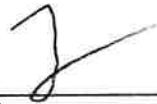


Independent Market Research on Licensed Money Lending and BNPL Industry in Hong Kong

Date: 27 November 2023



Name: Terry Tse
Title: Consulting Director

For and on behalf of
Frost & Sullivan Limited

Prepared for

K Cash Corporation Limited

Highly Confidential
November 2023



Agenda

1 Introduction of the Research

2 Overview of Macroeconomic Environment in Hong Kong

3 Overview of Licensed Money Lending Market in Hong Kong

4 Competitive Landscape of Licensed Money Lending in Hong Kong

5 Overview of BNPL Market in Hong Kong

4 Competitive Landscape of BNPL in Hong Kong

5 Appendix

Scope

■ The project scope is defined as follows:

Research period	<ul style="list-style-type: none">• Historical years: 2017-2021• Base year: 2022• Forecast years: 2023E-2027E
Geographic scope	<ul style="list-style-type: none">• Hong Kong
Industry scope	<ul style="list-style-type: none">• Licensed Money Lending• Unsecured Personal Loan• Unsecured SME Loan• Unsecured Property Owners Loan• Buy Now Pay Later [BNPL]

Limitations

■ Source of Information

- Interviews with industry experts and competitors will be conducted on a best-effort basis to collect information in aiding in-depth analysis for this report.
- Frost & Sullivan will not be responsible for any information gaps in the circumstances that interviewees refused to disclose confidential data or figures.



- The point of this study is set in 2022. It took 2022 as the base year and 2023 to 2027 as the forecast period. However, in the case where data has not yet been updated or published on public sources at the point of this study, Frost & Sullivan would use the latest data available or make preliminary projections based on historical trends.

- Under circumstances where information was not available, Frost & Sullivan would use in-house modeling and simulation to arrive at an estimate.

- Sources of information are stated at the bottom on each page for reference.

Agenda

1 Introduction of the Research

2 Overview of Macroeconomic Environment in Hong Kong

3 Overview of Licensed Money Lending Market in Hong Kong

4 Competitive Landscape of Licensed Money Lending in Hong Kong

5 Overview of BNPL Market in Hong Kong

4 Competitive Landscape of BNPL in Hong Kong

5 Appendix

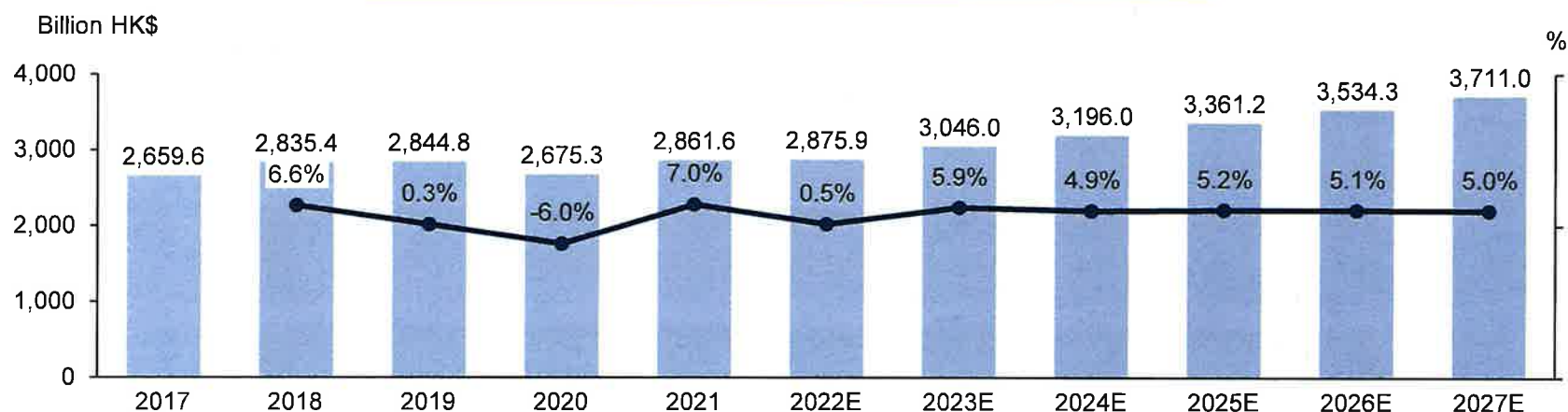
Overview of Macroeconomic Environment in Hong Kong

Nominal GDP

Nominal GDP (Hong Kong), 2017-2027E

CAGR	2017-2022E	2023E-2027E
Nominal GDP	1.6%	5.1%

■ Nominal GDP
● YoY Growth Rate



➤ Attributed to the increase in domestic demand and trade performance featured with recovery of economy in Europe and North America, the nominal GDP in Hong Kong has registered a steady growth throughout the past five years, from HK\$2,659.6 billion in 2017 to HK\$2,875.9 billion in 2022. Owing to the outbreak of COVID-19 in 2020, the nominal GDP plunged from HK\$2,844.8 billion in 2019 to HK\$2,675.3 billion in 2020, a CAGR of approximately 1.6% was recorded during 2017 to 2022. Moving forward, according to International Monetary Fund (“IMF”), Hong Kong’s economy is set to regain its momentum as soon as COVID-19 is effectively contained, the nominal GDP of Hong Kong is expected to recover and grow from HK\$3,046.0 billion in 2023 to HK\$3,711.0 billion in 2027, representing a CAGR of approximately 5.1%.

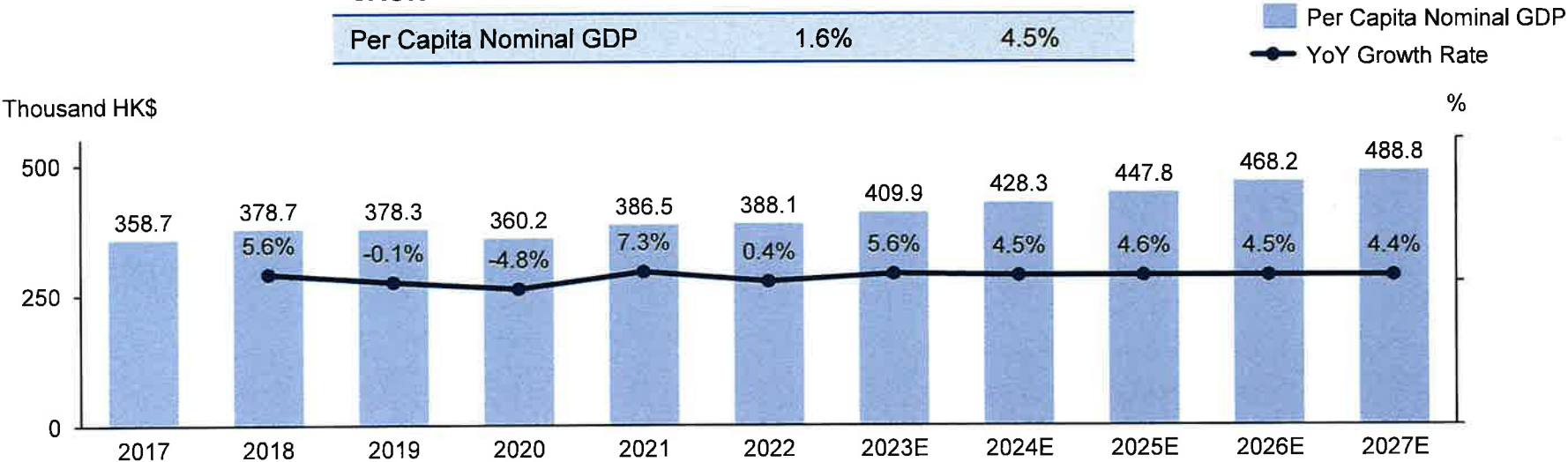
Source: International Monetary Fund, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Nominal GDP Per Capita

Per Capita Nominal GDP (Hong Kong), 2017-2027E

CAGR	2017-2022	2023E-2027E
Per Capita Nominal GDP	1.6%	4.5%



➤ Along with the continuous growth of GDP, the average income level of Hong Kong has also maintained a moderate growth in recent years. The GDP per capita in Hong Kong has increased from HK\$358.7 thousand in 2017 to HK\$388.1 thousand in 2022 at a CAGR of 1.6%. The drop of nominal GDP per capita in 2020 is due the negative impact brought by COVID-19 to the economy.

➤ It is expected that by 2027, the GDP per capita in Hong Kong is likely to reach HK\$488.8 thousand, with a CAGR of 4.5% from 2023. The stable economic structure of Hong Kong supports the further expansion of overall property market development as well as construction market in Hong Kong.

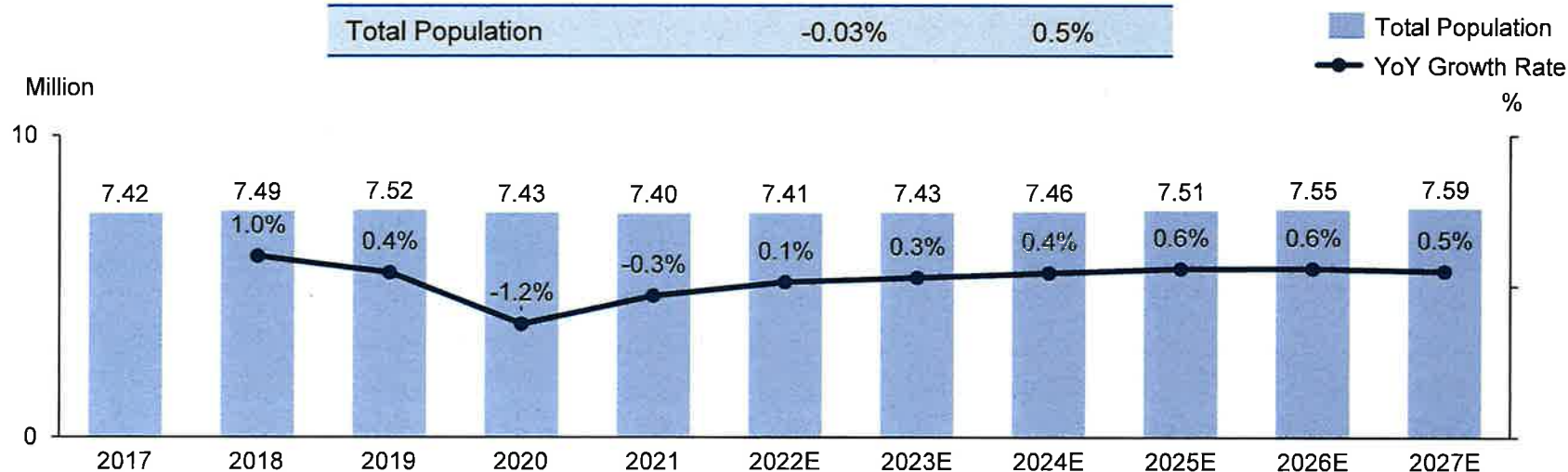
Source: International Monetary Fund, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Total Population

Total Population in Hong Kong, 2017-2027E

CAGR	2017-2022E	2023E-2027E
Total Population	-0.03%	0.5%



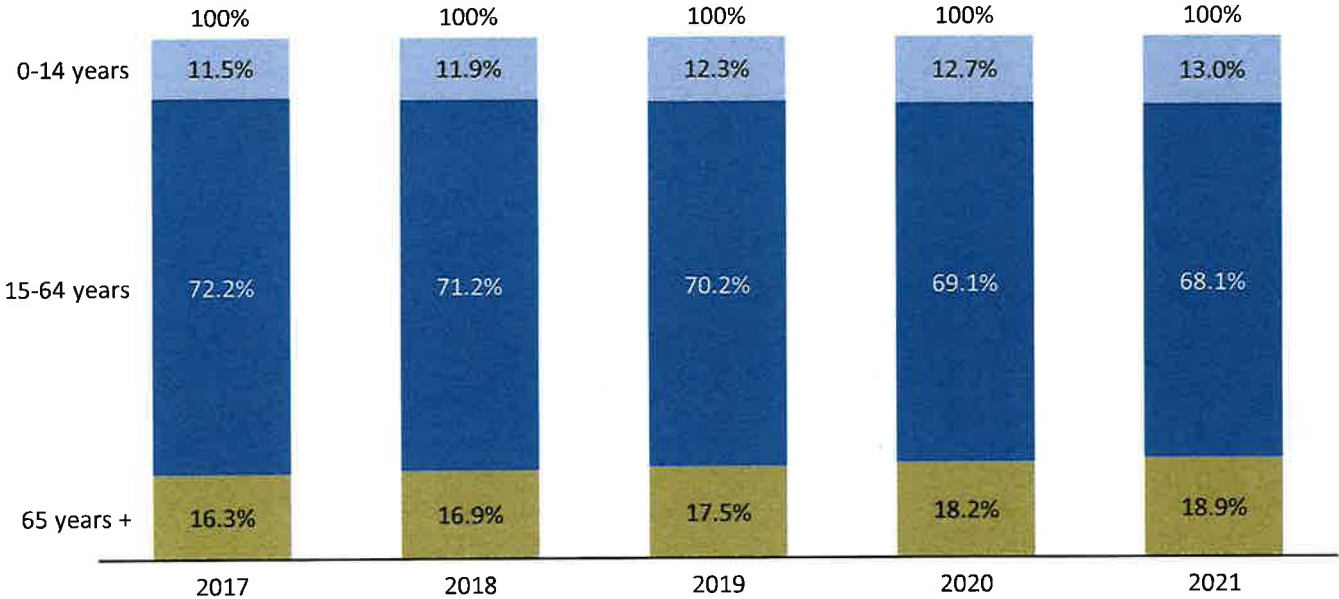
- The population in Hong Kong has been remained at the level of 7.4 million and recorded a slight decrease from 7.42 million in 2017 to 7.41 million in 2022, representing a CAGR of -0.03%.
- With the proactive approach in attracting more outside talent to settle in Hong Kong and fostering a supportive environment for raising families, the population is expected to maintain a CAGR of 0.5% from 2023 to 2027. IMF estimates that the population in Hong Kong is likely to reach 7.59 million by 2027.

Source: International Monetary Fund, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Age Distribution of Population

Age Distribution of Population in Hong Kong, 2017-2021



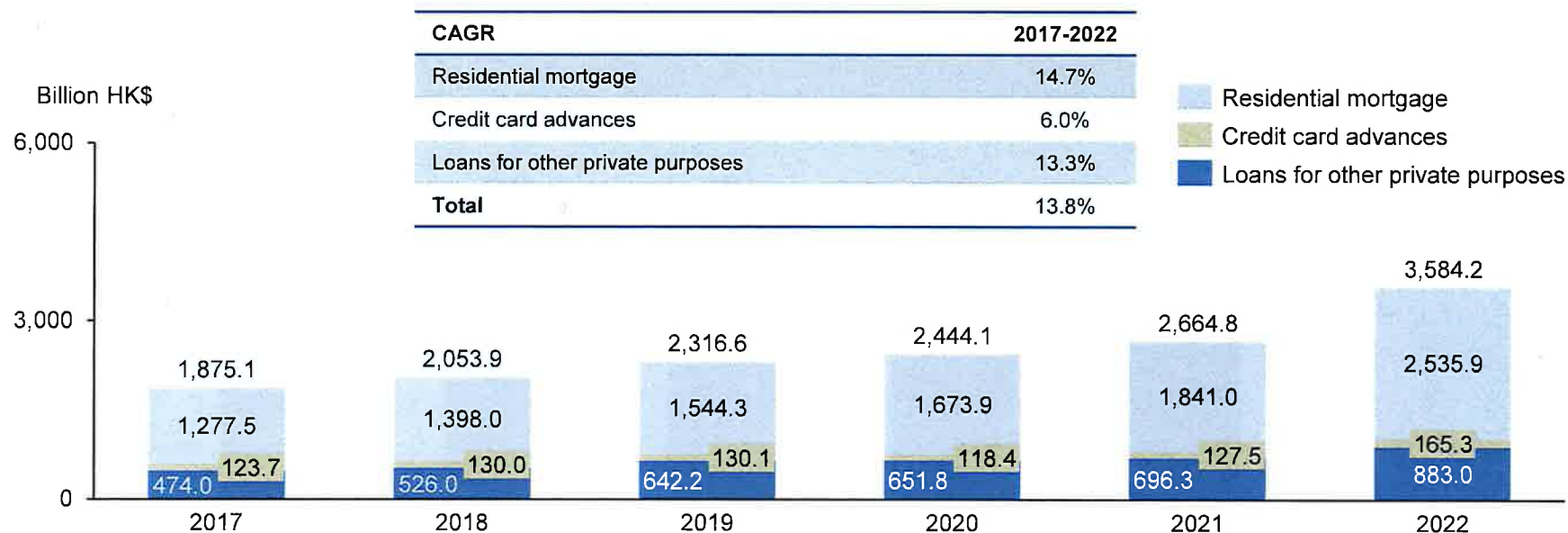
➤ This statistic depicts the age distribution in Hong Kong from 2017 to 2021. In 2021, about 13.0% of the population in Hong Kong were 0 to 14 years old, 68.1% were aged 15 to 64, and 18.9% were 65 years of age or older. The proportion of population of aged 65 or above recorded an increase from 16.3% in 2017 to 18.9% in 2021.

Source: World Bank, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Value of Loans and Advances Granted by Authorised Institutions

Value of Household Loans and Advances Granted by Authorised Institutions, 2017-2022

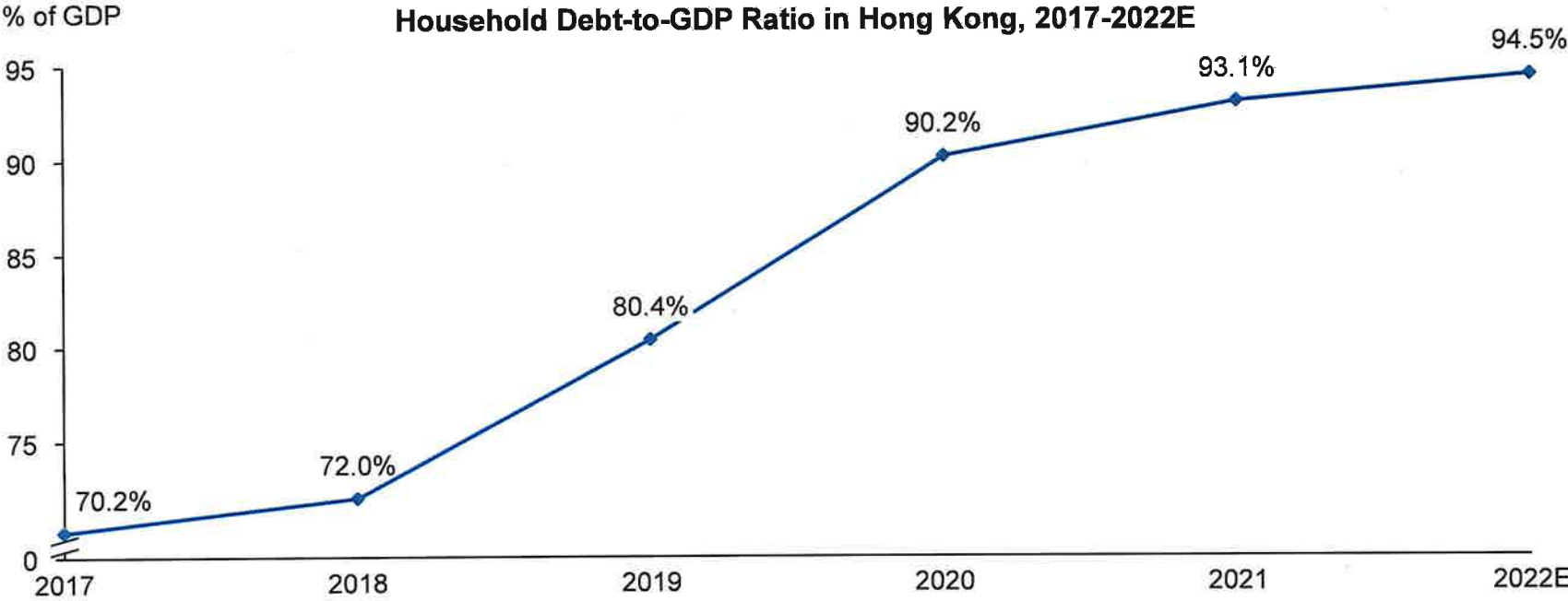


- Household loans and advances can be categorized as residential mortgage (including for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme & Tenants Purchase Scheme and for the purchase of other residential properties), credit card advances and loans for other private purposes. Supported by the growth of macroeconomy and household activities in Hong Kong, total value of household loans and advances granted by authorised institutions (AIs) rose at a CAGR of approximately 13.8%, reaching HK\$3,584.2 billion by the end of 2022.
- Residential loans took up the largest share of total value of household loans and advances with 70.8% in 2022. From 2017 to 2022, value of residential loans keep rising at a CAGR of approximately 14.7%, reaching HK\$2,535.9 billion by the end of 2022. Loans for other private purposes have increased rapidly, supported by the growth of disposable income and consumption expenditure. From 2017 to 2022, credit card advances and loans for other private purposes grew with CAGR of approximately 6.0% and 13.3% respectively.

Source: Hong Kong Monetary Authority, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Household Debt-to-GDP Ratio



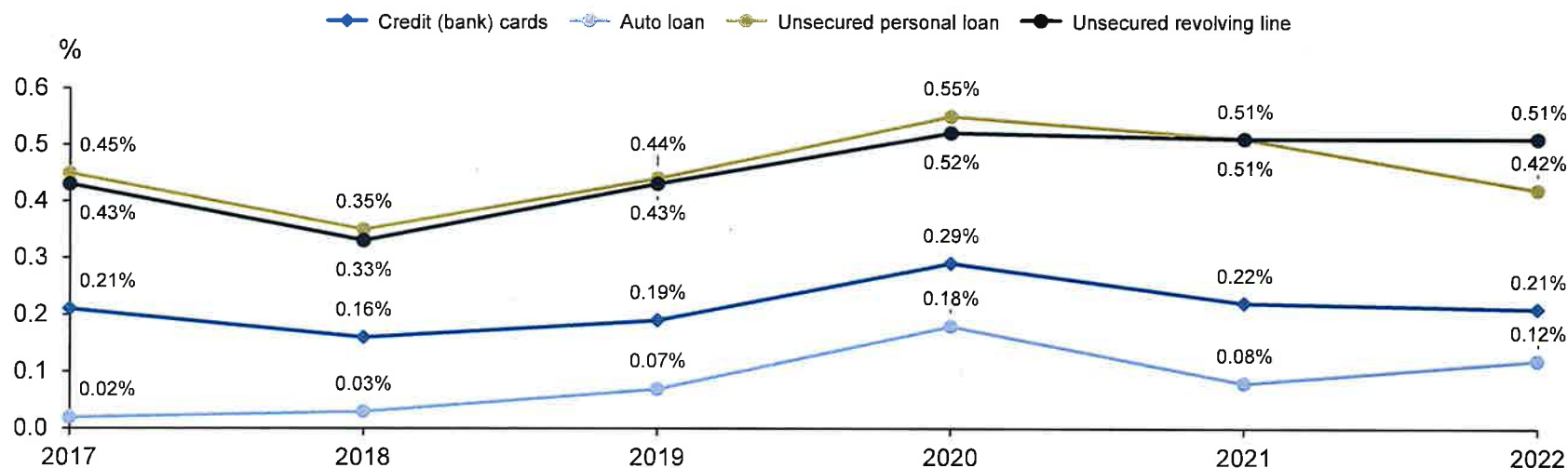
➤ Household debt-to-GDP ratio refers to the percentage of Hong Kong's household debt in nominal GDP. According to Hong Kong Monetary Authority (HKMA), Hong Kong household debt-to-GDP indebtedness has been on the rise since 2019 due to economic contraction in Hong Kong, reaching a historical high of 93.1% by the end of 2021. It is expected that the ratio will reach 94.5% by the end of 2022. According to HKMA, mortgage loans took up the largest share in total household debt, accounting for approximately 68% of total household debt in 2021. Credit loans for other private purposes and credit card advances occupied the rest of approximately 32% of household debt in 2021.

Source: Hong Kong Monetary Authority, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Balance-Level Serious Delinquency Rates

Balance-Level Serious Delinquency Rates of Selected Loans, 2017-2022



Note : Serious delinquency is defined as 90 days or more past due or in foreclosure proceedings. The serious delinquency rate is the percentage of all loans in a state of serious delinquency.

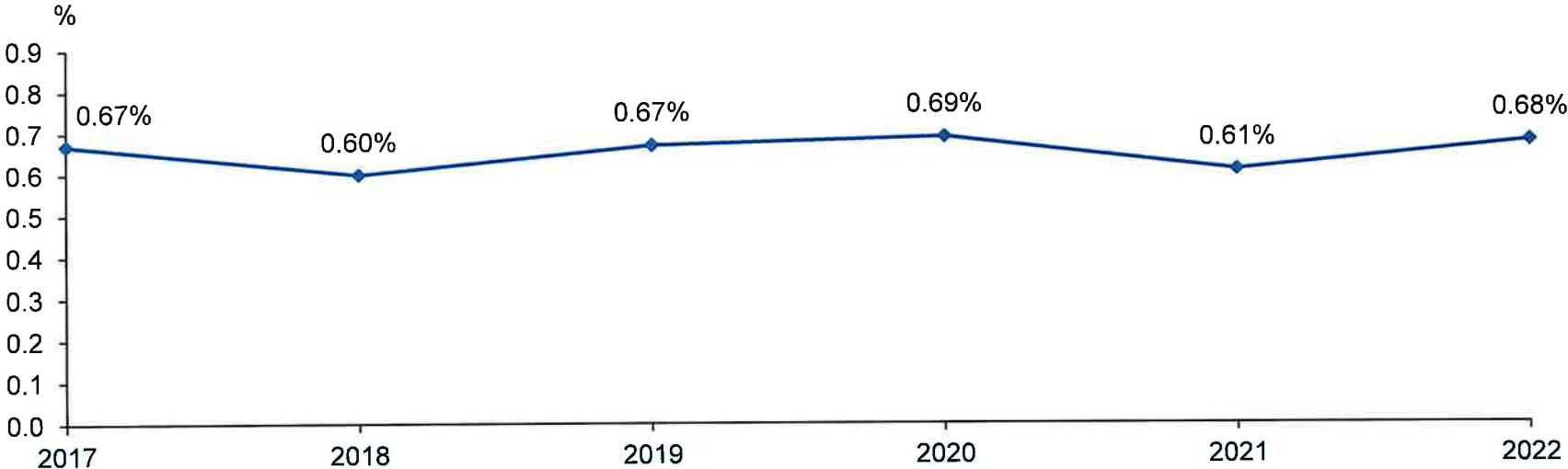
- Auto loan has the lowest balance-level serious delinquency rates of all four, which has increased from 0.02% to 0.12% from 2017 to 2022. With the four loans, it is seen with a trend that rates have increased in 2019 and 2022 and dropped in 2021. It is due to the impact from macroeconomic environment and disruptive events such as social unrest in 2019 and COVID-19 pandemic outbreak in 2020. Economic downturns may severely impact consumers' ability to payback loans due to factors such as rise of unemployment rate and border lockdown restrictions. As the economy alleviates in 2021 along with the global economic recovery, the serious delinquency rates have recorded a slight decrease.
- In 2022, the highest balance-level serious delinquency rate is 0.51% for unsecured revolving line, whereas auto loan is the lowest with 0.12%. Unsecured personal loan and credit (bank) cards recorded delinquency rates of 0.42% and 0.21%, respectively.

Source: Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Delinquency Ratio of Unsecured Loans

Delinquency Ratio of Unsecured Loans in Hong Kong, 2017-2022



Note : Delinquency ratio = Dollar amount of delinquent loans / total dollar amount of outstanding loans at year end.

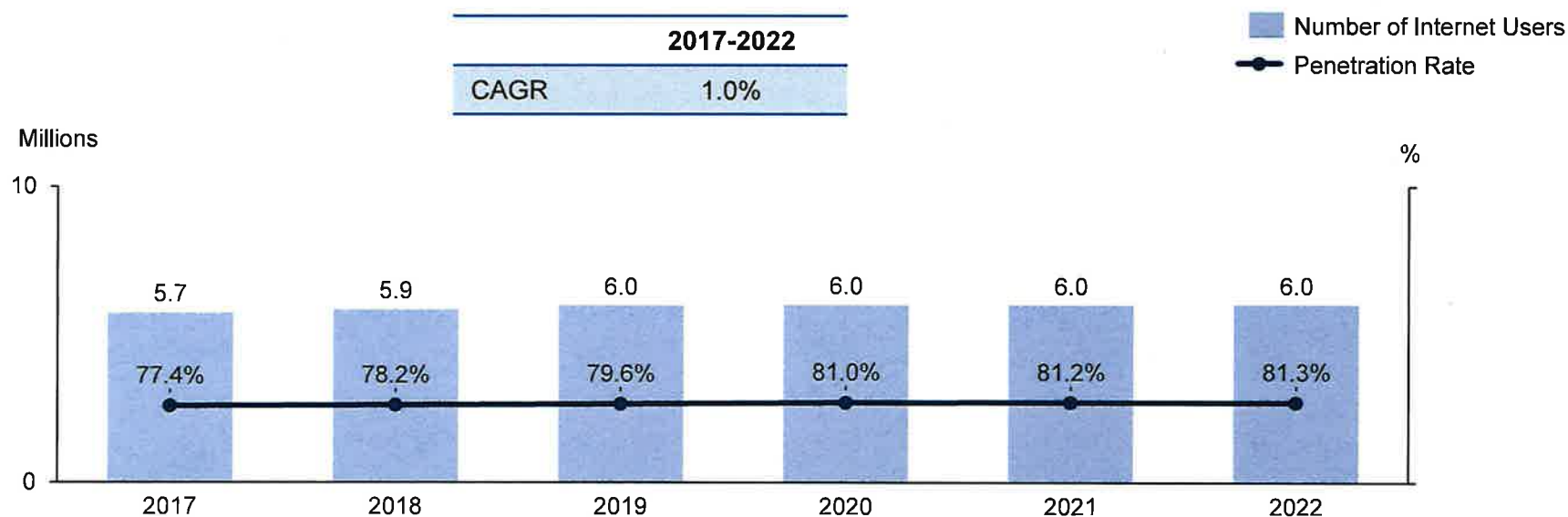
➤ Unsecured loan is a major consumer lending product in Hong Kong, providing liquidity to consumers at a reasonable cost. Delinquency ratio for unsecured loans refers to the percentage of unsecured loans within a financial institution’s loan portfolio whose payment are delinquent. Delinquency rate are much higher for borrowers with lower credit scores, which explains why credit scores play an important role in loan interest rates. The delinquency ratio has increased from 0.67% to 0.61% from 2017 to 2021 with a rebound to 0.68% in 2022. Credit performance improved with delinquency rates similar to pre-pandemic levels. As the market continues its growth trajectory, lenders can expect credit performance to return to normal expected levels.

Source: Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Number of Internet Users and Penetration Rate

Number of Internet Users and Penetration Rate (Hong Kong), 2017-2022



Note: The internet penetration rate refers to the number of internet users as a percentage of the total population.

- Attributable to the increasing digital usage in the past years, the number of internet users in Hong Kong has increased steadily from 5.7 million users in 2017 to 6.0 million users in 2022, representing a CAGR of 1.0% during the period. The outbreak of pandemic has not significantly affect the growth of internet users in Hong Kong while the e-commerce and online retail markets has surged during the pandemic, indicating a relatively conservative perspective of digital lifestyle transformation within the group that has not yet participate in internet usage. The internet penetration rate is expected to reach approximately 86.9% in 2027.
- In 2021, the internet penetration rate in Hong Kong is 81.2%, higher than 61.2% of Asia Pacific , and 81.0% of America.
- In 2022, over 97.0% of mobile users in Hong Kong own mobile phones that are smartphones.
- The web traffic of the top five online licensed money lending websites in Hong Kong is approximately 2.5 million from October 2022 to December 2022.

Source: Hong Kong Census and Statistics Department, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

General Overview of Property Market, Home Ownership Scheme Market, and Unsecured Loan Market

Hong Kong Property Market

➤The performance of Hong Kong property market is highly correlated with macroenvironment, social events and external factors, which the market has grown steadily and healthily before 2019 until the eruption of a series of events that intermingled with the growth. Hong Kong is named as the most expensive housing market in the world where demand for houses has far outstripped the natural scarcity of land supply. However, the social unrest in 2019, COVID-19 outbreak since 2020 and rocketing inflation rates have heavily blown the property market ever since. Hong Kong's property market has dropped in 2020 due to social lockdowns and travel restrictions, while witnessing a rebound in 2021 when the economy alleviated. However, in 2022, the Hong Kong property market has witnessed underperformance. This was in response to the Hong Kong Monetary Authority's new rates which increased in lockstep with the Federal Reserve's four rate hikes during the year. Moreover, Hong Kong is undergoing an unprecedented population decrease after political unrest, strict health controls for COVID-19 and other factors that have drove emigration. However, economic policies such as the suggested property stamp duty relaxation for mainland Chinese buyers are to stimulate the growth of Hong Kong property market. Hong Kong home prices could continue to plummet in 2023 as the sharply increasing interest rates repel buyers, making homes less affordable.

Hong Kong Home Ownership Scheme Market

•Home ownership scheme (HOS) is a subsidised-sale public housing programme managed by the Hong Kong Housing Authority that was released in the late 1970s. The government sells flats to eligible public housing tenants and to lower-income residents at prices below the market level, with discounts usually between 30 and 40 percent. To ensure that subsidised sale flat are affordable to the target households, the pricing mechanism was revised in 2018 such that HOS flats are priced at an affordable level which would be no longer linked to market prices of private housing. The HKHA put up about 32,100 new HOS flats for sale from 2014 to 2022. As the government serves as a shelter to the housing market volatility, the market grows steadily along with stable supply release. The one external factor that may disrupt the HOS market would be payments of mortgages. Due to the increasing interest rate in 2022, Hongkongers started to sell live-in HOS flats at losses as rising interest rates weigh on sentiment as mortgages are difficult to pay off.

Source: Hong Kong Housing Bureau, Frost & Sullivan

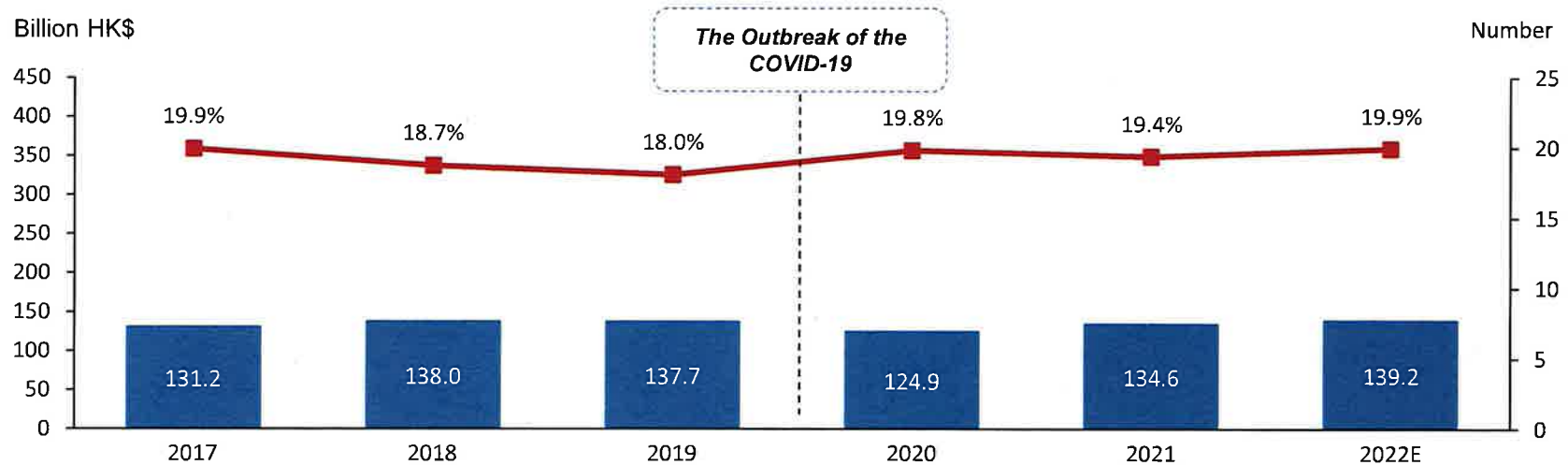
Overview of Macroeconomic Environment in Hong Kong

Total Card Receivables

Total Card Receivables in Hong Kong, 2017-2022E

CAGR	2017-2022E
Total card receivables	1.2%

■ % of Total Card Transaction Value
 ■ Amount of Total Card Receivables



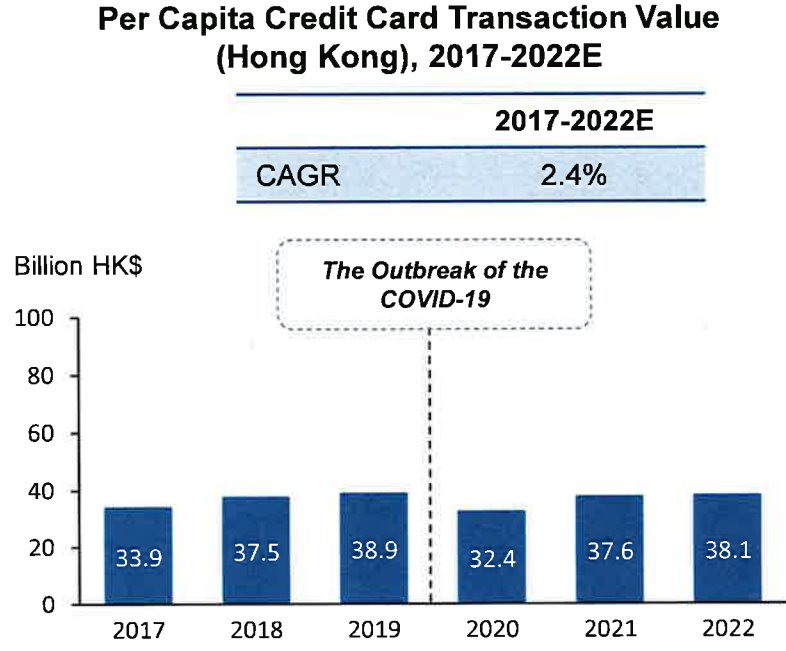
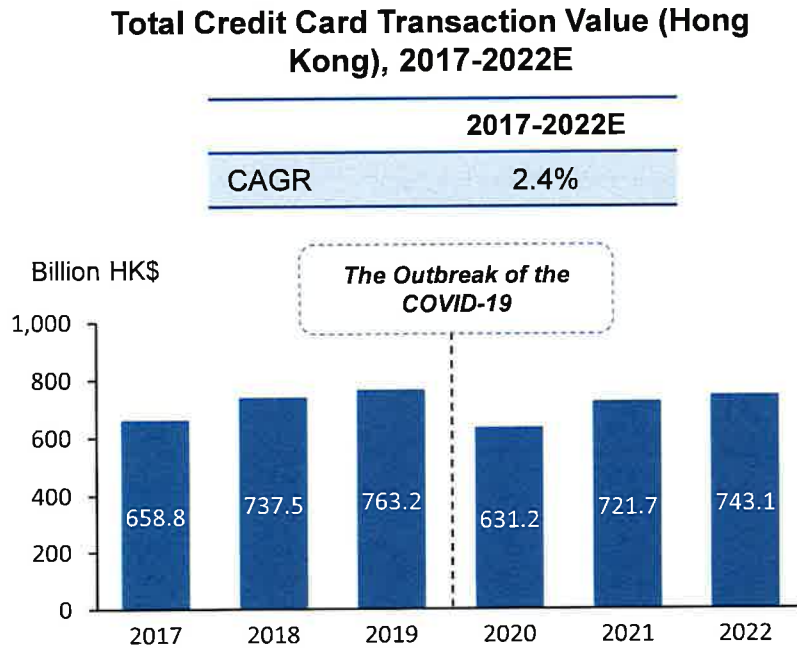
Note: Latest data updated in 2022 Q2.

➤ Card receivables are defined as revenue generated via customer credit cards for which the money have not been transferred to the merchant from the credit card processor. From 2017 to 2021, the total card receivables has increased from HK\$131.2 billion to HK\$134.6 billion, and it is expected to reach HK\$139.2 billion in 2022 with a CAGR of 1.2% from 2017 to 2022. The total card receivables accounts for 19.4% and 19.9% of the total card receivables in 2021 and 2022, respectively. As the total credit card transaction value has increased with a CAGR of 1.2% from 2017 to 2021 (from HK\$658.8 billion to HK\$698.4 billion), total card receivables' growth remains at a stable increase that synchronizes with the steady growth rate of the total card transaction value.

Source: Hong Kong Monetary Authority, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Comparison of Credit Card Expenditure by Hong Kong Individuals pre- and post-COVID-19



➤ The total credit card transactions in Hong Kong has risen steadily from HK\$658.8 billion to HK\$783.2 billion during the pre-COVID period during 2017 to 2019, while it plummeted in 2020 to HK\$631.2 billion, recording a year-on-year decline of 17.3%, which is imputed to the impact of social disturbances which led to reduced tourist arrivals and contracted consumer spending, along with the outbreak of the COVID 19 and resulting anti-epidemic measures brought inbound tourism to a standstill and disrupted consumption-related activities. In view of the economic downturn, the Hong Kong Government has rolled out several financial measures as outlined in the Anti-epidemic Fund to relieve the financial burden of business enterprises and individuals to support the domestic economy, coupled with a massive package of countercyclical measures outlined in the 2021-22 and 2022- 2023 Budget of the Government. With the impetus from government support and gradual normalisation of socio-economic activities, the total credit card transaction value has increased and attained HK\$743.1 billion in 2022. The overall CAGR for both total and per capita credit card transaction value have simultaneously increased at CAGRs of 2.4%.

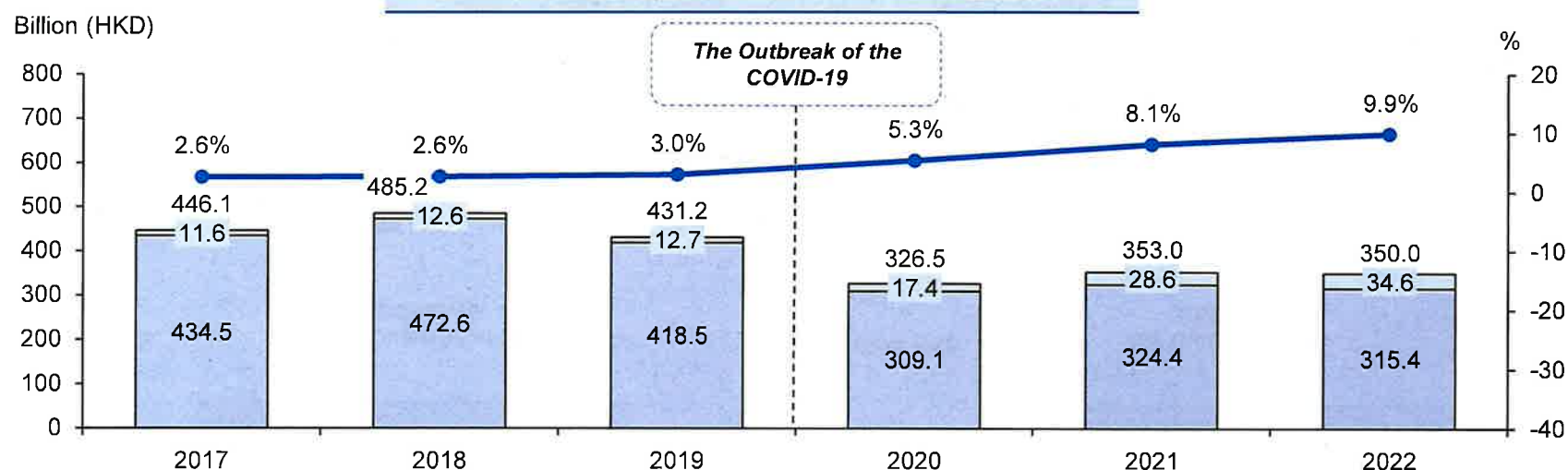
Source: Hong Kong Monetary Authority, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Comparison of Overall Expenditure by Hong Kong Individuals pre- and post-COVID-19

Total Retail Sales Value (Hong Kong), 2017-2022

CAGR	2017-2022
Total Retail Sales Value	-4.7%
Offline Retail Sales value	-6.2%
Online Retail Sales Value	24.5%



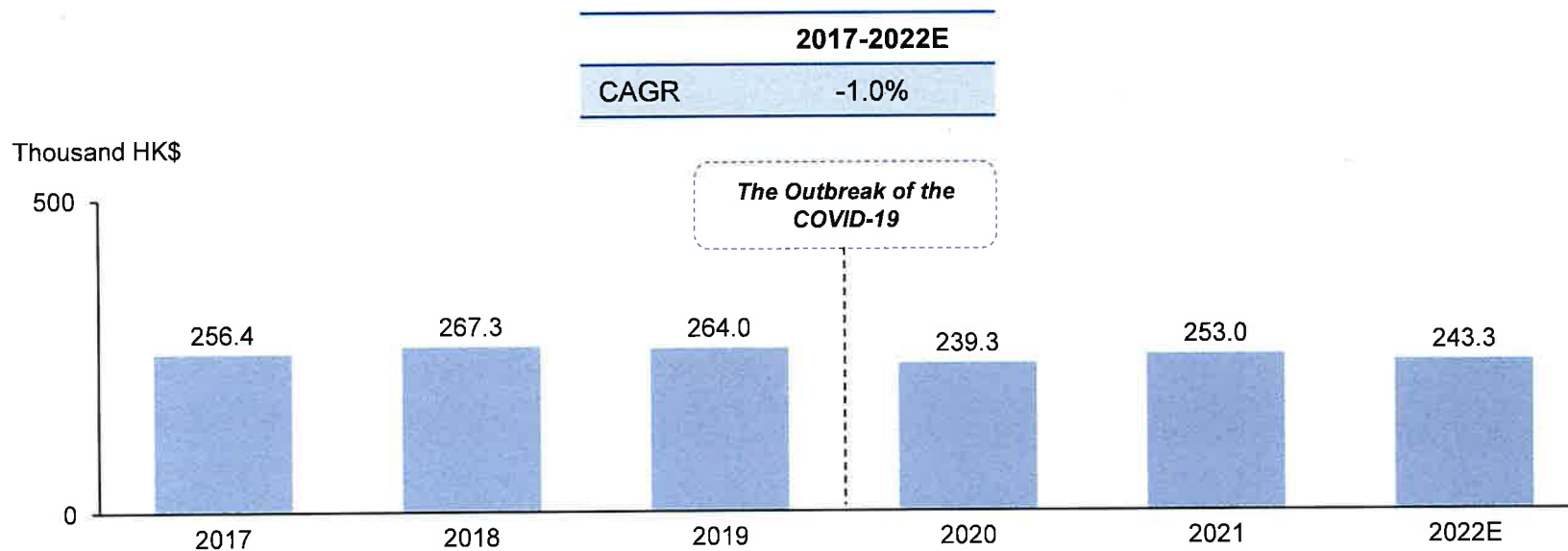
➤ According to the Census and Statistics Department, from 2017 to 2022, the total retail sales value (RSV) in Hong Kong has decreased from HKD446.1 billion to HKD339.9 billion, representing a CAGR of -5.3%. The overall decline is primarily attributable to drop in incoming tourist due to social unrest in 2019 and COVID-19 pandemic outbreak since 2020, relatively strong Hong Kong dollars comparing to neighboring Asian countries and rising interest rates in 2022. Although the offline RSV witnessed a decline, the online RSV has rocketed imputed to the impact of social disturbances which led to reduced tourist arrivals and contracted consumer spending, along with the outbreak of the COVID 19 and resulting anti-epidemic measures brought inbound tourism to a standstill and disrupted consumption-related activities. The online RSV has recorded a rapid development from HKD11.6 billion in 2017 to HKD31.1 billion in 2022, representing a CAGR of 21.9%.

Source: Hong Kong Census and Statistics Department, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Comparison of Overall Expenditure by Hong Kong Individuals pre- and post-COVID-19

Per Capita Consumption Expenditure (Hong Kong), 2017-2022



Note: Per Capita Consumption Expenditure refers to the total value of final consumption expenditure on goods and service by households and private non-profit institutions serving households divided by total population

- From 2017 to 2022, the per capita expenditure has decreased at a CAGR of 1.0% from HK\$256.4 thousand to HK\$243.3 thousand. The per capita consumption expenditure plummeted in 2020 due to the COVID-19 pandemic outbreak that restricted social interactions and travelling borders. With economic recovery in 2021, per capita consumption has rebounded to HK\$253.0 thousand with revive in consumption activities. It is expected that per capita consumption expenditure will ring in slight decrease in 2022 due to decelerating Chinese economy, weakening global trade environment and poor domestic household sentiment.

Source: Hong Kong Census and Statistics Department, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Change in Number of SMEs during COVID-19

Number of Small and Medium Enterprises (“SMEs”) with employees (Hong Kong), 2019-2021

	2019	2020	2021	YoY Changes
Low-paying sectors				
Retail	18,760	17,840	16,850	-5.2%
Food and beverage services	12,900	12,370	12,520	-1.5%
Estate management, security and cleaning services	1,800	1,840	1,860	1.7%
Other low-paying sectors	3,860	3,630	3,930	0.9%
Non-low-paying sectors				
Import/export trade and wholesale	68,760	68,340	68,430	-0.2%
Financing, insurance, real estate, professional and business services	41,060	40,900	43,210	2.6%
Transportation, storage, courier services, information and communications	19,350	20,990	20,630	3.3%
Construction	13,910	16,030	18,730	16.0%
Other non-low-paying sector	28,870	27,800	28,490	-0.7%
Total	209,280	209,740	214,650	1.3%

Note: Latest data available is recorded in 2021 according to the “Operating characteristics of enterprises analysed by sector (only including enterprises with employees) (2021 Edition)” administered by the Census and Statistics Department

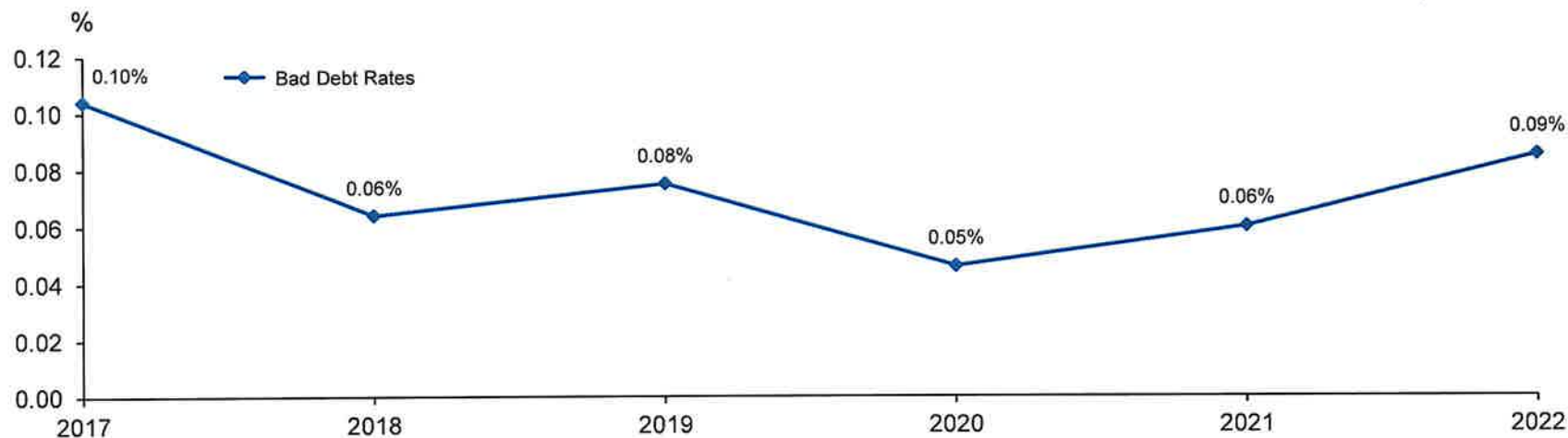
During the outbreak of the COVID-19, the number of small and medium enterprises (“SMEs”) has registered moderate growth, particularly in the non-low-paying sectors such as the transportation, storage, courier services, information and communications industry and construction industry, recording a year-on-year growth at 3.3% and 16.0% respectively. In particular, the percentage of SMEs reporting current credit need and access to credit situation has escalated from 5.2% in June 2019 to 9.3% in June 2020, while subsequently the figure alleviated due to the temporary containment of the virus in 2021, attaining 6.6% in June 2021 and subsequently resumed 8.2% in March 2022 owing to the outbreak of the fifth wave of the COVID-19. The financial difficulties have induced cease of operation of particularly low-paying sectors, but simultaneously brought opportunities to few sectors which are resilient and even thrives during the outbreak of the COVID-19

Source: Hong Kong Census and Statistics Department, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Bad Debt Rates of Authorized Institutions

Bad Debt Rates of Authorized Institutions, 2017-2022



- According to the Hong Kong Monetary Authority, the loans of authorized institutions are grouped as pass loans and special mention loans. Special mention loans could be further classified as substandard, doubtful and loss. Loss refers to bad debt, occasionally called uncollectible accounts expense, is a monetary amount owed to a creditor that is unlikely to be paid and for which the creditor is not willing to take action to collect for various reasons, often due to the debtor not having the money to pay, for example due to a company going into liquidation or insolvency.
- In 2022, the bad debt rate of authorized institutions in Hong Kong was approximately 0.09%.

Source: Hong Kong Monetary Authority, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Gross Value of Construction Works Performed

Gross Value of Construction Works Performed by Main Contractors (Hong Kong), 2017-2022



	CAGR (2017-2021)
Gross Value	-0.2%

Gross Value of Construction Works Performed by Sub-Contractors (Hong Kong), 2017-2022



	CAGR (2017-2021)
Gross Value	-6.3%

Note: Gross value of construction works performed by main contractors in nominal terms Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

Overview of Macroeconomic Environment in Hong Kong

Gross Value of Construction Works Performed (Cont'd)

- According to Census and Statistics Department of Hong Kong, the gross value of construction works performed by main contractors in Hong Kong decreased from approximately HK\$249,919.0 million in 2017 to approximately HK\$247,125.0 million in 2022, representing a CAGR of -0.2% while the gross value of construction works performed by sub-contractors in Hong Kong also recorded the decrease at a CAGR of -6.3% during the same period. The decline is primarily attributable to a deep recession during 2019 and 2020 with the social unrest and COVID-19 pandemic. Nevertheless, the Hong Kong government is keen to promote economic growth through infrastructural development which will foster the construction industry development in the future. The gross value of construction works performed by main contractors and sub-contractors are expected to grow at the CAGRs of 5.5% and 4.0% respectively from 2023 to 2027.

Note: Gross value of construction works performed by main contractors in nominal terms *Source: Census and Statistics Department of Hong Kong, Frost & Sullivan*

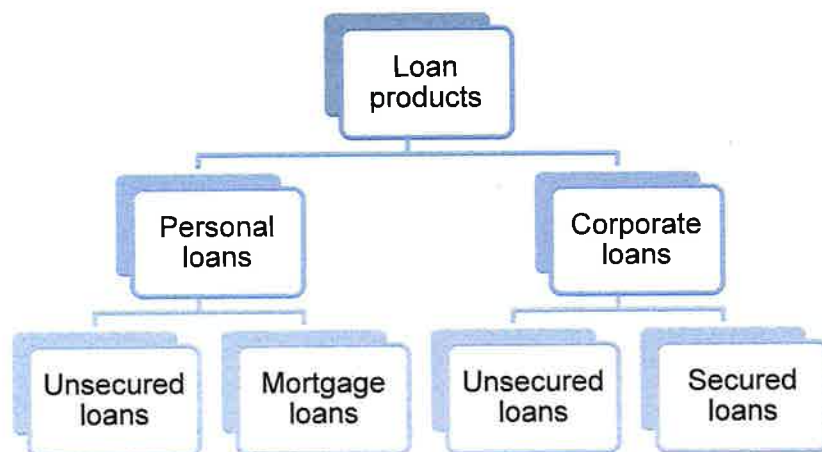
Agenda

- 1 Introduction of the Research
- 2 Overview of Macroeconomic Environment in Hong Kong
- 3 Overview of Licensed Money Lending Market in Hong Kong**
- 4 Competitive Landscape of Licensed Money Lending in Hong Kong
- 5 Overview of BNPL Market in Hong Kong
- 4 Competitive Landscape of BNPL in Hong Kong
- 5 Appendix

Overview of Licensed Money Lending Market in Hong Kong

Introduction and Classification

- In Hong Kong, the scope of money lending services primarily includes (i) personal loans; (ii) business loans such as SME loans; and (iii) mortgage loans including first and subordinated mortgage loans.
- There are two major types of legal money lenders in the money lending industry, namely authorised institutions and licensed money lenders. Major differences between authorised banks and licensed money lenders lie in interest rate and operation flexibility. Licensed money lenders usually charge a higher interest rate compared to banks and enjoy a greater operation flexibility in terms of loan sizes, requirement of income proof, types of collaterals and approval process.
 - **Authorised institutions** include licensed banks, restricted license banks and deposit-taking companies, regulated by the HKMA and governed under the Banking Ordinance. 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. The market shares in terms of turnover of loans and advances taken by authorised institutions in the entire unsecured money lending market is approximately 95.9% in 2022.
 - **Licensed money lenders** are governed by Money Lenders Ordinance and offer an alternative source of financing for small and medium enterprises (SMEs) and individuals with financial needs outside the banking system. The scope of money lending services includes personal loans such as mortgage loans and credit card loans, and corporate loans. The market shares in terms of turnover of loans and advances taken by licensed money lenders in the entire unsecured money lending market is approximately 4.1% in 2022.
- Loan products can be categorised by types of borrower and whether collateral is pledged against the loan, namely secured loans and unsecured loans



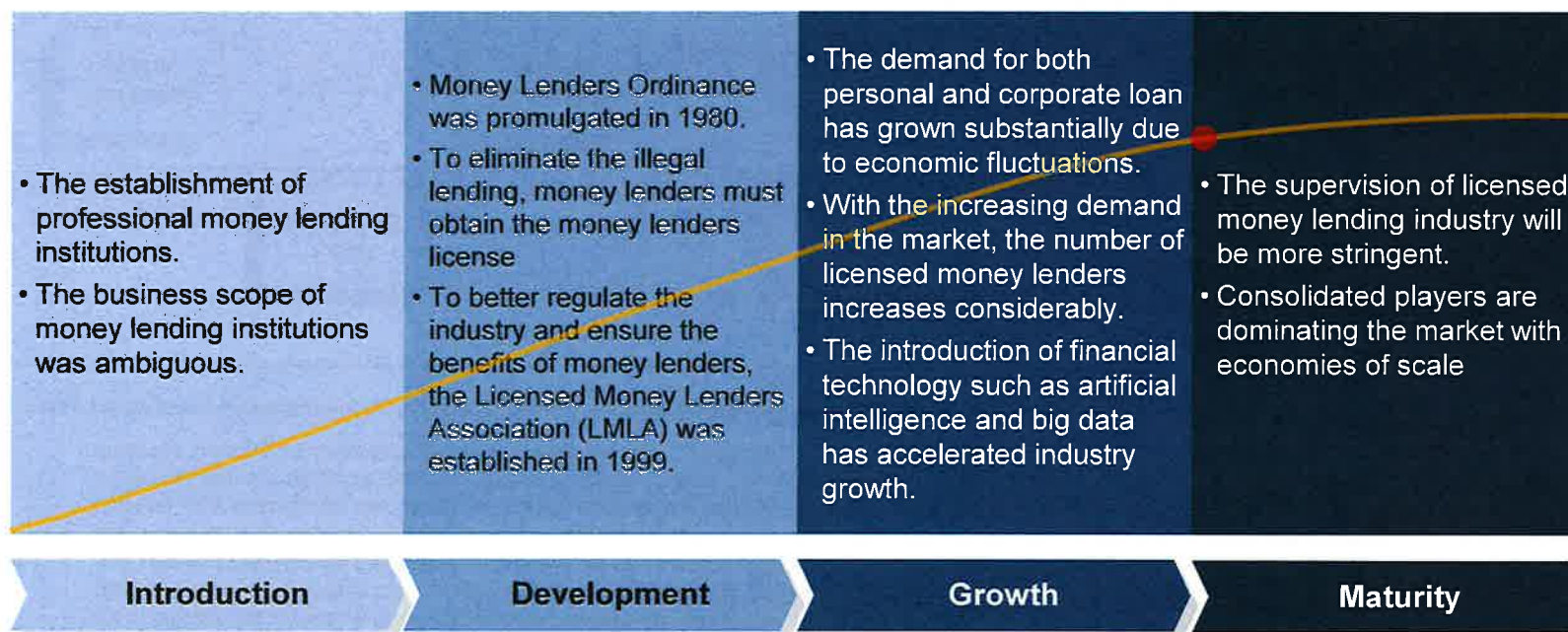
- Personal loans refer to loans and advances granted for personal use and purpose such as consolidating debt, paying for unexpected expenses, paying for property ownership, etc. depending on whether mortgaged properties are required, personal loans can be divided into unsecured loans and mortgage loans. Mortgage loans require borrowers to provide properties as collateral and the amount of mortgage loans primarily depends on the value of the property collateral.
- Business loans are loans granted to SMEs and corporations facing liquidity issues. Loans granted may be used to manage short-term operational cash flows, facilitate business expansion or purchase machinery and equipment. Large amounts of loans are usually required to be backed by collaterals including properties, shares, accounts receivables, invoices, etc.
- According to type of borrower, unsecured loans can be categorized into unsecured personal loan, unsecured property owner loan and unsecured SME loan.

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Industry Lifecycle

Industry Lifecycle of Licensed Money Lending in Hong Kong

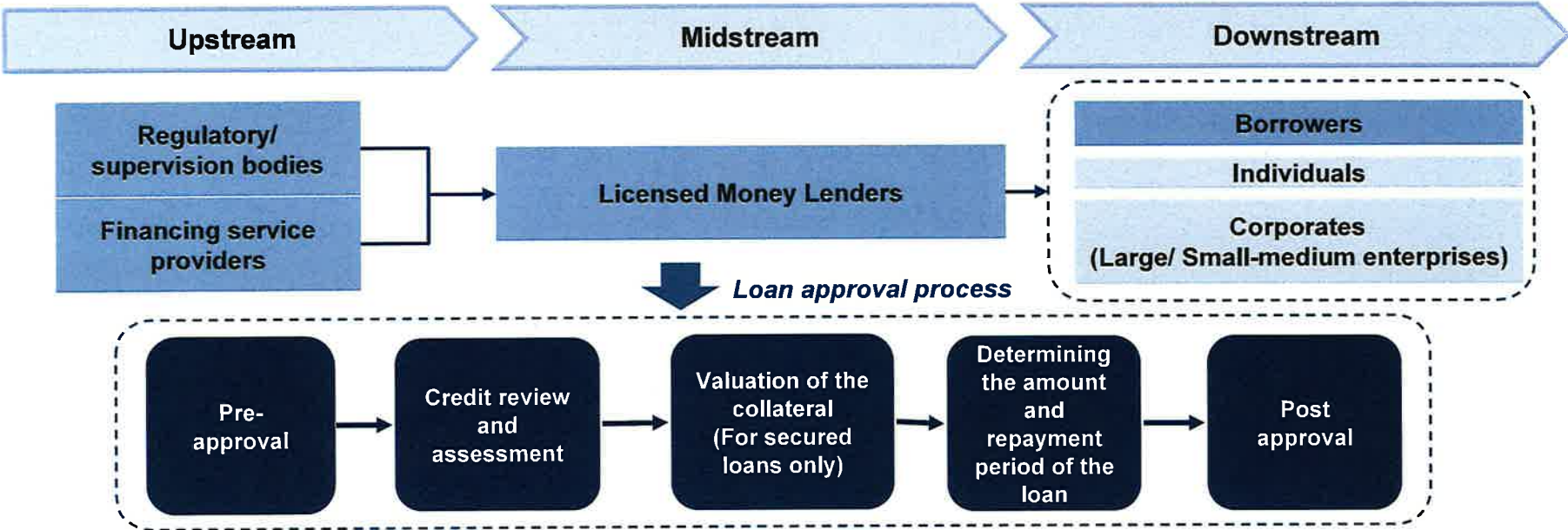


- The money lending industry in Hong Kong has a relatively long history with various service providers. The licensed money lending market in Hong Kong was formalised in 1980 with the enactment of Money Lenders Ordinance (MLO). MLO provides the framework for the regulation and licensing of money lenders outside the banking system and the control of lending activities and interest rates. Moreover, after the establishment of Licensed Money Lenders Association (LMLA) in 1999, members of LMLA are also regulated by LMLA's Code of Practice.
- Currently, licensed money lending market in Hong Kong is approaching maturity stage where market is consolidating with leading players exceling their economies of scale.

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Value Chain and Business Process Analysis



Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Value Chain and Business Process Analysis

- Upstream of the licensed money lending market includes regulatory and supervision bodies which stipulate regulatory regime such as the Money Lenders Ordinance. Licensing Court is responsible for determination of applications for and granting of money lender's licenses, registrar of Money Lenders is responsible for processing applications for money lender's licences, renewal of licences and endorsement on licences. Commissioner of Police is responsible for enforcing the Money Lenders Ordinance, including carrying out examinations on applications for money lenders licences, renewal of licences and endorsements on licences; and investigations of complaints against money lenders. Financing service providers are the suppliers to provide funding for midstream licensed money lenders.
- Licensed money lenders are required to obtain the Money Lender's Licence and renew it annually before carrying on money lending business. Loan approval process of licensed money lenders starts when they receive the application. Licensed money lenders will collect personal or corporate information of the borrower and conduct review and assessment. For mortgage loans, licensed money lenders will review and conduct valuation of the collateral. Based on the credit score, business performance, and valuation of collateral, licensed money lenders will decide the amount to be granted and details such as interest rate, repayment conditions and period of the loan.

Loan Process Time between industry players		
	Licensed money lenders	Authorised institutions
Personal loan (Loan amount: below HK\$50 thousand)	Within a day to 3 days	Average 3 days to 1 week
Personal loan (Loan amount: HK\$50 thousand to HK\$100 thousand)	Average 1 day to 3 days	Average 1 week
Personal loan (Loan amount: HK\$100 thousand to HK\$0.2 million)	Average 1 day to 5 days	Average 1 week
Personal loan (Loan amount: >HK\$0.2 million)	Average 5 days to 1 week	Average 1 week to 4 weeks
SME corporate loan (Loan amount: <HK\$0.5 million)	Average 1 week to 2 weeks	Average 2 weeks to 8 weeks
SME corporate loan (Loan amount: >HK\$0.5 million)	Average 2 weeks to 4 weeks	Average 4 weeks to 12 weeks

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Industry Standards, Qualification, Licenses, Regulations and Policies

Policy and Regulation	Issuing Year	Issuer	Outline
<i>Credit Reference Platform ("CRP")</i>	2022	<i>Hong Kong Monetary Authority, Hong Kong Association of Banks, the Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies and the Hong Kong S.A.R. Licensed Money Lenders Association Limited</i>	With the facilitation of the HKMA, the CRP aims to cultivate a competitive environment for the consumer credit reference industry to enhance the service quality of selected credit reference agencies ("CRAs") while reducing the operational risk of single-point failure arising from reliance on one single CRA in the market. The CRP is owned by the Industry Associations comprising The Hong Kong Association of Banks ("HKAB"), the Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies (DTCA), and the Hong Kong S.A.R. Licensed Money Lenders Association Limited (LMLA). The CRP uses the latest technologies (e.g. "DLT") to create an ecosystem for exchange of consumer credit data ("CCD") among selected CRAs and participating credit providers through the HKICL Network ("ICLNet2"), which is a secure network to mitigate the risks arising from a single service provider while protecting the CCD. In the long run, the CRP will not only provide a robust and resilient infrastructure for exchange and protection of data, but also promote the use of advance technologies to enhance the service quality of selected CRAs.
<i>Guideline on Fit and Proper Criteria for Licensing of Money Lenders</i>	2021	<i>Companies Registry of Hong Kong</i>	This Guideline on Fit and Proper Criteria for Licensing of Money Lenders is issued to outline the criteria and matters that the Registrar will normally consider in determining the fitness and properness of applicants for money lenders licenses, licensed money lenders ("the licensees"), and their related persons.

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Industry Standards, Qualification, Licenses, Regulations and Policies

Policy and Regulation	Issuing Year	Issuer	Outline
<i>Guidelines on Licensing Confirmations of Money Lenders License</i>	2019	<i>Companies Registry of Hong Kong</i>	This set of Guidelines aims to provide guidance to money lenders who hold a license granted under the MLO to carry on business as a money lender in Hong Kong (the “licensees”) on the requirements of the licensing conditions. It should be read in conjunction with the Guideline on Compliance of Anti Money Laundering and Counter-Terrorist Financing Requirements for Licensed Money Lenders, which provides guidance to licensees on the implementation of effective measures to mitigate the risks of money laundering and terrorist financing.
<i>Guidelines on Licensing Confirmations of Money Lenders License</i>	2019	<i>Companies Registry of Hong Kong</i>	This set of Guidelines aims to provide guidance to money lenders who hold a license granted under the MLO to carry on business as a money lender in Hong Kong (the “licensees”) on the requirements of the licensing conditions. It should be read in conjunction with the Guideline on Compliance of Anti Money Laundering and Counter-Terrorist Financing Requirements for Licensed Money Lenders, which provides guidance to licensees on the implementation of effective measures to mitigate the risks of money laundering and terrorist financing.
<i>Money Lending – Reforming Law and Trade Practices for Consumer Protection</i>	2019	<i>Consumer Council</i>	The report suggested that the Government should update the Panel on its measures to tackle money lending-related malpractices, including whether and how the Money Lenders Ordinance should be amended in view of the recommendations made in the report.
<i>Money Lenders License - Additional Licensing Conditions which take effect from 11 October 2018</i>	2018	<i>Companies Registry of Hong Kong</i>	The additional conditions requires where referee(s) is/are provided in respect of a loan application the money lender to obtain the written consents signed by the referee and attach that consent to the agreement. In addition, it requires money lender obey the Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Licensed Money Lenders.

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Industry Standards, Qualification, Licenses, Regulations and Policies (Cont'd)

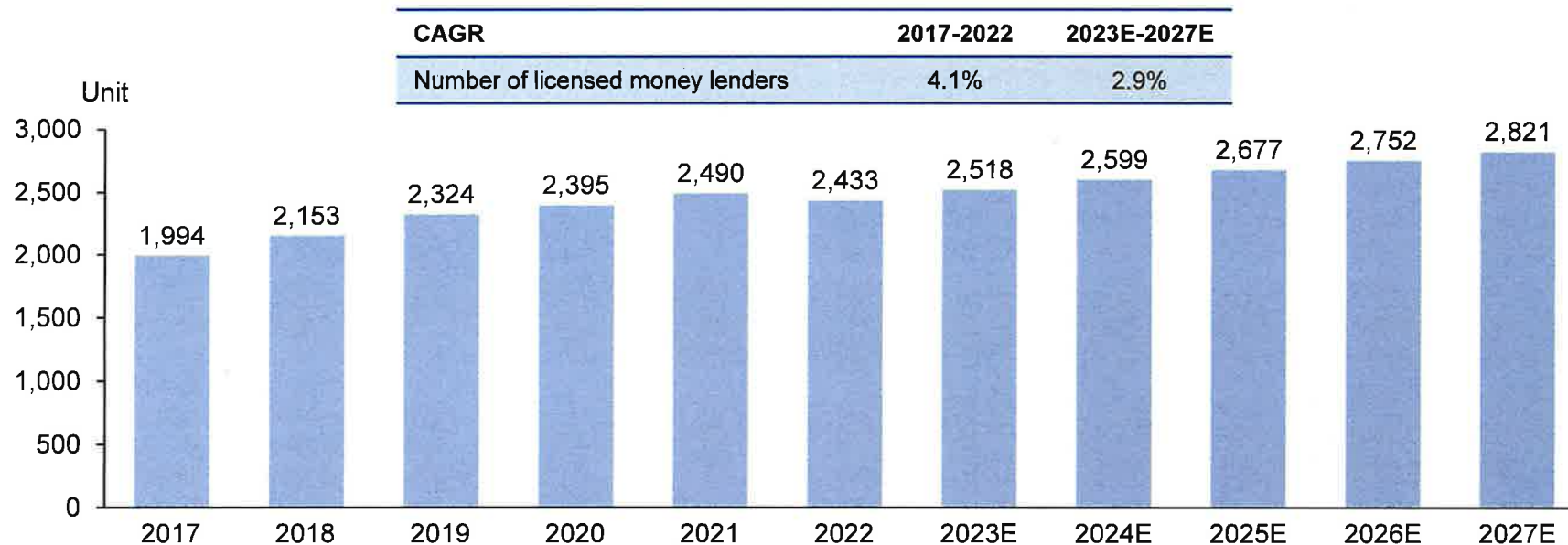
Policy and Regulation	Issuing Year	Issuer	Outline
<i>Guidelines on Additional Licensing Conditions of Money Lenders License</i>	2016	Companies Registry of Hong Kong	Facilitate effective enforcement of the statutory ban on separate fee charging by money lenders and their connected parties; ensure better protection of privacy of intending borrowers; enhance transparency and disclosure, and promote the importance of prudent borrowing.
<i>Licensing Conditions of Additional Money Lenders License</i>	2016	Companies Registry of Hong Kong	Things that licensed money lenders should or shouldn't do before entering into any agreement for loan.
<i>Planned Introduction of More Stringent Licensing Conditions on Money Lenders to Tackle Money Lending-Related Malpractices - Next Steps</i>	2016	Companies Registry of Hong Kong	This note sets out the outcome of our engagement with licensed money lenders on the proposal to introduce more stringent licensing conditions on money lenders and the steps being taken to implement the proposal.
<i>Code of Money Lending Practice</i>	2016	Licensed Money Lenders Association	This is a non-statutory Code issued on a voluntary basis. It is to be observed by members of the LMLA in dealing with their personal customers. It covers specifically money lending services.
<i>Personal Data (Privacy) Ordinance</i>	1997	Office of the Privacy Commissioner for Personal Data	The purpose of this ordinance is to protect the privacy rights of a person in regard to his personal data, ie the Data Subject. The Personal Data (Privacy) Ordinance covers any data relating directly or indirectly to a person namely, the data subject, from which it is practicable to ascertain the identity of the individual and which are in a form in which access to or processing of the data is practicable. It applies to a data user, namely any person who, either alone or jointly or in common with other persons, controls the collection, holding, processing or use of personal data.
<i>Money Lenders Ordinance</i>	1980	Legislative Council	To provide for the control and regulation of money lenders and money-lending transactions, the appointment of a Registrar of Money Lenders and the licensing of persons carrying on business as money lenders; to provide protection and relief against excessive interest rates and extortionate stipulations in respect of loans; to provide for offences and for matters connected with or incidental to the foregoing.

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Number of Licensed Money Lenders

Number of Licensed Money Lenders in Hong Kong, 2017-2027E



*Note: 2022 figure is recorded as of September 2022

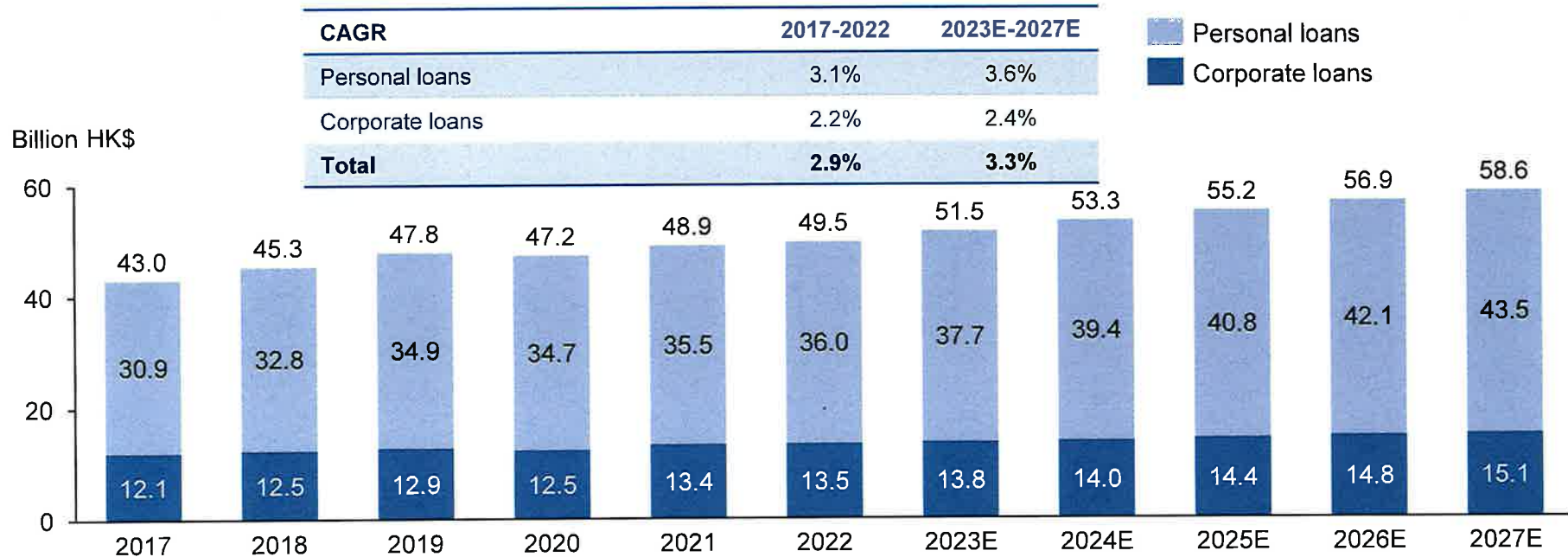
➤ Owing to the continuous robust demand for money lending services and a suite of operational and rates flexibilities offered by licensed money lenders in Hong Kong, the number licensed money lenders has risen from 1,994 unit to 2,433 unit during 2017 to 2022, representing a CAGR of approximately 4.1%. Going forward, the annual growth rate is expected to decelerate during 2023 to 2027 due to the intense market competition. The increasingly rigorous regulatory regime covering the limitations on interest rate, restrictions on fees and charges, privacy protection, disclosure of information, use of referees' information, advertisements content, coupled with the hefty capital requirement of establishing sustainable and scalable money lending businesses, are expected to pose entry barriers to potential market entrants. The slight decline in 2022 as well as a slower rate of increment in the forecast period is indicating market consolidation as well when scalable players are grasping steady foothold through their expansion and technological capability, whereas new entrants and underdeveloped players are exiting the market due to limited resources.

Source: Companies Registry of Hong Kong, Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Value and Turnover of Advances Granted by Licensed Money Lenders (1/2)

Value of Advances Granted by Licensed Money Lenders in Hong Kong, 2017-2027E



- Total value of loans and advanced granted by licensed money lenders in Hong Kong, including unsecured and secured loan, has grown steadily during 2017 to 2022 with a CAGR of 2.9%, reaching HK\$49.5 billion by the end of 2022. Supported by the growth of economy and increasing financing needs of individuals, licensed money lending market in Hong Kong has experienced an upward trend in terms of outstanding value and number of market participants. Personal loans took up a larger share of licensed money lending and enjoyed a higher CAGR of approximately 3.1% from 2017 to 2022.
- The forecast for the licensed money lending industry in Hong Kong remains positive from 2023 to 2027 with the gradual recovery from the outbreak of the COVID-19 and the growing prospect of commerce and retail businesses driving the growth of licensed money lending market to be growing at a CAGR of approximately 3.3% from 2023 to 2027.

Source: Frost & Sullivan

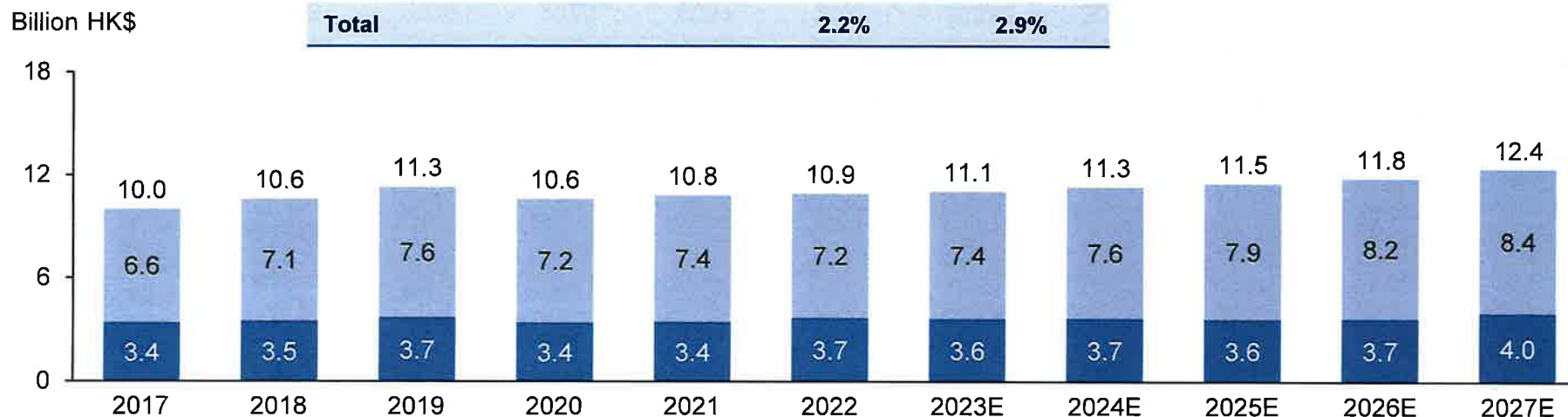
Overview of Licensed Money Lending Market in Hong Kong

Value and Turnover of Advances Granted by Licensed Money Lenders (2/2)

Turnover of Advances Granted by Licensed Money Lenders in Hong Kong, 2017-2027E

CAGR	2017-2022	2023E-2027E
Personal loans	1.8%	3.1%
Corporate loans	1.7%	2.4%
Total	2.2%	2.9%

■ Personal loans
■ Corporate loans



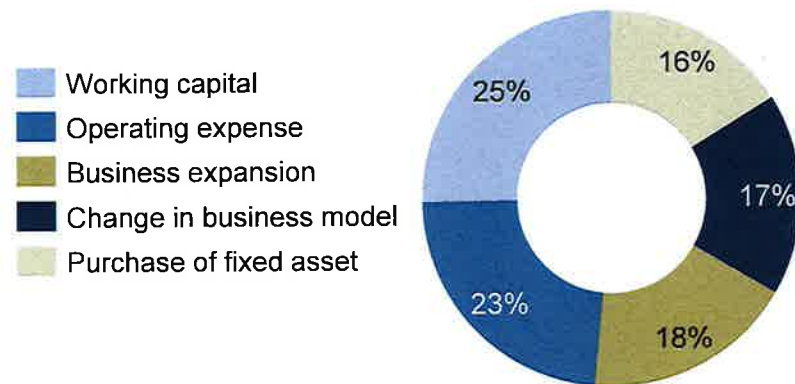
➤ In line with the expanding value of loans and advances granted by licensed money lenders in Hong Kong, turnover of advanced granted pursuant to secured and unsecured loans has shown a considerable growth from HK\$10.0 billion in 2017 to HK\$10.9 billion in 2022, representing a CAGR of approximately 2.2%. Due to the rising financing needs from consumers, turnover of personal loans and advances has experienced a CAGR of approximately 1.8% from 2017 to 2022, recording HK\$7.2 billion by the end of 2022. Turnover of corporate loans has also shown a steady growth from HK\$3.4 billion in 2017 to HK\$3.7 billion in 2022, representing a CAGR of approximately 1.7%. It is expected that both turnovers of personal loans and corporate loans will rise at CAGRs of 3.1% and 2.4% respectively, reaching HK\$8.4 billion and HK\$4.0 billion respectively by the end of 2027.

Source: Frost & Sullivan

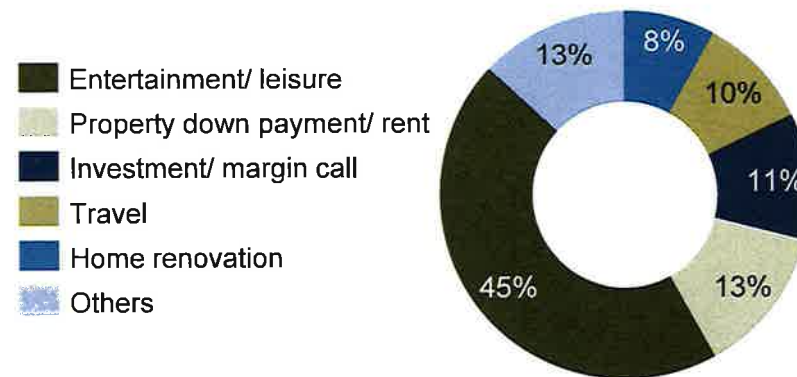
Overview of Licensed Money Lending Market in Hong Kong

Purpose of Financing

Purpose of finance (Corporate) in Hong Kong, 2022



Purpose of finance (Individual) in Hong Kong, 2022



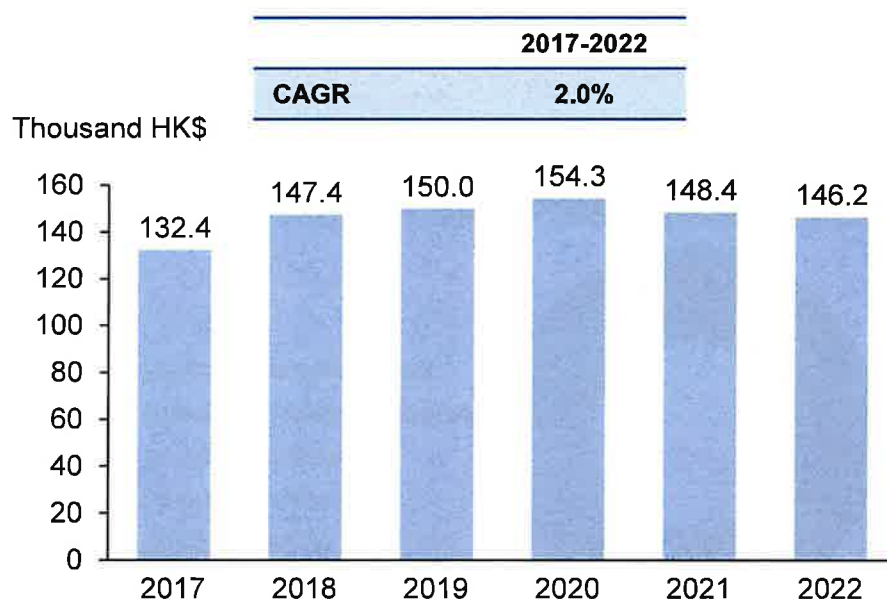
- Corporate clients are requiring additional capital from loans and advances from licensed money lenders owing to the needs for working capital as well as operating expense such as the payment of wages and rents, which are accounting for approximately 25% and 23% out of the options, while the remaining purpose being business expansion, change in business model and purchase of fixed asset.
- For individuals, entertainment and leisure is the main purpose of financing, accounting for 45% amongst the options, while property down payment, investment, travel and home renovation are other major reasons for borrowing. According to the 2022 second quarter report of Transunion, Generation Z, referring to the generation that was born between 1997-2012, has recorded an accountable percentage of origination volumes of bank cards from 10% in first quarter of 2021 to 17% in first quarter of 2022, indicating a higher demand from younger consumers entering into the credit market or opening new credit cards. It has substantiated that the younger generation are more likely and willing to spend on various purpose using credit cards while unsecured personal loan could potentially serve as a convenient and effective medium in resolving solvency issue among younger individuals.

Source: Transunion, Frost & Sullivan

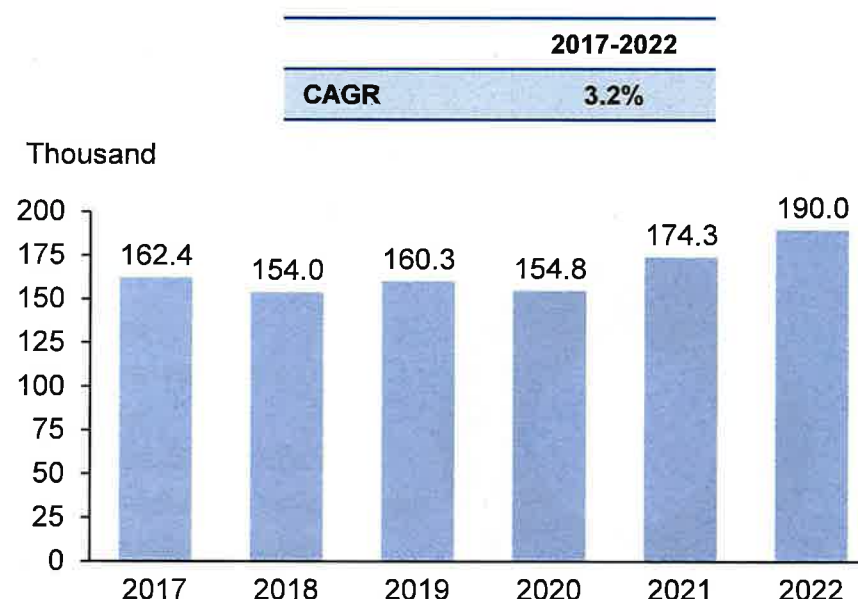
Overview of Licensed Money Lending Market in Hong Kong

Value and Turnover of Advances Granted by Licensed Money Lenders (2/2)

The average unsecured loan amount per borrowers, 2017-2022



Number of unsecured loan borrowers, 2017-2022



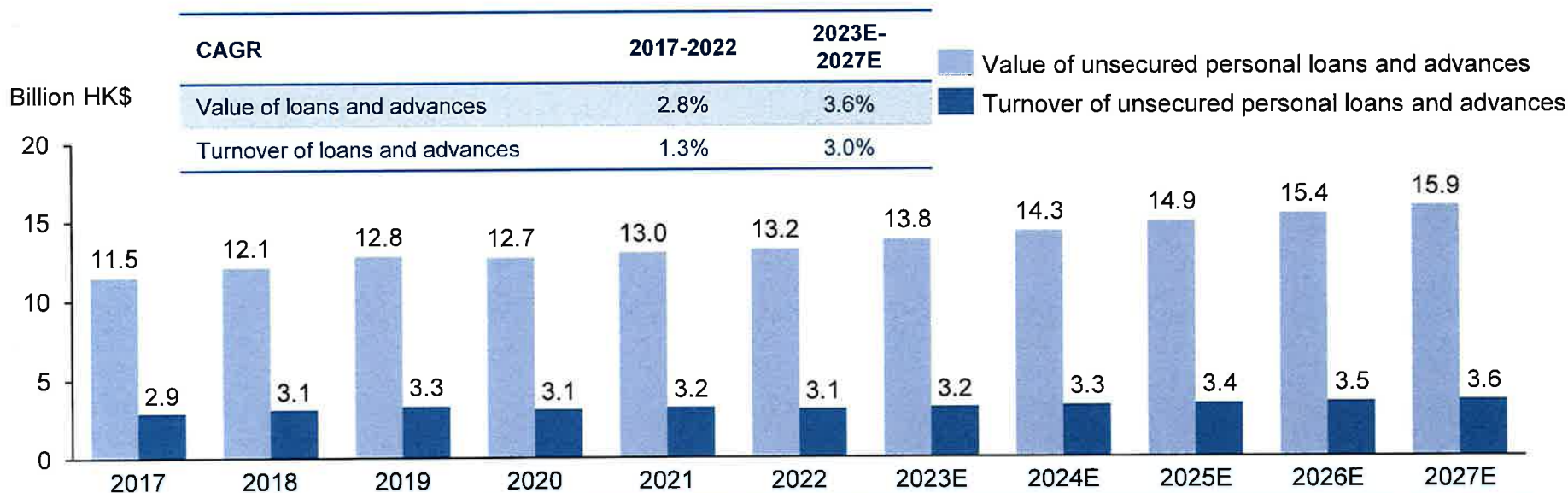
- The average unsecured loan amount per borrowers in Hong Kong is highly associated with macro economic circumstances such as unemployment rate and borrowing interest rate. The figure has increased moderately from HK\$132.4 thousand to HK\$146.2 thousand, representing a CAGR of approximately 2.0%.
- The number of unsecured loan borrowers has grown from 162.4 thousand to 190.0 thousand from 2017 to 2022, representing a CAGR of approximately 3.2%.
- Analysing the demographics of customer reach of unsecured loan in Hong Kong, the distribution by gender and age group is respectively Female (39.6%), Male (60.4%); and Aged 18-24 (21.0%), Aged 25-34 (37.6%), Aged 35-44 (21.1%), Aged 45-54 (11.6%), Aged 55-64 (5.5%), Aged 65+ (3.2%)

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

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

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



- Unsecured personal loans have experienced steadily growth during 2017 to 2022, stimulated by the increasing income and expenditure of consumers. In particular, the nominal per capita gross national income has increased from HK\$375.4 thousand to HK\$404.1 thousand from 2017 to 2022, representing a CAGR of approximately 2.5%, while the average monthly household expenditure has increased from HK\$27.6 thousand in 2015 to HK\$30.2 thousand in 2020, representing a CAGR of approximately 1.8%. Total value of unsecured personal loans and advances rises from HK\$11.5 billion in 2017 to HK\$13.2 billion in 2022, representing a CAGR of approximately 2.8%. With the increasing demand to finance unexpected expenses from borrowers, value of unsecured personal loans and advances is projected to achieve HK\$15.9 billion in 2027, representing a CAGR of approximately 3.6% from 2023 to 2027.
- The interest rate and loan terms of unsecured personal loans and advances are usually based on the credit of borrowers as collateral is not required. Interest rate charged by licensed money lenders is usually higher and ranges from 20% to 48%. From 2017 to 2022, turnover of unsecured loans and advances rose with a CAGR of approximately 1.3%, achieving HK\$3.1 billion in 2022. It is estimated that turnover will grow from HK\$3.2 billion in 2023 to HK\$3.6 billion in 2027, representing a CAGR of approximately 3.0%.

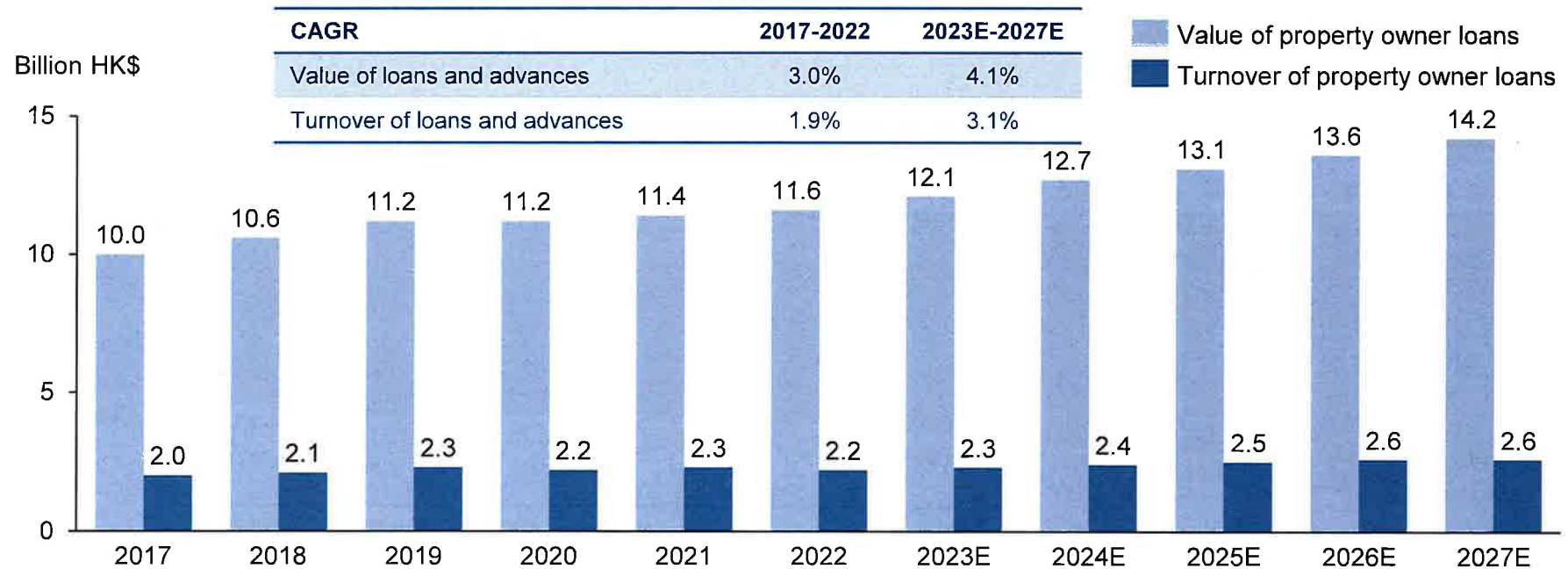
Note: The average monthly household expenditure administered by the Census and Statistics Department is released every five years and the latest available data is recorded in 2020

Source: Census and Statistics Department, Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

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

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



- With the rising number of property owners, the demand for property owner loan also experienced a considerable growth. The value of unsecured property owner loans and advances granted by licensed money lenders rose from HK\$10.0 billion in 2017 to HK\$11.6 billion in 2022, representing a CAGR of approximately 3.0% from 2017 to 2022. Turnover of property owner loans and advances granted by licensed money lenders also rose from HK\$2.0 billion in 2017 to HK\$2.2 billion in 2022, registering a CAGR of approximately 3.0%.
- It is expected that the value and turnover of property owner loans and advances granted by licensed money lenders will grow at CAGRs of 4.1% and 3.1% respectively from 2023 to 2027, reaching HK\$14.2 billion and HK\$2.6 billion respectively by the end of 2027.

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

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

Unsecured property owner loans are targeted at borrowers who need quick access to funds but have difficulty obtaining mortgage loans from banks. In Hong Kong, owners of properties acquired under the Home Ownership Scheme are subject to such terms and conditions that the Director of Housing of the Hong Kong Housing Authority may impose, which includes restrictions on refinancing. According to the Housing Ordinance (Cap. 283), owners who wish to mortgage/remortgage their flats within the five-year restriction period or after the said period without paying the premium must obtain prior approvals from the Director of Housing who may impose such terms and conditions as he or she thinks fit. The demand for unsecured property owner loans has witnessed a rapid growth, which is partly attributable to the growing number of subsidized sales flat which increased from 400,000 in 2017 to 437,000 thousand in 2022, representing a CAGR of approximately 1.8%. With the growing number of Home Ownership Scheme property owners, the demand for unsecured property owner loans has witnessed a rapid growth. The total value of unsecured property owner loans granted by licensed money lenders increased from approximately HK\$10.0 billion in 2017 to HK\$11.6 billion in 2022, representing a CAGR of 3.0%. The growing trend is likely to continue and the figure is projected to reach approximately HK\$14.2 billion in 2027, representing a CAGR of 4.1% from 2023 to 2027. Even though there is no property collateral under the unsecured property owner loans, the creditworthiness of the borrower is in general considered stronger than individuals who do not own any properties and hence licensed money lenders usually charge a lower interest rate for unsecured property owner loans. In line with the increase of the value of unsecured property owner loans granted by licensed money lenders, the total turnover generated from unsecured property owner loans grew from approximately HK\$2.0 billion in 2017 to HK\$2.2 billion in 2022, representing a CAGR of 1.9%. By 2027, driven by steadily growing demand, the total turnover in this sector is estimated to amount to approximately HK\$2.6 billion, representing a CAGR of 2.1% from 2023 to 2027.

Source: Frost & Sullivan

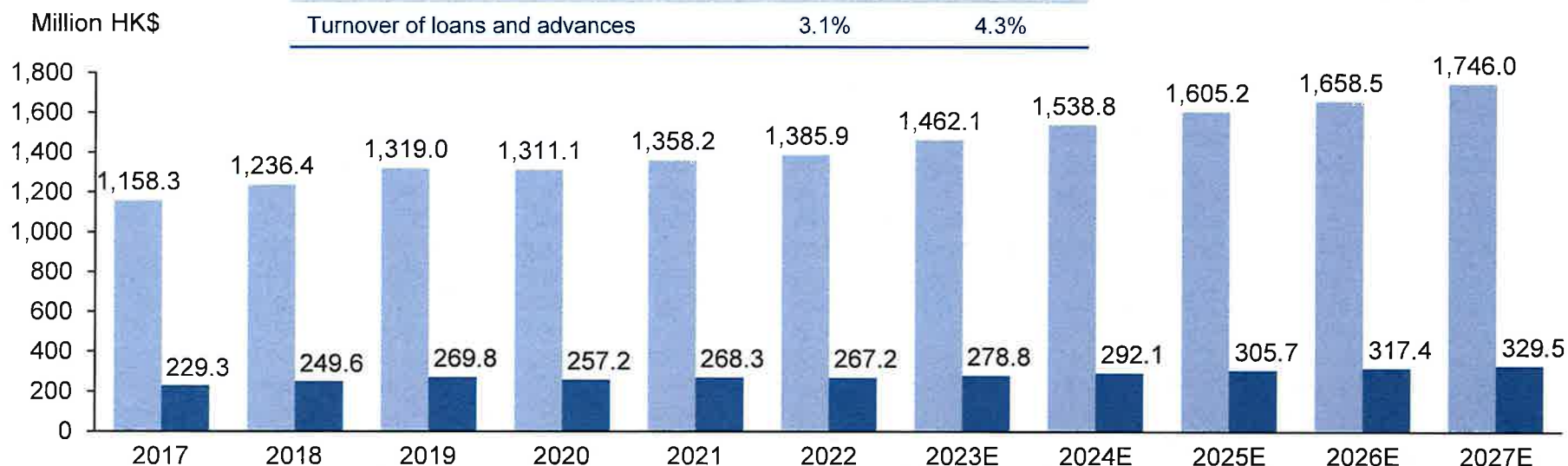
Overview of Licensed Money Lending Market in Hong Kong

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

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

CAGR	2017-2022	2023E-2027E
Value of loans and advances	3.7%	4.5%
Turnover of loans and advances	3.1%	4.3%

■ Value of HOS property owner loans
■ Turnover of HOS property owner loans



➤ Due to strong underlying housing needs and scarcity premiums for limited supply, the sales of HOS flats remain positive in the recent years, and the aggregated amount of HOS flats sold during 2017 to 2022 has attained over 31,000 units. During 2017 to 2022, the value of unsecured HOS property owner loans and advances has risen from HK\$1,158.3 million to HK\$1,385.9 million, representing a CAGR of approximately 3.7%, while the turnover of unsecured HOS property owner loans and advances has attained HK\$267.2 million in 2022, representing a CAGR of approximately 3.1% from 2017 to 2022. Going forward, outlined in the Chief Executive's Policy Address in 2022, the Government will make available subsidised sale flats such as those under the Home Ownership Scheme to meet the home ownership aspirations of the public, the value and turnover of unsecured HOS property owner shall increase at CAGRs of approximately 4.5% and 4.3% respectively during 2023 to 2027.

Source: Frost & Sullivan

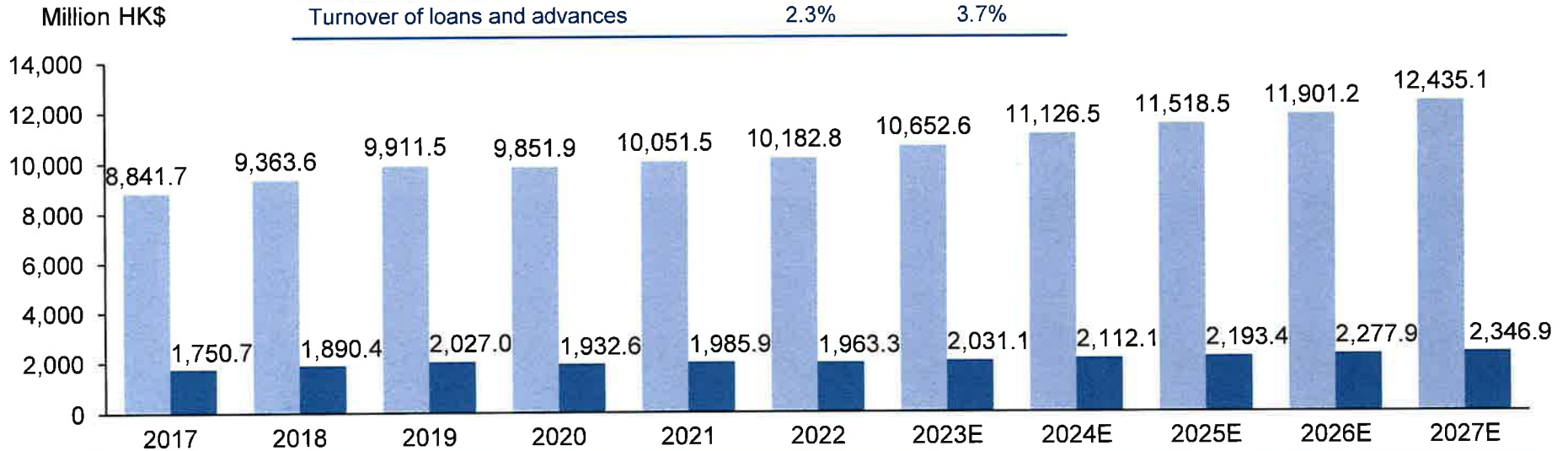
Overview of Licensed Money Lending Market in Hong Kong

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

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

CAGR	2017-2022	2023E-2027E
Value of loans and advances	2.9%	3.9%
Turnover of loans and advances	2.3%	3.7%

■ Value of HOS property owner loans
■ Turnover of HOS property owner loans



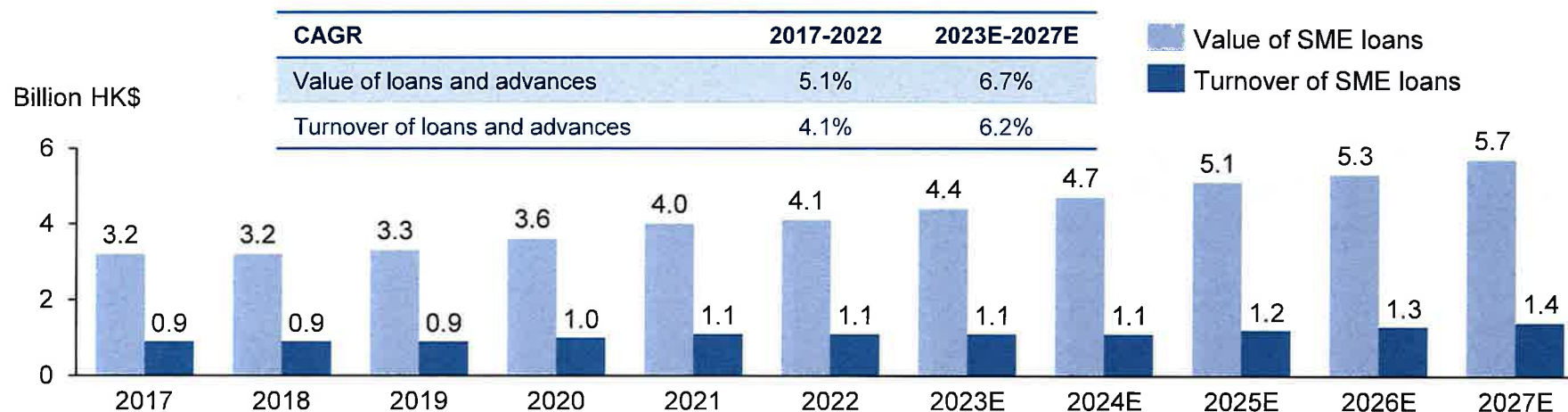
➤ During 2017 to 2022, the value of unsecured non-HOS property owner loans and advances has risen from HK\$8,841.7 million to HK\$10,182.8 million, representing a CAGR of approximately 2.9%, while the turnover of unsecured HOS property owner loans and advances has attained HK\$1,963.3 million in 2022,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

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

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

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



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

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Key Market Drivers (1/3)

Robust development of SMEs

SMEs serve as the bedrock of Hong Kong's economy, with the number of establishments attaining 340,000 in 2022, accounting for 98% of enterprises and employing 46% of the private sector workforce. In view of the constrained business scale with limited resources and financial capability, SMEs are generally faced with difficulties in sourcing funding from banks. Pain points of SMEs sourcing from banks may include (i) difficult accessibility i.e. bank poses high threshold for enterprises to successfully process such debt financing activity. Banks are conservative in terms of money lending. As banks opt for loan risk mitigation, bank investigates deeply to judge whether the enterprise is qualified for bank loan through their quality, credibility, growth, and financial stabilities; (ii) required and fixed debt repayments and therefore the lack of flexibility; (iii) collateral requirements, some lenders require collaterals from firms to secure desired financing. The collaterals may include mortgage guarantee, pledge guarantee, surety guarantee, and others; (iv) slow turnaround time with more complicated procedure, with loan processing time taking two to twelve weeks depending on the loan amount, compared to one to four weeks of licensed money lenders. The administrative cost could be hefty while some SME might find the urgent need to fulfil working capital requirement as well as operating expense such as the payment of wages and rents. Licensed money lenders provide highly flexible, well-organised and tailor-made financing offerings, with simpler procedures and lower collateral requirement that are suitable for SMEs regardless of the nature and size of businesses. Further, as outlined in the Chief Executive's Policy Address 2022, the Commercial Data Interchange has been launched in October 2022 by the Hong Kong Monetary Authority with a view to providing a one-stop platform for enterprises to share operational data. Such platform is conducive in enabling financial institutions including licensed money lenders to make accurate assessments on the operating condition of enterprises and providing SMEs with a better chance of securing loans. Accordingly, the growth in number of SMEs in Hong Kong is forecasted to drive the SME corporate loan segment of the licensed money lending market. While authorized institutions have also benefited to some degree from technological advancements amongst SMEs, their growth as lenders to this segment has been constrained due to more stringent regulatory requirements, traditional risk models and lower risk appetite. These factors contribute to lengthier loan approval processes, which may impede SMEs' ability to obtain urgently needed working capital financing. Moreover, authorized institutions possess less flexibility to tailor customized loan amounts, terms, and structures compared to licensed money lenders. Consequently, new and small enterprises lacking robust credit histories often turn to licensed money lenders as an alternative source of financing and credit. In addition, through deep understanding of particular industries' dynamics, credit cycles, as well as inherent risks and opportunities, certain licensed money lenders have developed specialized expertise in financing specific sectors such as construction or tailored offerings for distinct business life stages, including startups and emerging growth companies. Their niche expertise equips them to effectively serve SME segments that may be perceived as higher-risk or underserved by mainstream finance providers.

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Key Market Drivers (2/3)

Consumption driven economy and steady growth of macroeconomies

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

Macroeconomic conditions such as unemployment rate

The Hong Kong economy has been heavily impacted by the outbreak of COVID-19 since January 2020, which has led to a stagnant economy and decreased spending on non-essential commodities and services. Further, according to the Census and Statistics Department of Hong Kong, the real GDP in Hong Kong has declined from HK\$2,865.7 billion in 2019 to HK\$2,710.7 billion in 2020, representing a year-on-year decline of approximately 5.4%. During the outbreak, the unemployment rate in Hong Kong has increased from 2.9% in 2019 to 5.8% in 2020 and subsequently 5.2% in 2021. The total value of retail sales has plummeted from HK\$386.2 billion in FY19/20 to HK\$332.7 billion in FY20/21, representing a year-on-year decline of approximately 13.9%. Individual and SME particularly in the retail sector is adversely affected by the unfavourable economic circumstances, during which personal loan and SME loan serve as an alleviating measure catering to various scale of short and medium financing needs. In turn, the licensed money lending market is propelled by the poor economic conditions in Hong Kong in recent years.

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Key Market Drivers (3/3)

Simplified and convenient approval procedure

Empowered by digital-enabled information infrastructure, licensed money lenders are able to implement a simpler and more convenient approval procedure which helps to attract and retain customer base, as compared to authorized institutions. For instance, automatic system recognition and data filling and paperless documentation have been developed in favour of consumer's concern on convenience and flexibility. In Hong Kong, it is estimated that the application of unsecured personal loan in authorised institutions such as licensed banks takes on average one week to process, whereas it can possibly take one day and up to five days for licensed money lenders to process the loan, considering a personal loan value of less than HK\$0.2 million, which is attributable to the developed backend database platform and the streamlined internal approval procedure. Further, leading market participants are able to minimise the lead time between successful approval and the transfer of loan to reaching customers through deploying handy machinery for withdrawal or momentary bank transfer to saving accounts. Such core competence of licensed money lenders attracts new customer and maintain customer loyalty.

More frequent adoption of credit payment services

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

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Market Trends and Opportunities

Incorporation of FinTech

In regard to customer service and operational procedure, licensed money lending companies are adopting technologies such as artificial intelligence, robotic process automation, robotic advisors, and digital identification technologies. These advanced deployment shall improve customer experience and frontend operational efficiency and open up lucrative business opportunities for market participants in the market. Further, the application of big data and cloud computing has fostered the trace of online behavior of existing clients, their credit history, and track their other financial information, as well as the handy computation of historical and projected data, improving backend credit modelling and maximise offerings and gains to downstream borrowers. In the long run, the incorporation of FinTech into operation is expected to reduce business cost and hierarchy, enhance operational efficiency, streamlining procedures for downstream customers and garner competitive edges.

Regulation improvement

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

Industry consolidation

In recent years, large-scale market participants are capturing larger market share owing to their capabilities to provide integrated one-stop services, developed customer loyalty and reputation, and comprehensive database, whereas small-scale companies may be driven out of the market due to their limited technical and operational capability and low collection rate of unsecured loans. In order to expand vertically and horizontally to enhance competitiveness in the market, large-scale money lenders are expected to acquire and merge relatively smaller money lenders. Therefore, industry consolidation is expected to become the market trend in the future.

Market Trends and Opportunities of Licensed Money Lending



Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Challenges and Threats

Subject to economic volatility

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

Risk of bankruptcy and default amount

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

Intense market competition

The number of licensed money lenders in Hong Kong has increased by 4.7% during 2017 to 2022, attaining a total establishment of 2,433 unit in 2022. The market dynamic is rather consolidated with leading market participants having extensive financial resources, strong brand recognition, broader product and services offerings, lower cost of financing and an established branch network with wider geographical coverage. The economies of scale of major players impose challenges to smaller scale and rising players. On the other hand, authorised institutions have reinforced presence with special personal loans and corporate loans to simplify application procedures and shorten the approval process in recent years, which is expected to intensify the market competition.

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Challenges and Threats

Potential changes to HOS restrictions in Hong Kong

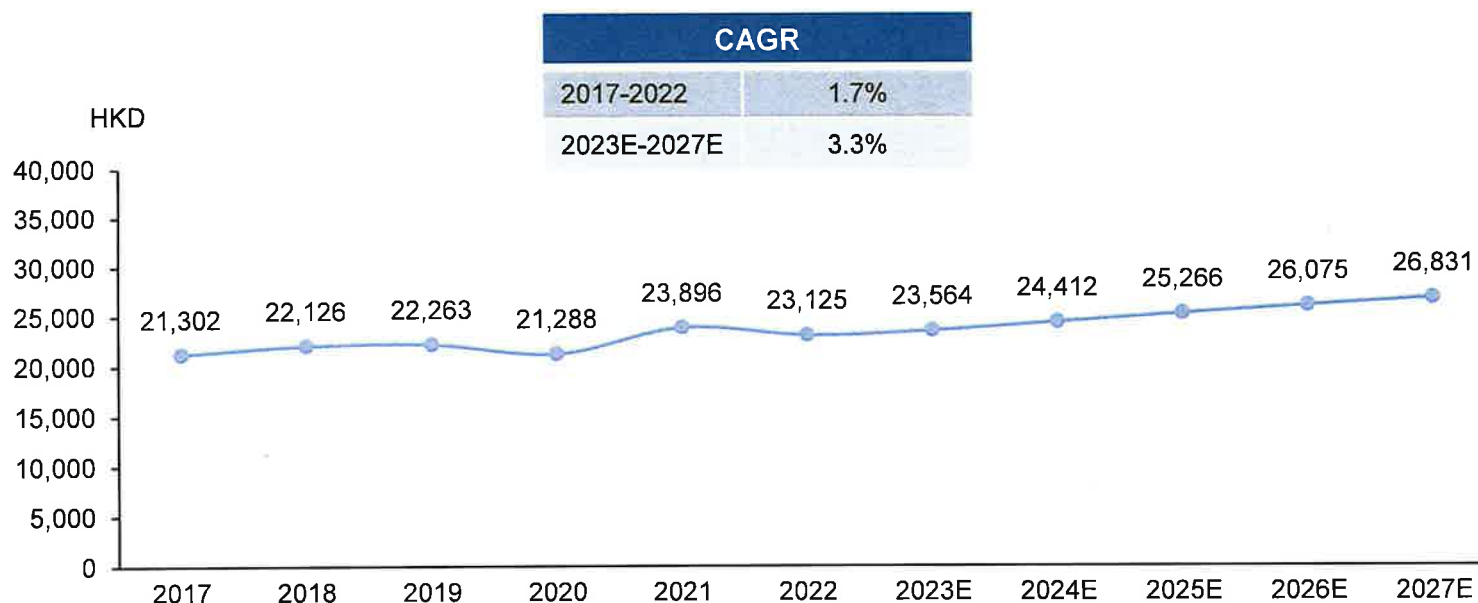
According to the Housing Ordinance (Cap. 283), owners of HOS flats shall not mortgage within the 5-year alienation restriction period or after the said period without paying the land premium, unless prior approval obtained from the Director of Housing. Currently, refinancing through the mean of mortgage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

Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Cost Analysis - Labour Cost

Average Monthly Wage of Workers Engaged in Financial and Insurance Activities (Hong Kong), 2017-2027E



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

Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Cost Analysis - Labour Cost

Average monthly wages of information and communications personnel (Hong Kong), 2017-2027E



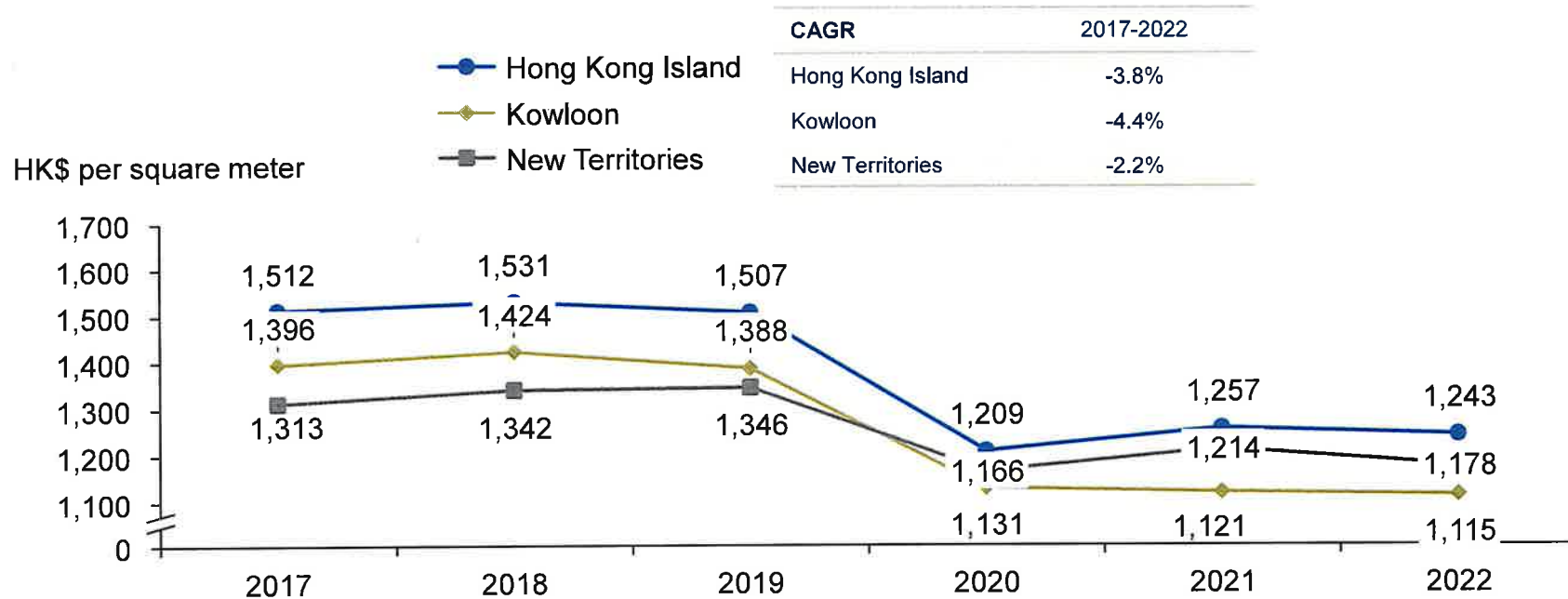
- Information and communications personnel are primarily labour engaged in Fintech transformation in the licensed money lending market in Hong Kong and are accountable as Fintech staff. Such monthly wage has increased from HK\$21,600 in 2017 to HK\$25,100 in 2022, representing a CAGR of approximately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

Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Cost Analysis – Rental Cost

Average monthly rental cost of private retail (Hong Kong), 2017-2022



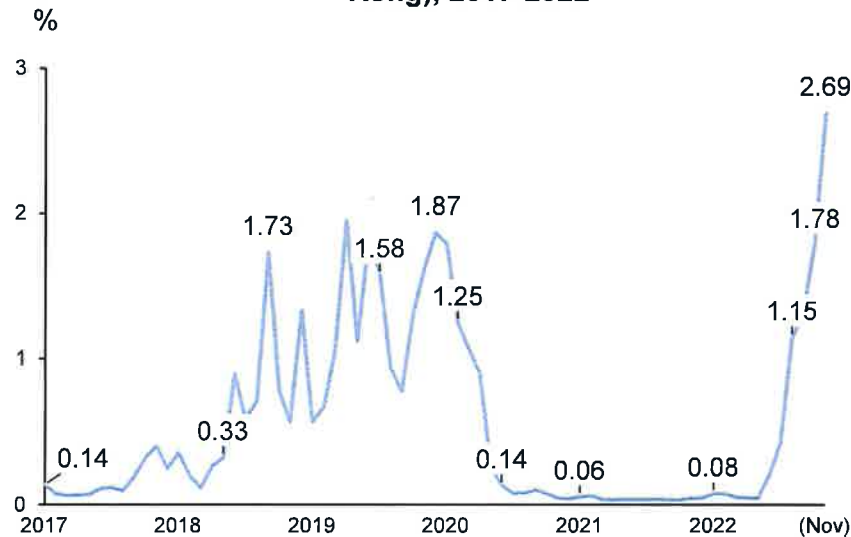
- In the licensed money lending market in Hong Kong, market participants often leverage the presence of brick-and-mortar store as an establishment of touchpoints with downstream borrowers.
- The average monthly rental cost per square meter of private retail in Hong Kong has declined over the past 5 years, primarily owing to the outbreak of COVID-19 which subdued the demand for general brick-and-mortar retail. The average monthly rental cost per square meter of private retail has plummeted by 3.8%, 4.4% and 2.2% respectively in Hong Kong Island, Kowloon and New Territories.
- The adoption of fintech by leading industry players in the licensed money lending market implies a lessened deployment of on-site labour and administrative machinery and equipment, while a fintech-incorporated machinery that is able to accommodate client's requirement serves as a substitute. The streamlined setting of on-site resources and facilities is effective in alleviating the overhead cost of industry players

Source: Rating and Valuation Department of Hong Kong, Frost & Sullivan

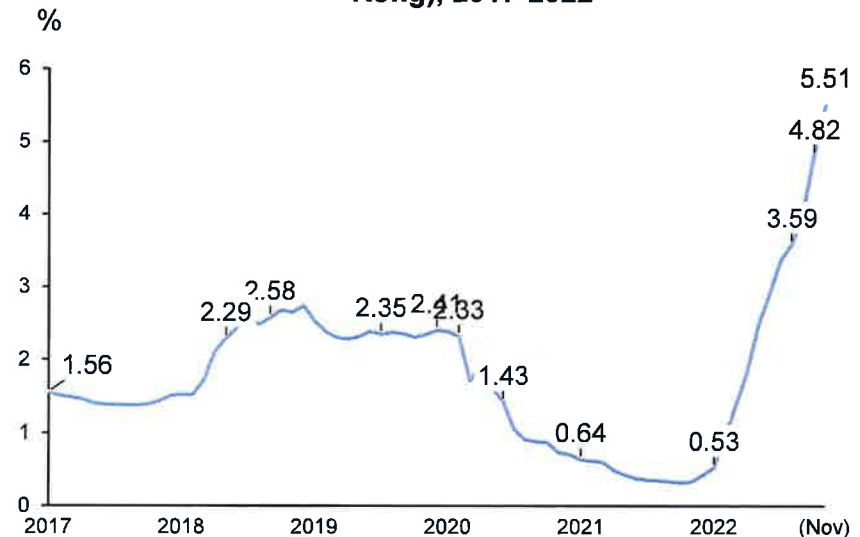
Overview of Licensed Money Lending Market in Hong Kong

Cost Analysis – HIBOR rate

Hong Kong Interbank Offered Rate (Overnight) (Hong Kong), 2017-2022



Hong Kong Interbank Offered Rate (12-Month) (Hong Kong), 2017-2022



- Hong Kong Inter-bank Offered Rate is the benchmark interest rate, stated in Hong Kong dollars, for lending between banks within the Hong Kong market. It serves as an indication of interest rate incurred when licensed money lenders are borrowing from banks. Along with the interest hikes during 2022, the HIBOR overnight interest rate and HIBOR 12-month interest rate has peaked 2.69% and 5.51% respectively in November 2022, indicating a rising borrowing cost for industry players in the licensed money lending market.

Source: Hong Kong Monetary Authority, Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Interest Rate Cycle Correlation to the Industry (1/2)

- In 2022, while inflation is escalating in the US and across much of the world, and as Hong Kong's monetary policy moves in lock-step with the US as the city's currency is pegged to the US currency, the HKMA has raised its benchmark interest rate to a 14-year high following the United States Federal Reserve's aggressive interest hike towards the end of 2022. Particularly in 3rd November 2022, the HKMA announced the Base Rate was adjusted upward to 4.25%
- The interest rate hike cycle implies a rising borrowing cost for any types of corporates including those in the money lending market industry including authorised institutions and licensed money lenders, as well as for individuals. To facilitate day-to-day operation as well as satisfy liquidity requirements set by regulatory bodies, these institutions are borrowing at a higher rate from their financing suppliers and industry peers, which in turn affects the Hong Kong Inter-bank Offered Rate ("HIBOR"), which is the rate where banks and financial institutions exercise lending and borrowing between one another within Hong Kong market.
- Subsequent to the base rates hike, major banks in Hong Kong such as the Hong Kong and Shanghai Banking Corporation, Standard Chartered, Bank of China, Hang Seng Bank and Bank of East Asia have one after another taken the lead to raise their prime rates. Licensed money lenders participating in the industry particularly in the unsecured personal and corporate loan segment, are offering loans in accordance with the prime rates set out individually which is highly associated with base rate.
- As the prime rate is highly and positively associated or if not, tied to the base rate, under interest rate hike environment, licensed money lenders would benefit by offering a higher interest rate to downstream individual and corporate borrowers, thereby elevating the overall profitability and a raise in revenue. In addition, higher interest rates tend to reflect a period of greater economic growth, with the government raising rates to slow expansion, A stronger economy means more consumers seek loans, helping licensed money lenders as they benefit from the difference between the interest they charge investors for the loan and the amount they earn by investing that money.

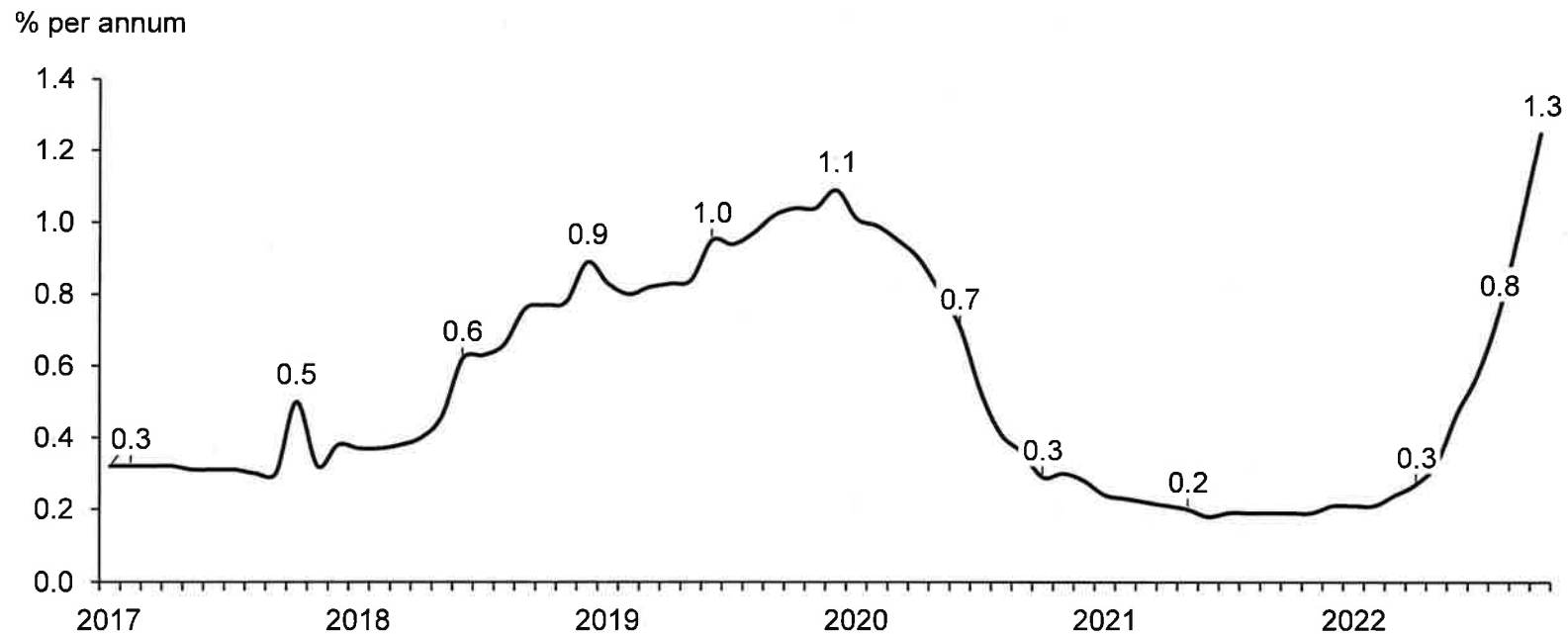
Source: Hong Kong Monetary Authority, Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Interest Rate Cycle Correlation to the Industry (2/2)

- The composite interest rate is a weighted average interest rate of all Hong Kong dollar interest-rate-sensitive liabilities, which include deposits from customers, amounts due to banks, negotiable certificates of deposit and other debt instruments, and all other liabilities that do not involve any formal payment of interest but the values of which are sensitive to interest rate movements (such as Hong Kong dollar non-interest bearing demand deposits) on the books of banks. Since June 2019, the composite interest rate has been calculated based on the new local "Interest rate risk in the banking book" (IRRBB) framework. As such, the figures are not strictly comparable with those of previous months.

Composite interest rate (Hong Kong), 2017-2022



Source: Hong Kong Monetary Authority, Frost & Sullivan

Agenda

- 1 Introduction of the Research
- 2 Overview of Macroeconomic Environment in Hong Kong
- 3 Overview of Licensed Money Lending Market in Hong Kong
- 4 Competitive Landscape of Licensed Money Lending in Hong Kong**
- 5 Overview of BNPL Market in Hong Kong
- 4 Competitive Landscape of BNPL in Hong Kong
- 5 Appendix

Competitive Landscape of Licensed Money Lending in Hong Kong

Competition Overview of Unsecured Financing of Authorised Institutions and Licensed Money Lenders

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

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

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

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

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

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

Source: Frost & Sullivan

Competitive Landscape of Licensed Money Lending in Hong Kong

Competition Overview of Unsecured Personal Loan and Unsecured Property Owners Loan of Authorised Institutions and Licensed Money Lenders

- In the unsecured personal loan and unsecured property owner loan market of authorized institutions and licensed money lenders, the top three players are international scale authorised institutions, the top three players and respective market shares in 2022 are The Hongkong and Shanghai Banking Corporation Limited (20.5%), Bank of China (Hong Kong) Limited (7.2%) and Standard Chartered Bank (Hong Kong) Limited (4.5%).

Rank	Market participants	Listing status	Estimated revenue in 2022 (HK\$ Billion)	Estimated market share in 2022 (%)
1	The Hongkong and Shanghai Banking Corporation Limited	0005.HK	12.6	20.5%
2	Bank of China (Hong Kong) Limited	3988.HK	4.4	7.2%
3	Standard Chartered Bank (Hong Kong) Limited	2888.HK	2.8	4.5%
		Subtotal	19.7	32.1%
		<i>Others</i>	41.6	67.9%
		Total	61.3	100.0%

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

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

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

Standard Chartered Bank (Hong Kong) Limited was established in 1859. Standard Chartered Hong Kong offers a comprehensive range of financial services including personal banking, priority banking, wealth management, business banking, corporate and institutional banking and money lending services.

Source: Frost & Sullivan

Competitive Landscape of Licensed Money Lending in Hong Kong

Competition Overview of Unsecured SME Owners Loan of Authorised Institutions and Licensed Money Lenders

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

Rank	Market participants	Listing status	Estimated revenue in 2022 (HK\$ Billion)	Estimated market share in 2022 (%)
1	The Hongkong and Shanghai Banking Corporation Limited	0005.HK	9.3	21.0%
2	Bank of China (Hong Kong) Limited	3988.HK	3.0	6.8%
3	Industrial and Commercial Bank of China (Asia) Limited	2888.HK	2.7	6.2%
		Subtotal	15.0	34.1%
		<i>Others</i>	29.0	65.9%
		Total	44.0	100.0%

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

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

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

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

Source: Frost & Sullivan

Competitive Landscape of Licensed Money Lending in Hong Kong

Competition Overview of Unsecured Financing

- The licensed money lending industry in Hong Kong is highly competitive with 2,414 licensed money lenders providing relevant services in Hong Kong as at 31 December 2022. As estimated, over 70% of the licensed money lenders are engaged in the provision of unsecured financing, including unsecured personal loans, unsecured property owner loans and unsecured SME loans. In particular, the entry barrier of fintech-enabled money lenders is relatively higher as a large amount of initial investment is required for the application of big data and machine learning technology and the building of online platform. In addition, while increasing market consolidation is seen in the unsecured financing industry in Hong Kong, the leading market participants are leveraging the economies of scale to acquire more customers by more diversified and customised sources of funding and lower operating cost.
- The licensed unsecured financing market is relatively concentrated with top five market participants accounting for 84.4% of the overall market share by revenue. The Company had a revenue of HK\$233.5 million in 2022, representing a share of 3.6% in the licensed unsecured financing market in Hong Kong.

Rank	Market participants	Year of establishment	Listing status	Estimated revenue in 2022 (HK\$ Million)	Estimated market share in 2022 (%)
1	United Asia Finance Limited*	1991	Subsidiary of 0086.HK	2,657.9	41.5%
2	PrimeCredit Limited	1977	Private	1,230.1	19.2%
3	Aeon Credit Service (Asia) Company Limited	1990	0900.HK	1,181.0	18.5%
4	The Group	1997	Private	233.5	3.6%
5	Promise (Hong Kong) Co. Limited	1991	Private	127.4	2.0%
			Subtotal	5,403.1	84.8%
			<i>Others</i>	996.9	15.2%
			Total	6,400.0	100.0%

Notes:

1. Only the revenue generated from the provision of unsecured financing is included in the ranking.
2. The revenue of private companies are estimated and compiled by F&S based on the expert interviews conducted and information available in the public domain, including company websites. The revenue of listed companies are exacted from the annual reports or estimated based on the market segmentation.
3. United Asia Finance Limited is a subsidiary of Sun Hung Kai & Co. Limited. Based on the 2022 Annual Report of Sun Hung KAI & Co. Limited, Consumer finance segment refers to the provision of unsecured loans to individuals and small businesses in Hong Kong and Mainland China, and the revenue of it amounts to HK\$3,499.3 million in 2022. It is estimated that approximately 76% revenue of the consumer finance is generated in Hong Kong.

Source: Frost & Sullivan

Competitive Landscape of Licensed Money Lending in Hong Kong

Competition Overview of Unsecured Personal Loan and Unsecured Property Owners Loan

- The licensed unsecured personal loan and unsecured property owner loan market is relatively concentrated. In 2021, top five market participants had a total revenue of HK\$3,615.2 million, accounting for 64.6% of the overall licensed unsecured personal loan and unsecured property owner loan market. The Company had a revenue of HK\$256.7 million in 2021, representing a share of 4.6% in the licensed unsecured personal loan and unsecured property owner loan market in Hong Kong.

Rank	Market participants	Year of establishment	Listing status	Estimated revenue in 2021 (HK\$ Million)	Estimated market share in 2021 (%)
1	United Asia Finance Limited*	1991	Subsidiary of 0086.HK	1,828.5	32.7%
2	PrimeCredit Limited	1977	Private	1,215.5	21.7%
3	The Group	1997	Private	256.7	4.6%
4	Aeon Credit Service (Asia) Company Limited	1990	0900.HK	189.0	3.4%
5	Promise (Hong Kong) Co. Limited	1991	Private	125.5	2.2%
			Subtotal	3,615.2	64.6%
			<i>Others</i>	1,984.8	35.4%
			Total	5,600.0	100.0%

Notes:

- Only the revenue generated from the provision of unsecured personal loan and unsecured property owner loan is included in the ranking.
- The revenue of private companies are estimated and compiled by F&S based on the expert interviews conducted and information available in the public domain, including company websites. The revenue of listed companies are exacted from the annual reports or estimated based on the market segmentation.
- United Asia Finance Limited is a subsidiary of Sun Hung Kai & Co. Limited. Based on the 2021 Annual Report of Sun Hung KAI & Co. Limited, Consumer finance segment refers to the provision of unsecured loans to individuals and small businesses in Hong Kong and Mainland China, and the revenue of it amounts to HK\$3,526.2 million in 2021. It is estimated that approximately 70% revenue of the consumer finance is generated in Hong Kong and 75% of the revenue is derived from the provision of Unsecured Personal Loan and Unsecured Property Owners Loan. [F&S: HK\$ 1,665.4 is the profit of the consumer finance segment.]

Source: Frost & Sullivan

Competitive Landscape of Licensed Money Lending in Hong Kong

Competition Overview of Unsecured HOS Property and Private Property Loans

- The licensed unsecured HOS property and private property loans market is relatively concentrated. In 2022, top five market participants had a total revenue of HK\$1,503.5 million, accounting for 68.3% of the overall licensed unsecured personal loan and unsecured property owner loan market. The Company had a segment revenue of HK\$146.8 million in 2022, representing a share of 6.7% in the licensed unsecured HOS property and private property loans market in Hong Kong.

Rank	Market participants	Year of establishment	Listing status	Estimated revenue in 2022 (HK\$ Million)	Estimated market share in 2022 (%)
1	United Asia Finance Limited	1991	Subsidiary of 0086.HK	777.1	35.3%
2	PrimeCredit Limited	1977	Private	464.3	21.1%
3	The Group	1997	Private	146.8	6.7%
4	Aeon Credit Service (Asia) Company Limited	1990	0900.HK	69.0	3.1%
5	Promise (Hong Kong) Co. Limited	1991	Private	46.3	2.1%
			Subtotal	1,503.5	68.3%
			<i>Others</i>	696.5	31.7%
			Total	2,200.0	100.0%

Notes:

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

Source: Frost & Sullivan

Competitive Landscape of Licensed Money Lending in Hong Kong

Competition Overview of Unsecured SME Loan

- SME (Small and medium-sized enterprises) are the foundation of Hong Kong's economy. With more than 340,000 SMEs in Hong Kong, this segment contributes to 98% of the business establishments and employs 45% of the workforce in the private sector.
- Banks and virtual banks are the major source of financing for SMEs in Hong Kong while licensed money lender account for 20%. In view of the market potential in the SME financing, there is a number of financial institutions that offer SME financing solutions to fill the financial gap. Traditional banks continue to be the major financial institutions for SMEs with 95% of the SMEs obtaining financing from traditional banks. SMEs opt for banking financial products as the key financing facilities to fund their business operation and settle various business expenses. Among the banking products, bank loans play a significant role in fulfilling SME financing needs.
- Due to the small business sizes, limited resources and lack of financial capability, the SMEs are generally faced with difficulties in sourcing funding from banks. Licensed money lenders' offerings that are convenient and flexible meet SME's' increasing funding needs. With the simplified application procedures and lower collateral requirements, the licensed money lenders provide SMEs with multiple loan options, including secured and unsecured loan, regardless of the nature and size of business.
- The market of unsecured SME loan in Hong Kong is consolidated with less than 100 market participants and the top five market participants account for 76.3% of market share in terms of turnover of unsecured SME loan in Hong Kong in 2021. The Company had a revenue of HK\$12.9 million in 2021, representing a share of 1.3% in the licensed unsecured SME loan market in Hong Kong.

Rank	Market participants	Year of establishment	Listing status	Estimated revenue in 2021 (HK\$ Million)	Estimated market share in 2021 (%)
1	United Asia Finance Limited	1991	Subsidiary of 0086.HK	609.5	61.0%
2	ORIX Finance Services Hong Kong Limited	1971	Subsidiary of 8591.TYO	105.3	10.5%
3	Asia One Credit Limited	2015	Private	30.5	3.1%
4	The Group	1997	Private	12.9	1.3%
5	Wing Fung Credit Limited	1999	Private	5.2	0.5%
			Subtotal	763.4	76.3%
			<i>Others</i>	236.6	23.7%
			Total	1,000.0	100.0%

Notes:

1. Only the revenue generated from the provision of unsecured SME loan is included in the ranking.
2. The revenue of private companies are estimated and compiled by F&S based on the expert interviews conducted and information available in the public domain, including company websites. The revenue of listed companies are exacted from the annual reports or estimated based on the market segmentation.
3. United Asia Finance Limited is a subsidiary of Sun Hung Kai & Co. Limited. Based on the 2021 Annual Report of Sun Hung KAI & Co. Limited, Consumer finance segment refers to the provision of unsecured loans to individuals and small businesses in Hong Kong and Mainland China, and the revenue of it amounts to HK\$3,526.2 million in 2021. It is estimated that approximately 70% revenue of the consumer finance is generated in Hong Kong and 25% of the revenue is derived from the provision of unsecured SME loans. [F&S: HK\$ 1,665.4 is the profit of the consumer finance segment.]
4. ORIX Finance Services Hong Kong Limited is a subsidiary of a listed company but there is not further revenue breakdown for the its unsecured SME loan in Hong Kong. The revenue is estimated based on the expert interviews and other public information.

Source: Frost & Sullivan

Competitive Landscape of Licensed Money Lending in Hong Kong

Business Profile of Leading Market Participants – Unsecured Personal Loan and Unsecured Property Loan

Company	Year of Establishment	Listed or Unlisted	Major Service Scopes	Geographic Coverage	Number of Branches in Hong Kong in 2022	The lowest Monthly Flat Rate for Personal Loan
The Group	1997	Unlisted	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured Property Owners Loan • Unsecured SME loan 	Hong Kong	7 (each branch with VTMs)	0.8%
PrimeCredit Limited	1977	Unlisted	<ul style="list-style-type: none"> • Credit card business • Insurance and Wealth Management Products • Unsecured Personal loan • Unsecured Property Owners Loan 	Hong Kong Mainland China	19	0.05%
United Asia Finance Limited	1991	Unlisted ^{Note 1}	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured Property Owners Loan • Unsecured SME loan • Credit card and insurance products 	Hong Kong Mainland China	49	0.08%
AEON Credit Service (Asia) Company Limited	1990	Listed (0900.HK)	<ul style="list-style-type: none"> • Credit card business and insurance intermediary business • Unsecured Personal loan • Unsecured Property Owners Loan 	Hong Kong	15	0.2%
Promise (Hong Kong) Co. Limited	1991	Unlisted ^{Note 2}	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured Property Owners Loan • Mortgage loan 	Hong Kong	18	0.2%
Hong Kong Finance Group Limited	2013	Listed (1273.HK)	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured Property Owners Loan • Unsecured SME loan [Based on its official website] 	Hong Kong	1	N/A

Note:

1. United Asia Finance Limited is a subsidiary company of a Hong Kong listed company with stock code no. 0086, Sun Hung Kai & Co. Limited.

2. Promise (Hong Kong) Co. Limited is a wholly owned overseas subsidiary of a Japan leading company, SMBC Consumer Finance Co., Limited.

Source: Frost & Sullivan Analysis

Competitive Landscape of Licensed Money Lending in Hong Kong

Business Profile of Leading Market Participants – Unsecured SME Loan

Company	Year of Establishment	Listed or Unlisted	Major Service Scopes	Geographic Coverage	Number of Branches
Hong Kong Finance Group Limited	2013	Listed (1273.HK)	<ul style="list-style-type: none"> • Mortgage loan • Unsecured Personal loan • Unsecured Property Owners Loan • Unsecured SME loan [Based on its official website] 	Hong Kong	1
United Asia Finance Limited	1991	Unlisted ^{Note 1}	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured SME loan 	Hong Kong Mainland China	45
Asia One Credit Limited	2015	Unlisted	<ul style="list-style-type: none"> • Unsecured SME loan 	Hong Kong	1
Cycle Credit Limited	2018	Unlisted	<ul style="list-style-type: none"> • Unsecured SME loan 	Hong Kong	1
Leading Credit Limited	2019	Unlisted	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured SME loan 	Hong Kong	1
Credit One Finance Limited	2012	Unlisted	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured SME loan 	Hong Kong	1
Rich Cash Limited	2018	Unlisted	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured SME loan 	Hong Kong	1
Yue Long Finance Company Limited	2009	Unlisted	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured SME loan 	Hong Kong	1

Note:

1. United Asia Finance Limited is a subsidiary company of a Hong Kong listed company with stock code no. 0086, Sun Hung Kai & Co. Limited.

Source: Frost & Sullivan Analysis

Competitive Landscape of Licensed Money Lending in Hong Kong

Business Profile of Leading Market Participants – Unsecured SME Loan (Cont'd)

Company	Year of Establishment	Listed or Unlisted	Major Service Scopes	Geographic Coverage	Number of Branches
The Group	1997	Unlisted	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured Property Owners Loan • Unsecured SME loan 	Hong Kong	7 (each branch with VTMs)
ORIX Asia Limited	1971	Unlisted ^{Note 1}	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured SME loan 	Hong Kong	1
Wing Fung Credit Limited	1999	Unlisted	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured SME loan 	Hong Kong	1
Hang Tat Finance Limited	2020	Unlisted	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured SME loan 	Hong Kong	1
By the Loan Finance Company Limited	2020	Unlisted	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured SME loan 	Hong Kong	0
Prestige Credit Company Limited	2021	Unlisted	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured SME loan 	Hong Kong	1
Leading 1356 Company Limited	2015	Unlisted	<ul style="list-style-type: none"> • Unsecured Personal loan • Unsecured SME loan 	Hong Kong	1

Note:

1. ORIX Asia Limited is a subsidiary company of ORIX Group, listed on Tokyo Stock Exchange.

Source: Frost & Sullivan Analysis

Competitive Landscape of Licensed Money Lending in Hong Kong

Trend of Fintech-enabled Licensed Money Lenders vs Traditional Licensed Money Lenders

Promotion of New Personal-Lending Portfolio

- As part of the initiatives to promote Smart Banking in Hong Kong, the Hong Kong Monetary Authority (HKMA) has established a “Banking Made Easy” taskforce in 2018 to identify and streamline regulatory frictions to smooth online customer experiences. The taskforce will initially focus its work on three areas, namely remote onboarding, online finance and online wealth management. To strike a better balance between improving customer banking experience and continuing to uphold prudent credit underwriting standards, the HKMA allows authorized institutions (AIs) to carve out a portion of their personal lending portfolio, in respect of which departure from conventional lending practices will be permitted. This arrangement will enable 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 and Fintech applications in Hong Kong.

Growing Acceptance of Young Generation

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

Source: Frost & Sullivan

Competitive Landscape of Licensed Money Lending in Hong Kong

Comparison analysis of key licensed money lenders by the mean of Fintech

Fintech-enabled licensed money lenders tend to have greater market share than those without fintech adopted due to the following reasons

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

Source: Frost & Sullivan

Competitive Landscape of Licensed Money Lending in Hong Kong

Number of Fintech-enabled Licensed Money Lenders

- Fintech-enabled licensed money lenders generally refer to those who adopt (i) digital platforms, including those providing services through the internet, mobile apps, self-service machines (such as Automated Teller Machines (“ATMs”), Virtual Teller Machines (“VTMs”), etc.) and other digital/mobile devices for the provision of money lending services, and (ii) new credit risk management techniques and practices enabled by innovative technology, such as big data and consumer behavioural analytics, to approve and manage the related credit risks.
- 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 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 in the market and a number of existing market participants are investing in online platforms and Fintech applications, such as AI and big data. The use of online channels in granting loans and Fintech applications is gradually gaining popularity among borrowers and licensed money lenders. Fintech-enabled licensed money lenders provide borrowers with fast, flexible and convenient loan services, reduce manual intervention during loan approval process and minimise operation costs of licensed money lenders.

Save for the Group, as estimated, there are approximately 20 Fintech-enabled licensed money lenders in Hong Kong. The company list is as follows:

- Fastearn Finance Limited
- Welab Limited
- Prestige Credit Company Limited
- Fast Cash Consultant Limited
- Promise (Hong Kong) Co., Limited
- PrimeCredit Limited
- AEON Credit Service (Asia) Company Limited
- UA Finance Limited
- Hong Kong Finance
- Wing Fung Credit Limited
- MoneyMonkey Limited
- Oyster Pie Solutions Limited
- Elephant Club Limited
- Regal Credit Finance Limited
- Topway Credit Limited
- Yue Long Finance Company Limited
- Thankyou Finance Limited
- EasyLend Finance Company Limited
- Ego Finance Limited
- Camden Finance Limited
- Union Finance (Hong Kong) Company Limited

Competitive Landscape of Licensed Money Lending in Hong Kong

Competition Brought in By Credit Card Companies

- In view of the huge potential in the personal and SME financing market, there are a number of financial institutions that offer financing solutions, including bank loans, bank overdraft, loans from licensed money lenders, government grants and credit cards, to fill the financial gap.
- Credit cards are one of the most widely held consumer credit product in Hong Kong. They are convenient for consumers and are widely accepted by merchants, and sometimes serve as the credit line for SME customers. On the other hand, licensed money lenders offer a wide range of financial products, namely unsecured loans and mortgage loans, for both individual and SMEs.

Credit card companies and licensed money lenders compete in the following areas:

- Convenience - Credit cards are an easy and convenient way to purchase items and pay for services. They are widely accepted in both online and traditional brick and mortar stores. Compared with credit cards, there are more requirements, such as more stringent credit rating and assessment on annual income, to access loans from licensed money lenders.
- Offer of discount - Credit card companies offer lots of perks, such as discounts when shopping at certain stores using their cards or giving customers frequent flyer miles that you can use when traveling while no discount or sales promotions are offered for licensed money lenders loans.
- Transaction fees - Credit cards can offer perks and rebates because of the high processing fees that they charge their customers but no transaction fees are incurred in licensed money lenders loans.
- Interest rate – Licensed money lenders generally provide more competitive rates than credit cards companies. The annual percentage rate charged for personal loans by licensed money lenders ranges from 30% to 40% while the annual percentage rate charged for personal loans by credit card on minimum basis ranges from 35% to 45%.
- Impact on credit score - Unpaid credit card debts often become large debts because of the high interest rates. Therefore, the use of credit cards will have a greater impact on customers credit score than licensed money lenders loans.
- Access to loan amount – Licensed money lenders loans give customers access to larger sums of money than credit cards.
- Flexibility of terms - The terms of licensed money lenders loans are more flexible than those for credit card loans. This is in terms of loan tenure and rates. For example, the length of licensed money lenders' loan tenure is generally longer than credit cards.

Competitive Landscape of Licensed Money Lending in Hong Kong

Competition Brought in By Virtual Banks

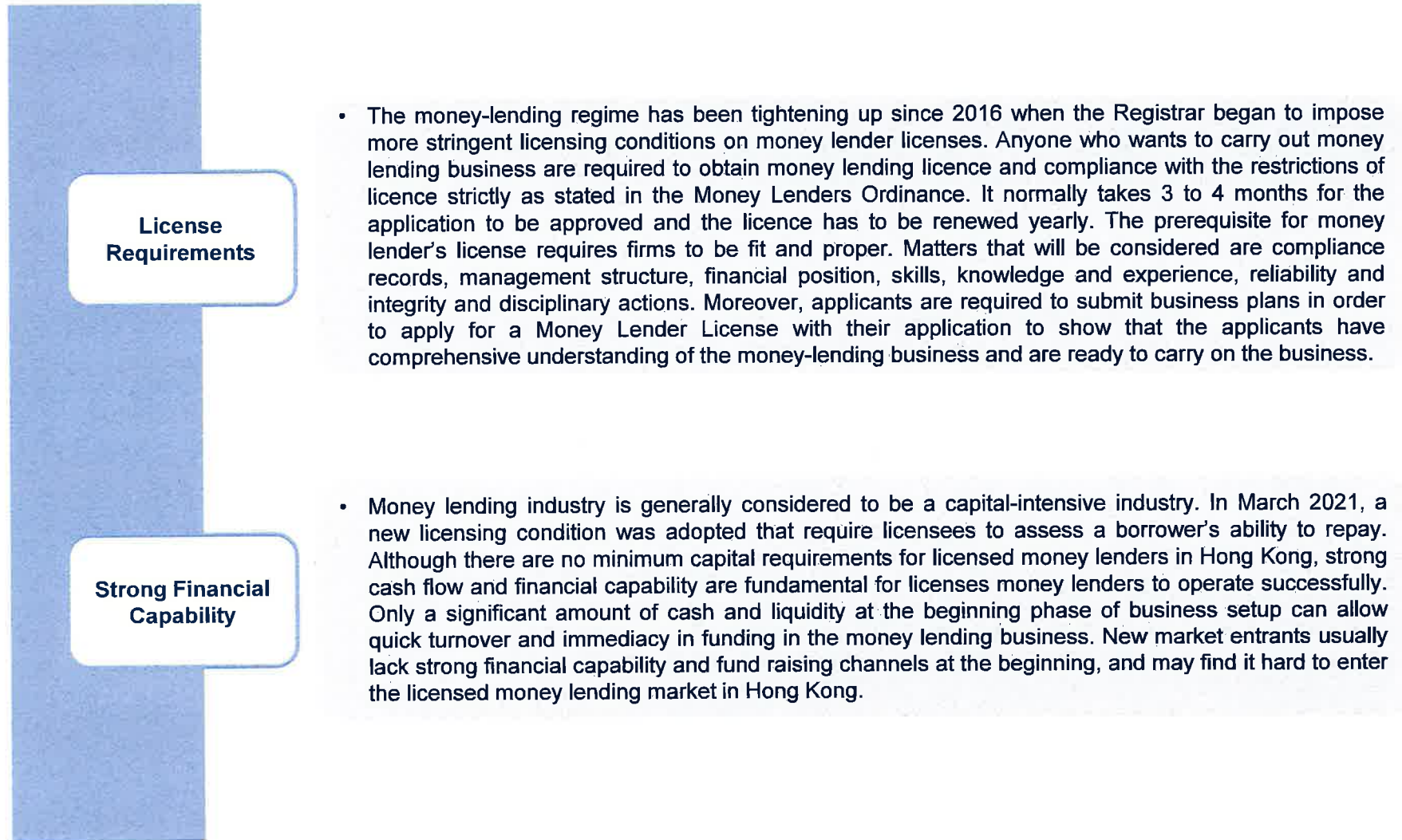
- Virtual bank is defined as a bank which primarily delivers retail banking services through the internet or other forms of electronic channels instead of physical branches. They also compete with licensed money lender in financial products, namely unsecured loans and mortgage loans, for both individual and SMEs.

Virtual banks compete with licensed money lenders in the following areas:

- Convenience - The loan approval process of licensed money lenders is more simplified than virtual banks.
- Offer of discount - Virtual banks are adopting more competitive referral and joining reward schemes, and deposit interest than traditional banking to acquire customers while no discount or sales promotions are offered for licensed money lenders loans.
- Interest rate – The annual percentage rate charged for personal loans by licensed money lenders ranges from 30% to 40% while the annual percentage rate charged for personal loans by virtual banks ranges from 1.28% to 8.43%
- Access to loan amount – Virtual banks loans give customers access to larger sums of money than licensed money lenders.
- Flexibility of terms - The terms of licensed money lenders loans are more flexible than those for virtual banks loans. This is in terms of loan tenure and rates. For example, the length of licensed money lenders' loan tenure is generally longer than virtual banks.

Competitive Landscape of Licensed Money Lending in Hong Kong

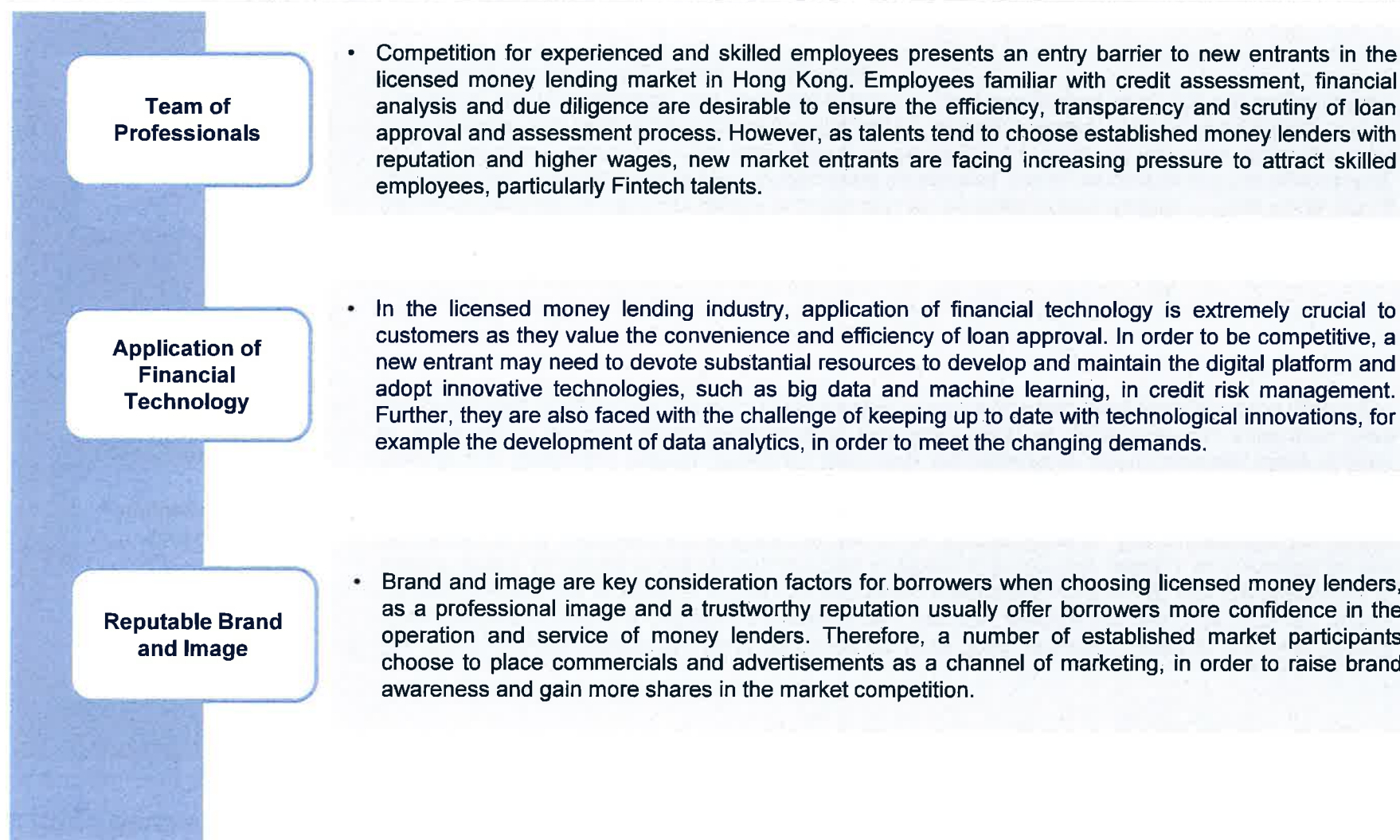
Entry Barrier Analysis



Source: SFC, Frost & Sullivan

Competitive Landscape of Licensed Money Lending in Hong Kong

Entry Barrier Analysis



Source: SFC, Frost & Sullivan

Competitive Landscape of Licensed Money Lending in Hong Kong

Key Factors of Success



Diversified and Customized 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 build up a diverse customer base, which is crucial for licensed money lenders to sustain the business and generate continuous revenue.

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.

Source: Frost & Sullivan

Competitive Landscape of Licensed Money Lending in Hong Kong

Main Financial Technologies in Operation of Licensed Money Lenders

Cloud-based Loan Management System

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

Artificial Intelligence

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

Source: Frost & Sullivan

Competitive Landscape of Licensed Money Lending in Hong Kong

Main Financial Technologies in Operation of Licensed Money Lenders

Virtual Teller Machine

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

Blockchain Technologies

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

Robotic Process Automation

- Robotic Process Automation (RPA) is a software technology that makes it easy to build, deploy, and manage software robots that emulate human actions interacting with digital systems and software. RPA has helped licensed money lenders to gain competitive advantage in loan origination process and increase customer satisfaction. RPA helps lenders automate manual, repetitive processes that have traditionally been performed manually by loan operation staffs. Automation can allow for the streamlining of disparate systems, provide reliable and consistent dataflow for any stage of the loan origination process and quicken the overall process, while delivering solid audit and control benefits. Using an automated loan processing system starting from the origination to the underwriting and post-closing processes means data from paper documents can be electronically captured, then indexed and routed to the appropriate system. Workflows can be set up for certain procedures to enable repeatable, consistent processing for faster turn-around times.

Source: Frost & Sullivan

Agenda

- 1** Introduction of the Research
- 2** Overview of Macroeconomic Environment in Hong Kong
- 3** Overview of Licensed Money Lending Market in Hong Kong
- 4** Competitive Landscape of Licensed Money Lending in Hong Kong
- 5** Overview of BNPL Market in Hong Kong
- 4** Competitive Landscape of BNPL in Hong Kong
- 5** Appendix

Overview of BNPL Market in Hong Kong

Introduction and Classification

- Buy now, Pay Later (BNPL) is a type of short-term financing that allows consumers to make purchases and pay for them at a future date, often interest-free. It is a type of unsecured personal loan, which means the loan does not require any type of collateral.
- There are two common business model adopted in the BNPL industry, which includes (i) BNPL providers who cooperate with selected merchants and allow consumers to pay by interest-free or low-interest instalments and the BNPL providers would pay on behalf of the consumers. BNPL service providers essentially earn the handling fee as a proportion to the purchase price of the goods or services, which is borne by the merchant, while the merchant enjoy the benefit of offering customers the option to pay for purchases using BNPL which serves as potential impetus to the sales value; (ii) BNPL providers to cooperate with payment gateway i.e. credit card or digital wallet companies, allowing consumers to use BNPL services in any merchants that allow such digital payments and the BNPL providers earn the facilitation fee borne by consumer, the late fee charged or interest charged which is determined at the first place. Such business model enables customers to purchase anywhere as long as the designated credit card or digital wallet payment method is available in respective retail store, offering greater flexibility and convenience, which in turn significantly elevate the touchpoints and usage coverage.
- When consumers fall behind on payments, late fees are typically charged by their BNPL providers, and persistently delinquent accounts may be sold to debt collection agencies.
- The BNPL platforms generally does not set an income threshold for consumers and also allows consumers to pay by interest-free or low-interest instalments, while the fines and handling fees incurred by consumers for late repayment are relatively low. BNPL products have been trending in the US and European markets in recent years, but such products only have emerged in Hong Kong recently.
- BNPL providers in Hong Kong include banks and licensed money lenders. Banks can be traditional banks or virtual banks that offer BNPL services. Licensed money lenders are non-bank fintech firms that are granted licenses under the MLO to provide BNPL services.
- BNPL providers can only provide BNPL services to certain designated merchants while the Group is taking steps to become BNPL service provider to all merchants that have cooperated with VISA.

BNPL Providers

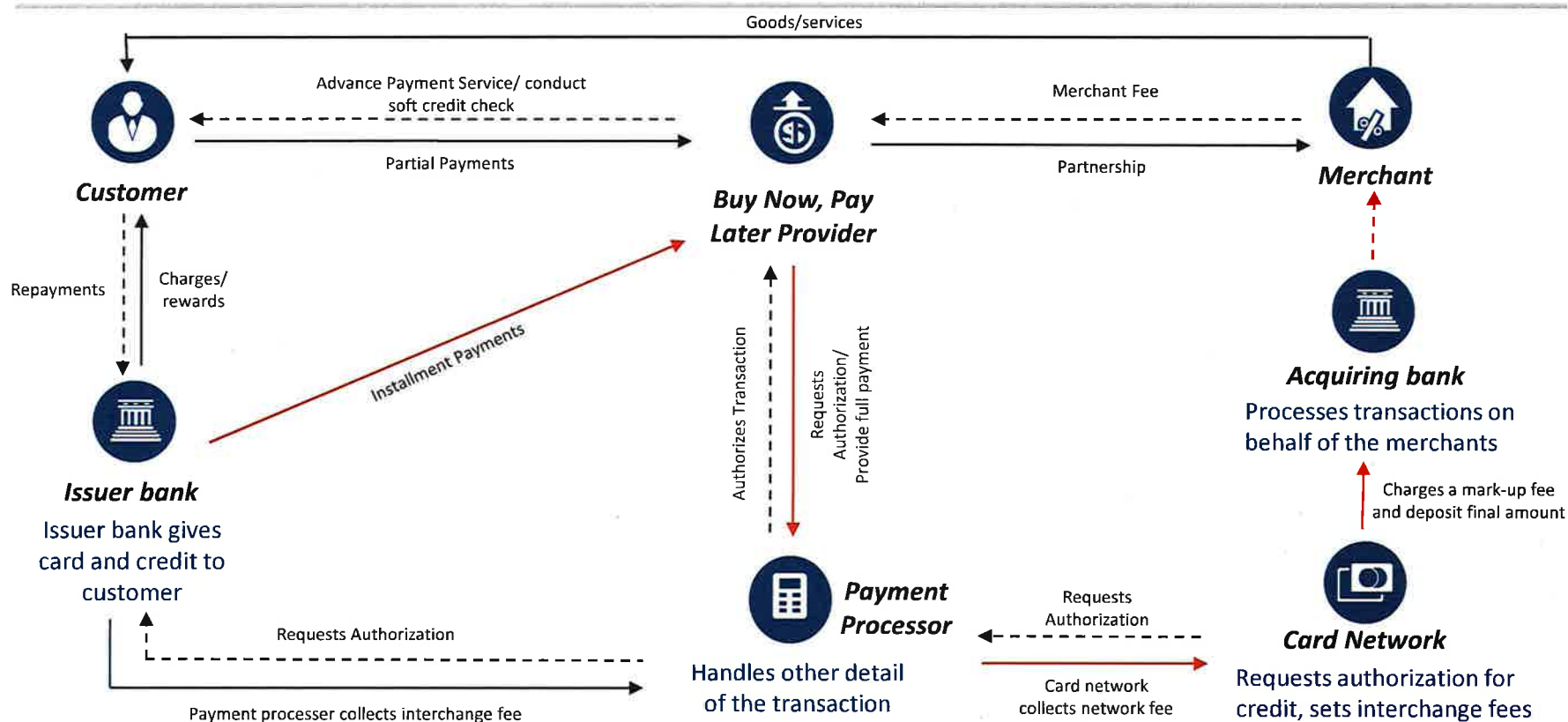


- BNPL services provided by banks are generally in the form of unsecured personal lending products.
- HKMA required banks involved in the provision of unsecured personal lending products to assess credit applications and conduct credit reviews utilizing credit reference services in accordance with Supervisory Policy Manual.
- Need to apply for licenses under the MLO depending on their specific mode of operation.
- Money lenders have to conduct an assessment of the borrower's repayment ability before granting any agreement for an unsecured personal loan

Source: Frost & Sullivan

Overview of BNPL Market in Hong Kong

Value Chain Analysis



- BNPL is a type of payment gateway/PoS system, which means a merchant service provided by an e-commerce application service provider that authorizes credit card or direct payments. Payment gateway may be provided by a bank or by payment service provider to its customers. For licensed money lenders in BNPL, they are payment service providers, which is a third-party company that assists businesses in accepting electronic payments.
- BNPL providers pre-pay the full transaction amount to merchants as an advance payment service to customers after running soft credit checks.

Source: Frost & Sullivan

Overview of BNPL Market in Hong Kong

Requirements, Qualifications and Licenses

Requirements

- According to the Hong Kong Money Lenders Ordinance (Cap.163), any person (including companies) who lends money in the ordinary course of business with interest or fees needs to obtain a money lenders license issued by the Company Registry. This includes BNPL providers that offer interest-free or low-interest instalments installment payments for a fixed period. As regards provision of credit data to credit reference agency (“CRA”), the HKMA requires banks that provide BNPL services to submit credit data of customers to the CRA in accordance with the requirements stipulated in the Code of Practice on Consumer Credit Data. In fact, both banks and licensed money lenders have to provide credit data to the CRA, enabling these credit providers to share personal credit data with a view to assessing creditworthiness of consumers more accurately.

Qualifications and Licenses



Banks

- BNPL services launched by banks (including virtual banks) are subject to regulation concerning personal credit products promulgated by the Hong Kong Monetary Authority (HKMA)



Licensed Money Lenders

- For BNPL services provided by other non-bank entities, if provision of loans to users is involved, institutes need to apply for money lenders licenses under the Money Lenders Ordinance (MLO), and comply with the regulatory requirements under the licensing conditions. In terms of capital requirement, although there is no minimum paid-up capital requirements in obtaining the money lenders license, robust financial capacity and liquidity are crucial for licensed money lenders to operate viable businesses. Adequate cash and funding, especially in the initial stages of setting up the business, are necessary to enable quick and timely lending to customers.

Source: Frost & Sullivan

Overview of BNPL Market in Hong Kong

Regulations and Policies

- As BNPL products are still at the initial stage of development in Hong Kong, limited guidelines and regulations are tailored to BNPL providers at current stage. Along with the development of BNPL market, more stringent regulations will be released to safeguard the rights and interests of consumers in the future.

Policy and Regulation	Issuing Year	Issuer	Outline
<i>Website Guidelines: “Would Buy Now, Pay Later” affect your purchase decisions?”</i>	2022	The Investor of Financial Education Council (IFEC)	The website illustrated key features of BNPL services, and set out issues that consumers should pay attention to when using such services.
<i>Guidelines of Enhancing Consumer Protection in Respect of “Buy Now, Pay Later” Products</i>	2022	Hong Kong Monetary Authority (HKMA)	Guidelines for Authorized Institutes (“AIs”) and a series of enhancement measures with the aim of ensuring that bank customers are well protected in midst of consumer product innovation of BNPL products.
<i>Licensing Conditions of Additional Money Lenders License</i>	2016	Companies Registry of Hong Kong	A list that licensed money lenders should or shouldn’t do before entering into any agreement for loan.
<i>Guidelines on Licensing Conditions of Money Lenders License</i>	2016	Companies Registry of Hong Kong	This note sets out the outcome of our engagement with licensed money lenders on the proposal to introduce more stringent licensing conditions on money lenders and the steps being taken to implement the proposal.
<i>Money Lenders Ordinance</i>	1980	Legislative Council	BNPL providers that are non-bank institutions must apply licenses under MLO. To provide for the control and regulation of money lenders and money-lending transactions, the appointment of a Registrar of Money Lenders and the licensing of persons carrying on business as money lenders; to provide protection and relief against excessive interest rates and extortionate stipulations in respect of loans; to provide for offences and for matters connected with or incidental to the foregoing.

Source: Frost & Sullivan

Overview of BNPL Market in Hong Kong

Advantages and Risks

Advantages

- ***For customers:*** credit cards have a stricter approval process and higher fees. BNPL offers near-instant approval with looser lending restrictions. BNPL only run a soft credit check that does not impact customer's credit rating, and there are low or interest-free rates.
- ***For merchants:*** BNPL may 1) expand the range of customers. By offering more flexible payment methods, customers can complete check without concerns of cash balance and less-than-perfect credit scores; 2) attract new customers, especially the younger generation of Gen Z and millennials; and 3) encourage customers to purchase higher value goods. When customers may spread the cost out over time, they are more likely to make high value purchases.
- ***For BNPL providers:*** For traditional banks, these banks may attract different consumer demographics through expanding into BNPL products.

Risks

- ***For customers:*** The most significant risk for customers is the increasing likelihood of impulse purchases. Moreover, as BNPL platforms have low income thresholds, this may attract groups with unstable income. Once the instalment payments are not returned timely, customers may be fined for high late fees or even affect their credit scores, further encouraging consumer debt. Lastly, BNPL may not guarantee returns of products purchased.
- ***For merchants:*** Although merchants may increase sales, they are charged with high MDRs (merchant discount rate) by BNPL platforms that ranges from 2% to 8%. Moreover, integrating BNPL into a business model may be difficult for small businesses.
- ***For BNPL providers:*** The risk of bad debt exists when consumers fail to pay their consumer loans, especially during economic downturns. This may lead to circular effect since the providers then have to tighten lending standards, further losing consumers.

Advantages and Risks of Adoption of BNPL

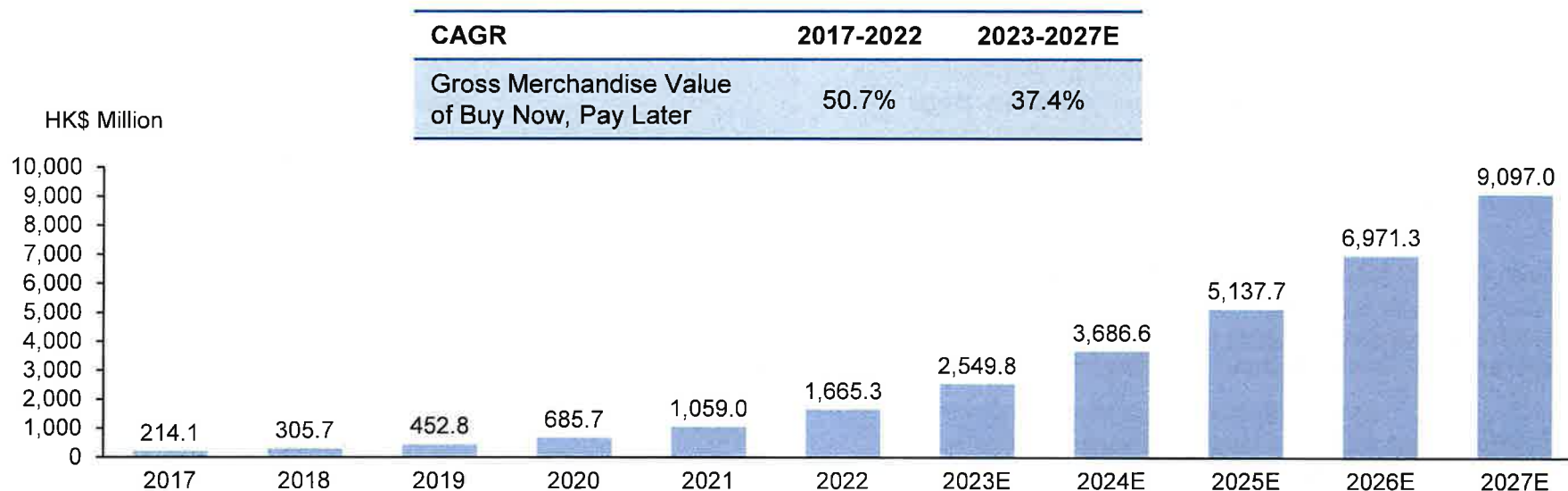


Source: Frost & Sullivan

Overview of BNPL Market in Hong Kong

Gross Merchandise Value of Buy Now, Pay Later

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



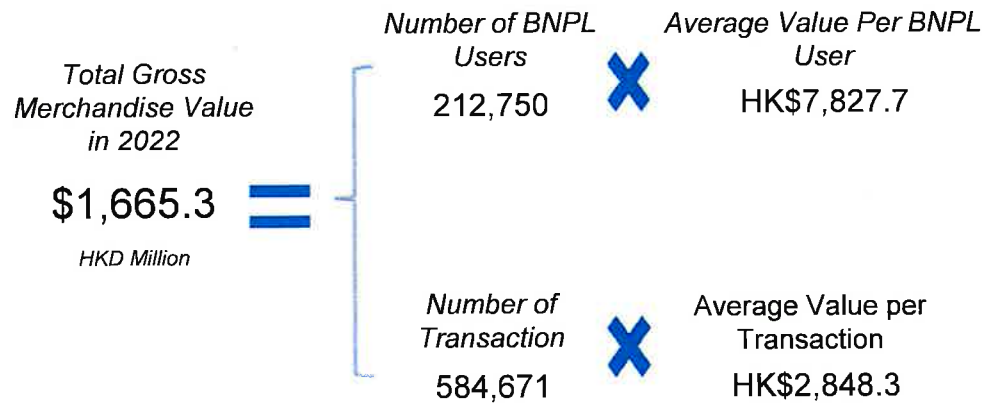
➤ The gross merchandise value of BNPL in Hong Kong has rocketed from approximately HK\$214.1 million to HK\$1,665.3 million from 2017 to 2022, representing a CAGR of 50.7%. From 2017 to 2022, the penetration rate of BNPL payment method has rocketed from 0.0% to 0.5% of the total retail sales value in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

Source: Frost & Sullivan

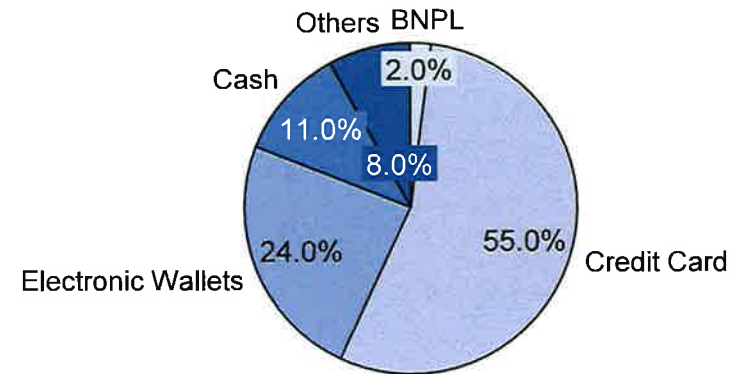
Overview of BNPL Market in Hong Kong

Analysis of BNPL Users and Transactions

Analysis of BNPL Users and Transactions, 2022



Payment Methods of Hong Kong Consumers at Physical Stores, 2021



- In 2022, it is estimated that approximately 584,671 transactions were made by BNPL, and the average value per transaction is approximately HK\$2,848.3. In comparison with the average value per transaction for credit card of HK\$646.6 (according to HKMA), the average value for BNPL is significantly higher than that of credit card. This is due to the nature of BNPL which consumers may pay in installments- customers only need to pay around one-third of the full price at the time of purchase, but may purchase the full goods or service. The value of each transaction, therefore, will be higher than one-time payments of credit cards, which also creates incentives for merchants to partner with BNPL providers to stimulate higher value transactions.
- The number of BNPL users in Hong Kong reaches approximately 212,750 in 2022, which is 2.9% of the total Hong Kong population. It is estimated that the average value per BNPL user is approximately HK\$7,827.7.
- According to “The 2022 Global Payments Report” published by Worldpay under the financial services provider FIS, BNPL accounts for only approximately 2% of the total payment methods at physical stores in 2021. Credit card method is the most used payment method of accounting 55% of the total transaction amount. Electronic wallet and cash account for 24% and 11% of the total transaction amount, respectively.

Source: Frost & Sullivan

Overview of BNPL Market in Hong Kong

Key Market Drivers

The development of buy now, pay later market is closely related to adoption of online payment method, increasing regulatory guidelines and higher preference in younger generation, and the market is expected to benefit from the following market drivers and trends:

Adoption of Online Payment Method

With the popularization of e-commerce and emergence of digital wallet, increasing adoption of online payment method has significantly driven the growth of BNPL. Since the COVID-19 pandemic in 2020, digital wallets have grown in popularity due to increasing need for contactless and germ-free payments and the rise of e-commerce. The shift in consumption behavior in payment method has nursed the environment for the rocketing growth of BNPL. Moreover, the decrease in credit card payment method has made space for BNPL payment method to grow. Credit card has been dominating purchase payment method in Hong Kong in the past, accounting for approximately 55% of total transaction amount in 2021. However, the credit card transaction value has been decreasing in recent years, according to HKMA. With the continued adoption of digital wallet, BNPL will witness further expansion in its share in payment method transaction.

Guidelines of Enhancing Consumer Protection

As BNPL is a relatively new concept and technology introduced to Hong Kong, regulations were introduced sporadically to support the rapid growth of BNPL in the past year. Several governmental authorities have developed guidance to strengthen consumer protection regarding banks' innovative consumer finance products, especially BNPL products, reflecting the attention brought to governmental bodies. In 2022, HKMA released the "Guidelines of Enhancing Consumer Protection in Respect of Buy Now, Pay Later Products specifically tailored to BNPL products. Moreover, governmental authorities have released public educational posts and announcements of guiding healthy and orderly development of the BNPL services which would further promote the development of BNPL services in Hong Kong.

Higher Preference in Younger Generations

The major demographic that drive the growth of BNPL are the younger generations, especially Gen Z and millennials. The younger generations are increasingly fond of this payment option over credit cards. BNPL services and apps offer consumers more choices when purchasing large amounts. Influenced by the internet and e-commerce in recent years, the younger generations are more willing to embrace new digital payment methods for digital wallet. Moreover, riding on the wave of virtual assets, the younger generation are educated to make purchases other than traditional banking services, such as crypto wallets. New financing methods outside of traditional financing from banks with cheaper interests and lower income threshold highly accepted by this group. It is shown that younger customers often prefer instalments over traditional payment revolving credit cards.

Source: Frost & Sullivan

Overview of BNPL Market in Hong Kong

Future Trends



Adoption in Different Industries

In the future, the buy now, pay later market is likely to trend towards adoption of BNPL methods across different industries and the emergence of super apps:

The nature of BNPL service model, which is the ability to split payments in equal parts and the ability to pay later, may be easily replicated across different industries. As the Hong Kong BNPL providers further develop and mature in the future, BNPL may touch upon different industries and partner with companies in these industries. Following the footsteps of the US and some European countries where BNPL is more developed, Hong Kong will enhance BNPL penetration in all kinds of consumption scenes to satisfy consumer financing needs. For instance, Klarna partnered with Expedia Group to allow their customers to “travel now, pay later”, and Affirm has partnered with American Airlines to allow passengers to “fly now, pay later”.

Emerge of Super Apps

As BNPL providers scale and increase engagement, more super apps offering a combination of shopping, financing, payments and banking products will be developed and offered to the market. BNPL providers may develop super apps that transform into end-to-end shopping hubs, enabling shoppers to use instalment service at any online retailer. The uniqueness of super app is that it offers an integrated, seamless and efficient experience without having to switch between apps. Super apps will be a big differentiator in the BNPL industry in Hong Kong. To gain competitiveness, the app must securely and seamlessly interact with multiple partner platforms and marketplaces to provide a fast and frictionless payment experience.

Source: Frost & Sullivan

Overview of BNPL Market in Hong Kong

Opportunities and Threats

Opportunities

- **FinTech-enabled and digitalisation of asset management services:** In October 2022, the Hong Kong government issued a policy declaration on the development of virtual assets in Hong Kong, clarifying the policy stance and guidelines on the development of a dynamic virtual asset industry and ecosystem in Hong Kong. The declaration states governments' determination in creating a favorable environment to promote a sustainable and responsible development of Hong Kong's virtual asset industry. Cryptocurrency is the most representable virtual asset, and the support of cryptocurrency development makes it easier to introduce BNPL features. BNPL providers will eventually integrate with digital wallets, and cryptocurrency wallets are no exception. Digital wallets can also reduce buyer friction, making larger purchases easier. As consumer trusts in these technologies increases, customers are willing to use crypto-based financing to make bigger purchases, meaning e-commerce companies can offer more Web3-based features that make consumers comfortable with spending more. In the global aspect, leading BNPL providers stay content with possible regulations and are eager to integrate blockchain and crypto technologies into the services. However, as BNPL is in the initial stage of development in Hong Kong and the virtual asset policy declaration was only recently released, there are huge opportunities for Hong Kong BNPL providers to discover.

Challenges

- **External risks of economic recession:** Economic recession fallout will taper the BNPL growth curve, making it harder for some providers to reach the scale required for profitability. During a recession, factors such as high unemployment rates or high interest rates will reduce consumer spending on goods and services. If consumers pull back from spending, it could negatively affect BNPL purchases. And while managing deteriorating consumer risk by approving fewer loans would staunch losses, BNPL providers would do so at the expense of growth.
- **Open banking may transform credit risk and affordability checks:** Most BNPL providers only complete a very basic assessment, usually through a combination of soft credit checks and previous repayment history. However, the rise of this form of fast credit has brought on new dimensions of risk from defaults to fraud which led to regulators looking to regulate this fast-growing industry. Payment fraud systems must have the ability to analyze data in real time and generate accurate credit risk predictions without sacrificing the merchant checkout experience. To tackle the challenge, BNPL providers may enter open banking, which is a banking practice that provides third-party financial service providers open access to consumer banking, transaction, and other financial data from banks and non-bank financial institutions through the use of application programming interfaces (APIs). Enter open banking may enable BNPL providers to access customer data, predictive analysis and decision software to effectively assess consumers' creditworthiness while providing frictionless customer experience.

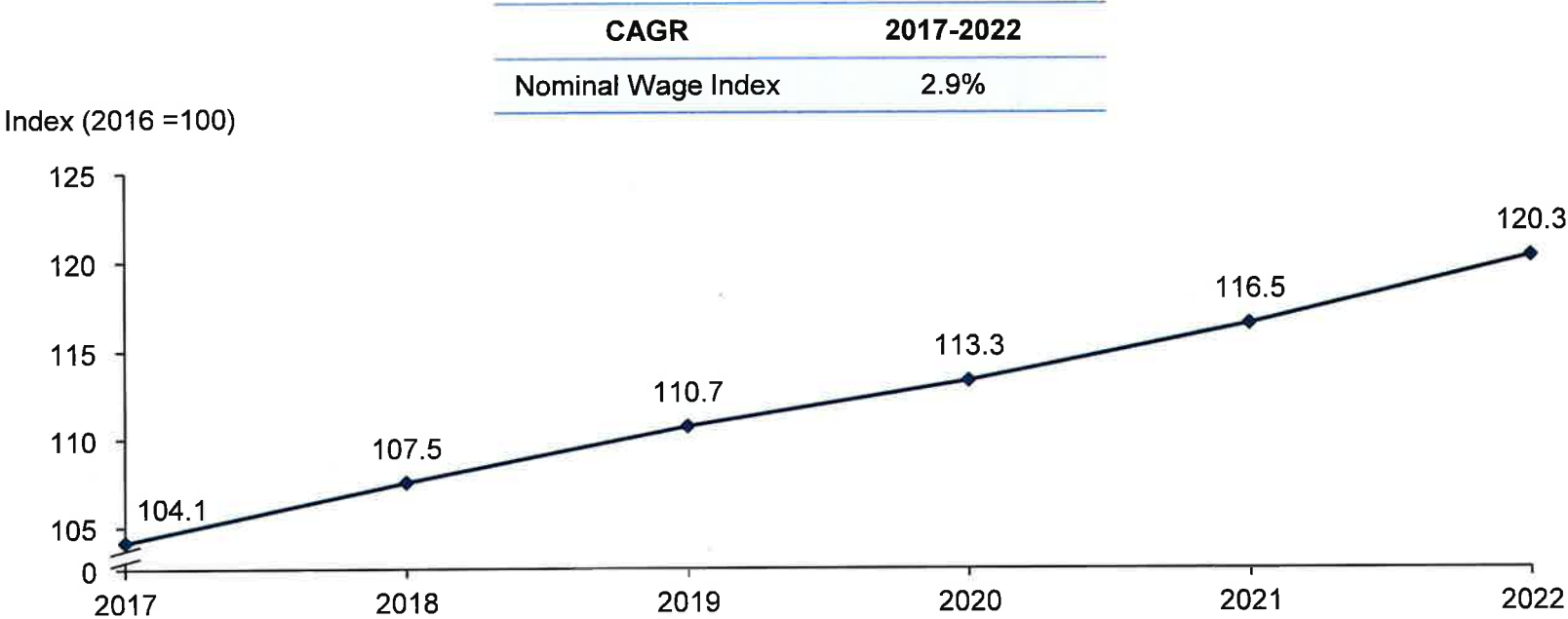
Source: Frost & Sullivan

Overview of BNPL Market in Hong Kong

Cost Structure Analysis

- Labor cost is the major cost for Buy Now Pay Later in Hong Kong. The cost of human resources has been increasing in past five years, with the index grew from 104.1 in 2017 to 120.3 in 2022, representing a CAGR of approximately 2.9%. As the Hong Kong economy continues to grow and expand demand for BNPL services, it is anticipated that labor wages in financial activities industry will continue to rise in the next five years.

Nominal Wage Index of Employees in Financial Activities Industry, 2017-2022



Source: HKSAR Census and Statistics Department, Frost & Sullivan

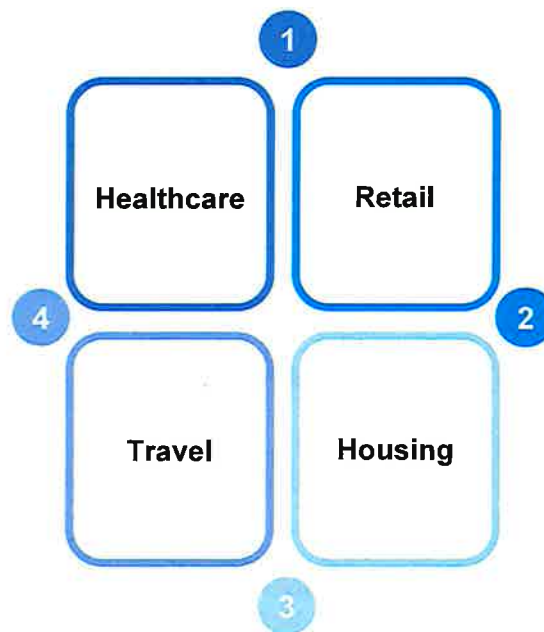
Overview of BNPL Market in Hong Kong

Adoption of BNPL Model for Potential Industry Verticals

Analysis of Eligibility Adoption of BNPL Model for Potential Industry Verticals

BNPL for healthcare can be an option for those looking for elective or cosmetic surgeries, procedures without insurance coverage or high deductibles, or for people who don't qualify for financing from a bank or online lender. BNPL providers may check eligibility through pre-qualification, which typically involves a soft credit pull that does not hurt credit score. Loan amounts and terms may vary depending on BNPL providers and may be considered case-by-case. The BNPL service alleviates the financial burden for patients to help afford and access the care that customers need.

Currently, many BNPL providers have introduced the "travel now, pay later" (TNPL) scheme to reduce the burden to tourists, which TNPL is a travel version of BNPL. It is a loan or credit that customers take out when booking or taking a trip and pay for it in instalments. Big BNPL providers in the world such as Klarna, Afterpay, Affirm and Uplift all offer BNPL option for certain travel partners. Travellers will consider and opt for the TNPL payment method for flights, train, and hotel bookings, and for all travel purposes including leisure and pilgrimage.



Retail is the most extensively applied industry for BNPL method. BNPL is offered to a customer at the point of sale so they can purchase merchandise on credit but without a credit card. Especially with the surge of online retailing and e-commerce during the pandemic, the adoption of BNPL has heavily increased. Low interest rates and merchants seeking to maintain sales created the perfect environment for BNPL and offered a way for several retailers to get around lower, or completely absent, in-store sales. BNPL is not only an additional payment option for consumers but also an increasingly essential marketing tool for retailers.

BNPL may be applied in the housing market in paying customer mortgages. As part of a mortgage application, BNPL providers will gather certain information to decide whether the borrowing required will be affordable. BNPL providers will run soft or hard credit search on consumers. BNPL providers will also determine the mortgages on several factors- the amount of outstanding, how much repay each month and when arrangements will be paid off.

Source: Frost & Sullivan Analysis and Estimates

Competitive Landscape of BNPL in Hong Kong

Competition Overview

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

As estimated, there are less than 10 BNPL service providers in Hong Kong in 2022. The major BNPL services providers in Hong Kong are shown as follows:

- Ant Bank and AlipayHK
- HSBC
- Atome
- Livi Bank
- Pace
- Hero Plus
- Hoolah

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

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

Agenda

- 1 Introduction of the Research
- 2 Overview of Macroeconomic Environment in Hong Kong
- 3 Overview of Licensed Money Lending Market in Hong Kong
- 4 Competitive Landscape of Licensed Money Lending in Hong Kong
- 5 Overview of BNPL Market in Hong Kong
- 4 Competitive Landscape of BNPL in Hong Kong**
- 5 Appendix

Competitive Landscape of BNPL in Hong Kong

Entry Barrier Analysis

The BNPL industry in Hong Kong is competitive with both local banks and money lenders, and internal BNPL platform operating under various scales and conditions.

Considerable Capital Requirement

New market entrants are required to invest sufficient amount of capital for their daily business operations and the financing needs of customers. In particular, as the existing BNPL service providers in Hong Kong have already established their point of sales infrastructure, new entrants are required to effectively utilise their financial resources to develop their own payment infrastructure and promote their BNPL products. As such, the cost for new entrants to enter the BNPL market is comparatively high due to the capital-intensive nature of the market.

License and guideline

The HKMA issued in Sep 2022 a circular to banks on BNPL products, requiring them to implement seven consumer protection measures, including (i) Banks must include the educational message in the advertising and promotional materials for BNPL products, a requirement currently in place for other loan products for retail customers and SMEs; (ii) Banks must clearly and prominently disclose in the marketing and promotional materials of BNPL products that they are "credit products"; (iii) When engaging or partnering with e-commerce platforms, banks should assess the potential implication on impulsive borrowing if the BNPL products are set as the default or preferred choice of payment methods; (iv) Banks must ensure that the relevant fees and interest charges are disclosed in a clear manner in the advertising and promotional materials of BNPL products, and the relevant fees and interest charges should be taken into account in the calculation of Annualised Percentage Rate for customers' reference; (v) Banks are required to specify in the Key Facts Statement of a BNPL product that, if the borrower is overdue in repayment, it may adversely affect the credit records of the customer, and may even affect access to credit in the future; and (vi) Banks should ensure that the customer is duly informed about whether and how the chargeback mechanism is applicable to the BNPL product; and (vii) Banks should ensure that the customer is duly informed about whether and how the chargeback mechanism is applicable to the BNPL product. It is expected more industry standards or licensing requirements of BNPL products would be launched in the near future.

Industry reputation

Established BNPL services providers in Hong Kong enjoy the first mover advantage and have built up their reputation among customers. Leading market participants with proven quality of services enable them to build a strong and committed relationship with customers and establish their reputation and brand image through word-of-mouth promotion with their existing customers. New market entrants without prior market presence may find it as an obstacle to attract new customers and hinder their business expansion plan.

Source: Frost & Sullivan

Competitive Landscape of BNPL in Hong Kong

Key Success Factors

Customer management

The revenue of BNPL products largely depends on the number of customers and their gross merchandise value. Therefore, the ability to effectively maintain and expand customer base is crucial to drive the growth of revenue. To cater to customers' preferences, the BNPL service providers offer customers flexibility in terms of repayment amount and duration, as well as interest rate. The customised solutions and interaction with customers will help maintain and enhance customer engagement, which will contribute to business growth.

Technology infrastructure

Technology infrastructure is critical for market participants to offer high quality products and services, to facilitate credit assessment as well as to improve user experience. With the continuous upgrade and expansion of technology infrastructure, market participants will be able to develop new features and services for users, build a user-friendly platform with comprehensive service offerings and keep pace with the growth of financial services market in Hong Kong.

Source: Frost & Sullivan

Appendix

Statement Supported

- The comparison on application processing time is representative, as the key factors of loan such as loan amount, tenor, etc. may vary from banks to money lender.
- Fintech enabled money lenders leverage big data analytics, online credit scores and other credit rating softwares to analyse and understand borrowers' repayment ability and decide the loan terms such as interest rates, repayment scheme, loan period. The time required for loan approval ranges from [*] in Hong Kong. [To be inserted]
- Some other BNPL services providers can only provide their services through certain designated merchants.

Source: Frost & Sullivan

Appendix

Statement Supported - CRP

- The Credit Reference Platform (CRP) is a financial infrastructure launched in November 2022 to facilitate the transmission of consumer credit information in encrypted form between the participating credit providers (such as banks and money lenders) and the CRAs using fintech (i.e. distributed ledger technology, big data architecture and API). There are three credit reference agencies (CRAs) shortlisted under the Multiple Credit Reference Agencies (MCRA), namely PingAn OneConnect Credit Reference Services Agency (HK), TransUnion, and Nova Credit Limited, and it is expected that introduction of the MCRA Model aims to promote competition in the consumer credit reference industry to enhance the service quality of CRAs, and to reduce the operational risk of having only one CRA in the market, particularly the risk of single point of failure.
- The adoption of credit reference platforms in fintech has become increasingly common in recent years. Credit reference platforms are software tools that allow lenders to access a borrower's credit history and assess their creditworthiness. They can also provide lenders with other information, such as income and employment history, to help them make more informed lending decisions.
- One of the primary benefits of credit reference platforms is that they can help to streamline the lending process. By providing lenders with access to a borrower's credit information in real-time, they can quickly assess their creditworthiness and make a lending decision in a matter of minutes. Another benefit of credit reference platforms is that they can help to reduce the risk of fraud. By verifying a borrower's identity and credit history, lenders can ensure that they are lending to a legitimate borrower who is likely to repay the loan. In this connection, the Group has long been incorporating and leveraging big data into its operation, which involves data in regards to market dynamics and macroeconomies such as market rates of authorized institute and other licensed money lenders, demographics applicants, and more importantly the trace of online behavior and track record of potential and existing clients to extract useful market data in order to identify borrowing needs, trends and risk exposure of different target groups. In particular, the fintech enabled, established and all-round credit risk management methodology, or also known as the credit model assessment of the Group uses computational rules and models that have been developed using the vast amount of data created by lending transactions history and credit performance, with an aim to categorising loan applicants into different risk categories. The CRP serve as a pivotal property to escalate visibility and accessibility of consumer credit information to the Group to derive an adequate machine-learning based credit score for the benefit of the customer and the Group in terms of efficiency, profitability and sustainability. Overall, the adoption of credit reference platforms in fintech has facilitated a more efficient and secure process along the process of money lending, while also reduces the risk of default for lenders.

Source: Frost & Sullivan

Appendix

Statement Supported - Multiple Credit Reference Agencies system

- The Multiple Credit Reference Agencies system is a system used by some countries to provide lenders with access to credit information from multiple credit reference agencies. In such a system, lenders can access credit information from more than one credit reference agency when assessing a borrower's creditworthiness. This system is typically used to provide lenders with a more comprehensive view of a borrower's credit history, as credit reference agencies may have different information on a borrower's credit behavior. For example, one credit reference agency may have information on a borrower's payment history for credit cards, while another may have information on their payment history for loans. By accessing credit information from multiple credit reference agencies, lenders can make more informed lending decisions and reduce the risk of lending to borrowers who are unlikely to repay their loans. In some countries, such as the UK, the use of Multiple Credit Reference Agencies is mandated by law. For example, lenders in the UK are required to report credit information to at least two credit reference agencies and must check the credit files of potential borrowers with at least two credit reference agencies before making a lending decision.

Source: Frost & Sullivan

Appendix

Statement Supported - Customer Data Platform

- A customer data platform (CDP) can be a valuable tool for money lenders, as it can help them to collect and manage customer data from various sources, including loan applications, credit reports, and other financial data. By using a CDP, money lenders can gain a better understanding of their customers' creditworthiness, financial behavior, and needs, allowing them to make more informed lending decisions. One of the key benefits of a CDP in money lending is the ability to create a unified profile of each customer that includes all relevant financial data. This can help money lenders to assess a borrower's creditworthiness more accurately, as they can see a complete picture of the borrower's financial situation. Additionally, a CDP can help money lenders to better understand customer behavior and preferences, which can be used to create more personalized and targeted marketing campaigns. By analyzing customer data, money lenders can identify patterns and trends in customer behavior, and use that information to offer more relevant products and services to their customers. Overall, a customer data platform can be a valuable tool for money lenders, helping them to make more informed lending decisions, improve customer engagement, and drive business growth.

Source: Frost & Sullivan

Appendix

Statement Supported - Blockchain smart contract

- The Group adopted blockchain technology enabled smart contract traditional loan agreement/record keeping. Compared to traditional loan agreement/record keeping method, smart contract renders benefits by offering efficient, timely and precise processing. Smart contracts uses application programming interface (“API”) and are digital and automated process can be executed and delivered to stakeholders i.e. the company and the client, momentarily as soon as agreements are made, reducing the involvement of cumbersome paperwork and the time required to fix errors that frequently occur when documents are filled out manually. The real-time communication and visibility enhances customer experience and induces better customer relationship. Besides, smart contract leveraging blockchain technology is also safe as transaction records are encrypted and operate in a distributed ledger where tampering and falsifying data is highly unlikely.

Source: Frost & Sullivan

Appendix

Statement Supported - Fintech monitoring system

- Compared to traditional data analytic mechanism which assesses borrowers' risks by analyzing their audited financial statements, fintech monitoring system adopted by the Group enables direct access to the SME borrowers' POS system enable attain real-time monitoring of financial position of the client. POS system records a series of operating data including sales record, inventory data, employee turnover, business performance reports and may also include tax detail and average account receivable and payable cycle.
- As operating data of customer is dynamic over days, real-time fintech monitoring system allows licensed money lenders to assess a borrower's creditworthiness more accurately, offer customised loan products and the time to fund loans can be minimised as processing is instantaneously, which elevates customer experience that translates to business opportunities.

Source: Frost & Sullivan

Appendix

Statement Supported - Risk-based pricing capabilities and the significance to fintech money lender

- According to authoritative studies published by the IMF under the working paper namely “Fintech Credit Risk Assessment for SMEs: Evidence from China”, it is concluded that the fintech risk assessment approach yields a superior prediction of loan defaults during normal times and periods of large exogenous shocks, reflecting the information and modeling advantages of fintech based risk assessment. Previously, SMEs lack quality and consistent financial data or collateral assets for banks to identify and manage credit risk. Authorized institutions and licensed money lenders using traditional risk assessment approaches resort to periodically-updated and lagging financial reports of the SME or even personal guarantees and relationship lending. Fintech is adopted by the Group and other industry players to capture SMEs’ digital footprint including real-time and dynamic borrowers’ financial conditions which reflect the repayment capability, as well as behavioral characteristics which largely reflect borrowers’ willingness to repay. Further, the big data incorporated machine learning approach empowers fintech licensed money lenders to restructure loans quickly at large volumes, which significantly reduces operating costs. Also, other business operating variables such as customer ratings and network effect scores can be easily taken into consideration in the fintech risk assessment model.

Source: Frost & Sullivan

Appendix

Statement Supported - Money Lending in Construction Market

- In the Hong Kong construction industry, sufficient capital flow is important for construction contractors and subcontractors to satisfy their operational and capital needs. Upfront costs for new entrants may include purchase or deposits for materials and components, fees payable to subcontractors, recruitment of direct labour and provision of performance bonds to the customers. Failure to make timely payments for production or construction costs may delay project schedules and affect their credibility. Such substantial amount of capital requirements put pressure on construction market industry players and the rising demand for money lending in relation to the upfront set-up cost. In general, the upfront cost incurred construction projects will range from approximately 5% to 50% of the respective contract sum. In this regard, the market opportunities of money lending in the construction market is expected to grow continuously.

Source: Frost & Sullivan

Appendix

Statement Supported - Finger vein recognition

- Finger vein biometrics recognition, is a biometric identification technique that examines the patterns of blood veins visible on the surface of the skin of the fingers using near-infrared LED and a monochrome charge-coupled device camera. By putting near-infrared light on their fingers, this technology captures photos of the veins within user's hand, making counterfeiting almost impossible. Furthermore, blood flow in the veins during identification confirms that the identity of the person, the accuracy and security level is one of the highest compared to other forms of biometric technologies such as fingerprint, face recognition, voice or hand geometry

Source: Frost & Sullivan

Appendix

Statement Supported - Finger vein recognition

- Compared to traditional licensed money lending business setting where extensive capital is required for hiring on-site administrative staffs and renting on-site utilities and facilities of offline stores, the deployment of Video Teller Machine (“VTM”) requires significantly less space in regards to the provision of on-site customer service. The reduction in asset applied and related overhead costs, or in other words, a lowered costs in human resources, administration and operation will allow, the Group to minimize the influence of the rise in labor and rental costs. In particular, according to the Census and Statistics and Department, the average monthly wage of workers of clerical and secretarial workers has risen from HK\$15,146 per month in 2017 to HK\$17,291 per month in 2022, representing a CAGR of approximately 2.7%.

Source: Frost & Sullivan

Appendix

Statement Supported

- In the BNPL industry, some BNPL services providers only provide their services through certain designated merchants.
- The Group is the first licensed money lender in Hong Kong to employ VTMs in our operations and to adopt biometric vein scanning for identity verification purposes at drawdown via VTMs, utilize financial technologies and provide “7x24 AI loans” services in Hong Kong through the network of VTMs.
- The Group is the first licensed money lender to set up a branch in an MTR station

Source: Frost & Sullivan

Appendix

Statement Supported – Facial recognition vs HKID authentication method

- There are multiple benefits of facial recognition technology when compared to simple HKID authentication method, including (i) as facial recognition technology works by identifying and measuring facial features in an image or video, which is hardly able to be manipulated by any counterfeit image, it offers more strengthened security and assurance compared to HKID card authentication where counterfeit is possible. Therefore it is often adopted as multifactor authentication for additional security verification; (ii) facial recognition is not transferrable and unique in nature, which avoids the potential transferability risk of ID card; (iii) facial recognition can be convenient and handy, compared to ID card where loans applicants may be required to identify the location and the stricter requirement on lighting when providing ID card photos.

Source: Frost & Sullivan

Appendix

Statement Supported – Loan application system

- Loan application system in the licensed money lending industry undergoes the following procedures.
 1. Application intake: the lender collects loan applications from borrowers through various channels, such as online portals, virtual teller machines (VTMs), in-person meetings, or phone calls.
 2. Application review: The lender reviews each loan application and verifies the borrower's personal and financial information. They may also request additional documentation, such as pay stubs, tax returns, and bank statements.
 3. Risk assessment: The lender evaluates each application's creditworthiness and risk of default. This includes analyzing the borrower's credit score, debt-to-income ratio, and other financial factors.
 4. Loan approval: Based on the underwriting analysis, the lender decides whether to approve or deny the loan application. If approved, the lender will provide the borrower with the loan terms and conditions, including the interest rate, repayment schedule, and any fees.
 5. Loan Disbursement: Once the borrower accepts the loan terms, the lender disburses the loan funds to the borrower, usually through direct deposit or a check.

Traditional loan application system faces the challenges of complex workflow which creates logistical sophistication for clients who may need financial support urgently. The requirement of physical documentation is lengthening the loan approval time. Data entry manually may also lead to errors and wastage of resources and compromises efficiencies, while outdated data entry platform can compromise data integrity of clients' data. On the contrary, digital loan application process developed nowadays leverage 24-hours-operating system to greatly elevate convenience for clients, speeding up loan approval process and efficiency as steps are automated in many aspects such as applicant's identity verification, risk assessment and funding processes. It also reduces manual labour cost and eliminate the need for paper-based processes, physical branches and in-person interactions. Digital loan application processes can be more secure too leveraging advanced encryption through blockchain contract and security protocols to protect the interest of the licensed money lender and customers.

Source: Frost & Sullivan

Appendix

Statement Supported – Loan management system

- A loan management system (“LMS”) is a software platform that helps lenders managing their loan portfolios, automating and streamlining entire loan life cycle including loan servicing, reporting, customer care, syndication and customer monitoring. It acts as a centralized data storage unit which is used for retaining and managing customer information, creating new loans, and keeping a record of all financial statements for the lenders. LMS typically includes features such as loan origination, underwriting, servicing, and collections. The LMS automates many aspects of the loan management process, allowing lenders to streamline their operations and reduce costs. Some features may include:
1. Loan Origination: allows lenders to accept loan applications from borrowers and collect the necessary information and documentation to process the loan.
 2. Risk assessment: analyzes the borrower’s creditworthiness and risk of default, using algorithms and rules that are set by the lender.
 3. Loan Servicing and collection: manages the loan account and collects regular loan payments from the borrower
 4. Reporting and Analytics: provides lenders with detailed reports and analytics on their loan portfolios, allowing them to monitor performance, track trends, and identify areas for improvement. This may include features such as payment processing, account management, and customer support.
 5. Compliance: ensures that lenders comply with relevant laws and regulations, such as those related to consumer protection, data privacy, and financial reporting.

Source: Frost & Sullivan

Appendix

Statement Supported – Home Ownership Scheme

- In Hong Kong, the number of subsidised sale flat increased from 400,000 in 2017 to 437,000 in 2022.
- Subsidised Sale Flats (SSF) in Hong Kong are public housing units that are built and sold to eligible residents at a subsidized price by the Hong Kong Housing Authority (HA) or the Hong Kong Housing Society (HKHS). These flats are designed to provide affordable housing options for low to middle-income families, and the eligibility criteria and application process are managed by the government. **The flat of home ownership scheme are also subsidized sale flats.**
- The prices of SSF units are usually lower than the market prices of private housing units, and they are sold to eligible residents through a selection process that takes into account factors such as income, family size, and other criteria. The prices of SSF units are also subject to resale restrictions, which means that the units can only be resold to eligible buyers at prices that are approved by the government.
- SSF units are managed by the HA or HKHS, and residents must follow rules and regulations to maintain their eligibility for the units. There are also various support services available to SSF residents, such as financial assistance and community support programs.

Source: Frost & Sullivan

Appendix

Statement Supported – Unmanned branches and Labour intensive branch model

- Most traditional money lenders adopt a labor-intensive branch model to serve customers only during the office hours
- Traditional money lenders only conduct analysis on the individual borrowers' credit history.
- Traditional loan agreements are inherently subject to human error.
- Traditional record keeping rely on a single centralized database to store records, with such approach, record is rather easy to be tampered with and undetected.

Source: Frost & Sullivan

Appendix

Statement Supported – Market Share

- The market share of the Group in the entire unsecured loan market (comprising of authorised institutions and licensed money lenders) and the licensed unsecured money lenders market in Hong Kong is approximately 0.15% as in 2022, which is calculated by dividing the HK\$234.0 million revenue recorded by the Group in 2022, by the aggregated market size of licensed money lender (HK\$6.4billion) and authorized institutions (HK\$150.9 billion), which is equal to HK\$150.9 billion. (HK\$0.0234 billion/HK\$150.9 billion ≈ 0.15%)
- The market share of licensed unsecured money lenders market as a percentage of the entire unsecured loan market is approximately 4.1% as in 2022.
- The licensed unsecured money lenders market is dominated by the top three market participants with an aggregate market share of 70.8%

Source: Frost & Sullivan

Appendix

Statement Supported – Core competence of licensed money lenders

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

- ***Flexibility and ease of access:*** Licensed money lenders typically have much more flexible requirements and a simpler application process for unsecured loans compared to banks. They can approve loans more quickly with fewer documentation requirements. This appeals to borrowers who need fast and easy access to funds. In Hong Kong, it is estimated that the application of unsecured personal loan in authorized institution such as licensed banks takes on average one week to process, whereas it can possibly take one day and up to five days for licensed money lenders to process the loan, considering a unsecured personal loan value of less than HK\$200,000, which is attributable to the developed backend database platform and the streamlined internal approval procedure.
- ***Willingness to lend to higher-risk borrowers:*** Money lenders tend to provide lower threshold to borrow for borrowers with relatively mediocre or limited credit histories, irregular incomes, or other risk factors that would likely disqualify them from getting a bank loan, which may involve a notable amount of individuals and SMEs.
- ***Niche focus and customisation:*** The niche focus allows money lenders to tailor their products, process, and service specifically to the needs of their target borrower groups.

Source: Frost & Sullivan

Appendix

Statement Supported – Competition from Authorised Institutions

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

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

Source: Frost & Sullivan

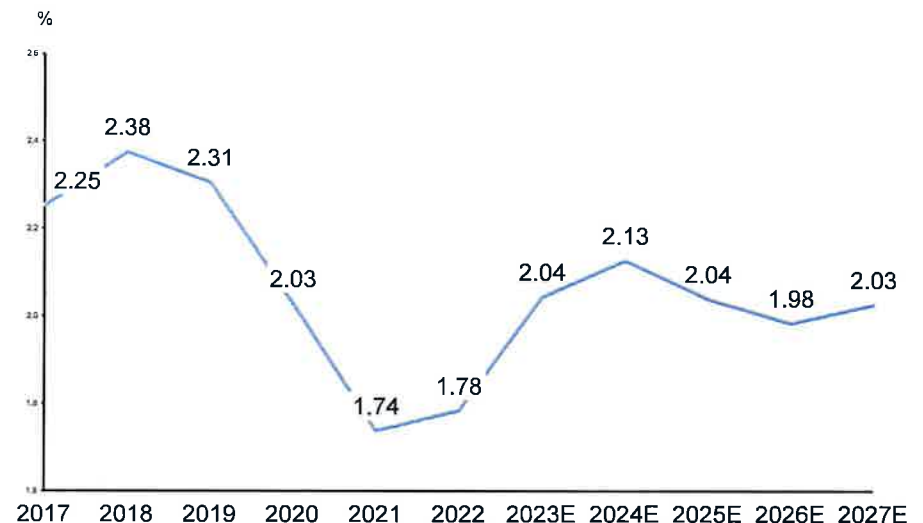
Appendix

Net interest margin and net interest spread

Net interest margin in the money lending market (Hong Kong), 2017-2027E



Net interest spread in the money lending market (Hong Kong), 2017-2027E



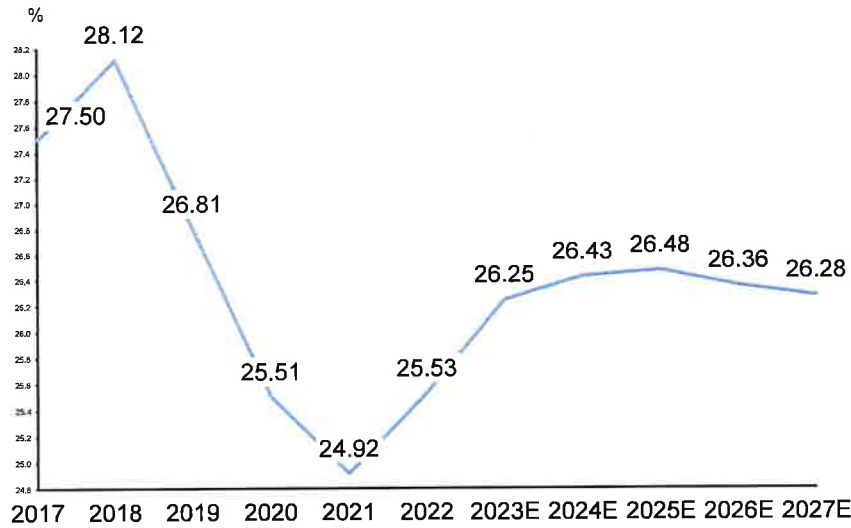
➤ In the money lending market, the net interest margin is a financial ratio that measures the difference between the interest income generated by assets and the interest expense on liabilities, divided by the average interest-earning assets, while net interest spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Higher figures for both indicates a more profitable business model for industry players. The fluctuation is mainly attributable to the change in cost of funds over the years, which is the interest rate that money lenders pay to acquire the funds that they lend out and is highly associated with the interest rate environment in recent years, the increasing competition in the industry that lenders may lower their interest rates to attract borrowers, and borrower's demand. The net interest margin and net interest spread in the money lending market in Hong Kong has hovered around 2.0 to 2.8 and 1.7 to 2.4 respectively during 2017 to 2022, and is expected to grow steadily during 2023 to 2027 considering the growing demand for money lending as well as the macroeconomy factors such as potential interest rate cut.

Source: Frost & Sullivan

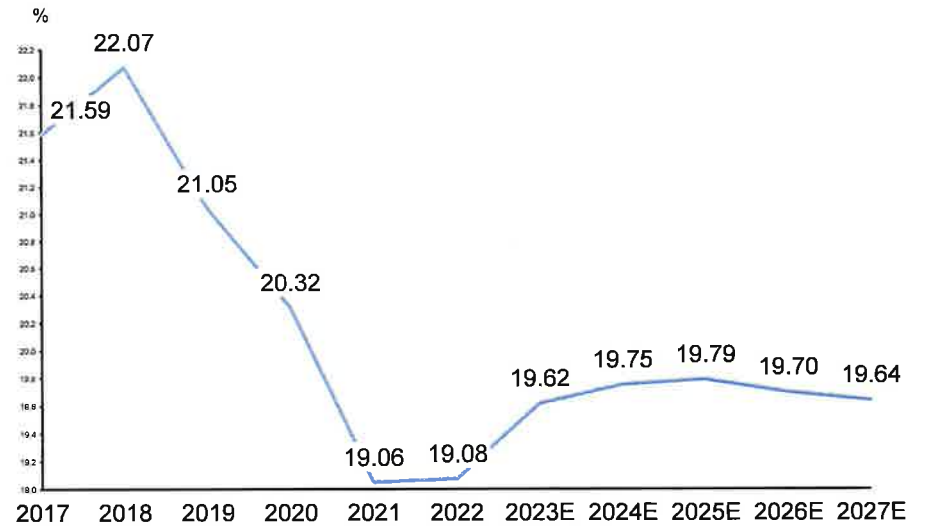
Appendix

Net interest margin and net interest spread

Net interest margin of unsecured licensed money lender (Hong Kong), 2017-2027E



Net interest spread of unsecured licensed money lender (Hong Kong), 2017-2027E



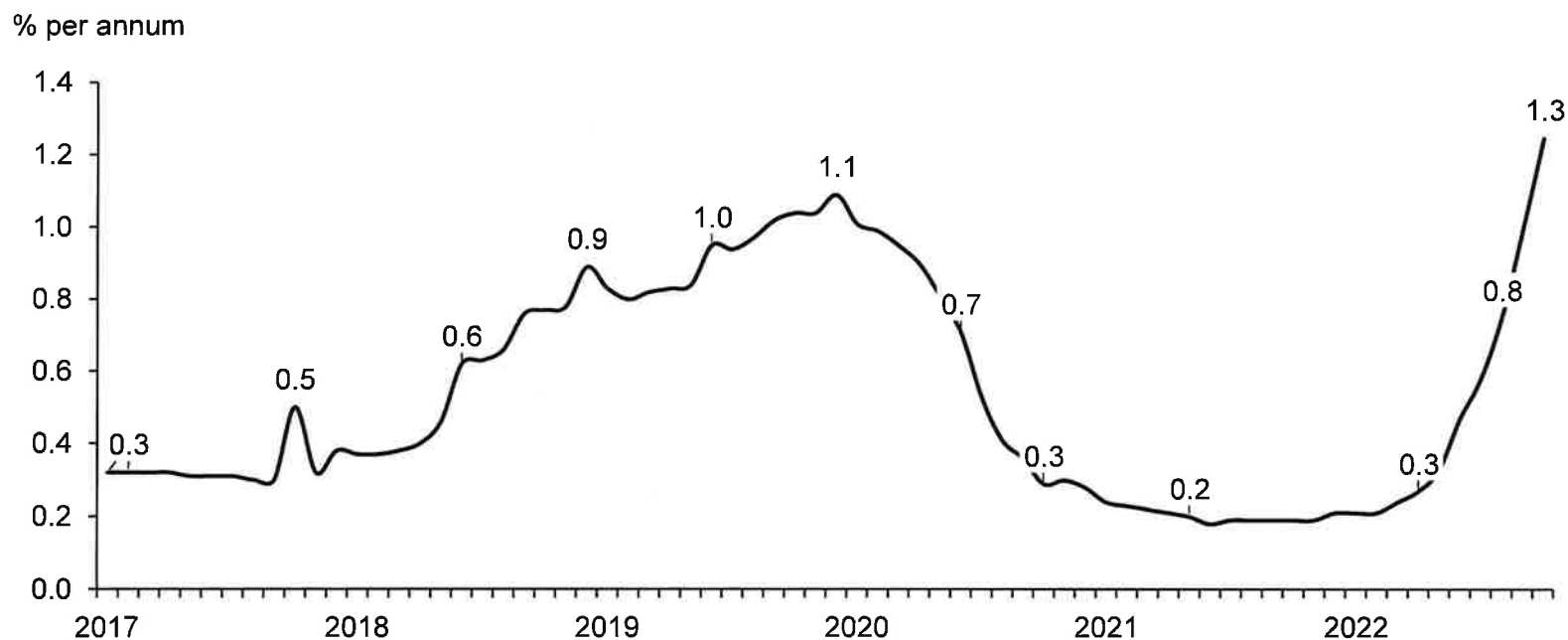
Source: Frost & Sullivan

Overview of Licensed Money Lending Market in Hong Kong

Interest Rate Cycle Correlation to the Industry (2/2)

- The composite interest rate is a weighted average interest rate of all Hong Kong dollar interest-rate-sensitive liabilities, which include deposits from customers, amounts due to banks, negotiable certificates of deposit and other debt instruments, and all other liabilities that do not involve any formal payment of interest but the values of which are sensitive to interest rate movements (such as Hong Kong dollar non-interest bearing demand deposits) on the books of banks. Since June 2019, the composite interest rate has been calculated based on the new local "Interest rate risk in the banking book" (IRRBB) framework. As such, the figures are not strictly comparable with those of previous months.

Composite interest rate (Hong Kong), 2017-2022



Source: Hong Kong Monetary Authority, Frost & Sullivan

Appendix

Net interest margin and net interest spread

- In the unsecured licensed money lending market, the net interest margin is a financial ratio that measures the difference between the interest income generated by assets and the interest expense on liabilities, divided by the average interest-earning assets, while net interest spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Higher figures for both indicates a more profitable business model for industry players. The fluctuation is mainly attributable to the change in cost of funds over the years, which is the interest rate that money lenders pay to acquire the funds that they lend out and is highly associated with the interest rate environment in recent years, the increasing competition in the industry that lenders may lower their interest rates to attract borrowers, and borrower's demand. In particular, the decline in net interest margin during 2018 to 2020 and 2021 to 2022 was attributable to the overall increase in interbank offered rates and prime lending rates as these rates in Hong Kong follow interest rate moves in the US. When general interest rates rise, licensed money lenders see their funding costs increase but tend to not fully pass on increased funding costs to new customers in order to remain attractive and competitive for new customers, resulting in fierce competition, lowered lenders' pricing power and diminished ability to maintain wider spreads in general. The net interest margin and net interest spread in the unsecured licensed money lending market in Hong Kong has hovered around 24.9 to 28.2 and 19.0 to 22.0 respectively during 2017 to 2022, and is expected to grow steadily during 2023 to 2027 considering the growing demand for money lending as well as the macroeconomy factors such as potential interest rate cut.

Source: Frost & Sullivan

Appendix

Net interest margin and net interest spread

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➤F&S: Due to limited information availability, Frost & Sullivan is unable to provide the breakdown of net interest margin and net interest spread by different loan types in time-series chart. Though we were able to compile the overall net interest margin and net interest spread for the unsecured lending market using public disclosures from listed companies' annual reports, granular data on spreads and margins by specific loan types is not publicly disclosed in a systematic way that would allow for a robust time-series analysis. Based on qualitative research of trade interviews with experts in the licensed money lending industry, estimated ranges for net interest margins and spreads by loan type are disclosed as follows:

➤The net interest margin of unsecured personal loan and unsecured property loan of licensed money lenders ranges from 20% to 30%. The net interest spread of licensed money lenders unsecured personal loan and unsecured property loan ranges from 15% to 35%.

➤The net interest margin of unsecured SME loan of licensed money lenders ranges from 15% to 25%. The net interest spread of unsecured SME loan of licensed money lenders ranges from 13% to 20%.

➤Some reasons for discrepancies of net interest margin and net interest spread among industry players may include but not limited to (i) credit risk and borrower profile i.e. lenders with riskier loan books may need to price higher to compensate for higher expected credit losses; (ii) cost of capital i.e. lenders that can access lower-cost sources of capital will have lower funding costs, considering charging an average market interest rates, it enables them to earn higher net interest margins; and (iii) operating costs i.e. lenders with lower operating costs and higher efficiency will have more room to price competitively while still earning healthy margins;. Accordingly, the industry range of net interest margin and net interest spread can differ which is highly dependent on each individual company's risk appetite, access to low-cost funding, operating efficiency, and overall competitive strategy.

Source: Frost & Sullivan

Appendix

Expected Credit Loss

➤ The main drivers of differing expected credit loss levels among licensed money lenders include:

- i. **Product mix and business segments:** Licensed money lenders that focus mostly on unsecured personal and property loans generally have higher expected credit losses, while lenders with more secured lending and lower risk products (e.g. SME loans, as compared to personal loans) in their product mix may have lower credit loss expectations. For instance, United Asia Finance Limited had an approximate share of 9.5% (compared to 0.0% for the Group) of its secured finance segment contributed to its total loan receivable in 2022, as well as an approximate share of 22.9% (compared to 4.9% for the Group) of its unsecured SME loans contributed to its segment revenue generated in 2022. This induces reduced credit risk to a certain portion of its portfolio, which serves as a contributing factor that dilutes its expected credit loss rate.

Besides, according to TransUnion's Industry Insights Report, in Hong Kong, the consumer-level delinquency rate of credit cards is lower than the consumer-level delinquency rate of unsecured personal loans, each attaining approximately 0.09% and 1.01% respectively in the fourth quarter 2022. In this connection, 80% of Aeon Credit's unsecured personal loan business is accounted for by the credit card segment and the remaining 20% by traditional unsecured personal loans. The lower delinquency rate of credit card, and the product mix of Aeon Credit elucidates its lower expected credit loss rates over the past few years. In addition, the increasing unused credit card limit of Aeon Credit sheds light on the decreasing expected credit loss rates in recent years.

- ii. **Risk appetite:** which means some aggressive lenders accepting below prime borrowers and offering higher-risk unsecured loan products will likely report higher loss expectations while conservative lenders with strict underwriting focused on prime borrowers and secured loans will have lower projected losses; [F&S: it is reconsidered that net interest margin is not an appropriate metrics to compare as it involves cost of capital difference which is unrelated to ECL, and the average effective interest does not shed much light on the ECL difference. There are very limited quantitative data to support in the perspective of risk appetite on the ECL discrepancy]

F&S confirms that in the licensed money lending industry, the delinquency ratio (or bad debt ratio) typically ranges from 3% to 15%, it is confirmed that the Group's bad debt ratio is in line with industry average range. Economic downturns, ineffective collection process, poor credit management are major factors that would increase the bad debt rate, vice versa.

	The Group	United Asia Finance Limited (subsidiary of Sun Hung Kai Co (00086.HK))	Aeon Credit Service (Asia) Company Limited (00900.HK)
Expected credit loss rates	As at 31 December 2020: 9.9% As at 31 December 2021: 10.8% As at 31 December 2022: 10.3% As at 31 May 2023: 10.2%	As at 31 December 2020: 6.7% As at 31 December 2021: 5.0% As at 31 December 2022: 5.2%	As at 28 February 2021: 5.5% As at 28 February 2022: 4.3% As at 28 February 2023: 3.3%
Bad debt ratio	As at 31 December 2020: 4.5% As at 31 December 2021: 5.1% As at 31 December 2022: 3.8% As at 31 May 2023: □%	As at 31 December 2020: 7.8% As at 31 December 2021: 6.5% As at 31 December 2022: 7.5%	As at 28 February 2021: 5.9% As at 28 February 2022: 3.0% As at 28 February 2023: 2.7%

Sullivan

Appendix

Expected Credit Loss

Extracted from The Group's prospectus

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

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

Source: Frost & Sullivan

Appendix

Expected Credit Loss

Extracted from United Asia Finance Limited, subsidiary of Sun Hung Kai Co (00086.HK)

The Group performs impairment assessment under an expected credit loss (“ECL”) model on financial assets (including deposits and other receivables, bank deposits, short-term pledged bank deposits and bank balances, cash and cash equivalents, loans and advances to consumer finance customers, mortgage loans, term loans, amounts due from brokers, amounts due from associates and receivable from reverse repurchase agreements) and other items (loan commitments and financial guarantee contracts) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

*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 reporting date. **Assessments are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.***

For all other instruments, the Group applies the general approach and measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition

Source: Frost & Sullivan

Appendix

Expected Credit Loss

Extracted from Aeon Credit (00900.HK)

- *“The Group performs impairment assessment under ECL model on financial assets (including advances and receivables, other debtors, amounts due from immediate holding company, an intermediate holding company and ultimate holding company, time deposits and bank balances) and unused credit card limit which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.*
- *Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group’s **historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.***
- *The Group always recognises lifetime ECL for debtors and amounts due from related parties which are traderelated arising from contracts with customers which are initially measured in accordance with HKFRS 15. The ECL on these assets are assessed individually based on past due analysis.*
- *The Group applies the general impairment approach of HKFRS 9 for other financial assets and unused credit card limit to recognise impairment based on a three-stage process which is intended to reflect the deterioration in credit quality of a financial instrument. The ECL on these assets is assessed individually or collectively using a provision matrix with appropriate groupings.*
- *Stage 1 covers instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk. Stage 2 covers financial instruments that have deteriorated significantly in credit quality since initial recognition. Stage 3 covers financial assets for which credit loss events occur and become credit-impaired. 12m ECL is recognised in Stage 1, while lifetime expected credit losses are recognised in Stages 2 and 3.”*

Source: Frost & Sullivan

Appendix

Supporting Statement

- In 2022, the Company had a revenue of HK\$140.1 million from the unsecured HOS property owners loan for the year 2022, representing a share of 10.1% in the licensed unsecured HOS property owners loan market in Hong Kong. In terms of the non-HOS property owners loan market in Hong Kong, the Company had a revenue of HK\$6.7 million from the unsecured HOS property owners loan for the year 2022, representing a share of 0.1%
- According to Frost & Sullivan, the interest rate of a mortgage loan may range from 15.0% to 30.0% depending on the property loan types and property types.
- Most traditional money lenders adopt a labor-intensive branch model to serve customers only during the office hours.
- Traditional money lenders only conduct analysis on the individual borrowers' credit history.
- Traditional record keeping rely on a single centralized database. With such approach, record is rather easy to be tampered with which goes undetected.
- Traditional money lenders assess and manage risks by analyzing borrowers' audited financial statements.

Source: Frost & Sullivan

Appendix

Supporting Statement

- In the licensed money lending industry in Hong Kong, the turnover rate of IT/ Fintech staff typically ranges from 10-20% annually. Hong Kong's competitive IT labor market and demand-supply mismatch contributes to a relatively fast rate of turnover for tech staff. Such range appears typical and modestly sustainable as long as companies make meaningful efforts toward staff retention and new recruitment.

Source: Frost & Sullivan

Appendix

Supporting Statement

The Group's Additional Measures for High-Interest Loans are in line with the industry practice of reducing the possibility that loan agreements with interest rates higher than the Presumed Extortionate Rate from considered extortionate by the court.

The Group's expected loss rate diverged from listed industry peers was attributable to its increasingly conservative provisioning methodologies and assumptions adopted.

The Group focused on unsecured loans the trend of its delinquency ratio in 2020 to 2022 diverged from our industry peers.

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

Source: Frost & Sullivan

Appendix

Supporting Statement

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

Unsecured property owner loans are primarily offered to owners of (i) subsidized sale flats, which include HOS flats and types of flats such as subsidized flats built by the Urban Renewal Authority and flats under the private sector participation scheme; and (ii) private properties. In the unsecured property owner loan market of authorized institutions and licensed money lenders, which includes unsecured HOS property and private property loan, the top players are mainly licensed money lenders, as authorized institutions predominantly focus on secured property owner loans, i.e. mortgages, with collateral requirements and lower risk tolerance. It is more prevalent for licensed money lenders to offer unsecured loans for property owners. The top three players and their respective market shares in 2022 are United Asia Finance Limited (35.3%), PrimeCredit Limited (21.1%) and The Group (6.7%).

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

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

Source: Frost & Sullivan

Appendix

Supporting Statement

OVERVIEW OF THE HOS PROPERTIES

Introduced in 1978, the Home Ownership Scheme (HOS) is a government subsidized sale of public housing flats managed by the Hong Kong Housing Authority ("HA") to eligible public housing tenants at a price below the market value of the flats. The majority of the HOS flats constructed by the HA are generally built with different sizes, with the saleable area of the flats generally ranging from about 270 square feet ("sq ft") to about 450 sq ft. Apart from new flats rolled out each year, the general public can buy second hand HOS flats in the open market. Owners must first pay a premium to the Hong Kong Housing Authority (HA) for removal of the alienation restrictions before they can sell, let, assign or otherwise alienate their flats in the open market.

Eligibility Requirements for Purchasing HOS Properties

The HOS flats are opened for application by (i) Green Form applicants, who are primarily Public rental housing ("PRH") tenants and eligible PRH applicants; and (ii) White Form applicants, who are private housing tenants and family members of public housing tenants who have passed the asset assessment.

The following categories of persons are eligible for Green Form status in buying Home Ownership Scheme flats, subject to detailed eligibility criteria on age, family composition, property ownership restriction, etc. to be announced by the HA prior to the launch of each sale exercise: (i) Households of Public Rental Housing ("PRH") units under the HA (tenants under conditional tenancies or monthly licencees of HA Transitional Rental Housing units are not allowed to submit application); (ii) Households of Group A Rental Estates/ Elderly Persons Flats (Rental Estates) under the Hong Kong Housing Society (HKHS) (households of Group B Rental Estates or monthly licencees of HKHS Transitional Rental Housing units are not allowed to submit application); (iii) Persons falling into one of the categories who are holders of valid "Green Form Certificates - Applicable to Sale of Home Ownership Scheme Flat Only" issued by the Housing Department (HD)/ Urban Renewal Authority; (iv) Recipients of the Rent Allowance for the Elderly Scheme (RAES) administered by the HA, provided that they or any member of the family have not breached any clause of their Rent Allowance Agreement.

The following groups should be eligible for applying on White Form status, subject to detailed eligibility criteria on age, family composition, residence rule, income and asset limits, property ownership restriction, etc. to be announced by the HA prior to the launch of each sale exercise: (i) Households living in private housing; (ii) Family member(s) of households living in PRH units under the HA or Rental Estates under the HKHS, or any subsidised housing scheme units; (iii) On the closing date of application for this Scheme, flat owners and all their authorised family member(s) under the HA's Tenants Purchase Scheme (TPS) for less than 10 years can apply for the purchase of a flat under the current sale exercise, with no restriction on income and net asset limits. However, they must comply with the "restrictions on domestic property ownership" and subject to designated conditions.

Source: Frost & Sullivan

Appendix

Supporting Statement

Under the Housing Ordinance (Cap.283), any mortgage, charge, assignment or alienation (together with an agreement so to do) of a property acquired under the Home Ownership Scheme shall, in the absence of release of alienation restriction under the covenant in the deed of assignment of purchase (usually by way of payment of premium), be void. A lender or borrower who purports to create a mortgage of or charge or otherwise alienate the HOS Property commits an offence and is liable to a fine of HK\$500,000 and to imprisonment for 1 year. In order for an HOS Property to be mortgaged, charged or otherwise alienated, it is the common practice for its owner to apply to the Housing Department for assessment of the premium payable. Nevertheless, in order to assist first time purchaser for purchasing HOS Property, Housing Authority has entered into deed of guarantee (the "Deed of Guarantee") with the banks and financial institution which are governed by the Hong Kong Monetary Authority (the "HKMA Participants"), pursuant to which, HKMA Participants which had entered into Deed of Guarantee with the Housing Authority are eligible to providing financing to first time purchasers of HOS Property with reference to the market rate. First time Purchaser can based on the Deed of Guarantee arrangement to apply to the above HKMA Participants for special concessionary mortgage terms specified by the Housing Authority including the maximum amount of loan up to 95% (for Green Form applicants) and 90% (for White Form applicants) of the purchase price, maximum repayment period of 25 years and the interest rate at a maximum of the Best Lending Rate quoted by the HKMA Participants concerned minus 0.5% per annum. However, non HKMA Participants, such as licensed money lenders which are not HKMA Participants and did not enter into Deed of Guarantee with HKMA are still subject to the alienation restriction and restrictive mortgage requirements as stipulated under the Housing Ordinance for granting secured loan, among others the requirement of payment for premium payment, Alienation Restriction and Approval from Housing Department.

Source: Frost & Sullivan

Appendix

Supporting Statement

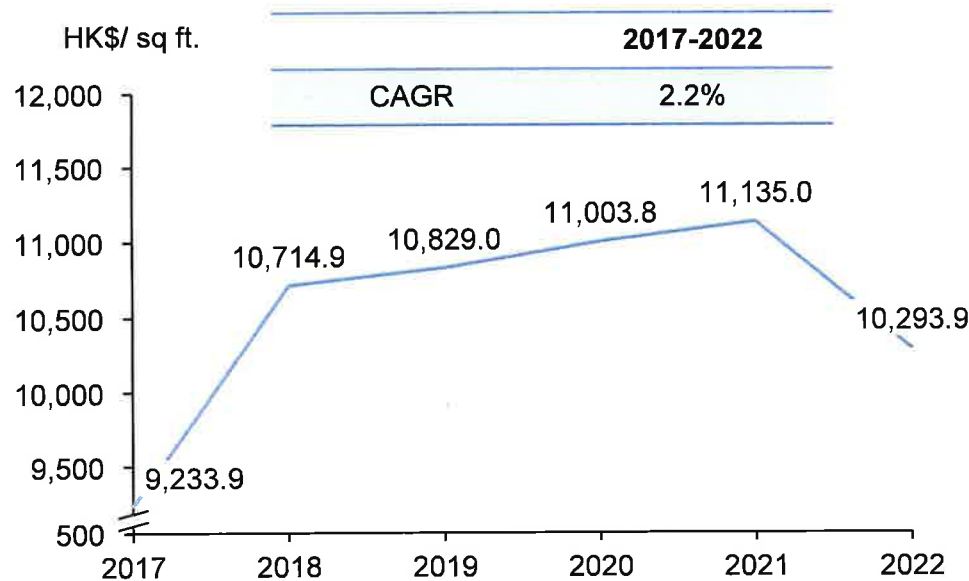
Mortgage ratio of HOS Properties

HA has entered into Deeds of Guarantee with certain banks and financial institutions, providing mortgage guarantee for the HOS flats and HA has been providing these banks and financial institutions with a mortgage guarantee period as long as 30 years. Mortgage loan amount of HOS properties can be up to 95% of the property value for green form applicants or 90% of the property value for white form applicants, depending on the form status, remaining guarantee period, and whether the premium has been paid.

Historical Pricing Trend

The yearly average price of HOS properties has risen steadily from HK\$9,233.9 per sq ft. in 2017 to HK\$10,293.9 per sq ft. in 2022 by saleable area, representing a CAGR of approximately 2.2%, attributable to the strong demand and limited supply in Hong Kong's property market. Price softening in 2022 was principally due to temporary economic downturn as well as continuous global interest hikes resulting in diminishing housing needs in the short run.

Yearly Average Price of HOS properties (Hong Kong), 2017-2022



Source: Frost & Sullivan

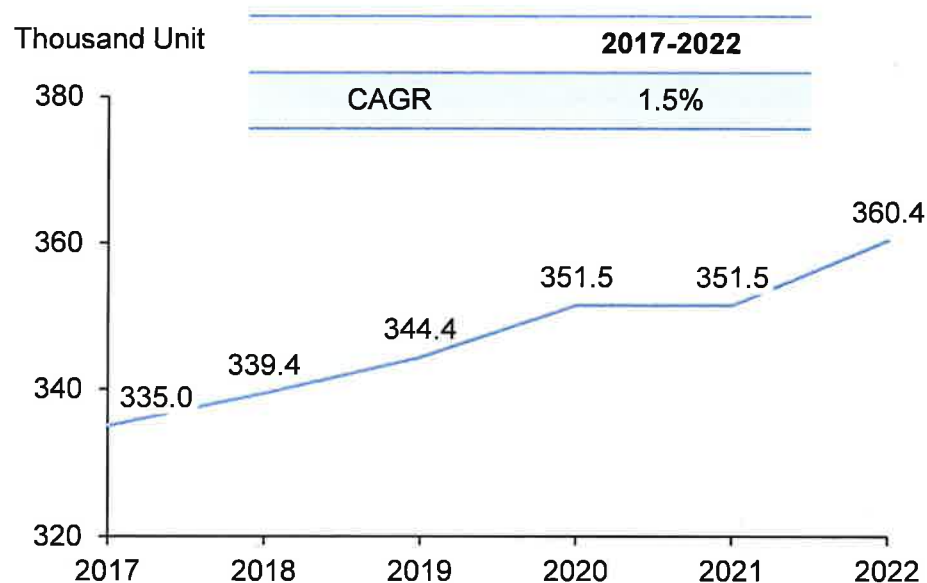
Appendix

Supporting Statement

Number of HOS Properties

Attributable to the continuous and substantial support by the government in developing public housing to meet the housing demand, the number of HOS properties administered by the Housing Authority in Hong Kong has risen from 335.0 thousand unit in 2017 to 360.4 thousand unit in 2022, representing a CAGR of approximately 1.5%

Number of HOS properties administered by the Housing Authority (Hong Kong), 2017-2022



Source: Housing Authority, Frost & Sullivan

Appendix

Frost & Sullivan's Methodology

- Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in Hong Kong includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom.
- This study has been undertaken through extensive primary and secondary research including interviews with industry experts and market participants, and analysis of official public sources of data, figures, information and reports as well as Frost & Sullivan's independent database and research reports.
- Projected market sizes in this report are estimated through in-depth analysis of the historical macro-economic factors such as the country's economic growth and per capita disposable income, market drivers, future trends and market concentration.
- Bottom-up and top-down methods are applied to cross check and fine tune the obtained figures to arrive at the closest estimate.
- Frost & Sullivan's report was compiled based on the below assumptions:
 1. Growth of Hong Kong economy is assumed to maintain a steady growth over the forecast period;
 2. The social, economic, and political environment in Hong Kong is assumed to be stable during the forecast period;
 3. Additional market drivers

Source: Frost & Sullivan

Appendix

Frost & Sullivan's Methodology (Cont'd)

- 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.

Source: Frost & Sullivan