Record Period, the money lending business of the Target Group had been funded by advances from Mr. Tommy Lee, its director and controlling shareholder, as well as funds generated from its money lending business. The Target Group will consider to broaden its source of funds, such as the obtaining of bank loans, which will enable it to further expand its loan portfolio, and thus increase revenue of the Target Group. It is expected that the obtaining of external financing would be easier after the Target Group has become a subsidiary of a listed company.

PRINCIPAL BUSINESS ACTIVITIES

Zero Finance, being the only operating company within the Target Group, operates under a Money Lender's License and offers secured loans and unsecured loans to corporate and individual customers in Hong Kong.

Secured loans provided by Zero Finance comprise loans to individual and corporate customers secured by properties and listed securities. Mortgage loans provided by Zero Finance are secured against real estate assets located in Hong Kong, including residential, commercial and industrial real estate assets such as apartments, tenement houses, village houses, commercial and industrial units. The mortgage loans provided by Zero Finance include first mortgage loans, which are secured by first mortgage on the customer's properties; and subordinated mortgage loans, which are secured by mortgages subordinated to first or higher-ranking mortgages charged on the pledged properties. In respect of other secured loan, Zero Finance has provided a loan secured by a pledge over shares of a listed company in Hong Kong.

Unsecured loans provided by Zero Finance comprise (i) offline personal loans to private individuals who hold or own real estate assets under the HOS or the TPS in Hong Kong; and (ii) loans to other private individuals or corporations in Hong Kong, which are conducted through (a) traditional face-to-face execution; and (b) "X Wallet" since its launch in April 2018.

The outstanding loan balance of Zero Finance as at 31 December 2017, 2018 and 2019 and 31 March 2020 was approximately HK$253.5 million, HK$319.8 million, HK$345.6 million and HK$382.3 million, respectively. Outstanding loans refer to accounts with borrowers which had outstanding amounts as at the aforesaid dates before provision for impairment.

The following table sets out the breakdown of Zero Finance's outstanding loan portfolio in terms of loan product as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively:

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000 (% of the total)	*HK$'000 (% of the total)*	*HK$'000 (% of the total)*	*HK$'000 (% of the total)*
Secured loan	**226,789 (89.4%)**	**254,097 (79.4%)**	**257,738 (74.6%)**	**291,981 (76.3%)**
– First mortgage loan	79,484 (31.3%)	66,985 (20.9%)	94,354 (27.3%)	100,306 (26.2%)
– Subordinated mortgage loan	147,305 (58.1%)	142,112 (44.4%)	133,384 (38.6%)	161,675 (42.3%)
– Share mortgage loan	0	45,000 (14.1%)	30,000 (8.7%)	30,000 (7.8%)
Unsecured loan	**26,759 (10.6%)**	**65,720 (20.6%)**	**87,844 (25.4%)**	**90,338 (23.7%)**
– Personal loan provided via "X Wallet"	N/A	12,314 (3.9%)	45,477 (13.2%)	52,224 (13.7%)
– Other personal loan	26,759 (10.6%)	53,406 (16.7%)	42,367 (12.2%)	38,114 (10.0%)
Total outstanding loan balance	**253,548**	**319,817**	**345,582**	**382,319**

The following table sets out the breakdown of Zero Finance's current customer portfolio for each type of loan product as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively:

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
Total number of current customer accounts (*Notes 1 & 2*)	**208**	**2,039**	**3,556**	**3,794**
Secured loan	**81**	**71**	**80**	**98**
– First mortgage loan	19	20	22	26
– Subordinated mortgage loan	62	50	57	71
– Share mortgage loan	0	1	1	1
Unsecured loan	**127**	**1,968**	**3,476**	**3,696**
– Personal loan provided via "X Wallet"	N/A	1,110	2,703	3,101
– Other personal loan	127	858	773	595
Total number of current customers (*Note 2*)	**201**	**2,034**	**3,551**	**3,791**
Secured loan	**77**	**70**	**78**	**97**
– First mortgage loan	19	20	22	26
– Subordinated mortgage loan	58	49	55	70
– Share mortgage loan	0	1	1	1
Unsecured loan (*Note 4*)	**124**	**1,964**	**3,473**	**3,694**
– Personal loan provided via "X Wallet" (*Note 3*)	N/A	1,110	2,703	3,101
– Other personal loan	124	854	770	593

Notes:

(1) The current customer accounts exclude those of which the balances have been written off as bad debts.

(2) Some current customers maintained two accounts of the same loan product type at the same time so the total number of current customers may be smaller than the total number of current customer accounts.

(3) As the loan facilities granted through "X Wallet" are all revolving loan facilities which could be repaid and re-borrowed within the approved credit limit at any time during the fixed loan period, the number of current customer accounts with respect to "X Wallet" include those accounts with zero outstanding balance as at the relevant dates but under which a loan facility was available to be utilised by the customer, which amounted to 37, 179 and 223 as at 31 December 2018, 2019 and 31 March 2020, respectively.

(4) The total numbers of current customers of the unsecured loan business of Zero Finance as shown in the table above are smaller than the sum of (a) the numbers of current customers for unsecured loans provided via "X Wallet"; and (b) the number of current customers for other unsecured loans as at the relevant dates. The difference represents the number of overlapping customers who borrowed unsecured loans via both "X Wallet" and otherwise.

The following table provides a summary of the loan products and the range of key terms offered to customers by Zero Finance during the Track Record Period:

	Size of loan (HK$'000)		Loan tenure (Note 1) (months)		Interest rate per annum (%)		Loan-to-value ratio (at the time of offer) (%)	
Loan product	**Min.**	**Max.**	**Min.**	**Max.**	**Min.**	**Max.**	**Min.**	**Max.**
First mortgage loan	170	68,000	12	300	9	30	8.59	92.65 (*Note 2*)
Subordinated mortgage loan	80	41,000	12	300	12.5	48	11.17 (*Note 3*)	98.83 (*Note 3*)
Share mortgage loan	100,000	100,000	18	24	24	26	43.52	43.52
Personal loan provided via "X Wallet"	5	30	18	24	8	58	N/A	N/A
Other personal loan	5	5,000	4	240	10	54	N/A	N/A

Notes:

(1) The loan tenure excludes the extended part of the tenure (if applicable).

(2) Such loan-to-value ratio of 92.65% is higher due to the special circumstances of the relevant mortgage loan. An unsecured loan was initially lent to the borrower who was a HOS owner and subsequently, during regular review, it was discovered that the borrower pledged the property to obtain mortgage loan(s) from other lenders. Therefore, to minimise risk, further loan was advanced by Zero Finance to the borrower for his repayment of such mortgage loan(s) from other lenders and the property was pledged in favour of Zero Finance as first mortgagee to secure all loans (including the loan which was initially unsecured) lent by it to such borrower.

(3) The loan-to-value ratio for subordinated mortgage loan is calculated by dividing the aggregate amount of loans (i.e. comprising the subordinated mortgage loan borrowed by the borrower from Zero Finance and the senior mortgage loans borrowed by the same borrower from other lenders) by the valuation of the mortgaged property.

The following tables provide an overview of Zero Finance's loan portfolio in terms of range of loan sizes as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively:

As at 31 December 2017

	Number of loans *(Note)*								
	Secured				Unsecured				
Loan size *(HK$'000)*	**First mortgage**	**Subordinated mortgage**	**Share mortgage**	**Sub-total**	**"X Wallet"**	**Others**	**Sub-total**	**Total**	**Aggregate balance** *(HK$'000)*
Under 50	0	0	0	**0**	N/A	74	**74**	**74**	1,073
50 – Under 100	0	1	0	**1**	N/A	12	**12**	**13**	862
100 – Under 500	0	11	0	**11**	N/A	33	**33**	**44**	13,434
500 – Under 1,000	2	10	0	**12**	N/A	4	**4**	**16**	14,391
1000 – Under 5,000	11	33	0	**44**	N/A	3	**3**	**47**	100,624
5,000 – Under 10,000	3	6	0	**9**	N/A	1	**1**	**10**	66,223
10,000 or above	3	1	0	**4**	N/A	0	**0**	**4**	56,941
Total									**253,548**

As at 31 December 2018

	Number of loans *(Note)*								
	Secured				Unsecured				
Loan size *(HK$'000)*	**First mortgage**	**Subordinated mortgage**	**Share mortgage**	**Sub-total**	**"X Wallet"**	**Others**	**Sub-total**	**Total**	**Aggregate balance** *(HK$'000)*
Under 50	0	0	0	**0**	1,110	633	**1,743**	**1,743**	22,722
50 – Under 100	0	1	0	**1**	0	115	**115**	**116**	6,892
100 – Under 500	1	6	0	**7**	0	96	**96**	**103**	21,387
500 – Under 1,000	2	7	0	**9**	0	10	**10**	**19**	16,642
1000 – Under 5,000	12	28	0	**40**	0	4	**4**	**44**	107,074
5,000 – Under 10,000	4	6	0	**10**	0	0	**0**	**10**	62,746
10,000 or above	1	2	1	**4**	0	0	**0**	**4**	82,354
Total									**319,817**

As at 31 December 2019

Loan size (HK$'000)	Number of loans (Note)								Aggregate balance (HK$'000)
	Secured				Unsecured				
	First mortgage	Subordinated mortgage	Share mortgage	Sub-total	"X Wallet"	Others	Sub-total	Total	
Under 50	0	0	0	**0**	2,703	635	**3,338**	**3,338**	57,114
50 – Under 100	0	1	0	**1**	0	73	**73**	**74**	4,705
100 – Under 500	0	5	0	**5**	0	60	**60**	**65**	15,112
500 – Under 1,000	1	7	0	**8**	0	4	**4**	**12**	12,637
1000 – Under 5,000	15	39	0	**54**	0	1	**1**	**55**	127,768
5,000 – Under 10,000	5	5	0	**10**	0	0	**0**	**10**	64,900
10,000 or above	1	0	1	**2**	0	0	**0**	**2**	63,346
Total									**345,582**

As at 31 March 2020

Loan size (HK$'000)	Number of loans (Note)								Aggregate balance (HK$'000)
	Secured				Unsecured				
	First mortgage	Subordinated mortgage	Share mortgage	Sub-total	"X Wallet"	Others	Sub-total	Total	
Under 50	0	0	0	**0**	3,101	479	**3,580**	**3,580**	62,130
50 – Under 100	0	1	0	**1**	0	62	**62**	**63**	4,255
100 – Under 500	0	7	0	**7**	0	50	**50**	**57**	14,642
500 – Under 1,000	2	9	0	**11**	0	3	**3**	**14**	14,380
1000 – Under 5,000	18	48	0	**66**	0	1	**1**	**67**	149,985
5,000 – Under 10,000	5	6	0	**11**	0	0	**0**	**11**	73,595
10,000 or above	1	0	1	**2**	0	0	**0**	**2**	63,332
Total									**382,319**

Note: The number of loans excludes those which have been written off as bad debts.

The following tables provide an overview of Zero Finance's loan portfolio (in terms of loan principal) as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively in terms of loan tenure:

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured loan	**214,090 (90.8%)**	**302,515 (82.5%)**	**316,165 (80.2%)**	**351,835 (81.7%)**
– 12 to 59 months	102,095 (43.3%)	171,740 (46.8%)	108,580 (27.5%)	121,280 (28.2%)
– 60 to 119 months	8,355 (3.6%)	9,475 (2.6%)	9,725 (2.5%)	10,125 (2.4%)
– 120 to 179 months	71,960 (30.5%)	64,970 (17.7%)	84,750 (21.5%)	100,500 (23.3%)
– 180 to 300 months	31,680 (13.4%)	56,330 (15.4%)	113,110 (28.7%)	119,930 (27.8%)
Unsecured loan	**21,802 (9.2%)**	**64,341 (17.5%)**	**78,075 (19.8%)**	**79,017 (18.3%)**
– Below 6 months	0	0	0	0
– 6 to 11 months	229 (0.1%)	1,343 (0.4%)	2,128 (0.5%)	1,353 (0.3%)
– 12 to 23 months	8,564 (3.6%)	13,570 (3.7%)	17,389 (4.4%)	17,417 (4.1%)
– 24 to 35 months	1,360 (0.6%)	19,354 (5.3%)	46,661 (11.8%)	49,920 (11.6%)
– 36 to 59 months	3,420 (1.4%)	15,165 (4.1%)	5,050 (1.3%)	4,430 (1.0%)
– 60 to 119 months	4,149 (1.8%)	8,909 (2.4%)	4,127 (1.1%)	3,977 (0.9%)
– 120 to 240 months	4,080 (1.7%)	6,000 (1.6%)	2,720 (0.7%)	1,920 (0.4%)
Total amount of principal	**235,892**	**366,856**	**394,240**	**430,852**

Secured loans

Mortgage loans

Zero Finance provides mortgage loans to private individuals (mainly) and corporations which are secured against properties (either 100% owned or partially owned by the borrowers) in Hong Kong. Applications for and terms of the mortgage loans (such as the value of the security, the loan size and the interest rate) are determined by the Credit Committee in accordance with the internal credit guidelines, taking into account factors such as the credit report obtained from TransUnion, credit history and profile of the applicant, the type, profile and valuation of the proposed property to be mortgaged, the loan-to-value ratio and the prevailing market conditions. Detailed approval procedures of mortgage loans are set out in the section headed "Loan Approval Procedures" in this Appendix.

The following table sets out the breakdown of its outstanding mortgage loans portfolio by loan type (and each by type of security) as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively:

	As at 31 December						As at 31 March	
	2017		2018		2019		2020	
Loan product	**No. of current customer accounts** *(Note)*	**Outstanding Balance** *(HK$'000)*	**No. of current customer accounts** *(Note)*	**Outstanding Balance** *(HK$'000)*	**No. of current customer accounts** *(Note)*	**Outstanding Balance** *(HK$'000)*	**No. of current customer accounts** *(Note)*	**Outstanding Balance** *(HK$'000)*
First mortgage loan	**19**	**79,484**	**20**	**66,985**	**22**	**94,354**	**26**	**100,306**
– Residential	18	78,700	19	66,201	21	93,570	25	99,522
– Commercial	1	784	1	784	1	784	1	784
– Industrial	0	–	0	–	0	–	0	–
Subordinated mortgage loan	**62**	**147,305**	**50**	**142,112**	**57**	**133,384**	**71**	**161,675**
– Residential	60	144,205	48	138,328	56	130,584	70	158,890
– Commercial	1	500	1	1,188	1	1,400	1	1,385
– Industrial	1	2,600	1	2,596	0	1,400	0	1,400

Note: The current customer accounts exclude those of which the balance has been written off as bad debt.

Based on the table above, the total outstanding balance of mortgage loans amounted to approximately HK$226.8 million, HK$209.1 million, HK$227.7 million and HK$262.0 million as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively.

In general, mortgage documents in relation to the mortgage loans of Zero Finance are registered with the Land Registry of Hong Kong. In respect of subordinated mortgage loans, the borrower is generally required to acknowledge that he/she has been informed to obtain the consent of the first or prior mortgagee(s) in respect of the creation of the subordinated mortgage before entering into the subordinated mortgage. The directors of Zero Finance confirmed that in respect of the subordinated mortgage loans, it had not been challenged as to the validity of any subordinated mortgage arrangement from any of its customers' first or prior mortgagee(s) during the Track Record Period.

The following table sets out the total value of loan collaterals as compared with the total outstanding mortgage loans and interest receivables as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively:

		As at 31 December		As at 31 March
	2017	**2018**	**2019**	**2020**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
(A) Total outstanding mortgage loans and interest receivables	227,993	209,934	228,178	263,513
(B) Total value of loan collaterals *(Note)*	678,330	606,400	788,630	1,049,303
Approximate % of (A) to (B)	33.6%	34.6%	28.9%	25.1%

Note: The total value of loan collaterals represents the market value of the pledged properties as at the relevant period/year end irrespective of the loan amount of any prior mortgages secured against such pledged properties.

Share mortgage loan

During the Track Record Period, the directors of Zero Finance confirmed that Zero Finance came across various other opportunities in respect of the provision of loans secured by listed securities. However, to the best knowledge, information and belief of the directors of Zero Finance after having made reasonable enquiries, as the interest rates counter-proposed by the interested borrowers were not attractive given that the amounts of share mortgage loans requested were large and/or the fundamentals of the interested borrower and the relevant listed company were not strong in the opinion of the directors, the Credit Committee considered that the risks are high and therefore decided not to pursue such opportunities. As a result, during the Track Record Period, only one share mortgage loan was granted to King Shine. Nonetheless, the directors of Zero Finance confirmed that Zero Finance is open to pursuing further in the share mortgage business should suitable opportunities arise.

Pursuant to a loan agreement dated 26 April 2018, loan in the aggregate amount of HK$100 million were granted by Zero Finance to King Shine (the "**King Shine Loan**") which were secured by a charge over 488,920,138 shares held by King Shine in Petro-king (representing approximately 28.3% of the issued shares of Petro-king) for a term of 18 months (subsequently extended to 24 months on 25 October 2019). To the best knowledge, information and belief of the directors of Zero Finance after having made reasonable enquiries, the terms of the King Shine Loan, including the interest rate, were normal commercial terms determined after arm's length negotiation between the parties taking into account, among other things, (i) the then market price of the shares in Petro-king, and thus the then value of the collateral, at the time of the signing of the loan agreement; (ii) the fixed loan tenure; and (iii) the absence of any requirement for any minimum loan-to-value ratio and therefore, the lender (i.e. Zero Finance) being not entitled to request for early repayment of the loan or the provision of additional collateral should the loan-to-value ratio drop.

Initially, in April 2018, the King Shine Loan was consisted of two tranches: (1) HK$60 million (the "**Tranche 1 Loan**"); and (2) HK$40 million (the "**Tranche 2 Loan**"). In July 2018, the Tranche 2 Loan was fully-repaid and the Tranche 1 Loan was partially repaid, leaving an outstanding loan amount of HK$45 million. In March 2019, an additional of HK$10 million was re-borrowed by King Shine under the King Shine Loan, which was repaid in April 2019. In mid-December 2019, an amount of HK$15 million out of the Tranche 1 Loan was repaid. The outstanding balance under the King Shine Loan as at 31 March 2020 was HK$30 million. The directors of Zero Finance confirmed that King Shine had maintained a punctual repayment record during the Track Record Period and was not in breach of the loan agreement as far as the directors of Zero Finance are aware.

King Shine was the largest customer of the Target Group for the two years ended 31 December 2018 and 2019. The King Shine Loan contributed to approximately 21.6% and approximately 18.4% of the total interest income of the Target Group for the two years ended 31 December 2018 and 2019 respectively, and the outstanding loan amount of the King Shine Loan as at 31 December 2018 and 31 December 2019 represented approximately 14.1% and 8.7%, respectively, of the total outstanding loan amount of Zero Finance as at the relevant dates.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, King Shine and its ultimate beneficial owners are third parties independent of the Company and its connected persons. Mr. Tommy Lee is a non-executive director of Petro-king, whereas Lee & Leung (B.V.I.) (the direct controlling shareholder of the Company) and the Company respectively owned approximately 19.44% and approximately 0.09% shares in Petro-king as at the Latest Practicable Date. Notwithstanding the aforesaid, King Shine is not a connected person of the Company. Therefore, after Completion, the provision of the King Shine Loan by Zero Finance will not constitute a connected transaction of the Enlarged Group under Chapter 14A of the Listing Rules.

Unsecured Loans

During the Track Record Period, unsecured loans were granted to (i) private individuals who hold or own real estate assets under the HOS or the TPS; and (ii) other private individuals or corporations in Hong Kong. Unsecured loans are conducted through (i) face-to-face execution; and (ii) "X Wallet" since its launch in April 2018.

Since the launch of "X Wallet" in April 2018, the focus of the unsecured loan business of Zero Finance has shifted to "X Wallet". "X Wallet" is a smart phone APP developed by the Target Group which provides a fully-automated and around-the-clock platform for online application and provision of unsecured loan. The Target Group first designed and developed the concept of an online loan business platform and later entered into a development agreement with a digital consultancy company in 2017 to develop "X Wallet" on iOS and Android platforms and to provide annual maintenance of "X-Wallet". Such maintenance services were terminated on April 2019 and the maintenance of "X Wallet" had been handled internally by Zero Finance since then and up to the Latest Practicable Date. After the launch of "X Wallet" and as at the Latest Practicable Date, the IT department of the Target Group continued to operate, develop and update "X Wallet".

Based on the internal record of Zero Finance, in general, it only takes approximately five seconds for the loan applicant to receive the results of application and approximately 10 minutes for the transfer of funds to the customer. The terms offered by "X Wallet", including the loan amount, interest rate and tenure, are determined by the system without human intervention based on the information supplied by the applicant and the TransUnion credit report. "X Wallet" offers loans ranging from HK$5,000 to HK$30,000 with tenure of either 18 months or 24 months to its customers. The loan facilities granted through "X Wallet" are all revolving loan facilities which could be repaid and re-borrowed within the approved credit limit at any time during the loan period.

To make an application, the applicant is required to take a photo of (i) his/her HKID card; (ii) his/her Automated Teller Machine (ATM) card or bank statement; and (iii) his/her face (different sides or facial expressions according to the random instructions on the APP) for face recognition and smart liveness detection. All advances through "X Wallet" will only be transferred to a bank account bearing the customer's name.

The number of registered users of "X Wallet" as at 31 December 2018 and 2019 and 31 March 2020 was 16,745, 28,317 and 32,325 respectively. As at the Latest Practicable Date, there were more than 35,000 registered users of "X Wallet".

The following table sets out the breakdown of the unsecured loans portfolio of Zero Finance in terms of outstanding loan balance and number of current customer accounts as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively:

	As at 31 December			**As at 31 March**
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total unsecured loan balance	**26,759**	**65,720**	**87,844**	**90,338**
Personal loan provided via "X Wallet"	N/A	12,314	45,477	52,224
Other personal loan	26,759	53,406	42,367	38,114
Total current customer accounts of unsecured loan	**127**	**1,968**	**3,476**	**3,696**
Personal loan provided via "X Wallet"	N/A	1,110	2,703	3,101
Other personal loan	127	858	773	595

Unsecured loans represented approximately 61.1%, 96.5%, 97.8% and 97.4%, as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively, in terms of number of current customer accounts; and approximately 10.6%, 20.6%, 25.4% and 23.6% in terms of the total outstanding loan balance of Zero Finance as at the corresponding dates, respectively.

Repayment

In general, Zero Finance offers two repayment methods, namely (i) interest only, whereby the customers make monthly payment of interest on the loan and a one-off repayment of loan principal upon maturity; and (ii) amortisation (only for secured loan and offline unsecured personal loan), whereby the customers make monthly repayment of both interest and loan principal. For "X Wallet" loan, due to its revolving nature, the customer could repay the outstanding principal and interest and re-borrow within the approved credit limit at any time during the loan period.

REVENUE

The revenue of the Target Group's money lending business is generated primarily from the interest income on the loans.

During the Track Record Period, secured loans granted by Zero Finance ranged in size from approximately HK$0.08 million to HK$100 million for tenure ranging from 12 months to 300 months at interest rates ranging from 9% to 48% per annum, while unsecured loans granted by Zero Finance ranged in size from HK$5,000 to HK$5,000,000 for tenure ranging from four months to 240 months at interest rates ranging from 8% to 58% per annum.

Set out below is the breakdown of the revenue of Zero Finance during the Track Record Period in terms of loan products:

	Year ended 31 December			Three months ended 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000 *(% of the total)*	*HK$'000* *(% of the total)*	*HK$'000* *(% of the total)*	*HK$'000* *(% of the total)*
Secured loan	**43,340** **(83.6%)**	**42,322** **(75.4%)**	**33,833** **(57.7%)**	**9,964** **(59.0%)**
– First mortgage loan	14,610 (28.2%)	8,640 (15.4%)	9,501 (16.2%)	2,913 (17.2%)
– Subordinated mortgage loan	28,730 (55.4%)	21,586 (38.4%)	13,565 (23.1%)	5,251 (31.1%)
– Share mortgage loan	0 (0%)	12,096 (21.6%)	10,767 (18.4%)	1,800 (10.7%)

	Year ended 31 December			Three months ended 31 March
	2017	2018	2019	2020
	HK$'000 (% of the total)	*HK$'000 (% of the total)*	*HK$'000 (% of the total)*	*HK$'000 (% of the total)*
Unsecured loan	**8,522 (16.4%)**	**13,780 (24.6%)**	**24,830 (42.3%)**	**6,927 (41.0%)**
– Personal loan provided via "X Wallet"	N/A	2,471 (4.4%)	13,685 (23.3%)	5,216 (30.9%)
– Other personal loan	8,522 (16.4%)	11,309 (20.2%)	11,145 (19.0%)	1,711 (10.1%)
Total revenue	**51,862**	**56,102**	**58,663**	**16,891**

SOURCE OF FUNDING

During the Track Record Period, the money lending business of the Target Group had been funded by advances from Mr. Tommy Lee, its director and controlling shareholder, as well as funds generated from its money lending business. The directors of Zero Finance confirmed that no external financing has been raised by the Target Group for the operation of its money lending business. As at 31 December 2017, 2018 and 2019 and 31 March 2020, advances from its director amounted to approximately HK$270.5 million, HK$325.8 million, HK$577.1 million and HK$424.3 million, respectively. After the Track Record Period and prior to the entering into of the Agreement, all the amounts owing by the Target Group to Mr. Tommy Lee had been assigned by Mr. Tommy Lee to the Vendor and were subsequently capitalised into new shares of the Target Company.

CUSTOMERS AND SUPPLIERS

The secured loans business of Zero Finance primarily targets customers with mortgageable assets in Hong Kong. The customers of Zero Finance are generally categorised into two main groups, namely, (i) private individuals who borrow money in their own personal capacity; and (ii) corporations who borrow money under a corporate legal entity. The directors of Zero Finance confirmed that the offline unsecured loans business of Zero Finance targets HOS or TPS owners and other individuals while "X Wallet" targets individuals looking for loans ranging from HK$5,000 to HK$30,000. To the best knowledge, information and belief of the directors of Zero Finance, all of its private individuals and corporate customers were Independent Third Parties during the Track Record Period and up to the Latest Practicable Date. Zero Finance did not grant any loans to core connected persons or senior management of the Target Group during the Track Record Period and up to the Latest Practicable Date.

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the entire loan portfolio of Zero Finance comprised 208, 2,039, 3,556 and 3,794 current customer accounts, respectively. Among the current customer accounts, approximately 207, 2,037, 3,555 and 3,793 loan accounts were held by individual customers, and one, two, one and one loan accounts were held by corporate customers as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively.

The Target Group does not have major suppliers due to the nature of its money lending business.

MAJOR CUSTOMERS

The single largest customer and the top five customers of Zero Finance in terms of interest income generated during the Track Record Period are set out in the table below:

	Year ended 31 December			Three months ended 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(% of total)	*(% of total)*	*(% of total)*	*(% of total)*
Largest customer	2,173	12,097	10,767	1,800
	(4.2%)	(21.6%)	(18.4%)	(10.7%)
Top five customers	7,632	16,107	13,879	3,120
	(14.7%)	(28.7%)	(23.7%)	(18.5%)

As at 31 December 2017, the single largest customer of Zero Finance was a private individual who borrowed mortgage loan. The interest income generated from such customer for the year ended 31 December 2017 amounted to approximately HK$2.2 million (representing approximately 4.2% of the total interest income of Zero Finance for the year ended 31 December 2017) and there was no outstanding loan balance owing by such customer as at 31 December 2017.

The largest customer of Zero Finance as at 31 December 2018, 31 December 2019 and 31 March 2020 was King Shine. The total interest income generated from the King Shine Loan for each of the years ended 31 December 2018 and 2019 and the three months ended 31 March 2020 amounted to approximately HK$12.1 million, HK$10.8 million and HK$1.8 million respectively, representing approximately 21.6%, 18.4% and 10.7% of the total interest income of Zero Finance for the two years ended 31 December 2018 and 2019 and the three months ended 31 March 2020 respectively. The outstanding loan balance of the King Shine Loan as at

31 December 2018 and 2019 and 31 March 2020 was HK$45 million, HK$30 million and HK$30 million, respectively, representing approximately 14.1%, 8.7% and 7.8% of the total outstanding loan balance of Zero Finance as at the relevant dates.

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the aggregate interest income attributable to such top five customers for each of the years ended 31 December 2017 and 2018 and the three months ended 31 March 2020 was approximately HK$7.6 million, HK$16.1 million, HK$13.9 million and HK$3.1 million, respectively, representing approximately 14.7%, 28.7%, 23.7% and 18.5% of the total interest income of Zero Finance for the corresponding period. The aggregate outstanding loan balance attributable to the top five customers of Zero Finance was approximately HK$19 million, HK$53.5 million, HK$64.5 million and HK$62 million, respectively, representing approximately 7.5%, 16.7%, 18.7% and 16.2% of the total outstanding loan balance of Zero Finance as at the relevant dates.

A breakdown of the top five customers of the loan portfolio of Zero Finance as at 31 December 2017, 2018 and 2019 and 31 March 2020 in terms of interest income are set out as below:

As at 31 December 2017

No.	**Customer**	**Capacity**	**Interest income for the year** *(HK$)*	**Outstanding loan balance** *(HK$)*	**Principal amount at the time of grant** *(HK$)*	**Interest rate**	**Tenure at the time of grant** *(months)*
1	A	Private individual	2,173,000	0	41,000,000	20.23%	12
2	B	Private individual	1,889,834	0	68,000,000	11.5%	12
3	C	Private individual	1,575,000	14,000,000	14,000,000	15%	24
4	D	Private individual	1,002,442	0	6,500,000	16.35%	120
5	E	Private individual	991,667	5,000,000	5,000,000	30%	12
Total			**7,631,943**	**19,000,000**			
(%)			**(14.7%)**	**(7.5%)**			

As at 31 December 2018

No.	Customer	Capacity	Interest income for the year *(HK$)*	Outstanding loan balance *(HK$)*	Principal amount at the time of grant *(HK$)*	Interest rate	Tenure at the time of grant *(months)*
1	King Shine	Corporation	12,096,667	45,000,000	100,000,000	26%	18
2	F	Corporation	1,074,192	0	20,800,000	12%	12
3	G	Private individual	1,051,875	8,485,059	8,500,000	13.5%	12
4	D	Private individual	961,283	0	9,000,000	15%	120
5	H	Private individual	922,944	0	16,000,000	11.5%	12
Total			**16,106,961**	**53,485,059**			
(%)			**(28.7%)**	**(16.7%)**			

As at 31 December 2019

No.	Customer	Capacity	Interest income for the year *(HK$)*	Outstanding loan balance *(HK$)*	Principal amount at the time of grant *(HK$)*	Interest rate	Tenure at the time of grant *(months)*
1	King Shine	Corporation	10,766,900	30,000,000	100,000,000	24%	24
2	I	Private individual	889,593	0	10,000,000	14%	180
3	J	Private individual	765,144	22,891,217	23,000,000	10%	240
4	K	Private individual	735,809	6,078,455	6,300,000	12%	240
5	L	Private individual	721,847	5,508,875	5,600,000	12%	240
Total			**13,879,293**	**64,478,547**			
(%)			**(23.7%)**	**(18.7%)**			

As at 31 March 2020

No.	Customer	Capacity	Interest income for the period *(HK$)*	Outstanding loan balance *(HK$)*	Principal amount at the time of grant *(HK$)*	Interest rate	Tenure at the time of grant *(months)*
1	King Shine	Corporation	1,800,000	30,000,000	100,000,000	24%	24
2	M	Private individual	467,655	8,859,337	9,000,000	21%	120
3	N	Private individual	319,126	7,955,805	8,000,000	16%	180
4	O	Private individual	277,731	7,381,274	7,500,000	15%	180
5	P	Private individual	255,078	7,834,466	7,900,000	13%	240
Total			**3,119,590**	**62,030,882**			
(%)			**(18.5%)**	**(16.2%)**			

To the best knowledge, information and belief of the directors of Zero Finance, the top five customers of Zero Finance during the Track Record Period were all Independent Third Parties. Since the customers, including the top five customers, obtained loans from Zero Finance on the basis of their own financial needs and preferences, and most of its top five customers were not overlapping customers throughout the Track Record Period, there was no undue reliance on any major or single customer.

INTEREST RATES

During the Track Record Period, interest rates for secured loans granted by Zero Finance ranged from 9% to 48% per annum and interest rates for unsecured loans granted by Zero Finance ranged from 8% to 58% per annum. In general, among secured loans, the interest rates for subordinated mortgage loans tend to be higher than those for first mortgage loans.

Interest rates for both secured and unsecured loans granted through face-to-face execution are determined by the Credit Committee on a case-by-case basis and in accordance with the credit policy of Zero Finance taking into account various factors, including (amongst others) the following:

1. the applicant's credit profile;

2. the TransUnion credit report;

3. the valuation of the property proposed to be mortgaged, whether such property is subject to existing mortgage, the outstanding balance of the prior mortgage (if applicable) or the property owned under the HOS or TPS (if applicable); and

4. the loan-to-value ratio (if applicable).

For unsecured personal loans granted via "X Wallet", the applicable interest rates range from 8% to 58% and are decided without human intervention primarily based on the rating of the applicant in the TransUnion credit report and the credit assessment of the applicant according to a set of rules specifically designed by Zero Finance. Since August 2019, a computer program called credit scoring model has also been adopted by Zero Finance, which is a set of scoring methods to assess customer credit and risk. A risk score will be generated in respect of each applicant based on the historical data of customers collected since the launch of "X Wallet" and information supplied by the applicants and the TransUnion credit report in respect of the applicants. Currently, approximately 20% of the loan applications of "X Wallet" will be screened by the credit scoring method before going through the usual risk assessment procedures.

The following table summarises the range of interest rates per annum charged by Zero Finance in respect of its loan products as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively:

Loan products	As at 31 December 2017	2018	2019	As at 31 March 2020
First mortgage loan	10% – 28%	10% – 28%	10% – 26%	10% – 26%
Subordinated mortgage loan	13% – 48%	12.5% – 36%	14% – 36%	14% – 36%
Share mortgage loan	N/A	26%	24%	24%
Personal loan provided via "X Wallet"	N/A	8% – 58%	8% – 58%	8% – 58%
Other personal loan	16% – 54%	19% – 54%	20% – 54%	20% – 54%

Implications of interest rates under Section 25 of the Money Lenders Ordinance

During the Track Record Period, Zero Finance has granted unsecured personal loans with interest rate exceeding 48% per annum (but not exceeding 60% per annum) in cases where Zero Finance bears high credit risks (e.g. where Zero Finance considers that the borrower for an unsecured loan has poor credit rating).

Under section 25 of the Money Lenders Ordinance, where proceedings are taken in any court by any person for the recovery of any money lent or the enforcement of any agreement or security in respect of any loan and there is evidence which satisfies the court that the transaction is extortionate, the court may reopen the transaction so as to do justice between the parties having regard to all the circumstances, and, for that purpose, make such orders and give such directions in respect of the terms of the transaction or the rights of the parties thereunder as the court may think fit.

An effective rate of interest exceeding 48% per annum is presumed to be extortionate. However, the presumption can be rebutted where the court is satisfied that such interest rate is not unreasonable or unfair having regard to all the circumstances relating to the agreement.

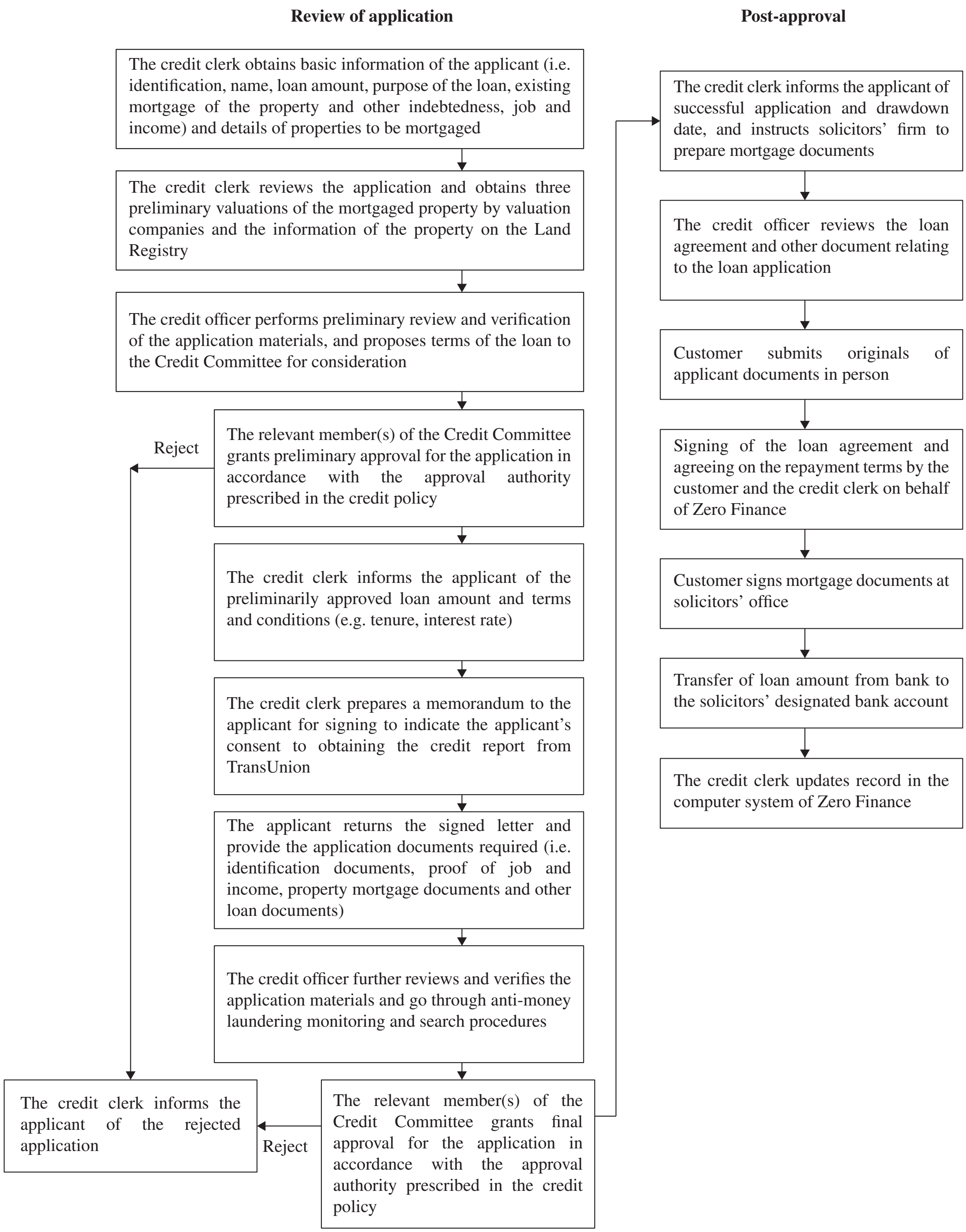
Based on the legal opinion obtained by the Company, having considered (amongst other factors) that the 48%-plus interest rates are fixed by reference to the risks undertaken by Zero Finance in respect of the loans in question and such interest rates generally apply only in cases where Zero Finance bears serious credit risk (e.g. where the borrower for an unsecured loan has poor credit rating or the borrower for a secured loan is only able to grant a third mortgage in respect of part of the interest in a non-residential property), and that the loan transactions were conducted on arm's length basis, the Legal Advisers took the view that, subject to case-specific factors, it is unlikely that the court will deem the existing loan agreements entered into by Zero Finance as extortionate.

During the Track Record Period and as at the Latest Practicable Date, the directors of the Target Group confirmed that the Target Group was not and has not involved in any proceedings for the recovery of any loan in which section 25 of Money Lenders Ordinance has been raised.

LOAN APPROVAL PROCEDURES

Secured loan (Property mortgage loan)

The flow chart below gives an overview of the main steps involved in the secured loan (property mortgage loan) approval process:



(a) Receipt of applications and pre-approval

Loan applications are normally received from four main sources:

– Application at office in person: The applicants visit the office of Zero Finance during office hours and the front-line credit clerks will assist the applicants with their application documents.

– Online applications: The applicants submit applications on the website of Zero Finance at www.zerofinance.hk, which will be forwarded to the email of the customer service team and will be followed up by the credit clerks of the credit department.

– Telephone enquiries: The applicants call the office of Zero Finance during office hours and the credit clerks will go through the application procedures with the applicants on record.

– Referrals from referral agents: The applicants will be transferred from the channel development department to the credit department for handling.

The credit clerk will obtain basic information such as the applicant's name, contact details, background information (i.e. age, occupation, income, etc.), desired loan amount and purpose, and the particulars of the property proposed to be mortgaged (including address and existing encumbrances, if any).

The credit clerk will also obtain three preliminary estimates of valuations of the property from independent professional property valuers or banks either verbally or through internet or email. The median of these estimates will be ascertained and passed to the Credit Committee for pre-approval.

The credit officer will perform a preliminary review and verification of the application materials, including to verify the telephone number provided by the applicant, to run a check against the internal customers system, to conduct land search with the Land Registry to verify the ownership of the property and ascertain whether the property is subject to any encumbrances. In respect of subordinated mortgage loan, additional documents in relation to the prior mortgage(s) will be required, such as bank statement showing repayment records of such prior mortgage(s).

The Credit Committee will then review the application and determine the amount of loan and the interest rate based on the applicant's information and the valuation of the property in accordance with the internal credit policy and guidelines. The approval authority of and authority to grant exemptions by each member of the Credit Committee is set out in the tables below:

Approval authority

Members of the Credit Committee	First mortgage (maximum loan amount)	Subordinated mortgage (maximum loan amount)
General Manager	HK$ 3,000,000	HK$3,000,000
President	HK$30,000,000	HK$5,000,000
Chairman	N/A	No upper limit

Authority to grant exemptions

Members of the Credit Committee	Proof of job/residence/ income/income to repayment ratio	Age/total amount of indebtedness	Repayment period	Maximum mortgage percentage/ loan amount
General Manager/President	√	√	√	X
Chairman	√	√	√	√

Once the Credit Committee has made the decision to grant preliminary approval or to reject the application, the credit clerk (or the channel development team, if the case is referred by agents) will notify the applicant of the results and, if applicable, the terms.

(b) Credit review

Once the offer has been accepted by the applicant, the credit review process will commence.

The applicant is required to provide the following documents:

(i) identification document;

(ii) proof of employment (e.g. employment contract or payroll slip);

(iii) proof of income (e.g. bank statement);

(iv) address proof (e.g. letter issued by government institutions); and

(v) proof of property ownership (e.g. bank statement in respect of mortgage balance or repayment).

The identification document is for the purpose of conducting the requisite know-your-client due diligence on the prospective borrower. In the case of a corporation, copies of business registration certificate and certificate of incorporation will be obtained instead and company and directors searches will be conducted.

The credit clerk will then forward certain documents (including the TransUnion consent) to the applicant for execution. The TransUnion consent allows Zero Finance to conduct a formal customer credit check on the applicant via the TransUnion credit information system.

Depending on the circumstances and the type of loan product, the credit officer may also make a site visit to the relevant property to carry out a basic physical inspection of the condition of the property.

Once the applicant's personal information and the valuation of the property has been assessed, the Credit Committee will review the information again.

Once approved by the Credit Committee, the credit officer will instruct solicitors to prepare the mortgage loan agreements. As at the Latest Practicable Date, Zero Finance worked with a panel of 3 solicitors' firms, all of which are Independent Third Parties. There are no long-term contractual arrangements with any such solicitors' firm. At the same time, the credit officer will instruct the independent professional valuer which provided the pre-approval valuation to prepare a formal written valuation report (for first mortgages) and formal written reply on valuation (for subordinated mortgages).

Once all of the abovementioned documents are ready, the credit clerk will inform the applicant of the formal approval of his/her application and arrange signing of the agreement and relevant documents at the office of Zero Finance, and signing of the mortgage documents at the solicitors' office.

(c) Post-approval

When the applicants visit the office of Zero Finance for signing of the loan agreement, they will first be required to provide the originals of certain documents for verification by the credit officers, including, Hong Kong identity cards, valid proof of address, certificates of incorporation, business registration certificate (in respect of corporate customers) and title documents (in respect of applications for first mortgage loans) and true copies of all other supporting documents.

The applicants will then sign the loan agreements and loan disbursement forms to indicate their preferred repayment method. The applicants will also receive a repayment schedule which sets out their monthly repayment obligations. The applicants will then proceed to visit the solicitors' office to sign the mortgage documents on the same date. After execution of the documents, the mortgage documents will be registered with the Land Registry.

Once all the legal documents are signed, the credit department will deposit a cheque by way of bank transfer for the loan amount in the solicitor's designated bank account. The solicitors will subsequently release the loans to the borrowers by cheques.

The credit clerks will input the relevant details of the loan in the computer system of Zero Finance for record on the same date.

(d) Post-loan drawdown

The collection department maintains a record of customers' loans and the repayment dates. It monitors repayment and issues reminders and alerts for overdue instalments, where necessary and when the term is near its expiry.

For loans secured by property mortgage, the credit clerks will also obtain updated valuation from independent valuer every six months to keep track of the value of the relevant property.

Repayment of mortgage loans instalments are mostly through autopay from the customer's designated bank account every month. Directors of Zero Finance confirmed that repayment in cash from its customers is not accepted.

For details in respect of post-drawdown management, please refer to the section headed "Loan collection" below in this Appendix.

Key terms of typical loan agreements for mortgage loans

(a) Legal charge

In consideration of Zero Finance agreeing to advance the loan to the borrower and as security for the repayment of such loan, the borrower agrees to charge the property in favour of Zero Finance by way of a first or subordinated legal charge.

(b) Repayment

The borrower will repay the principal together with the interest thereon by successive monthly instalments in accordance with the repayment schedule set out in the agreement. Interest shall accrue from day to day on the outstanding principal amount of the loan at the rate specified in the agreement and shall be due and payable on each instalment repayment date.

(c) Early repayment

The borrower may at any time upon reasonable prior written notice prepay the loan in full.

(d) Effective interest rate

If the aggregate of all interest amount payable under the agreement is such that the true annual percentage rate of interest in respect of the loan (the "**effective rate**") calculated in accordance with any applicable law, will exceed the maximum annual percentage rate of interest at which a person can lend or offer to lend money without committing an offence under the applicable law (the "**prescribed rate**"), Zero Finance shall promptly refund such interest amount to the borrower so as to procure that the effective rate will not exceed the prescribed rate.

(e) Late repayment

If default is made in the payment upon the due date of any sum payable to Zero Finance under the agreement, whether in respect of loan principal or interest, Zero Finance shall be entitled to charge simple interest on that sum from the date of the default until the sum is paid at the interest rate set out in the agreement; and any interest so charged shall not be reckoned for the purpose of the Money Lenders Ordinance as part of the interest charged in respect of the Loan. Upon the happening of such event, Zero Finance will be entitled to declare termination of the agreement (without being obliged to give prior written notice) and call for immediate repayment of the loan, interest and other sums covenanted under the agreement.

(f) Events of default

The borrower shall repay the entire balance of the loan plus interest thereon as provided in the agreement as well as before Judgment upon the occurrence of any one or more of the following events:

(i) the borrower fails to pay any money or interest or other expenses payable by it/him/her/them under the agreement when it falls due;

(ii) the borrower commences any act of bankruptcy proceedings or the assets or any part thereof of the borrower is taken over by a receiver or the borrower convenes a meeting for the purpose of making any arrangement or composition for the benefits of its/his/her/their creditors;

(iii) death of the borrower or surety or guarantor;

(iv) if any of the representation, warranty, undertaking or statement made by the borrower in respect of the agreement, or any security document is not complied with or is found to have been incorrect in any respect;

(v) any other situation or happening which in the opinion of Zero Finance may affect the ability of the borrower or surety or guarantor to perform his obligations hereunder;

(vi) any default, breach, non-compliance or non-observance of any of the provisions of the agreement and/or the relative security document(s) by the borrower or surety or guarantor;

(vii) legal proceedings are or are to be commenced against the borrower or the surety or guarantor for recovery of any monies under any agreement or otherwise or under any bankruptcy legislation or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of the borrower or surety or guarantor or of any or all of his revenues and assets;

(viii) legal proceedings are or are to be commenced which may directly or indirectly affect the beneficial interest or title of the property held by the borrower; or

(ix) any party to the security documents repudiates any security document or does or cause to be done any act or thing evidencing an intention to repudiate any security document,

any outstanding balance of all monies payable under the agreement shall become immediately due and payable by the borrower, and Zero Finance is entitled to (whether demanded or not) recover from the borrower all costs and expenses (including legal costs and debt collection fees on a full indemnity basis) incurred therefrom.

(g) Termination

Zero Finance reserves the right at its sole and absolute discretion and without cause to cancel or terminate the agreement at any time. Upon such cancellation or termination, the loan amount together with all outstanding accrued interest thereon and all other sums payable by the borrower, if any, shall be due and repaid by the borrower forthwith.

(h) Indemnity

The borrower shall indemnify and keep indemnified Zero Finance in full against all reasonable costs and expenses (including legal costs and debt collection fees on a full indemnity basis) incurred or to be incurred by it in connection with the enforcement of, or the preservation of any rights under, the agreement including, without limitation, all reasonable legal and collection costs and expenses.

(i) Third party

The borrower declares and confirms that prior to entering into the loan agreement, Zero Finance has made enquiry with the borrower as to whether he/she/they has/have entered into or signed any agreement with any third party for or in relation to the procuring, negotiation, obtaining or application of the loan, guaranteeing or securing the repayment of the loan (other than an agreement with solicitors instructed by the borrower for the provision of legal services solely).

Secured loan (Share mortgage loan)

The applicant must be the registered owner of the shares proposed to be mortgaged. If the applicant is a company, the director of the applicant, who must be an individual and hold not less than 90% shareholding in the applicant, is required to be the co-borrower.

The loan approval procedures for share mortgage loan are similar to those for property mortgage loan, except that the procedures and documentation in respect of the valuation and mortgage of properties are not applicable. Instead, valuation of the listed shares will be calculated by using the volume weighted average closing price method taking into account the relevant share prices during a prescribed period. The applicant shall also provide, inter alia, evidence of his/her/its shareholding, such as security account statement and register of members of the applicant if it is a company. When performing preliminary review and verification of the application materials, background search will be conducted to verify the shareholding of the applicant.

The approval authority of and authority to grant exemptions by the Credit Committee in respect of share mortgage loan is set out in the tables below:

Approval authority

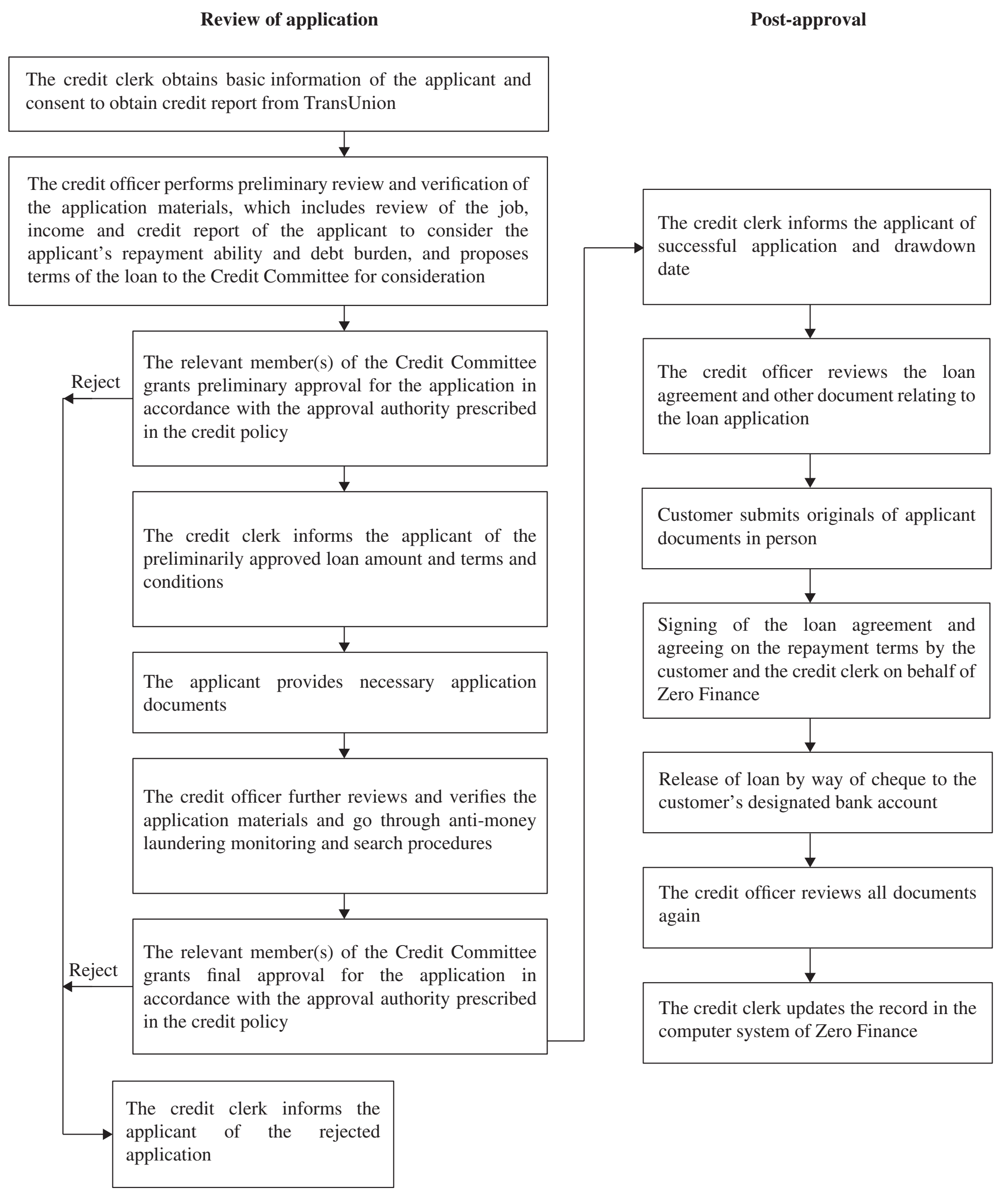
Members of the Credit Committee	Share mortgage (loan amount)
President	HK$10,000,000
Chairman	HK$50,000,000

Authority to grant exemptions

Members of the Credit Committee	Repayment period	Loan-to-value ratio
President	√	X
Chairman	√	√

Unsecured loan (provided otherwise than via "X Wallet")

The flow chart below gives an overview of the main steps involved in the unsecured loan (provided otherwise than via "X Wallet") approval process:



The loan approval procedures for unsecured loans otherwise than provided via "X Wallet" are basically the same as those for mortgage loans, except that the procedures and documentation in respect of the valuation and mortgage of properties are not applicable, and documents related to the property of the HOS or TPS owners such as bank statements showing payment record are required for due diligence purpose.

The approval authority of and authority to grant exemptions by each member of the Credit Committee is set out in the tables below:

Approval authority

Members of the Credit Committee	Maximum loan amount
General Manager	HK$300,000
President	HK$500,000
Chairman	No upper limit

Authority to grant exemptions

Members of the Credit Committee	Proof of job/residence/ income/income to repayment ratio	Age/total amount of indebtedness	Repayment period	Maximum loan amount *(Note)*
General Manager/President	√	√	√	X
Chairman	√	√	√	√

Note: The maximum loan amount for unsecured loan (otherwise than via "X Wallet") is HK$1,500,000. However, the Chairman has the authority to make exemption and grant approval for loan amount exceeding this limit to applicants of good quality based on the review of the applicants' information.

Key terms of typical loan agreements for unsecured loans (otherwise than via "X Wallet)

(a) Repayment

The borrower will repay the loan principal together with the interest thereon by successive monthly instalments in accordance with the repayment schedule set out in the agreement. Interest shall accrue from day to day on the outstanding principal amount of the loan at the rate specified in the agreement and shall be due and payable on each instalment repayment date.

(b) Early repayment

The borrower may at any time upon reasonable prior written notice prepay the loan in full.

(c) Effective interest rate

If the aggregate of all interest amount payable under the agreement is such that the true annual percentage rate of interest in respect of the loan (the "**effective rate**") calculated in accordance with any applicable law, will exceed the maximum annual percentage rate of interest at which a person can lend or offer to lend money without committing an offence under the applicable law (the "**prescribed rate**"), Zero Finance shall promptly refund such interest amount to the borrower so as to procure that the effective rate will not exceed the prescribed rate.

(d) Late repayment

If default is made in the payment upon the due date of any sum payable to Zero Finance under the agreement, whether in respect of loan principal or interest, Zero Finance shall be entitled to charge simple interest on that sum from the date of the default until the sum is paid at the interest rate set out in the agreement; and any interest so charged shall not be reckoned for the purpose of the Money Lenders Ordinance as part of the interest charged in respect of the Loan. Upon the happening of such event, Zero Finance will be entitled to declare termination of the agreement (without being obliged to give prior written notice) and call for immediate repayment of the loan, interest and other sums covenanted under the agreement.

(e) Events of default

The borrower shall repay the entire balance of the loan plus interest thereon as provided in the agreement as well as before Judgment upon the occurrence of any one or more of the following events:

(i) the borrower fails to pay any money or interest or other expenses payable by it/him/her/them under the agreement when it falls due;

(ii) the borrower commences any act of bankruptcy proceedings or the assets or any part thereof of the borrower is taken over by a receiver or the borrower convenes a meeting for the purpose of making any arrangement or composition for the benefits of its/his/her/their creditors;

(iii) death of the borrower;

(iv) if any of the representation, warranty, undertaking or statement made by the borrower in respect of the agreement is not complied with or is found to have been incorrect in any respect;

(v) any other situation or happening which in the opinion of Zero Finance may affect the ability of the borrower to perform his obligations hereunder;

(vi) any default, breach, non-compliance or non-observance of any of the provisions of the agreement by the borrower; or

(vii) legal proceedings are or are to be commenced against the borrower for recovery of any monies under any agreement or otherwise or under any bankruptcy legislation or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of the borrower or of any or all of his revenues and assets,

any outstanding balance of all monies payable under the agreement shall become immediately due and payable by the borrower, and Zero Finance is entitled to (whether demanded or not) recover from the borrower all costs and expenses (including legal costs and debt collection fees on a full indemnity basis) incurred therefrom.

(f) Termination

Zero Finance reserves the right at its sole and absolute discretion and without cause to cancel or terminate the agreement at any time. Upon such cancellation or termination, the loan amount together with all outstanding accrued interest thereon and all other sums payable by the borrower, if any, shall be due and repaid by the borrower forthwith.

(g) Indemnity

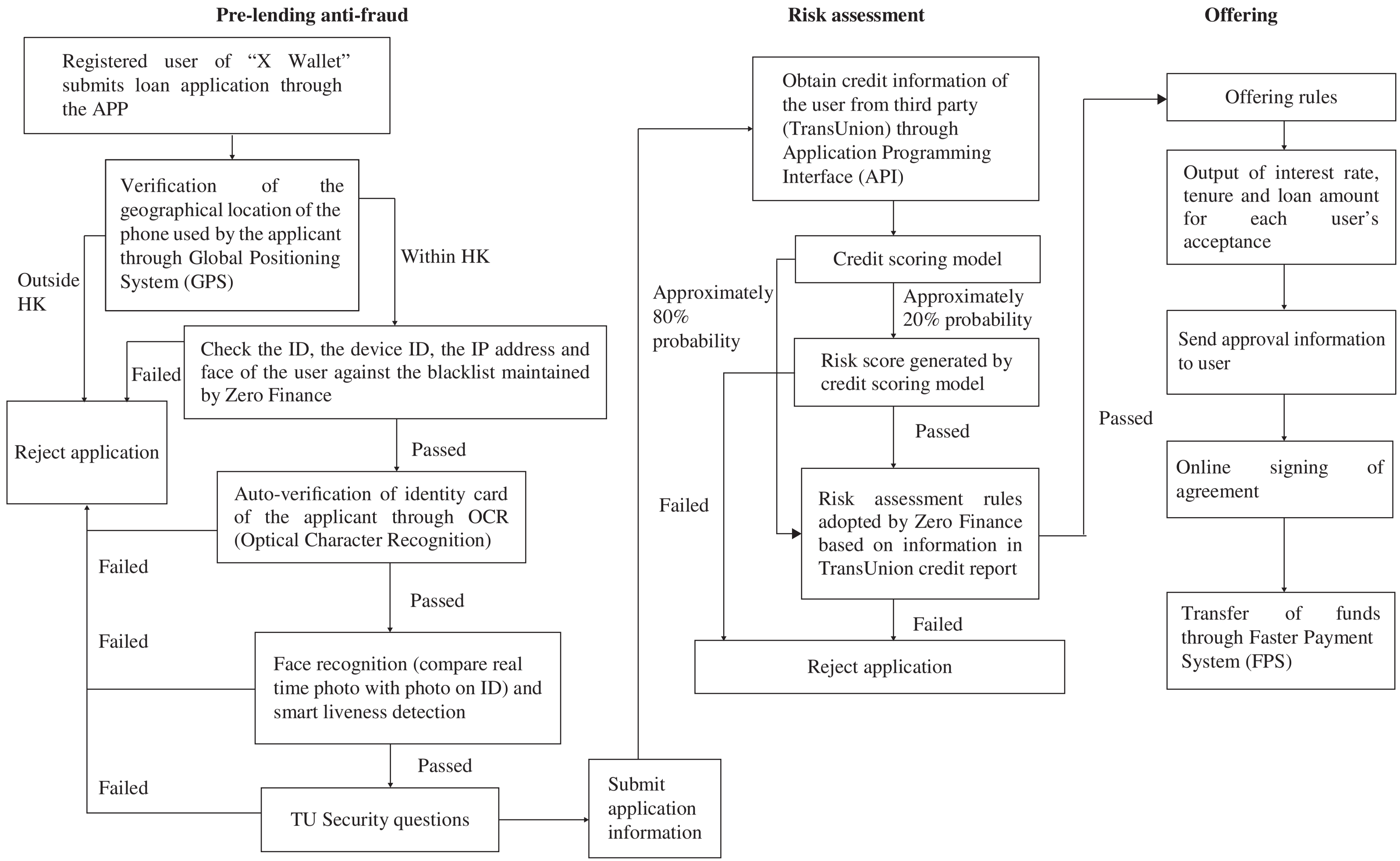
The borrower shall indemnify and keep indemnified Zero Finance in full against all reasonable costs and expenses (including legal costs and debt collection fees on a full indemnity basis) incurred or to be incurred by it in connection with the enforcement of, or the preservation of any rights under, the agreement including, without limitation, all reasonable legal and collection costs and expenses.

(h) Third party

The borrower declares and confirms that prior to entering into the loan agreement, Zero Finance has made enquiry with the borrower as to whether he/she/they has/have entered into or signed any agreement with any third party for or in relation to the procuring, negotiation, obtaining or application of the loan, guaranteeing or securing the repayment of the loan (other than an agreement with solicitors instructed by the borrower for the provision of legal services solely).

Unsecured personal loans via "X Wallet"

The flow chart below gives an overview of the main steps involved in the approval process of loans granted via "X Wallet":



(a) Application

Hong Kong permanent residents aged 18 or above could register an account with "X Wallet" and apply for unsecured personal loans online 24 hours a day, 7 days a week. The applications must be made in Hong Kong, as verified by the Global Positioning System (GPS) location of the applicants' smart phones obtained by Zero Finance with the authorisation of the applicants. The applicants must take a real-time picture of their Hong Kong identification cards and Automated Teller Machine (ATM) cards or bank statements using their smart phones. Other than that, no further documents are required.

In order to reduce the risk of identity fraud and to ensure that the applicant is a real person, "X Wallet" has built in smart liveness detection to verify the applicant as a genuine individual and also, face recognition system to verify the identity of the applicant by matching his/her real-time photos taken from the smart phone with the real-time photos of his/her identification document taken from the smart phone. A blacklist library based on facial features is maintained to manage and identify fraudsters separately. The IP address, device ID and ID number of the applicant will also be checked against the blacklists maintained by Zero Finance. Based on the data of the applicant extracted from the credit reports provided by TransUnion, "X Wallet" also sets up specific security questions that only a particular applicant would be able to answer, and it verifies the answers, in order to prevent the risks of fraud. With these anti-fraud features in place, Zero Finance has very rarely detected cases where loans were obtained through "X Wallet" under fraudulent identities.

(b) Approval

Approval of applications through "X Wallet" is processed automatically. Credit reports of the applicant will be automatically retrieved from TransUnion through Application Programming Interface (API). Around 20% of the applications will be screened by the credit scoring model which generated a risk score in respect of each applicant based on information in the TransUnion report and information supplied by the applicant. Approval of all applications will be made in accordance with the risk assessment procedures devised by Zero Finance based on information in the TransUnion credit report. If the loan is approved, the terms of the offer including the loan amount, interest rate and tenure (either 18 or 24 months) will be determined by the offering rules of Zero Finance, based on the rating of the applicant in the TransUnion credit report and the credit assessment of the customer by Zero Finance.

(c) Transfer of funds

Once the loan is approved by the system and accepted by the applicant, it will be transferred automatically to the applicant's bank account via bank transfer and since June 2019, the Faster Payment System ("**FPS**"). Through the direct channel with banks, real-time loan instructions can be generated and transfer can be completed through FPS. The entire process from application to transfer of funds in general takes approximately 10 minutes. Applicants could elect to draw down the loan in batches within the fixed loan tenure.

(d) Post-lending events and monitoring

Repayment of loans advanced through "X Wallet" can be made by scanning of QR codes in 7-11 convenience stores in Hong Kong.

Various cluster analysis algorithms are used to analyse the customers and to identify high-value customers and high-risk customers. Renewal of loans and reduction of interest rate can be provided automatically to high-value customers, whereas higher interest rate may be applied automatically in future applications by high-risk customers to reduce risks.

Key terms of typical loan agreements for personal loans via "X Wallet"

(a) Revolving loan

The "X Wallet" loan is a revolving loan. The borrower may, at any time prior to the expiry of the term of the loan, make repayment of any amount. The amount repaid will first be applied to repay any interest and other fees outstanding as at the date of repayment, and thereafter, any surplus amount repaid (if any) will be applied to the reduction of the principal outstanding as at the date of repayment. At any time during the term of the loan, so long as the loan principal outstanding is lower than the credit limit granted to the borrower, the borrower may request a drawdown of funds for a sum up to such difference between the loan principal outstanding and the credit limit.

(b) Repayment

The borrower will repay interest on the outstanding loan principal by successive monthly instalments in accordance with the repayment schedule set out in the agreement. Interest shall accrue from day to day on the outstanding principal amount of the loan at the rate specified in the agreement and shall be due and payable on each instalment repayment date. The loan principal together with all outstanding interest accrued thereon will be repayable on the maturity date.

(c) Effective interest rate

If the aggregate of all interest amount payable under the agreement and all sums payable under the agreement is such that the true annual percentage rate of interest in respect of the loan (the "**effective rate**") calculated in accordance with any applicable law, will exceed the maximum annual percentage rate of interest at which a person can lend or offer to lend money without committing an offence under the applicable law (the "**prescribed rate**"), Zero Finance shall promptly refund such interest amount to the borrower so as to procure that the effective rate will not exceed the prescribed rate.

(d) Late repayment

If default is made in the payment upon the due date of any sum payable to Zero Finance under the agreement, whether in respect of loan principal or interest, Zero Finance shall be entitled to charge simple interest on that sum from the date of the default until the sum is paid at the interest rate set out in the agreement; and any interest so charged shall not be reckoned for the purpose of the Money Lenders Ordinance as part of the interest charged in respect of the Loan. Upon the happening of such event, Zero Finance will be entitled to declare termination of the agreement (without being obliged to give prior written notice) and call for immediate repayment of the loan, interest and other sums covenanted under the agreement.

(e) Events of default

The borrower shall repay the entire balance of the loan plus interest thereon as provided in the agreement as well as before Judgment upon the occurrence of any one or more of the following events:

(i) The borrower fails to pay any money or interest or other expenses payable by it/him/her/them under the agreement when it falls due;

(ii) The borrower commences any act of bankruptcy proceedings or the assets or any part thereof of the borrower is taken over by a receiver or the borrower convenes a meeting for the purpose of making any arrangement or composition for the benefits of its/his/her/their creditors;

(iii) Death of the borrower;

(iv) If any of the representation, warranty, undertaking or statement made by the borrower in respect of the agreement is not complied with or is found to have been incorrect in any respect;

(v) Any other situation or happening which in the opinion of Zero Finance may affect the ability of the borrower to perform his obligations hereunder;

(vi) Any default, breach, non-compliance or non-observance of any of the provisions of the agreement by the borrower; or

(vii) Legal proceedings are or are to be commenced against the borrower for recovery of any monies under any agreement or otherwise or under any bankruptcy legislation or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of the borrower or of any or all of his revenues and assets, any outstanding balance of all monies payable under the agreement shall become immediately due and payable by the borrower, and Zero Finance is entitled to (whether demanded or not) recover from the borrower all costs and expenses (including legal costs and debt collection fees on a full indemnity basis) incurred therefrom.

(f) Termination

Zero Finance reserves the right at its sole and absolute discretion and without cause to cancel or terminate the agreement at any time. Upon such cancellation or termination, the loan amount together with all outstanding accrued interest thereon and all other sums payable by the borrower, if any, shall be due and repaid by the borrower forthwith.

(g) Indemnity

The borrower shall indemnify and keep indemnified Zero Finance in full against all costs and expenses (including legal costs and debt collection fees on a full indemnity basis) incurred or to be incurred by it in connection with the enforcement of, or the preservation of any rights under, the agreement.

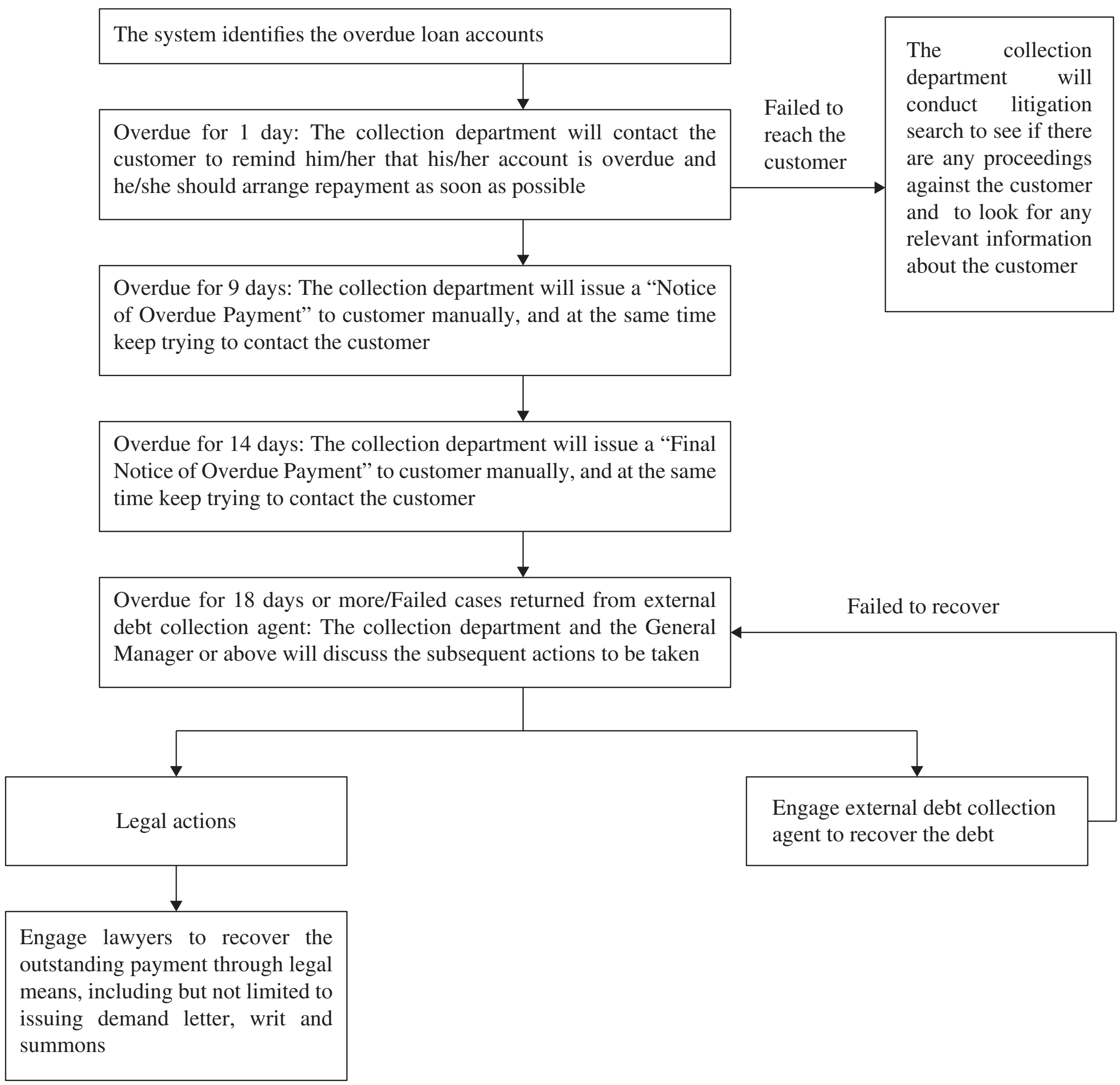
(h) Third party

The borrower declares and confirms that prior to entering into the loan agreement, Zero Finance has made enquiry with the borrower as to whether he/she/they has/have entered into or signed any agreement with any third party for or in relation to the procuring, negotiation, obtaining or application of the loan, guaranteeing or securing the repayment of the loan (other than an agreement with solicitors instructed by the borrower for the provision of legal services solely).

LOAN COLLECTION

Secured loans

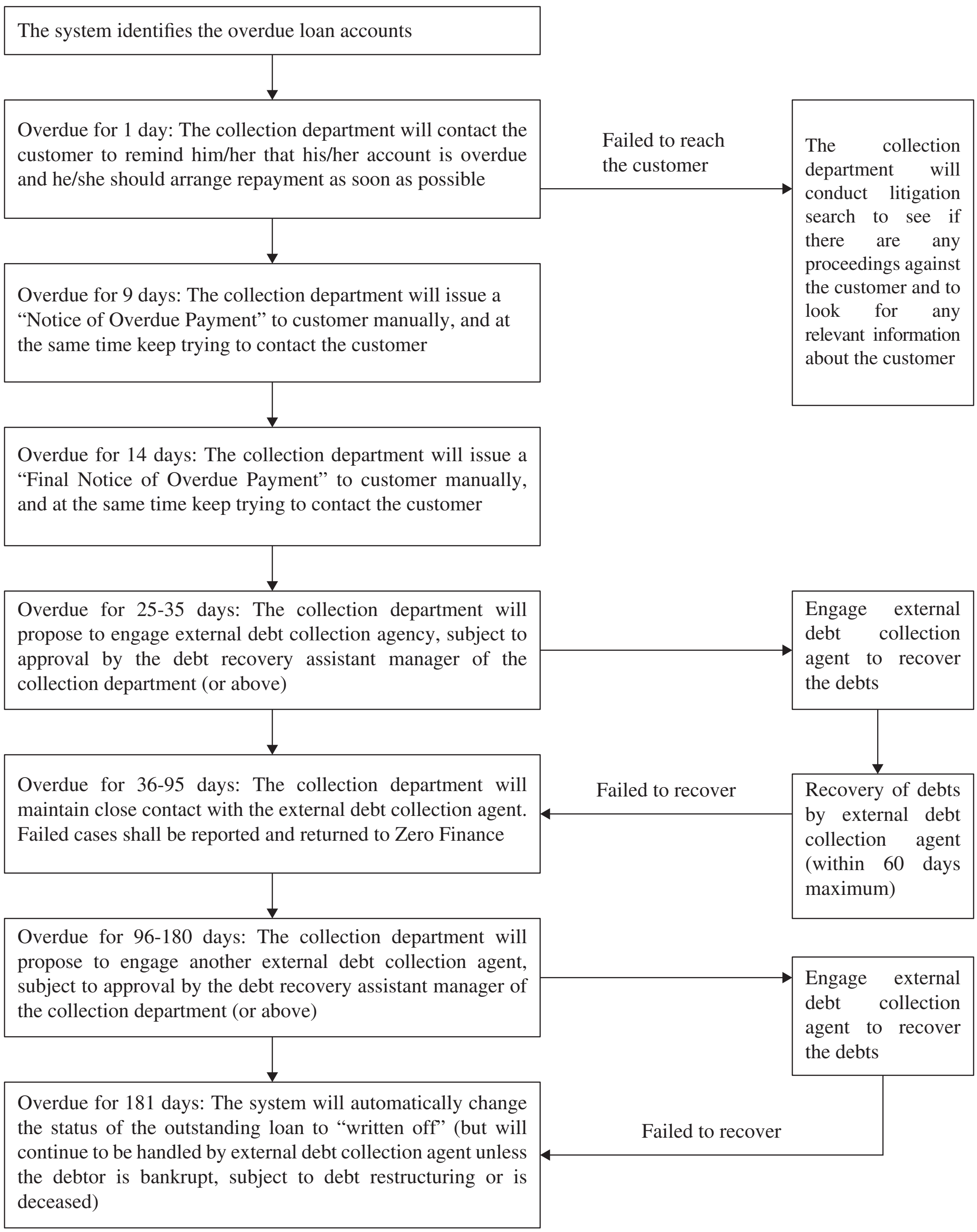
The flow chart below sets out the main steps and personnel involved in the procedures for dealing with loan and interest repayment default in respect of secured loans:



Note: The collection department will hold monthly meeting to review any updates on default cases.

Unsecured loans

The flow chart below sets out the main steps and personnel involved in the collection of unsecured loans:



Note: The collection department will hold monthly meeting to review any updates on default cases.

External debt collection agents

During the Track Record Period, Zero Finance engaged external debt collection agents for recovery of loan, which were all Independent Third Parties. When selecting such debt collection agents, Zero Finance conducted a due diligence check on their background and searched for any negative news on the Internet. Zero Finance has entered into service agreements with four external debt collection agents and the directors of Zero Finance confirmed that Zero Finance usually assigns work to such agents based on their performance history. Such service agreements are terminable if the external debt collect agent (i) commits a breach of any of the terms and conditions of the service agreement and fails to rectify such breach within seven days; (ii) is guilty of any conduct which in the opinion of Zero Finance is prejudicial to or adversely affected the interests of Zero Finance; (iii) has any change in its ownership or control or management; or (iv) becomes insolvent or is declared bankrupt or all or any part of its assets become subject to receivership or if it goes into liquidation or commences winding up. The commission payable by Zero Finance to the external debt collection agents ranges from 25% to 30% of the actual amount recovered. No commission will be payable if such agents fail to recover any amount.

For the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, the amount of loan and interests recovered by external debt collection agent amounted to approximately HK$0, HK$0.10 million, HK$0.66 million and HK$0.32 million, respectively.

For the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, the commission paid to external debt collection agency by the Target Group for debt recovery amounted to approximately HK$0, HK$22,000, HK$160,000 and HK$53,000, respectively.

During the Track Record Period and up to the Latest Practicable, there was no dispute between the Target Group and any of the debt collection agents.

RISK MANAGEMENT AND INTERNAL CONTROL

During the ordinary course of money lending business of the Target Group, it is exposed primarily to (i) credit risks in respect of the loan portfolio; (ii) business and operational risks; (iii) liquidity risks in respect of working capital; and (iv) legal and regulatory risks.

To manage these risks, Zero Finance has established various internal control procedures since commencement and throughout the course of its business for the purpose of (i) ensuring that its business, lending practices, management, information systems, and overall operations are conducted in compliance with the Money Lenders Ordinance and the Licensing Conditions; and (ii) reinforcing the integrity of its employees and reputation of its money lending business. The directors of the Target Group confirmed that during the Track Record Period and up to the Latest Practicable Date, there had been no incidence of fraud or misconduct discovered among its employees.

Zero Finance has conducted a review of its internal control system and has enhanced its internal control procedures. The directors of the Target Group considered that the Target Group has a sufficient and effective internal control system in place as at the Latest Practicable Date.

Credit risks management

The key risks for the money lending business of the Target Group and the corresponding internal control procedures are set out below:

Managing the risk at granting secured loans

The secured loans granted are secured by real estate assets or listed securities to reduce credit risks. The loan approval procedures in place have been designed to effectively manage such risks. The credit guidelines establish, amongst other things, the loan-to-value ratios generally accepted in respect of residential, commercial, industrial and other property mortgage loans in accordance with the mortgage type (i.e. first or subordinated mortgage loans). In addition, as part of the loan approval process, the credit management team will obtain all mandatory supporting documentation provided by the applicant, and the Credit Committee will also consider the applicant's credit history and profile, the property type, profile and valuation and overall market conditions at the time of application. For details of the loan approval procedures, please refer to the section headed "Loan Approval Procedures" in this Appendix.

Moreover, as the credit risks of subordinated mortgage loans are higher than those of first mortgage loans, borrowers of subordinated mortgaged loans are required to undertake in the loan agreement that after the loan has been made available to them, they will not obtain any additional loans by charging the relevant property as security from anyone. In addition, a higher interest rate is usually charged for subordinated mortgage loans. Zero Finance monitors compliance by customers of such undertaking mainly through a paid property alert and information service that is provided by an Independent Third Party which mainly provides property transaction information. The service, based on the information obtained from the Land Registry, alerts it to any changes made to the encumbrances on a pledged property on the monitoring list of Zero Finance. In the event of any changes to the encumbrances to a pledged property, the head of the credit department will receive an email from the property alert and information service provider and it will contact the customer to understand the situation. Where such alert indicates that a customer has increased the loan amount in respect of a first or prior mortgage, Zero Finance may terminate the mortgage arrangement and request immediate full repayment of the loan.

Although the property alert and information service help to identify any possible changes to the legal status of a pledged property, there may be some instances where such alerts may not be applicable. One possible example is where a person secures a loan with an "all monies" first mortgage from a bank or financial institution. If the borrower subsequently seeks to increase the loan amount, the Land Registry system cannot recognise such increase as no additional legal document is required to be registered with the Land Registry. However, the directors of the Target Group consider the risks in this scenario to be low since:

(i) To the best of their knowledge information and beliefs, the directors of the Target Group understand that it is the practice of banks and financial institutions not to provide any additional financing to their customer if they are aware of the fact that such customer has subsequently pledged the mortgaged property as security to obtain an additional loan from another mortgagee;

(ii) Banks and financial institutions are regulated by the Hong Kong Monetary Authority which has imposed restrictions over their property mortgage lending activities. As such, when a customer would seek a subordinated mortgage loan from Zero Finance, it is likely that the customer might have encountered difficulty in obtaining additional financing from their first or prior mortagee, for reasons including, amongst other things, the banks and financial institutions' internal restrictions from lending beyond the loan-to-value ratio restricted by the Hong Kong Monetary Authority; and

(iii) Based on the understanding of customers' background in the course of loan application process, most of the borrowers applied to Zero Finance for subordinate mortgage loans due to their inability to obtain additional or extended financing from their existing banks.

As such, the directors of the Target Group believe that the likelihood of a borrower increasing their loan from a first or prior mortgagee to be remote. To the best knowledge, understanding and belief of the directors of the Target Group, there had been no instance of a customer seeking to increase his/her loan from a first or prior mortgagee nor had Zero Finance terminated any loan arrangement with a customer because of any increase in a first or prior mortgage during the Track Record Period.

The debt-to-income ratio determines the applicant's aggregate monthly debt obligations, which may include existing mortgage payments, credit card commitments, etc. together with the monthly loan repayments of the proposed loan as a percentage of the applicant's aggregate monthly income. Where the debt-to-income ratio is less than 80%, indicating that the applicant has sufficient monthly income to cover their monthly obligations as well as the loan repayment instalments to Zero Finance, the applicant would qualify for such loan, subject to the approval of the Credit Committee and further negotiation of the terms of the loan.

During the Track Record Period, for loans mortgaged against residential properties, Zero Finance offered first mortgage loans with loan-to-value ratio, in the majority of cases, of not more than 80%. In respect of subordinated mortgage loans, Zero Finance offered mortgage loans with loan-to-value ratio, in the majority of cases, of not more than 80%.

Managing the risk at granting unsecured personal loans

Although personal loans are not secured by real estate assets, a set of procedures has been adopted to effectively manage credit risks. For personal loans advanced otherwise than via "X Wallet", the credit department will review all mandatory supporting documentation provided by the applicant and the Credit Committee will also consider the applicant's credit history and profile, including income level. For "X Wallet" personal loans, approval and offer are based on the credit rating of the applicant in the TransUnion credit report and the credit assessment of the applicant according to a set of credit rules specifically designed by Zero Finance, and with the assistance of the risk score generated by the credit scoring model based on the historical data of customers.

Managing the risk of bad debts

The directors of Zero Finance confirmed that as part of its operation, Zero Finance would pay attention to the Hong Kong and global markets, in particular the policies, property market, economic and employment statistics in Hong Kong, and adjust the strategies in response to the market conditions as appropriate in order to cope with the market changes.

The collection department prepares a report every month on the latest bad debts data, which is submitted to the General Manager for review. In addition, the collection department is responsible for monitoring and analysing the relevant bad debts accounts and the trend in bad debts, and for providing suggestions on making timely adjustments to the approval strategies of Zero Finance.

Regarding the valuation of the collaterals, valuation of the mortgaged properties is carried out every 6 months, in order to take appropriate measures timely in response to the risks arising from the changes in valuation, and to assess the changes in credit risks.

Business and operational risk management

During its ordinary course of business, Zero Finance is exposed to various internal and external risks of varying magnitude. As such, Zero Finance has devised a risk assessment policy for monitoring such risks. A risk management committee was also established to formulate operational risk management strategies, to review operational risk reports, and to evaluate the effectiveness of operational risk management. A number of risks related to, amongst others, strategy, operations, compliance, fraud, market, credit, customer, security and information technology risks, have been identified. Such risks are typically measured in terms of impact and likelihood of occurrence. The head of each department is responsible for risk assessment and monitoring. In accordance with its risk assessment policy, business and operational risks are monitored by the respective department head and are reported to the risk management committee if necessary.

Review of business and operational risk management

Zero Finance conducts reviews of its internal procedures and control systems from time to time to ensure they are adequate and up-to-date. Any defects or insufficiencies spotted during such review will be remedied at once based on the recommendation made by the General Manager and approved by the President.

Liquidity risk management

Unlike banks and financial institutions, which may be subject to strict requirements under various banking regulations, as a licensed money lender, Zero Finance is not required to comply with any specific rules and regulations or operating requirements related to liquidity, such as liquidity ratios or loan-to-value ratio or any inter-bank lending and borrowing ratios.

The finance department is responsible for the day-to-day monitoring of the level of funding and ensuring the efficient deployment of cash in order to minimise any liquidity risks.

The directors of Zero Finance confirmed that the interest income and repayment of loan principals have provided a steady stream of cash flow to Zero Finance throughout the Track Record Period and up to the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, the directors of the Target Group confirmed that the Target Group had not experienced any shortfall in cash for meeting its liquidity needs.

Legal and regulatory risks

Compliance with Money Lenders Ordinance and the Licensing Conditions

The credit approval policy and process as described in the paragraph headed "Loan Approval Procedures" above have been designed to ensure that the business of Zero Finance operates in accordance with the Money Lenders Ordinance and the Licensing Conditions.

The Credit Committee determines the interest rates for applicants based on Zero Finance's credit policies, which comply with the allowable interest rates of loans under the Money Lenders Ordinance. Zero Finance has adopted suitable documentation and procedures in the application process to calculate the effective interest rate of all loan applications and ensure that all processes and procedures are in compliance with the Money Lenders Ordinance. The directors of Zero Finance confirmed that the management of Zero Finance also, from time to time, review such documentation and procedures to ensure that they remain up-to-date and in compliance with the relevant laws and regulations.

Furthermore, in order to ensure that the effective interest rates payable by the customers are not in breach of the permitted interest rate under the Money Lenders Ordinance, and as mentioned in the section headed "Key features of typical loan agreements for mortgage loans" in this Appendix, all loan agreements contain a clause stating that in the event that the effective interest rates exceed the legal maximum of 60% per annum as permitted under the Money Lenders Ordinance, such excessive amount of interest paid by the borrower shall be refunded to the borrower by Zero Finance.

The manager of each department is responsible for overseeing the daily operations of each department and monitor compliance with the Licensing Conditions related to its own field of responsibility. Should there be any changes in the Money Lenders Ordinance or the Licensing Conditions, the credit department will review and see if any changes to the existing operations or policies of Zero Finance are necessary.

Anti-money laundering ("AML") and counter-terrorist financing ("CTF")

Zero Finance is subject to the financial sanctions system in Hong Kong and legislation prohibiting money laundering activities. The relevant policies are implemented under the United Nations Sanctions Ordinance (Chapter 537 of the Laws of Hong Kong) and United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong), details of which are set out in the section headed "**3. REGULATORY OVERVIEW**" in this Appendix.

To prevent and detect money laundering and terrorist financing, Zero Finance has adopted written guidance setting out, inter alia, internal procedures to identify and to prevent money laundering and terrorist financing and the reporting mechanism. Two senior employees in the credit department of Zero Finance were respectively appointed as the compliance officer (to supervise the prevention of AML/CTF activities, to constantly review the effectiveness of and update the AML/CTF policy of Zero Finance based on prevailing rules and regulations, and to provide relevant guidance to senior management) and the money laundering reporting officer (to review all suspicious transactions and decide whether to report to the Joint Financial Intelligence Unit of the Hong Kong Government, and to keep record of all internal reviews).

Risk assessment of AML/CTF pursuant to the internal guidance covers four aspects:

(i) national/geographic (e.g. whether the place the customer has been identified or commonly known to be prone to corruption or closely associated with terrorist activities);

(ii) customers (e.g. whether the customer is associated with politically exposed person, or the source of wealth of such customer cannot be easily identified and verified);

(iii) product/services (e.g. whether the products or services may be used inappropriately for illegal activities, whether they will be provided to anonymous customers); and

(iv) delivery/distribution channel (e.g. non-face-to-face transactions may be prone to higher risks due to the lack of direct communications with and better understanding of the customers).

The AML/CTF guidance also specifies the requirements for customer due diligence, including the documents or information to obtain from customers and the review standard. Enhanced due diligence may be necessary if abnormalities arise during the course of review of customers' information. Suspicious cases are required to be reported to the compliance officer or the reporting officer immediately. The AML/CTF guidance also sets out specific areas and quantified indicators for identifying suspicious transactions, the reporting mechanism, and requirements on storage of customers' information.

The procedures in respect of prevention and detection of money laundering and terrorist financing activities are summarised as follows:

(a) Due diligence on applicants

Before accepting an applicant's loan application, the credit officer carries out "know-your-client" procedures by verifying the applicant's identity using reliable and independent source documents such as Hong Kong Identity Card or travel document such as passport, proof of residential address, bank statement and proof of job and income for individual applicants, and certificate of incorporation and/or business registration certificate for corporate applicants. The credit officer also checks a loan applicant against the existing records kept by Zero Finance, sanctioned countries, firms, entities and individuals from various lists and relevant websites, and performs Land Registry searches to verify the ownership of the properties and ascertain whether the properties are subject to any encumbrances.

For application through "X Wallet", the applicants must take a real-time picture of their Hong Kong Identity Cards and Automated Teller Machine (ATM) cards or bank statements using their smart phones. In order to reduce the risk of identity fraud and to ensure that the applicant is a real person, "X Wallet" has built in a live face detection and recognition system to verify the identities of the applicants by matching their real-time photos taken from the smart phones with the real-time photos of their identification documents taken from the smart phones. A blacklist library based on facial features is maintained to manage and identify fraudsters separately.

Enhanced due diligence may be necessary if abnormalities arise during the course of review of the applicants' information.

(b) Reporting suspicious transactions

When the staff knows or suspects that a transaction may be suspicious according to the factors listed out in the AML/CTF guidance, he must report such transaction to the compliance officer or the money laundering reporting officer as soon as reasonably possible. The money laundering reporting officer will conduct investigation and decide to report the suspicious transactions to the Joint Financial Intelligence Unit (JFIU), a unit jointly run by the Hong Kong Police Force and the Hong Kong Customs & Excise Department, using the standard form or the e-channel "STREAMS" as soon as possible. In identifying suspicious customers or transactions, the focus is to verify the identities of the customers by inspecting their identification documents (for individual customers) and incorporation documents (for corporate customers) and to observe if the customers deliberately withhold information such as purpose of the loan or their source of income.

(c) Continuous monitoring

The credit officer reviews from time to time the due diligence documents obtained from customers to make sure that such documents and information are still up-to-date and relevant, and monitors the transactions of customers, in particular those involving a larger loan size, to identify any abnormalities, such as sudden repayment of a large amount of the outstanding loan, which does not match with the source of income of the customers known to Zero Finance.

(d) Record keeping

All essential information of the customers, including identity, loan amount and contact details are maintained by Zero Finance in accordance with the PDPO as further detailed below. In addition, Zero Finance maintains physical records of all loan related transactions, which are stored at the principal business office of Zero Finance for contingency purposes and as a matter of good practice.

(e) Staff training

All new employees of Zero Finance receive training which covers AML/CTF practice. Regular trainings will also be provided to existing employees to ensure they are familiar with the updated trend, issues and policies in the area of AML/CTF.

During the Track Record Period and up to the Latest Practicable Date, there were no actual or suspected incidents of money laundering by the Target Group and the Target Group was not aware of any such incidents or activities by its customers.

Personal Data (Privacy) Ordinance

In daily operations, Zero Finance obtains various types of personal data of its customers being protected by the PDPO. As such, internal control procedures are in place to ensure compliance with the PDPO which includes (i) requiring the employees not to retain or disclose any confidential information about the business activities of Zero Finance and other sensitive confidential data to any third parties; (ii) requiring its customers to acknowledge their rights under the PDPO, the purpose of collecting their personal data upon completion and signing of the application forms; and (iii) ensuring that customer files are kept in the principal business office of Zero Finance.

In respect of "X Wallet", to ensure data security, SSL (Secured Sockets Layer)-based protocols are used to encrypt communication on the APP-end and the Server-end to prevent data from being tampered with and malicious attacks. In terms of data storage, in order to prevent data leakage and internal threats, protective measures have been implemented in respect of key user data, such as user's password, which is encrypted using SHA256. If export of key user data is required, it will be restricted to data which is insensitive in nature.

In addition, when engaging external debt collection agents, such agent is required to undertake in the agreement that it shall abide by all the laws, ordinances and regulations now or at any time in force in Hong Kong, including without limitation, the PDPO and the relevant codes of practice and any amendments thereto, and it shall (i) take all practicable steps to ensure that the information held are protected against any unauthorised or accidental access, processing, erasure or other use by any person or means; (ii) take all necessary measures for ensuring the integrity, prudence and competence of persons having right of access to the information; (iii) take all necessary measures to ensure proper transmission of the information; and (iv) not transfer any information outside Hong Kong for any purpose.

Customer complaints

Zero Finance considers good customer relations to be critical to its business and hence handles complaints seriously. Upon receiving a complaint, the customer service officer will try to learn more about the nature of the complaint and record the complaints for internal uses. The complaints will be classified into trivial complaints, general complaints and serious complaints. Trivial complaints will be resolved by the customer service officer, whereas the other two types of complaints will be reported to the manager of the credit department, who will then report to the person in charge of the department related to the complaint (and also the General Manager in case of serious complaints). Investigations will be carried out by the department related to the complaint and the person in charge will then discuss solutions with the manager of the credit department (and the General Manager in case of serious complaints). Manager of the credit department will subsequently reply the complaining customer and keep a record of the whole incident.

LICENCES

The Target Group has obtained and maintained the following licences:

Licensee	Licence/ Certification	Address	Issuing organisation	Date of grant	Date of expiry
Zero Finance Hong Kong Limited	Money Lender's Licence	(1) Units 2107-2108, 21st Floor, Cosco Tower, 183 Queen's Road Central, Sheung Wan, Hong Kong; and (2) Unit 201, 2nd Floor, Kwong Fat Hong Buildings, No. 1 Rumsey Street, Hong Kong	Licensing Court	11 June 2020	22 April 2021
Zero Credit Limited	Money Lender's Licence	Unit 2108A, 21st Floor, Cosco Tower, 183 Queen's Road Central, Sheung Wan, Hong Kong.	Licensing Court	30 June 2020	11 April 2021

To the best of their knowledge, information and belief, directors of the Target Group do not anticipate any problems with renewing the above licenses on an annual basis.

EMPLOYEES

Zero Finance has seven departments responsible for different functions:

(i) the finance department: management of budget, funding, accounts and financial analysis;

(ii) the HR & Administration department: recruitment, salary and appraisal, management of procurement, assets and daily operations;

(iii) the IT department: business support and improvement and enhancement of the systems;

(iv) the credit department: advising on loan products and approval of loan applications;

(v) the collection department: management of accounts and recovery of loans, recovery costs control, handling of high-risk customers and litigations;

(vi) the marketing department: marketing, market study, sales and promotion planning and customer services; and

(vii) the channel development department: developing new channels of customers and research on the industry data.

As at the Latest Practicable Date, the Target Group had a total of 21 employees, all being full-time employees. The following table shows a breakdown of the employees by their functions:

Functions	**No. of employees**
President	1
General Manager	1
Finance	1
HR&Administration	2
IT	2
Credit	8
Collection	3
Marketing and channel development	3
Total	**21**

Zero Finance provides basic training to all new employees to get them familiarised with the daily operations of Zero Finance, and it provides in-house training or encourages the employees to attend external seminars from time to time on useful topics. Zero Finance had entered into standard employment contracts with its employees covering matters including salary, benefits, confidentiality obligations and termination. During the Track Record Period and up to the Latest Practicable Date, the Target Group did not have any significant disputes with its employees or disruption to its operations due to labour disputes nor did it encounter any difficulties in the recruitment and retention of experienced staff or skilled personnel.

For each of the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, employee benefit expenses (including wages, salaries and bonus, pension costs and other benefits) of the Target Group amounted to approximately HK$6.2 million, HK$9.4 million, HK$9.7 million and HK$2.3 million, respectively.

Zero Finance participated in the MPF Scheme for all of its employees in Hong Kong. Zero Finance discharged its obligations to contribute the lower of HK$1,500 or 5% of the relevant monthly salary of the employees per month in accordance with the rules of the MPF Scheme during the Track Record period.

Zero Finance adheres to the principles of openness, equal competition and merit-based in recruitment, internal transfer and promotion, regardless of gender, nationality, marital status, disability and religious beliefs. It has maintained a detailed manual for its employees setting out the rights and obligations of the employees, including medical and maternity/paternity benefits, and safety measures at workplace. During the Track Record Period, there were no material accidents in the course of Zero Finance's operation.

TRANSUNION CREDIT REPORT

The Target Group is a member of TransUnion, a company which is principally engaged in the provision of credit information management services. The Target Group has entered into a subscriber agreement with TransUnion, pursuant to which the Target Group obtains credit reports of its customers from TransUnion for loan approval. Customers' data has been provided by the Target Group to TransUnion in accordance with the Code of Practice on Consumer Credit Data issued by the Office of the Privacy Commissioner for Personal Data of Hong Kong.

SALES AND MARKETING

Zero Finance primarily focuses its sales and marketing effort on unsecured loans, in particular "X Wallet". The advertising and promotion expenses of the Target Group amounted to approximately HK$2.1 million, HK$4.9 million, HK$3.8 million and HK$0.8 million for each of the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020 respectively, during which the following advertising and marketing activities were involved:

– Newspaper and magazine advertisements and advertorials

– Public transport (bus and minibus) wrap and seatback advertising

– Roadshow

– Outdoor banner advertising

– Online banner advertising

– Direct mail, pamphlets and leaflets

Directors of Zero Finance believe that all publication materials are in compliance with the Licensing Conditions. They also believe that engaging in various marketing and promotional activities is an effective strategy for increasing public awareness of Zero Finance's business and brand in Hong Kong, and will continue with its marketing efforts through various channels of advertising in the mass media.

Loan referral agents

During the Track Record Period, Zero Finance also engaged loan referral agents, which were all Independent Third Parties, to source for new customers. They include individuals and mainly companies comprising mainly consultancy and financial advisory firms involving in business or loan referral activities. Zero Finance has entered into non-exclusive service agreement with such loan referral agents to stipulate the general scope of services required and the referral fees. Referral fees up to 3% of the referred loan amount for secured loans and up to 8% of the referred loan amount for unsecured loans are payable by Zero Finance to the loan referral agents, respectively, for any successful referral of customers upon payment of the fourth instalment by such customer. If any of the following events occurs within 90 days from the loan drawdown date, any unpaid referral fee will not be released and any referral fee paid by Zero Finance concerning the relevant loans will be refunded to Zero Finance within 30 days or be offset from the credit balance maintained by Zero Finance: (i) the loan is early settled or the borrower had filed for bankruptcy petition, debt relief plan or individual voluntary arrangement; (ii) the loan is suspected to be fraudulent; (iii) there is serious delinquency for the subject account and is overdue by more than 60 days; or (iv) any customer complaint against the loan referral agent has been confirmed valid. For all cases referred by the referral agents, Zero Finance will go through the standard approval procedures set out in the section headed "Loan Approval Procedures" above in this Appendix, and it has absolute discretion to decide whether to approve the loan applications referred by such loan referral agents.

The following table provides a summary of the referral fees paid to referral agents during the Track Record Period:

	Year ended 31 December			Three months ended 31 March
	2017	**2018**	**2019**	**2020**
Number of referral agents receiving referral fees	14	17	15	9
Principal amount of loans (*HK$'000*)	217,341	144,620	118,643	45,500
Referral fees expended (*HK$'000*)	1,974	1,886	2,177	709

(a) Role of referral agent

The referral agent is responsible for introducing potential borrowers to Zero Finance for the purpose of taking out loans. Final approval of any loan application is subject to the sole and absolute discretion of Zero Finance. The referral agent is also responsible for informing potential borrowers that it only provides referral services and that approval of any such loan application is subject to the sole and absolute discretion of Zero Finance.

(b) Obligations of Zero Finance

After successful advance of the loans which have been approved by Zero Finance to borrowers introduced by the referral agent, Zero Finance shall pay a one-time referral fee to the referral agent at rates set out from time to time. Referral fee shall be released in two phases, the first half of referral fee is payable after the first installment of repayment was successfully received from the borrower and the balance is payable after the fourth installment was successfully received.

(c) Referral fees

Referral fees payable to referral agents are determined as a percentage of the loan amount offered to borrowers according to the loan mortgage type and interest rate. To the best knowledge, information and belief of the directors of Zero Finance, the referral rates expended by Zero Finance during the Track Record Period are in line with the industry norm.

(d) Termination

Either party may terminate the referral relationship by giving the other party seven days' prior notice in writing.

During the Track Record Period and up to the Latest Practicable Date, Zero Finance did not record any incidents involving any dispute with any of the referral agents which successfully referred customers to Zero Finance.

(e) Appointed third parties

The referral agent has undertaken in the service agreement with Zero Finance that (i) it shall not be allowed to charge, recover, demand or receive any fees, charges, reward or consideration, however named, from such intending borrower for or in relation to the procuring, negotiation, obtaining or application of the loan or guaranteeing or securing the repayment of the loan; and (ii) it has not otherwise agreed with the intending borrower that the intending borrower pays or would pay any fees, charges, reward or consideration, however named, to any other party whether for the purchase of any goods or services or not.

Zero Finance has provided in writing to the satisfaction of the Commissioner of Police and the Registrar of Money Lenders the name, address and identification number of each referral agent which Zero Finance has entered into non-exclusive service agreement with, and the name and address of such agents appear on the Register kept by the Registrar of Money Lenders.

LEASED PROPERTIES

From 2 January 2017 to 1 January 2019, Zero Finance rented a property with lettable area of around 2,200 square feet in an office building in Des Voeux Road Central, Sheung Wan for use as its business office from an Independent Third Party for a monthly rental of HK$108,000. Since January 2019 and up to the Latest Practicable Date, Zero Finance had been using an office premise (with a lettable area of about 1,000 square feet) in an office building in Rumsey Street, Sheung Wan, Hong Kong (the "**Rumsey Street Rented Premises**") under a lease with an Independent Third Party as its principal office for a monthly rental of HK$41,000.

Before the acquisition of Zero Credit by the Target Group in June 2018, Zero Credit rented a small office premise of around 275 square feet in Sheung Wan from an Independent Third Party for a monthly rental of HK$9,300 (exclusive of rates, management fee and other outgoings) for a term which expired on 12 December 2019.

In early 2019, the Target Group acquired the Three Properties for investment purpose. All of the Three Properties had been transferred to the Vendor Group before the Latest Practicable Date as part of the Restructuring and hence do not form part of the assets of the Target Group to be acquired by the Group under the Proposed Acquisition.

Subsequent to the disposal of the Three Properties to the Vendor Group under the Restructuring, two small rooms of the Three Properties with total area of about 200 square feet (representing only 4.18% of the total gross floor area of the Three Properties) have been rented by the Target Group from the Vendor Group at a total monthly rental of HK$8,000, for a term of three years from 1 August 2020 to 31 July 2023 which may be terminated at the discretion of Zero Finance after expiration of the first year. Such two office rooms are used respectively as the principal business office of Zero Credit, and the additional business office of Zero Finance so that if there is any business disruption in its principal place of business, its money lending business could be carried on in such additional business office on a temporary and contingency basis. Although such leases from the Vendor Group will constitute connected transaction of the Enlarged Group under Chapter 14A of the Listing Rules after Completion, they will be fully exempted pursuant to Rule 14A.76(1)(c) of the Listing Rules as the applicable percentage ratios (as defined under the Listing Rules) are expected to be less than 5% and the total consideration will be less HK$3,000,000.

After Completion, the Rumsey Street Rented Premises will be the principal place of business of Zero Finance.

INTELLECTUAL PROPERTY RIGHTS

Set out below are the intellectual properties that are considered to be material to the business of the Target Group and with which the Target Group conducts the majority of its business:

Item	Trademark	Registered owner	Registration number	Registered class(es)	Expiry date
1		Zero Finance	304204331	16, 35, 36, 42	11 July 2027
2	ZERO FINANCE	Zero Finance	304204368	16, 35, 36, 42	11 July 2027
3		Zero Finance	304204386	16, 35, 36, 42	11 July 2027
4	X Wallet	Zero Finance	304413753	16, 35, 36, 42	28 January 2028
5		Zero Finance	304413762	16, 35, 36, 42	28 January 2028

The Target Group has also registered the following domain name as at the Latest Practicable Date:

Domain name	Registrant	Expiry date
ZEROFINANCE.HK	Zero Finance	23 May 2022

To the best of the knowledge, information and belief of the directors of the Target Group, no member of the Target Group was involved in any litigation in Hong Kong relating to infringement of any intellectual property rights belonging to third parties in respect of its products. The Target Group also confirmed that it had not received any notice of any infringement of intellectual property rights during the Track Record Period and up to Latest Practicable Date.

INSURANCE

As at the Latest Practicable Date, Zero Finance maintained property all risk insurance and employee compensation insurance. The property all risk insurance covers Zero Finance's assets which include (i) office contents; (ii) business interruption; (iii) damage to electronic equipment (computer); loss of money in transit, inside premises during and after office hours; and (iv) public liability (premises risk only). Basic employee compensation insurance which covers employee personal injury during the period of employment.

As at the Latest Practicable Date, Zero Finance also maintained a group life insurance which covers certain medical expenses of its employees.

During the Track Record Period and up to the Latest Practicable Date, the Target Group had not made any material claims. The directors of Zero Finance consider that the above insurance plans and amounts insured are sufficient to cover the operational risks and protect the Target Group from any potential loss or damage.

COMPETITION

According to the records of the Licensed Money Lenders Association, Hong Kong, there were 2,331 licenced money lenders in Hong Kong as at 30 June 2020. Given the relatively low entry barrier, the money lending industry in Hong Kong is highly competitive.

While the competition in secured loan business is relatively even due to similar products provided by the market players, Zero Finance's advantage lies in its unsecured personal loan business through "X Wallet" which provides fast and convenient money lending services to customers and adopts the credit scoring system specifically developed by Zero Finance. While similar products have been seen in the market and more may be launched in the future by its competitors, Zero Finance takes the view that it is not easy for other competitors to create an identical application because the essence of "X Wallet" is not the technical part but the ideas and rules behind which were provided and constantly optimised by the staff of Zero Finance. Also, even if other market players plan to launch similar products, notwithstanding that there will be competition, it may at the same time help to make auto-money lending services more popular in Hong Kong and "X Wallet" may take the opportunity to absorb more new customers.

LEGAL COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, the Target Group was not involved in any material legal proceedings. To the best of the knowledge, information and belief of the directors of the Target Group, no member of the Target Group is engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is pending or threatened by or against any member of the Target Group that would have a material adverse effect on the results of the operations or financial condition of the Target Group.

Section 18 of the Money Lenders Ordinance and the Licensing Conditions

As mentioned in the section headed "Principal Business Activities – Unsecured loans" in this Appendix, loans made via "X Wallet" are revolving in nature. Interest is charged daily on the drawn-down loan principal. No interest is charged on loan amounts made available but not drawn down. Notwithstanding that it was clearly set out on the website of Zero Finance and the "X Wallet" APP that "X Wallet" loans are revolving loans, in the opinion of the Legal Advisers, since there was no express description of the revolving nature of the loan in the loan agreements of "X Wallet" executed during the Track Record Period and up to 21 July 2020, such agreements did not fully comply with section 18 of the Money Lenders Ordinance, which requires a memorandum to contain all the terms of the agreement. A non-compliant loan agreement is prima facie unenforceable, subject to the court's discretion to enforce it under section 18(3) of the Money Lenders Ordinance. In addition, the Money Lenders Ordinance provides that failure to comply with section 18 constitutes an offence.

Similarly, as the revolving nature of "X Wallet" loans was not mentioned in the recording explaining key terms of the loan agreement which had been played to the borrower on the "X Wallet" APP before he/she accepted the loan prior to 21 July 2020, the Legal Advisers took the view that one of the Licensing Conditions of Zero Finance's Money Lender's Licence, which requires the money lender to give explanation to the intending borrower of all the terms of the agreement before entering into any agreement for loan, was not fully complied with. According to the Money Lenders Ordinance, the Licensing Court may revoke or suspend the Money Lender's Licence if "the licensee has been in serious breach of any condition of the licence" or "the business of the licensee has been carried on at any time or on any occasion since the date on which the licence was granted by recourse to the use of any methods, or in any manner, contrary to the public interest." Furthermore, the Money Lenders Ordinance provides that any person who carries on business as a money lender otherwise than in accordance with the conditions of his licence commits an offence.

Having considered the following factors, the Legal Advisers took the view it is unlikely that the non-compliance would render the existing loan agreements of "X Wallet" unenforceable:

(1) all the borrowers did receive all the funds they sought to borrow, whether initially or under the revolving arrangement;

(2) each borrower was constantly kept informed as to the precise status of his loan and his exposure both in terms of principal and interest via the real-time updates from the "X Wallet" APP;

(3) the revolving nature of "X Wallet" loans works generally to the benefit of the borrowers as it provides the borrowers with an option to make early repayments to reduce their principal debts and interest payable;

(4) there appears to be no deliberate attempt by Zero Finance to evade the requirements under section 18 of the Money Lenders Ordinance; and

(5) Zero Finance revised the standard loan agreement on 21 July 2020 to ensure full compliance with section 18 of the Money Lenders Ordinance.

Also, having considered the Prosecution Code published by the Department of Justice, the Legal Advisers took the view that as the breaches were not serious and might be merely technical, the risk of criminal prosecution of Zero Finance and its directors/managers/similar officers under the Money Lenders Ordinance in respect of such breaches seems remote.

In respect of the breach of the Licensing Conditions, the Legal Advisers also took the view that the risk of Zero Finance's Money Lender Licence being revoked or suspended seems remote.

In light of the Legal Advisers' opinion as set out above, the directors of the Target Group and the Financial Adviser took the view that the aforesaid non-compliance of Zero Finance with the relevant requirements under the Money Lenders Ordinance and the Licensing Conditions will not have a material adverse impact on the Target Group.

Save as disclosed above, the directors of the Target Group confirmed that the Target Group has complied with the applicable laws and regulations in Hong Kong and the Licensing Conditions in all material aspects during the Track Record Period and up to the Latest Practicable Date.

RECOGNITION AND AWARDS

Zero Finance has received the following recognition and awards:

Award	Issuer	Year of award
MOB-EX AWARDS 2019 – BEST APP – FINANCIAL SERVICES (SILVER)	ESDlife	2019
MOB-EX AWARDS 2019 – BEST E-COMMERCE SOLUTION (BRONZE)	ESDlife	2019
MOB-EX AWARDS 2019 – BEST RESULT-DRIVEN MOBILE CAMPAIGN (BRONZE)	ESDlife	2019
MOB-EX AWARDS 2019 – MOST INNOVATIVE USE OF MOBILE TECHNOLOGY (BRONZE)	ESDlife	2019
MOB-EX AWARDS 2019 – MOST INNOVATIVE USE OF MOBILE (SILVER)	ESDlife	2019

DIRECTORS

Information of the directors of the Target Company and Zero Finance as at the Latest Practicable Date is set out as follows:

Name	Age	Current position in the Target Group	Date of joining the Target Group	Date of appointment as director	Roles and responsibilities	Relationship with other directors and senior management
Lee Tommy	43	Director	11 November 2014	11 November 2014	Strategic planning and development of Zero Finance	Nil
Chau Hau Shing	43	Director	1 April 2014 (*Note*)	15 December 2017	Strategic planning and development of Zero Finance and participating in the day-to-day management of Zero Finance's business and operation	Nil

Note: From 1 April 2014 to 1 September 2018, Mr. Chau was employed by an entity within the Vendor Group (which is not a member of the Target Group) to manage the business of Zero Finance and acted in the capacity of President of Zero Finance in a de facto manner.

SENIOR MANAGEMENT

Information of the senior management of Zero Finance as at the Latest Practicable Date is set out as follows:

Name	Age	Current position in Zero Finance	Date of joining Zero Finance	Date of Appointment to the current position in the Target Group	Roles and responsibilities	Relationship with other directors and senior management
Chau Hau Shing	43	President	1 April 2014 (*Note*)	1 September 2018	– Formulating and implementing business strategies and business plans and targets – Establishing and maintaining the management and organization structure – Overseeing business development	Nil
Lo Kin On	45	General Manager	22 August 2017	1 May 2018	– Implementing the overall business strategies and business plans and targets – Managing the daily operations	Nil

Note: *From 1 April 2014 to 1 September 2018, Mr. Chau was employed by an entity within the Vendor Group (which is not a member of the Target Group) to manage the business of Zero Finance and acted in the capacity of President of Zero Finance in a de facto manner. On 1 September 2018, Mr. Chau's employment was transferred to Zero Finance and he has formally acted as the President of Zero Finance since then.*

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Tommy Lee, aged 43, is the founder, the executive director and Chairman of Zero Finance. He studied Economics in the Seneca College in Canada until June 2000. Mr. Lee has been appointed as the Vice Chairman and CEO of the Company since 2008 and 2010 respectively. He has also been a non-executive director of Petro-King (a company listed on the Stock Exchange) since 2007 and a director of Guangdong Ellington Electronics Technology Company Limited (a company listed on the Shanghai Stock Exchange) since 2007.

Mr. Chau Hau Shing, aged 43, had been employed by an entity within the Vendor Group (which is not a member of the Target Group) from 1 April 2014 to 1 September 2018 to manage the business of Zero Finance and he acted in the capacity of the President of Zero Finance in a de facto manner. He was appointed as an executive director of Zero Finance in December 2017. Starting from 1 September 2018, Mr. Chau's has been formally employed by Zero Finance and acted as the President of Zero Finance formally. He is responsible for formulating and implementing business strategies and overseeing business development. Mr. Chau has worked in the money lending industry for approximately 20 years and has gained extensive experience in the industry. Mr. Chau started working in the money lending industry in 1996. He worked in PrimeCredit Limited from April 1996 to December 1999 as customer service representative and from January 2000 to May 2000 as assistant supervisor, and United Asia Finance Limited from May 2000 to February 2007 as senior loan officer (second-in-charge in the Shatin branch). From March 2007 to March 2009, Mr. Chau worked in United Asia Finance (Shenzhen) Limited as manager of the customer relation department. From March 2009 to August 2009, he worked in PrimeCredit Gerent Guarantee Co., Ltd with his last position as head of the collection department. From March 2009 to January 2010, Mr. Chau worked in Shenzhen PrimeCredit Limited as manager of the account management department. Prior to joining Zero Finance, Mr. Chau worked at Chongqing Jiangbei District Huizhong Micro Credit Co., Ltd. (重慶市江北區惠中小額貸款股份有限公司) from February 2010 to January 2014 and his last position was general manager and executive director. Mr. Chau finished his secondary course and graduated from St. Stephen's Church College in November 1995.

Mr. Lo Kin On, aged 45, is the General Manager of Zero Finance. Mr. Lo joined Zero Finance in August 2017 as Assistant General Manager, responsible for managing the collection department and credit department, and was appointed as the General Manager in May 2018. Mr. Lo has worked in the money lending industry for approximately 20 years and gained experience in the industry. Prior to joining Zero Finance, Mr. Lo worked at OK Finance Limited from April 2012 to August 2017 as acting head of network. From September 1997 to February 2000, Mr. Lo worked at AIG Finance (Hong Kong) Limited as loan clerk of call centre underwriting, risk management. From March 2000 to January 2002, Mr. Lo worked at Associates Financial Services (Asia) Limited with his last position as loan officer (customer division). From February 2002 to April 2006, Mr. Lo worked at United Asia Finance Limited with his last position as senior loan officer (second-in-charge in the Argyle Street branch). From May 2006 to April 2012, Mr. Lo worked at PrimeCredit Limited with his last position as branch manager. Mr. Lo obtained a certificate in business management in December 2008 from the School of Continuing Education Hong Kong Baptist University.

During the Track Record Period, the above directors of the Target Group were also directors of certain companies owned by Mr. Tommy Lee engaged directly and indirectly in the PRC Business. To ensure management independence, (a) Mr. Chau Hau Shing had resigned from all his directorships in the Vendor Group; and (b) Mr. Tommy Lee will play a less substantial part in the PRC business and will focus on the Target Group. The business of the Target Group will continue to be operated and managed by substantially the same management of the Target Group after Completion.

Save as disclosed above, no directors or members of the senior management of the Target Group held any directorships in any other listed companies within the three years immediately preceding the date of this circular, nor has he or she held any other positions with the Target Group or the Group. None of the directors or members of the senior management of the Target Group is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

Save as disclosed above, there is no other information relating to the relationship of any of the directors or members of the senior management of the Target Group with other directors or members of the senior management of the Target Group or any other information that should be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of the Target Group.

The aggregate amount of remuneration paid to the directors, including salaries, contributions to defined contribution benefit plans (including pensions) and discretionary bonuses, was HK$0, HK$609,824, HK$1,829,472 and HK$457,368 for the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, respectively.

During the Track Record Period, no remuneration was paid by the Target Group to, or receivable by, its directors or the five highest paid individuals as an inducement to join or upon joining the Target Group. No compensation was paid by, or receivable by, its directors, former directors, or the five highest paid individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of the Target Group. Furthermore, none of the Target Group's directors had waived or agreed to waive any remuneration during the Track Record Period.

Save as disclosed above, no other payments have been made or are payable by the Target Group to its directors in respect of the services rendered during the Track Record Period.

Set out below is the management discussion and analysis of the Target Group for the Track Record Period. Save as disclosed in the section headed "Non-HKFRS Measures" below, the financial information of the Target Group has been prepared in accordance with HKFRS, which collectively include Hong Kong Accounting Standards and related interpretations, promulgated by the HKICPA. You should read the Accountant's Report included as Appendix III to this circular in its entirety and not merely on the information contained in this section.

BUSINESS REVIEW

The Target Group has been engaging in money lending business through its principal operating subsidiary, Zero Finance, a money lender licenced in Hong Kong under the provisions of the Money Lenders Ordinance since the commencement of business in May 2015. The Target Group conducts their money lending business only in Hong Kong through the provision of secured loans in the form of personal loans and corporate loans and unsecured personal loans. The secured loan business comprises mortgage loans to personal and corporate customers mainly secured by collaterals with appraised value of real estate assets which include mortgages of first, second and third ranking and listed securities. The unsecured personal loan business of the Target Group comprises loans to individual customers without any guarantee or pledge on their assets.

During the Track Record Period, the Target Group generated revenue from the interest received from the provision of the mortgage loan financings which were secured against residential, commercial and industrial real estate assets located in Hong Kong such as apartments, tenement houses, village houses, commercial and industrial units, as well as one mortgage loan secured by listed shares. Interest income of the Target Group derived from the unsecured personal loans in Hong Kong were through face-to-face execution i.e. offline execution since May 2015. Unsecured personal loans provided through X Wallet commenced in April 2018 following its launch, which processes and provides unsecured personal loans online in a fully automated manner.

For the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, the Target Group's revenue from lending activities was approximately HK$51.9 million, HK$56.1 million, HK$58.7 million and HK$16.9 million, respectively. In addition, the profit and total comprehensive income was approximately HK$25.6 million, HK$22.3 million, HK$6.0 million (or approximately HK$21.1 million excluding the financial results of the Disposed Subsidiaries) and HK$4.5 million (or approximately HK$6.3 million excluding the financial results of the Disposed Subsidiaries), respectively. The financial results of the Disposed Subsidiaries mainly represented the fair value gains or losses on revaluation of investment properties during the Track Record Period.

KEY FACTORS AFFECTING THE RESULTS OF OPERATIONS OF THE TARGET GROUP

To the best of the Directors' knowledge and information, and having made all reasonable enquiries, the Directors believe that the Target Group's results of operations have been, and are expected to continue to be, affected by several factors, which primarily include the following:

(i) Value of pledged collaterals

The Target Group has granted, amongst others, loans secured against first and subordinated mortgages to the customers, based on the appraised values of the collaterals that the customers can mortgage to the Target Group as collaterals. As such, the appraised values of such collaterals at the time of granting of loan will affect the amount of the loans granted and the subsequent fluctuation in the values of such collaterals will be exposed to the risk of recovering the full amount of loans in the event of default. These will in turn affect the interest income and amount of bad debt of the Target Group.

(ii) Changes in laws and regulations governing the money lending industry in Hong Kong

The business of the Target Group is governed by the provisions of the Money Lenders Ordinance. The profitability and financial performance may be affected by changes in laws and regulations governing the Target Group's business. For example, while the maximum effective interest rate to be charged to the customers is not to exceed 60% under the Money Lenders Ordinance since 1980, the level of interest rate allowed to be charged by the Target Group on the customers may be amended in the future. While there is currently no statutory requirement for money lenders to maintain minimum liquid capital, the imposition of such requirement in the future may result in the Target Group having the need to obtain further capital and incurring costs. In addition, currently there is no provision in the Money Lenders Ordinance or no laws and regulations directly governing online money lending business, a change in the regulatory environment might adversely affect such business activity of the Target Group. A summary of the regulatory framework of money lending business in Hong Kong is set out in the section headed "**Regulatory Overview**" in Appendix I.

(iii) Technological enhancement

The Target Group has developed a technological operating system for "X Wallet" with specific features, which includes an automated approval process for the loan applications and a credit scoring model, which are based on certain in-built sets of criteria and behavioural patterns of the loan applicants in assisting risk and credit management strategies to price the loans in an accurate and efficient manner. The Target Group conducts profiling work based on the credit reports provided by TransUnion and implements artificial intelligence in (i) driving their core technological operating system and data analysis capabilities; (ii) approving loan applications; and (iii) designing the terms of the loan offerings. As such, the ability to keep up with the latest technology in the constantly changing technological environment is crucial to the Target Group given the money lending industry in Hong Kong is highly competitive.

(iv) Risk control

The results of the Target Group are largely affected by the recoverability of the loan and interest receivables from the customers, which in turn, are related to the credit profiles of the customers. The Target Group has risk control measures in place and carries out credit assessment, which takes into consideration amongst others, the credit reports provided by TransUnion and a credit scoring model, prior to the granting of loans to the loan applicants. As such, it is important for the Target Group to regularly review its risk control measures and weed out customers of a high credit risk as much as possible to minimise the risk related to recoverability of the customers.

(v) Source of funds

During the Track Record Period, the Target Group's operations were financed principally through the advances from the director and the cash flow generated from the operations. Besides, the Target Group is opened to other options including external financing. The expansion of the money lending business and in turn the loan portfolio of the Target Group relies principally on the sufficiency of the Target Group's source of funding. The financial performance of the Target Group will be affected by whether it can obtain funding on reasonable terms.

(vi) Average interest rate charged

The financial performance of the Target Group is directly related to the average interest rate charged by their loan products. Average interest rate charged refers to the ratio of interest income to the average balance of corresponding loans receivable at month end. The interest rate chargeable by the Target Group to their customers is determined by, amongst other factors, the credit profile of the customers, the market demand for loans and the prevailing competition in the industry, and is ultimately capped by the relevant provisions of the Money Lenders Ordinance. As such, the operating results of the Target Group will be affected by the ability to maintain and increase the average interest rate charged by their loan products.

BASIS OF PREPARATION

Save as disclosed in the section headed "**Non-HKFRS Measures**" below, the financial information of the Target Group has been prepared in accordance with HKFRSs issued by the HKICPA. They have been prepared under the historical cost convention, except for investment properties, which has been measured at fair value. You should read the Accountant's Report included as Appendix III to this circular in its entirety and not merely on the information contained in this section.

A number of new and amended HKFRS became applicable for the reporting period commencing on 1 January 2018, 2019 and 2020. The Target Group has changed its accounting policies and make modified retrospective adjustments as a result of adopting the HKFRS 9 "Financial Instruments" ("**HKFRS 9**"), HKFRS 15 "Revenue from Contracts with Customers" ("**HKFRS 15**") and HKFRS 16 "Leases" ("**HKFRS 16**") from the relevant effective period during the Track Record Period. The accounting impact of adoption of the HKFRS 9, HKFRS 15 and HKFRS 16 are set forth in detail in note 2.1.2 to the Accountant's Report.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Target Group's financial statements and financial results are influenced by critical accounting estimates and judgements, which necessarily must be made by the management during the preparation of the financial statements. Estimates and judgements 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 circumstance. The critical accounting estimates and judgements are set forth in detail in note 4 to the Accountant's Report on the Target Group in Appendix III to this circular.

The accounting policies set out below are of significant importance to the Target Group in the preparation of the Target Group's financial statements. Save as disclosed in note 2.1.2 for changes in accounting policy and disclosures, the Target Group applied the accounting policies consistently throughout the Track Record Period and the board of directors of the Target Group does not foresee any material changes in the near future. The Target Group's summary of significant accounting policies, which are important for an understanding of its financial condition and results of operations, are set forth in detail in note 2 to the Accountant's Report on the Target Group in Appendix III to this circular.

Revenue recognition

Please see note 2.17 to the Accountant's Report on the Target Group in Appendix III to this circular for the Target Group's revenue recognition accounting policies.

Loans, interests and other receivables

Please see note 2.10 to the Accountant's Report on the Target Group in Appendix III to this circular for the Target Group's loans, interest and other receivables accounting policies.

Financial assets

Please see note 2.8 to the Accountant's Report on the Target Group in Appendix III to this circular for the Target Group's financial assets accounting policies.

Impairment of loans and interest receivables

Please see note 4.1 (a) to the Accountant's Report on the Target Group in Appendix III to this circular for the Target Group's impairment of loans and interest receivables accounting estimate and judgement.

Income tax

Please see note 4.1 (b) to the Accountant's Report on the Target Group in Appendix III to this circular for the Target Group's income tax accounting estimate and judgement.

OPERATING RESULTS DURING THE TRACK RECORD PERIOD

The table below presents the summary of consolidated statements of comprehensive income of the Target Group for the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020 extracted from the Accountant's Report on the Target Group as set out in Appendix III to this circular except for the non-HKFRS measures.

	Year ended 31 December			Three months Ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	51,862	56,102	58,663	13,372	16,891
Other income	507	683	2,573	571	555
Administrative expenses	(16,062)	(25,541)	(25,028)	(5,756)	(7,157)
Finance costs	–	–	(504)	(14)	(379)
Provision for impairment of loans and interest receivables	(5,587)	(4,854)	(10,834)	(2,684)	(2,727)
Fair value (losses)/gains on revaluation of investment properties	–	–	(15,043)	3,642	(1,800)
Profit before income tax	**30,720**	**26,390**	**9,827**	**9,131**	**5,383**
Income tax expense	(5,104)	(4,107)	(3,788)	(964)	(896)
Profit and total comprehensive income for the year/period	**25,616**	**22,283**	**6,039**	**8,167**	**4,487**
Non-HKFRS Measures (unaudited):					
Adjusted profit and total comprehensive income for the year/period (excluding the financial results of the Disposed Subsidiaries)	**25,616**	**22,285**	**21,066**	**5,165**	**6,326**

NON-HKFRS MEASURES

To supplement the consolidated financial information which are presented in accordance with HKFRS, we also use adjusted profit and total comprehensive income for the year/period (excluding the financial results of the Disposed Subsidiaries) and adjusted profit margin as additional financial measures. We present these financial measures as these are used by the directors of the Target Group to evaluate the Target Group's operating performance. We also believe that these financial measures provided useful information in understanding and evaluating the consolidated results of operations of the Target Group for the purpose of the Proposed Acquisition taken into account of the Restructuring of the Target Group.

	Year ended 31 December			Three months Ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit and total comprehensive income for the year/period	**25,616**	**22,283**	**6,039**	**8,167**	**4,487**
Add:					
Loss/(profit) of the Disposed Subsidiaries	–	2	15,027	(3,002)	1,839
Adjusted profit and total comprehensive income for the year/period (excluding the financial results of the Disposed Subsidiaries)	**25,616**	**22,285**	**21,066**	**5,165**	**6,326**
Adjusted profit margin for the year/period *(Note)*	49.4%	39.7%	35.9%	38.6%	37.5%

Note: The adjusted profit margin for the year/period is calculated by dividing the adjusted profit and total comprehensive income for the year/period (excluding the financial results of the Disposed Subsidiaries) divided by the revenue for the respective year/period since the Disposed Subsidiaries did not generate any revenue of the Target Group for the year/period presented. The financial results of the Disposed Subsidiaries mainly represented the fair value gains or losses on revaluation of investment properties during the Track Record Period.

The term of adjusted profit and total comprehensive income for the year/period excluding the financial results of the Disposed Subsidiaries and adjusted profit margin are not defined under HKFRS and they are not a measure of profit presented in accordance with HKFRS. In light of this, when assessing the Target Group's operating and financial performance, shareholders are reminded that these non-HKFRS measures are analytical tools and should not be considered in isolation form, or as a substitute for, an analysis of the financial results of the Target Group or other operating performance measures calculated in accordance with HKFRS. In addition, the non-HKFRS measures may not be calculated in the same manner by all companies and therefore may not be comparable to similarly named measures used by other companies.

ANALYSIS ON MAJOR COMPONENTS OF THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following paragraphs set out a brief discussion on the revenue, other income, administrative expenses, finance costs, provision for impairment of loans and interest receivables, fair value gains or losses on revaluation of investment properties, income tax expenses and average interest rate charged during the Track Record Period.

Revenue

The revenue of the Target Group comprised of interest income from the money lending business in respect of (i) secured loans of the first and subordinated mortgage loans to the corporate and private individual customers and a loan secured by a pledge over shares of a listed company; and (ii) offline unsecured personal loans or "X Wallet" which was launched in April 2018.

Interest income generated from secured loans has accounted for the majority of the Target Group's revenue. For each of the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, interest income generated from the secured loans amounted to approximately HK$43.3 million, HK$42.3 million, HK$33.8 million and HK$10.0 million, respectively, represented approximately 83.6%, 75.4%, 57.7% and 59.0%, respectively, of the total revenue of the Target Group. In addition, significant portion of the interest income derived from secured loans was secured by residential property mortgage loans, and the loans secured by shares of a listed company. Interest income derived from unsecured personal loans have increased significantly during the Track Record Period, amounted to approximately HK$8.5 million, HK$13.8 million, HK$24.8 million and HK$6.9 million, respectively, for each of the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, represented approximately 16.4%, 24.6%, 42.3% and 41.0%, respectively, of the total revenue of the Target Group. The overall increase in revenue was primarily attributable to the launch of "X Wallet" in the second quarter of 2018.

Other income

Other income consists of (i) bank interest income; (ii) recovery of loans and interest receivables written-off; and (iii) rental income from investment properties. Bank interest income represented interest income earned during the year. Recovery of loans and interest receivables written-off represented the subsequent settlement of the loans and interest receivables that were written-off. Rental income from investment properties arises from the one of three office units in Hong Kong that were acquired during the year ended 31 December 2019 and subsequently rented out to an Independent Third Party.

Set out below is a breakdown of other income during the Track Record Period:

	Year ended 31 December			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Bank Interest income	–	79	1,627	15	285
Recovery of loans and interest receivables written-off	507	604	782	556	24
Rental income from investment properties	–	–	164	–	246
Total	**507**	**683**	**2,573**	**571**	**555**

Administrative expenses

During the Track Record Period, administrative expenses incurred by the Target Group mainly comprised of employee benefit expenses, advertising and promotion expenses, referral fees, legal and professional fees, amortization of intangible assets and other miscellaneous expenses such as vehicle expenses and bank handling fees.

The breakdown of administrative expenses for each of the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020 are set out as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(% of the total)	*(% of the total)*	*(% of the total)*	*(% of the total)* *(Unaudited)*	*(% of the total)*
Employee benefit expenses	6,166	9,367	9,717	2,473	2,329
	(38.4%)	*(36.7%)*	*(38.8%)*	*(43.0%)*	*(32.5%)*
Depreciation of property, plant and equipment	271	233	864	161	259
	(1.7%)	*(0.9%)*	*(3.5%)*	*(2.8%)*	*(3.6%)*
Amortisation of intangible assets	–	780	1,733	433	433
		(3.0%)	*(6.9%)*	*(7.5%)*	*(6.0%)*
Auditor's remuneration	390	485	415	40	240
	(2.4%)	*(1.9%)*	*(1.7%)*	*(0.7%)*	*(3.4%)*
Referral fee	1,974	1,886	2,177	470	709
	(12.3%)	*(7.4%)*	*(8.7%)*	*(8.1%)*	*(9.9%)*
Operating lease expenses	1,296	1,378	–	–	–
	(8.1%)	*(5.4%)*			
Government rates	65	134	143	–	34
	(0.4%)	*(0.5%)*	*(0.6%)*		*(0.5%)*
Expenses relating to short-term leases	–	–	446	373	20
			(1.8%)	*(6.5%)*	*(0.3%)*
Advertising and promotion	2,135	4,870	3,815	607	831
	(13.3%)	*(19.1%)*	*(15.2%)*	*(10.5%)*	*(11.6%)*
Legal and professional fees	1,828	1,730	1,856	575	1,484
	(11.4%)	*(6.8%)*	*(7.4%)*	*(10.0%)*	*(20.7%)*
Valuation and search fees	943	1,532	982	177	246
	(5.9%)	*(6.0%)*	*(3.9%)*	*(3.1%)*	*(3.4%)*
Computer accessories	39	1,065	612	122	234
	(0.2%)	*(4.2%)*	*(2.5%)*	*(2.1%)*	*(3.3%)*
Entertainment	580	868	379	114	20
	(3.6%)	*(3.4%)*	*(1.5%)*	*(2.0%)*	*(0.3%)*
Repairs and maintenance	55	25	125	50	–
	(0.3%)	*(0.1%)*	*(0.5%)*	*(0.9%)*	
Building management fees	85	85	409	62	63
	(0.5%)	*(0.3%)*	*(1.6%)*	*(1.1%)*	*(0.9%)*
Others	235	1,103	1,355	99	255
	(1.5%)	*(4.3%)*	*(5.4%)*	*(1.7%)*	*(3.6%)*
Total	**16,062**	**25,541**	**25,028**	**5,756**	**7,157**

Finance costs

During the Track Record Period, the finance costs of the Target Group consisted of (i) interest expenses paid in respect of a bank borrowing obtained solely for the purpose to finance the acquisition of the three office units in COSCO Tower located in Sheung Wan Hong Kong during the year ended 31 December 2019; and (ii) interest expense of lease liabilities in respective of the office lease used by the Target Group as the headquarter following the adoption of HKFRS 16. For each of the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 31 March 2020, the finance costs of the Target Group were approximately HK$Nil, HK$Nil, HK$0.5 million, HK$0.01 million and HK$0.4 million, respectively.

Provision for impairment of loans and interest receivables

During the Track Record Period, prior to 1 January 2018, the provision for impairment of loans and interest receivables of the Target Group represented provision for impairment that was assessed by the Target Group individually or collectively at the end of each reporting period if there was objective evidence of impairment as a result of a loss event and that loss event had an impact on the estimated future cash flows arising from the loans and interest receivables.

From 1 January 2018, following the adoption of HKFRS 9 by the Target Group, the provision for impairment of loans and interest receivables of the Target Group represented the net reversal of or net charge for provision for impairment on loans receivables for financial assets without significant increase in credit risk since initial recognition where loss allowance is calculated based on 12-month ECL (stage 1); financial assets with significant increase in credit risk since initial recognition where loss allowance is calculated based on lifetime ECL (stage 2); and credit impaired assets where loss allowance is calculated based on lifetime ECL (stage 3).

Fair value (losses)/gains on revaluation of investment properties

During Track Record Period, the Target Group acquired three office units in Hong Kong during 2019 and recorded fair value losses of approximately HK$15.0 million for the year ended 31 December 2019 and HK$1.8 million for the three months ended 31 March 2020, while revaluation gains of approximately HK$3.6 million were recorded for the three months ended 31 March 2019.

Income tax expenses

The principal tax liability of the Target Group is Hong Kong profits tax as the Target Group's operation is based in Hong Kong.

The Target Group is subject to profits tax at a rate of 16.5% on the estimated assessable profits for each of the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020. The Target Group's income tax expenses amounted to approximately HK$5.1 million, HK$4.1 million, HK$3.8 million, HK$1.0 million and HK$0.9 million, respectively for each of the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020. The effective tax rate was approximately 16.6%, 15.6%, 38.6%, 10.6% and 16.6% for each of the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020, respectively. During the Track Record Period and as at the Latest Practicable Date, the Target Group had fulfilled all of the tax obligations and did not have any unresolved tax disputes with the applicable tax authorities.

Average interest rate charged[1] by the Target Group's loan products

	Year ended 31 December			Three months ended 31 March
Loan product	**2017**	**2018**	**2019**	**2020[2]**
Property mortgage	15.1%	12.5%	12.5%	13.3%
Share mortgage	–	26.7%	24.3%	24.0%
"X Wallet"	–	52.8%	45.6%	41.5%
Offline unsecured personal	25.7%	26.6%	22.7%	17.0%
Overall	**16.2%**	**16.0%**	**19.1%**	**18.5%**

Note 1: Average interest rate charged refers to the ratio of interest income, to the average balance of corresponding loans receivable at month end extracted from the accounting system of the Target Group.

Note 2: Average interest rate charged for the three months ended 31 March 2020 represented the annualised interest income based on the interest income for the three months ended 31 March 2020 to the average balance of corresponding loans receivable at month end extracted from the accounting system of the Target Group. Hence, the figures are solely for illustrative purpose only.

Average interest rate charged is calculated as interest income received, divided by the average month-end gross loans receivable balances of the corresponding loans during the year/period.

For each of the three years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, the Target Group's average interest rate charged by their loan products was approximately 16.2%, 16.0%, 19.1% and 18.5%, respectively. The increase in the average interest rate charged from 31 December 2018 to 31 December 2019 was mainly driven by the increased proportion of interest income from "X Wallet" as a result of increase in gross loans receivable balance of "X Wallet" and also the higher interest rate offered to the customers by "X Wallet" than secured loans and other offline unsecured personal loans.

PERIOD TO PERIOD COMPARISON OF OPERATING RESULTS

Three months ended 31 March 2020 compared with three months ended 31 March 2019

Revenue

Revenue for the three months ended 31 March 2020 amounted to HK$16.9 million, represented an increase of approximately 26.3% when compared to HK$13.4 million in the previous period. The increase was mainly due to the overall increase arising from both secured loans of approximately 17.5% and unsecured loans of approximately 41.6% due to the growth of the loan portfolio of the Target Group, and as such, derived more interest income.

Other income

Other income of the Target Group for the three months ended 31 March 2019 and 2020 amounted to approximately HK$0.6 million and HK$0.6 million, respectively. Other income for the three months ended 31 March 2019 mainly represented the recovery of loans and interest receivables written-off of approximately HK0.6 million, while for the three months ended 31 March 2020 other income mainly represented the bank interest income of approximately HK$0.3 million and rental income of approximately HK$0.2 million as the Target Group has higher cash balance in bank and started to earn rental income from renting out one of its office units to an Independent Third Party.

Administrative expenses

The Target Group incurred administrative expenses of approximately HK$7.2 million for the three months ended 31 March 2020, representing an increase of approximately HK$1.4 million or 24.3% when compared to administrative expenses of approximately HK$5.8 million for the three months ended 31 March 2019. The increase was mainly attributable to the combined effects of the followings:

(i) Employee benefit expenses

The Target Group's employee benefit expenses slightly decreased from approximately HK$2.5 million for the three months ended 31 March 2019, to approximately HK$2.3 million for the three months ended 31 March 2020. Such decrease was mainly due to the net decrease in the number of staffs from 24 as at 31 March 2019 to 18 as at 31 March 2020.

(ii) Advertising and promotion expenses

The advertising and promotion expenses increased from approximately HK$0.6 million for the three months ended 31 March 2019 to approximately HK$0.8 million for the three months ended 31 March 2020, representing an increase of approximately HK$0.2 million or 36.9%. Such increase was due to most of the yearly advertising promotion expenses were incurred in the second half of 2019.

(iii) Legal and professional fees

The legal and professional fees significantly increased from approximately HK$0.6 million for the three months ended 31 March 2019 to approximately HK$1.5 million for the three months ended 31 March 2020, representing an increase of approximately HK$0.9 million or 158.1%. Such increase was primarily due to the increase in legal documentation fees.

(iv) Referral fees

The referral fees increased from approximately HK$0.5 million for the three months ended 31 March 2019 to approximately HK$0.7 million for the three months ended 31 March 2020, representing a slight increase of approximately HK$0.2 million. Such increase was due to the increase in loans referred to the Target Group for the three months ended 31 March 2020.

(v) Expenses relating to short-term leases

The Target Group has adopted HKFRS 16 from its mandatory adoption date of 1 January 2019. On adoption of HKFRS 16, the Target Group, as a lessee, recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17.

The expenses relating to short-term leases decreased from approximately HK$0.4 million for the three months ended 31 March 2019 to approximately HK$19,800 for the three months ended 31 March 2020, representing a decrease of approximately HK$0.4 million or 94.7%. Such decrease was due to the decrease in rental expenses as a result of expiration of the lease contract for one of the two Target Group's offices.

Provision for impairment of loans and interest receivables

The net charge for provision for impairment of loans and interest receivables remained steady at approximately HK$2.7 million for the three months ended 31 March 2019 and 2020.

Fair value losses/gains on revaluation of investment properties

The Target Group recorded fair value losses of approximately HK$1.8 million for the three months ended 31 March 2020, while fair value gains of approximately HK$3.6 million was recorded for three month ended 31 March 2019. This was in line with the change in the overall trend of the Hong Kong property market during the period.

Income tax expenses

Income tax expenses slightly decreased from approximately HK$1.0 million for the three months ended 31 March 2019 to approximately HK$0.9 million for the three months ended 31 March 2020. The decrease in income tax expenses was primarily due to tax concession and over-provision in prior years.

Average interest rate charged

Average interest rate charged for the three months ended 31 March 2020 represented the annualised interest income based on the interest income for the three months ended 31 March 2020 to the average balance of corresponding loans receivable at month end. Hence, the figures are solely for illustrative purpose only.

Profit and total comprehensive income and adjusted profit and total comprehensive income

As a result of the foregoing, the Target Group recorded profit and total comprehensive income for the three months ended 31 March 2020 of approximately HK$4.5 million (or approximately HK$6.3 million excluding the financial results of the Disposed Subsidiaries), representing a decrease of approximately 45.1% (or approximately 22.5% excluding the financial results of the Disposed Subsidiaries) from approximately HK$8.2 million (or approximately HK$5.2 million excluding the financial results of the Disposed Subsidiaries) for the three months ended 31 March 2019.

Year ended 31 December 2019 compared with year ended 31 December 2018

Revenue

Revenue for the year ended 31 December 2019 was HK$58.7 million, represented an increase of approximately 4.6% when compared to HK$56.1 million for the year ended 31 December 2018. Despite the decrease in interest income derived from both secured loan of approximately HK$8.5 million or 20.1% and offline unsecured personal loans of approximately HK$0.2 million or 1.5%, the overall increase was mainly driven by the increased contribution of “X Wallet” from approximately HK$2.5 million for the year ended 31 December 2018 to approximately HK$13.7 million for the year ended 31 December 2019, as a result of the overall increase in the loan portfolio balance of the Target Group.

Other income

Other income of the Target Group for the year ended 31 December 2019 was approximately HK$2.6 million, represented a significant increase of approximately HK$1.9 million or 277%, from approximately HK$0.7 million for the year ended 31 December 2018. Such increase was mainly attributable to the significant increase in bank interest income by approximately HK$1.5 million as a result of the increased balance of cash and cash equivalents.

Administrative expenses

The Target Group incurred administrative expenses of approximately HK$25.0 million for the year ended 31 December 2019, representing a slight decrease of approximately HK$0.5 million when compared to approximately HK$25.5 million for the year ended 31 December 2018. Such slight decrease was mainly attributable to the combined effects of the followings:

(i) Employee benefit expenses

The Target Group's employee benefit expenses slightly increased from approximately HK$9.4 million for the year ended 31 December 2018 to approximately HK$9.7 million for the year ended 31 December 2019. The slight increase was mainly due to the average increment in staff salaries.

(ii) Advertising and promotion expenses

The advertising and promotion expenses decreased from approximately HK$4.9 million for the year ended 31 December 2018 to approximately HK$3.8 million for the year ended 31 December 2019, representing a decrease of approximately HK$1.1 million or 21.7%. Such decrease was due to the video production costs incurred for the year ended 31 December 2018, while there were no such costs for the year ended 31 December 2019.

(iii) Amortization of intangible assets

The amortization of intangible assets increased from approximately HK$0.8 million for the year ended 31 December 2018 to approximately HK$1.7 million for the year ended 31 December 2019, representing an increase of approximately HK$0.9 million or 122.2%. Such increase was due to the full-year amortization impact for the year ended 31 December 2019, as a result of the addition of intangible assets relating to the development cost of "X Wallet" which has been capitalised during the year ended 31 December 2018.

(iv) Valuation and search fee

The valuation and search fee decreased by approximately HK$0.5 million or 35.8% from approximately HK$1.5 million for the year ended 31 December 2018 to approximately HK$1.0 million for the year ended 31 December 2019. Such decrease was mainly due to the higher unit search fee related to TransUnion for the year ended 31 December 2018 as "X Wallet" launched.

(v) Computer accessories

The computer accessories expenses decreased from approximately HK$1.1 million for the year ended 31 December 2018 to approximately HK$0.6 million for the year ended 31 December 2019, representing a decrease of approximately HK$0.5 million or 42.6%. Such decrease was mainly due to more expenses were incurred for the set-up of cloud system during the year ended 31 December 2018.

(vi) Expenses relating to short-term leases/operating lease expenses

The Target Group has adopted HKFRS 16 from its mandatory adoption date of 1 January 2019. On adoption of HKFRS 16, the Target Group, as a lessee, recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17.

Operating lease expenses amounted to approximately HK$1.4 million for the year ended 31 December 2018, while expenses relating to short-term leases amounted to approximately HK$0.4 million for the year ended 31 December 2019, representing a decrease of approximately HK$1.0 million or 67.6%. Such decrease was due to the decrease in rental expenses as a result of expiration of the lease contract for one of the two Target Group's offices and adoption of HKFRS 16 lease liabilities.

Provision for impairment of loans and interest receivables

The net charge for provision for impairment of loans and interest receivables increased from approximately HK$4.9 million for the year ended 31 December 2018 to approximately HK$10.8 million for the year ended 31 December 2019. The increase was mainly due to the overall increase in loan balances.

Fair value losses on revaluation of investment properties

The Target Group recorded fair value losses of approximately HK$15.0 million for the year ended 31 December 2019 which was in line with the change in the overall trend of the Hong Kong commercial property market during the year.

Income tax expenses

Income tax expenses decreased by approximately HK$0.3 million or 7.8% from approximately HK$4.1 million for the year ended 31 December 2018 to approximately HK$3.8 million for the year ended 31 December 2019. The decrease in income tax expenses was primarily due to the decrease in assessable profit for the year ended 31 December 2019.

Average interest rate charged

The average interest rate charged increased from approximately 16.0% for the year ended 31 December 2018 to approximately 19.1% for the year ended 31 December 2019. Such increase was mainly driven by the increased proportion of interest income from "X Wallet" as a result of increase in gross loans receivable balance of "X Wallet" and also the higher interest rate offered to the customers by "X Wallet" than secured loans and offline unsecured personal loans.

The average interest rate charged for property mortgage loans remained steady at approximately 12.5% for the two years ended 31 December 2018 and 2019.

The average interest rate charged for the share mortgage loan decreased from approximately 26.7% for the year ended 31 December 2018 to approximately 24.3% for the year ended 31 December 2019.

The average interest rate charged for "X Wallet" decreased from approximately 52.8% for the year ended 31 December 2018 to approximately 45.6% for the year ended 31 December 2019.

The average interest rate charged for offline unsecured personal loans decreased from approximately 26.6% for the year ended 31 December 2018 to approximately 22.7% for the year ended 31 December 2019.

Profit and total comprehensive income and adjusted profit and total comprehensive income

As a result of the foregoing, the Target Group recorded profit and total comprehensive income for the year ended 31 December 2019 of approximately HK$6.0 million (or approximately HK$21.1 million excluding the financial results of the Disposed Subsidiaries) representing a decrease of approximately 72.9% (or approximately 5.5% excluding the financial results of the Disposed Subsidiaries) from approximately HK$22.3 million (or approximately HK$22.3 million excluding the financial results of the Disposed Subsidiaries) for the year ended 31 December 2018.

Year ended 31 December 2018 compared with year ended 31 December 2017

Revenue

Revenue for the year ended 31 December 2018 was HK$56.1 million, increased by approximately 8.2% when compared to approximately HK$51.9 million for the year ended 31 December 2017. Such increase was primarily driven by the increase in interest income generated from (i) a share mortgage loan amounted to approximately HK$12.1 million which was granted during the year ended 31 December 2018; and (ii) unsecured loan business from approximately HK$8.5 million for the year ended 31 December 2017 to approximately HK$13.8 million for the year ended 31 December 2018 which was partially offset by the decrease in interest income of property mortgage loans by approximately HK$13.1 million.

Other income

Other income of the Target Group for the year ended 31 December 2018 was approximately HK$0.7 million, represented an increase from approximately HK$0.5 million for the year ended 31 December 2017. Such increase was mainly attributable to the increase in the recovery of loans and interest receivables written-off and bank interest income.

Administrative expenses

The Target Group incurred administrative expenses of approximately HK$25.5 million for the year ended 31 December 2018, representing a significant increase of approximately HK$9.4 million or 59.0% when compared to approximately HK$16.1 million for the year ended 31 December 2017. Such increase was mainly attributable to the growth of the business of the Target Group, and the combined effects of the followings:

(i) Employee benefit expenses

The Target Group's employee benefit expenses significant increased by HK$3.2 million from approximately HK$6.2 million for the year ended 31 December 2017 to approximately HK$9.4 million for the year ended 31 December 2018. Such increase was mainly due to the increase in wages, salaries and bonus, as a result from the net increase in the number of staffs from 19 as at 31 December 2017 to 24 as at 31 December 2018.

(ii) Advertising and promotion expenses

The advertising and promotion expenses significantly increased by HK$2.8 million or 128.1% from approximately HK$2.1 million for the year ended 31 December 2017 to approximately HK$4.9 million for the year ended 31 December 2018. Such increase was mainly attributable to the video production costs.

(iii) Amortization of intangible assets

Amortization of intangible assets for the year ended 31 December 2018 amounted to approximately HK$0.8 million, represented the addition of intangible assets during the year related to the development of "X Wallet" which has been capitalised.

(iv) Valuation and search fee

The valuation and search fee increased by approximately HK$0.6 million or 62.5% from approximately HK$0.9 million for the year ended 31 December 2017 to approximately HK$1.5 million for the year ended 31 December 2018. Such increase was mainly due to the increase in search fee related to TransUnion from "X Wallet" in 2018.

(v) Computer accessories

The computer accessories expenses increased from approximately HK$39,218 for the year ended 31 December 2017 to approximately HK$1.1 million, representing an increase of approximately HK$1.0 million. Such significant increase was mainly due to the increase in service fee related to cloud system during the year ended 31 December 2018.

(vi) Other expenses

Other expenses mainly represented miscellaneous expenses such as bank handling fees, vehicle expenses, utilities expenses and business administrative expenses. Other expenses increased from approximately HK$0.2 million for the year ended 31 December 2017 to approximately HK$1.1 million for the year ended 31 December 2018. Such increase was due to the increase in vehicle expenses and the business administrative expenses which was in line with the increased size of the money lending business.

Provision for impairment of loans and interest receivables

The net charge for provision for impairment of loans and interest receivables decreased from approximately HK$5.6 million for the year ended 31 December 2017 to approximately HK$4.9 million for the year ended 31 December 2018. Prior to the year ended 31 December 2018, provision for impairment was assessed individually or collectively. Since 1 January 2018, the ECL model was used following the adoption of HKFRS 9 by the Target Group. The balance for the year ended 31 December 2017 mainly represented the provision for impairment on individual loans receivable of approximately HK$8.2 million net of the reversal of collective impairment on loans receivables of approximately HK$2.7 million. The decrease was mainly due to subsequent settlement of some loans receivable being provided for individual impairment during the year ended 31 December 2017.

Income tax expenses

Income tax expenses decreased by approximately HK$1.0 million or 19.5% from approximately HK$5.1 million for the year ended 31 December 2017 to approximately HK$4.1 million for the year ended 31 December 2018. Such decrease was primarily due to (i) the decrease in profit before income tax from approximately HK$30.7 million for the year ended 31 December 2017 to approximately HK$26.4 million for the year ended 31 December 2018; and (ii) an increase in tax concession of approximately HK$0.2 million during the year ended 31 December 2018.

Average interest rate charged

The overall average interest rate charged slightly decreased from approximately 16.2% for the year ended 31 December 2017 to approximately 16.0% for the year ended 31 December 2018.

The average interest rate charged for "X Wallet" was approximately 52.8% for the year ended 31 December 2018. As interest income of "X Wallet" loans was approximately HK$2.5 million for the year ended 31 December 2018 (representing approximately 4.4% of total revenue), its impact on the overall average interest rate charged was minimal.

Profit and total comprehensive income and adjusted profit and total comprehensive income

As a result of the foregoing, the Target Group recorded profit and total comprehensive income for the year ended 31 December 2018 of approximately HK$22.3 million (or approximately HK$22.3 million excluding the financial results of the Disposed Subsidiaries), representing a decrease of approximately 13.0% (or approximately 13.0% excluding the financial results of the Disposed Subsidiaries) from approximately HK$25.6 million for the year ended 31 December 2017.

FINANCIAL POSITION OF THE TARGET GROUP

The table below presents the summary of consolidated statements of financial position of the Target Group as at 31 December 2017, 2018 and 2019 and 31 March 2020 extracted from the Accountant's Report as set out in Appendix III to this circular.

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	365	320	2,113	1,875
Intangible assets	–	4,420	2,687	2,253
Investment properties	–	–	165,000	163,200
Deferred income tax assets	485	2,378	1,373	1,543
Loans receivable	115,603	96,273	238,763	257,442
Prepayments	–	33,666	–	–
	116,453	137,057	409,936	426,313
Current assets				
Loans receivable	107,736	181,310	53,750	69,081
Interest receivables	1,550	2,266	1,557	2,796
Prepayment, deposits and other receivables	4,505	4,091	2,761	2,581
Amount due from a director	10,040	–	–	–
Amount due from fellow subsidiaries	35,330	82	–	–
Amount due from immediate holding company	–	–	35	35
Cash and cash equivalents	65,877	80,908	243,693	62,113
	225,038	268,657	301,796	136,606
Total assets	**341,491**	**405,714**	**711,732**	**562,919**

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity				
Equity attributable to the owner of the Target Company				
Retained earnings	57,056	73,351	79,390	83,876
Total equity	57,056	73,351	79,390	83,876
Non-current liabilities				
Bank borrowings	–	–	47,001	46,507
Other payable and accruals	–	–	246	246
Lease liabilities	–	–	322	203
Deferred income	913	–	–	–
	913	–	47,569	46,956
Current liabilities				
Other payable and accruals	1,796	3,271	2,300	1,474
Bank borrowings	–	–	1,850	1,880
Lease liabilities	–	–	465	470
Deferred income	138	–	–	–
Amount due to a director	270,500	325,829	577,065	424,267
Amount due to fellow subsidiaries	72	270	–	–
Current income tax payable	11,016	2,993	3,093	3,996
	283,522	332,363	584,773	432,087
Total liabilities	**284,435**	**332,363**	**632,342**	**479,043**
Total equity and liabilities	**341,491**	**405,714**	**711,732**	**562,919**

ANALYSIS ON MAJOR COMPONENTS OF THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Loans receivable

The Target Group's loans receivable derived from the money lending business with provision of loans that are secured by collaterals provided by customers and "X Wallet" or through face-to-face execution, which are interest bearing and repayable on fixed terms agreed with the customers. As at 31 December 2017, 2018 and 2019 and 31 March 2020, total loans receivable (net of provision) amounted to approximately HK$223.3 million, HK$277.6 million, HK$292.5 million and HK$326.5 million, respectively. A breakdown of the loans receivable, net of provision for impairment, are as follows:

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Gross loans receivable – secured loans	**226,789**	**254,097**	**257,738**	**291,981**
Property mortgage	226,789	209,097	227,738	261,981
Share mortgage	–	45,000	30,000	30,000
Gross loans receivable – unsecured personal loans	**26,759**	**65,720**	**87,844**	**90,338**
"X Wallet"	–	12,314	45,477	52,224
Offline unsecured personal loans	26,759	53,406	42,367	38,114
Total gross loans receivable	**253,548**	**319,817**	**345,582**	**382,319**
Less: Provision for impairment				
– Stage 1	–	(10,955)	(8,264)	(9,110)
– Stage 2	–	(5,637)	(1,139)	(990)
– Stage 3	–	(25,642)	(43,666)	(45,696)
Less: Provision for individual Impairment	(27,369)	–	–	–
Less: Provision for collective impairment	(2,840)	–	–	–
Loans receivable, net of provision	**223,339**	**277,583**	**292,513**	**326,523**
Less: Non-current portion	(115,603)	(96,273)	(238,763)	(257,442)
Current Portion	107,736	181,310	53,750	69,081

Gross loans receivable

The aggregate gross balance of loans receivable was approximately HK$253.5 million, HK$319.8 million, HK$345.6 million and HK$382.3 million as at 31 December 2017, 2018, 2019 and 31 March 2020 respectively.

31 December 2019 Vs 31 March 2020

The overall increase of the gross loans receivable balance of approximately HK$36.7 million or 10.6% from 31 December 2019 to 31 March 2020 represented the net increase of the new loans originated which amounted to approximately HK$70.3 million while the repayment amounted to approximately HK$33.6 million. The overall increase of the gross loans receivable balance was mainly due to the increase in gross loans receivable of property mortgage loan by approximately HK$34.2 million or 15.0%. Gross loans receivable balances of "X Wallet" also increased by approximately HK$6.7 million or 14.8%. Such increases were in line with the increases with their respective current customer accounts.

31 December 2018 Vs 31 December 2019

The overall increase of the gross loans receivable balance of approximately HK$25.8 million or 8.1% from 31 December 2018 to 31 December 2019 represented the net increase of new loans originated which amounted to approximately HK$258.3 million while the repayment amounted to approximately HK$232.6 million. The overall increase of the gross loans receivable balance was mainly due to the increase in gross loans receivable of "X Wallet" by approximately HK$33.2 million or 269.3%. Gross loans receivable balances of property mortgage loan also increased by approximately HK$18.6 million or 8.9%. Such increases were in line with the increases their respective current customer accounts, in particular, for "X Wallet" following its launch in April 2018.

31 December 2017 Vs 31 December 2018

The overall increase of the gross loans receivable balance of approximately HK$66.3 million or 26.1% from 31 December 2017 to 31 December 2018 represented the net increase of new loans originated which amounted to approximately HK$228.6 million; while the repayment amounted to approximately HK$162.3 million. The overall increase of the gross loans receivable balance was mainly due to the increases in gross loans receivable of offline unsecured personal loan of approximately HK$26.6 million or 99.6% and the additional gross loans receivable derived from (i) the mortgage loan secured by shares of a listed company of approximately HK$45.0 million which was granted during the year ended 31 December 2018; and (ii) "X Wallet" of approximately HK$12.3 million following its launch in April 2018. Such significant increase in offline unsecured personal loans was in line with the Target Group's business strategy to diversify its loan portfolio.

Provision for impairment

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the total provision accounted for approximately 11.9%, 13.2%, 15.4% and 14.6% of the total gross loans receivable balances.

The general increase in the proportion of the provision over the total loans receivable balance since 31 December 2017 following the adoption of ECL model in accordance with HKFRS 9 on 1 January 2018 by the Target Group was due to that the Target Group would assess the credit risks of its loans receivable balances on a forward-looking basis, while prior to that the Target Group would assess provision for individual and collective impairment loss for customers whom the directors of the Target Group are of the view that the collection of these loans receivable was not probable as a result of loss event(s), taking into account the evidence, amongst others, the significant financial difficulty of the borrower and any breach of contract etc. The increases from 31 December 2018 to 31 December 2019, and 31 December 2019 to 31 March 2020 were attributable to the respective increases in the total gross loans receivable balances. The increase from 31 December 2017 to 31 December 2018 was mainly because of an additional provision amount of approximately HK$7.2 million that was recorded in retained earnings following the adoption of HKFRS 9 and as a result of the increased gross loans receivable balance.

Interest receivables

As at 31 December 2017, 2018 and 2019 and 31 March 2020, interest receivables were approximately HK$1.6 million, HK$2.3 million, HK$1.6 million and HK$2.8 million, respectively.

The analysis of the interest receivables as at the end of the reporting period is as follows:

		As at 31 December		**As at 31 March**
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured loans	1,204	837	440	1,532
Unsecured loans	346	1,429	1,117	1,264
Total interest receivables	**1,550**	**2,266**	**1,557**	**2,796**

The Target Group's interest receivables were solely derived from the money lending business of providing property mortgage loans and personal loans in Hong Kong. All the interest receivables as at the end of the reporting period were calculated based on the interest payment due date up to the year-end date. The increases from 31 December 2019 to 31 March 2020 and from 31 December 2017 to 31 December 2018 and decrease from 31 December 2018 to 31 December 2019 were mainly due to the differences in the monthly interest instalment payment due date for the respective years and period.

Prepayments, deposits and other receivables

Current portion

The current portion of the prepayments, deposits and other receivables of the Target Group amounted to approximately HK$4.5 million, HK$4.1 million, HK$2.8 million and HK$2.6 million as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively. The balances mainly represented prepaid advertising expenses and rental deposits.

31 December 2019 Vs 31 March 2020

Current portion of the prepayments, deposits and other receivables from 31 December 2019 to 31 March 2020 remained steady.

31 December 2018 Vs 31 December 2019

The decrease of the current portion of the prepayments, deposits and other receivables from 31 December 2018 to 31 December 2019 was primarily attributable to the decrease in the prepaid maintenance fee related to TransUnion and prepaid advertising fee.

31 December 2017 Vs 31 December 2018

The balance as at 31 December 2017 and 2018 mainly represented prepaid maintenance fee related to TransUnion and prepaid advertising fee which remained steady.

Non-current portion

The non-current portion of the prepayments, deposits and other receivables of the Target Group amounted to approximately HK$Nil, HK$33.7 million, HK$Nil and HK$Nil as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively.

As at December 2018, The Target Group's prepayments, deposits and other receivables mainly represented deposit for (i) prepayment for acquisition of investment properties of the two out of three commercial units amounted to approximately HK$29.3 million in Hong Kong; and (ii) prepayment for an acquisition 100% equity interest of a company whom subsidiary's sole asset was an investment property being one out of the three commercial units, amounted to approximately HK$4.4 million representing 10% of the consideration. The decrease of in prepayments was due to the completion of the acquisitions.

Cash and cash equivalents

The Target Group's cash and cash equivalents amounted to approximately HK$65.9 million, HK$80.9 million, HK$243.7 million and HK$62.1 million as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively.

As at 31 March 2020, cash and cash equivalents of the Target Group solely represented cash at bank and on hand and approximately HK$62.1 million or 99.6% were denominated in HK$. As at 31 December 2019, cash and cash equivalents of the Target Group solely represented cash at bank and on hand and approximately HK$221.5 million or 90.9% were denominated in HK$, approximately HK$21.9 million or 9.0% were denominated in United States dollars and approximately HK$0.2 million or 0.1% were denominated in Renminbi. As at 31 December 2018, cash and cash equivalents of the Target Group represented cash at bank and on hand of approximately HK$70.9 million and short-term bank deposit of approximately HK$10.0 million. Approximately HK$80.7 million or 99.7% were denominated in HK$ and approximately HK$0.2 million or 0.3% were denominated in Renminbi. As at 31 December 2017, cash and cash equivalents of the Target Group solely represented cash at bank and on hand of approximately HK$65.9 million which were all denominated in HK$.

31 December 2019 Vs 31 March 2020

The significant decrease in cash and cash equivalents from 31 December 2019 to 31 March 2020 was primarily attributable to the increase in net cash used in financing activities mainly for repayment to a director of approximately HK$152.8 million.

31 December 2018 Vs 31 December 2019

The significant increase in cash and cash equivalents from 31 December 2018 to 31 December 2019 was primarily attributable to the increase in net cash generated from operating activities of approximately HK$9.5 million and financing activities of approximately HK$299.6 million mainly arising from the advance from a director and drawn-down of bank borrowings, partially offset by the net cash used in investing activities mainly for prepayment in relation to the purchases of the investment properties amounted to approximately HK$146.4 million.

31 December 2017 Vs 31 December 2018

The increase in cash and cash equivalents from 31 December 2017 to 31 December 2018 was primarily attributable to the increase in net cash generated from operating activities.

Other payables and accruals

Current portion

Other payables and accruals of current portion amounted to approximately HK$1.8 million, HK$3.3 million, HK$2.3 million and HK$1.5 million as at 31 December 2017, 2018, 2019 and 31 March 2020 respectively, while other payables and accruals of non-current portion amounted to approximately HK$Nil, HK$Nil, HK$0.2 million and HK$0.2 million as at 31 December 2017, 2018, 2019 and 31 March 2020 respectively. For other payables and accruals of current portion, the balances mainly represented accrued expenses such as salary and bonus, audit fee, information technology fee and advertising expenses and other payables such as excess receipts arising from sale of customer's collateral.

31 December 2019 Vs 31 March 2020

The decrease from approximately HK$2.3 million as at 31 December 2019 to approximately HK$1.5 million as at 31 March 2020 was due to that there were accrued expenses of advertisement expenses and other payables of excess receipt on sale of customer's collateral and professional fees payables as at 31 December 2019 while there were no such balances as at 31 March 2020.

31 December 2018 Vs 31 December 2019

The decrease from approximately HK$3.3 million as at 31 December 2018 to approximately HK$2.3 million as at 31 December 2019 was due to that there were accrued expenses of salary and bonus and information technology as at 31 December 2018 while there were no such balances as at 31 December 2019.

31 December 2017 Vs 31 December 2018

The increase from approximately HK$1.8 million as at 31 December 2017 to approximately HK$3.3 million as at 31 December 2018 was due to that the increase in accrued expenses of salary and bonus and information technology as at 31 December 2018.

Non-current portion

The non-current portion of other payables and accruals amounted to approximately HK$Nil, HK$Nil, HK$0.2 million and HK$0.2 million as at 31 December 2017, 2018, 2019 and as at 31 March 2020, respectively mainly represented rental deposits for lease of investment properties.

Bank borrowings

Bank borrowings of the Target Group amounted to approximately HK$Nil, HK$Nil, HK$48.9 million and HK$48.4 million as at 31 December 2017, 2018, 2019 and 31 March 2020 respectively and were denominated in HK$.

31 December 2019 Vs 31 March 2020

The slight decrease from 31 December 2019 to 31 March 2020 was due to partial repayment of bank borrowings.

31 December 2018 Vs 31 December 2019

The increase from 31 December 2018 to 31 December 2019 was due to the commencement of bank borrowing of secured term loan during 2019 at floating rates to finance the acquisition of the investment properties of three commercial units. The loan was secured by investment properties held by the Group amounting to approximately HK$165 million and personal guarantee by a director by the Target Group.

Amount due to a director

The amount due to a director represented the advance from a director to provide financial support to the Target Group. The balances are unsecured, interest-free and repayable on demand.

31 December 2019 Vs 31 March 2020

The decrease in the amount due to a director of approximately HK$152.8 million or 26.5% from approximately HK$577.1 million as at 31 December 2019 to approximately HK$424.3 million as at 31 March 2020 was due to partial repayments.

31 December 2018 Vs 31 December 2019

The increase in the amounts due to a director of approximately HK$251.2 million or 77.1% from approximately HK$325.8 million as at 31 December 2018 to approximately HK$577.1 million as at 31 December 2019 was due to further advances from the director for business expansion.

KEY FINANCIAL RATIOS

The following table sets out the key financial ratios of the Target Group during the Track Record Period:

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
Current ratio *(note 1)*	79.4%	80.8%	51.6%	31.6%
Gearing ratio *(note 2)*	3.59	3.34	4.81	4.89

	For the year ended 31 December			For the three months ended 31 March
	2017	**2018**	**2019**	**2020**
Return on asset ratio *(note 3)*	7.5%	5.5%	3.0%	N/A*(note 5)*
Return on equity ratio *(note 4)*	44.9%	30.2%	26.5%	N/A*(note 5)*

Notes:

1. *Current ratio is calculated by dividing current assets by current liabilities as at the respective year/period-end date.*

2. *Gearing ratio is calculated by dividing net debt (including total advances from the director) by total equity. Net debt is calculated as total borrowings less cash and cash equivalents.*

3. *Return on assets ratio is calculated by dividing the adjusted profit and total comprehensive income for the year (excluding the financial results of the Disposed Subsidiaries) by the total assets as at the respective year-end dates.*

4. *Return on equity ratio is calculated by dividing the adjusted profit and total comprehensive income for the year (excluding the financial results of the Disposed Subsidiaries) by the total equity as at the respective year-end dates.*

5. *The ratios are not meaningful because the profit for the period only represented three months of profit.*

Current ratio

The Target Group's current ratios were approximately 79.4%, 80.8%, 51.6% and 31.6% as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively.

31 December 2019 Vs 31 March 2020

The decrease in the current ratio of the Target Group from approximately 51.6% as at 31 December 2019 to approximately 31.6% as at 31 March 2020 was due to the higher proportionate decrease in current assets than the decrease in current liabilities during the year.

As at 31 March 2020, current assets amounted to approximately HK$136.6 million, decreased by approximately 54.7% from approximately HK$301.8 million as at 31 December 2019.

As at 31 March 2020, current liabilities amounted to approximately HK$432.1 million, decreased by approximately 26.1% from approximately HK$584.8 million as at 31 December 2019.

The decrease in current assets was primarily due to the decrease in cash and cash equivalents as a result of a partial repayment of a loan from a director. The decrease in current liabilities was due to the corresponding decrease in the amount due to a director.

31 December 2018 Vs 31 December 2019

The decrease in the current ratio of the Target Group from approximately 80.8% as at 31 December 2018 to approximately 51.6% as at 31 December 2019 was due to the higher proportionate increase in current liabilities than the increase in current assets during the year.

As at 31 December 2019, current assets amounted to approximately HK$301.8 million, increased by approximately 12.3% from approximately HK$268.7 million as at 31 December 2018.

As at 31 December 2019, current liabilities amounted to approximately HK$584.8 million, increased by approximately 75.9% from approximately HK$332.4 million as at 31 December 2018.

The increase in current assets was primarily due to the increase in cash and cash equivalents which was partially offset by the decrease in loans receivable, prepayments, deposits and other receivables and interest receivables. The increase in current liabilities was due to the increase in bank borrowing and amount due to a director.

31 December 2017 Vs 31 December 2018

The increase in the current ratio of the Target Group from approximately 79.4% as at 31 December 2017 to approximately 80.8% as at 31 December 2018 was due to the higher proportionate increase in current assets than the increase in current liabilities during the year.

Current assets amounted to approximately HK$268.7 million as at 31 December 2018, increased by approximately 19.4% from approximately HK$225.0 million as at 31 December 2017.

Current liabilities amounted to approximately HK$283.5 million as at 31 December 2017, increased by approximately 17.2% from approximately HK$332.4 million as at 31 December 2018.

The increase in current assets was primarily due to the increase in cash and cash equivalents and loans receivable which was partially offset by the decrease in the amount due from fellow subsidiaries. The increase in current liabilities was due to the increase in the amount due to a director for financing the money lending business.

Gearing ratio

Since the commencement of the Target Group's operations, the Target Group has received advances from the director to finance the growth and development of the business. Also, since September 2019, in order to finance the Target Group's acquisition of the investment properties, additional external financing were obtained from a bank which increased the net debt level of the Target Group during the Track Record Period, leading to the general increase in the gearing ratio.

The Target Group's gearing ratio, as calculated by dividing net debt (plus advances from a director and less cash and cash equivalents) by total equity was approximately 3.59, 3.34 and 4.81 as at 31 December 2017, 2018, 2019 and approximately 4.89 as at 31 March 2020, respectively.

31 December 2019 Vs 31 March 2020

The gearing ratio increased from approximately 4.81 as at 31 December 2019 to approximately 4.89 as at 31 March 2020, and approximately 3.59 as at 31 December 2017 to approximately 3.34 as at 31 December 2018 remained steady.

31 December 2018 Vs 31 December 2019

The increase from approximately 3.34 as at 31 December 2018 to approximately 4.81 as at 31 December 2019 was primarily due to the increase in net debt primarily due to the commencement of external financings in September 2019 and the further advances from a director.

31 December 2017 Vs 31 December 2018

The decrease from approximately 3.59 as at 31 December 2017 to approximately 3.34 as at 31 December 2018 was primarily due to the increase from further advances from a director.

Return on assets ratio

The Target Group's return on assets ratios were approximately 7.5%, 5.5% and 3.0% for each of the three years ended 31 December 2017, 2018 and 2019, respectively.

31 December 2018 Vs 31 December 2019

The decrease in return on assets from approximately 5.5% for the year ended 31 December 2018 to approximately 3.0% for the year ended 31 December 2019 was primarily due to the increase in total assets by approximately 75.4% whereas the adjusted profit and total comprehensive income for the year (excluding the financial results of the Disposed Subsidiaries) decreased by approximately 5.5%.

31 December 2017 Vs 31 December 2018

The decrease in return on assets from approximately 7.5% for the year ended 31 December 2017 to approximately 5.5% for the year ended 31 December 2018 was primarily due to the increase in total assets by approximately 18.8% whereas the adjusted profit and total comprehensive income for the year (excluding the financial results of the Disposed Subsidiaries) decreased by approximately 13.0%.

Return on equity ratio

The Target Group's return on equity ratios were approximately 44.9%, 30.2% and 26.5% for each of the three years ended 31 December 2017, 2018 and 2019, respectively.

31 December 2018 Vs 31 December 2019

The decrease in return on equity ratio from approximately 30.2% for the year ended 31 December 2018 to approximately 26.5% for the year ended 31 December 2019 was primarily due to the increase in total equity by approximately 8.2% whereas the adjusted profit and total comprehensive income for the year (excluding the financial results of the Disposed Subsidiaries) decreased by approximately 5.5%.

31 December 2017 Vs 31 December 2018

The decrease in return on equity ratio from approximately 44.9% for the year ended 31 December 2017 to approximately 30.2% for the year ended 31 December 2018 was primarily due to the increase in total equity by approximately 28.6% whereas the adjusted profit and total comprehensive income for the year (excluding the financial results of the Disposed Subsidiaries) decreased by approximately 13.0%.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, the Target Group's operations and capital requirements were financed principally through (i) cash generated from operations and (ii) advances from a director and bank borrowing.

Cash flows of the Target Group for the Track Record Period

The following table sets forth a condensed summary of the Target Group's consolidated statement of cash flows for the Track Record Period. Such summary of the consolidated statements of cash flows is extracted from the Accountant's Report contained in Appendix III to this circular and should be read in conjunction with the entire financial information included therein, including the notes thereto.

	For the year ended 31 December			For the three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Cash flows					
Net cash generated from/(used in) operating activities	123,175	(46,810)	9,542	18,194	(28,469)
Net cash (used in)/generated from investing activities	(34,439)	(3,528)	(146,400)	(145,725)	265
Net cash (used in)/generated from financing activities	(72,236)	65,369	299,643	102,545	(153,376)
Net increase/(decrease) in cash and cash equivalents	16,500	15,031	162,785	(24,986)	(181,580)
Cash and cash equivalents at beginning of the year/period	49,377	65,877	80,908	80,908	243,693
Cash and cash equivalents at end of the year/period	65,877	80,908	243,693	55,922	62,113

Net cash generated from/(used in) operating activities

The Target Group derives cash inflows from operations principally from the interest income received from the loans granted to the customers and from the repayment of loans from the customers. The cash outflows of the Target Group used in operations are mainly utilised for expanding the loan portfolio.

For the three months ended 31 March 2020, the net cash outflow was primarily caused by the increase in loans receivable balance arising from property mortgage loans and personal loans.

For the year ended 31 December 2019, the net cash inflow was mainly derived from increase in the gross loans receivable, which was partially offset by the adjustments of non-cash items as a result of the provision made for impairment of loans and interest receivables and fair value losses of investment properties.

For the year ended 31 December 2018, the net cash outflow was mainly caused by the significant increase in the gross loans receivable arising from the increases in both of the secured and unsecured loan balances.

For the year ended 31 December 2017, the net cash inflow was mainly caused by the net increase in the gross loans receivable.

Net cash (used in)/generated from investing activities

The Target Group recorded net cash used in investing activities for the three years ended 31 December 2017, 2018 and 2019 of approximately HK$34.4 million, HK$3.5 million and HK$146.4 million respectively.

Net cash generated from investing activities of approximately HK$0.3 million was recorded for the three months ended 31 March 2020, represented the interest received from bank deposits which was partially offset by the purchases of property, plant and equipment.

The significant increase in net cash used in investing activities from approximately HK$3.5 million for the year ended 31 December 2018 to approximately HK$146.4 million for the year ended 31 December 2019 was primarily due to the acquisition of investment properties and purchases of property, plant and equipment.

The decrease in net cash used in investing activities from approximately HK$34.4 million for the year ended 31 December 2017 to approximately HK$3.5 million for the year ended 31 December 2018 was primarily due to the repayment of intercompany loan received from fellow subsidiaries, partially offset by the cash used for (i) prepayment of an acquisition of a subsidiary and investment properties; (ii) purchases of intangible assets in respective of "X Wallet"; and (iii) acquisition of a subsidiary in June 2018.

Net cash generated from/(used in) financing activities

For the year ended 31 December 2017 and three months ended 31 March 2020 the Target Group's net cash used in financing activities was approximately HK$72.2 million and HK$153.4 million, while the net cash generated from financing activities for the year ended 31 December 2018 and 2019 was approximately HK$65.4 million and HK$299.6 million respectively.

The net cash used in financing activities for the three months ended 31 March 2020 represented the repayment to a director, bank borrowings and principal elements of lease payments.

The increase from the net cash flow generated from financing activities of approximately HK$65.4 million as at 31 December 2018 to approximately HK$299.6 million for the year ended 31 December 2019 was primarily due to the advance from a director and a draw-down of bank borrowing. Such increase was partially offset by the partial repayment to the director.

For the year ended 31 December 2017, the net cash flow used in financing activities amounted to approximately HK$72.2 million, solely represented the repayments to the ultimate shareholder and to the director. For the year ended 31 December 2018, the net cash flow generated from financing activities of approximately HK$65.4 million was related to an advance from a director, net of the corresponding repayment during the year.

Net current assets and liabilities

The following table sets forth the Target Group's current assets and liabilities as at 31 December 2017, 2018 and 2019 and 31 March 2020:

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK'000	*HK'000*	*HK'000*	*HK'000*
Current assets				
Loan receivables	107,736	181,310	53,750	69,081
Interest receivables	1,550	2,266	1,557	2,796
Prepayments, deposits and other receivables	4,505	4,091	2,761	2,581
Amount due from a director	10,040	–	–	–
Amount due from fellow subsidiaries	35,330	82	–	–
Amount due from the immediate holding company	–	–	35	35
Cash and cash equivalents	65,877	80,908	243,693	62,113
Total current assets	**225,038**	**268,657**	**301,796**	**136,606**

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	HK'000	*HK'000*	*HK'000*	*HK'000*
Current liabilities				
Accruals and other payables	1,796	3,271	2,300	1,474
Bank borrowing	–	–	1,850	1,880
Lease liabilities	–	–	465	470
Deferred income	138	–	–	–
Amount due to a director	270,500	325,829	577,065	424,267
Amount due to fellow subsidiaries	72	270	–	–
Current income tax payable	11,016	2,993	3,093	3,996
Total current liabilities	**283,522**	**332,363**	**584,773**	**432,087**

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the Target Group recorded net current liabilities of approximately HK$58.5 million, HK$63.7 million, HK$283.0 million and HK$295.5 million, respectively.

The Target Group's net current liabilities increased from approximately HK$63.7 million as at 31 December 2018 to approximately HK$283.0 million as at 31 December 2019. Such increase was primarily due to the increase in the amount due to a director which was partially offset by the increase in loans receivable and cash and cash equivalents.

The Target Group's net current liabilities increased from approximately HK$58.5 million as at 31 December 2017 to approximately HK$63.7 million as at 31 December 2018. Such increase was mainly due to the increase in the amount due to a director and bank borrowing.

During the Track Record Period, the Target Group's current liabilities mainly represented the bank borrowing and the amount due to a director. As at the Latest Practicable Date, (i) the bank borrowing has been fully repaid by the Target Group with a further loan advanced by the director; and (ii) the amount due to a director, after being partially settled against the aggregated consideration payable to the Target Group for the Restructuring, had been assigned to the Vendor, which was subsequently capitalised into new shares of the Target Company.

INDEBTEDNESS

During the Track Record Period, the lease liabilities of the Target Group amounted to approximately HK$Nil, HK$Nil, HK$0.8 million and HK$0.7 million as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively. The lease liabilities represented the lease payments of the office premise currently used by the Target Group. The increase from HK$Nil as at 31 December 2018 to approximately HK$0.8 million as at 31 December 2019 was due to the adjustment following the adoption of HKFRS 16 from 1 January 2019.

The amount due to a director amounted to approximately HK$270.5 million, HK$325.8 million, HK$577.1 million and HK$424.3 million as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively.

Bank borrowings amounted to approximately HK$Nil, HK$Nil, HK$48.9 million and HK$48.4 million as at 31 December 2017, 2018 and 2019 and 31 March 2020 respectively and were repayable as follows:

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	–	–	1,850	1,880
Between one and two years	–	–	1,905	1,927
Between two and five years	–	–	6,064	6,129
More than five years	–	–	39,032	38,450
	–	**–**	**48,851**	**48,386**

As at the Latest Practicable Date, (i) the bank borrowing has been fully repaid by the Target Group with a further loan advanced by the director; and (ii) the amount due to a director, after being partially settled against the aggregated consideration payable to the Target Group for the Restructuring, had been assigned to the Vendor, which was subsequently capitalised into new shares of the Target Company.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, at the close of business on 31 July 2020, the Target Group did not have any loan capital issued and outstanding or agreed to be issued, term loans, bank overdrafts, liabilities under acceptances or acceptable credits, loans and other similar indebtedness, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in this circular, the directors of the Target Group are of the opinion that these transactions were conducted on normal commercial terms. For analysis of related party transactions, please refer to the Accountant's Report as set out in Appendix III to this circular in addition to the transactions detailed elsewhere in this circular.

OFF BALANCE SHEET TRANSACTIONS

The Target Group has not entered into any material off balance sheet transactions or arrangements during the Track Record Period.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, the Target Group did not have any significant contingent liabilities.

DISTRIBUTABLE RESERVES

As of 31 March 2020, the Target Group had retained earnings of approximately HK$83.9 million which is available for distribution.

GUARANTEE PROVIDED TO THE TARGET GROUP

As at the Latest Practicable Date, the Target Group had one outstanding loan facility provided, during the Track Record Period, by a bank, which was comprised of a secured term loan facility of approximately HK$49.3 million and secured against the investment properties of the Target Group of three commercial units and a personal guarantee of a director.

Prior to completion of the Proposed Acquisition, the secured term loan facility has been fully repaid by the Target Group and the personal guarantee provided by a director in favour of the Target Group has been released.

FINANCIAL RISK MANAGEMENT

The Target Group's activities expose it to a variety of financial risks: market risk (including cash flow and fair value interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance. These risks are managed by the Target Group's financial management policies and practices described below.

Market risk – Cash flow and fair value interest rate risk

The Target Group's interest rate risk arises from its loans receivable, interest receivables and bank borrowings. Except for bank borrowings, which are entitled to interest at variable rates and expose the Target Group to cash flow interest rate risk, loans receivable and interest receivables are issued at fixed rates.

If market interest rates had been 1% higher/lower with all other variables held constant, post-tax profits would have been approximately HK$407,905 and HK$404,027 lower/higher for the year ended 31 December 2019 and three months ended 31 March 2020 respectively as a result of higher/lower interest expenses on bank borrowings carried at variable rates.

Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Target Group. The Target Group's main income generating activity is lending to customers and therefore credit risk is a principal risk.

The Target Group's credit risk arises from deposits, cash and cash equivalents, loans receivable, interest receivables, amount due from a director, amounts due from fellow subsidiaries and amount due from immediate holding company. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Target Group manages and analyses the credit risk for each of their new and existing clients before standard payment terms and conditions are offered. In particular, the Target Group manages its credit risk by developing and maintaining the Target Group's processes for measuring ECL (for 1 January 2018 and future periods) including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

For property mortgage loans, the Target Group holds collateral against loans and interest receivables in the form of mortgages over property. Majority of the collateral are residential properties, commercial properties and industrial properties and all of the collaterals are located in Hong Kong. Individual risk limits are set based on the value of collaterals provided by customers and internal or external ratings in accordance with limits set by the directors of the Target Group. The utilisation of credit limits is regularly monitored. For personal loans, the Target Group assesses the credit quality of the customer based on the customer's financial position, past experience, internal and external credit rating of the customers and other factors.

Liquidity risk

The Target Group's primary cash requirements, apart from granting loans to customers, are for repayment of bank borrowings, amount due to a director, and operating expenses. The Target Group finances its working capital requirements with funds generated from operations.

The Target Group's policy is to maintain sufficient cash and cash equivalents or have available funding through committed bank facilities and borrowing from a director to meet its working capital requirements.

Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets to reduce debt. The Target Group monitors capital on the basis of the gearing ratio.

NO MATERIAL ADVERSE CHANGE

Up to the Latest Practicable Date, there had been no material adverse change in the financial or trading position of the Target Group since 31 March 2020, the end of the period reported in the Accountant's Report of the Target Group set out in Appendix III to this circular, and there had been no event since 31 March 2020 which would materially affect the information shown in the Accountant's Report of the Target Group set out in Appendix III to this circular.

CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, the Vendor held 100% shareholding in the Target Company.

As at the Latest Practicable Date, the Vendor was ultimately owned as to 99.99% and 0.01% by Mr. Tommy Lee and Mr. Lee Lap respectively, both being executive Directors of the Company. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust which is interested in 1,252,752,780 Shares and the discretionary beneficiaries of the Lee & Leung Family Trust are the spouse and certain children of Mr. Lee Lap (including Mr. Tommy Lee) and the offspring of such children.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

The Target Group is capable of carrying on its business independently of, and does not place undue reliance on, its controlling shareholders, taking into account the following factors:

(i) Operational independence

The Target Group does not share any business operations with its controlling shareholders. Zero Finance holds or enjoys the benefit of the Money Lender's Licence necessary to carry on its money lending business and has sufficient resources and staff to operate its business independently. The operational decisions of Zero Finance are made by its directors and senior management who have relevant experience in the relevant industry and each of the directors of the Target Group is aware of his fiduciary duties as a director which require, amongst other things, that they act for the benefit and in the best interests of the Target Group and do not allow any conflicts between their duties as a director and their personal interest.

During the Track Record Period, certain employees in the Vendor Group provided support services to Zero Finance. As at the Latest Practicable Date, two employees in the Vendor Group provided ad-hoc technical support in relation to "X Wallet" to Zero Finance. The directors of the Target Company are of the view that such employees could be replaced without difficulties and will be replaced upon Completion to avoid overlapping of employees in the Vendor Group and the Enlarged Group.

After the transfer of the Three Properties by the Target Group to the Vendor Group under the Restructuring, two small rooms of the Three Properties with total area of about 200 square feet (representing only 4.18% of the total gross floor area of the Three Properties) have been rented by the Target Group from the Vendor Group at a total monthly rental of HK$8,000 for a term of three years from 1 August 2020 to 31 July 2023 which may be terminated at the discretion of Zero Finance after expiration of the first year, for use as the other business office of Zero Finance as required under its Money Lender's Licence, and the principal office of Zero Credit, respectively. The Directors consider that following Completion, the aforesaid leasing transactions from the Vendor Group will be in the ordinary and usual course of the Enlarged Group's business. Although such leases from the Vendor Group will constitute connected transaction of the Enlarged Group under Chapter 14A of the Listing Rules after Completion, they will be fully exempted pursuant to Rule 14A.76(1)(c) of the Listing Rules as the applicable percentage ratios (as defined under the Listing Rules) are expected to be less than 5% and the total consideration will be less HK$3,000,000.

(ii) Financial independence

During the Track Record Period, the shareholders of the Target Group had from time to time offered financial support, mainly in the form of advances to the Target Group, for the cash flow and business needs of the Target Group. As at 31 December 2017, 2018 and 2019 and 31 March 2020, the outstanding loan balances owing by the Target Group to Mr. Tommy Lee amounted to HK$270.5 million, HK$325.8 million, HK$577.1 million and HK$424.3 million, respectively. After the Track Record Period and prior to the entering into of the Agreement, all the amounts owing by the Target Group to Mr. Tommy Lee had been assigned by Mr. Tommy Lee to the Vendor and were subsequently capitalised into new shares of the Target Company.

The Company believes that following Completion, the business of the Target Group will be able to be funded independently by its operational cash flow and external banks and finance facilities without credit support from its controlling shareholders.

Having considered the above factors, the directors of the Target Group are of the view that there will be no financial dependence on its controlling shareholders upon Completion.

(iii) Management independence

During the Track Record Period, the directors of the Target Group were also directors of certain companies owned by Mr. Tommy Lee engaged directly and indirectly in the PRC Business. The directors of the Target Company are of the view that the senior management team of the Target Group is able to perform the managerial role of the Target Group independently since (a) save for Mr. Tommy Lee, the common directors did not participate in the daily operations of the relevant companies; and (b) the PRC business was not in direct competition with that of the Target Group. Notwithstanding the aforesaid, in order to ensure management independence of the Target Group from its controlling shareholders, as at the Latest Practicable Date, (a) Mr. Chau Hau Shing had resigned from all his directorships in the Vendor Group; and (b) Mr. Tommy Lee will play a less substantial part in the PRC business and will focus on the Target Group.

EXCLUDED BUSINESS

Apart from the money lending business in Hong Kong carried out by Zero Finance, the Vendor Group also carries out money lending business in some regions of the PRC (the "**PRC Business**"). The business licence obtained by the Vendor Group in the PRC only permits the money lending business to be carried on in the relevant region of the PRC, and the PRC Business does not involve any online money lending, and is operated independently and separately from the Target Group's business in Hong Kong despite the common directorships as set out above. In view of the distinct geographical locations of the PRC Business and the Target Group's business, the Company considers that there will not be any direct or indirect competition between the businesses of the Vendor Group and the Enlarged Group after Completion.

DEED OF NON-COMPETITION

Mr. Tommy Lee has entered into a deed of non-competition (the "**Deed of Non-competition**") in favour of the Company, pursuant to which he has, irrevocably and unconditionally, undertaken and covenanted with the Company that conditional upon Completion taking place and with effect from the Completion Date and for as long as the Shares remain listed on the Stock Exchange and he remains directly or indirectly interested in 30% or more of the Shares in issue, or is otherwise regarded as controlling shareholder (as defined under the Listing Rules) of the Company, he will not, and will procure that none of his Controlled Companies shall directly or indirectly (other than through the Group) engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with the money lending business in Hong Kong carried on by the Group. However, Mr. Tommy Lee and his Controlled Companies may hold interest in an entity engaged in money lending business in Hong Kong, provided that their roles are merely passive investors holding in aggregate less than 30% equity interest in such business and they do not participate in its management.

1. THREE-YEAR FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for the three years ended 31 March 2018, 2019 and 2020 were disclosed in the following documents which have been published on the HKExnews website (www.hkexnews.hk) and the Company's website (www.termbray.com.hk):

- Annual report of the Company for the year ended 31 March 2020 published on 22 July 2020;
- Annual report of the Company for the year ended 31 March 2019 published on 3 July 2019;
- Annual report of the Company for the year ended 31 March 2018 published on 3 July 2018.

2. STATEMENT OF INDEBTEDNESS OF THE ENLARGED GROUP

Bank borrowings, amount due to a director and amount due to a related company

As at the close of business on 31 July 2020, being the most recent practicable date for the purpose of the statement of indebtedness, the Enlarged Group had bank borrowings, amount due to a director and amount due to a related company in the following amounts:

	Unsecured and non-guaranteed	**Secured and guaranteed**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Bank borrowings	–	47,747	47,747
Amount due to a director	424,267	–	424,267
Amount due to a related company	2,655	–	2,655
	426,922	**47,747**	**474,669**

The secured and guaranteed bank borrowings of the Enlarged Group are secured by investment properties held by related parties and guaranteed by Mr. Tommy Lee.

As at the Latest Practicable Date, (i) the bank borrowings arising from the Target Group has been fully repaid by the Target Group with a further loan advanced by the director; and (ii) the amount due to a director, after being partially settled against the aggregated consideration payable to the Target Group for the Restructuring, has been assigned to the Vendor, which was subsequently capitalised into new shares of the Target Company on 15 September 2020.

Lease liabilities

As at the close of business on 31 July 2020, the Enlarged Group had lease liabilities under Hong Kong Financial Reporting Standard 16 in the following amount:

	HK$'000
Lease liabilities	**1,041**

Pledged deposit

As at the close of business on 31 July 2020, the Enlarged Group had pledged deposit in the following amount:

	HK$'000
Pledged deposit	**2,000**

Contingent liabilities and guarantee

As at the close of business on 31 July 2020, the Enlarged Group did not have any contingent liabilities or guarantees. No member of the Enlarged Group was engaged in any litigation or arbitration or claim of material importance, and no litigation or arbitration or claim of material importance was pending or threatened against any member of the Enlarged Group as at 31 July 2020.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have outstanding, as at the close of business of 31 July 2020, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, in the absence of unforeseeable circumstances, after taking into account the present available resources, the internally generated funds, the available banking facilities and other borrowings, and the completion of the Proposed Acquisition, the Enlarged Group will have sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in property investment and development and it has commenced the money lending business of providing mortgaged loans in Hong Kong since its acquisition of X8 Finance in August 2018.

In respect of the property investment and development business, as discussed on page 6 of the 2019/2020 annual report of the Company, the Group has been looking for investment opportunities in the property markets in the PRC, especially the Guangdong province. However, due to the intense competition of the property market in Guangdong province, the Group has not yet identified any suitable opportunities but it will continue to explore the investment opportunities in the property markets.

The Enlarged Group intends to cautiously maintain and continue to develop the existing secured and unsecured loan business of the Target Group upon Completion. It is expected that the integration of the Group's existing property mortgage loan business with the secured and unsecured loan businesses of the Target Group will bring about synergy effect to the money lending business of the Enlarged Group as a whole after the Proposed Acquisition, and will enable the expansion and diversification of the Group's existing money lending business. The Enlarged Group will reinforce its risk management policy and will proactively adopt timely measures to balance its risk and return in the long run.

While there exist some uncertainties as a result of oil and commodity price volatility, interest rate movements, the recovery progress of the global economy and the recent outbreak of COVID-19, the Enlarged Group remains cautiously optimistic about the year ahead in respect of its business and has the confidence to strengthen its competitiveness and to create value for the Shareholders. The Enlarged Group will continue to pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the Enlarged Group's financial position and operation results.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below are the management discussion and analysis of the Group for the three years ended 31 March 2020.

For the year ended 31 March 2020

Results

During the year ended 31 March 2020, the Group achieved a revenue of HK$14,869,000 and recorded a loss for the year of HK$26,983,000, compared with a revenue of HK$30,594,000 and loss for the year of HK$19,880,000 recorded in last year.

The loss for the current year ended 31 March 2020 is primarily due to the recognition of foreign exchange loss arising from the devaluation of the Renminbi currency by approximately 6.6% during the year ended 31 March 2020 and the recognition of fair value loss of HK$7 million on an investment property.

Revenue

(i) Disaggregation of revenue from contracts with customers

	2020	2019
	HK$'000	*HK$'000*
Sale of properties in the PRC *(note)*	4,264	24,673
Rental income (under HKFRS 16/HKAS 17)	3,776	4,199
Interest income from money lending business (under HKFRS 9)	6,829	1,722
	14,869	30,594

Note: Revenue from sales of properties is recognised at a point in time. All sales of properties are entered in a contract that has an original expected completion of one year or less.

Segment Information

Management has determined the operating segments based on the information reviewed by the chief operating decision maker (the "**CODM**") that are used to making strategic decisions. The CODM is identified as the Executive Directors of the Company.

During the year ended 31 March 2020, the CODM assessed the performance of the Group by reviewing the results of two reportable segments:

– Property development and investment – Property development for sale of properties in the PRC and property investment for letting of properties in Hong Kong and the PRC

– Money lending – Provide mortgage loan financing to customers

The CODM reviews the performance of the Group on a regular basis and reviews the Group's internal reporting in order to assess performance and allocate resources. Information provided to the CODM is measured in a manner consistent with that in the consolidated financial statements.

The segment results and other segment items are as follows:

	Property development and investment	Money lending	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Revenue	8,040	6,829	14,869
Segment results	(11,748)	4,661	(7,087)
Unallocated other income			620
Unallocated other losses, net			(3,227)
Unallocated expenses			(14,928)
Loss before income tax			(24,622)

Unallocated expenses and unallocated other gains and losses represent corporate expenses and unrealized net exchange losses, respectively. Segment results represent the loss before income tax earned by each segment without allocation of certain other income, other gains and losses and expenses. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

Geographical information

The Group's operations are located in Hong Kong and the PRC.

The Group's revenue from external customers is presented based on location where the goods are delivered and services are rendered:

	Revenue from external customers	
	2020	**2019**
	HK$'000	*HK$'000*
Hong Kong	8,781	3,678
The PRC	6,088	26,916
	14,869	30,594

Return on capital employed

The Group's aim is to increase shareholders' value. The extent to which this goal has been achieved is assessed by computing Return on Capital Employed ("**ROCE**") over the year and comparing this measure from one year to the next, as it is a measure of how well the money invested in the business is providing a return to investors.

ROCE measures the operating result as a percentage of the average total capital employed (invested) in the business over the year. The Group uses "Earnings before interest, tax, depreciation and amortization" as a measure of operating result for this purpose. The Group considers its "capital" to comprise equity plus non-current debt financing. Figures from the consolidated financial statements of the Group are used to calculate the ROCE.

	Year ended 31/3/2020	**Year ended 31/3/2019**
	HK$'000	*HK$'000*
Operating result for calculation ROCE		
Loss before taxation	(24,622)	(11,508)
Add: interest expenses, depreciation and amortization charges	6,395	5,801
	(18,227)	(5,707)
Capital employed		
Equities	908,360	943,909
Add: non-current debt financing	–	–
	908,360	943,909
Average capital employed		
(Opening capital employed + closing capital employed)/2	926,135	950,450
Consolidated ROCE%	-1.97%	-0.60%

Liquidity and financial resources

As at 31 March 2020, the Group remains cash-rich and no material capital expenditure commitments. The operations are financed by capital and reserves.

Bank balances and cash amounted to approximately HK$188 million and accounted for approximately 71% of total current assets.

The Group mainly operates in the PRC and Hong Kong, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi. No financial instrument is arranged for hedging purposes in respect of interest rate and currency.

Capital structure

As at 31 March 2020, the Group's operations were financed by capital and reserves.

Charge on group assets

As at 31 March 2020, a bank deposit of HK$2,000,000 (2019: HK$2,000,000) was pledged to a bank as security in respect of mortgage loans granted to property purchasers by banks.

Significant investments held, material acquisition and disposals of subsidiaries and affiliated companies and plans for material investments or capital assets

The Group did not have any significant investments held, material acquisition or disposal of subsidiaries and associations for the year ended 31 March 2020. There is no other plan for material investments or capital assets for the year ended 31 March 2020.

Contingent liabilities

As at 31 March 2020, the Group did not have any material contingent liabilities.

Order book

Due to its business nature, the Group had no order book as at 31 March 2020. The Group has no new product and services to be introduced to the market.

Relationship with staff and emolument policy

One of the most important resource of the Group is employees. It is the Group's policy to comply with all applicable laws and regulations, including those concerning employment, compensation, minimum wages, occupational safety and privacy. The Group strictly prohibits discrimination or harassment against any employee because of the individual's race, religion, gender, age, or any status protected by law. The Group also values good conduct of employees and has set out clear guidelines to prevent bribery and to regulate the acceptance of benefits by the employees.

As at 31 March 2020, the Group employed 38 staff at market remuneration with staff benefits such as insurance, provident fund scheme and discretionary bonus.

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence. The emoluments of the directors are reviewed by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics. No Director, associate of a Director, or executive is involved in dealing his own remuneration.

For the year ended 31 March 2019

Results

During the year ended 31 March 2019, the Group achieved a revenue of HK$30,594,000 and recorded a loss for the year of HK$19,880,000, compared with a revenue of HK$34,089,000 and profit for the year of HK$83,193,000 recorded in last year.

The loss for the year ended 31 March 2019 as opposed to profit for the corresponding year ended 31 March 2018 was primarily due to:

(a) non-recurring items recorded for the year ended 31 March 2018 as follows:

 (i) the recognition of a fair value gain of approximately HK$24.7 million on an investment property;

 (ii) the recognition of a gain of approximately HK$64 million on assets distributed to the shareholders of the Company resulting from distribution in specie of the Petro-king shares; and

(b) the recognition of foreign exchange loss arising from the devaluation of the Renminbi currency by approximately 6.5% for the year ended 31 March 2019.

Revenue

(ii) Disaggregation of revenue from contracts with customers

	2019	**2018**
	HK$'000	*HK$'000*
Sale of properties in the PRC *(note)*	24,673	29,413
Rental income (under HKAS 17)	4,199	4,676
Interest income from money lending business (under HKFRS 9)	1,722	–
	30,594	34,089
Timing of revenue recognition (for sale of properties)		
A point in time	24,673	29,413

Note: Revenue from sales of properties is recognized at a point in time. All sales of properties are entered in a contract that has an original expected completion of one year or less.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All sales of properties are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Operating segments

Services from which operating and reportable segments derive their revenues

The Group's operating and reportable segments are as follows:

- Property development and investment – Property development for sale of properties in the PRC and property investment for letting of properties in Hong Kong and the PRC

- Money lending – Provide mortgage loan financing to customers

The Group has commenced the property mortgage money lending business in Hong Kong during the year ended 31 March 2019.

The following is an analysis of the Group's revenue and results by operating and reportable segments for the year ended 31 March 2019:

	Property development and investment	**Money Lending**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
REVENUE	28,872	1,722	30,594
RESULT			
Segment results	7,242	454	7,696
Unallocated other income			873
Unallocated other gains and losses			(3,247)
Unallocated expenses			(16,830)
Loss before taxation			(11,508)

All of the segment revenue reported above is from external customers.

Segment results represent the profit before tax earned by each segment without allocation of unallocated other income, unallocated other gains and losses and unallocated expenses. This is the measure reported to the chief operating decision maker of the Group for the purposes of resource allocation and performance assessment.

Geographical information

The Group's operations are located in Hong Kong and the PRC. The Group's revenue from external customers is presented based on location where the goods are delivered and services are rendered:

	Revenue from external customers	
	2019	**2018**
	HK$'000	*HK$'000*
Hong Kong	3,678	1,956
The PRC	26,916	32,133
	30,594	34,089

Return on capital employed

	Year ended 31/3/2019 HK$'000	Year ended 31/3/2018 HK$'000
Operating result for calculation ROCE		
(Loss)/profit before taxation	(11,508)	91,908
Add: interest expenses, depreciation and amortization charges	5,801	5,584
Less: Gain on assets distributed to shareholders*	–	(63,866)
	(5,707)	33,626
Capital employed		
Equities	943,909	956,990
Add: non-current debt financing	–	–
	943,909	956,990
Average capital employed		
(Opening capital employed + closing capital employed)/2	950,450	947,088
Consolidated ROCE%	-0.60%	3.45%

* Non-recurring item

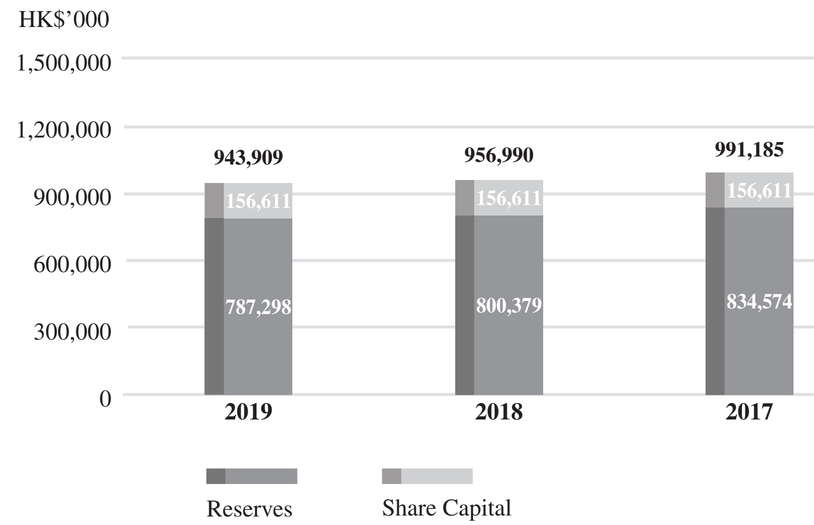
Liquidity and financial resources

As at 31 March 2019, the Group remained cash-rich and no material capital expenditure commitments. The operations are financed by capital and reserves. Bank balances and cash amounted to approximately HK$262 million and accounted for approximately 76% of total current assets.

Foreign currency risk of the Group is not significant as the assets of the Group comprised substantially of cash denominated in Hong Kong dollar. No financial instrument is arranged for hedging purposes in respect of interest rate and currency.

Capital structure

As at 31 March 2019, the Group's operations were financed by capital and reserves.



Charge on group assets

As at 31 March 2019, a bank deposit of HK$2,000,000 (2018: HK$2,000,000) was pledged to a bank as security in respect of mortgage loans granted to property purchasers by banks.

Significant investments held, material acquisition and disposals of subsidiaries and affiliated companies and plans for material investments or capital assets

Save for the acquisition of 100% shareholdings in X8 Finance at its net asset value of HK$193,443 from Mr. Lee Lap, a Director and the settlor of the Lee & Leung Family Trust on 1 August 2018, the Group did not have any significant investments held, material acquisition or disposal of subsidiaries and associations for the year ended 31 March 2019. There is no other plan for material investments or capital assets for the year ended 31 March 2019.

Contingent liabilities

As at 31 March 2019, the Group did not have any material contingent liabilities.

Order book

Due to its business nature, the Group had no order book at 31 March 2019. The Group had no new product and services to be introduced to the market except for the commencement of property mortgage money lending business in Hong Kong during the year ended 31 March 2019.

Relationship with staff and emolument policy

As at 31 March 2019, the Group employed 39 staff at market remunerations with staff benefits such as insurance, provident fund scheme and discretionary bonus.

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence. The emoluments of the directors are reviewed by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics. No Director, associate of a Director, or executive is involved in dealing his own remuneration.

For the year ended 31 March 2018

Results

During the year ended 31 March 2018, the Group achieved a revenue of HK$34,089,000 and recorded a profit for the year of HK$83,193,000, compared with a revenue of HK$39,496,000 and loss for the year of HK$132,387,000 recorded in last year.

The profit for the year ended 31 March 2018 is mainly due to the gain on assets distributed to shareholders of the Company of approximately HK$64 million upon completion of the distribution in specie of the Petro-king shares and the fair value gain on an investment property of approximately HK$24.7 million.

Revenue and segment information

An analysis of the Group's revenue for the year is as follows:

	2018	**2017**
	HK$'000	*HK$'000*
Sale of properties	29,413	34,195
Rental income	4,676	5,301
	34,089	39,496

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment:

	2018 *HK$'000*	2017 *HK$'000*
Revenue from property investment and development segment	34,089	39,496
Segment profit from property investment and development segment	48,314	17,364
Unallocated other income	524	573
Unallocated other gains and losses	4,485	(2,586)
Unallocated expenses	(16,472)	(11,907)
Gain on assets distributed to shareholders	63,866	–
Share of results of an associate	(17,524)	(135,831)
Profit/(loss) for the year	83,193	(132,387)

All of the segment revenue reported above is from external customers.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by property investment and development segment without allocation of unallocated other income, unallocated other gains and losses, unallocated expenses, gain on assets distributed to shareholders and share of results of an associate. This is the measure reported to the chief operating decision maker of the Group for the purposes of resource allocation and performance assessment.

Geographical information

The Group's operations are located in Hong Kong and the PRC. The Group's revenue from external customers by location where the goods are delivered and services are rendered are detailed below:

	Revenue from external customers	
	2018 *HK$'000*	2017 *HK$'000*
Hong Kong	1,956	1,887
The PRC	32,133	37,609
	34,089	39,496

Return on capital employed

	Year ended 31/3/2018 *HK$'000*	Year ended 31/3/2017 *HK$'000*
Operating result for calculation ROCE		
Profit/(loss) before tax	91,908	(130,455)
Add: interest expenses, depreciation and amortization charges	5,584	1,028
Less: Gain on assets distributed to shareholders*	(63,866)	–
	33,626	(129,427)
Capital employed		
Equities	956,990	991,185
Add: non-current debt financing	–	–
	956,990	991,185
Average capital employed		
(Opening capital employed + closing capital employed)/2	974,088	897,515
Consolidated ROCE%	3.45%	-14.42%

* Non-recurring item

Liquidity and financial resources

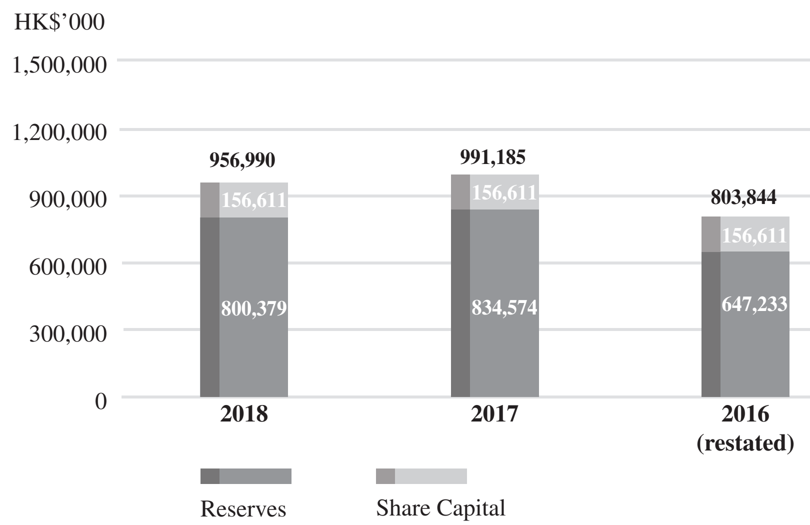
As at 31 March 2018, the Group remained cash-rich and no material capital expenditure commitments. The operations are financed by capital and reserves.

Bank balances and cash amounted to approximately HK$302 million and accounted for 79.9% of total current assets.

Foreign currency risk of the Group is not significant as the assets of the Group comprised substantially of cash denominated in Hong Kong dollar. No financial instrument is needed for hedging purposes in respect of interest rate and currency.

Capital structure

As at 31 March 2018, the Group's operations were financed by capital and reserves.



Charge on group assets

As at 31 March 2018, a bank deposit of HK$2,000,000 (2017: HK$2,000,000) was pledged to a bank as security in respect of mortgage loans granted to a property purchasers by the bank.

Significant investments held, material acquisition and disposals of subsidiaries and affiliated companies and plans for material investments or capital assets

On 16 June 2017, the Board approved a special interim dividend by way of distribution in specie of all shares of the Company's associate, Petro-king held by the Group on the basis of 268 shares of Petro-king for every 1,000 shares of the Company held. Out of the total of 526,180,335 shares of Petro-king held by the Group, a total of 524,648,320 shares of Petro-king had been distributed, and the remaining 1,532,015 undistributed shares of Petro-king had been recognised as held-for-trading investments in the consolidated financial statements. The gain amounting to approximately HK$63,866,000 was determined with reference, amongst others, to the market price per share of Petro-king on 14 July 2017, being the date of the distribution, and the carrying value of the Group's interest in Petro-king as an associate.

Save for the above, the Group did not have any significant investments held, material acquisition or disposal of subsidiaries and associations for the year ended 31 March 2018. There is no other plan for material investments or capital assets for the year ended 31 March 2018.

Contingent liabilities

As at 31 March 2018, the Group did not have any material contingent liabilities.

Order book

Due to its business nature, the Group had no order book at 31 March 2018. The Group had no new product and services to be introduced to the market.

Relationship with staff and emolument policy

As at 31 March 2018, the Group employed 41 staff at market remunerations with staff benefits such as insurance, provident fund scheme and discretionary bonus.

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence. The emoluments of the directors are reviewed by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics. No Director, associate of a Director, or executive is involved in dealing his own remuneration.

The following is the text of a report set out on pages III-1 to III-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED

Introduction

We report on the historical financial information of aEasy Credit Investment Limited (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages III-4 to 65, which comprises the consolidated and company statements of financial position as at 31 December 2017, 2018 and 2019 and 31 March 2020, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and consolidated statements of cash flows for each of the years/periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages III-4 to 65 forms an integral part of this report, which has been prepared for inclusion in the circular of Termbray Industries International (Holdings) Limited (the "Company") dated 25 September 2020 (the "Circular") in connection with the proposed acquisition of the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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The Historical Financial Information in this report was prepared by the directors of the Company based on the previously issued financial statements and management accounts of the Target Group for the Track Record Period ("Historical Financial Statements"). The directors of the Target Company are responsible for the preparation of the Historical Financial Statements that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Statements that are free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 31 March 2020, the consolidated financial position of the Target Group as at 31 December 2017, 2018 and 2019 and 31 March 2020 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the three months ended 31 March 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

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

Adjustments

The Historical Financial Information is stated after making such adjustments to the Historical Financial Statements as were considered necessary.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 September 2020

I HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

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

The Historical Financial Information in this report was prepared by the directors of the Company based on the previously issued financial statements and management accounts of the Target Group for the Track Record Period ("Historical Financial Statements") prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The previously issued financial statements for the years ended 31 December 2017, 2018 and 2019 were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in HK dollars ("HK$"), unless otherwise stated.

(a) Consolidated Statements of Comprehensive Income of the Target Group

		Year ended 31 December			Three months ended 31 March	
		2017	**2018**	**2019**	**2019**	**2020**
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
					(Unaudited)	
Revenue	*5*	51,861,561	56,102,386	58,663,419	13,372,931	16,891,327
Other income	*5*	507,225	683,052	2,573,089	571,092	555,196
Administrative expenses	*6*	(16,061,448)	(25,541,424)	(25,027,708)	(5,756,326)	(7,157,444)
Finance costs	*7*	–	–	(504,453)	(14,169)	(379,409)
Provision for impairment of loans and interest receivables	*8*	(5,587,406)	(4,853,739)	(10,833,605)	(2,683,527)	(2,727,377)
Fair value (losses)/gains on revaluation of investment properties	*15*	–	–	(15,043,503)	3,641,942	(1,800,000)
Profit before income tax		30,719,932	26,390,275	9,827,239	9,131,943	5,382,293
Income tax expense	*11*	(5,103,985)	(4,107,396)	(3,788,550)	(964,352)	(895,648)
Profit and total comprehensive income for the year/period		25,615,947	22,282,879	6,038,689	8,167,591	4,486,645

(b) *Consolidated Statements of Financial Position of the Target Group*

		As at 31 December			As at 31 March
		2017	**2018**	**2019**	**2020**
	Note	*HK$*	*HK$*	*HK$*	*HK$*
ASSETS					
Non-current assets					
Property, plant and equipment	*13*	364,812	320,534	2,112,564	1,875,201
Intangible assets	*14*	–	4,419,805	2,686,555	2,253,243
Investment properties	*15*	–	–	165,000,000	163,200,000
Deferred income tax assets	*28*	484,537	2,378,365	1,373,242	1,542,606
Loans receivable	*18*	115,603,206	96,272,687	238,763,174	257,442,177
Prepayments	*20*	–	33,665,576	–	–
		116,452,555	137,056,967	409,935,535	426,313,227
Current assets					
Loans receivable	*18*	107,735,880	181,310,010	53,750,499	69,081,473
Interest receivables	*19*	1,550,056	2,265,702	1,556,727	2,795,918
Prepayment, deposits and other receivables	*20*	4,505,261	4,091,930	2,761,082	2,581,276
Amount due from a director	*21*	10,039,789	–	–	–
Amounts due from fellow subsidiaries	*21*	35,330,000	81,953	–	–
Amount due from the immediate holding company	*21*	–	–	34,759	34,759
Cash and cash equivalents	*22*	65,877,480	80,907,627	243,692,600	62,112,739
		225,038,466	268,657,222	301,795,667	136,606,165
Total assets		341,491,021	405,714,189	711,731,202	562,919,392
EQUITY					
Equity attributable to owners of Target Company					
Share capital	*24*	1	1	1	1
Retained earnings		57,056,399	73,350,889	79,389,578	83,876,223
Total equity		57,056,400	73,350,890	79,389,579	83,876,224

		As at 31 December			As at 31 March
		2017	2018	2019	2020
	Note	*HK$*	*HK$*	*HK$*	*HK$*
LIABILITIES					
Non-current liabilities					
Bank borrowings	*23*	–	–	47,001,149	46,506,854
Other payables and accruals	*26*	–	–	246,090	246,090
Lease liabilities	*16*	–	–	322,237	202,589
Deferred income	*25*	912,569	–	–	–
		912,569	–	47,569,476	46,955,533
Current liabilities					
Other payables and accruals	*26*	1,795,855	3,271,251	2,300,458	1,474,233
Bank borrowings	*23*	–	–	1,849,802	1,879,587
Lease liabilities	*16*	–	–	464,668	470,205
Deferred income	*25*	138,436	–	–	–
Amount due to a director	*27*	270,499,999	325,829,290	577,064,631	424,267,480
Amounts due to fellow subsidiaries	*27*	71,880	269,823	–	–
Current income tax payable		11,015,882	2,992,935	3,092,588	3,996,130
		283,522,052	332,363,299	584,772,147	432,087,635
Total liabilities		284,434,621	332,363,299	632,341,623	479,043,168
Total equity and liabilities		341,491,021	405,714,189	711,731,202	562,919,392

(c) Statements of Financial Position of the Target Company

		As at 31 December			As at 31 March
		2017	2018	2019	2020
	Note	*HK$*	*HK$*	*HK$*	*HK$*
ASSETS					
Non-current asset					
Investment in subsidiaries		270,500,000	270,510,000	270,510,000	270,510,000
Current asset					
Cash and cash equivalents		53,680	245,754	245,135	244,483
Total assets		270,553,680	270,755,754	270,755,135	270,754,483
EQUITY					
Equity attributable to the owner of Target Company					
Share capital		1	1	1	1
Accumulated losses	*33*	(23,200)	(26,819)	(71,334)	(148,341)
Total deficit		(23,199)	(26,818)	(71,333)	(148,340)
LIABILITIES					
Current liabilities					
Other payables and accruals		5,000	5,000	242,863	319,113
Amount due to a director	*27*	270,499,999	270,509,999	270,500,000	270,500,000
Amount due to a subsidiary		–	–	83,605	83,710
Amount due to a fellow subsidiary		71,880	267,573	–	–
Total liabilities		270,576,879	270,782,572	270,826,468	270,902,823
Total deficit and liabilities		270,553,680	270,755,754	270,755,135	270,754,483

(d) Consolidated Statements of Changes in Equity of the Target Group

	Share capital *HK$*	Retained earnings *HK$*	Total *HK$*
Balance at 1 January 2017	1	31,440,452	31,440,453
Comprehensive income			
Profit and total comprehensive income for the year	–	25,615,947	25,615,947
Balance at 31 December 2017	1	57,056,399	57,056,400
Change in accounting policy *(Note 2.1.2(i))*	–	(5,988,389)	(5,988,389)
Balance as at 1 January 2018 *(Restated)*	1	51,068,010	51,068,011
Comprehensive income			
Profit and total comprehensive income for the year	–	22,282,879	22,282,879
Balance at 31 December 2018 and 1 January 2019	1	73,350,889	73,350,890
Comprehensive income			
Profit and total comprehensive income for the year	–	6,038,689	6,038,689
Balance at 31 December 2019 and 1 January 2020	1	79,389,578	79,389,579
Comprehensive income			
Profit and total comprehensive income for the period	–	4,486,645	4,486,645
Balance at 31 March 2020	1	83,876,223	83,876,224
Balance at 1 January 2019	1	73,350,889	73,350,890
Comprehensive income			
Profit and total comprehensive income for the period *(Unaudited)*	–	8,167,591	8,167,591
Balance at 31 March 2019 *(Unaudited)*	1	81,518,480	81,518,481

(e) Consolidated Statements of Cash Flows of the Target Group

		For the year ended 31 December			For the three months ended 31 March	
		2017	2018	2019	2019	2020
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
					(Unaudited)	
Cash flows from operating activities						
Profit before income tax		30,719,932	26,390,275	9,827,239	9,131,943	5,382,293
Adjustment for:						
Bank interest income	*5*	(162)	(78,992)	(1,627,104)	(15,094)	(285,472)
Depreciation of property, plant and equipment	*6*	271,020	232,511	864,341	160,982	257,949
Amortisation of intangible assets	*6*	–	779,945	1,733,250	433,312	433,312
Interest expense on bank borrowings	*7*	–	–	455,620	–	370,520
Interest expense on lease liabilities	*7*	–	–	48,833	14,169	8,889
Provision for impairment of loans and interest receivables	*8*	5,587,406	4,853,739	10,833,605	2,683,527	2,727,377
Fair value losses/(gains) on revaluation of investment properties	*15*	–	–	15,043,503	(3,641,942)	1,800,000
Changes in working capital:						
Loans receivable		93,247,576	(66,269,074)	(25,764,581)	13,009,748	(36,737,354)
Interest receivables		986,430	(715,646)	708,975	(239,475)	(1,239,191)
Prepayments, deposits and other receivables		(3,621,642)	413,331	1,330,848	91,350	179,806
Other payables and accruals		(224,810)	1,475,396	(724,703)	(958,966)	(826,225)
Deferred income		(3,023,915)	(1,051,005)	–	–	–
Cash generated from/(used in) operations		123,941,835	(33,969,520)	12,729,826	20,669,554	(27,928,096)
Hong Kong profits tax paid		(767,228)	(12,840,836)	(2,683,774)	(2,461,024)	(161,470)
Interest paid on bank borrowings	*7*	–	–	(455,620)	–	(370,520)
Interest paid on lease liabilities	*7*	–	–	(48,833)	(14,169)	(8,889)
Net cash flows generated from/(used in) operating activities		123,174,607	(46,810,356)	9,541,599	18,194,361	(28,468,975)

	Note	For the year ended 31 December 2017 HK$	2018 HK$	2019 HK$	For the three months ended 31 March 2019 HK$ (Unaudited)	2020 HK$
Cash flows from investing activities						
Interest received		162	78,992	1,627,104	15,094	285,472
Purchases of intangible assets		–	(3,509,750)	–	–	–
Purchases of property, plant and equipment		(293,029)	(188,233)	(1,426,299)	(1,184,636)	(20,586)
Purchases of investment properties		–	(29,311,676)	(107,192,827)	(105,181,973)	–
Acquisition of a subsidiary, net of cash acquired		–	(6,043,900)	(39,185,100)	(39,185,100)	–
Advance to a director		(10,039,789)	–	–	–	–
(Advance to)/repayment from fellow subsidiaries		(24,105,840)	35,445,990	(187,870)	(187,870)	–
Advance to immediate holding company		–	–	(34,759)	–	–
Net cash flows (used in)/ generated from investing activities		(34,438,496)	(3,528,577)	(146,399,751)	(145,724,485)	264,886
Cash flows from financing activities						
Advance from a director		–	100,000,000	261,235,826	112,653,936	–
Repayment to a director		–	(34,630,920)	(10,000,485)	(10,000,485)	(152,797,151)
Draw-down of bank borrowings		–	–	49,300,000	–	–
Repayment of bank borrowings		–	–	(449,049)	–	(464,510)
Principal elements of lease payments		–	–	(443,167)	(108,831)	(114,111)
Repayment to the ultimate shareholder		(72,235,499)	–	–	–	–
Net cash flows (used in)/ generated from financing activities		(72,235,499)	65,369,080	299,643,125	102,544,620	(153,375,772)
Net increase/(decrease) in cash and cash equivalents		16,500,612	15,030,147	162,784,973	(24,985,504)	(181,579,861)
Cash and cash equivalents at beginning of year/period		49,376,868	65,877,480	80,907,627	80,907,627	243,692,600
Cash and cash equivalents At end of the year/period	22	65,877,480	80,907,627	243,692,600	55,922,123	62,112,739

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

aEasy Credit Investment Limited (the "Target Company") is a limited liability company incorporated in Hong Kong on 11 November 2014. The registered office of the Target Company is located at Unit 2107-2108, 21/F, Cosco Tower, 183 Queen's Road Central, Sheung Wan, Hong Kong.

The Target Company is an investment holding company. The Target Company and its subsidiaries (collectively "Target Group") are principally engaged in money lending business of providing property mortgage loans and personal loans in Hong Kong.

The immediate holding company of the Target Company is Earth Axis Investment Limited, a company incorporated in British Virgin Islands. The ultimate holding company of the Target Company is aEasy Finance Holdings Limited, a company incorporated in British Virgin Islands. The ultimate controlling party of the Target Company is Mr. Tommy Lee, a director of the Target Company.

Since November 2014 and until 31 December 2018, the Target Group had been 100% ultimately owned by Mr. Lee Lap. On 31 December 2018, new shares in the ultimate holding company of the Target Group were alloted to Mr. Tommy Lee and since then, the Target Group has been ultimately owned as to 99.99% by Mr. Tommy Lee and as to 0.01% by Mr. Lee Lap.

The Historical Financial Information contained in this report does not constitute the Target Company's statutory financial statements for either of the years ended 31 December 2017, 2018 or 2019 but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

As the Target Company is a private company, it is not required to deliver its financial statements to the Registrar of Companies, and has not done so.

The Target Company's auditor has reported on these financial statements for all three years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis; and did not contain a statement under either sections 406(2), 407(2) or (3) of the Companies Ordinance.

The Historical Financial Information is presented in Hong Kong dollars ("HK$"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of significant accounting policies adopted in the preparation of the Historical Financial Information. These policies have been consistently applied during the Track Record Period, except for the adoption of new and amended standards as disclosed in Note 2.1.

2.1 Basis of preparation

The Historical Financial Information of the Target Group has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and requirements of the Hong Kong Companies Ordinance Cap 622. The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at fair value.

At 31 March 2020, the Target Group had net current liabilities of HK$295,481,470, which comprise an unsecured, interest-free and repayable on demand loan of HK$424,267,480 from Mr. Tommy Lee (the "Existing Loan"), an ultimate shareholder and a director of the Target Group.

The Target Group has disposed of Zero Finance Limited, Zero Magnesium Limited, Zero Titanium Limited, Max Goal International Limited, Across Glorious Holdings Limited and Sunninghill Global Limited (together, the "Disposed Subsidiaries") to Titanium Ions Investments Limited ("Titanium Ions"), which is ultimately controlled by Mr. Tommy Lee and is a fellow subsidiary of the Target Group, in the third quarter of 2020. Pursuant to the deeds of assignment entered in the third quarter of 2020 among the Target Group, Mr. Tommy Lee and Titanium Ions, the aggregated consideration of HK$179,688,000 payable by Titanium Ions to the Target Group was assigned to Mr. Tommy Lee in return for a reduction of equivalent amount of the loan owing by the Target Group to Mr. Tommy Lee.

On 20 August 2020, the Target Group entered into a deed of undertaking with Mr. Tommy Lee to obtain a further interest-free advance from him for the purpose of repaying the outstanding balance of bank borrowings of HK$48,024,271 in relation to the mortgage loans on the properties held by the Disposed Subsidiaries (the "New Loan"). On 3 September 2020, Mr. Tommy Lee assigned the loan owing to him by the Target Group (including the Existing Loan and the New Loan) of HK$292,603,751 to Earth Axis Investment Limited. Earth Axis Investment Limited further entered into a loan capitalisation agreement with the Target Company on 15 September 2020 agreeing to capitalise the outstanding loans owed by the Target Group to it of HK$292,603,751 into new ordinary shares of the Target Company.

The directors have also reviewed the Target Group's cash flow projections, which cover a period of not less than twelve months from 31 March 2020. They are of the opinion that the Target Group will have sufficient financial resources to satisfy its future working capital requirements as and when they fall due within the next twelve months from 31 March 2020. Accordingly, the directors consider that it is appropriate to prepare the Target Group's consolidated financial information on a going concern basis.

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Target Group

A number of new and amended standards became applicable for the reporting period commencing on 1 January 2017, 2018, 2019 and 2020. The Target Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

		Effective for annual periods beginning on or after
Amendments to HKFRS 12	Annual improvements 2014-2016 cycle	1 January 2017
Amendments to HKAS 7	Disclosure initiative	1 January 2017
Amendments to HKAS 12	Recognition of deferred tax assets for unrealized losses	1 January 2017
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 1 and HKAS 28	Annual improvements 2014-2016 cycle	1 January 2018
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts	1 January 2018
Amendments to HKFRS 15	Clarifications to HKFRS 15	1 January 2018
Amendments to HKAS 40	Transfers of investment property	1 January 2018
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration	1 January 2018
HKFRS 16	Leases	1 January 2019

		Effective for annual periods beginning on or after
Amendments to Annual Improvements Project	Annual improvements 2015-2017 cycle	1 January 2019
Amendments to HKFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to HKAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments to HKAS 28	Long-term interests in associates and joint ventures	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over income tax treatments	1 January 2019
Amendments to HKFRS 3 (Revised)	Definition of a business	1 January 2020
Amendments to HKAS 1 (Revised) and HKAS 8	Definition of material	1 January 2020
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest rate benchmark reform	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 January 2020

The impact of adoption of HKFRS 9, HKFRS 15 and HKFRS 16 is disclosed in Note 2.1.2. The other standards did not have any material impact on the Target Group's accounting policies and did not require retrospective adjustments.

(b) New standards and amendment issued but are not yet effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Target Group

		Effective for annual periods beginning on or after
Amendments to HKFRS 16	Covid-19-Related Rent Concessions	1 June 2020
Amendments to HKAS 16	Property, plant and equipment – proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous contracts – cost of fulfilling a contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Annual improvements	Annual improvements to HKFRSs 2018 – 2020	1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
Amendments to HKAS 1	Presentation of financial statements, classification of liabilities as current or non-current	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate and joint venture	To be determined

The Target Group has assessed the impact of adopting these new standards and amendments. According to the preliminary assessment, these standards are not expected to have a material impact on the Target Group's operating results and financial position.

2.1.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Target Group's Historical Financial Information since 1 January 2018, as well as the impact of adoption of HKFRS 16 "Leases" since 1 January 2019.

(i) HKFRS 9 "Financial Instruments"

HKFRS 9 "Financial Instruments" replaces HKAS 39 "Financial Instruments: Recognition and Measurement" for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. HKFRS 9 is effective for reporting periods beginning on or after 1 January 2018 and the Target Group has applied the standard from its mandatory adoption date of 1 January 2018. The new accounting policies are set out in Note 2.8 below. In accordance with the transitional provision, comparative figures have not been restated. Any adjustments to carrying amounts of financial assets or liabilities are recognised on 1 January 2018, with the difference recognised in opening retained earnings.

Impact to the Historical Financial Information of adoption of HKFRS 9

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail below.

Consolidated statement of financial position (extract)	As at 1 January 2018 as originally presented *HK$*	Effect of the adoption of HKFRS 9 *HK$*	As at 1 January 2018 as restated *HK$*
Loans receivables	223,339,086	(7,171,723)	216,167,363
Deferred income tax assets	484,537	1,183,334	1,667,871
Total assets	341,437,341	(5,988,389)	335,448,952
Equity			
Reserves	57,056,399	(5,988,389)	51,068,010
Total equity	57,056,400	(5,988,389)	51,068,011

The total impact on the Target Group's retained earnings as at 1 January 2018 is as follow:

	Retained earnings *HK$*
Closing retained earnings 31 December 2017 – HKAS 39	57,056,399
Increase in provisions for impairment of loans receivable	(7,171,723)
Increase in deferred income tax assets relating to provisions of impairment	1,183,334
Opening retained earnings 1 January 2018 – HKFRS 9	51,068,010

Classification and measurement

The financial assets of the Target Group includes loans receivable, interest receivables, deposits and other receivables, amount due from a director, amounts due from fellow subsidiaries and cash and cash equivalents, which are classified as loans and receivables and measured at amortised cost, meet the conditions for classification at amortised cost under HKFRS 9. Accordingly, there is no impact on the Target Group's accounting for financial assets.

The financial liabilities of the Target Group includes other payables and accruals, amount due to a director and amounts due to fellow subsidiaries which are measured at amortised cost. There is no impact on the Target Group's accounting for financial liabilities, as the new standard only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Target Group does not have any such financial liabilities.

Impairment of financial assets under expected credit losses ("ECL") model

The Target Group has two types of financial assets that are subject to HKFRS 9's new ECL model, which are loans receivable and interest receivables. The Company recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition. The impact of the change in impairment methodology on the Target Group's Historical Financial Information is disclosed above.

While deposits and other receivables, amount due from a director, amounts due from fellow subsidiaries, amount due from the immediate holding company and cash and cash equivalents are also subject to the impairment requirement of HKFRS 9, the identified impairment loss is immaterial.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the end of the reporting period. Assessments are performed based on the Target Group's historical credit loss exposure, adjusted for factors that are specific to the debtors, general economic conditions, and current conditions at the end of the reporting period as well as the forecast of future conditions.

The Target Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Group recognises lifetime ECL. The assessment on whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Details of the ECL model and measurement technique are set out in Note 3.1(b).

The loss allowances for loans receivable and interest receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	Loans receivables *HK$*
At 31 December 2017 – HKAS 39	30,208,810
Amounts additionally provided through opening retained earnings on adoption of HKFRS 9	7,171,723
Opening loss allowance as at 1 January 2018 – HKFRS 9	37,380,533

(ii) HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 supersedes HKAS 11 "Construction Contracts", HKAS 18 "Revenue" and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Target Group has adopted HKFRS 15 from 1 January 2018 which resulted in changes in accounting policies. The Target Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and that comparatives will not be restated.

The adoption of HKFRS 15 did not result in any significant impact to the financial statements as the timing of revenue recognition is not changed.

(iii) HKFRS 16 "Leases"

Impact to the Historical Financial Information of the adoption of HKFRS 16

The Target Group has adopted HKFRS 16 "Leases" from its mandatory adoption date of 1 January 2019. The Target Group has applied the simplified transition approach, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the Target Group, as a lessee, recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.75%.

	HK$
Operating lease commitments disclosed as at 31 December 2018	1,373,500
Discounted using the lessee's incremental borrowing rate at the date of initial application	(143,428)
Lease liabilities recognised as at 1 January 2019	1,230,072
Of which are:	
– Current lease liabilities	443,167
– Non-current lease liabilities	786,905
	1,230,072

The associated right-of-use assets were measured as an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There was no onerous lease contract that would have required an adjustment to the right-of-use assets at the date of initial application. The recognised right-of-use assets relate to leased office premises.

Changes in accounting policies affected the following items in the consolidated statement of financial position on 1 January 2019:

Consolidated statement of financial position (extract)	1 January 2019 as originally presented *HK$*	Effects of the adoption of HKFRS 16 *HK$*	1 January 2019 Restated *HK$*
Non-current assets			
Property, plant and equipment	320,534	1,230,072	1,550,606
Current liabilities			
Lease liabilities	–	(443,167)	(443,167)
Non-current liabilities			
Lease liabilities	–	(786,905)	(786,905)

In applying HKFRS 16 for the first time, the Target Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- exempting operating leases for which the underlying assets are of low value
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Target Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Target Group relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease".

The Target Group's leasing activities and how these are accounted for

The Target Group leases various properties. Rental contracts are typically made for fixed periods of 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Until 31 December 2018, leases of office premises were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use assets (included in property, plant and equipment which are presented in the consolidated statement of financial position) and a corresponding liability at the date at which the leased asset is available for use by the Target Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Contracts may contain both lease and non-lease components. The Target Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Target Group under residual value guarantees;
- the exercise price of a purchase option if the Target Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Target Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Target Group has control. The Target Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to effect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

2.2.2 Separate financial statements

Investment in a subsidiary is accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiary are accounted for by the Target Company on the basis of dividend received and receivable.

Impairment testing of the investment in a subsidiary is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying account of the investment in the separate financial statements exceeds the carry amount in the Historical Financial Information of the investee's net assets including goodwill.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the Historical Financial Information of the Target Group are measured using the currency of the primary economic environment in which the Target Group operates (the "functional currency"). The Historical Financial Information are presented in HK$, which is the Target Company's functional and presentation currency.

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses are presented in profit or loss.

2.4 Property, plant and equipment

The leased office premise is considered as a type of right-of-use assets.

All other property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives as follows:

Leasehold improvements	Shorter of the lease terms or 2 years
Furniture and fixtures	3 years
Computers	3 years
Leased office premise	Over the term of the lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.5 Intangible assets

Acquired mobile application is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives for three years.

Costs associated with maintaining mobile application are recognised as an expense as incurred.

2.6 Investment properties

Investment properties, principally office buildings, are held for long-term rental yields and are not occupied by the Target Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are carried at fair value. Changes in fair values are presented as separate line item in profit or loss.

2.7 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

From 1 January 2018, the Target Group's accounting policy is as follows:

(i) Classification

The Target Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and

- those to be measured at amortised cost.

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Target Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Target Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

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

(iii) Measurement

At initial recognition, the Target Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Target Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Target Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in revenue or other income using the effective interest rate method. Any gain or loss arising on derecognition and impairment losses are presented as separate line item in profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gain/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gain/(losses) and impairment expenses are presented as separate line item in the OCI.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gain/(losses) in the period in which it arises.

(iv) Impairment

The Target Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised cost. The Target Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

Note 3.1(b) provides more detail of how the expected credit loss allowance is measured.

Loans receivable and interest receivables of the Target Group are classified as debt investments carried at amortised cost and are subject to the ECL model. Impairment on deposits and other receivables, amount due from a fellow subsidiary, amount due from immediate holding company and cash and cash equivalents are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Before 1 January 2018, the Target Group's accounting policy is as follows:

(i) Classification and measurement

The Target Group classifies its financial assets into loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Target Group's loans and receivables comprise loans receivable, interest receivables, deposits and other receivables, amounts due from fellow subsidiaries, amount due from a director and cash and cash equivalents in the statement of financial positions.

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Target Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Target Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(ii) Impairment

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Target Group uses to determine that there is objective evidence of an impairment loss include:

(a) Significant financial difficulty of the borrower;

(b) A breach of contract, such as a default or delinquency in interest or principal payments;

(c) The Target Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) The disappearance of an active market for that financial asset because of financial difficulties; or

(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers in the portfolio; and

(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Target Group first assesses whether objective evidence of impairment exists.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Target Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Target Group or the counterparty.

2.10 Loans, interest and other receivables

Loans and interest receivables are property mortgage loans and personal loans granted to customers in the ordinary course of business. If collection of loans, interest and other receivables are expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Loans, interest and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The gross carrying amount is written off (either partially or in full) to the extent that there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written-off are recognized as "other income" in profit or loss.

2.11 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash on hand and deposits held at call with banks.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Other payables and accruals

Other payables and accruals are obligations to pay for services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Other payables and accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the countries where the Target Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Bonus plans

The Target Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Target Group's shareholders after certain adjustments. The Target Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Pension obligations

For employees in Hong Kong, the Target Group has a defined contribution plan. The Target Group pays contributions to trustee-administered pension funds on a mandatory, contractual or voluntary basis. The Target Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employment costs when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.16 Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Revenue recognition

From 1 January 2018, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Before 1 January 2018, interest income is recognised and accrued using the effective interest method. When a loan and receivable is impaired, the Target Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the period of the lease.

2.18 Leases

As explained in note 2.1.1(b) above, the Target Group has changed its accounting policies for lease where the Target Group is the lessee from 1 January 2019. The new policy and impact of the change are described in note 2.1.2(iii).

Before 1 January 2019, leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payment made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.19 Borrowings

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

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

All other borrowing costs are expensed in the period in which they are incurred.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks: market risk (including cash flow and fair value interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

(a) Market risk – Cash flow and fair value interest rate risk

The Target Group's interest rate risk arises from its loans receivable (Note 18), interest receivables (Note 19) and bank borrowings (Note 23). Except for bank borrowings, which are entitled to interest at variable rates and expose the Target Group to cash flow interest rate risk, loans receivable and interest receivables are issued at fixed rates.

If market interest rates had been 1% higher/lower with all other variables held constant, post-tax profits would have been approximately HK$407,905 and HK$404,027 lower/higher for the year ended 31 December 2019 and three months ended 31 March 2020 respectively as a result of higher/lower interest expenses on bank borrowings carried at variable rates.

(b) Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Target Group. The Target Group's main income generating activity is lending to customers and therefore credit risk is a principal risk.

The Target Group's credit risk arises from deposits, cash and cash equivalents, loans receivable, interest receivables, amount due from a director, amounts due from fellow subsidiaries and amount due from immediate holding company. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The carrying amounts of these balances represent the Target Group's maximum exposure to credit risk in relation to financial assets which are stated as follows:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	HK$	*HK$*	*HK$*	*HK$*
Loans receivable	223,339,086	277,582,697	292,513,673	326,523,650
Interest receivables	1,550,056	2,265,702	1,556,727	2,795,918
Deposits	355,916	352,000	95,200	95,200
Amount due from a director	10,039,789	–	–	–
Amounts due from fellow subsidiaries	35,330,000	81,953	–	–
Amount due from the immediate holding company	–	–	34,759	34,759
Cash and cash equivalents	65,877,480	80,907,627	243,692,600	62,112,739

As at 31 December 2017, 2018 and 2019 and 31 March 2020, all of the Target Group's cash and cash equivalents are deposited in major financial institutions located in Hong Kong, which the Target Group's management believes are of high credit quality.

From 1 January 2018, the credit risk of the Target Group is managed as follows:

(i) Credit risk management

The Target Group manages and analyses the credit risk for each of their new and existing customers before standard payment terms and conditions are offered. In particular, the Target Group manages its credit risk by:

- Ensuring that the Target Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Target Group's stated policies and procedures, HKFRSs and relevant supervisory guidance.
- Creating credit policies to protect the Target Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, credit rating, geographic location etc.
- If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Target Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL.
- Ensuring that the Target Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

(ii) Measurement of ECL

The Target Group measures loss allowance under HKFRS 9 ECL model. The measure of ECL is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial assets is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset. The key inputs used for measuring ECL are:

- Probability of default ("PD");
- Loss given default ("LGD"); and
- Exposure at default ("EAD").

Elements of the ECL models that are considered accounting judgements and estimates include:

- The Target Group's estimation of probabilities of default to individual company;
- The Target Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposures;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as delinquency ratios and collateral values, and the effect on probabilities of default, exposures at default and losses given default; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Target Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

The Target Group categorises the credit quality of its loans receivable and interest receivables according to 3 different stages under the ECL model:

- Stage 1: financial assets without significant increase in credit risk since initial recognition where loss allowance is calculated based on 12-month ECL.
- Stage 2: financial assets with significant increase in credit risk since initial recognition where loss allowance is calculated based on lifetime ECL.
- Stage 3: credit impaired assets where loss allowance is calculated based on lifetime ECL.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- significant deterioration in external market indicators of credit risk, e.g. a significant decrease in credit rating of the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; 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 debtors' ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

The Target Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Target Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Target Group collects performance and default information about its credit risk exposures and analyses all data collected using statistical model and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as delinquency rate on residential mortgage and residential property price index. The Target Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Target Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Target Group uses different criteria to determine whether credit risk has increased significantly and the Target Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Target Group has reasonable and supportable information that demonstrates otherwise.

The Target Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Target Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

The Target Group has controls and procedures in place to identify when the credit risk of an asset improves and the definition of significant increase in credit risk is no longer met. When this is the case the asset may move back to stage 1 from stage 2, subject to payments being up to date and the ability of the borrower to make future payments on time.

Default and credit-impaired

The Target Group considers that default has occurred when the instrument is more than 90 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. In particular, the following qualitative indicators are taken into account in determining the risk of default occurring:

- probable bankruptcy entered by the borrowers; and
- death of the debtor.

Incorporation of forward-looking information

The Target Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Target Group uses internal and external information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Target Group uses multiple scenarios to model the nonlinear impact of assumptions about macroeconomic factors on ECL. The Target Group applies probabilities to the forecast scenarios identified.

(iii) Credit risk exposure

Maximum exposure to credit risk before collateral held or other credit enhancements

According to the characteristics of risk level, the Target Group classifies the risk level of financial assets included in the measurement of expected credit losses into "Risk level 1", "Risk level 2", "Risk level 3" and "default". "Risk level 1" means that the asset credit quality is good, there is sufficient evidence to show that the asset is not expected to default; "Risk level 2" means that the asset quality is relatively good, there is no reason or there is no sufficient reason to suspect that the asset is expected to default; "Risk level 3" refers to the unfavorable factors that may cause or have caused an asset default, but no default event has occurred or no significant default has occurred. The criteria for "default" are consistent with the definition of credit-impaired assets.

The following table provides an analysis of the credit risk exposure of financial instruments applicable to the expected credit loss measurement. The book value of the following financial assets is the Target Group's maximum exposure to credit risk for these assets.

The movements in book value of loans receivable

Loans receivable	**Stage 1 12-month ECL** *HK$*	**Stage 2 Lifetime ECL** *HK$*	**Stage 3 Lifetime ECL** *HK$*	**Total** *HK$*
Balance as at 31 December 2017 and 1 January 2018	204,706,551	106,913	48,734,432	253,547,896
New loans originated	220,177,922	7,466,858	913,538	228,558,318
Termination	(158,898,779)	–	(3,390,466)	(162,289,245)
– Transfers from Stage 1 to Stage 2	(11,952)	11,952	–	–
– Transfers from Stage 1 to Stage 3	(12,318,791)	–	12,318,791	–
– Transfers from Stage 2 to Stage 3	–	(106,913)	106,913	–
– Transfers from Stage 3 to Stage 1	218,452	–	(218,452)	–
Total transfer between stages	(12,112,291)	(94,961)	12,207,252	–

Loans receivable	Stage 1 12-month ECL *HK$*	Stage 2 Lifetime ECL *HK$*	Stage 3 Lifetime ECL *HK$*	Total *HK$*
Balance as at 31 December 2018	253,873,403	7,478,810	58,464,756	319,816,969
New loans originated	252,327,310	930,028	5,086,111	258,343,449
Termination	(222,274,631)	(72,964)	(10,231,273)	(232,578,868)
– Transfers from Stage 1 to Stage 2	(429,183)	429,183	–	–
– Transfers from Stage 1 to Stage 3	(10,068,375)	–	10,068,375	–
– Transfers from Stage 2 to Stage 3	–	(7,460,810)	7,460,810	–
Total transfer between stages	(10,497,558)	(7,031,627)	17,529,185	–
Balance as at 31 December 2019	273,428,524	1,304,247	70,848,779	345,581,550
New loans originated	70,176,526	120,000	41,314	70,337,840
Termination	(30,740,843)	(30,457)	(2,829,186)	(33,600,486)
– Transfers from Stage 1 to Stage 2	(7,351,857)	7,351,857	–	–
– Transfers from Stage 1 to Stage 3	(911,518)	–	911,518	–
– Transfers from Stage 2 to Stage 1	78,757	(78,757)	–	–
– Transfers from Stage 2 to Stage 3	–	(1,204,331)	1,204,331	–
Total transfer between stages	(8,184,618)	6,068,769	2,115,849	–
Balance as at 31 March 2020	304,679,589	7,462,559	70,176,756	382,318,904
Balance as at 31 December 2018	253,873,403	7,478,810	58,464,756	319,816,969
New loans originated	34,952,437	40,000	2,697,902	37,690,339
Termination	(50,680,114)	(19,973)	–	(50,700,087)
– Transfers from Stage 1 to Stage 2	(4,389,581)	4,389,581	–	–
– Transfers from Stage 1 to Stage 3	(3,950,588)	–	3,950,588	–
– Transfers from Stage 2 to Stage 1	8,000	(8,000)	–	–
– Transfers from Stage 2 to Stage 3	–	(7,470,810)	7,470,810	–
Total transfer between stages	(8,332,169)	(3,089,229)	11,421,398	–
Balance as at 31 March 2019 *(Unaudited)*	229,813,557	4,409,608	72,584,056	306,807,221

Movements in ECL allowance on loans and advances to customers

Loans receivable	Stage 1 12-month ECL *HK$*	Stage 2 Lifetime ECL *HK$*	Stage 3 Lifetime ECL *HK$*	Total *HK$*
Balance as at 31 December 2017	–	–	–	30,208,810
Impact of adopting HKFRS 9	–	–	–	7,171,723
Balance as at 1 January 2018	9,929,933	81,623	27,368,977	37,380,533
New loans originated	9,293,026	5,627,618	–	14,920,644
Termination	(7,109,258)	–	–	(7,109,258)
– Transfers from Stage 1 to Stage 2	(9,039)	9,039	–	–
– Transfers from Stage 3 to Stage 1	22,047	–	(22,047)	–
Total transfer between stages	13,008	9,039	(22,047)	–
Change in risk parameters	(1,171,289)	(81,623)	(1,704,735)	(2,957,647)
Balance as at 31 December 2018	10,955,420	5,636,657	25,642,195	42,234,272
New loans originated	6,701,466	821,363	5,086,112	12,608,941
Termination	(6,259,944)	(12,736)	(4,432,335)	(10,705,015)
– Transfers from Stage 1 to Stage 2	(19,850)	19,850	–	–
– Transfers from Stage 1 to Stage 3	(1,847,377)	–	1,847,377	–
– Transfers from Stage 2 to Stage 3	–	(5,623,921)	5,623,921	–
Total transfer between stages	(1,867,227)	(5,604,071)	7,471,298	–
Change in risk parameters	(1,265,910)	296,892	9,898,697	8,929,679
Balance as at 31 December 2019	8,263,805	1,138,105	43,665,967	53,067,877
New loans originated	2,220,618	103,015	41,314	2,364,947
Termination	(785,788)	(17,318)	(99,430)	(902,536)
– Transfers from Stage 1 to Stage 2	(228,948)	228,948	–	–
– Transfers from Stage 1 to Stage 3	(99,086)	–	99,086	–
– Transfers from Stage 2 to Stage 1	68,973	(68,973)	–	–
– Transfers from Stage 2 to Stage 3	–	(1,051,814)	1,051,814	–
Total transfer between stages	(259,061)	(891,839)	1,150,900	–
Change in risk parameters	(330,061)	657,690	937,337	1,264,966
Balance as at 31 March 2020	9,109,513	989,653	45,696,088	55,795,254

Loans receivable	Stage 1 12-month ECL *HK$*	Stage 2 Lifetime ECL *HK$*	Stage 3 Lifetime ECL *HK$*	Total *HK$*
Balance as at 31 December 2018	10,955,420	5,636,657	25,642,195	42,234,272
New loans originated	1,801,918	27,760	697,252	2,526,930
Termination	(3,825,687)	–	(6,258,487)	(10,084,174)
– Transfers from Stage 1 to Stage 2	(45,322)	45,322	–	–
– Transfers from Stage 1 to Stage 3	(1,576,438)	–	1,576,438	–
– Transfers from Stage 2 to Stage 1	6,135	(6,135)	–	–
– Transfers from Stage 2 to Stage 3	–	(5,631,484)	5,631,484	–
Total transfer between stages	(1,615,625)	(5,592,297)	7,207,922	–
Change in risk parameters	41,326	391,336	9,808,109	10,240,771
Balance as at 31 March 2019 ***(Unaudited)***	7,357,352	463,456	37,096,991	44,917,799

(iv) Sensitivity analysis

The allowance for credit losses is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, economic scenario weighting and other factors considered when applying expert judgment. Changes in these inputs, assumptions and judgments impact the assessment of significant increase in credit risk and the measurement of ECLs.

The following table shows the impact on ECL allowance on loans receivable and interest receivables as at 31 December 2018 and 2019 and 31 March 2020 by changing individual input.

Change in input on ECL model	Impact on ECL allowance on loans receivable and interest receivables As at 31 December 2018	 2019	 As at 31 March 2019 *(Unaudited)*	 2020
Assuming a further 10% weighting added to the probability of the optimistic scenario and a corresponding 10% weighting reduction in the base scenario	Decrease by HK$664,882	Decrease by HK$552,463	Decrease by HK$452,967	Decrease by HK$550,386
Assuming a further 10% weighting added to the probability of the pessimistic scenario and a corresponding 10% weighting reduction in the base scenario	Increase by HK$6,957,989	Increase by HK$3,117,749	Increase by HK$3,012,001	Increase by HK$3,362,730
Assuming the forecast collateral value increased by 10%	Decrease by HK$1,172,066	Decrease by HK$249,235	Decrease by HK$631,226	Decrease by HK$325,859
Assuming the forecast collateral value decreased by 10%	Increase by HK$1,180,981	Increase by HK$915,495	Increase by HK$2,377,582	Increase by HK$1,519,806

(v) Collateral held as security

The Target Group holds collateral against certain loans receivable in the form of mortgages over property. As at 31 December 2017, 2018 and 2019 and 31 March 2020, 89%, 65%, 66% and 69% of the Target Group's gross loans receivable were secured by mortgages over property, respectively. Majority of the collateral are residential properties, commercial properties and industrial properties and all of the collateral are located in Hong Kong.

In the majority of cases, the Target Group grants loans with a loan-to-value ratio of no more than 80% of the value in the valuation report of the property for first property mortgages, and where it is a subordinated property mortgage, the aggregate lending (Group's loan aggregated with all prior mortgage loans) of no more than 80% of the value of the underlying property. Approval from a director of the subsidiary of the Target Group, a credit manager and a credit officer is needed for loans granted with a loan-to-value ratio that exceeds 80%. The directors and senior management of the Target Group meet regularly to review the loan to value ratio and when (1) there is a significant change in the property price index in Hong Kong; or (2) when loans are renewed. The directors and senior management of the Target Group consider that the credit risk arising from the loans and interest receivables is significantly mitigated by the property held as collateral, with reference to the market value of the property which were valued by independent third party valuers as at the end of the reporting period.

Before 1 January 2018, the credit risk of the Target Group is managed as follows:

The Target Group manages and analyses the credit risk for each of their new and existing clients before standard payment terms and conditions are offered. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. For property mortgage loans, the Target Group holds collateral against loans and interest receivables in the form of mortgages over property. Majority of the collateral are residential properties, commercial properties and industrial properties and all of the collaterals are located in Hong Kong. Individual risk limits are set based on the value of collaterals provided by customers and internal or external ratings in accordance with limits set by the Directors. The utilisation of credit limits is regularly monitored. For personal loans, the Target Group assesses the credit quality of the customer based on the customer's financial position, past experience, internal and external credit rating of the customers and other factors. The credit quality classification of loans receivable and their respective interest receivables using the Target Group's credit rating system is set out in the table below:

Loans receivable

	2017
	HK$
Performing	223,339,086
Doubtful	30,208,810
Gross loans receivable	253,547,896

Interest receivables

	2017
	HK$
Performing	1,550,056
Doubtful	–
Gross interest receivables	1,550,056

For property mortgage loans, the Target Group considers the loans and respective interest receivables as doubtful if the repayment of principal and/or of interest has been overdue for more than 3 months and principal, accrued interest and/or future interest may not be fully secured by the fair value of collateral at its estimated selling price. The Target Group considers the loans and respective interest receivables as loss if the repayment of principal and/or interest has been overdue for more than 3 months and the collection of principal and interest in full is considered improbable after exhausting all collection efforts such as realisation of collateral and initiation of legal proceedings. The Target Group estimates and recognises impairment losses for the loans and interest receivables considered as "doubtful" and "loss", taking into account of the fair values of the collateral at estimated selling prices which are inadequate to cover the loans and interest receivables.

For personal loans, the Target Group considers the loans and respective interest receivables as doubtful if the repayment of principal and/or of interest has been overdue for more than 3 months. The Target Group considers the loans and respective interest as loss if the repayment of principal and/or of interest has been overdue for more than 3 months or the customer had been declared bankruptcy.

As at 31 December 2017, loans receivable of HK$17,937,531 were past due but not impaired. These related to a number of third party customers for whom there was no recent history of default. The Directors are of the opinion that no provision for impairment on individual loan is necessary for these balances as there has not been a significant change in credit quality and the respective principal and/or interest that had been overdue were still fully secured by the fair value of collateral at their respective prevailing market price. Accordingly, these balances are still considered fully recoverable.

The Target Group performed collective assessment of the loans and interest receivables by grouping together all its receivables with similar credit risk characteristics. The impairment review is carried out on all those loans and interest receivables based on available market information from other licensed money lenders, taking reference to their impairment rate in respect of loans and interest receivables with similar credit risk characteristics. The collective impairment rate adopted by the Target Group for the year ended 31 December 2017 was 1.45%.

(c) Liquidity risk

The Target Group's primary cash requirements, apart from granting loans to customers, are for repayment of bank borrowings, amount due to a director, and operating expenses. The Target Group finances its working capital requirements with funds generated from operations.

The Target Group's policy is to maintain sufficient cash and cash equivalents or have available funding through committed bank facilities and borrowing from a director to meet its working capital requirements.

The director of the Group has confirmed his intention not to request repayment on the amount due to a director until the Target Group has the ability to repay such amount.

The below table analyses the Target Group's financial liabilities into relevant maturity groupings based on the remaining period from the end of reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than one year *HK$*	**Between one and two years** *HK$*	**Between two and five years** *HK$*	**More than five years** *HK$*	**Total** *HK$*
As at 31 December 2017					
Other payables and accruals	1,329,376	–	–	–	1,329,376
Amount due to a director	270,499,999	–	–	–	270,499,999
Amount due to a fellow subsidiary	71,880	–	–	–	71,880
	271,901,255	–	–	–	271,901,255
As at 31 December 2018					
Other payables and accruals	2,362,002	–	–	–	2,362,002
Amount due to a director	325,829,290	–	–	–	325,829,290
Amount due to a fellow subsidiary	269,823	–	–	–	269,823
	328,461,115	–	–	–	328,461,115
As at 31 December 2019					
Bank borrowings	3,266,027	3,266,027	9,798,080	48,187,841	64,517,975
Other payables and accruals	2,300,458	246,090	–	–	2,546,548
Lease liabilities	492,000	328,000	–	–	820,000
Amount due to a director	577,064,631	–	–	–	577,064,631
	583,123,116	3,840,117	9,798,080	48,187,841	644,949,154

	Less than one year *HK$*	Between one and two years *HK$*	Between two and five years *HK$*	More than five years *HK$*	Total *HK$*
As at 31 March 2019 *(Unaudited)*					
Other payables and accruals	2,247,585	–	–	–	2,247,585
Lease liabilities	492,000	492,000	205,000	–	1,189,000
Amount due to a director	428,482,741	–	–	–	428,482,741
	431,222,326	492,000	205,000	–	431,919,326
As at 31 March 2020					
Bank borrowings	3,253,844	3,253,844	9,761,531	47,165,477	63,434,696
Other payables and accruals	1,474,233	246,090	–	–	1,720,323
Lease liabilities	492,000	205,000	–	–	697,000
Amount due to a director	424,267,480	–	–	–	424,267,480
	429,487,557	3,704,934	9,761,531	47,165,477	490,119,499

3.2 Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets to reduce debt.

The Target Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'bank borrowings' and 'amount due to a director' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total equity is calculated as 'equity' as shown in the consolidated statement of financial position. The Target Group's strategy remains unchanged and the gearing ratios and net cash position of the Target Group as at 31 December 2017, 2018 and 2019 and 31 March 2020 are as follows:

	As at 31 December			As at 31 March
	2017 *HK$*	2018 *HK$*	2019 *HK$*	2020 *HK$*
Bank borrowings	–	–	48,850,951	48,386,441
Amount due to a director	270,499,999	325,829,290	577,064,631	424,267,480
Less: cash and cash equivalents	(65,877,480)	(80,907,627)	(243,692,600)	(62,112,739)
Net debt	204,622,519	244,921,663	382,222,982	410,541,182
Total equity	57,056,400	73,350,890	79,389,579	83,876,224
Gearing ratio	359%	334%	481%	489%

3.3 Fair value estimation

The carrying values of financial assets and financial liabilities are a reasonable approximation of their fair values. The fair value estimation of investment properties that are measured at fair value is set out in Note 15.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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 circumstance.

4.1 Critical accounting estimates and assumptions

The Target Group makes 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.

(a) Impairment of loans and interest receivables

Since 1 January 2018, the measurement of the expected credit loss allowance for loans and interest receivables is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 3.1(b), which also sets out key sensitives of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL and
- Establishing the number and relation weightings of forward looking scenarios.

Before 1 January 2018, the Target Group assesses provision for impairment of loans, interest and other receivables based on an estimate of the recoverability of these receivables. Provisions are applied to loans, interest and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of loans, interest and other receivables requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

(b) Income tax

The Target Group is subject to income tax in Hong Kong. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Estimated valuation of investment properties

The Target Group carries its investment properties at fair value with changes in the fair value recognised in profit or loss. It obtains independent valuations at least annually. At the end of each reporting period, management updates its assessment of the fair value of each property, taking into account the most recent independent valuations. Refer to Note 15 for the assumptions, valuation techniques and fair value measurement of investment properties.

5 REVENUE AND OTHER INCOME

Revenue represents interest income from the money lending business of providing property mortgage loans and personal loans in Hong Kong. Revenue and other income recognised during the year are as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Revenue					
Interest income	51,861,561	56,102,386	58,663,419	13,372,931	16,891,327
Other income					
Recovery of loans and interest receivables written-off	507,063	604,060	781,925	555,998	23,634
Bank interest income	162	78,992	1,627,104	15,094	285,472
Rental income from investment properties	–	–	164,060	–	246,090
	507,225	683,052	2,573,089	571,092	555,196
	52,368,786	56,785,438	61,236,508	13,944,023	17,446,523

6 EXPENSES BY NATURE

	Year ended 31 December			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Employee benefit expenses *(Note 9)*	6,165,979	9,366,844	9,716,853	2,473,299	2,328,865
Depreciation of property, plant and equipment *(Note 13)*	271,020	232,511	864,341	160,982	257,949
Amortisation of intangible assets *(Note 14)*	–	779,945	1,733,250	433,312	433,312
Auditor's remuneration	390,000	485,000	415,300	39,583	239,993
Referral fee	1,973,725	1,885,531	2,176,642	470,256	709,249
Operating lease expenses	1,296,000	1,378,000	–	–	–
Government rates	65,216	133,730	143,111	–	34,400
Expenses relating to short-term leases *(Note 16)*	–	–	446,036	372,900	19,800
Advertising and promotion	2,134,934	4,869,943	3,815,375	606,501	831,224
Legal and professional fee	1,827,597	1,730,475	1,856,128	574,905	1,483,844
Valuation and search fee	943,310	1,531,751	981,733	177,426	246,180
Computer accessories	39,218	1,065,412	611,607	122,287	233,828
Entertainment	579,862	868,312	378,916	114,125	19,571
Repairs and maintenance	55,065	25,470	124,942	50,330	–
Building management fees	84,960	84,960	408,523	62,160	62,640
Others	234,562	1,103,540	1,354,951	98,260	256,589
	16,061,448	25,541,424	25,027,708	5,756,326	7,157,444

7 FINANCE COSTS

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Interest expense on bank borrowings	–	–	455,620	–	370,520
Interest expense on lease liabilities	–	–	48,833	14,169	8,889
	–	–	504,453	14,169	379,409

8 PROVISION FOR IMPAIRMENT OF LOANS AND INTEREST RECEIVABLES

	Year ended 31 December 2017		
	Individual impairment allowance	Collective impairment allowance	Total
	HK$	*HK$*	*HK$*
Provision for/(reversal of) impairment on loans receivable	8,247,573	(2,660,167)	5,587,406

	Year ended 31 December 2018			
	12 months expected credit loss (Stage 1)	Lifetime expected credit loss not credit impaired (Stage 2)	Lifetime expected credit loss credit impaired (Stage 3)	Total
	HK$	*HK$*	*HK$*	*HK$*
Net charge for/(reversal of) provision for impairment on loans receivable	1,025,487	5,555,034	(1,726,782)	4,853,739

	Year ended 31 December 2019			
	12 months expected credit loss (Stage 1)	Lifetime expected credit loss not credit impaired (Stage 2)	Lifetime expected credit loss credit impaired (Stage 3)	Total
	HK$	*HK$*	*HK$*	*HK$*
Net (reversal of)/charge for provision for impairment on loans receivable	(2,691,615)	(4,498,552)	18,023,772	10,833,605

	Three months ended 31 March 2019 (Unaudited)			
	12 months expected credit loss (Stage 1)	Lifetime expected credit loss not credit impaired (Stage 2)	Lifetime expected credit loss credit impaired (Stage 3)	Total
	HK$	*HK$*	*HK$*	*HK$*
Net (reversal of)/charge for provision for impairment on loans receivable	(3,598,068)	(5,173,201)	11,454,796	2,683,527

	Three months ended 31 March 2020			
	12 months expected credit loss (Stage 1)	Lifetime expected credit loss not credit impaired (Stage 2)	Lifetime expected credit loss credit impaired (Stage 3)	Total
	HK$	*HK$*	*HK$*	*HK$*
Net (reversal of)/charge for provision for impairment on loans receivable	845,708	(148,452)	2,030,121	2,727,377

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	HK$	*HK$*	*HK$*	*HK$* (*Unaudited*)	*HK$*
Wages, salaries and bonus	5,716,455	8,825,444	9,102,969	2,322,260	2,202,359
Pension costs – defined contribution scheme *(Note (a))*	225,278	307,335	339,651	86,795	71,934
Other benefits	224,246	234,065	274,233	64,244	54,572
	6,165,979	9,366,844	9,716,853	2,473,299	2,328,865

(a) Retirement benefit – defined contribution plans

The Target Group participates in the Mandatory Provident Fund Scheme (the "MPF scheme") in accordance with the Mandatory Provident Fund Scheme Ordinance in Hong Kong. Under the rules of the MPF scheme, the employer and its employees in Hong Kong are each required to contribute 5% of the employee's relevant income with a ceiling of HK$1,500 per month to the MPF scheme for each of the years ended 31 December 2017, 31 December 2018, 31 December 2019 and each of the 3 months ended 31 March 2019 *(unaudited)* and 31 March 2020. The only obligation of the Target Group in respect to the MPF scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in future year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Target Group for the years ended 31 December 2018, 31 December 2019 and the three months ended 31 March 2019 *(unaudited)* and 31 March 2020 include one, one, one and one director whose emoluments are reflected in the analysis shown in Note 10. The emoluments payable to the five highest paid individuals for the year ended 31 December 2017 and the remaining four, four, four and four individuals for the years ended 31 December 2018, 31 December 2019, three months ended 31 March 2019 *(unaudited)* and 31 March 2020 are as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Basic salaries, allowances and benefits in kind	2,499,939	2,519,749	2,205,960	557,703	595,490
Retirement benefit – defined contribution plan	66,059	70,500	72,000	18,000	18,000
	2,565,998	2,590,249	2,277,960	575,703	613,490

No inducement fee nor compensation for loss of office has paid to or receivable by any of these individuals for each of the years ended 31 December 2017, 31 December 2018, 31 December 2019 and each of the three months ended 31 March 2019 *(unaudited)* and 31 March 2020.

The emoluments fell within the following bands:

	Number of individuals				
	Year ended 31 December			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
				(Unaudited)	
Emolument bands					
Nil to HK$1,000,000	4	4	4	4	4
HK$1,000,001 to HK$1,500,000	1	–	–	–	–
	5	4	4	4	4

10 BENEFITS AND INTEREST OF DIRECTORS

(a) Directors' emoluments

	Year ended 31 December			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Salaries	–	603,824	1,811,472	452,868	452,868
Employer's contribution to retirement benefit scheme	–	6,000	18,000	4,500	4,500
	–	609,824	1,829,472	457,368	457,368

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during each of the years ended 31 December 2017, 2018 and 2019 and each of the three months ended 31 March 2019 and 2020.

(c) Consideration provided to third parties for making available directors' services

The Target Group did not pay any consideration to any third parties for making available directors' services during each of the years ended 31 December 2017, 2018 and 2019 and each of the three months ended 31 March 2019 and 2020.

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

Saved as disclosed in Note 27 to the financial statements, no loans, quasi-loans and other dealings were made available in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the period or at any time during each of the years ended 31 December 2017, 2018 and 2019 and each of the three months ended 31 March 2019 and 2020.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Target Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during each of the years ended 31 December 2017, 2018 and 2019 and each of the three months ended 31 March 2019 and 2020.

11 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% for each of the years ended 31 December 2017, 2018 and 2019 and each of the three months ended 31 March 2019 and 2020 on the estimated assessable profits arising in Hong Kong during the year/period, except for the first HK$2,000,000 of assessable profits which is calculated at 8.25% in accordance with the two-tiered tax rate regime for each of the years ended 31 December 2018 and 2019 and each of the three months ended 31 March 2019 and 2020.

The amount of income tax expense charged to profit or loss represents:

	Year ended 31 December			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Current income tax					
– Charge for the current year/period	4,624,597	4,817,890	2,783,427	(432,426)	1,189,701
– Over-provision in prior years	(20,000)	–	–	–	(124,689)
Deferred income tax					
– Charge for the current year/period	414,734	(630,910)	1,005,123	1,396,778	(169,364)
– Under/(over)-provision of deferred income tax in prior years	84,654	(79,584)	–	–	–
Income tax expense	5,103,985	4,107,396	3,788,550	964,352	895,648

The tax on Target Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$* *(Unaudited)*	*HK$*
Profit before income tax	30,719,932	26,390,275	9,827,239	9,131,943	5,382,293
Calculated at Hong Kong profits tax rate of 16.5%	5,068,788	4,354,395	1,621,494	1,506,770	888,078
Income not subject to tax	(27)	(2,415)	(295,541)	(603,411)	(47,103)
Expenses not deductible for tax purposes	570	–	2,627,597	60,993	344,362
Under/(over)-provision of deferred income tax in prior years	84,654	(79,584)	–	–	–
Over-provision for current income tax in prior years	(20,000)	–	–	–	(124,689)
Tax concession	(30,000)	(165,000)	(165,000)	–	(165,000)
Income tax expense	5,103,985	4,107,396	3,788,550	964,352	895,648

12 FINANCIAL INSTRUMENTS BY CATEGORY

The Target Group's financial instruments include the following:

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
Financial assets at amortised cost				
Loans receivable *(Note 18)*	223,339,086	277,582,697	292,513,673	326,523,650
Interest receivables *(Note 19)*	1,550,056	2,265,702	1,556,727	2,795,918
Deposits and other receivables *(Note 20)*	355,916	583,200	587,500	274,677
Amount due from a director *(Note 21)*	10,039,789	–	–	–
Amounts due from fellow subsidiaries *(Note 21)*	35,330,000	81,953	–	–
Amount due from immediate holding company *(Note 21)*	–	–	34,759	34,759
Cash and cash equivalents *(Note 22)*	65,877,480	80,907,627	243,692,600	62,112,739
	336,492,327	361,421,179	538,385,259	391,741,743

	As at 31 December 2017	As at 31 December 2018	As at 31 December 2019	As at 31 March 2020
	HK$	*HK$*	*HK$*	*HK$*
Financial liabilities at amortised cost				
Bank borrowings *(Note 23)*	–	–	48,850,951	48,386,441
Rental deposits, other payables and accrued expenses *(Note 26)*	1,329,376	2,362,002	2,546,548	1,720,323
Amount due to a director *(Note 27)*	270,499,999	325,829,290	577,064,631	424,267,480
Amount due to fellow subsidiaries *(Note 27)*	71,880	269,823	–	–
	271,901,255	328,461,115	628,462,130	474,374,244

13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and fixtures	Computers	Leased office premise	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
At 1 January 2017					
Cost	826,000	324,498	407,395	–	1,557,893
Accumulated depreciation	(826,000)	(184,664)	(204,426)	–	(1,215,090)
Net book amount	–	139,834	202,969	–	342,803
Year ended 31 December 2017					
Opening net book amount	–	139,834	202,969	–	342,803
Additions	214,300	53,373	25,356	–	293,029
Depreciation *(Note 6)*	(11,906)	(115,568)	(143,546)	–	(271,020)
Closing net book amount	202,394	77,639	84,779	–	364,812
At 31 December 2017					
Cost	1,040,300	377,871	432,751	–	1,850,922
Accumulated depreciation	(837,906)	(300,232)	(347,972)	–	(1,486,110)
Net book amount	202,394	77,639	84,779	–	364,812
Year ended 31 December 2018					
Opening net book amount	202,394	77,639	84,779	–	364,812
Additions	–	67,498	120,735	–	188,233
Depreciation *(Note 6)*	(71,433)	(82,683)	(78,395)	–	(232,511)
Closing net book amount	130,961	62,454	127,119	–	320,534

	Leasehold improvements *HK$*	Furniture and fixtures *HK$*	Computers *HK$*	Leased office premise *HK$*	Total *HK$*
At 31 December 2018					
Cost	1,040,300	445,369	553,486	–	2,039,155
Accumulated depreciation	(909,339)	(382,915)	(426,367)	–	(1,718,621)
Net book amount	130,961	62,454	127,119	–	320,534
Year ended 31 December 2019					
Opening net book amount	130,961	62,454	127,119	–	320,534
Adjustment on adoption of HKFRS 16	–	–	–	1,230,072	1,230,072
At 1 January 2019 (Restated)	130,961	62,454	127,119	1,230,072	1,550,606
Additions	1,282,723	2,809	140,767	–	1,426,299
Depreciation *(Note 6)*	(287,887)	(44,278)	(70,899)	(461,277)	(864,341)
Closing net book amount	1,125,797	20,985	196,987	768,795	2,112,564
At 31 December 2019					
Cost	2,323,023	448,178	694,253	1,230,072	4,695,526
Accumulated depreciation	(1,197,226)	(427,193)	(497,266)	(461,277)	(2,582,962)
Net book amount	1,125,797	20,985	196,987	768,795	2,112,564
Three months ended 31 March 2019 *(Unaudited)*					
Opening net book amount	130,961	62,454	127,119	–	320,534
Adjustment on adoption of HKFRS 16	–	–	–	1,230,072	1,230,072
At 1 January 2019 (Restated)	130,961	62,454	127,119	1,230,072	1,550,606
Additions	9,492	2,809	13,127	–	25,428
Depreciation *(Note 6)*	(17,858)	(10,777)	(17,028)	(115,319)	(160,982)
Closing net book amount	122,595	54,486	123,218	1,114,753	1,415,052

	Leasehold improvements *HK$*	Furniture and fixtures *HK$*	Computers *HK$*	Leased office premise *HK$*	Total *HK$*
At 31 March 2019 ***(Unaudited)***					
Cost	1,049,792	448,178	566,613	1,230,072	3,294,655
Accumulated depreciation	(927,197)	(393,692)	(443,395)	(115,319)	(1,879,603)
Net book amount	122,595	54,486	123,218	1,114,753	1,415,052
Three months ended 31 March 2020					
Opening net book amount	1,125,797	20,985	196,987	768,795	2,112,564
Additions	–	–	20,586	–	20,586
Depreciation *(Note 6)*	(121,754)	(9,960)	(10,916)	(115,319)	(257,949)
Closing net book amount	1,004,043	11,025	206,657	653,476	1,875,201
At 31 March 2020					
Cost	2,323,023	448,178	714,839	1,230,072	4,716,112
Accumulated depreciation	(1,318,980)	(437,153)	(508,182)	(576,596)	(2,840,911)
Net book amount	1,004,043	11,025	206,657	653,476	1,875,201

Depreciation expense of HK$271,020, HK$232,511, HK$864,341, HK$160,982 and HK$257,949 for the years ended 31 December 2017, 2018 and 2019 and three months ended 31 March 2019 *(unaudited)* and 31 March 2020 has been charged within "administrative expenses" in profit or loss respectively.

14 INTANGIBLE ASSETS

	Mobile application
	HK$
Year ended 31 December 2018	
Opening net book amount	–
Additions	3,509,750
Investment in a subsidiary *(Note 17)*	1,690,000
Amortisation *(Note 6)*	(779,945)
Closing net book amount	4,419,805
At 31 December 2018	
Cost	5,199,750
Accumulated amortisation	(779,945)
Net book amount	4,419,805
Year ended 31 December 2019	
Opening net book amount	4,419,805
Amortisation *(Note 6)*	(1,733,250)
Closing net book amount	2,686,555
At 31 December 2019	
Cost	5,199,750
Accumulated amortisation	(2,513,195)
Net book amount	2,686,555
Three months ended 31 March 2019 *(Unaudited)*	
Opening net book amount	4,419,805
Amortisation *(Note 6)*	(433,312)
Closing net book amount	3,986,493
At 31 March 2019 *(Unaudited)*	
Cost	5,199,750
Accumulated amortisation	(1,213,257)
Net book amount	3,986,493
Three months ended 31 March 2020	
Opening net book amount	2,686,555
Amortisation *(Note 6)*	(433,312)
Closing net book amount	2,253,243
At 31 March 2020	
Cost	5,199,750
Accumulated amortisation	(2,946,507)
Net book amount	2,253,243

Amortisation expense of HK$779,945, HK$1,733,250, HK$433,312 and HK$433,312 for the years ended 31 December 2018 and 2019 and three months ended 31 March 2019 *(unaudited)* and 31 March 2020 has been charged within "administrative expenses" in profit or loss respectively.

15 INVESTMENT PROPERTIES

	HK$
Three months ended 31 March 2019 ***(Unaudited)***	
Opening net book amount	–
Additions	133,419,058
Investment in a subsidiary *(Note 17)*	43,539,000
Fair value gains on revaluation	3,641,942
Closing net book amount	180,600,000
Year ended 31 December 2019	
Opening net book amount	–
Additions	136,504,503
Investment in a subsidiary *(Note 17)*	43,539,000
Fair value losses on revaluation	(15,043,503)
Closing net book amount	165,000,000
Three months ended 31 March 2020	
Opening net book amount	165,000,000
Fair value losses on revaluation	(1,800,000)
Closing net book amount	163,200,000

At 31 December 2019 and 31 March 2020, the investment properties of the Target Group were pledged to a bank to secure bank borrowings granted to a subsidiary of the Target Group (Note 23) and the Target Group had no unprovided contractual obligation for future repairs and maintenance.

The Target Group leases out its offices under non-cancellable operating lease arrangements since the year ended 31 December 2019. The lease term is 2 years. The Target Group has classified these leases as operating leases. Rental income from these investment properties for the year ended 31 December 2019 and three months ended 31 March 2020 amounted to HK$164,060 and HK$246,090 respectively.

The Target Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'. Refer to Note 29 for disclosures of minimum lease payments receivables on leases of investment properties.

For the year ended 31 December 2019, three months ended 31 March 2019 *(unaudited)* and 31 March 2020, direct operating expenses from property that generated rental income amounted to HK$147,932, HK$nil and HK$16,416, respectively.

(a) Valuation process of the Target Group

The Target Group's investment properties were valued at 31 December 2019, 31 March 2019 and 31 March 2020 by independent professionally qualified valuer, AVISTA Group, who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use. The fair value losses are included in "Fair value losses on revaluation of investment properties" in profit or loss.

The recurring fair value measurements for investment properties are included in level 3 of the fair value hierarchy. The Target Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There was no transfer between 1, 2 and 3 during the Track Record Period.

The Target Group's finance department reviews the valuations performed by AVISTA Group for financial reporting purpose. These valuation results are then reported to the Target Group's management for discussions and review in relation to the valuation processes and the reasonableness of valuation results.

Fair value measurements using significant unobservable inputs (Level 3):

	As at 31 December			As at 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Recurring fair value measurements					
Investment properties	–	–	165,000,000	180,600,000	163,200,000

(b) Valuation techniques

The valuation of investment properties was determined by using the direct comparison method (Level 3 approach) by making reference to comparable market transactions for similar properties. The most significant input into this valuation approach is unit sale rate, taking into account of time size, location, floor, grading and asking factors, between the comparable and the property, of HK$34,500, HK$37,700 and HK$34,100 per square foot on saleable floor area basis for the property as at 31 December 2019, 31 March 2019 *(unaudited)* and 31 March 2020, respectively.

Information about fair value measurements using significant unobservable inputs (Level 3):

Properties	**Fair value** *HK$*	**Valuation technique(s)**	**Unobservable inputs**	**Range of Unobservable inputs**	**Relationship of unobservable inputs to fair value**
Office premises – Hong Kong	HK$165,000,000, HK$180,600,000 and HK$163,200,000 as at 31 December 2019, 31 March 2019 *(unaudited)* and 31 March 2020, respectively	Direct comparison approach	Market price	Based on the price per square foot, using market observable comparable prices of similar properties of HK$34,500, HK$37,700 and HK$34,100 per square foot as at 31 December 2019, 31 March 2019 *(unaudited)* and 31 March 2020, respectively, adjusted taking into account of time, size, location, floor, grading and asking factors	The higher the market price, the higher the fair value

There are inter-relationships between unobservable inputs. Change of the leasing conditions, extension of the lease term and leasable area may result in decrease in rent.

16 LEASE LIABILITIES

(a) Amounts recognised in the consolidated statements of financial position

	As at 31 December	As at 31 March	
	2019	**2019**	**2020**
	HK$	*HK$*	*HK$*
		(Unaudited)	
Lease liabilities			
Current portion	464,668	448,447	470,205
Non-current portion	322,237	672,794	202,589
	786,905	1,121,241	672,794

(b) Amounts recognised in profit or loss

	For the year ended 31 December	For the three months ended 31 March	
	2019	**2019**	**2020**
	HK$	*HK$*	*HK$*
		(Unaudited)	
Interest expense on lease liabilities	48,833	14,169	8,889
Expenses relating to short-term leases	446,036	372,900	19,800

The total cash outflow for leases for the year ended 31 December 2019 and the three months ended 31 March 2019 *(unaudited)* and 2020 were HK$938,036, HK$495,900 and HK$142,800 respectively.

Please refer to Note 2.1.2(iii) for leasing activities of the Target Group.

17 SUBSIDIARIES

During the Track Record Period and as at the date of this report, the Target Company has direct and indirect interests in its subsidiaries, all of which are private limited companies, the particulars of which are set out below:

Name	Date and place of incorporation	Principal activities	Issued and paid-in share capital	Interest held as at 31 December 2017	Interest held as at 31 December 2018	Interest held as at 31 December 2019	Interest held as at 31 March 2020	Auditor for the year ended 31 December 2017	Auditor for the year ended 31 December 2018	Auditor for the year ended 31 December 2019	*Note*
Directly owned:											
Zero Finance Hong Kong Limited	Hong Kong 11 November 2014	Money lending business of providing property mortgage loans and personal loans in Hong Kong	HK$270,500,000	100%	100%	100%	100%	PricewaterhouseCoopers	PricewaterhouseCoopers	PricewaterhouseCoopers	*N/A*
Zero Finance Limited	Hong Kong 31 January 2018	Inactive	HK$10,000	N/A	100%	100%	100%	N/A	General Accounting CPA Limited	General Accounting CPA Limited	*N/A*
Indirectly owned:											
Zero Credit Limited	Hong Kong 28 November 1995	Inactive	HK$100,000	N/A	100%	100%	100%	N/A; *Note (6)*	N/A; *Note (3)*	N/A; *Note (4)*	*(1)*
Zero Magnesium Limited	Hong Kong 31 December 2018	Inactive	Nil	N/A	100%	100%	100%	N/A	General Accounting CPA Limited	General Accounting CPA Limited	*N/A*
Zero Titanium Limited	Hong Kong 2 January 2019	Inactive	Nil	N/A	N/A	100%	100%	N/A	N/A	General Accounting CPA Limited	*N/A*

Name	Date and place of incorporation	Principal activities	Issued and paid-in share capital	Interest held as at 31 December 2017	2018	2019	31 March 2020	Auditor For the year ended 31 December 2017	2018	2019	Note
Max Goal International Limited	British Virgin Islands 21 November 2007	Property holding	Nil	N/A	N/A	100%	100%	Wisdom Buddies CPA Limited	Wisdom Buddies CPA Limited	N/A; *Note (4)*	*(2)*
Across Glorious Holdings Limited	British Virgin Islands 26 February 2019	Property holding	Nil	N/A	N/A	100%	100%	N/A	N/A	N/A; *Note (5)*	*N/A*
Sunninghill Global Limited	British Virgin Islands 25 March 2019	Property holding	Nil	N/A	N/A	100%	100%	N/A	N/A	N/A; *Note (5)*	*N/A*

Notes:

(1) During the year ended 31 December 2018, the Target Group acquired 100% equity interest of Zero Credit Limited from an independent third party at a consideration of HK$1,790,000 treated as asset acquisition by the Target Group. The assets of the subsidiary are intangible assets of HK$1,690,000 (Note 14) and cash and cash equivalents of HK$100,000.

(2) During the year ended 31 December 2019, the Target Group acquired 100% equity interest of Max Goal International Limited from an independent third party at a consideration of HK$43,539,000 (Note 15) treated as asset acquisition by the Target Group. The sole asset of the subsidiary is an investment property.

(3) The audit for the year or period ended 31 December 2018 of this subsidiary is still in progress.

(4) The audits for the year or period ended 31 December 2019 of these subsidiaries were not yet due.

(5) No audited financial statements were issued for these subsidiaries as there is no statutory requirement in their place of incorporation.

(6) No audited financial statements for the year ended 31 December 2017 is available since this subsidiary was acquired by the Target Group in 2018.

18 LOANS RECEIVABLE

	As at 31 December 2017	As at 31 December 2018	As at 31 December 2019	As at 31 March 2020
	HK$	*HK$*	*HK$*	*HK$*
Gross loans receivable – property mortgage loans	226,788,828	209,097,475	227,737,448	261,981,355
Gross loans receivable – personal loans	26,759,068	65,719,494	87,844,102	90,337,549
Gross loans receivable – corporate loan *(Note 30(a))*	–	45,000,000	30,000,000	30,000,000
Total gross loans receivable	253,547,896	319,816,969	345,581,550	382,318,904
Less: Provision for impairment				
– Stage 1	–	(10,955,420)	(8,263,805)	(9,109,513)
– Stage 2	–	(5,636,657)	(1,138,105)	(989,653)
– Stage 3	–	(25,642,195)	(43,665,967)	(45,696,088)
Less: Provision for individual impairment	(27,368,977)	–	–	–
Provision for collective impairment	(2,839,833)	–	–	–
Loan receivable, net of provision	223,339,086	277,582,697	292,513,673	326,523,650
Less: Non-current portion	(115,603,206)	(96,272,687)	(238,763,174)	(257,442,177)
Current portion	107,735,880	181,310,010	53,750,499	69,081,473

The Target Group's loans receivable, which arise from the money lending business of providing property mortgage loans and personal loans in Hong Kong, are denominated in Hong Kong dollars and the carrying amounts approximate their fair values.

Except for personal loans receivable of HK$26,759,068, HK$65,719,494, HK$87,844,102 and HK$90,337,549 as at 31 December 2017, 2018 and 2019 and 31 March 2020 respectively which are unsecured, loans receivable are secured by collaterals provided by customers, interest bearing and repayable with fixed terms agreed with the customers.

(a) Provision for individual impairment

These were related to a number of third party customers for whom the directors are of the view that the collection of these loans receivable was not probable.

Movements in the Target Group's individual impairment of loans receivable for the year ended 31 December 2017 are as follows:

	For the year ended 31 December 2017
	HK$
At beginning of the year	19,121,404
Provision for impairment loss	8,247,573
At end of the year	27,368,977

(b) Provision for collective impairment

The Target Group performs collective assessment of the loans receivable by grouping together all its loans receivable with similar credit risk characteristics and by applying an impairment rate, based on available market information from other licensed money lenders, taking reference to their impairment rate in respect of loans and interest receivables with similar credit risk characteristics.

Movements in the Target Group's collective impairment of loans receivable for the year ended 31 December 2017 are as follows:

	For the year ended 31 December 2017
	HK$
At beginning of the year	5,500,000
Reversal of impairment losses	(2,660,167)
At end of the year	2,839,833

(c) The Target Group's maximum credit risk exposure of loans receivable as at 31 December 2017, 2018 and 2019 and 31 March 2020 are set out in Note 3.1(b). The movements on the Target Group's impairment of loans receivable for the year ended 31 December 2018 and 2019 and three months ended 31 March 2019 and 2020 are set out below.

(d) A maturity profile of the loans receivable as at the end of the reporting period, based on the maturity date, net of provision, is as follows:

		As at 31 December		**As at 31 March**
	2017	**2018**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
Current	107,735,880	181,310,010	53,750,499	69,081,473
2 to 5 years	28,907,018	24,311,543	83,760,920	84,380,931
Over 5 years	86,696,188	71,961,144	155,002,254	173,061,246
	223,339,086	277,582,697	292,513,673	326,523,650

19 INTEREST RECEIVABLES

		As at 31 December		**As at 31 March**
	2017	**2018**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
Gross interest receivables – property mortgage loans	1,203,516	837,258	439,634	1,531,689
Gross interest receivables – personal loans	346,540	1,428,444	1,117,093	1,264,229
Total gross interest receivables	1,550,056	2,265,702	1,556,727	2,795,918

The Target Group's interest receivables, which arise from the money lending business of providing property mortgage loans and personal loans in Hong Kong, are denominated in Hong Kong dollars and the carrying amounts approximate their fair values.

Except for interest receivables of HK$346,540, HK$1,428,444, HK$1,117,093 and HK$1,264,229 as at 31 December 2017, 2018 and 2019 and 31 March 2020 respectively, which are unsecured, interest receivables are secured by collaterals provided by customers and repayable with fixed terms agreed with the customers. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the receivables mentioned above.

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
Non-current portion				
Prepayment for an acquisition of a subsidiary	–	4,353,900	–	–
Prepayment for investment properties	–	29,311,676	–	–
	–	33,665,576	–	–
Current portion				
Prepayments	4,149,345	3,508,730	2,173,582	2,306,599
Deposits	355,916	352,000	95,200	95,200
Other receivables	–	231,200	492,300	179,477
	4,505,261	4,091,930	2,761,082	2,581,276

The Target Group's prepayments and deposits are denominated in Hong Kong dollars. The deposits are neither past due nor impaired and the carrying amounts approximate their fair values.

21 AMOUNTS DUE FROM A DIRECTOR, FELLOW SUBSIDIARIES AND THE IMMEDIATE HOLDING COMPANY

These balances are unsecured, interest-free, repayable on demand. The carrying amounts of these balances approximate their fair values and are denominated in Hong Kong dollars.

The fellow subsidiaries of the Target Group are entities controlled by the ultimate shareholders of the Target Group.

22 CASH AND CASH EQUIVALENTS

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
Cash at bank and on hand	65,877,480	70,907,627	243,692,600	62,112,739
Short-term bank deposits	–	10,000,000	–	–
Total	65,877,480	80,907,627	243,692,600	62,112,739
Maximum exposure to credit risk	65,877,480	80,907,627	243,692,600	62,112,739

The carrying amounts of the Target Group's cash and cash equivalents approximate their fair values and are denominated in following currencies:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	HK$	*HK$*	*HK$*	*HK$*
HK$	65,877,480	80,658,800	221,519,467	61,875,689
Renminbi	–	248,710	249,491	236,916
United States dollars	–	117	21,923,642	134
	65,877,480	80,907,627	243,692,600	62,112,739

23 BANK BORROWINGS

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	HK$	*HK$*	*HK$*	*HK$*
Non-current portion				
Secured term loan	–	–	47,001,149	46,506,854
Current portion				
Secured term loan	–	–	1,849,802	1,879,587

The Target Group's borrowings were repayable as follows:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	HK$	*HK$*	*HK$*	*HK$*
Within one year	–	–	1,849,802	1,879,587
Between one and two years	–	–	1,905,115	1,927,287
Between two and five years	–	–	6,064,011	6,129,314
More than five years	–	–	39,032,023	38,450,253
	–	–	48,850,951	48,386,441

Note: On 6 September 2019, the Target Group obtained a secured term loan amount to HK$49,300,000 at floating rates that are market dependent. The loan was secured by investment properties held by the Target Group amounting to HK$165,000,000 and HK$163,200,000 as at 31 December 2019 and 31 March 2020 respectively and personal guarantee by a director of the Company. Under the terms of the borrowing facilities, the loan-to-value ratio should not exceed a certain percentage of the facilities. The Target Group has complied with these covenants throughout the reporting period. The carrying amounts of the bank borrowings are denominated in HK$.

The exposure of the Target Group's borrowings to interest rate change at 31 December 2019 and 31 March 2020 is disclosed in Note 3.

On 20 August 2020, the Target Group entered into a deed of undertaking with Mr. Tommy Lee to obtain a further interest-free advance from him for the purpose of repaying the outstanding balance of bank borrowings. The bank borrowings are fully repaid on 26 August 2020.

24 SHARE CAPITAL

	Number of Shares	Share capital
		HK$
Ordinary shares, issued and fully paid:		
At 1 January 2017, 31 December 2017, 31 December 2018, 31 December 2019 and 31 March 2020	1	1

25 DEFERRED INCOME

Deferred income represented setup fee received from customers, which will be credited to profit or loss over the respective customers' loan periods. The arrangement of charging setup fee from customers ceased in early 2018.

A maturity profile of deferred income as at the end of the reporting period, based on the maturity date, is as follows:

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
Within 1 year	138,436	–	–	–
1 to 5 years	515,572	–	–	–
Over 5 years	396,997	–	–	–
	1,051,005	–	–	–

26 OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
Non-current portion				
Rental deposits	–	–	246,090	246,090
Current portion				
Accrued salary and bonus	466,479	909,249	–	–
Other payables and accrued expenses	1,329,376	2,362,002	2,300,458	1,474,233
	1,795,855	3,271,251	2,300,458	1,474,233

Other payables and accruals are denominated in Hong Kong dollars and the carrying amounts approximate their fair values.

27 AMOUNTS DUE TO A DIRECTOR AND FELLOW SUBSIDIARIES

These balances are unsecured, interest-free and repayable on demand. The carrying amounts of these balances approximate their fair values and are denominated in Hong Kong dollars.

28 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax recoverable against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 March 2020, deferred income tax assets of HK$484,537, HK$2,737,693, HK$1,681,154 and HK$1,777,373, respectively, is offset with deferred income tax liabilities of HK$nil, HK$359,328, HK$307,912 and HK$234,767, respectively, resulting in a net deferred income tax assets of HK$484,537, HK$2,378,365, HK$1,373,242 and HK$1,542,606, respectively.

All deferred income tax assets of the Target Group are expected to be recovered after more than 12 months. The gross movement in deferred income tax account is as follows:

	For the year ended 31 December			For the three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
At beginning of the year/period	983,925	484,537	2,378,365	2,378,365	1,373,242
Adjustment on adoption of HKFRS 9 *(Note 2.1.2(i))*	–	1,183,334	–	–	–
(Charged)/credited to profit or loss *(Note 11)*	(499,388)	710,494	(1,005,123)	(1,396,778)	169,364
At end of the year/period	484,537	2,378,365	1,373,242	981,587	1,542,606

The movement in deferred income tax during the year/period, without taking into consideration the offsetting of balances within the same jurisdiction, are as follows:

Deferred income tax assets

	Lease liabilities	**Accelerated accounting depreciation**	**Provision for collective impairment of loans and interest receivables**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
At 1 January 2017	–	76,425	907,500	983,925
Charged to profit or loss	–	(60,460)	(438,928)	(499,388)
At 31 December 2017	–	15,965	468,572	484,537
At 1 January 2018	–	15,965	468,572	484,537
Adjustment on adoption of HKFRS 9 *(Note 2.1.2(i))*	–	–	1,183,334	1,183,334
(Charged)/credited to profit or loss	–	(15,965)	1,085,787	1,069,822
At 31 December 2018	–	–	2,737,693	2,737,693

	Lease liabilities	Accelerated accounting depreciation	Provision for collective impairment of loans and interest receivables	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 January 2019	–	–	2,737,693	2,737,693
Adjustment on adoption of HKFRS 16	202,962	–	–	202,962
Charged to profit or loss	(73,123)	–	(1,186,378)	(1,259,501)
At 31 December 2019	129,839	–	1,551,315	1,681,154
At 1 January 2019	–	–	2,737,693	2,737,693
Adjustment on adoption of HKFRS 16	202,962	–	–	202,962
Charged to profit or loss	(17,957)	–	(1,447,260)	(1,465,217)
At 31 March 2019 *(Unaudited)*	185,005	–	1,290,433	1,475,438
At 1 January 2020	129,839	–	1,551,315	1,681,154
(Charged)/credited to profit or loss	(18,828)	–	115,047	96,219
At 31 March 2020	111,011	–	1,666,362	1,777,373

Deferred income tax liabilities

	Right-of-use assets	Decelerated accounting depreciation	Total
	HK$	*HK$*	*HK$*
At 1 January 2017	–	–	–
Charged to profit or loss	–	–	–
At 31 December 2017	–	–	–
At 1 January 2018	–	–	–
Charged to profit or loss	–	(359,328)	(359,328)
At 31 December 2018	–	(359,328)	(359,328)
At 1 January 2019	–	(359,328)	(359,328)
Adjustment on adoption of HKFRS 16	(202,962)	–	(202,962)
Credited to profit or loss	76,111	178,267	254,378
At 31 December 2019	(126,851)	(181,061)	(307,912)

	Right-of-use assets	Decelerated accounting depreciation	Total
	HK$	*HK$*	*HK$*
At 1 January 2019	–	(359,328)	(359,328)
Adjustment on adoption of HKFRS 16	(202,962)	–	(202,962)
Credited to profit or loss	19,028	49,411	68,439
At 31 March 2019 *(Unaudited)*	(183,934)	(309,917)	(493,851)
At 1 January 2020	(126,851)	(181,061)	(307,912)
Credited to profit or loss	19,028	54,117	73,145
At 31 March 2020	(107,823)	(126,944)	(234,767)

Deferred income tax assets are recognised for deductible temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable.

29 COMMITMENT

(a) Operating lease commitments – Target Group as a lessee

The Target Group leases its office property under non-cancellable operating lease agreements. At 31 December 2017 and 2018, the Target Group had future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December	
	2017	**2018**
	HK$	*HK$*
No later than one year	1,296,000	492,000
Later than one year and no later than five years	3,484	881,500
	1,299,484	1,373,500

From 1 January 2019, the Target Group has recognised right-of-use assets and lease liabilities for non-cancellable operating leases as lessee, except for short-term and low-value leases, see note 2.1.1(b) for further information.

(b) Operating lease commitments – Target Group as a lessor

The Target Group leases offices under non-cancellable operating lease arrangements. The lease terms are 2 years.

The future aggregate minimum lease payments receivables under non-cancellable operating leases are as follows:

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
Less than one year	–	–	984,360	984,360
One to two years	–	–	820,300	574,210
	–	–	1,804,660	1,558,570

(c) Capital commitments

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
Contracted but not provided for:				
Acquisition of a subsidiary	–	39,185,100	–	–
Purchase of investment properties	–	103,130,025	–	–
	–	142,315,125	–	–

30 RELATED PARTY DISCLOSURES

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

(a) Other than the amounts due from/to fellow subsidiaries and amount due from/to a director (Notes 21 and 27), the Target Company's related party transactions are as follows:

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
Balance with a related party:				
Loans receivable	–	45,000,000	30,000,000	30,000,000
Transactions with a related party:				
Interest income	–	12,096,667	10,766,900	1,800,000

The balance represents a loan to a company in which a director is also a director of the Target Company. This balance is secured by the shares of a subsidiary of the related party with interest bearing at 24% per annum. The carrying amount of this balance approximates its fair value and is denominated in Hong Kong dollars.

(b) In the opinion of the directors, the directors of the Target Company represented the key management personnel of the Target Company. During the year ended 31 December 2018 and 2019 and three months ended 31 March 2019 *(unaudited)*, 31 March 2020, HK$603,824, HK$1,811,472, HK$452,868 *(unaudited)* and HK$452,868 was paid to the key management personnel respectively. No amount was paid to the key management personnel during the year ended 31 December 2017.

31 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Lease liabilities *HK$*	**Bank borrowings** *HK$*	**Amount due to the ultimate shareholder** *HK$*	**Amount due to a director** *HK$*	**Total** *HK$*
At 1 January 2017	–	–	72,235,499	270,499,999	342,735,498
Cash flows	–	–	(72,235,499)	–	(72,235,499)
At 31 December 2017	–	–	–	270,499,999	270,499,999
At 1 January 2018	–	–	–	270,499,999	270,499,999
Cash flows	–	–	–	65,369,080	65,369,080
Non-cash transactions	–	–	–	(10,039,789)	(10,039,789)
At 31 December 2018	–	–	–	325,829,290	325,829,290
At 1 January 2019	–	–	–	325,829,290	325,829,290
Adjustment on adoption of HKFRS 16 *(Note 2.1.1(b))*	1,230,072	–	–	–	1,230,072
Cash flows	(443,167)	48,850,951	–	251,235,341	299,643,125
At 31 December 2019	786,905	48,850,951	–	577,064,631	626,702,487
At 1 January 2019	–	–	–	325,829,290	325,829,290
Adjustment on adoption of HKFRS 16 *(Note 2.1.1(b))*	1,230,072	–	–	–	1,230,072
Cash flows	(108,831)	–	–	102,653,451	102,544,620
At 31 March 2019 *(Unaudited)*	1,121,241	–	–	428,482,741	429,603,982
At 1 January 2020	786,905	48,850,951	–	577,064,631	626,702,487
Cash flows	(114,111)	(464,510)	–	(152,797,151)	(153,375,772)
At 31 March 2020	672,794	48,386,441	–	424,267,480	473,326,715

32 SUBSEQUENT EVENTS DISCLOSURE

(a) From late January 2020, the outbreak of Coronavirus Disease 2019 (the "COVID-19" outbreak) was rapidly evolving globally. Since then, the economic and financial markets have been significantly impacted. The Target Group applies the fair value model to measure its investment properties. Due to uncertainties of new developments regarding the COVID-19 outbreak, the management expects that the fair value may be subject to fluctuations subsequent to period end. The Target Group will continue to pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the Target Group's financial position and operation results.

(b) For the purpose of the proposed acquisition, the Target Group has undergone a restructuring (the "Restructuring") that disposed of Zero Finance Limited, Zero Magnesium Limited, Zero Titanium Limited, Max Goal International Limited, Across Glorious Holdings Limited and Sunninghill Global Limited (together, the "Disposed Subsidiaries") to Titanium Ions Investments Limited ("Titanium Ions"), a fellow subsidiary of the Target Group, in the third quarter of 2020. Pursuant to the deeds of assignment entered in the third quarter of 2020, the aggregated consideration of HK$179,688,000 payable by Titanium Ions to the Target Group was assigned to a director of the Target Group in return for a reduction of equivalent amount of the loan owing by the Target Group to the director. Upon completion of the Restructuring, the financial results of the Disposed Subsidiaries will no longer be consolidated into the consolidated financial statements of the Target Group.

The combined financial information for the years ended 31 December 2017, 2018 and 2019 and three months ended 31 March 2020 for Disposed subsidiaries are set out as follows:

(i) Combined Statement of Comprehensive Income

	For the year ended 31 December			For the three months ended 31 March
	2017	**2018**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
Other income	–	–	164,060	246,090
Administrative expenses	–	(2,250)	(148,182)	(63,205)
Fair value losses on revaluation of investment properties	–	–	(15,043,503)	(1,800,000)
Loss before income tax	–	(2,250)	(15,027,625)	(1,617,115)
Income tax expense	–	–	–	(222,368)
Loss and total comprehensive losses for the year/period	–	(2,250)	(15,027,625)	(1,839,483)

(ii) Combined Statement of Financial Position

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
ASSETS				
Non-current asset				
Investment properties	–	–	165,000,000	163,200,000
Current assets				
Other receivables	–	7,750	7,750	9,895
Amount due from immediate holding company	–	–	344,248	387,672
	–	7,750	351,998	397,567
Total assets	–	7,750	165,351,998	163,597,567
EQUITY				
Total equity	–	7,750	28,519,125	26,679,642
LIABILITIES				
Non-current liability				
Accruals and other payables	–	–	246,090	246,090
Current liabilities				
Accruals and other payables	–	–	82,030	57,500
Amount due to immediate holding company	–	–	136,504,753	136,551,187
Amount due to a fellow subsidiary	–	–	–	2,250
Current income tax payable	–	–	–	60,898
	–	–	136,586,783	136,671,835
Total liabilities	–	–	136,832,873	136,917,925
Total equity and liabilities	–	7,750	165,351,998	163,597,567

(iii) Combined Statement of Cash Flows

	For the year ended 31 December			For the three months ended 31 March
	2017	**2018**	**2019**	**2020**
	HK$	*HK$*	*HK$*	*HK$*
Cash flows from operating activities				
Loss before income tax	–	(2,250)	(15,027,625)	(1,617,115)
Adjustment for:				
Fair value losses on revaluation of investment properties	–	–	15,043,503	1,800,000
Changes in working capital:				
Prepayments, deposits and other receivables	–	(7,750)	–	(2,145)
Other payables and accruals	–	–	328,120	(24,530)
Cash generated from operating activities	–	(10,000)	343,998	156,210
Hong Kong profits tax paid	–	–	–	(161,470)
Net cash flows (used in)/generated from operating activities	–	(10,000)	343,998	(5,260)
Cash flows from an investing activity				
(Repayment to)/advance from the immediate holding company	–	–	(343,998)	3,010
Net cash flows (used in)/generated from an investing activity	–	–	(343,998)	3,010
Cash flows from financing activities				
Advance from a fellow subsidiary	–	–	–	2,250
Capital injection from the immediate holding company	–	10,000	–	–
Net cash flows generated from financing activities	–	10,000	–	2,250
Net change in cash and cash equivalents	–	–	–	–
Cash and cash equivalents at beginning of year/period	–	–	–	–
Cash and cash equivalents at end of the year/period	–	–	–	–

(c) On 20 August 2020, the Target Group entered into a deed of undertaking with Mr. Tommy Lee to obtain a further interest-free advance from him for the purpose of repaying the outstanding balance of bank borrowings of HK$48,024,271 in relation to the mortgage loans on the properties held by the Disposed Subsidiaries. The bank borrowings are fully repaid on 26 August 2020. On 3 September 2020, Mr. Tommy Lee assigned the loan owing to him by the Target Group as at that day of HK$292,603,751 to Earth Axis Investment Limited. Earth Axis Investment Limited further entered into a loan capitalisation agreement with the Target Company on 15 September 2020 agreeing to capitalise the outstanding loans owed by the Target Group to it of HK$292,603,751 into new ordinary shares of the Target Company.

33 RESERVE MOVEMENT OF THE TARGET COMPANY

	Accumulated losses
	HK$
Balance at 31 December 2016	(19,750)
Total comprehensive loss for the year	(3,450)
Balance at 31 December 2017 and 1 January 2018	(23,200)
Total comprehensive loss for the year	(3,619)
Balance at 31 December 2018 and 1 January 2019	(26,819)
Total comprehensive loss for the year	(44,515)
Balance at 31 December 2019 and 1 January 2020	(71,334)
Total comprehensive loss for the period	(77,007)
Balance at 31 March 2020	(148,341)
Balance at 31 December 2018 and 1 January 2019	(26,819)
Total comprehensive income for the period	7
Balance at 31 March 2019 *(Unaudited)*	(26,812)

III SUBSEQUENT FINANCIAL STATEMENTS

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

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative unaudited pro forma financial information of the Enlarged Group (the "Unaudited Pro Forma Financial Information"), including the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, for the purpose of illustrating the effect of the proposed acquisition of aEasy Credit Investment Limited (the "Target Company") and its subsidiaries (together, the "Target Group") (the "Proposed Acquisition"), as if the Proposed Acquisition had been completed on (i) 1 April 2019 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows; and (ii) 31 March 2020 for the unaudited pro forma consolidated statement of financial position.

The Unaudited Pro Forma Financial Information has been prepared by the Directors based on the audited consolidated financial statements of the Group as at and for the year ended 31 March 2020 as set out in the Company's published 2020 annual report, the audited historical financial information of the Target Group as at 31 March 2020 and for the year ended 31 December 2019 which has been extracted from Appendix III to this circular, and the pro forma adjustments prepared to reflect the effects of the Proposed Acquisition as described in the accompanying notes.

The accompanying Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only and is based on certain assumptions, estimates, uncertainties and other currently available information. Accordingly, and because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position, results of operations and cash flows of the Enlarged Group had the Proposed Acquisition been completed as at 31 March 2020 or 1 April 2019, where applicable, or at any future dates.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with other financial information included elsewhere in this circular.

A. The Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

	Audited consolidated statement of financial position of the Group as at 31 March 2020	Pro forma adjustments			Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 March 2020 after the Proposed Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 4*	*Note 8*	
Non-current assets					
Property, plant and equipment	392,820	1,875			394,695
Intangible assets	–	12,433			12,433
Investment property	180,000				180,000
Deferred income tax assets	2,716	1,543			4,259
Loan receivables	91,957	257,442			349,399
Pledged bank deposit	2,000				2,000
	669,493	273,293			942,786
Current assets					
Completed properties for sale	55,100				55,100
Loan receivables	18,809	69,081			87,890
Interest receivables	313	2,796			3,109
Deposits, prepayments and other receivables	1,978	2,571			4,549
Financial assets at fair value through profit or loss	167				167
Amount due from a related party	–	35			35
Cash and cash equivalents	187,827	62,113		(13,362)	236,578
	264,194	136,596		(13,362)	387,428

	Audited consolidated statement of financial position of the Group as at 31 March 2020	Pro forma adjustments			Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 March 2020 after the Proposed Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 4*	*Note 8*	
Non-current liabilities					
Deferred income tax liabilities	238	1,680			1,918
Lease liabilities	203	203			406
Other payables and accruals	–		161,352		161,352
	441	1,883	161,352		163,676
Current liabilities					
Other payables and accruals	3,163	1,416			4,579
Contract liabilities	798				798
Amount due to a related company	2,494				2,494
Lease liabilities	475	470			945
Income tax payable	17,956	3,935			21,891
	24,886	5,821			30,707
Net assets	908,360	402,185	(161,352)	(13,362)	1,135,831
Equity					
Share capital	156,611		56,800		213,411
Reserves	751,749		145,550 38,483	(13,362)	922,420
Shareholders' funds	908,360		240,833	(13,362)	1,135,831

B. The Unaudited Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Enlarged Group

	Audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 March 2020	Pro forma adjustments					Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group for the year ended 31 March 2020 after the Proposed Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 3*	*Note 5*	*Note 6*	*Note 7*	*Note 8*	
Sales of properties	4,264						4,264
Rental income	3,776						3,776
Interest income from money lending	6,829	58,663					65,492
Total revenue	14,869	58,663					73,532
Cost of sales	(3,206)						(3,206)
Gross profit	11,663	58,663					70,326
Other income	1,615	2,409	38,483				42,507
Other losses, net	(20,167)						(20,167)
Administrative expenses	(17,617)	(24,880)			(1,018)	(13,362)	(56,877)
Finance costs	(34)	(49)			(7,491)		(7,574)
Provision for impairment of loan and interest receivables	(82)	(10,834)					(10,916)
(Loss)/profit before income tax	(24,622)	25,309	38,483		(8,509)	(13,362)	17,299
Income tax expense	(2,361)	(3,788)			168		(5,981)
(Loss)/profit for the year	(26,983)	21,521	38,483		(8,341)	(13,362)	11,318

	Audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 March 2020	Pro forma adjustments					Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group for the year ended 31 March 2020 after the Proposed Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 3*	*Note 5*	*Note 6*	*Note 7*	*Note 8*	
Other comprehensive (loss)/income:							
Item that may not be reclassified to profit or loss							
Loss on revaluation of leasehold land and buildings	(11,164)						(11,164)
Item that may be reclassified subsequently to profit or loss							
Exchange differences arising on translation of foreign operations	2,598						2,598
Other comprehensive loss for the year, net of tax	(8,566)						(8,566)
Total comprehensive (loss)/profit for the year	(35,549)						2,752

C. The Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group

	Audited consolidated statement of cash flows of the Group for the year ended 31 March 2020	Pro forma adjustments					Unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 March 2020 after the Proposed Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 3*	*Note 5*	*Note 6*	*Note 7*	*Note 8*	
Cash flows from operating activities							
(Loss)/profit before income tax	(24,622)	25,309	38,483		(8,509)	(13,362)	17,299
Adjustments for:							
Interest income on bank deposits	(1,116)	(1,627)					(2,743)
Depreciation of property, plant and equipment	6,361	864					7,225
Amortisation of intangible assets	–	1,733			1,018		2,751
Interest expense on lease liabilities	34	49					83
Provision for impairment of loan and interest receivables	82	10,834					10,916
Fair value loss on investment property	7,000						7,000
Fair value losses on financial assets at fair value through profit or loss	207						207
Losses on disposal of property, plant and equipment	69						69
Unrealised net exchange losses	12,891						12,891
Bargain purchase on acquisition of subsidiaries	–		(38,483)				(38,483)
Unwinding interest of consideration payable	–				7,491		7,491
Operating profit before working capital changes	906	37,162	–		–	(13,362)	24,706

	Audited consolidated statement of cash flows of the Group for the year ended 31 March 2020	Pro forma adjustments					Unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 March 2020 after the Proposed Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 3*	*Note 5*	*Note 6*	*Note 7*	*Note 8*	
Changes in working capital:							
Completed properties held for sale	1,182						1,182
Loan receivables	(66,344)	(25,764)					(92,108)
Interest receivables	(214)	709					495
Deposits, prepayments and other receivables	113	1,331					1,444
Other payables and accruals	(1,682)	(708)					(2,390)
Contract liabilities	(852)						(852)
Amount due to a related company	395						395
Cash used in operations	(66,496)	12,730				(13,362)	(67,128)
Income tax paid	(2,032)	(2,684)					(4,716)
Interest paid on lease liabilities	(34)	(49)					(83)
Net cash flows used in operating activities	(68,562)	9,997				(13,362)	(71,927)
Cash flows from investing activities							
Purchases of property, plant and equipment	–	(1,426)					(1,426)
Purchases of investment properties	–	(107,193)					(107,193)
Acquisition of a subsidiary, net of cash acquired	–	–		80,908			80,908
Advance to fellow subsidiaries	–	(188)					(188)
Advance to immediate holding company	–	(35)					(35)
Interest received	1,116	1,627					2,743
Net cash flows generated from/(used in) investing activities	1,116	(107,215)		80,908			(25,191)

	Audited consolidated statement of cash flows of the Group for the year ended 31 March 2020	Pro forma adjustments					Unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 March 2020 after the Proposed Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 3*	*Note 5*	*Note 6*	*Note 7*	*Note 8*	
Cash flows from financing activities							
Advance from a director	–	310,087					310,087
Repayment to a director	–	(10,001)					(10,001)
Principal elements of lease payments	(458)	(443)					(901)
Net cash flows (used in)/generated from financing activities	(458)	299,643					299,185
Net (decrease)/increase in cash and cash equivalents	(67,904)	202,425		80,908		(13,362)	202,067
Cash and cash equivalents at beginning of year	262,015	80,908		(80,908)			262,015
Effect of exchange rate changes on cash and cash equivalents	(6,284)						(6,284)
Cash and cash equivalents at end of year	187,827	283,333		–		(13,362)	457,798

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The amounts are extracted from the audited consolidated financial statements of the Group as at and for the year ended 31 March 2020 in the annual report of the Company for the year ended 31 March 2020.

2. The adjustment represents the inclusion of identifiable assets and liabilities of the Target Group to be acquired by the Group assuming the Proposed Acquisition was completed on 31 March 2020. Upon completion of the Proposed Acquisition, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Group at fair value under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standards 3 (Revised) "Business Combinations" ("**HKFRS 3**").

	Target Group	**Disposed Subsidiaries**	**Restructuring adjustments**	**Reclassification adjustments**	**Fair value adjustments**	**Fair value of assets and liabilities to be acquired**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note a)	*(Note b)*	*(Note c)*	*(Note d)*	*(Note e)*	*(Note f)*
Non-current assets						
Property, plant and equipment	1,875	–	–	–	–	1,875
Intangible assets	2,253	–	–	–	10,180	12,433
Investment properties	163,200	(163,200)	–	–	–	–
Deferred income tax assets	1,543	–	–	–	–	1,543
Loan receivables	257,442	–	–	–	–	257,442
	426,313	(163,200)	–	–	10,180	273,293
Current assets						
Loan receivables	69,081	–	–	–	–	69,081
Interest receivables	2,796	–	–	–	–	2,796
Deposits, prepayments and other receivables	2,581	(10)	–	–	–	2,571
Amount due from the immediate holding company	35	(388)	388	(35)	–	–
Amount due from a related party	–	–	–	35	–	35
Cash and cash equivalents	62,113	–	–	–	–	62,113
	136,606	(398)	388	–	–	136,596
Non-current liabilities						
Deferred income tax liabilities	–	–	–	–	1,680	1,680
Lease liabilities	203	–	–	–	–	203
Bank borrowings	46,507	–	(46,507)	–	–	–
Other payables and accruals	246	(246)	–	–	–	–
	46,956	(246)	(46,507)	–	1,680	1,883

	Target Group	Disposed Subsidiaries	Restructuring adjustments	Reclassification adjustments	Fair value adjustments	Fair value of assets and liabilities to be acquired
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note a)	*(Note b)*	*(Note c)*	*(Note d)*	*(Note e)*	*(Note f)*
Current liabilities						
Other payables and accruals	1,474	(58)	–	–	–	1,416
Amount due to a director	424,267	–	(179,688) 48,387 (292,966)	–	–	–
Amount due to immediate holding company	–	(136,551)	136,551 292,966 (292,966)	–	–	–
Amount due to a fellow subsidiary	–	(2)	2	–	–	–
Lease liabilities	470	–	–	–	–	470
Bank borrowings	1,880	–	(1,880)	–	–	–
Income tax payable	3,996	(61)	–	–	–	3,935
	432,087	(136,672)	(289,594)	–	–	5,821
Net assets	83,876	(26,680)	336,489	–	8,500	402,185

Notes:

(a) The amounts have been extracted from the historical financial information of the Target Group as at 31 March 2020 as set forth in Appendix III to this Circular.

(b) The adjustment represents the exclusion of assets and liabilities of the Disposed Subsidiaries (as defined below), which is extracted from the combined statement of financial position of the Disposed Subsidiaries as at 31 March 2020 set forth in Note 32(b)(ii) to the historical financial information of the Target Group in Appendix III to this Circular.

For the purpose of the Proposed Acquisition, the Target Group has undergone the restructuring (the "**Restructuring**") that: (i) disposed Max Goal International Limited, Across Glorious Holdings Limited and Sunninghill Global Limited to Titanium Ions Investments Limited ("Titanium Ions"), a subsidiary in the Vendor Group on 23 July 2020 for a consideration of HK$179,678,000 pursuant to the sale and purchase agreements dated 23 July 2020 in relation to the Restructuring; and (ii) disposed Zero Finance Limited, Zero Magnesium Limited and Zero Titanium Limited to Titanium Ions on 20 August 2020 for a consideration of HK$10,002 pursuant to the instruments of transfer dated 20 August 2020. These disposed companies are collectively referred to as the "Disposed Subsidiaries". Upon completion of the Restructuring, these Disposed Subsidiaries are no longer consolidated into the consolidated financial statements of the Target Group.

(c) According to the deeds of assignment dated 23 July 2020 and 20 August 2020, the aggregated consideration of HK$179,688,000 payable by Titanium Ions to the Target Group was assigned to Mr. Tommy Lee, a director of the Company and the Target Group, in return for a reduction of equivalent amount of the loan owing by the Target Group to Mr. Tommy Lee. Pursuant to the deeds of waiver dated 6 July 2020, 24 July 2020 and 20 August 2020, the amounts due from or due to the Disposed Subsidiaries to or by the remaining companies in the Target Group shall be waived upon completion of the Restructuring.

On 20 August 2020, Zero Finance Hong Kong Limited ("Zero Finance"), a wholly owned subsidiary of the Target Company, entered into a deed of undertaking with Mr. Tommy Lee to obtain a further interest-free advance from him for the purpose of repaying the outstanding balance of bank borrowings of the Target Group.

For the purpose of preparing the unaudited pro forma consolidated statement of financial position of the Enlarged Group, it is assumed that the bank borrowings of HK$48,387,000 as at 31 March 2020 would be the balance repaid through further advance from Mr. Tommy Lee, while the amounts receivables from and amounts payables to the Disposed Subsidiaries as at 31 March 2020 of approximately HK$136,553,000 and HK$388,000, respectively, would be the balance waived by the Target Group.

Overall, the adjustment results in an estimated gain on disposal of the Disposed Subsidiaries for the Target Group as follows:

	HK$'000
Consideration	179,688
Less:	
Net assets of the Disposed Subsidiaries as at 31 March 2020	(26,680)
Waiver of net intercompany balance of the Disposed Subsidiaries due to the Target Group as at 31 March 2020	(136,165)
Estimated gain on disposal of the Disposed Subsidiaries	16,843

On 3 September 2020, Mr. Tommy Lee assigned the loan owing to him by the Target Group to Earth Axis Investment Limited (the "Vendor"). The Vendor further entered into a loan capitalisation agreement with the Target Company on 15 September 2020 agreeing to capitalise the outstanding loans owed by the Target Group to it into new ordinary shares of the Target Company. For the purpose of preparing the unaudited pro forma consolidated statement of financial position of the Enlarged Group, it is assumed that the amount due to a director as at 31 March 2020 of approximately HK$292,966,000 would be the balance assigned to the Vendor and subsequently capitalised into shares of the Target Company.

(d) For "Amount due from the immediate holding company", the amount represents the receivables from the Vendor by the Target Group and hence is reclassified as amount due from a related party of the Group accordingly.

(e) For the purpose of preparing the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the Directors have estimated the fair values of the identifiable assets and liabilities of the Target Group as at 31 March 2020 and have appointed AVISTA Valuation Advisory Limited, an independent professional qualified valuer, to carry out the purchase price allocation exercise in accordance with HKFRS 3 including the assessment of fair value of the acquired assets and liabilities of the Target Group excluding the Disposed Subsidiaries.

With reference to the valuation report, the Directors estimate that the fair value of brand name of the Target Group is HK$10,180,000 which is based on relief-from-royalty method. The relief-from-royalty method is a commonly adopted valuation method to value brand name. The key assumptions used in estimating the fair value of the brand name are as follows:

Royalty rate	3.3%
Discount rate for brand name	15.2%
Useful life	10 years

The corresponding deferred income tax liabilities of HK$1,680,000 are measured at the tax rate that is expected to apply when related taxable temporary difference is settled, which is 16.5% as applicable to the Target Group in Hong Kong.

(f) The actual amounts of all these assets and liabilities can only be determined at Completion. Apart from the above, no other adjustment has been made to reflect any trading results or other transactions of the Target Group entered into subsequent to 31 March 2020 for the purpose of preparation of the unaudited pro forma consolidated statement of financial position of the Enlarged Group. This adjustment has no continuing effect.

3. The adjustment represents the inclusion of the results of operations and cash flows of the Target Group to be acquired by the Group assuming the Proposed Acquisition was completed on 1 April 2019.

	Target Group	**Disposed Subsidiaries**	**Restructuring adjustments**	**Target Group adjusted for restructuring**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note a)	*(Note b)*	*(Note f)*	*(Note c, h)*
Revenue	58,663	–	–	58,663
Other income	2,573	(164)	–	2,409
Other losses, net	(15,043)	15,043	–	–
Administrative expenses	(25,028)	148	–	(24,880)
Finance costs	(504)	–	455	(49)
Provision for impairment of loan and interest receivables	(10,834)	–	–	(10,834)
Profit before income tax	9,827	15,027	455	25,309
Income tax expense	(3,788)	–	–	(3,788)
Profit for the year	6,039	15,027	455	21,521

Notes:

(a) The amounts have been extracted from the historical financial information of the Target Group for the year ended 31 December 2019 as set forth in Appendix III to this Circular.

(b) These profit and loss items were transacted during the year ended 31 December 2019 by the Disposed Subsidiaries, which are extracted from the combined statement of profit or loss and other comprehensive income of the Disposed Subsidiaries for the year ended 31 December 2019 set forth in Note 32(b)(i) to the historical financial information of the Target Group in Appendix III to this Circular. For "Other income", the amount mainly represents the rental income derived from the investment properties held by the Disposed Subsidiaries. For "Other losses, net", the amount mainly represents the revaluation loss on fair value of the investment properties.

Upon the completion of the Restructuring, the Disposed Subsidiaries will no longer be consolidated into the consolidated financial statements of the Target Group.

(c) The gains or losses in connection with the Restructuring for the Target Group for the purpose of the Proposed Acquisition prior to Completion would not be consolidated by the Group.

	Target Group *HK$'000* *(Note a)*	Disposed Subsidiaries *HK$'000* *(Note d)*	Reclassification adjustments *HK$'000* *(Note e)*	Restructuring adjustments *HK$'000* *(Note f)*	Target Group adjusted for restructuring *HK$'000* *(Note g, h)*
Cash flows from operating activities					
Profit before income tax	9,827	15,027	–	455	25,309
Adjustments for:					
Interest income on bank deposits	(1,627)	–	–	–	(1,627)
Depreciation of property, plant and equipment	864	–	–	–	864
Amortisation of intangible assets	1,733	–	–	–	1,733
Interest expense on lease liabilities	49	–	–	–	49
Interest expense on bank borrowings	455	–	–	(455)	–
Provision for impairment of loan and interest receivables	10,834	–	–	–	10,834
Fair value losses on investment properties	15,043	(15,043)	–	–	–
Operating profit before working capital changes	37,178	(16)	–	–	37,162
Changes in working capital:					
Loan receivables	(25,764)	–	–	–	(25,764)
Interest receivables	709	–	–	–	709
Deposits, prepayments and other receivables	1,331	–	–	–	1,331
Other payables and accruals	(724)	(328)	344	–	(708)
Cash generated from operations	12,730	(344)	344	–	12,730
Income tax paid	(2,684)	–	–	–	(2,684)
Interest paid on bank borrowings	(455)	–	–	455	–
Interest paid on lease liabilities	(49)	–	–	–	(49)
Net cash flows generated from operating activities	9,542	(344)	344	455	9,997
Cash flows from investing activities					
Purchases of property, plant and equipment	(1,426)	–	–	–	(1,426)
Purchases of investment properties	(107,193)	–	–	–	(107,193)
Acquisition of a subsidiary, net of cash acquired	(39,185)	–	–	39,185	–
Advance to fellow subsidiaries	(188)	–	–	–	(188)
Advance to immediate holding company	(35)	344	(344)	–	(35)
Interest received	1,627	–	–	–	1,627
Net cash flows used in investing activities	(146,400)	344	(344)	39,185	(107,215)
Cash flows from financing activities					
Advance from a director	261,236	–	–	48,851	310,087
Repayment to a director	(10,001)	–	–	–	(10,001)
Draw-down of bank borrowings	49,300	–	–	(49,300)	–
Repayment of bank borrowings	(449)	–	–	449	–
Principal elements of lease payments	(443)	–	–	–	(443)
Net cash flows generated from financing activities	299,643	–	–	–	299,643
Net increase in cash and cash equivalents	162,785	–	–	39,640	202,425
Cash and cash equivalents as at 1 January 2019	80,908	–	–	–	80,908
Cash and cash equivalents as at 31 December 2019	243,693	–	–	39,640	283,333

(d) These cash flows were transacted during the year ended 31 December 2019 and were derived from the Disposed Subsidiaries, which are extracted from the combined statement of cash flows of the Disposed Subsidiaries for the year ended 31 December 2019 set forth in Note 32(b)(iii) to the historical financial information of the Target Group in Appendix III to this Circular.

(e) For the purpose of preparing the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, it is assumed that the amounts receivables from the Disposed Subsidiaries as at 1 January 2019 of approximately HK$344,000 would be the balance waived by the Target Group. For "Advance to immediate holding company" in the Disposed Subsidiaries, the amount represents the advance from the Target Group to the Disposed Subsidiaries and hence is reclassified as other payables and accruals of the Group accordingly.

(f) The adjustment represents the reversal of the cash paid for acquisition of Max Goal International Limited (as one of the Disposed Subsidiaries) in 2019 of approximately HK$39,185,000 and the reversal of bank borrowings for a further interest-free loan by Mr. Tommy Lee to Zero Finance with exclusion of corresponding interest accrued and paid for the year ended 31 December 2019 in relation to the bank borrowings as if the Restructuring has been completed on 1 January 2019. The Directors of the Group considered the tax impact is immaterial.

(g) The pro forma adjustments on the non-cash impact from the additional amortisation on the fair value of the brand name and related reversal of deferred tax liabilities and the unwinding of interest on non-current cash consideration related to the Proposed Acquisition, are set forth in Note 7 below respectively.

(h) Apart from the above, no other adjustment has been made to reflect any trading results or other transactions of the Target Group entered into subsequent to 31 December 2019 for the purpose of preparation of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group.

4. The excess of the Consideration over the fair value of the net identifiable assets of the Target Group acquired is recorded as goodwill in accordance with HKFRS 3. If the Consideration is less than the fair value of the net identifiable assets of the Target Group acquired, the difference is recognised directly in profit or loss as a bargain purchase. Assuming the Proposed Acquisition is completed on 31 March 2020, the bargain purchase arising from the Proposed Acquisition of the Target Group is calculated as follows:

	Notes	*HK$'000*
Consideration		
– Consideration Shares	*a(i)*	202,350
– Cash consideration	*a(ii)*	161,352
		363,702
Less:		
– Total net identifiable assets acquired *(Note 2)*		402,185
Bargain purchase arising from the Proposed Acquisition		38,483

Notes:

(a) Pursuant to the sale and purchase agreement dated 23 September 2020 in relation to the Proposed Acquisition (the "**Agreement**") for all issued shares of the Target Company, taking into account the unaudited net asset value of the Target Group as at 31 July 2020, the price to book ratio of 1 to 1 and capitalisation of the loan owing by the Target Group to the Vendor on 15 September 2020, the Initial Consideration (which is subject to the post-completion adjustments mentioned below) shall be payable by the Purchaser to the Vendor in the manner below:

– the Company's issue of 710,000,000 new shares at the issue price of HK$0.289 which approximates HK$205,229,000; and

– cash consideration to be settled by the Purchaser, in stages – (a) HK$20,000,000 on or before 31 December 2021; (b) HK$20,000,000 on or before 31 December 2022; and (c) the balance of the Consideration on or before 31 December 2023.

The Initial Consideration will be subject to post-completion dollar-for-dollar adjustments based on the net asset value of the Target Group as at completion of the Proposed Acquisition. However, no adjustment will be made if the amount of difference between the net asset value of the Target Group as at completion and the Initial Consideration is less than HK$1 million.

Assuming the Proposed Acquisition have been completed on 31 March 2020, based on the net asset value of the Target Group (assuming the amounts of loans owing by the Target Group to Mr. Tommy Lee as at 31 March 2020 have been assigned from Mr. Tommy Lee to the Vendor and subsequently capitalised into shares of the Target Company prior to 31 March 2020) of HK$393,685,000, the Consideration and the Initial Consideration for the Proposed Acquisition would be amounted to HK$393,685,000, which shall be settled by 710,000,000 new shares of HK$205,229,000 and cash consideration of HK$188,456,000. The fair value of the consideration should be estimated in accordance with HKFRS 13 "Fair value measurement" that is consistent with the accounting policies adopted by Group. For the purpose of the Unaudited Pro Forma Financial Information, the fair value of the total consideration is estimated to be HK$363,702,000, which comprises:

(i) the Company's issue of 710,000,000 new shares at market price. Each of the ordinary shares of the Company carry a par value of HK$0.08. For the purpose of the Unaudited Pro Forma Financial Information, the Directors have assumed the fair value of the consideration shares is HK$202,350,000, using the closing quoted market price of the shares of HK$0.285 as at 31 March 2020, in which HK$56,800,000 at par value shall be recognised as share capital while the remaining HK$145,550,000 shall be recognised in the reserves; and

(ii) cash consideration of HK$161,352,000 which is recognized as a consideration payable. For the purpose of the Unaudited Pro Forma Financial Information, the Directors have assumed their intention is to settle HK$20,000,000, HK$20,000,000 and HK$148,456,000 on 31 December 2021, 31 December 2022 and 31 December 2023 respectively from the completion of the Proposed Acquisition. For the purpose of the Unaudited Pro Forma Financial Information, the consideration amount is discounted at an interest rate of 4.6425% based on valuation report from AVISTA Valuation Advisory Limited with HK$161,352,000 recognized within non-current liabilities.

(b) Since the fair values of the consideration and the identifiable net assets of the Target Group at the Completion Date of the Proposed Acquisition may substantially be different from the fair values used in the preparation of the Unaudited Pro Forma Financial Information, the final amounts of the identifiable net assets (including intangible assets) and bargain purchase to be recognized in connection with the Proposed Acquisition may be different from the amounts presented above and the differences may be significant.

(c) For the purpose of preparing the Unaudited Pro Forma Financial Information, the Directors have made an assessment on whether there is any impairment in respect of property, plant and equipment and intangible assets arising from the Proposed Acquisition with reference to HKAS 36 "Impairment of Assets". They have taken into consideration the historical financial performance of the Target Group and synergy effect to the business of the Enlarged Group as key parameters for the assessment. Based on the assessment results, the Directors concluded that there is no impairment in the value of property, plant and equipment and intangible assets. Upon Completion and at the end of each reporting period, the Group will adopt consistent accounting policies, principal assumptions and methodology of impairment assessment (as used in the Unaudited Pro Forma Financial Information) to assess the impairment of the Enlarged Group's property, plant and equipment and intangible assets.

5. The adjustment represents the bargain purchase arising from the Proposed Acquisition of the Target Group assuming the Proposed Acquisition is completed on 1 April 2019. For the purpose of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows, it is assumed that the bargain purchase arising from the Proposed Acquisition as at 1 April 2019 approximates that as compare in Note 4 above.

6. The adjustment represents the cash inflows for the Proposed Acquisition, net of cash acquired of the Target Group if the completion of the Proposed Acquisition had taken place on 1 April 2019. The calculation is presented as follows:

	HK$'000
Cash consideration to be paid upon completion	–
Less: cash and cash equivalents of the Target Group acquired as at 1 April 2019	80,908
Cash inflows for the Proposed Acquisition	80,908

7. The adjustment represents: (a) additional amortization of HK$1,018,000 on the fair value of the brand name arising from the acquisition of the Target Group; (b) the related reversal of deferred tax liabilities of HK$168,000 as a consequence of the recognition of the fair value adjustment of brand name; and (c) unwinding of interest of HK$7,491,000 for cash consideration payable of HK$161,352,000 in Note 4 above by a discount rate of 4.6425%.

   For the purpose of this Unaudited Pro Forma Financial Information, the Directors considered and assumed that there are no significant changes on the fair value of the brand name as set out in the valuation report dated 18 September 2020 prepared by AVISTA Valuation Advisory Limited between 31 March 2020 and 1 January 2019 and no separate valuation report as at 1 January 2019 was prepared. Had this report been prepared, the amounts of the additional amortization expenses and reversal of deferred tax liabilities for the compilation of the Unaudited Pro Forma Financial Information of the Enlarged Group may be different from the amounts presented in this appendix.

   For the purpose of the unaudited pro forma consolidated statement of profit or loss and comprehensive income, the amortization of brand name is calculated using the straight-line method over its estimated residual life.

   This pro forma adjustment is expected to have a continuing effect on the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows.

8. The adjustment represents the estimated professional fees and transaction costs of approximately HK$13,362,000 payable by Group in connection with the Proposed Acquisition, which are assumed to be due upon Completion. This pro forma adjustment is not expected to have a continuing effect on the unaudited pro forma consolidated statement of profit or loss and other comprehensive income or unaudited pro forma consolidated statement of cash flows.

9. In the unaudited pro forma consolidated statement of financial position of the Enlarged Group, apart from Notes 2, 4 and 8 above relating to the Proposed Acquisition, no other adjustment has been made to reflect any trading results or other transactions of the Group or the Target Group entered into subsequent to 31 March 2020.

10. In the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows, apart from Notes 3, 5, 6, 7 and 8 above relating to the Proposed Acquisition, no other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2020 or the Target Group entered into subsequent to 31 December 2019.

The following is the text of a report set out on pages IV-17 to IV-20, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Termbray Industries International (Holdings) Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Termbray Industries International (Holdings) Limited (the "Company") and its subsidiaries (collectively the "Group"), and aEasy Credit Investment Limited (the "Target Company") and its subsidiaries (collectively the "Target Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 March 2020, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 March 2020, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages IV-1 to IV-16 of the Company's circular dated 25 September 2020, in connection with the proposed extreme very substantial acquisition of the Target Company (the "Proposed Acquisition") by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1 to IV-16 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Acquisition on the Group's financial position as at 31 March 2020 and the Group's financial performance and cash flows for the year ended 31 March 2020 as if the Proposed Acquisition had taken place at 31 March 2020 and 1 April 2019 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's financial statements for the year ended 31 March 2020, on which an audit report has been published.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7, *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisition at 31 March 2020 or 1 April 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 September 2020

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately after the issue of the Consideration Shares will be, as follows:

Authorised:		*HK$*
2,800,000,000	Shares as at the Latest Practicable Date	224,000,000
Issued and fully paid:		
1,957,643,050	Shares in issue as at the Latest Practicable Date	156,611,444
710,000,000	Consideration Shares to be issued	56,800,000
2,667,643,050	**Total Shares in issue**	213,411,444

All the existing Shares in issue are fully paid and rank pari passu in all respects including all rights as to voting, dividends and interests in capital. The Consideration Shares to be issued will rank pari passu in all respects with all other Shares in issue as at the date of allotment and issue of the Consideration Shares. There has been no alteration in the issued share capital of the Company within the two years immediately preceding the Latest Practicable Date. No members of the Group the capital of which is under option, or agreed conditionally or unconditionally to be put under option.

As at the Latest Practicable Date, the Company did not have any outstanding options, warrants, derivatives or securities convertible into Shares.

3. DISCLOSURE OF INTERESTS

Directors and chief executive

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO); (ii) entered in the register maintained by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

(A) Long Positions in Shares

	Number of Shares					Percentage
Name of directors	**Personal interest**	**Family interest**	**Corporate interest**	**Other interest**	**Total**	**of total issued Shares**
Mr. Lee Lap	–	–	–	1,252,752,780 *(Note)*	1,252,752,780	63.99%
Mr. Tommy Lee	–	–	–	1,252,752,780 *(Note)*	1,252,752,780	63.99%

Note: The 1,252,752,780 shares included under the other interest of Mr. Lee Lap and Mr. Tommy Lee are held by Lee & Leung (B.V.I.). Lee & Leung (B.V.I.) is wholly-owned by Lee & Leung Family Investment, which is wholly-owned by HSBC International Trustee Limited as trustee for the Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are the spouse and certain children of Mr. Lee Lap (including Mr. Tommy Lee) and the offspring of such children.

(B) Long Positions in shares of associated corporations of the Company

		Number of non-voting deferred shares held *(Note)*			% of total issued
Name of director	**Name of subsidiary**	**Personal interest**	**Spouse interest**	**Total**	**non-voting deferred shares**
Mr. Lee Lap	Applied Industrial Company Limited	1,000	1,500	2,500	100%
	Lee Plastics Manufacturing Company Limited	250,000	250,000	500,000	100%

Name of director	Name of subsidiary	Number of non-voting deferred shares held *(Note)* Personal interest	Spouse interest	Total	% of total issued non-voting deferred shares
	Magnetic Electronics Limited	5,000	–	5,000	100%
	Termbray Electronics Company Limited	7,000	3,000	10,000	100%

Note: All the above non-voting deferred shares are held by the director or his spouse personally as beneficial owner.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which any such Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO); (ii) entered in the register of interests required to be kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or proposed Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Substantial Shareholders

As at the Latest Practicable Date, the person (other than the Directors as disclosed above) interested in 5% or more of the issued share capital of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholders	Capacity	Number of Shares held	Percentage of the issued share capital of the Company
Lee & Leung (B.V.I.) (*Note 1*)	Beneficial owner	1,252,752,780	63.99%

Name of Shareholders	Capacity	Number of Shares held	Percentage of the issued share capital of the Company
Lee & Leung Family Investment (*Note 1*)	Held by controlled corporation	1,252,752,780	63.99%
HSBC International Trustee Limited (*Note 1*)	Held by controlled corporation as trustee for the Lee & Leung Family Trust	1,252,752,780	63.99%
Cosmo Telecommunication Inc. (*Note 2*)	Beneficial owner	151,202,960	7.72%
Ms. Jing Xiao Ju	Held by controlled corporation	151,202,960	7.72%
East Glory Trading Limited (*Note 3*)	Beneficial owner	103,397,540	5.28%
Master Winner Limited (*Note 3*)	Held by controlled corporation	103,397,540	5.28%
Mr. Yuan Qinghua	Held by controlled corporation	103,397,540	5.28%

Notes:

(1) The 1,252,752,780 shares are held by Lee & Leung (B.V.I.). Lee & Leung (B.V.I.) is wholly-owned by Lee & Leung Family Investment, which is wholly-owned by HSBC International Trustee Limited as trustee for the Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are the spouse and certain children of Mr. Lee Lap (including Mr. Tommy Lee) and the offspring of such children.

***(2)** Cosmo Telecommunication Inc. is wholly-owned by Ms. Jing Xiao Ju.*

(3) East Glory Trading Limited is wholly-owned by Master Winner Limited, which in turn is wholly-owned by Mr. Yuan Qinghua.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interest or short positions in the shares or underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein.

4. DIRECTORS' SERVICE CONTRACTS

Mr. Lee Lap has entered into a service contract with the Company for service as executive Director which is terminable by either party giving to the other party not less than six months' prior notice in writing.

Mr. Tommy Lee and Mr. Wong Shiu Kee have respectively entered into a service contract with the Company for service as executive Director which is terminable by either party giving to the other party not less than three months' prior notice in writing.

Mr. Lo Yiu Hee and Mr. Tong Hin Wor, the independent non-executive Directors, have respectively entered into an appointment letter with the Company for service as independent non-executive Directors for a term of 2 years from 1 January 2019 to 31 December 2020, which appointment shall terminate on the earlier of (i) 31 December 2020; or (ii) the date on which the Director concerned ceases to be an independent non-executive Director pursuant to the Bye-laws of the Company or any other applicable laws.

Mr. Ching Yu Lung, the independent non-executive Director, has entered into an appointment letter with the Company for service as an independent non-executive Director from 10 November 2018 to 31 December 2020, which appointment shall terminate on the earlier of (i) 31 December 2020; or (ii) the date on which he ceases to be an independent non-executive Director pursuant to the Bye-laws of the Company or any other applicable laws.

Other than the aforesaid, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

As at the Latest Practicable Date, none of the directors of the Target Group had entered, or proposed to enter, into any service contract with any member of the Enlarged Group which is not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. COMPETING INTEREST

As at the Latest Practicable Date, Mr. Lee Lap and his spouse Madam Leung Lai Ping were interested in certain companies engaged in property investment and development in Mainland China and Hong Kong (the "**Competing Business**"); whereas Mr. Tommy Lee was interested in the Target Group which is engaged in money lending business in Hong Kong.

The Board has continuously monitored to identify any conflicts of interest due to the aforesaid interests of Mr. Lee Lap and Madam Leung Lai Ping. If conflict of interest arises, Mr. Lee Lap and Madam Leung Lai Ping will abstain from participating in making any decisions. The Company is therefore capable of carrying on its business independently of, and at arm's length from the Competing Business.

Save as disclosed above, so far as the Directors are aware, as at the Latest Practicable Date, none of the Directors and their respective close associates had an interest in any business which competes, or are likely to compete, either directly or indirectly, with the business of the Enlarged Group which would require disclosure under the Rule 14.66(8) of Listing Rules.

6. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As part of the Restructuring, the following transactions have taken place:

(a) the disposal of the entire issued share capital in Max Goal (owner of one of the Three Properties) by Zero Finance to Titanium Ions at a consideration of HK$43,174,000 by a sale and purchase agreement dated 23 July 2020 entered into between Zero Finance and Titanium Ions; in connection therewith, (i) the consideration was assigned by Zero Finance to Mr. Tommy Lee by a deed of assignment dated 23 July 2020 executed by Zero Finance, Mr. Tommy Lee and Titanium Ions, in return for reduction of the equivalent portion of the loan owing by Zero Finance to Mr. Tommy Lee; and (ii) an inter-company balance of HK$388,000 owing by Zero Finance to Max Goal was waived by Max Goal pursuant to a deed of waiver dated 6 July 2020 executed by Zero Finance and Max Goal;

(b) the disposal of the entire issued share capital in Across Glorious (owner of one of the Three Properties) by Zero Finance to Titanium Ions at a consideration of HK$47,231,000 by a sale and purchase agreement dated 23 July 2020 entered into between Zero Finance and Titanium Ions; in connection therewith, (i) the consideration was assigned by Zero Finance to Mr. Tommy Lee by a deed of assignment dated 23 July 2020 executed by Zero Finance, Mr. Tommy Lee and Titanium Ions, in return for reduction of the equivalent portion of the loan owing by Zero Finance to Mr. Tommy Lee; and (ii) an inter-company balance of HK$47,247,000 owing by Across Glorious to Zero Finance was waived by Zero Finance pursuant to a deed of waiver dated 24 July 2020 executed by Zero Finance and Across Glorious;

(c) the disposal of the entire issued share capital in Sunninghill Global (owner of one of the Three Properties) by Zero Finance to Titanium Ions at a consideration of HK$89,273,000 by a sale and purchase agreement dated 23 July 2020 entered into between Zero Finance and Titanium Ions; in connection therewith, (i) the consideration was assigned by Zero Finance to Mr. Tommy Lee by a deed of assignment dated 23 July 2020 executed by Zero Finance, Mr. Tommy Lee and Titanium Ions, in return for reduction of the equivalent portion of the loan owing by Zero Finance to Mr. Tommy Lee; and (ii) an inter-company balance of HK$89,304,000 owing by Sunninghill Global to Zero Finance was waived by Zero Finance pursuant to a deed of waiver dated 24 July 2020 executed by Zero Finance and Sunninghill Global;

(d) a deed of undertaking dated 20 August 2020 was executed by Mr. Tommy Lee and the Vendor in favour of the Target Company and Zero Finance whereby (i) Mr. Tommy Lee irrevocably undertook to advance a sum of HK$48,500,000 to Zero Finance for the purpose of repaying the outstanding bank loan secured by the Three Properties owing by Zero Finance; and (ii) the Vendor agreed not to demand for repayment of any amount owing to it by the Target Company or Zero Finance before 31 October 2021 so long as the Target Group remains to be the Vendor's subsidiaries (the "**Deed of Undertaking**");

(e) the disposal of the entire issued share capital in Zero Titanium Limited by Zero Finance to Titanium Ions at HK$1 and the disposal of approximately 100% of the issued share capital in Zero Magnesium Limited by Zero Finance to Titanium Ions at approximately HK$1, in each case on 20 August 2020 by the instruments of transfer and bought and sold notes executed by Zero Finance and Titanium Ions on the same date;

(f) the disposal of the entire issued share capital in ZF Limited by the Target Company to Titanium Ions at a consideration of HK$10,000 on 20 August 2020 by the instrument of transfer and bought and sold notes executed by the Target Company and Titanium Ions on the same date; in connection therewith, (i) the consideration was assigned by the Target Company to Mr. Tommy Lee by a deed of assignment dated 20 August 2020 executed by the Target Company, Mr. Tommy Lee and Titanium Ions, in return for reduction of the equivalent portion of the loan owing by the Target Company to Mr. Tommy Lee; and (ii) an inter-company balance of HK$2,000 owing by ZF Limited to Zero Finance was waived by Zero Finance pursuant to a deed of waiver dated 20 August 2020 executed by Zero Finance and ZF Limited; and

(g) the assignment from Mr. Tommy Lee to the Vendor of the amount of HK$292,603,751 owing by the Target Company to Mr. Tommy Lee on 3 September 2020; and the subsequent capitalisation of such amount owing by the Target Company to the Vendor into 292,603,751 new ordinary shares of the Target Company pursuant to the loan capitalisation agreement dated 15 September 2020 entered into between the Vendor and the Target Company

(the documents mentioned in (a) to (g) above are collectively referred to as the "**Restructuring Documents**").

Mr. Tommy Lee is the ultimate controlling shareholder and a director of each of Titanium Ions and the Vendor.

Save that disclosed above, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Enlarged Group, or proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2020 (being the date to which the latest published audited financial statements of the Group were made up).

As at the Latest Practicable Date, in addition to the Deed of Undertaking and the Deed of Non-competition, to each of which Mr. Tommy Lee is a party and therefore in each of which he has a material interest, certain Directors were materially interested in the following contract or arrangement subsisting which are significant in relation to the business of the Enlarged Group:

(a) Pursuant to the tenancy agreements entered into between Panda Investment Company Limited ("**Panda Investment**") and the Group dated 17 January 2020 (the "**Panda Investment Tenancy Agreements**"), the Group leased certain office premises of Panda Investment for a term commencing on 1 January 2020 and ending on 31 December 2020 at the agreed monthly rental of HK$40,500. Panda Investment is a wholly-owned subsidiary of Lee & Leung Family Investment, which is in turn wholly-owned by HSBC International Trustee Limited as trustee for the Lee & Leung Family Trust. Mr. Lee Lap, an executive Director, is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are the spouse and certain children of Mr. Lee Lap (including Mr. Tommy Lee, an executive Director) and the offspring of such children.

(b) Pursuant to the tenancy agreement dated 4 March 2020 (the "**2020 Tenancy Agreement**") entered into between Mr. Lee Wing Keung, a son of Mr. Lee Lap, and the Group, the Group leased a residential property to Mr. Lee Wing Keung for a period of 3 years commencing on 16 March 2020 and expiring on 15 March 2023 at a monthly rent of HK$155,000 (exclusive of rates, management fees and utility charges) for domestic purposes. Further details of the 2020 Tenancy Agreement are set out in the announcement of the Company dated 4 March 2020.

(c) Pursuant to two tenancy agreements each dated 1 August 2020 entered into between Zero Finance as tenant and Across Glorious and Sunninghill Global respectively as landlord, two small rooms of the Three Properties with total area of about 200 square feet have been rented by the Target Group from the Vendor Group at a total monthly rental of HK$8,000 for a term of three years from 1 August 2020 to 31 July 2023 which may be terminated at the discretion of Zero Finance after expiration of the first year, for use as the other business office of Zero Finance as required under its Money Lender's Licence, and the principal office of Zero Credit, respectively. The Vendor is a majority-controlled company of Mr. Tommy Lee. Therefore, upon Completion, such leases will constitute connected transaction of the Enlarged Group, but they will be fully exempted pursuant to Rule 14A.76(1)(c) of the Listing Rules.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was materially interested in contract or arrangement subsisting which is significant in relation to the business of the Enlarged Group.

7. EXPERTS AND CONSENTS

The following is the name and qualification of the experts who have provided advice which is contained or referred to in this circular:

Name	Qualifications
China Galaxy International Securities (Hong Kong) Co., Limited	Licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
China Tonghai Capital Limited	Licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Frost & Sullivan International Limited	Independent market research consultant
Lau, Cheuk Kei Kevin	Barrister-at-law
PricewaterhouseCoopers Limited	Certified Public Accountants under Professional Accountants Ordinance (Cap. 50) and Registered PIE Auditor under Financial Reporting Council Ordinance (Cap. 588)
Wong, Anson M.K., S.C.	Barrister-at-law

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its reports and/or references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts had any shareholding, directly or indirectly, in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Enlarged Group.

In addition, as at the Latest Practicable Date, none of the above expert had any interest, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2020 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there had been no material adverse change in the financial or trading position of the Group since 31 March 2020, being the date to which the latest published audited consolidated financial results of the Company were made up.

9. LITIGATION

As at the Latest Practicable Date, the Enlarged Group was not engaged in any litigation or claims of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened by or against the Enlarged Group.

10. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Enlarged Group within two years immediately preceding the date of this circular and are or might be material:

(a) the agreement dated 23 January 2019 entered into among Zero Finance as purchaser and Golden Asia Group Limited as vendor and Sui Chok Lee (蕭作利) as guarantor in relation to the sale and purchase of the entire issued shares in, and assignment of the benefit of the shareholder's loan extended to, Max Goal (being the owner of Office Unit No. 2109, 21st Floor, COSCO Tower, Grand Millennium Plaza, No. 183 Queen's Road Central and No. 33 Wing Lok Street, Hong Kong) at a consideration of HK$43,539,000;

(b) the Restructuring Documents;

(c) the Agreement; and

(d) the Deed of Non-competition.

11. MISCELLANEOUS

(a) The Company was incorporated in Bermuda with limited liability on 9 October 1990. Save for the Mainboard of the Stock Exchange, the Shares of the Company are not listed on any other stock exchange.

(b) The registered office of the Company is at Clarendon House, Church Street, Hamilton HM11, Bermuda. The head office and principal place of business of the Company in Hong Kong is at Flat B, 8/F, Waylee Industrial Centre, 30-38 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong.

(c) The secretary of the Company is Mr. Lo Tai On, who is an associate member of the Hong Kong Institute of Certified Public Accountants.

(d) The Hong Kong share registrar and transfer office of the Company is Tricor Standard Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The business address of PricewaterhouseCoopers is 22/F, Prince's Building, Central, Hong Kong.

(f) Unless otherwise stated, in the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong is at Flat B, 8th Floor, Waylee Industrial Centre, 30-38 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the SGM:

(a) the memorandum and by-laws of the Company;

(b) the audited consolidated financial statements of the Company for the two years ended 31 March 2019 and 2020;

(c) the letter from the Independent Board Committee, the text of which is set out on pages 23 to 24 of this circular;

(d) the letter from the Independent Financial Adviser, the text of which is set out on pages 25 to 58 of this circular;

(e) the industry report prepared by Frost & Sullivan;

(f) the legal opinion issued by the Legal Advisers in respect of matters on the Money Lenders Ordinance and the Licensing Conditions;

(g) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(h) the service contracts referred to in the paragraph headed "Directors' Service Contracts" in this Appendix;

(i) the accountant's report on the historical financial information of the Target Group from PricewaterhouseCoopers, the text of which is set out in Appendix III to this circular;

(j) the report on the unaudited pro forma financial information of the Enlarged Group from PricewaterhouseCoopers, the text of which is set out in Appendix IV to this circular;

(k) the written consents from each of the experts as referred to in the paragraph headed "Experts and Consents" in this Appendix; and

(l) this circular.

TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED

添利工業國際(集團)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 00093)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting of Termbray Industries International (Holdings) Limited (the "**Company**") will be held at 35/F, Central Plaza, No. 18 Harbour Road, Wanchai, Hong Kong on Thursday, 15 October 2020 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the Agreement (as defined in the circular of the Company dated 25 September 2020) (the "**Circular**", a copy of which marked "A" has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification), and all transactions contemplated thereunder and in connection therewith and any other ancillary documents and all transactions contemplated thereunder, be and are hereby approved, confirmed and/or ratified; and

(b) the directors of the Company be and are hereby authorised for and on behalf of the Company to sign, seal, execute, perfect, perform and deliver all such documents, deeds, agreements and instruments and do all such acts, matters and things and take all such steps as they may in their discretion consider necessary, expedient or desirable to implement and/or to give effect to the Agreement (and the transactions contemplated thereunder) as they may in their discretion consider to be desirable and in the interests of the Company.

(c) the allotment and issue of the Consideration Shares (as defined and described in the Circular) to the Vendor and/or its designated party be and are hereby approved;

(d) subject to the listing committee of The Stock Exchange of Hong Kong Limited having granted the listing of, and permission to deal in the Consideration Shares, the directors of the Company be and are hereby granted the specific mandate (the "**Specific Mandate**") which shall entitle the directors of the Company to exercise all the powers of the Company to allot, issue and credited as fully paid, the Consideration Shares, on and subject to the terms and conditions of the Agreement, providing that the Specific Mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the directors of the Company prior to the passing of this resolution; and

(e) any one director of the Company be and is hereby authorised to, on behalf of the Company, do all such acts and sign, seal, execute and deliver all such documents and take all such actions as he/she may consider necessary or desirable for the purpose of or in connection with or to give effect to the allotment and issue of the Consideration Shares."

By Order of the Board
Termbray Industries International (Holdings) Limited
Lee Lap
Chairman

Hong Kong, 25 September 2020

Notes:

1. The ordinary resolution to be considered at the meeting will be decided by poll.

2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or, if he is the holder of two or more shares, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company.

3. To be valid, a proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the head office and principal place of business of the Company at Flat B, 8th Floor, Waylee Industrial Centre, 30-38 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong not less than 48 hours (i.e. Tuesday, 13 October 2020 at 11:00 a.m.) before the time appointed for holding the meeting or any adjournment thereof.

4. The register of members of the Company will be closed from Friday, 9 October 2020 to Thursday, 15 October 2020 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for attendance of the meeting, all completed transfer forms accompanied with the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Standard Limited, not later than 4:30 p.m. on Thursday, 8 October 2020. The address of Tricor Standard Limited is Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

As at the date hereof, the Board comprises:

Executive Directors:
Mr. Lee Lap *(Chairman)*
Mr. Tommy Lee *(Vice Chairman & Chief Executive Officer)*
Mr. Wong Shiu Kee

Independent Non-Executive Directors:
Mr. Lo Yiu Hee
Mr. Tong Hin Wor
Mr. Ching Yu Lung