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

If you have sold or transferred all your shares in Hong Kong Finance Group Limited (the “Company”), you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, stockbroker or licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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Hong Kong Finance Group Limited

香港信貸集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1273)

**MAJOR TRANSACTION
IN RELATION TO THE DISPOSAL OF
THE ENTIRE ISSUED SHARE CAPITAL IN
AN INDIRECT WHOLLY-OWNED SUBSIDIARY**

Capitalised terms used in this cover shall have the same meanings as those defined in the section headed “Definitions” of this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 5 to 15 of this circular.

Hong Kong, 26 March 2020

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	5
APPENDIX I — FINANCIAL INFORMATION OF THE GROUP	I-1
APPENDIX II — GENERAL INFORMATION	II-1

DEFINITIONS

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

“Accounts”	the unaudited balance sheet and profit and loss account of the Target for the period commenced from 1 April 2019 and ended on the Accounts Date
“Accounts Date”	30 September 2019
“Adjusted Net Loan Receivable”	the adjusted net loan receivable in respect of the personal loan business of the Target, which is equal to loan receivable minus loan receivables corresponding to the Carved-Out Loan Business or equivalent minus provisions for bad debt or provisions for impairment of loan receivables or equivalent
“Adjusted Payment”	the difference of (i) the Adjusted Net Loan Receivable as shown in the Completion Accounts and (ii) the Adjusted Net Loan Receivable as shown in the Accounts
“Affiliate”	with respect to any person, any legal entity or body corporate that, directly or indirectly through one or more intermediaries, Controls, or is Controlled by or is under common Control with such person
“Agreement for Sale and Purchase”	the agreement for sale and purchase entered into between the Seller, the Company and the Purchaser on 24 January 2020 in relation to the Disposal
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday or Sunday or days on which a tropical cyclone warning Number 8 or above or a “black” rain warning signal or equivalent is hoisted in Hong Kong at any time between 9 a.m. and 5 p.m.) on which clearing banks in Hong Kong and in Japan are open for the transaction of normal banking business
“Carve-Out”	has the meaning ascribed to it under the paragraph headed “The Agreement for Sale and Purchase” of this circular
“Carve-Out Loan Business”	the business of the Target before the Completion other than the unsecured personal loan business of the Target in which the Target lends personal loans to individual customers which shall be disposed by the Target
“Cash Balance”	the total cash balance in all the bank accounts maintained in the name of the Target

DEFINITIONS

“Company”	Hong Kong Finance Group Limited, a company incorporated under the laws of Cayman Islands, the shares of which are listed on the Stock Exchange (Stock code: 1273)
“Completion”	completion of the Disposal
“Completion Accounts”	the unaudited balance sheet and profit and loss account of the Target for the period commenced from the Accounts Date and ended on the Completion Date as verified by the Purchaser after the Completion
“Completion Date”	28 February 2020 or such other date as may be agreed by the Seller and the Purchaser in writing
“Conditions Precedent”	as defined under the paragraph headed “Conditions Precedent” of this circular
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the sum of the cash sum of the Adjusted Net Loan Receivable as at the Accounts Date plus the Premium payable by the Purchaser to the Seller for the Disposal in the manner pursuant to the Agreement for Sale and Purchase
“Control”	(i) the power (whether directly or indirectly and whether by the ownership of the share capital, the possession of the voting power, contract or otherwise) to appoint and/or remove all or such of the members of the board of directors or other governing body of an entity or partnership as are able to cast a majority of the votes capable of being cast by the members of that board or body on all, or substantially all, matters, or otherwise to control or have the power to control the policies or affairs of that person; and/or (ii) the holding and/or possession of the beneficial interest in and/or the ability to exercise the voting rights applicable to shares or other securities in any person which confer in aggregate on the holders thereof more than 50% of the total voting rights exercisable at general meetings of that person on all, or substantially all, matters
“Directors”	the directors of the Company
“Disposal”	the sale by the Seller of the Sale Shares to the Purchaser pursuant to the terms and conditions of the Agreement for Sale and Purchase

DEFINITIONS

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Parties”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates and not otherwise a connected person of the Company
“Latest Practicable Date”	20 March 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Loan Receivable Impairment Policy”	the loan receivable impairment policy of the Target whereby the impairment provision is provided and the loan receivable is written off only when (i) the loan receivable has become overdue for more than 90 days, (ii) the underlying borrower has become deceased or (iii) the underlying borrower has been declared bankrupt
“Long Stop Date”	31 March 2020
“Parties”	the parties to the Agreement for Sale and Purchase, namely the Company, the Seller and the Purchaser
“Premium”	an amount of premium as determined by the paragraph headed “Consideration” of this circular, which shall be part of the Consideration
“Pre-payment”	has the meaning ascribed to it under the paragraph headed “Consideration” of this circular
“Purchaser”	Shinsei Bank Limited, a company incorporated under the laws of Japan, with its registered office situated at Nihonbashi Muromachi Nomura Bld. 4-3, Nihonbashi-muromachi 2-chome, Chuo-ku, Tokyo, Japan
“Remaining Group”	the Group other than the Target

DEFINITIONS

“Sale Shares”	the 150,000,000 ordinary shares in the issued share capital of the Target, representing the entire issued share capital of the Target
“Seller”	HKF Overseas Limited, a company incorporated under the laws of the British Virgin Islands with registration number 1759575, having its registered office situated at Commerce House, Wickham Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands VG1110, a direct wholly-owned subsidiary of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Shares
“Shares”	ordinary share(s) with the nominal value of HK\$0.01 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	EasyLend Finance Company Limited (易貸網信貸有限公司), a company incorporated in Hong Kong on 3 September 2012 with company number 1795094, a direct wholly-owned subsidiary of the Seller and an indirect wholly-owned subsidiary of the Company immediately before the Completion
“Terminating Event”	any material legal or regulatory changes in Hong Kong, material changes in political circumstances in Hong Kong, material changes in the legal system of Hong Kong, or imposition of governmental restrictions or mandatory impositions in Hong Kong, which restrict, limit, reduce or otherwise have a material adverse effect on the operation of the Target’s business in Hong Kong
“Transaction Documents”	the Agreement for Sale and Purchase and all other documents to be entered into pursuant to the Agreement for Sale and Purchase
“Transition Services Agreement”	has the meaning ascribed to it under the paragraph headed “Transition Services Agreement” of this circular
“%”	per cent.



Hong Kong Finance Group Limited
香港信貸集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1273)

Executive Directors:

Mr. Chan Kwong Yin William (*Chairman*)
Mr. Chan Koung Nam
Mr. Tse Pui To (*Chief Executive Officer*)

Independent Non-executive Directors:

Mr. Chan Siu Wing Raymond
Mr. Chu Yat Pang Terry
Mr. Cheung Kok Cheong

Registered office:

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Grand Cayman
KY1-1111
Cayman Islands

*Headquarters and principal place
of business:*

Unit 3410, 34th Floor
Tower II, Lippo Centre
89 Queensway
Admiralty
Hong Kong

26 March 2020

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
IN RELATION TO THE DISPOSAL OF
THE ENTIRE ISSUED SHARE CAPITAL IN
AN INDIRECT WHOLLY-OWNED SUBSIDIARY**

INTRODUCTION

Reference is made to the Company's announcements dated 8 October 2019, 24 January 2020 and 28 February 2020 in relation to, among other things, the Disposal.

LETTER FROM THE BOARD

On 24 January 2020 (after trading hours), the Seller, the Company and the Purchaser, entered into the Agreement for Sale and Purchase, pursuant to which the Seller conditionally agreed to sell the Sale Shares and the Purchaser conditionally agreed to acquire the Sale Shares for a Consideration of HK\$51,400,000, subject to the terms and conditions contained in the Agreement for Sale and Purchase.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Disposal exceed 25% but are below 75%, the Disposal constitutes a major transaction of the Company and is subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the Shareholders has a material interest in the Agreement for Sale and Purchase and the transactions contemplated thereunder and therefore no Shareholder is required to abstain from voting if a general meeting was to be convened for the approval of the Agreement for Sale and Purchase and the transactions contemplated thereunder.

Pursuant to Rule 14.44 of the Listing Rules, in lieu of holding a general meeting, written Shareholder's approval has been obtained on 24 January 2020 from the controlling Shareholder approving the Agreement for Sale and Purchase and the transactions contemplated thereunder. As such, the Company is not required to convene a general meeting for this purpose.

The purpose of this circular is to give you, among other things, (i) further information on the Disposal, (ii) financial information of the Group, and (iii) other information as required under the Listing Rules.

THE AGREEMENT FOR SALE AND PURCHASE

Date

24 January 2020 (after trading hours)

Parties

- (i) the Company
- (ii) the Seller
- (iii) the Purchaser

(collectively, the "**Parties**" and each a "**Party**")

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this circular, the Purchaser and its ultimate beneficial owner(s) are Independent Third Parties.

Pursuant to the Agreement for Sale and Purchase, the Purchaser conditionally agreed to acquire and the Seller conditionally agreed to sell the Sale Shares pursuant to the terms and conditions of the Agreement for Sale and Purchase.

LETTER FROM THE BOARD

The Sale Shares represent the entire issued share capital of the Target and is legally and beneficially owned by the Seller.

Further, pursuant to the Agreement for Sale and Purchase, the Parties agreed that the Target shall undergo a carve-out according to the carve-out plan as stipulated in the Agreement for Sale and Purchase, whereby the assets and liabilities in relation to the Carve-Out Loan Business shall be disposed by the Target before the Completion (the “**Carve-Out**”). The assets and liabilities disposed from the Target in relation to the Carve-out Loan Business mainly comprise the loan receivables of unsecured personal loan products for property owners and were determined and identified with reference to factors including, amongst other things, the loan characteristics, target customer group, interest rate, the size of the loan, credit risk associated with this type of loan product in the Carve-Out Loan Business.

Consideration

The Consideration was agreed after arm’s length negotiation between the Parties, which was determined based on the cash sum of the Adjusted Net Loan Receivable as at the Accounts Date and the Premium in the aggregate sum of HK\$51,400,000. The amount of the Premium is determined based on (a) the historical financial information of the Target, in particular for the year ended 31 March 2019 and for the six months ended 30 September 2019; (b) the value of the Adjusted Net Loan Receivable and the brand name, market share and network, infrastructures of information technology, membership in a credit bureau, possession of money lenders licence, manpower, etc. of the Target as at 30 September 2019; and (c) the future business prospects of the Target.

If the Disposal is not completed on or before 28 February 2020 and the Completion Date is mutually agreed by the Parties to be postponed to a later date, the Premium shall be adjusted by a reduction of HK\$500,000 for each week of postponement to reflect the potential loss of business opportunity.

The Consideration is payable by the Purchaser in the following manner:

- (1) a sum of HK\$1,000,000 has been paid on 8 October 2019 (the “**Pre-payment**”);
- (2) within seven (7) Business Days from the Completion Date, an initial payment equal to 50% of the Consideration (after deducting the Pre-payment); and
- (3) within sixty (60) days from the Completion Date, a final payment of 50% of the Consideration plus or minus the Adjusted Payment (as the case may be).

Post-completion adjustment

The Adjusted Payment shall be the difference of (i) the Adjusted Net Loan Receivable as shown in the Completion Accounts and (ii) the Adjusted Net Loan Receivable as shown in the Accounts and shall be settled by the Seller or the Purchaser (as the case may be). However, the amount of provisions for bad debt or provisions for impairment of loan receivable other than those made in accordance with the Target’s Loan Receivable Impairment Policy shall not exceed HK\$4,800,000.

LETTER FROM THE BOARD

Conditions precedent

The Completion is conditional upon the fulfilment or waiver in writing of, among the others, the following conditions on or before the Completion Date (the “**Conditions Precedent**”):

- (a) all necessary approval for the Disposal and the relevant Transaction Documents having been obtained by the Company in accordance with the Listing Rules and all applicable laws;
- (b) the Carve-Out having been fully completed in accordance with the terms of the Agreement for Sale and Purchase to the reasonable satisfaction of the Purchaser;
- (c) the representations and warranties given by the Seller and the Company remaining true and accurate and not misleading as at the Completion;
- (d) the Seller having procured such key persons specified under the Agreement for Sale and Purchase to execute an undertaking in favour of the Target to the effect that they shall not resign from their positions at the Target within twelve (12) months after the Completion. The key persons comprise two sales managers of the Target and an aggregate sum of HK\$67,000 is to be paid to them by the Seller upon the Completion. The Directors consider that the terms are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole because (i) the two key persons play an important role for the success of the Target as they are responsible for overseeing the overall sales activities and business operations of the Target’s unsecured personal loan business; (ii) not only the Seller has to pay the aggregate sum to the two key persons upon the Completion. Pursuant to the terms and conditions of the Agreement for Sale and Purchase, the Purchaser also agreed to pay them the same amount 12 months after the Completion; and (iii) the amounts to be paid are determined with reference to the existing remuneration packages of the two key persons.
- (e) the amount of shareholders’ equity of the Target on the Completion Date having maintained at not less than HK\$25,000,000; and
- (f) the total amount of Cash Balance as at the Completion Date having maintained at not less than HK\$5,000,000. Upon Completion, the Purchaser agrees to pay to the Seller a sum equal to the Cash Balance as at the Completion Date within seven (7) Business Days from the Completion Date. As at the date of this circular, the Cash Balance has been paid by the Purchaser to the Seller.

If any of the Conditions Precedent has not been satisfied on or before the Completion Date, the Purchaser or the Seller (as the case may be) may on that date, at its option by notice to the other Parties waive such unsatisfied Conditions Precedent or terminate the Agreement for Sale and Purchase. If any of the Conditions Precedent has not been satisfied on or before the Long Stop Date, the Agreement for Sale and Purchase shall be terminated immediately on expiry of the Long Stop Date and no Party shall have any claim against the other Party.

LETTER FROM THE BOARD

As at the date of this circular, all the Conditions Precedents have been fulfilled.

Guarantee of the Company

The Company guarantees unconditionally and irrevocably as a primary obligor to the Purchaser the due observance and performance by the Seller of all the agreements, stipulations, terms and conditions in the Agreement for Sale and Purchase and other Transaction Documents on part of the Seller to be observed and performed and in the event that the Seller shall fail to observe and perform its obligations, the Company shall on demand by the Purchaser indemnify and keep indemnified on a full indemnity basis the Purchaser against any loss, damage, costs, expenses and claims the Purchaser may have suffered or incurred as a result of such failure on the part of the Seller.

Right to Terminate

The Purchaser shall have the right to terminate the Agreement for Sale and Purchase immediately by giving written notice to the other Parties on or before the Completion Date upon the occurrence of any Terminating Event and no Party shall have any claim against the other Parties, except in respect of any antecedent breach of the terms of the Agreement for Sale and Purchase.

Post-Completion Restrictions

The Seller undertakes to the Purchaser that it shall not (i) for 36 months from the Completion Date and in Hong Kong either on its own account or in conjunction with other parties carry on or be engaged, concerned or interested directly or indirectly or otherwise carrying on such business in direct competition with the personal loan business of the Target (other than those businesses carried by the Company, its subsidiaries and/or Affiliates immediately before the Completion) and (ii) for 24 months from the Completion Date and in Hong Kong either on its own or in conjunction with other parties solicit or entice away or attempt to do so from the Target any such key persons as specified under the Agreement for Sale and Purchase, save and except if the employment of such key persons with the Target has been terminated by the Target after the Completion.

Completion

The Completion has taken place on 28 February 2020 and the Consideration is HK\$51,400,000, subject to the post-completion adjustment after the verification of the Completion Accounts by the Purchaser as described in the paragraph headed “Post-completion adjustment” above in this circular. Upon the Completion, the Target ceases to be a subsidiary of the Seller and the Company, and the Group ceases to hold any shares of the Target. The financial results of the Target will no longer be consolidated into the consolidated financial statements of the Company.

LETTER FROM THE BOARD

Transition Services Agreement

In order for the Target to carry on business in the ordinary course immediately following the Completion, a transition services agreement was entered into between the Seller, the Company, Hong Kong Finance Company Limited (an indirect wholly-owned subsidiary of the Company) and the Target (the “**Transition Services Agreement**”) for certain transitional support and services to be provided to the Target (the “**Transition Services**”).

The major terms of the Transition Services Agreement are set out as follows:

Date of the agreement	24 January 2020
Term of the agreement	The Transition Services Agreement shall take effect on the Completion Date and the Transition Services shall be provided for the period commencing on the Completion Date and which runs for 12 months thereafter
Parties	The Seller, the Company, Hong Kong Finance Company Limited and the Target
Main Transition Services	<ul style="list-style-type: none">(a) IT support services, such as WAN circuit provision and monitoring services, shared central domain name system core infrastructure, data migration and data capture/storage services used by the Target prior to the Completion, assistance to develop server and storage infrastructure requirements;(b) IT access rights in relation to the support, maintenance, updates and patches for the software designated by the Target, such as Microsoft Outlook;(c) Facility access of the premises currently occupied by the Target;(d) Non-IT support services, such as payroll services and benefits plan administration, human resources operations services; and(e) The uses of trademarks

LETTER FROM THE BOARD

Obligation of the actual party providing such Transition Services, which shall be one of the Seller, the Company and/or Hong Kong Finance Company Limited and/or their Affiliates (as the case may be) (the “**Supplier**”)

To, among other things, provide the Transition Services according to the industry standards and practices and maintain any consents and licences necessary to the provision of the Transition Services

Obligation of the Target

To make payment for the Transition Services and use the Transition Services only for the benefit of its personal loan business carried on by the Target immediately prior to the Completion Date and not to cause the Supplier to breach any third party agreement, approval or consent with or between the Supplier and that third party under which the Supplier provides the Transition Services

Termination

The Target may terminate by giving not less than one (1) month’s notice in writing to the Supplier to terminate any one or more of the Transition Services.

A party to the Transition Services Agreement may terminate the Transition Services Agreement forthwith by notice if:

- (a) the Target or the Supplier commits a material breach of the provision of the Transition Services Agreement and does not remedy such default within fourteen (14) days of such notice being given, if the default is capable of being remedied;
- (b) any representation or warranty made by a party is incorrect or misleading; or
- (c) any party ceases to be able to pay its debts when due, becomes insolvent or legal proceedings are started or threatened against it

INFORMATION OF THE GROUP

The Group is principally engaged in the money lending business specialising in providing property mortgage loans in Hong Kong under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), such as first mortgage, second mortgage, mortgage loan transfer, pre-approved loan value, pre-transaction loan and second mortgage loan for properties for properties under the home ownership scheme, and personal loan products.

LETTER FROM THE BOARD

INFORMATION OF THE SELLER

The Seller is a direct wholly-owned subsidiary of the Company and is principally engaged in investment holding in Hong Kong.

INFORMATION OF THE PURCHASER

The Purchaser is a company incorporated in Japan and is a diversified Japanese financial institution providing a range of financial products and services to both institutional and individual customers. The Purchaser is a listed company on the Tokyo Stock Exchange, Inc. in Japan (stock code: 8303).

INFORMATION OF THE TARGET

The Target is a company incorporated in Hong Kong in 2012 and was an indirect wholly-owned subsidiary of the Company immediately before the Completion. The Target is principally engaged in the provision of money lending services in the form of unsecured personal loans services to individual borrowers.

The unaudited net assets value attributable to equity owners of the Company in relation to the Target as at 28 February 2020, being the Completion Date, was approximately HK\$33,000,000, which mainly comprises the Adjusted Net Loan Receivable and the Cash Balance of the Target. The unaudited net profit or loss (before and after taxation) of the Target for the years ended 31 March 2019 and 2018 (assuming that the Carve-Out has taken place) were as follows:

	Year ended 31 March	
	2019	2018
	<i>HK'000</i>	<i>HK'000</i>
Profit/(loss) before taxation	4,527	(12,007)
Profit/(loss) after taxation	3,780	(9,716)

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE DISPOSAL

Upon the Completion, the Target ceases to be a subsidiary of the Seller and the Company, and the Group ceases to hold any shares of the Target. The financial results of the Target will no longer be consolidated into the consolidated financial statements of the Company.

Earnings

Based on (i) the unaudited net asset value of the Target attributable to the Group as at 28 February 2020 of approximately HK\$33,000,000; and (ii) the Consideration for the Sale Shares; the Group expects to record a gain of approximately HK\$14,000,000 (before net of any professional costs and other incidental expense associated with the Disposal). However, the actual gain of the Disposal to be recognised by the Group will be subject to the audited financial position of the Target on Completion.

Assets and liabilities

Given that the Disposal is expected to generate an estimated net gain of approximately HK\$14,000,000 (subject to audit) to the Group, the consolidated net asset value attributable to equity holders of the Company is expected to increase by approximately HK\$14,000,000 (subject to audit) after the settlement of the Consideration. On the above basis and based on the unaudited consolidated financial statements of the Group as at 28 February 2020, after taking into account the effect of inter-company eliminations, the consolidated total assets of the Group is expected to decrease by approximately HK\$33,200,000 (subject to audit) and the consolidated total liabilities of the Group is expected to decrease by approximately HK\$200,000 (subject to audit) upon the Completion but before the settlement of the Consideration. However, the actual impact of the Disposal to be recognised by the Group will be subject to the audited financial position of the Target on Completion.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group has been all along making enormous effort to enhance its principal business of the provision of property mortgage loans services to customers, which requires considerable amount of cash and liquidity. In light of the gain from the Disposal, the Board considers that the Disposal represents an opportunity to realise the gain from the value of the business of the Target. Further, the proceeds from the Disposal can strengthen the cash position of the Group and will allow the Group to reallocate its resources to other operation and money lending products which are more profitable and crucial for the Group's principal business.

Taking into account the abovementioned factors, the Directors consider that the terms and conditions of the Disposal are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

USE OF PROCEEDS

The total net proceeds from the Disposal are estimated to be approximately HK\$50,000,000. The Directors presently intend that the net proceeds from the Disposal will be applied as follows:

Application of proceeds	Expected timeline for utilization
(1) Approximately HK\$35,000,000, representing approximately 70.0% of the net proceeds will be used for expansion of mortgage loan product	By the end of September 2020
(2) Approximately HK\$10,000,000, representing approximately 20.0% of the net proceeds will be used for expansion of personal loans for property owners	By the end of September 2020
(3) Approximately HK\$5,000,000, representing approximately 10.0% of the net proceeds will be used for general working capital purpose.	By the end of September 2020

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Disposal exceed 25% but are below 75%, the Disposal constitutes a major transaction of the Company and is subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the Shareholders has a material interest in the Agreement for Sale and Purchase and the transactions contemplated thereunder and therefore no Shareholder is required to abstain from voting if a general meeting was to be convened for the approval of the Agreement for Sale and Purchase and the transactions contemplated thereunder.

On 24 January 2020, the Company has obtained a written Shareholder's approval from Tin Ching Holdings Limited, a controlling Shareholder directly holding 300,000,000 Shares, representing approximately 72.29% of the issued share capital of the Company as at the date of such written Shareholder's approval for approving the Agreement for Sale and Purchase and the transactions contemplated thereunder in lieu of holding a general meeting of the Company in accordance with Rule 14.44 of the Listing Rules. Accordingly, no general meeting of the Company will be held for this purpose.

LETTER FROM THE BOARD

RECOMMENDATIONS

The Board considers the terms of the Agreement for Sale and Purchase have been entered into in arm's length negotiation and the terms of the Agreement for Sale and Purchase are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Although no general meeting will be convened for approving the Agreement for Sale and Purchase, the Directors (including the independent non-executive Directors) believe that the transactions contemplated under the Agreement for Sale and Purchase are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole. Accordingly, if a general meeting was convened to approve the Agreement for Sale and Purchase, the Directors would have recommended the Shareholders to vote in favour of the resolutions to approve the Agreement for Sale and Purchase and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

By order of the Board
Hong Kong Finance Group Limited
Chan Kwong Yin William
Chairman

1. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The consolidated financial statements of the Group, together with the accompanying notes, for each of the three financial years ended 31 March 2017, 2018 and 2019 and for the six months ended 30 September 2019 were disclosed in the annual reports of the Company for the years ended 31 March 2017 (pages 76 to 144), 31 March 2018 (pages 80 to 156) and 31 March 2019 (pages 84 to 168) and the interim report of the Company for the six months ended 30 September 2019 (pages 6 to 33), respectively, and are incorporated by reference into this circular.

The aforementioned financial information of the Group has been published on both the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.hkfinance.hk through the hyperlinks below:

2017 annual report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0720/ltm20170720600.pdf>

2018 annual report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0725/ltm20180725611.pdf>

2019 annual report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0724/ltm20190724141.pdf>

2019 interim report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1218/2019121800404.pdf>

2. INDEBTEDNESS STATEMENT

Outstanding borrowings of the Group

As at 31 January 2020, being the latest practicable date for the purpose of ascertaining the information contained in this indebtedness statement prior to the print of this circular, the Group had aggregate outstanding borrowings of approximately HK\$590,209,000, and the details of which are as follows:

	At 31 January 2020 <i>HK\$'000</i>
Secured	
Bank loans and overdraft	262,009
Unsecured	
Other borrowings	51,000
Bonds	102,000
Amount due to a fellow subsidiary	<u>175,200</u>
Total	<u><u>590,209</u></u>

Charges on Group Assets

As at 31 January 2020, the Group's land and buildings, investment properties and certain properties mortgaged to the Group's subsidiary were secured for the Group's bank loans and overdraft.

Contingent Liabilities

As at 31 January 2020, the Company provided guarantees for the banking facilities and other facilities granted to the subsidiary of the Group.

Save as disclosed above and apart from intra-group liabilities and normal payables in the ordinary course of business of the Group, as at 31 January 2020, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages, charges or other material contingent liabilities or guarantees.

3. MATERIAL ADVERSE CHANGE

The Directors confirmed that there was no material adverse changes in the financial or trading position or prospects of the Group since 31 March 2019 (being the date to which the latest published audited consolidated financial statements of the Group had been made up) up to the Latest Practicable Date.

4. WORKING CAPITAL STATEMENT

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources presently available to the Group including the internally generated funds, the currently available facilities and the effects of the Disposal, the Group has sufficient working capital for its normal business for at least the next twelve months from the date of this circular.

5. FINANCIAL AND TRADING PROSPECTS OF THE REMAINING GROUP

As seen from the analysis under the sections headed “Financial effects of the Disposal” and “Reasons for and benefits of the Disposal” in the letter from the Board, the net assets value and financial position of the Remaining Group has been enhanced following the Completion, which is beneficial to the long-term development of the operation of the Remaining Group.

Following the Disposal, the Remaining Group will continue to focus its resources and operation on its mortgage loan business and it is anticipated that the mortgage loan business will remain as the major source of revenue for the Remaining Group. However, the pressure and challenge posed by the on-going Sino-US trade tension, the local political tensions in Hong Kong and the recent outbreaks of novel coronavirus are expected to continue to exert an adverse effect on the economic outlook and consumer and investor sentiments in Hong Kong into the year 2020, which would potentially lower the demand of the mortgage loan products offered by the Remaining Group. Despite the difficulties and challenges ahead, we will continue to leverage our professionalism and solid experience in our money lending business and shall persistently implement cautious and prudent measures, instantly and effectively review and tighten our credit policy, and increase the proportion of our business with high net-worth customers and rebalance our product mix as necessary, which have supported the Group in maintaining a stable growth in the Group’s loan portfolio and interest income over the past. We are confident that such practice will put us in a more stable and solid position in the money lending business of the Remaining Group and prepare ourselves well in producing sound and fruitful operating and financial results with an aim of maximising the investment returns for the Shareholders when the economy gradually recovers.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Interest in the Company (long position)

Name of Directors	Shares/Equity derivatives	Beneficial owner	Number of Shares and underlying shares held ('000)		Total (% of the issued share capital of the Company)
			Beneficial owner	Interest in a controlled corporation	
Mr. Chan Koung Nam (“ Mr. Chan ”)	(i) Shares	—	300,000	(Note (1))	300,000
	(ii) Share options	3,000 (Note (2))	—		3,000
					303,000 (73.01%)

Name of Directors	Shares/Equity derivatives	Number of Shares and underlying shares held ('000)		Total (% of the issued share capital of the Company)
		Beneficial owner	Interest in a controlled corporation	
Mr. Chan Kwong Yin William (“Mr. William Chan”)	(i) Shares	5,704	300,000 (Note (1))	305,704
	(ii) Share options	3,000 (Note (2))	—	3,000
				308,704 (74.39%)
Mr. Tse Pui To	Share options	2,600	—	2,600 (0.63%)

Notes:

- (1) Such interests comprised 300,000,000 Shares beneficially owned by Tin Ching Holdings Limited (“**Tin Ching Holdings**”) and the remaining interest beneficially owned by Mr. Chan. Each of Mr. Chan and Mr. William Chan owns 50% of the issued share capital of Tin Ching Holdings. By virtue of the provisions of Part XV of the SFO, both Mr. Chan and Mr. William Chan are deemed to be interested in all the shares of the Company in which Tin Ching Holdings is interested or deemed to be interested.
- (2) These represent the number of shares which will be allotted and issued to the respective Directors upon the exercise of the share options granted to each of them under the share option scheme adopted pursuant to a written resolution of the sole shareholder of the Company on 4 September 2013.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group or had any option in respect of such capital:

Long positions in the Shares

Name of substantial shareholders	Shares/Equity derivatives	Number of Shares and underlying shares held ('000)		Total (% of the issued share capital of the Company)
		Beneficial owner	Interest in a controlled corporation	
Tin Ching Holdings	Shares	300,000	—	300,000 (72.29%)
Mr. Chan	(i) Shares	—	300,000	300,000
	(ii) Share options	3,000	—	<u>3,000</u> 303,000 (73.01%)
Mr. William Chan	(i) Shares	5,704	300,000	305,704
	(ii) Share options	3,000	—	<u>3,000</u> 308,704 (74.39%)
Head and Shoulders Global Investment Fund SPC — HS Powered Alpha Segregated Portfolio	Shares	20,772	—	20,772 (5.01%)

Save as disclosed above, the Directors and the chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares or underlying Shares which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the issued voting shares of any member of the Group or had any option in respect of such capital.

(c) Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement entered into by any member of the Group which was significant in relation to the business of the Group as a whole.

(d) Interests in assets

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 March 2019, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(e) Interests in other competing business

As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquiries, none of the Directors and their respective close associates were considered to have any interests in businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

3. DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three (3) years and is renewable automatically for successive terms of three (3) years. Each of the non-executive Directors has been appointed for an initial term of two (2) years and thereafter it may be extended for such period as the non-executive Director and the Company may agree in writing.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors has a service contract with any member of the Group which was not determinably by the Group within one (1) year without payment of compensation, other than statutory compensation.

4. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, neither the Company nor any of its subsidiaries have been engaged in any litigation or claims of material importance and, there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) had been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) the data licence agreement dated 8 October 2019 between the Company, the Seller, the Target and the Purchaser in relation to the grant of a licence over certain data related to the loan services provided by the Target as part of the Purchaser's due diligence review of the Company by the Purchaser for a non-refundable sum of HK\$1,000,000;
- (b) the letter of intent dated 8 October 2019 and entered into between the Seller as the vendor and the Purchaser as the purchaser in relation to the Disposal;
- (c) the Transition Services Agreement (as supplemented on 28 February 2020); and
- (d) the Agreement for Sale and Purchase.

6. GENERAL INFORMATION

- (a) The company secretary of the Company is Mr. Hui Chun Ho Eric who is a fellow member of both The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and an associate of The Taxation Institute of Hong Kong.
- (b) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The headquarters and principal place of business in Hong Kong is situated at Unit 3410, 34th Floor, Tower II, Lippo Centre, 89 Queensway, Admiralty, Hong Kong.
- (c) The headquarters of the Company is at Unit 3410, 34th Floor, Tower II, Lippo Centre, 89 Queensway, Admiralty, Hong Kong.
- (d) The principal place of business of the Company in Hong Kong is at Unit 3410, 34th Floor, Tower II, Lippo Centre, 89 Queensway, Admiralty, Hong Kong.
- (e) The Company's branch share registrar and transfer office in Hong Kong is Union Registrars Limited, located at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.
- (f) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.
- (g) All references to times and dates in this circular refer to Hong Kong times and dates.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the above principal place of business of the Company during normal business hours (Saturdays and public holidays excepted) up to and including the date which is 14 days from the date of this circular:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the letter from the Board, the text of which is set out on pages 5 to 15 of this circular.
- (c) the annual reports of the Company for the three years ended 31 March 2019 and the interim report of the Company for the six months ended 30 September 2019;
- (d) the service contracts referred to in the paragraph headed “Directors’ Service Contracts” in this appendix;
- (e) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix; and
- (f) this circular.