THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Ming Kei Holdings Limited (the "**Company**"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

Ming Kei Holdings Limited
明基控股有限公司 *

(incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8239)

(1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTERESTS IN AND SHAREHOLDER'S LOANS TO PRIMA FINANCE HOLDINGS LIMITED; (2) RE-ELECTION OF DIRECTORS; AND (3) NOTICE OF SPECIAL GENERAL MEETING

Joint financial advisers of the Company

Optima Capital Limited | **INCU Corporate Finance Limited**

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A notice convening the SGM to be held at Unit 01, 3/F., Wheelock House, 20 Pedder Street, Central, Hong Kong at 4:00 p.m. on 18 June 2014 is set out on pages SGM-1 to SGM-4 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy attached to the notice of the SGM in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the SGM should you so wish, and in such case, the form of proxy previously submitted by such member(s) shall be deemed to be revoked.

* *for identification purpose only*

30 May 2014

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

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

"2013 Actual Profit"	the audited consolidated net profit after tax of the Target Group attributable to the equity holders of the Target for the year ended 31 December 2013 as prepared in accordance with the HKFRS and accounting policies of the Target Group, and does not take into account any expenses relating to the Acquisition which should be borne by the Group and any costs allocation from the Group after the Completion, any exceptional items or profit generated from the business other than the existing business of the Target Group
"2013 Target Profit"	the target profit given by the Vendors that the audited consolidated net profit after tax of the Target Group attributable to the equity holders of the Target for the financial year ended 31 December 2013 will not be less than RMB42,333,840 (equivalent to approximately HK$53,714,286, based on the exchange rate of RMB0.78813 = HK$1) as prepared in accordance with the HKFRS and accounting policies of the Target Group, and does not take into account any expenses relating to the Acquisition which should be borne by the Group and any costs allocation from the Group after the Completion, any exceptional items or profit generated from the business other than the existing business of the Target Group
"2014 Actual Profit"	the audited consolidated net profit after tax of the Target Group attributable to the equity holders of the Target for the year ending 31 December 2014 as prepared in accordance with the HKFRS and accounting policies of the Target Group, and does not take into account any expenses relating to the Acquisition which should be borne by the Group and any costs allocation from the Group after the Completion, any exceptional items or profit generated from the business other than the existing business of the Target Group
"Acquisition"	acquisition of the Sale Shares and the Sale Loans by the Purchaser pursuant to the Acquisition Agreement

"Acquisition Agreement"	the conditional sale and purchase agreement dated 23 December 2013 entered into between the Purchaser, the Purchaser's Guarantor, the Company, the Vendors and the Vendors' Guarantor as supplemented by the extension letter dated 19 May 2014 in relation to the Acquisition
"Announcement"	the announcement of the Company dated 23 December 2013 in relation to the Acquisition
"associate(s)"	has the meanings ascribed to it under the GEM Listing Rules
"Beijing Boan"	北京博安物業管理有限公司 (Beijing Boan Real Estate Services Limited*), a company established in the PRC in 1999
"Beijing Jinfu"	北京市金福典當有限責任公司 (Beijing City Jinfu Pawning Company Limited*), a company established in the PRC with limited liability
"Beijing Jinfu (Haidian Branch)"	北京市金福典當有限責任公司海澱分公司 (Beijing City Jinfu Pawning Company Limited (Haidian Branch)*), a branch company established under Beijing Jinfu
"Beijing Jinfu (North Fourth Ring Road Branch)"	北京市金福典當有限責任公司北四環分公司 (Beijing City Jinfu Pawning Company Limited (North Fourth Ring Road Branch)*), a branch company established under Beijing Jinfu
"Beijing Jinfu (Sijiqing Branch)" or "Beijing Jinfu (Dongsi Branch)"	北京市金福典當有限責任公司四季青分公司 (Beijing City Jinfu Pawning Company Limited (Sijiqing Branch)*), a branch company of Beijing Jinfu, formerly named as 北京市金福典當有限責任公司東四分公司 (Beijing City Jinfu Pawning Company Limited (Dongsi Branch)*)
"Beijing Jinlu"	北京金祿典當有限責任公司 (Beijing City Jinlu Pawning Company Limited*), a company established in the PRC with limited liability
"Beijing Jinshou"	北京市金壽典當有限責任公司 (Beijing City Jinshou Pawning Company Limited*), a company established in the PRC with limited liability

* *for identification purpose only*

"Beijing Jinxi"	北京市金禧典當有限責任公司 (Beijing City Jinxi Pawning Company Limited*), a company established in the PRC with limited liability
"Beijing Liangxiang"	北京良鄉經濟開發區實業總公司 (Beijing Liangxiang Economic Development Zone Enterprise Holding Company Limited*), a company established in the PRC with limited liability and a PRC State-owned enterprise under Liangxiang Economic Development Zone
"Beijing Micro-financing"	北京中金福小額貸款有限責任公司 (Beijing Zhongjinfu Micro-financing Company Limited*), a company established in the PRC with limited liability
"Beijing Micro-financing Equity Pledge Agreement"	an equity pledge agreement, with effect from 1 January 2013, entered into among Beijing Wanchi, the Majority Shareholders (Beijing Micro-financing) and Beijing Micro-financing, pursuant to which first priority security interests have been created over 79% equity interest in Beijing Micro-financing by the Majority Shareholders (Beijing Micro-financing) in favour of Beijing Wanchi
"Beijing Micro-financing Exclusive Option Agreement"	an exclusive option agreement, with effect from 1 January 2013, entered into among Beijing Wanchi, the Majority Shareholders (Beijing Micro-financing) and Beijing Micro-financing, pursuant to which the Majority Shareholders (Beijing Micro-financing) irrevocably granted to Beijing Wanchi or its nominee(s) the exclusive rights to acquire all or part of the 79% equity interest in Beijing Micro-financing
"Beijing Micro-financing Exclusive Service Agreement"	an exclusive management and consultation service agreement, with effect from 1 January 2013, entered into among Beijing Wanchi, the Majority Shareholders (Beijing Micro-financing) and Beijing Micro-financing, pursuant to which the Majority Shareholders (Beijing Micro-financing) granted the exclusive right to Beijing Wanchi to provide management and consultation services to Beijing Micro-financing for managing its business

* *for identification purpose only*

"Beijing Micro-financing Proxy Agreement"	a proxy agreement, with effect from 1 January 2013, entered into by Beijing Wanchi, the Majority Shareholders (Beijing Micro-financing) and Beijing Micro-financing, pursuant to which Beijing Wanchi or its nominee(s) were authorised by the Majority Shareholders (Beijing Micro-financing) to exercise their respective shareholders' rights in Beijing Micro-financing
"Beijing Micro-financing Structured Agreements"	collectively, the Beijing Micro-financing Equity Pledge Agreement, the Beijing Micro-financing Exclusive Option Agreement, the Beijing Micro-financing Exclusive Service Agreement and the Beijing Micro-financing Proxy Agreement
"Beijing Wanchi"	北京萬馳科技有限公司 (Beijing Wanchi Technology Company Limited*), a wholly-foreign-owned enterprise established in the PRC with limited liability
"Beijing Yongjin"	北京永進基業科技孵化器有限公司 (Beijing Yongjin Jiye Technology Incubator Company Limited*), a company established in the PRC with limited liability
"Board"	the board of Directors
"Business Day(s)"	a day (other than a Saturday, Sunday and public holiday) on which licenced banks are generally open for business in Hong Kong throughout their normal business hours
"Bustling Capital"	Bustling Capital Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by Ms. Jin
"BVI"	the British Virgin Islands
"Bye-law(s)"	the bye-laws of the Company
"CAGR"	compounded annual growth rate
"CBRC"	China Banking Regulatory Commission
"Century Epoch"	Century Epoch Holdings Limited, a company incorporated in Hong Kong with limited liability

* *for identification purpose only*

"Company"	Ming Kei Holdings Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued Shares of which are listed on the GEM (stock code: 8239)
"Completion"	completion of the Acquisition
"Completion Date"	any date which falls within five Business Days following the date on which the last of the conditions precedent as set out in the Acquisition Agreement has been fulfilled or waived (as the case may be)
"connected person(s)"	has the meaning ascribed to it in the GEM Listing Rules
"Consideration"	the consideration for the Sale Shares and the Sale Loans under the Acquisition Agreement
"Consideration Shares"	268,000,000 new Shares to be issued by the Company to the Vendors at the Issue Price as part of the Consideration
"Conversion Price"	HK$0.35 per Conversion Share for the Convertible Bonds (subject to adjustments)
"Conversion Shares"	a maximum of 1,874,857,141 new Shares which may fall to be allotted and issued upon conversion of the Convertible Bonds at the initial Conversion Price
"Convertible Bonds"	the convertible bonds to be issued by the Company to the Vendors as part of the Consideration
''EIT Law''	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), which was promulgated on 16 March 2007 and became effective from 1 January 2008
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Dai Family"	collectively, the Vendors' Guarantor, Ms. Jin and Mr. Dai Hao
"Director(s)"	director(s) of the Company

"Earn-out Consideration"	a maximum consideration of HK$336 million (subject to adjustments) which may be paid by the Company to Exuberant Global or its nominee(s), as more particularly set out in the paragraph headed "Consideration"
"Enlarged Group"	the Group as enlarged by the Target Group immediately after Completion
"Euromonitor"	Euromonitor International Limited
"Euromonitor Report"	an independent market research report commissioned by the Company and prepared by Euromonitor on the short-term financial services in the PRC and Beijing in September 2013 and updated in a new template in January 2014
"Exuberant Global"	Exuberant Global Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by the Vendors' Guarantor
"Fortune Front"	Fortune Front Investments Limited, a company incorporated in Hong Kong with limited liability
"GDP"	gross domestic product
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Committee"	the GEM Listing Committee of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the GEM
"General Rules on Credit"	the General Rules on Credit (貸款通則), which was promulgated by the PBOC on 28 June 1996 and became effective on 1 August 1996
"Group"	the Company and its subsidiaries

"Harbin Jinfu"	哈爾濱市金福典當行有限責任公司 (Harbin City Jinfu Pawning Company Limited*), the majority stake of which was previously owned indirectly by the Dai Family and subsequently disposed to a third party in 2012
"HKFRS"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Implementation Measures for the Pilot Operation of Micro-financing Companies in Beijing"	the Implementation Measures for the Pilot Operation of Micro-financing Companies in Beijing (北京市小額貸款公司試點實施辦法), which was issued by the Beijing Municipal Government on 4 January 2009 and became effective on the same date
"Initial Consideration"	an initial consideration of HK$564 million (subject to adjustments) to be paid by the Company to the Vendors, as more particularly set out in the paragraph headed "Consideration"
"Issue Price"	the issue price of HK$0.35 per Consideration Share
"Last Trading Day"	23 December 2013, being the date of the Acquisition Agreement
"Latest Practicable Date"	27 May 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
"Macau"	the Macau Special Administrative Region of the PRC
"Majority Shareholders (Beijing Micro-financing)"	collectively, Yongtai, Beijing Yongjin, Mr. Xu and Mr. Wang, being the registered shareholders collectively holding 79% equity interest in Beijing Micro-financing
"MOC"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"MOHURD"	Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)

* *for identification purpose only*

"Mr. Dai Hao"	Mr. Dai Hao, the brother of the Vendors' Guarantor and the beneficial owner of Time Prestige
"Mr. Wang"	Mr. Wang Feng
"Mr. Xu"	Mr. Xu Ya Liang
"Ms. Jin"	Ms. Jin Yu, the spouse of Mr. Dai Hao and the beneficial owner of Bustling Capital
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"Optima Capital"	Optima Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"Pawnbrokers"	collectively, Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi and each a "Pawnbroker"
"Pawnbrokers Equity Pledge Agreements"	four equity pledge agreements, each with effect from 1 August 2013, entered into among Beijing Wanchi, ZJF Investment, YSY Investment, the Dai Family and each of the Pawnbrokers, respectively, pursuant to which first priority security interests have been created over each Pawnbroker by ZJF Investment and YSY Investment in favour of Beijing Wanchi
"Pawnbrokers Exclusive Option Agreements"	four exclusive option agreements, each with effect from 1 August 2013, entered into among Beijing Wanchi, ZJF Investment, YSY Investment, the Dai Family and each of the Pawnbrokers, respectively, pursuant to which ZJF Investment and YSY Investment irrevocably granted to Beijing Wanchi or its nominee(s) the exclusive rights to acquire all or part of the equity interests in and/or assets of the respective Pawnbrokers

"Pawnbrokers Exclusive Service Agreements"	four exclusive management and consultation service agreements, each with effect from 1 August 2013, entered into among Beijing Wanchi and each of the Pawnbrokers, respectively, pursuant to which each of the Pawnbrokers granted the exclusive rights to Beijing Wanchi to provide management and consultation services to each of the Pawnbrokers for managing its businesses
"Pawnbrokers Proxy Agreements"	four proxy agreements, each with effect from 1 August 2013, entered into by Beijing Wanchi, ZJF Investment, YSY Investment, the Dai Family and each of the Pawnbrokers, respectively, pursuant to which Beijing Wanchi or its nominee(s) were authorised by ZJF Investment and YSY Investment to exercise their respective shareholders' rights in the Pawnbrokers
"Pawnbrokers Structured Agreements"	collectively, the Pawnbrokers Equity Pledge Agreements, the Pawnbrokers Exclusive Option Agreements, the Pawnbrokers Exclusive Service Agreements and the Pawnbrokers Proxy Agreements
"Pawning Measures"	the Measures for the Administration of Pawning (典當管理辦法), which was issued by the MOC and the Ministry of Public Security of the PRC (中華人民共和國公安部) on 9 February 2005 and became effective on 1 April 2005
"PBOC"	the People's Bank of China
"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, Macau and Taiwan
"PRC Legal Adviser"	Jingtian & Gongcheng Attorneys at Law, the PRC legal adviser to the Company as to the PRC laws
"Prescribed Shareholding Proportion"	in respect of the equity interests in ZJF Investment, YSY Investment and in the Pawnbrokers, the equity ownership proportion as to 65% by the Vendors' Guarantor, as to 25% by Ms. Jin and as to 10% by Mr. Dai Hao
"Promissory Notes"	the promissory notes to be issued by the Company to Exuberant Global in the principal amount of up to HK$100,000,000 as part of the Consideration

"Public Shareholder(s)"	the shareholders other than the Purchaser's Guarantor and Mr. Lau Kim Hung, Jack
"Purchaser"	Star Capital Global Limited, a company incorporated in the BVI with limited liability, a direct wholly-owned subsidiary of the Company
"Purchaser's Guarantor"	Mr. Wong Wai Sing, an executive Director and the chairman of the Company, who is the guarantor of the Purchaser pursuant to the Acquisition Agreement
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"Sale Loans"	the shareholder's loans owing by the Target to Exuberant Global as at the Completion Date
"Sale Shares"	an aggregate of 100 shares of the Target, representing the entire issued share capital of the Target
"SAT"	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"SGM"	the special general meeting of the Company to be held for the Shareholders to consider and, if thought fit, approve, (i) the Acquisition Agreement and the transactions contemplated thereunder; and (ii) the re-election of the Directors
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"SME(s)"	small and medium enterprise(s)
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Structured Agreements"	collectively, the Pawnbrokers Structured Agreements and the Beijing Micro-financing Structured Agreements
"Sunny Bridge"	Sunny Bridge Investments Limited, a company incorporated in the BVI with limited liability
"Takeovers Code"	the Code on Takeovers and Mergers of Hong Kong
"Target"	Prima Finance Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the entire equity interest of which are owned by the Vendors
"Target Group"	the Target and its subsidiaries, as well as the Pawnbrokers and with effect from 1 January 2013, Beijing Micro-financing
"Tianjin Jinfu"	天津市金福典當有限責任公司 (Tianjin City Jinfu Pawning Company Limited*), which was previously indirectly and wholly owned by the Dai Family and was subsequently disposed to third parties in 2012
"Time Prestige"	Time Prestige Holdings Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by Mr. Dai Hao
"Track Record Period"	the three financial years of the Target Group ended 31 December 2011, 2012 and 2013
"United Tone"	United Tone Investments Limited, a company incorporated in the BVI with limited liability
"Vendors"	together, Exuberant Global, Bustling Capital and Time Prestige, being the vendors collectively holding the entire equity interest in the Target and each a "Vendor"
"Vendors' Guarantor"	Mr. Dai Di, the beneficial owner of Exuberant Global
"Yongtai"	永泰房地產(集團)有限公司 (Yongtai Real Estate (Group) Company Limited*), a company established in the PRC with limited liability

* *for identification purpose only*

"Yongtai Hotel Management"	北京永泰酒店管理有限公司 (Beijing Yongtai Hotel Management Company Limited*), a company incorporated in the PRC on 26 January 2005 and dissolved on 20 December 2010
"YSY Investment"	雲水月投資管理(北京)有限公司 (Yun Shui Yue Investment Management (Beijing) Company Limited*), a company established in the PRC with limited liability
"Zhongfa Enterprise"	中發實業(集團)有限公司 (Zhongfa Enterprise (Group) Ltd.*), a company incorporated in the PRC on 24 January 1997
"ZJF Investment"	中金福(北京)投資管理有限責任公司 (Zhong Jinfu (Beijing) Investment Management Company Limited*), a company established in the PRC with limited liability
"HK$" or "HKD"	Hong Kong dollar(s), the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$" or "USD"	United States Dollars, the lawful currency of the United States of America
"%"	per cent.

For ease of reference and unless otherwise specified in this circular, sums in HK$ and RMB in this circular have been translated at the rate RMB1.0 = HK$1.25. This does not mean that HK$ could be converted into RMB, or vice versa, based on such exchange rate.

All of the English titles or names of the PRC laws and regulations, as well as certain items contained in this circular have been included for identification purpose only and may not necessarily be the official English translations of the corresponding Chinese titles or names. If there is any inconsistency between the English translations and the Chinese titles or names, the Chinese titles or names shall prevail.

* *for identification purpose only*

Potential investors should carefully consider all of the information set out in this circular and, in particular, should consider the following risks and special consideration associated with the investment of the Company in the Target Group before making any investment decision in dealing with the Shares. If any of the possible events as described below, or any other risk factors or uncertainties that the Company is unaware of, materialises, the Target Group's business, financial position and prospects could be materially and adversely affected and the trading prices of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS ASSOCIATED WITH THE ACQUISITION

The Completion is subject to the fulfilment or waiver (as the case may be) of a number of conditions precedent as set out in the Acquisition Agreement and there is no assurance that all of conditions precedent will be fulfilled or waived (as the case may be)

The Completion is conditional upon fulfilment or waiver (as the case may be) of a number of conditions precedent, details of which are set out in the paragraph headed "The Acquisition Agreement – Conditions precedent" under the section headed "Letter from the Board" in this circular. As at the Latest Practicable Date, the Purchaser and the Vendors had no intention to waive any of the waivable conditions. As certain conditions precedent involve decisions of third parties, the fulfilment of which are not within the control of the parties involved in the Acquisition. Such conditions precedent include, among other things, obtaining approval from the Shareholders at the SGM with respect to the Acquisition Agreement and the transactions contemplated thereunder, and approval from the GEM Listing Committee for the listing of, and permission to deal in, the Conversion Shares and the Consideration Shares. Since fulfilment of these conditions precedent are beyond the control of the parties involved in the Acquisition, there is no assurance that the Acquisition will be completed as intended.

The shareholdings of the Public Shareholders will be substantially diluted immediately following the Completion

Pursuant to the Acquisition Agreement, the Company will allot and issue the Consideration Shares and to create and issue the Convertible Bonds to Exuberant Global, Bustling Capital and Time Prestige respectively or their respective nominee(s) upon the Completion and will allot and issue the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds. The aggregate shareholding of the Public Shareholders will be substantially diluted upon issue of the Consideration Shares, from approximately 82.85% to approximately 59.92%. After the allotment and issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Bonds taking into account the Initial Consideration and the maximum Earn-out Consideration (but subject to the restriction on conversion under the Acquisition Agreement in order to maintain the minimum public float of the Company), the aggregate shareholding of the Public Shareholders will be diluted to 20.41%. Please refer to the paragraph headed "Effects on Shareholding Structure of the Company" under the section headed "Letter from the Board" in this circular for further details.

Any value enhancement of the Shares resulting from the Acquisition may not necessarily be reflected in their market price and may not offset the dilution effect to the Public Shareholders.

The Group's borrowing levels after the Completion could limit the funds that the Enlarged Group has available for various business purposes

The Group will create and issue HK$50 million Promissory Notes and HK$420.2 million Convertible Bonds upon the Completion and may create and issue further HK$50 million Promissory Notes and HK$236 million Convertible Bonds for the Earn-out Consideration (if any). Despite that these Promissory Notes and Convertible Bonds will mature in 5 years from the date of issue, the Enlarged Group may not have sufficient funds available to pay all of its borrowings upon maturity especially when the holders of the Convertible Bonds decide not to exercise the conversion rights attached to the convertible Bonds. Failure to repay these liabilities at maturity could result in insolvency of the Company.

The fair value of the Consideration Shares and the Convertible Bonds to be recorded under the HKFRS will depend on the share price of the Company at the Completion

In accordance with HKFRS, the Consideration Shares and the Convertible Bonds should be recorded at their respective fair values at the Completion. The fair values of the Consideration Shares and the Convertible Bonds are highly correlated with the price of the Shares which are driven by market and are out of the Group's control. In case the price of the Shares increases significantly at Completion, the total consideration to be recorded in the Group's financial statements would substantially increase. On the assumption that the fair values of the identifiable assets and liabilities of the Target Group hold the same, the goodwill in connection to this Acquisition would increase. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired (e.g. the amount of goodwill is much higher than the estimated business value of the businesses run by the Target Group), recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill may be significant and are not reversed in future.

RISKS ASSOCIATED WITH THE TARGET GROUP'S BUSINESS

The Acquisition constitutes an investment in a new business sector for the Group

For the Group, the Acquisition constitutes an investment in a new business sector in which the existing management may not have adequate experience and the Enlarged Group may not be able to control certain risks related to the horizontal expansion into this new business. Such risks include but are not limited to risks relating to the operation of the short-term money lending business in the PRC and risks of reliance on key management personnel who are familiar with such business segment.

The Target Group is subject to extensive regulatory requirements, with respect to which its past non-compliance records could result in penalties

As a provider of short-term financing and consultancy services, including pawn loan services, micro-financing services, financial consultancy services and entrusted loan services, in the PRC, the Target Group is subject to extensive PRC legal and regulatory requirements which are designed to ensure the integrity of the financial markets and the protection of investors. Laws and regulations regulate the Target Group's activities by, among other ways, imposing capital requirements, restricting the Target Group's lending capacity and limiting the number of branches that the Target Group may establish within a period. Please refer to the section headed "Regulatory Overview" of this circular for further details of such laws and regulations. The Target Group (or the Enlarged Group upon Completion) cannot assure that the Target Group will be able to meet all applicable legal and regulatory requirements at all times. The PRC regulatory authorities may conduct periodic inspections, examinations and enquiries regarding the Target Group's business operations. In the event that the Target Group's operations and transactions are considered to be incompliant with applicable PRC laws and regulations, the relevant regulatory authorities could potentially expose the Target Group to fines, penalties and other liabilities or disciplinary actions, including but not limited to, a downgrade of the Target Group's regulatory rating and limitations or prohibitions on the Target Group's future business activities; thus, the Target Group's business, results of operations, financial condition and reputation may be materially and adversely affected.

The Target Group has in the past failed to comply with various aspects of the Pawning Measures in the Track Record Period, and non-compliant transactions in the future, if any, could result in fines, sanctions or other penalties

Historically, there were incidents where the Pawnbrokers were not in compliance with the Pawning Measures.

During 2011, the Pawnbrokers had the following non-compliance incidents: granting of a single pawn loan secured by real estate with the amount exceeding 10% of the registered capital, the balance of outstanding pawn loans secured by real estate at the end of the year exceeding the registered capital and the interest rate of the pawn loan not being determined based on the six-month statutory interest rate of loans of banking institutions as announced by the PBOC.

The Pawning Measures provide for fines between RMB5,000 and RMB30,000 for the violation of the relevant rules of the Pawning Measures, although according to the consultation with the competent authority, the officials confirmed that the non-compliance instances happened within one year will be consolidated to get a punishment rather than calculating based on the number of the non-compliance instances, as such the fine will not exceed RMB30,000. In addition, pursuant to the PRC relevant laws and regulations, the time limit had elapsed for the most of the non-compliant incidents and as at the Latest Practicable Date, no penalties for any incidents of non-compliance had been imposed upon the Target Group by any relevant PRC authorities. However, there is no assurance that the PRC government will not take any action to impose penalties on the Target Group due to the historical or potential future non-compliance.

The Target Group may be involved in legal proceedings arising from the operations

The Target Group may become involved in disputes with customers, finance providers and/or other parties. These disputes may lead to legal proceedings, and may cause the Target Group to suffer costs and disruptions to the operations; and they may also adversely affect the Target Group's reputation which in turn could lead to a slowdown in the new business opportunities. During the Track Record Period, the Target Group had not been involved in any litigation or arbitration that had a material adverse effect on its operation or its financial position. However, there is no assurance that the Target Group will not be a party to any litigation or arbitration in future. If such proceedings are commenced by or against the Target Group, the performance, business, reputation and profitability of the Target Group may be adversely affected.

A significant portion of the Target Group's income is derived from individuals and SMEs, which may be more susceptible than larger corporate borrowers to adverse changes in market conditions, competition and general economic conditions and therefore may present a higher default risk

The Target Group's business relies on individuals, usually owners of the SMEs, and SMEs to generate income. During the Track Record Period, majority of the Target Group's income was derived from its business with these customers. SMEs may be subject to significant variations in operating results because they often engage in evolving and volatile businesses and industries, require substantial additional capital to support their business operations and expansion or to maintain their competitive position, and otherwise may have a weak financial position or be adversely affected by changes in the business cycle. Various factors may affect the individual customer's or SME customer's ability to repay the loan or the financing services the Target Group provides. Such factors include the failure to meet the business plan of the SME itself, a downturn in the relevant industry and negative economic conditions. Accordingly, these customers may pose higher default risks relative to larger corporate customers. As a result, the Target Group's business, result of operations and financial condition may be adversely affected.

The Target Group has limited information regarding the SMEs and individuals to which it provides its financing services, and the Target Group may not be able to detect fraud committed by its customers in their application for, or during the term of, its services

There is very limited publicly available information in the PRC about the businesses of SMEs or the individual customers to which the Target Group provides services. The Target Group relies on its front-line customer service officers, business managers and risk control managers to conduct due diligence in respect of its SME and individual customers and to obtain the information necessary to enable itself to make credit decisions. The Target Group cannot assure that its due diligence will uncover all material information necessary to make a fully informed or correct credit decision, nor can the Target Group assure that its due diligence efforts will be sufficient to detect fraud perpetrated in the application for, or during the term of, its services. If the Target Group approves customers' applications for its services in reliance on information that later turns to be incorrect, incomplete or otherwise deficient and thereby suffers significant losses, the business, financial condition and results of operations of the Target Group may be negatively affected.

The Target Group's risk management policies and procedures may not enable itself to effectively detect risks and assess the magnitude of potential losses

The Target Group has established risk management policies and procedures intended to mitigate its exposure to credit risk in its loan or financing service portfolio. These policies and procedures are based on past experience, models and assumptions reflecting historical factors, such as default and recovery ratios. However, since the Target Group's operating history coincides with a sustained period of economic expansion and growth in the PRC, the Target Group's historical experience may not provide a sufficient or accurate basis for the Target Group itself (or the Enlarged Group upon Completion) to evaluate the effectiveness of the Target Group's credit assessment, risk pricing and risk management procedures in the event of less robust growth, a general economic downturn or recession in PRC. As a result, the Target Group's risk management policies and procedures may not enable the Target Group itself (or the Enlarged Group upon Completion) to effectively detect and assess risks for managing the risk exposure, allocating resources and addressing market developments; thus, the Target Group's business, financial condition and results of operations may be materially and adversely affected.

If the Target Group fails to effectively implement and improve its credit approval process and risk management system, its business, financial condition and results of operations may be materially and adversely affected

The Target Group's ability to reduce its risks relating to customer defaults and insufficient collateral depends on its ability to effectively design and implement its credit approval and risk management system. In addition, the Target Group needs to continue to enhance its risk management system to address new risks that may arise as a result of Target Group's expansion of business operations and geographical footprint or changes in market conditions and the regulatory environment. If the Target Group fails to promptly and effectively address such new risks, it may not be able to detect in advance problems and that may materially and adversely affect its business, financial condition and results of operations.

The Target Group's internal control system may be unable to accurately record and report operational and financial data or prevent fraud or malfeasance or comply with applicable laws governing internal controls

The Target Group has established internal control systems and procedures to monitor its operations and overall compliance and to control its operational risk. As at the Latest Practicable Date, the directors of the Target Group confirmed that no fraud or other misconduct had been committed by the Target Group's employees, customers or third parties which had an adverse effect on the Target Group's business reputation, financial condition and results of operations; and no sanctions had been imposed by governmental authorities. However, the Target Group's internal control system may be unable to identify non-compliance and/or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct committed by the Target Group's employees or third parties, and the precautions the Target Group takes to prevent and detect such activities may not be effective. There will therefore continue to be the risk that fraud and other misconduct may occur and that negative publicity, government sanctions and/or financial losses may result, which may have an adverse effect on the Target Group's business reputation, financial condition and results of operations.

Furthermore, certain areas within the Target Group's risk management and internal control systems require constant monitoring and maintenance and continual improvements by the Target Group's senior management and staff. If the Target Group's efforts to maintain or improve these systems are ineffective or inadequate, resulting deficiencies in the internal control systems and procedures, it may adversely affect the Target Group's ability to record, process, summarise and report operational, customer, financial and other data in an accurate and timely manner, as well as adversely affect the Target Group's ability to identify any reporting errors, fraud or malfeasance and comply with applicable rules and regulations governing internal controls in the pawn loan, and other short-term financing service industries. In addition, failure to maintain the internal control procedures in accordance with applicable PRC laws may subject the Target Group to sanctions or penalties which may adversely affect the Target Group's business, prospects and reputation. Failures or deficiencies in the Target Group's internal control system may adversely affect its business, financial condition and results of operations.

The Target Group may not be able to maintain the growth rate of its pawn loan and micro-financing businesses

The Pawnbrokers are prohibited from borrowing funds from any person or units other than commercial banks and also should not seek finance from the commercial banks outside their region of registration (i.e. Beijing). In addition, the outstanding balances of the loan borrowings by the Pawnbrokers should not exceed their respective owner's equity in the latest annual financial accounting report submitted to the relevant administration. The branches of the Pawnbrokers (i.e. the branches of Beijing Jinfu) are unable to obtain financing from commercial banks on its own.

As for Beijing Micro-financing, it could only utilise its own registered capital and if necessary, obtain funding from not more than two other banking institutions; however, such funding must be no more than 50% of its net capital.

As at the Latest Practicable Date, the Target Group's operations were principally financed through capital contribution, internally generated funds and additional funding from banking institutions. In the event that the Target Group has insufficient internal resources and if the Target Group is unable to obtain loans or other credit facilities from banks on reasonable terms or at all, the Target Group and its financial condition, business and results of operations will be materially and adversely affected. Furthermore, the Target Group may not be able to sustain a growth rate in its revenue due to increasing competition, economic and political conditions of the PRC, the availability of alternative financing options and customers' perceptions towards short-term financing service providers. In addition, the Target Group may need to hire additional qualified personnel to support its business growth but there is no certainty that the Target Group could be able to hire the suitable personnel. In these regards, there is no assurance that the Target Group will be able to grow its pawn loan and micro-financing services businesses. If the Target Group is unable to maintain its growth rate in pawn loan and micro-financing businesses, or if there is a significant decrease in its customer borrowings, the Target Group's business, financial condition and results of operations may be materially and adversely affected.

The Target Group may not be able to expand or maintain its financial consultancy services successfully

The Target Group commenced its financial consultancy business in October 2012. For the three months ended 31 December 2012 and the year ended 31 December 2013, the Target Group recorded financial consultancy income of approximately RMB1.50 million and RMB11.09 million respectively. While the Target Group plans to continue to devote significant attention to the expansion of its financial consultancy business, due to the project base nature of its financial consultancy business, the Target Group may not be able to expand or maintain its financial consultancy services. As a result, Shareholders should be aware that the Target Group may not be able to maintain positive revenue and profit from the financial consultancy service and any changes in laws and regulations and government policies to regulate the financial consultancy business may have material adverse impact on the Target Group's business, results of operations and financial conditions.

The Target Group may not be able to expand or maintain its entrusted loan operation successfully

The Target Group commenced its entrusted loan operation in November 2012. There is no assurance that the Target Group may be able to expand or maintain its entrusted loan operation. The Target Group may need to lower its interest rate so as to attract new customers or maintain its existing entrusted loan customer in which case its financial condition and results of operation may be materially and adversely affected.

As advised by the PRC Legal Adviser, the entrusted loan business of the Target Group, which is governed by the General Rules on Credit, is currently not subject to a licensing regime or any statutory requirement under the PRC laws and regulations which could restrict the maximum amount of entrusted loans that the Target Group may provide, and there is no formal entry barrier into such industry. However, it is uncertain as to whether there will be any additional or variation of the requirements applicable to the entrusted loan industry in the future. If, for any reasons, the PRC government implements any measures which tighten the control over the entrusted loan industry or there are any changes in the General Rules on Credit or other laws, regulations and government policies regulating the entrusted loan business, the Target Group's business and operations may be adversely affected.

Moreover, while there are not any regulatory restrictions with respect to the size of an entrusted loan, the entrusted loan of Beijing Wanchi is business restricted by the size of its available funding. As aforesaid, the Target Group's operations were principally financed through capital contribution, internally generated funds and additional funding from banking institutions and there is no certainty that the Target Group or Beijing Wanchi could maintain sufficient funding to expand its entrusted loan lending capabilities. In this regard, there is no assurance that the Target Group or Beijing Wanchi will be able to grow its entrusted loan business.

The Target Group's entrusted loan operation may be subject to higher risk than the pawn loan and micro-financing businesses

The entrusted loan business of the Target Group provides financing to its customers out of its own available capital. The Target Group effectively takes the risk of default in repayment by the borrowers. A bank acts as an entrusted party of the Target Group which enters into the loan agreements with the Target Group's customers. The customers repay their loans to the bank and then the bank returns the principal and accrued interests to the Target Group. While the bank exercises supervision over and receives repayment from the borrowers, the bank does not assume any risk of default in repayment by the borrowers. In the event of default by the borrowers, despite the assistance provided by the bank to the Target Group to recover in full the entrusted loans, the process required to enforce the collateral, including the obtaining of authorisation letter from the entrusted bank and the enforcement order from the court may take up to several weeks. The time required for the recovery process may adversely affect the liquidity of the Target Group; and thus its financial condition and results of operations.

The collateral pledged to the Target Group may not be sufficient or properly registered, and the Target Group may be unable to realise the value of the collateral in a timely manner or at all

During the Track Record Period, the Target Group has accepted different types of collateral for its pawn loan, micro-financing and entrusted loan services. Among the different types of collateral, real estate collateral accounted for a major proportion. The value of real estate may fluctuate and decline due to various factors, including those affecting the PRC economy in general. For example, a slowdown in the PRC economy may lead to a downturn in the real estate market, which may in turn result in decline in the value of the real estate collateral to levels below the outstanding principal balance of the Target Group's real estate backed loans to customers. Moreover, the real estate market and real estate prices in the PRC would be influenced by macroeconomic policies of the PRC government, such as interest rate and credit policies. In light of this, the value of the Target Group's real estate collateral may be subject to fluctuations in real estate prices, and may be exposed to the downside risk of property prices arising from or incidental to the relevant government policies. In the event of default, the value of real estate collateral may be insufficient to cover the Target Group's real estate backed loans to customers in full due to such price fluctuations, and in turn the Target Group's financial performance may be adversely affected.

In addition, the procedures for liquidating or otherwise realising the value of collateral in the PRC may be protracted or ultimately unsuccessful, and the enforcement process in the PRC may be difficult for legal and practical reasons in accordance with the Guarantee Law (擔保法), the Property Law (物權法) and other relevant PRC laws and regulations.

For other types of collateral such as motor vehicles, jewellery, luxury watches and electronic devices, their value may be subject to fluctuation due to factors such as market demand, market supply and changes in customers' preference, etc. which are beyond control of the Target Group.

The Target Group is therefore exposed to the risk that it may not be able to realise the value of collateral in a timely manner or at all in the event of default.

The Target Group's impairment allowance may not be sufficient to cover the actual losses on the loan portfolio in the future

The Target Group's impairment allowance on loans was approximately RMB10.47 million, RMB10.21 million and RMB4.24 million for the three financial years ended 31 December 2011, 2012 and 2013, respectively, representing an allowance rate of 3.89%, 6.29% and 1.65%, respectively, on the total value of the loans during the same period. Impairment allowance is recognised for financial reporting purposes only for losses that have incurred at the respective date of the statement of financial position based on objective evidence of impairment. The Target Group's management determines whether objective evidence of impairment exists. Such evidence may include, among other things, significant financial difficulty incurred by the borrower (such as cash flow difficulties experienced by the borrower, initiation of bankruptcy proceedings against the borrower and deterioration of the borrower's competitive position), a breach of contract (such as a delinquency in contractual payments of principal or interest, a breach of loan covenants or conditions by the borrower and the filing of a lawsuit against the borrower), a deterioration in the value of collateral, the loss or damage of the pledged items under the Target Group's custody and other objective evidence indicating that there is a measurable decrease in the estimated future cash flows from the Target Group's loans. The adequacy of the Target Group's impairment allowance depends on the reliable determination of evidence of impairment and estimation of potential losses, as well as the Target Group's ability to accurately collect, process and analyse the relevant data. If the Target Group's determination of potential losses differs from actual developments, or if the Target Group's estimation of potential losses proves to be inaccurate, or the Target Group's ability to collect relevant data proves to be insufficient, the provisions for impairment losses may not be adequate to cover the Target Group's actual losses and the Target Group may need to make additional impairment allowance, which may reduce the Target Group's profit and thereby materially and adversely affect the Target Group's asset quality, financial conditions and results of operations.

The Target Group's business and operations are currently concentrated in Beijing and a significant change in the business environment in Beijing may materially and adversely affect the Target Group's financial condition and results of operations

The Target Group's business and operations are currently concentrated in Beijing and most of the Target Group's revenue and operating cash flows are expected to be derived from Beijing. A significant change in the business environment in Beijing may affect the needs of the Target Group's customers for immediate funding and their abilities to repay, and thus materially and adversely affect the Target Group's financial condition and results of operations.

Dependence on the directors of the Target and senior management of the Target Group for the success of the Target Group

The success of the Target Group has been, and in future will be, dependent on the continued services of the Target's directors and members of its senior management team referred to in the section headed "Existing directors and senior management of the Target Group" of this circular. They have contributed significant experience and expertise to the Target Group's operations during their services. The Company intends to retain the current directors of the Target and senior management of the Target Group after Completion. There is no assurance, however, that any or all of these directors and members of the senior management team will continue their employment with the Enlarged Group upon Completion. If any of these directors and members of the senior management team is unable or unwilling to continue his or her service, the Target Group (or the Enlarged Group upon Completion) may not be able to find a suitable replacement easily and in a timely manner. The loss of the service of any of these directors and members of the senior management team or the failure to find a suitable replacement may cause disruption to the Target Group's business and have an adverse impact on the Target Group's (or the Enlarged Group's upon Completion) continued ability to manage and operate the Target Group's business effectively.

The insurance coverage of the Target Group may not adequately protect itself against certain operational risks and this may have a material adverse effect on the Target Group's business

As at the Latest Practicable Date, the Target Group took out six insurance policies to insure against any losses or damages to the equipment and fixtures (including the personal properties pledged by the customers to the Target Group, if any) at the offices and/or outlets of Beijing Wanchi, Beijing Jinfu, Beijing Jinfu (Sijiqing Branch), Beijing Jinshou, Beijing Jinxi and Beijing Jinlu. The insurance policies are renewed annually with the amounts of coverage revised each time to align with the updated valuations of the insured equipment, fixtures and pledged properties at the premises.

With respect to the offices and/or outlets of the other Pawnbrokers and Beijing Micro-financing, as well as the car park of the Target Group (which the Target Group has leased for the custody of automobiles pledged by the customers to the Pawnbrokers), save and except for the outlet of Beijing Jinfu (North Fourth Ring Road Branch) which was under relocation as at the Latest Practicable Date, similar insurance has been taken out by the relevant lessors for the benefits of the Target Group (as the lessee) as set out in the relevant lease agreements, or the relevant property management companies. Therefore, the Target Group has not separately insured against the pledged properties which are kept in its custody at those premises. However, there are certain incidents which may not be adequately covered under policies taken out by the lessors and/or the property management companies. These incidents include fraud or other misconduct committed by the Target Group's employees, severe weather conditions, earthquake, war, flooding, etc.. In lack of separate insurance coverage, if any of such incidents happens, the Target Group may have to incur substantial losses and/or liabilities on its own and the Target Group's business, financial condition and results of operations may be materially and adversely affected.

The future development and implementation of anti-money laundering laws in the PRC may increase the obligations of the Target Group to supervise and report transactions with its customers, thereby increasing the operation costs of the Target Group and exposing the Target Group to the risk of criminal or administrative sanction

As confirmed by the PRC Legal Adviser, while the Pawnbrokers are not currently subject to the Anti-Money Laundering Law, which was promulgated by the Standing Committee of the National People's Congress on 31 October 2006 and came into effect on 1 January 2007 and is not required by current laws and regulations to establish specific identification and reporting procedures relating to anti-money laundering, any new requirement under relevant anti-money laundering laws to supervise and report transactions with the Target Group's customers would increase the operation costs of the Target Group, and may expose the Target Group as a whole to potential criminal or administrative sanction in case the Target Group fails to establish and implement adequate procedures in accordance with law.

The Target Group has not completed the registration of its lease agreements with the relevant PRC authorities

The Target Group currently leases a total of nine properties which include eight properties as the respective offices and/or outlets of Beijing Wanchi, the Pawnbrokers (excluding Beijing Jinfu (North Fourth Ring Road Branch), the outlet of which was under relocation as at the Latest Practicable Date, following the expiration of the relevant lease agreement in February 2014) and Beijing Micro-financing, as well as a car park for custody of all automobiles pledged to the Pawnbrokers by the customers with respect to the relevant pawn loan business. As at the Latest Practicable Date, the Target Group had not registered all of these lease agreements with the relevant PRC authorities. As advised by the PRC Legal Adviser, failure to register the lease agreements would not affect their validity. Nevertheless, pursuant to the Administrative Measures for the Leasing of Commodity House (商品房屋租賃管理辦法), the competent authority may order the Target Group to rectify within a specified time limit. If the Target Group fails to do so within such period of time, a fine ranging from RMB1,000 to RMB10,000 may be imposed.

RISKS ASSOCIATED WITH THE INDUSTRY IN WHICH THE TARGET GROUP OPERATES

Competition in the short-term financing industry in the PRC is intense and any failure by the Target Group to compete could result in the Target Group losing market share and revenue

The industry in which the Target Group operate, is highly fragmented and very competitive, in particular, the pawn loan industry and micro-financing industry. According to the Euromonitor Report, the number of pawn loan companies in Beijing had grown from 211 in 2011 to 260 in 2012, whereas that of micro-loan companies had grown from 33 in 2011 to 41 in 2012. As of end of 2012, the top eleven pawn loan companies and micro-loan companies in Beijing accounted for more than 20% and 50% of the respective total market share in terms of registered capital in Beijing. The Target Group believes that the market will become more competitive as the industry matures and consolidates and a few market leaders will continue to consolidate a significant proportion of the industry's resources or market share. The Target Group competes with other providers of short-term financing services in Beijing, as well as with banks and other financial institutions.

The Target Group's ability to compete against its competitors depends on, among other things, its abilities to:

- maintain a leading position in approved registered capital;
- manage loan default risk and the loan portfolio;
- maintain strong brand recognition and customer relationships;
- comply with existing and future government rules and regulations; and
- diversify its service portfolio and deepen market penetration.

In addition, as the Target Group provides an alternative financing channel to traditional bank loans, it could potentially be in competition with local commercial banks for customers. Local commercial banks might decide to increase their lending to local SMEs, or even strengthen their presence in the short-term financing industry, which could pose intense competition to the Target Group given their capital and operational magnitude.

If the Target Group does not successfully compete against other financing service providers, banks and financial institutions, its results of operations may be materially and adversely affected.

The industry in which the Target Group operates is strictly regulated and any failure by the Target Group to adhere to relevant laws and regulations and/or obtain requisite licences and permits may have a significant impact on its business, results of operations and financial conditions

The Target Group's business operations are strictly regulated by the PRC government. For example, in accordance with current PRC laws and regulations, the Pawnbrokers must ensure the proper maintenance of paperwork for the receipt, preservation and redemption of pledged properties, engage security personnel with requisite qualifications and experience, install security video and sound recording equipment and use security vaults and safes adequate for the safe and secure storage of pledged properties. Any failure by the Pawnbrokers to establish or to properly implement procedures for the discharge of these obligations may result in the imposition of economic penalties and regulatory actions by relevant PRC government departments and/or the revocation of the relevant pawn operation business licence (典當經營許可證) and/or the special industry licence (特種行業許可證). Any of these actions could have a material adverse impact on the Target Group's business, financial conditions and results of operations.

In addition, these laws and regulations and government policies are subject to change which may impose significant costs or limitations on the way the Target Group conducts its business, such as those affecting the extent to which the Target Group can engage in, or charge fees for, specific businesses. The changes in the laws and regulations and other government policies may materially and adversely affect the Target Group's business, financial condition and results of operations, and the Target Group may not be able to adapt to all such changes on a timely basis. Moreover, there may be uncertainties regarding the interpretation and application of new laws and regulations and other government policies. Failure to comply with the applicable laws and regulations and other government policies may result in fines, restrictions on the Target Group's activities or revocation of its licences, which could have a significant impact on the Target Group's business.

The Target Group may not be able to adjust its fees quickly to cope with any increase in the costs or change in market demand due to the regulated pricing of the pawn loan and micro-financing businesses

The pricing of the pawn loan business is regulated by the Pawning Measures, which prescribe the upper limit for the interest and comprehensive service fees that can be charged on each type of pawn loans. Apart from the interest and composite administrative fees, the Pawning Measures also set out the maximum outstanding amount owing to a pawn loan provider by a single entity and the respective maximum outstanding loan amount owing in respect of difference types of pawn loan according to a stipulated percentage of the registered capital of a pawn loan provider. As for the micro-financing business, the Implementation Measures for the Pilot Operation of Micro-financing Companies in Beijing set out that the interest rate charged on borrowers for micro-financing services shall be within the range of 0.9 time to four times of the relevant PBOC benchmark RMB lending rate. The maximum amount of micro-loan granted to a customer shall not exceed 3% of the net capital of the micro-financing company. As regards the entrusted loan, there have not been any regulatory restrictions on the size of an entrusted loan. However, according to the Certain Opinions of the Supreme People's Court on the Trial of Loan Cases by the Peoples' Court (最高人民法院《關於人民法院審理借貸案件的若干意見》), the interest rate that could be charged by a trustor on a borrower should be within four times of the relevant PBOC benchmark rate. For details, please refer to the section headed "Regulatory Overview" of this circular.

Subject to such restrictions, the Target Group may not be able to adjust its fees quickly to cope with any increase in the operation costs, or change in demand of the pawn loan and/or micro-financing services. Further, its room for enlarging client's base for the pawn loan and micro-financing businesses may also be restricted due to the requirement of the aforesaid maximum loan amount as prescribed in the relevant regulations.

Moreover, there can be no assurance that future directives or notices in respect of the pricing of the pawn loan and micro-financing businesses or changes in the government policies in this regard would not have an adverse effect on the revenue or results of operation of the Target Group.

The growth of the PRC short-term financing industry may not be sustainable

According to the Euromonitor Report, the PRC short-term financing industry has experienced rapid growth, consistent with the economic development of the PRC financial system. The major customers of short-term secured financing service providers comprise individuals, micro-sized enterprises and SMEs.

Both the Group and the Target Group expect the short-term financing industry in the PRC to expand as a result of continued growth in the PRC economy. However, since the second half of 2008, global markets have experienced tremendous volatility, which has brought about a global economic downturn. There is uncertainty that the growth and development of the PRC short-term financing industry will be sustainable. If the rate of growth of the PRC financing industry slows down, the Target Group's business, results of operations and financial condition may be materially and adversely affected.

RISKS ASSOCIATED WITH THE PRC

Changes in the economic, political and social conditions of the PRC and policies adopted by the PRC government may adversely affect the Target Group's business, financial condition and results of operations

The economy of the PRC differs from the economies of most developed countries in many respects, including structure of economy, level of government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. In recent years, the PRC government has implemented measures emphasising market forces for economic reform. Increasing emphasis has been placed on the utilisation of market forces in the development of the PRC economy. Annual and five-year plans are adopted by the PRC government in connection with the development of the economy. Although state-owned enterprises still account for a substantial portion of the industrial output in the PRC, the PRC government is generally reducing the level of direct control which it exercises over the economy. Many of the reforms are unprecedented or experimental and may be subject to refinement, change or reversal based upon the outcome of such experiments. However, there can be no assurance that the PRC government will continue to pursue a policy of economic reform, in the present form of such policy or otherwise.

The Target Group (or the Enlarged Group upon Completion) may not in all cases be able to capitalise on the economic reform measures adopted by the PRC government. The Target Group's business could be adversely affected by economic, political and social conditions or developments of the PRC government, such as measures which may be introduced to control inflation, changes in the interest rate or method of taxation, imposition of additional restrictions on currency conversion and the imposition of additional import restrictions. Such changes could have adverse effects on the overall economic growth of the PRC, which could subsequently hinder the Target Group's business, financial condition and results of operations.

Development of PRC legal system and other regulatory considerations may adversely affect the Target Group's business, financial condition and results of operations

As the Target Group's business activities are conducted in the PRC and all of its revenue is derived from the PRC market, the Target Group's operations are governed by PRC laws and regulations. The PRC is still in the process of developing a comprehensive statutory framework. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial laws. However, due to the limited volume of published cases and their non-binding nature, and as a result of other factors (including the influence of political considerations can have in legal matters), these laws and regulations have not been fully developed and the implementation of PRC laws and regulations involves a degree of uncertainty. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. There is uncertainty regarding the future development of the PRC legal system, including any promulgation of new laws, change to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws, and the effect it may have on the Target Group. Furthermore, the legal protections available to the Target Group under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention.

The Target may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on its income

Under the EIT Law, if an enterprise incorporated outside the PRC has its "de facto management bodies" located within the PRC, such enterprise may be recognised as a PRC "resident enterprise" and be subject to the unified enterprise income tax rate of 25% for its worldwide income. According to the EIT Law, dividends received by a qualified PRC tax resident from another PRC tax resident are exempted from corporate income tax. However, given the limited history of the EIT Law, it remains unclear as to the detailed qualification requirements for such exemption and whether dividends declared and paid by the members of the Target Group in the PRC to their overseas holding companies will be exempted from corporate income tax if they are recognised as PRC tax residents.

The SAT promulgated the Circular on Identifying Chinese-Controlled Offshore Enterprises as PRC Resident Enterprises in accordance with Criteria for Determining Place of Effective Management (國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企有關問題的通知) in April 2009 which defines the term "management body" in respect of enterprises that are established offshore by PRC enterprises. However, no definition of "management body" is provided for enterprises established offshore by private individuals or foreign enterprises like the Target. As such, the PRC Legal Adviser has advised the Board that there is uncertainty whether the Target will be deemed as a PRC "resident enterprise" for the purpose of the EIT Law. All of the Target Group's management is currently based in the PRC, and therefore, the Target may be treated as a PRC "resident enterprise" for enterprise income tax purposes in which case the Target may be subject to PRC corporate income tax at the rate of 25% on its worldwide income. The tax consequences of such treatment are currently unclear, as they will depend on the implementation regulations and on how local tax authorities apply or enforce the EIT Law or the implementation regulations. However, since the Target is an investment holding company and could not generate any profit on its own, the financial impact towards the Target even if it is deemed to be a PRC "resident enterprise" would be minimal.

Gains on the sales of the shares of the Target and dividends on the shares of the Target may be subject to PRC income taxes

Under the EIT Law, and its implementation rules, the Target may in the future be recognised as a "non-resident enterprise" by the PRC tax authorities, and capital gains realised by its foreign shareholders (i.e. the Enlarged Group upon Completion) from future sales of the Sale Shares and potential dividends on the Sale Shares payable to the foreign shareholders (i.e. the Enlarged Group upon Completion) may be regarded as income from "sources within the PRC" and therefore become subject to a 10% withholding income tax. If the Target is required under the EIT Law to withhold PRC income tax on capital gains on sales of the Sale Shares and/or dividends on the Sale Shares payable to its foreign shareholders (i.e. the Enlarged Group upon Completion), the value of the foreign shareholders' (i.e. the Group's) investment in the Sale Shares may be materially and adversely affected.

Foreign exchange restrictions imposed by the PRC government and changes in the exchange rate between RMB and other currencies could negatively affect the Enlarged Group's financial position, results of operations and the Enlarged Group's ability to pay dividends

The Enlarged Group is exposed to the risks associated with currency conversion and the exchange rate system in the PRC as the Target Group's revenue has been exclusively denominated in RMB. RMB is currently not a freely convertible currency, both the conversion of RMB into any other currencies and the conversion of foreign currencies into RMB for use in the PRC are regulated by the PRC government. During the Track Record Period, all of the Target Group's revenue was derived from the PRC. The restrictions on the conversion of RMB into foreign currencies may affect the Enlarged Group's ability to convert RMB into foreign currencies (and thus restrict the subsequent repatriation of those funds), and any tightening of such restrictions can have an adverse effect on the Enlarged Group.

Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch is required where RMB is to be converted into foreign currencies and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. There can be no assurance that the PRC government will not in the future impose restrictions on foreign exchange transactions for current account items, including the payment of dividends.

On the other hand, capital contributions (or loans, if any) that the Target, as an offshore entity, makes to its PRC subsidiaries are also subject to PRC regulations. The PRC foreign exchange regulations also regulate the use of foreign currencies by foreign-invested enterprises which are converted into RMB funds for capital expenditure purposes. Under the existing applicable rules, for example, RMB funds which are converted by foreign-invested enterprises for capital expenditure purposes are not to be used for investments in stocks, for the purposes of granting entrusted loans, repayment of borrowings between enterprises or repayment of bank loans obtained by it which are on-lent to third parties; and foreign-invested enterprises which are not engaged in the property business are not to use such RMB funds so converted for acquiring properties that are not for self-use purposes. As advised by the PRC Legal Adviser, since Beijing Wanchi currently does not have foreign currencies which are converted into RMB funds for capital expenditure purposes, such regulations do not restrict Beijing Wanchi from granting entrusted loans. However, such regulations may impose additional requirements on the Enlarged Group when it needs to convert foreign currencies into RMB funds for capital expenditure purposes or may limit or restrict the use by the PRC subsidiaries of the Target Group of such capital contributions for certain purposes. If any laws, regulations or government policies in relation to foreign exchange are implemented and the Enlarged Group fails to comply with the relevant PRC foreign exchange regulations on a timely basis or at all, its ability to make equity contributions or provide loans to the PRC subsidiaries of the Target Group or to fund their operations may be negatively affected or delayed, which may adversely affect the PRC subsidiaries' profitability and ability to fund their business. For details, please refer to the section headed "Regulatory Overview" of this circular.

There can be no assurance that RMB will not be subject to devaluation or that shortages in the availability of foreign currencies in the PRC will not occur. Any devaluation in RMB will adversely affect the value of the revenue and the profit generated by the Target Group in the PRC, when the same are converted from RMB into HKD.

The exchange rate of the RMB against the HKD and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC government and changes in the PRC's and international political and economic conditions. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The PRC government has made, and in the future may make, further adjustments to the exchange rate system.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which, together with domestic policy considerations, could result in a further and more significant appreciation of RMB against HKD, USD or other foreign currencies. If the appreciation of RMB continues and as the Target needs to convert any future non-RMB financing into RMB for the Target Group's operations, appreciation of RMB against the relevant foreign currencies would reduce the RMB amount the Target Group would receive from the conversion. On the other hand, because the dividends on the Sale Shares, if any, will be paid in RMB, any devaluation of RMB against the HKD could reduce the amount of any cash dividends on the Sale Shares in HKD terms.

It may be difficult to effect enforcement upon the Vendors' Guarantor who live in the PRC or to enforce against the Target Group in the PRC any judgments obtained from non-PRC courts

The Vendors' Guarantor is a resident of the PRC. Therefore, it may be difficult or impossible for the Purchaser to effect enforcement upon him in the PRC. In addition, substantially all of the Vendors' Guarantor's assets are located in the PRC. The Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region pursuant to Choice of Court Agreements between Parties Concerned was executed on 14 July 2006. However, there are many restrictions on such arrangement. As a result, it may be difficult or impossible for the Group to enforce against the Vendors' Guarantor in the PRC any judgments the Group may obtain from non-PRC courts.

RISKS ASSOCIATED WITH THE STRUCTURED AGREEMENTS

The Target Group's pawn loan services business and micro-financing services business in the PRC are conducted through the Pawnbrokers and Beijing Micro-financing respectively. The Target Group has not had any direct equity ownership in the Pawnbrokers and Beijing Micro-financing and has relied on the Structured Agreements to control, operate, and be entitled to the economic benefits and risks arising from, the respective businesses of the Pawnbrokers and Beijing Micro-financing. However, there are risks involved with the operations of the Target Group's pawn loan services business and micro-financing services business under the Structured Agreements.

There is no assurance that the Structured Agreements could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine the Structured Agreements do not comply with applicable regulations

According to the Catalogue for the Guidance of Foreign Investment (外商投資產業指導目錄) jointly promulgated by the MOC and the NDRC on 24 December 2011, foreign investments in the pawn loan business and the micro-financing business are neither restricted nor prohibited.

The pawn loan business is subject to, among other things, the licensing requirements under the Pawning Measures. The Pawning Measures do not explicitly permit foreign invested companies (including those from Hong Kong, Macau and Taiwan) to operate a pawn loan business in the PRC. According to Article 71 of the Pawning Measures, rules and regulations governing the investment by foreign invested companies in the pawn loan business in the PRC will be separately promulgated by the MOC together with other competent authorities. However, (i) no relevant rules and regulations governing the investment by foreign invested companies in the pawn loan business in the PRC have been announced by the MOC or any other competent authorities; and (ii) there is no administrative licensing regime for foreign invested companies to participate in the pawnbroking industry in Beijing.

According to Article 22 of the Implementation Measures for the Pilot Operation of Micro-financing Companies in Beijing, shareholders of micro-financing companies established in Beijing shall be the PRC domestic natural persons, enterprise legal persons or other social organisations and the largest shareholder shall be PRC domestic natural persons, enterprise legal persons or other social organisations of the county where such companies are established. Therefore, the shareholders of Beijing Micro-financing shall be the PRC domestic natural persons, enterprise legal persons or other social organisations of Beijing and foreign investors are not allowed to directly invest in Beijing Micro-financing.

Subject to the above-mentioned restrictions under the PRC laws and regulations on foreign investment in pawn loan services business or micro-financing services business, the Target Group has entered into the Structured Agreements under which all economic interests and risks arising from the business of the Pawnbrokers and 79% of the economic interest and risks arising from the business of Beijing Micro-financing are transferred to Beijing Wanchi by means of management and operation fees payable by the Pawnbrokers and Beijing Micro-financing to Beijing Wanchi respectively. As the Target Group currently cannot be granted any required licence (such as the pawn operations business licence), the Target can only rely on the Pawnbrokers or Beijing Micro-financing to hold and maintain such necessary licences to operate the pawn loan or micro-financing business in the PRC.

Despite the fact that the Structured Agreements have not been and are not currently interfered or objected by any PRC regulatory authorities, the PRC Legal Adviser has advised that there is a possibility that the MOC or other competent authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the Structured Agreements comply with the current PRC laws, regulations or rules or those that may be adopted in future, and the authorities may deny the validity, effectiveness and enforceability of the Structured Agreements.

Therefore, though the PRC Legal Adviser has advised that the Structured Agreements do not contravene PRC laws and regulations and are valid and enforceable and binding upon the parties thereto, there is no assurance that the PRC government will not determine the Structured Agreements to be in violation of the PRC laws or regulations, including but not limited to the Pawning Measures and the Implementation Measures for the Pilot Operation of Micro-financing Companies in Beijing in future. To the best knowledge of the Directors, if the Structured Agreements are considered to be in breach of any existing or future PRC laws or regulations or government policies, the relevant regulatory authorities would have broad discretion in dealing with such violations and may impose the following actions, including but not limited to:

(i) imposing economic penalties;

(ii) restricting the Target Group's entitlement to revenues;

(iii) restricting or discontinuing the operations of the Pawnbrokers and Beijing Micro-financing;

(iv) revoking the business licences and/or certificates of the Pawnbrokers and Beijing Micro-financing;

(v) imposing additional conditions or requirements in respect of the Structured Agreements which the Target Group may not be able to comply with and as a result of which may have to terminate the Structured Agreements;

(vi) requiring the Target Group to restructure the relevant ownership structure or operations; and

(vii) taking other regulatory or enforcement actions that could adversely affect the businesses of the Target Group.

Any of these actions could have a material adverse impact on the Target Group's businesses, financial condition and results of operations.

The Structured Agreements may not be as effective in providing the Target Group with the control over and entitlement to the economic interests in the Pawnbrokers and Beijing Micro-financing as direct ownership

The Structured Agreements may not be as effective in providing the Target Group with control and entitlement to the economic interests over the Pawnbrokers and Beijing Micro-financing as direct ownership. If the Target Group had direct ownership of the Pawnbrokers and Beijing Micro-financing, the Target Group would be able to directly exercise its rights as a shareholder to effect changes in the board of directors of the Pawnbrokers and Beijing Micro-financing, which could further effect changes at the management level, subject to any applicable fiduciary obligation. However, under the Structured Agreements, the Target Group can only look to and rely on the Pawnbrokers and Beijing Micro-financing and their respective registered shareholders, as well as the members of the Dai Family, to perform their contractual obligations under the Structured Agreements such that the Target Group can exercise effective control over the Pawnbrokers and Beijing Micro-financing. The registered shareholders of the Pawnbrokers and the Majority Shareholders (Beijing Micro-financing) may not act in the best interests of the Target Group or may not perform their obligations under the Structured Agreements. The Target Group expects the above risks will continue to exist throughout the period in which the Target Group intends to operate the pawn loan services business or the micro-financing services business through the Structured Agreements. The Target Group may replace the registered shareholders of the Pawnbrokers and the Majority Shareholders (Beijing Micro-financing) by its nominees pursuant to the Structured Agreements. However, if any dispute relating to the Structured Agreements remains unresolved, the Target Group will have to enforce its rights under the Structured Agreements and seek to interpret the terms of the Structured Agreements in accordance with the PRC laws and will be thereby subject to uncertainties in the PRC legal system.

In addition, the Target Group has not purchased any insurance to cover the risks relating to the enforcement of the Structured Agreements, due to the unavailability of such insurance product in the market at the moment.

As set out in each of the Structured Agreements, the Structured Agreements are governed by the PRC laws. When a dispute arises under any of the Structured Agreements, the relevant parties thereto shall settle the dispute through negotiation in an amicable manner. In case the dispute is not resolved, the parties to the dispute may have to rely on legal remedies under the PRC laws. The Structured Agreements provide that dispute will be submitted to the China International Economic and Trade Arbitration Commission (Beijing Branch) for arbitration. The decision of such arbitration is final and binding on the parties to the dispute.

As advised by the PRC Legal Adviser, although under the Structured Agreements, arbitrators may grant remedies *in rem* over the shares and/or assets of Pawnbrokers or Beijing Micro-financing (as the case may be), injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or winding up order of the Pawnbrokers or Beijing Micro-financing (as the case may be) under the Structured Agreements. Under the PRC laws, the arbitrators may not award remedies over the shares and/or assets of the Pawnbrokers or Beijing Micro-financing (as the case may be), injunctive relief and/or winding up order of the Pawnbrokers or Beijing Micro-financing (as the case may be) as interim remedies in favour of the Target Group and even if an award is granted in favour of the Target Group, the Target Group may not be able to obtain such remedies, injunctive relief or winding up order. Further, the Target Group may not be able to prevent the Pawnbrokers and Beijing Micro-financing and/or the registered shareholders of the Pawnbrokers, the Majority Shareholders (Beijing Micro-financing) and Beijing Liangxiang from ceasing business, transferring assets or prejudicing the interests of the Target Group under the Structured Agreements before an arbitral award is granted. Since the legal environment in the PRC is different from that in Hong Kong and other jurisdictions, the uncertainties in the PRC legal system could limit the ability of the Target Group to enforce the Structured Agreements at all times. There is no assurance that such arbitration result will be in favour of the Target Group and/or that there will not be any difficulties in enforcing the specific performance or injunctive relief and claiming damages by the Target Group.

In the event of non-compliance with such award, enforcement measures may be sought from the court which may or may not support the award of an arbitral body when deciding whether to take enforcement measures. The PRC Legal Adviser is also of the view that, even though the Structured Agreements provide that courts of Hong Kong and the Cayman Islands may grant and/or enforce interim remedies or in support of arbitration, such interim remedies (even if so granted by the courts of Hong Kong or the Cayman Islands in favour of an aggrieved party) may not be recognised or enforced by the PRC courts. As a result, Beijing Wanchi may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the Pawnbrokers and Beijing Micro-financing and the conduct of the pawn loan business and micro-financing business could be materially and adversely affected.

Any limitation or inability to enforce the Structured Agreements or any arbitral awards granted in relation thereto or prevent the transfer, mortgage or other dealings in the assets of the Pawnbrokers and Beijing Micro-financing which may prejudice the interests of the Target Group under the Structured Agreements could disrupt the business of the Target Group and have a material adverse impact on the Target Group's business, prospects and results of operation.

Potential conflicts of interest between the Target Group and the Pawnbrokers and Beijing Micro-financing and their respective registered shareholders exist and whether the registered shareholders and directors of the Pawnbrokers and Beijing Micro-financing will act solely in the interest of the Target Group is beyond control of the Target Group

The Target Group relies on the Structured Agreements to exercise control over and to draw the economic benefits from the Pawnbrokers and Beijing Micro-financing, which are the parties directly holding the effective licences to conduct the pawn loan services business and the micro-financing services business in the PRC. The Pawnbrokers and Beijing Micro-financing are legally held by ZJF Investment, YSY Investment, the Majority Shareholders (Beijing Micro-financing) and Beijing Liangxiang respectively. The Vendors' Guarantor, Mr. Dai Hao and Ms. Jin are the ultimate shareholders of the Pawnbrokers. Ms. Jin is a director of the Target. The Target Group provides no incentives to the Vendors' Guarantor, Mr. Dai Hao, ZJF Investment, YSY Investment and the Majority Shareholders (Beijing Micro-financing) for the purpose of encouraging them to act in the best interests of Target Group. As a director of the Target, Ms. Jin has a duty of loyalty and care to the Target Group under the laws of the Cayman Islands. In addition, the Dai Family and ZJF Investment, YSY Investment and the Majority Shareholders (Beijing Micro-financing) have executed the Pawnbrokers Proxy Agreements and the Beijing Micro-financing Proxy Agreement respectively to appoint Beijing Wanchi (or its nominees) to vote on their behalf and exercise all voting rights as shareholders of the Pawnbrokers and Beijing Micro-financing. However, any of the Pawnbrokers, Beijing Micro-financing, the Dai Family, ZJF Investment, YSY Investment and the Majority Shareholders (Beijing Micro-financing) may breach the Structured Agreements in the event of conflicts of interest or deterioration of their relationships with the Target Group, the results of which may have a material adverse impact on the Target Group's business, prospects and results of operation.

It is not assured that if conflicts arise, the registered shareholders of the Pawnbrokers, the Dai Family and the Majority Shareholders (Beijing Micro-financing) will act in the best interests of Beijing Wanchi or that the conflicts will be resolved in favour of Beijing Wanchi. If any of ZJF Investment, YSY Investment, the members of the Dai Family and the Majority Shareholders (Beijing Micro-financing) fails to perform its/his/her obligations under the respective Structured Agreements, the Target Group may have to rely on legal remedies under the PRC laws through legal proceedings, which may be expensive, time-consuming and disruptive to the Target Group's operations and will be subject to uncertainties as discussed above.

The Target Group may lose the ability to use and enjoy the assets held by the Pawnbrokers and Beijing Micro-financing that are important to the business operations if the Pawnbrokers and Beijing Micro-financing declare bankruptcy or become subject to a dissolution or liquidation proceeding

The Pawnbrokers hold the pawn operation business licences and the special industry licences whereas Beijing Micro-financing has received the consent letter from Beijing Municipal Bureau of Financial Work (北京市金融工作局) with respect to its establishment and business operation. These licences and consent letter are important to the business operations of the Target Group. The Structured Agreements with the registered shareholders of the Pawnbrokers, the Dai Family and the Majority Shareholders (Beijing Micro-financing) contain terms that specifically obligate them to ensure the valid existence of the Pawnbrokers and Beijing Micro-financing. However, in the event that any of such shareholders or the members of the Dai Family breaches this obligation and voluntarily liquidates the Pawnbrokers and Beijing Micro-financing, or the Pawnbrokers or Beijing Micro-financing declares bankruptcy and all or part of their assets become subject to liens or rights of third-party creditors or are otherwise dissolved, the Target Group may be unable to continue part or all of its business operations, which could materially and adversely affect its businesses, financial condition and results of operations. Furthermore, if any of the Pawnbrokers and Beijing Micro-financing undergoes a voluntary or involuntary liquidation proceeding, the registered shareholders, the Dai Family or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering the Target Group's ability to operate the pawn loan business and micro-financing business, which could materially and adversely affect the businesses, financial condition and results of operations of the Target Group.

The Structured Agreements may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed

The Structured Agreements may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed on the Target Group. The Target Group may face adverse tax consequences if the PRC tax authorities determine that the Structured Agreements were not entered into based on arm's length negotiations. If the PRC tax authorities determine that the Structured Agreements were not entered into on an arm's length basis, they may adjust the income and expenses of the Target Group for the PRC tax purposes which could result in higher tax liabilities on the Target Group.

Each of the Structured Agreements was negotiated and executed based on an equal standing and reflects the true commercial intentions of the parties thereto. Beijing Wanchi provides consulting and management services in relation to the operations of the Pawnbrokers and Beijing Micro-financing. Relevant service charges are commensurate with the functions performed by Beijing Wanchi. In addition, to the best knowledge of the directors of the Target Group, the Target Group was not aware that any other publicly-listed companies in the PRC which had adopted similar contractual arrangement had been challenged by the relevant tax authorities of the PRC that the contractual arrangement was not entered into on an arm's length basis. However, the Target Group is not in a position to predict the actions to be taken by the relevant tax authorities of the PRC. The operation results of the Target Group may be materially and adversely affected if the tax liabilities of the Pawnbrokers and Beijing Micro-financing or that of Beijing Wanchi increase significantly or if they are required to pay interest on late payments.

The above-mentioned risks may materially and adversely affect the validity, effectiveness and enforceability of the control of Beijing Wanchi (and ultimately the Target Group) over the Pawnbrokers and Beijing Micro-financing and their respective registered shareholders. Any inability of Beijing Wanchi, or limitation of Beijing Wanchi's ability to enforce the Structured Agreements with the Pawnbrokers and Beijing Micro-financing and their respective registered shareholders, as well as the Dai Family, or to take any legal remedies under the PRC law could disrupt the businesses of the Target Group and may have a material adverse effect on the financial position, results of operations and prospects of the Target Group.

Beijing Wanchi's ability to acquire the entire equity interests in or assets of the Pawnbrokers and the 79% equity interest in Beijing Micro-financing may be subject to various limitations

The Target Group conducts the pawn loan business and the micro-financing business in the PRC through the Structured Agreements and will unwind the Structured Agreements when it is permissible under the relevant PRC rules and regulations for Beijing Wanchi to engage in the pawn loan services business or micro-financing services business in the PRC in future. However, the acquisition of the entire equity interests in or the assets of the Pawnbrokers and the acquisition of the 79% equity interest in Beijing Micro-financing may only be conducted to the extent as permitted by the applicable PRC laws and will be subject to necessary approvals and relevant procedures under applicable PRC laws.

Substantial amount of costs, expenses and time may be involved in transferring the ownership of the Pawnbrokers and Beijing Micro-financing if Beijing Wanchi chooses to exercise the options to acquire all or part of the equity interests in the Pawnbrokers and Beijing Micro-financing under the Pawnbrokers Exclusive Option Agreements and the Beijing Micro-financing Exclusive Option Agreement

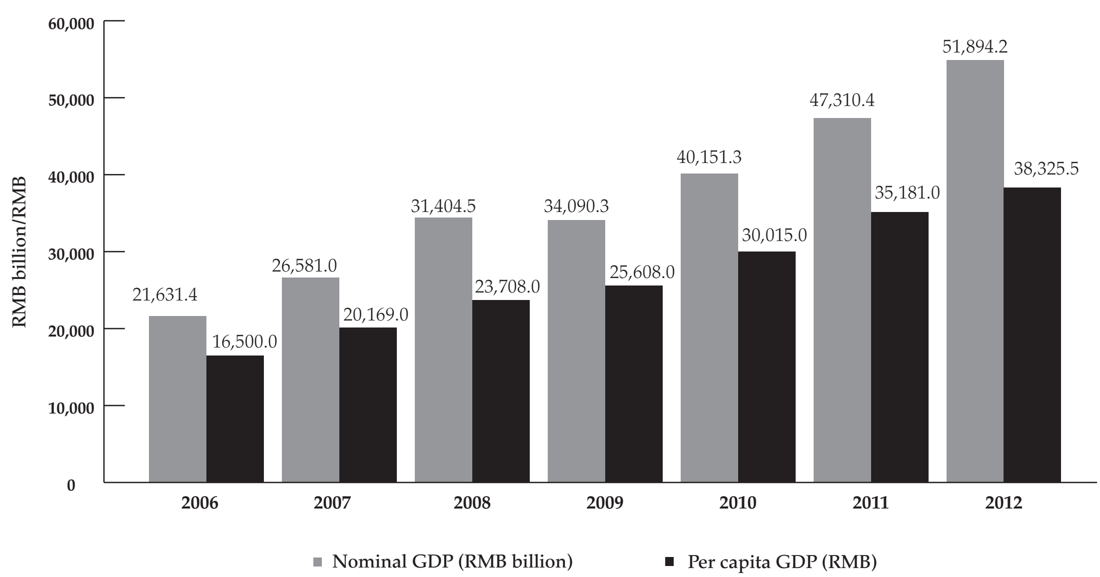
The Pawnbrokers Exclusive Option Agreements and the Beijing Micro-financing Exclusive Option Agreement provide Beijing Wanchi or its nominee(s) with exclusive and irrevocable options to acquire all or part of the equity interests in the Pawnbrokers and Beijing Micro-financing held by ZJF Investment, YSY Investment and the Majority Shareholders (Beijing Micro-financing) respectively at a consideration and each of ZJF Investment, YSY Investment and the Majority Shareholders (Beijing Micro-financing) shall transfer such consideration to Beijing Wanchi at no cost. However, other costs (if any), expenses and time may be involved in transferring the ownership of the Pawnbrokers and Beijing Micro-financing. If these costs, expenses and time are substantial, it may have a material adverse impact on Target Group's businesses, prospects and results of operation.

The information that appears in this industry overview contains information derived from public sources such as PBOC, municipal statistic bureau, etc, and information prepared by Euromonitor. The information prepared by Euromonitor in this industry overview reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Euromonitor should not be considered as the opinion of Euromonitor to the value of any security or the advisability of investing in the Company. The Directors believe that the sources of information contained in this industry overview are appropriate sources for such information and have taken reasonable care in reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Euromonitor and set out in this industry overview has not been independently verified by the Group, the Target Group, the financial advisers of the Company and the Target, their respective affiliates, directors or advisers, or any other parties involved in the Acquisition and neither they nor Euromonitor give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.

ECONOMIC OVERVIEW

Strong and sustainable growth of the PRC macro economy

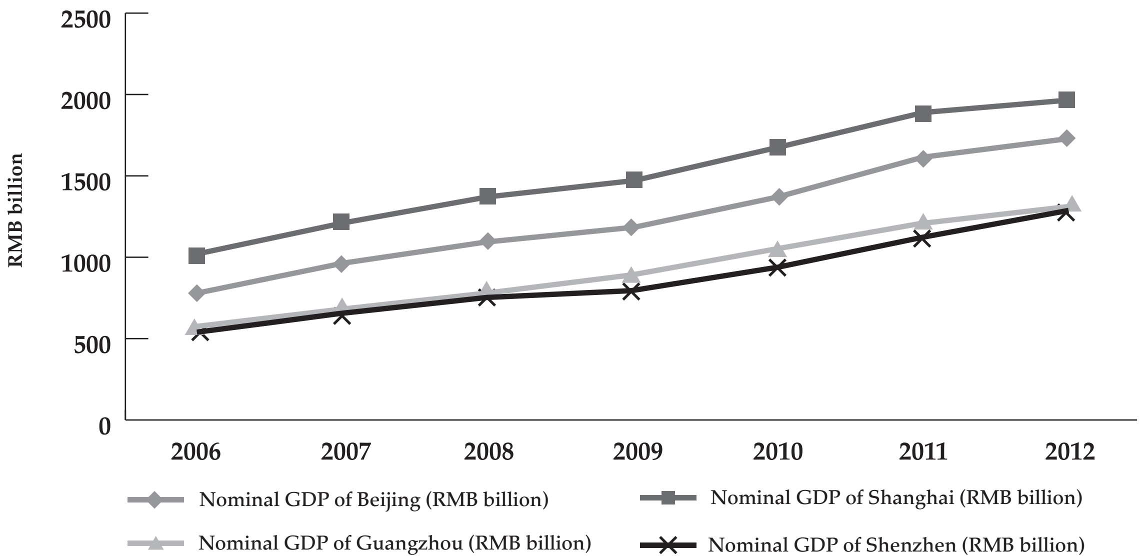
The PRC economy has been in a period of robust growth since the government launched their economic reform and open programme. After surpassing Japan as the world's second largest economy in 2010, the PRC has been playing an increasingly important role in the world economy. Even during the global economic crisis, the PRC was one of the fastest countries to rebound, with a real GDP growth rate of 10.4% in 2010. According to the statistics from the National Bureau of Statistics of China (中華人民共和國國家統計局), the PRC's nominal GDP in 2012 climbed to RMB51.9 trillion, extending a sizable real year-on-year growth rate of 7.7%. The per capita GDP grew from RMB16,500.0 in 2006 to RMB38,325.5 in 2012, with a CAGR of 15.1% over the same period. The chart below illustrates the nominal GDP and per capita GDP of the PRC from 2006 to 2012:



Source: *National Bureau of Statistics of China*

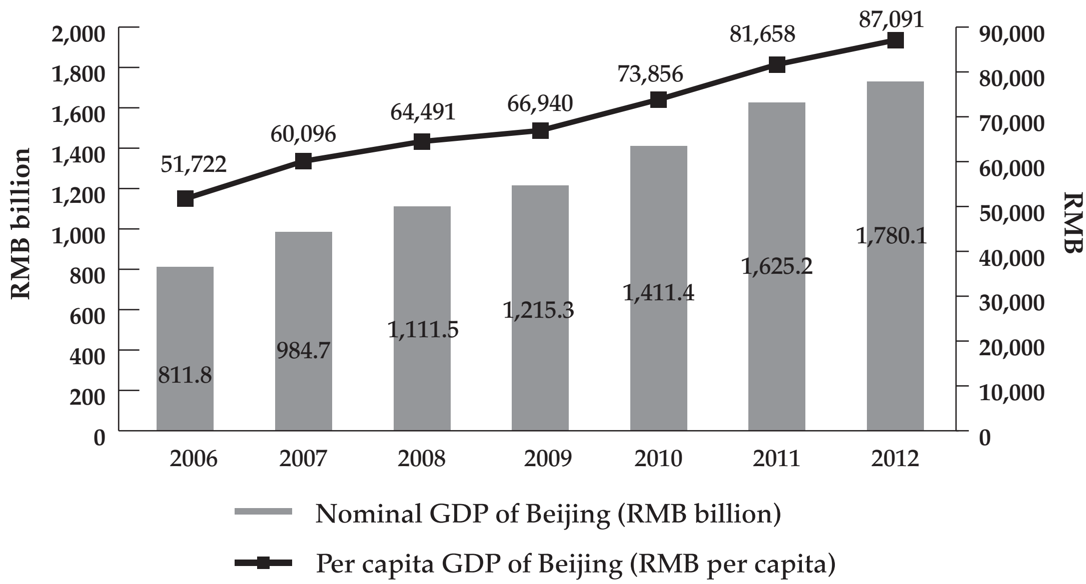
Steady growth of the macro economy of Beijing as the capital of the PRC

The Target Group's business is based in Beijing, the capital of the PRC. Beijing is the country's political, cultural, and educational center, and one of the most developed cities in the PRC. Among the four first-tier cities in the PRC, Beijing was ranked second in nominal GDP. The chart below shows the nominal GDP of each of the four first-tier cities in the PRC, being Beijing, Guangzhou, Shanghai and Shenzhen, from 2006 to 2012:



Sources: *National Bureau of Statistics of China, and the respective municipal bureaus of statistics of Beijing, Shanghai, Guangzhou, and Shenzhen*

According to the Beijing Municipal Bureau of Statistics (北京市統計局), the nominal GDP in Beijing grew from RMB811.8 billion in 2006 to RMB1,780.1 billion in 2012. Meanwhile, the per capita GDP reached RMB87,091 in 2012, up by RMB35,369 from 2006, with a CAGR of 9.1% for that period. According to the Beijing Municipal Bureau of Statistics, the nominal GDP in Beijing reached RMB911.3 billion in the first half of 2013, reflecting a real year-on-year growth rate of 7.7%, which is 0.5 percentage points higher than that in the same period in 2012. This further demonstrates a rising momentum of the macro-economic growth in the city. The chart below illustrates Beijing's nominal and per capita GDP from 2006 to 2012:



Source: *Beijing Municipal Bureau of Statistics*

Steady growth of the private businesses and their contribution to the macro economy

As of 31 December 2013, the number of private enterprises surpassed 12 million and the number of self-employed individuals surpassed 44 million, representing a year-on-year growth of 15.5% and 9.3% respectively. SMEs make a significant contribution to the economy and employment. For example, in the industrial sector, the number of above-set-scale[(1)] SMEs increased from 299,000 in 2005 to 449,000 in 2010, representing a CAGR of 8.5%. Based on the revised threshold[(2)] for above-set-scale industrial enterprises, the number of above-set-scale SMEs was over 343,000 in 2013, accounting for over 97% of the total number of above-set-scale enterprises in the industrial sector. The above-set-scale SMEs contributed over 50% of the tax revenue, created over 60% of the national GDP and provided over 80% of the jobs in cities and counties. In the first quarter of 2014, these SMEs already recorded total revenue of RMB14.3 trillion and total profit of RMB755.3 billion, representing a year-on-year growth of 11.2% and 15.0% respectively. Their revenue and profit contribution accounted for over 59% and over 58% of the total revenue and total profit of the above-set-scale industrial enterprises in the PRC respectively.

During the 12th Five-Year Plan period (2011–2016), SMEs are expected to face a more favorable environment for further growth and development for a number of reasons. First, domestic demand is expected to continue to grow and stimulate domestic consumption. Second, the on-going strategic restructuring of the overall economy has created opportunities for new sectors and less-developed geographical areas that are now more open to private capital. The combination of these changes will provide SMEs with more market opportunities in a broader market. Third, the PRC central government has promulgated a series of rules and regulations which are expected to foster growth of the private business sector, including the Several Opinions on Further Promoting of the Development of SMEs (關於進一步促進中小企業發展的若干意見) promulgated by the State Council in 2009, the Several Opinions on Further Improving Financial Services for SMEs (關於進一步改善中小企業金融服務的若干意見) promulgated by the PBOC, the CBRC and the CSRC in 2010, and the Notice on the Support of the Commercial Banks to Further Improve the Small Business Financial Services (關於支持商業銀行進一步改進小型企業金融服務的通知) promulgated by the CBRC in 2011. All levels of local governments also attach great importance to SMEs and have released a series of supportive policies for SMEs, such as favorable treatment in taxation, financing and public service support.

Notes:

(1) Above-set-scale industrial enterprises (規模以上工業企業) refers to industrial enterprises with annual revenue that is above RMB5 million.

(2) In June 2011, the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) released a notice on the new scope of above-set-scale industrial enterprises, raising the threshold in terms of revenue from above RMB5 million to above RMB20 million.

ALTERNATIVE FINANCING INDUSTRY IN THE PRC

Due to the robust macro economy, demand for financial services in the PRC has seen a marked increase, and the features of the development of the PRC's financing industry in recent years can be summarised as follows:

(i) bank loans have been a dominant financing tool;

(ii) increasing amounts of private capital have been flowing into the financing industry; and

(iii) the government has placed more importance on the short-term financing industry by launching a variety of policies and other actions focused on it.

In general, the PRC has stuck to moderate monetary policies in recent years, with all financial institutions being bound by strict supervision through the PBOC, the CBRC and other relevant authorities. Under these circumstances, for the sake of risk management, bank loans require lengthy approval processes, good credit records and high value mortgages, which can be difficult conditions to fulfill for SMEs, micro-sized enterprises and individuals.

However, the authorities have created a series of policies to alleviate this problem. Due to the development of the PRC economy, enormous private capital has been accumulated and has been playing an increasingly important role in providing fast and flexible financing solutions for SMEs and individuals. Thus, the short-term financing industry has emerged as a direct result of client needs, and current market forces. The short-term financing industry include pawn loans, micro-loans, entrusted loans, credit guarantees, financial leasing, etc.. The Target Group focuses on the provision of pawn loans, micro-loans, entrusted loans, and financial consultancy services.

PAWN LOAN INDUSTRY IN THE PRC

History overview

The pawn loan industry is an old industry in the PRC. Due to its characteristics of short terms, small amounts, flexibility (diversity of pawn collateral, duration, and interest rates), and convenient procedures, pawn loan is a complementary financial channel to traditional bank loan. The pawn loan industry not only meets individual and family demands for contingent capital, but also plays an active role in providing financing to SMEs. In 2009, pawn loans were officially recognised as an indispensable financial channel for SMEs by the State Council in the Several Opinions on Further Promoting the Development of SMEs. Legal framework governing the pawn loan industry in the PRC began to develop in the 1990s. The first governing regulation, namely the Public Security Regulations about the Pawn Loan Industry (典當業治安管理辦法) (ceased to be in effect since 25 February 2005), was promulgated by the Ministry of Public Security in May 1995. In August 2001, the former State Economic and Trade Commission (國家經濟貿易委員會) issued the Measures on Pawnshop Management (典當行管理辦法), (ceased to be in effect since 8 August 2001), which streamlined the approval procedures for new pawn loan companies and expanded the business scope of pawn loan companies from movable properties to real estate and property rights. In 2003, the regulatory power over the pawn loan industry was transferred to the MOC during government institution restructuring. In April 2005, the Pawning Measures jointly issued by the MOC and the Ministry of Public Security came into effect.

The Pawning Measures clearly defined and set out the regulations regarding the pawn loan industry, including names of pawn loan companies, establishments, funding sources, funding usages, supervisions, terminations, and other matters. The implementation of the Pawning Measures has been playing an important role in the development of the pawn loan industry.

On 5 December 2012, the MOC promulgated the Regulation for Supervision of Pawning Industry (典當行業監管規定), pursuant to which the competent authorities of commerce at the prefectural level (including districts and counties of municipalities directly under the central government and counties directly under a province) shall be responsible for the routine supervision and administration of the pawn industry within their respective area. This regulation also specifies that the legal fund sources of a pawn loan company include: registered capital, operating surplus of pawning enterprises and loan of a certain amount obtained from a commercial bank according to the Pawning Measure and a pawn loan company may launch mortgage and pledge business and appraisal, evaluation, consultation service only with the aforesaid fund.

Difference between pawn loans and traditional bank loans

Pawn loans differ from traditional bank loans in a number of important ways which make them complementary to, rather than in direct competition with, traditional bank loans and especially suitable to address SMEs' particular capital needs:

More accommodating information requirements

Collateral provides security and reduces lending risk of pawn loans, which enables a pawn loan company to be more accommodating in certain aspects of the loan review process heavily relied on by traditional commercial banks, such as proof of credit history and economic background of the borrowers. As many SMEs in the PRC have relatively short operating histories, they have not yet established meaningful credit records, which makes them difficult to apply for traditional bank loans. For SMEs which have readily available collateral to pledge, pawn loans are an alternative to traditional bank loans.

Faster review process

The security provided by collateral allows a pawn loan company to shift its focus from evaluating the creditworthiness of the applicant to the verification and appraisal of the collateral pledged when reviewing a loan application. The evaluation of the creditworthiness of an applicant tends to be lengthy and complicated, as it requires the examination of a wide variety of background information and involves judgment calls. In comparison, collateral verification and appraisal is a much faster and straightforward reviewing process, especially for a pawn loan company that is familiar with the type of collateral pledged. As a result, a pawn loan company can usually make a decision on a loan application within days. SMEs with urgent capital needs will thus opt for a pawn loan under such circumstances. Equally important is the more accommodating standard on the required information of a loan application.

Smaller amounts and shorter terms

Compared with commercial loans granted by traditional commercial banks, pawn loans are typically extended in smaller principal amounts. The terms of pawn loans are usually shorter in comparison as well, ranging from several days to months. In comparison, the terms of the traditional bank loans usually last for at least half a year. SMEs more frequently find themselves in need of small amounts of capital on stringent timelines, at which occasion they are likely to turn to a pawn loan company than a traditional commercial bank. From the perspective of a pawn loan company, a loan with a smaller principal amount and a shorter term typically means smaller credit risks.

More flexible financing terms

Significant bank loans extended by commercial banks tend to have stringent financing terms, such as performance milestones and capped debt ratios. Such financing terms could impose onerous compliance burdens on SMEs, which usually lack adequate internal control and financial reporting capabilities. In addition, banks usually put restrictions on the end use of the loans. In comparison, a pawn loan company can afford to negotiate more flexible financing terms with a borrower due to the security provided by collateral and the short term of the loan yet within the set thresholds as prescribed in the Pawning Measures.

Specific industry characteristics

Relevant government approvals as the main entrance barriers and constraints on business scale of a pawn loan provider

The pawn loan industry in the PRC is highly regulated and closely supervised by the competent commerce authorities and the public security bureaus, at both the national and provincial level. In addition to the business licence issued by the relevant administration for industry and commerce, a pawn loan company is required to obtain a pawn operation business licence issued by MOC as well as a special industry licence issued by local counterpart of the public security bureau to operate its pawn loan business. Pursuant to the Pawning Measures, if a pawn loan company intends to open a new branch office or change the size of its registered capital, it must first obtain approval from relevant government authorities. Approved registered capital is the main constraint on the business expansion of a pawn loan company, as the size of the approved registered capital is directly related to the amount of bank loans that the pawn loan company can obtain and in turn the total amount of fund available for lending to customers, as well as the size of certain loans a pawn loan company can grant (pursuant to the Pawning Measures). For more details on the Pawning Measures and other relevant rules and regulations on the pawn loan industry, please refer to the ''Regulatory Overview'' section of this circular.

SMEs as the main customers for pawn loan companies

According to the Euromonitor Report, the traditional banking industry has a tendency to lend money to large-scale organisations or state-owned companies. This gives rise to the phenomenon that SMEs and individually-owned businesses tend to be under served by traditional bank loans. Furthermore, even during periods of loose monetary conditions, SMEs and individually-owned businesses are likely to have difficulties in obtaining bank loans, due to the more stringent requirements, such as the necessity for the bank loan applicant to have a high-quality credit record, in-depth financial statements, etc.. All these factors have led the SMEs and individually-owned businesses who fail to meet such criteria to turn to other financing channels, like pawn loans.

Real estate as the main form of collateral

According to the Measures on Pawnshop Management, issued by the former State Economic and Trade Commission (now known as the MOC) in 2001, the form of collateral for pawn loans has been expanded from movable properties, to real estate and property rights. Such expansion has led to real estate becoming the main collateral for pawn loan companies. According to the MOC, by 2012, the total pawn loan value in the PRC amounted to RMB276.5 billion, among which real estate-backed pawn loans dominantly accounted for 53.3%; movable property-backed pawn loans 26.5%; and property rights-backed pawn loans 20.2%.

According to the Euromonitor Report, real estate is welcomed by pawn loan companies as the main form of collateral mainly due to the following reasons:

(i) lower risk for the lender given the relatively lower loan-to-value ratio (which is usually 50% – 70% for the commercial banks, and 60% – 70% for the pawn loan companies); and

(ii) easier and more accurate appraisal in the secondary market given the liquidity of real estate under relatively stable market conditions and increasingly mature legislation concerning the real estate market.

In addition, pursuant to the Property Law of the PRC, any creation, change, transfer or termination of right in rem over real estate come into effect only upon registration in accordance with law; therefore it is easier for the Pawnbrokers to verify the title or ownership of collateral in the form of real estate.

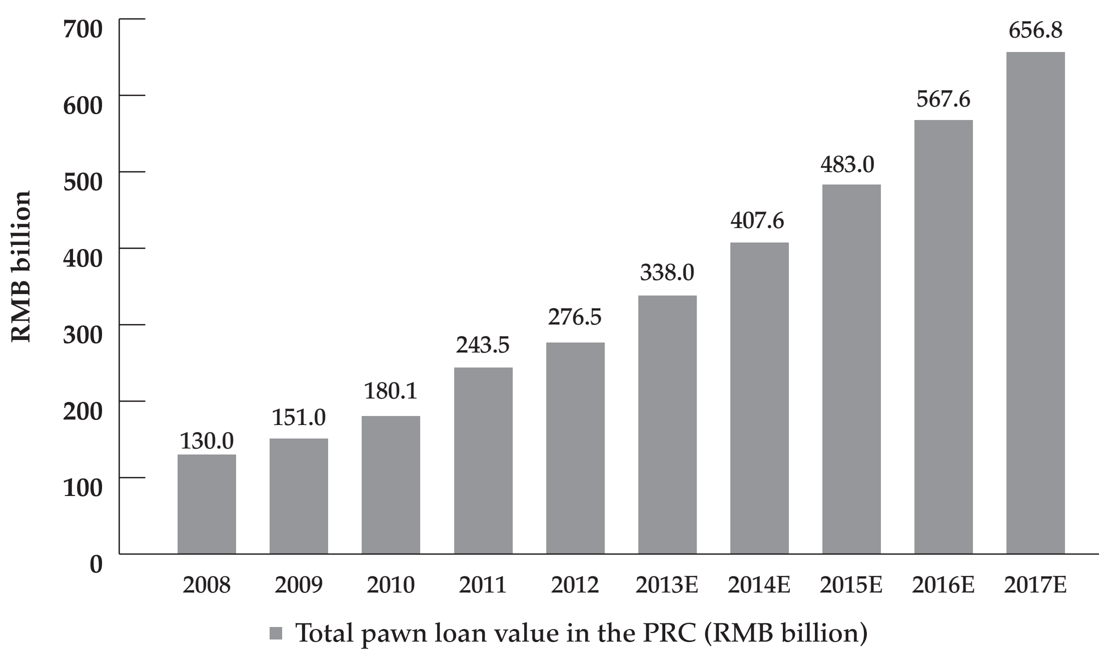
Growth in company scale through expansion of registered capital and development of chain operations

According to the MOC, the total number of pawn loan companies more than doubled from 2,494 in 2006 to 6,084 in 2012. Over the same period, the average registered capital per pawn loan company also increased substantially from RMB9.9 million in 2006 to RMB16.3 million in 2012. The registered capital of a pawn loan company is the primary source of funding for extending pawn loans and reflects the aggregate value of pawn loans that a pawn loan company could extend subject to the relevant legal and regulatory restrictions, details of which could be found in the section "Regulatory Overview" of this circular. As such, a higher registered capital allows a pawn loan company to extend more loans and increase the scale of the business. In addition, according to the Euromonitor Report, the MOC has set quota of the issuance of pawn business operation licence by taking into consideration the GDP, the GDP per capita and the existing number of local pawn loan companies, and therefore, candidates with higher registered capital are more likely to obtain such limited number of licences on offer, which has induced the industry momentum of growing number of pawn loan companies with higher registered capital.

More remarkably, the number of pawn loan companies' branches five-folded from 134 to 672 over the same period from 2006 to 2012. This indicates that the expansion of branches by existing pawn loan companies is faster than the establishment of new pawn loan companies and reflects a trend of chain operations in the pawn loan industry in the PRC.

Past growth and development

Benefiting from the robust macro-economic growth in the PRC and increasing demand for financing from SMEs and individually-owned businesses, the pawn loan industry in the PRC has had robust growth in recent years, demonstrating expansion mainly in terms of market size, number of enterprises, and registered capital. The total pawn loan value(1) increased from RMB130.0 billion in 2008 to RMB276.5 billion 2012, reflecting a CAGR of 20.8%. In the first 10 months of 2013, the total pawn loan value reached RMB266.0 billion, growing up by 23.3% over the same period in 2012. With strengthening regulations and an improving market environment, the pawn loan industry in the PRC is expected to have robust growth from 2013 to 2017. According to the Euromonitor Report, the total pawn loan value is expected to reach RMB656.8 billion in 2017, with a CAGR of 18.1% from 2013 to 2017. The chart below shows the historical and forecasted data on the total pawn loan value from 2008 to 2017:



Sources: Historical data quoted from the MOC, forecasted data quoted from the Euromonitor Report based on the secondary research and trade interviews conducted by Euromonitor

Note:

(1) The total pawn loan value refers to the cumulative value of pawn loans issued in one year.

The number of pawn loan companies grew at a CAGR of 16.0% from 2,494 in 2006 to 6,084 in 2012, while the total registered capital of all pawn loan companies increased at a CAGR of 26.2%, from RMB24.6 billion to RMB99.4 billion over the same period. By the end of June 2013, the total number of pawn loan companies in the PRC increased further to 6,833, with the total registered capital reaching RMB122.9 billion. The total registered capital for pawn loan enterprises has grown at a faster rate than the number of pawn loan enterprises in recent years. According to the Euromonitor Report, this is mainly due to the limited annual quota for newly issued pawn operation business licences and the added influence on business scale by registered capital (which directly restricts the capacity of a pawn loan company to lend funds). Only a few applicants, usually the companies with the highest registered capital and staff with experience in pawn loan operations, will be granted the pawn operation business licences.

Growth potential and driving factors

As aforesaid, according to the Euromonitor Report, the total pawn loan value is expected to reach RMB656.8 billion in 2017, with a CAGR of 18.1% from 2013 to 2017. This can be supported by a number of driving factors of the industry.

Increase in number of SMEs

The increase in the number of SMEs is expected to drive the increase in the demand for loans from SMEs. As aforesaid, the total number of above-set-scale SMEs was over 343,000 in 2013, accounting for more than 97% of the total number of above-set-scale industrial enterprises in the PRC. In the first quarter of 2014, these SMEs recorded total revenue of RMB14.3 trillion and total profit of RMB755.3 billion, representing an annual growth of 11.2% and 15.0% respectively. The revenue and profit contribution attributable to the SMEs accounted for over 59% and over 58% of the total revenue and profit of the above-set-scale industrial enterprises in the PRC respectively. As SMEs act as the main customers for the pawn loan industry, their vigorous growth is expected to result in increasing demand for pawn loans.

Strengthening legislation and regulatory guidance lays foundation for the healthy and sustainable development of the industry

The implementation of the Pawning Measures has been playing an important role in the development of the pawn loan industry. However, these rules are currently of a relatively low administrative awareness level and, as such, may have little legislative effects.

In May 2011, the Legislative Affairs Office of the State Council issued the Regulations on Pawnshop Management (Draft for Discussion). These might become the first important legislative regulations and set out more precise rules that help enhance entry barriers, reduce operational risks of pawn loan companies and further strengthen supervision of the industry. The improvement of industry regulations and the enhancement of relevant legislation will undoubtedly promote a rapid yet healthy development of the pawn loan industry.

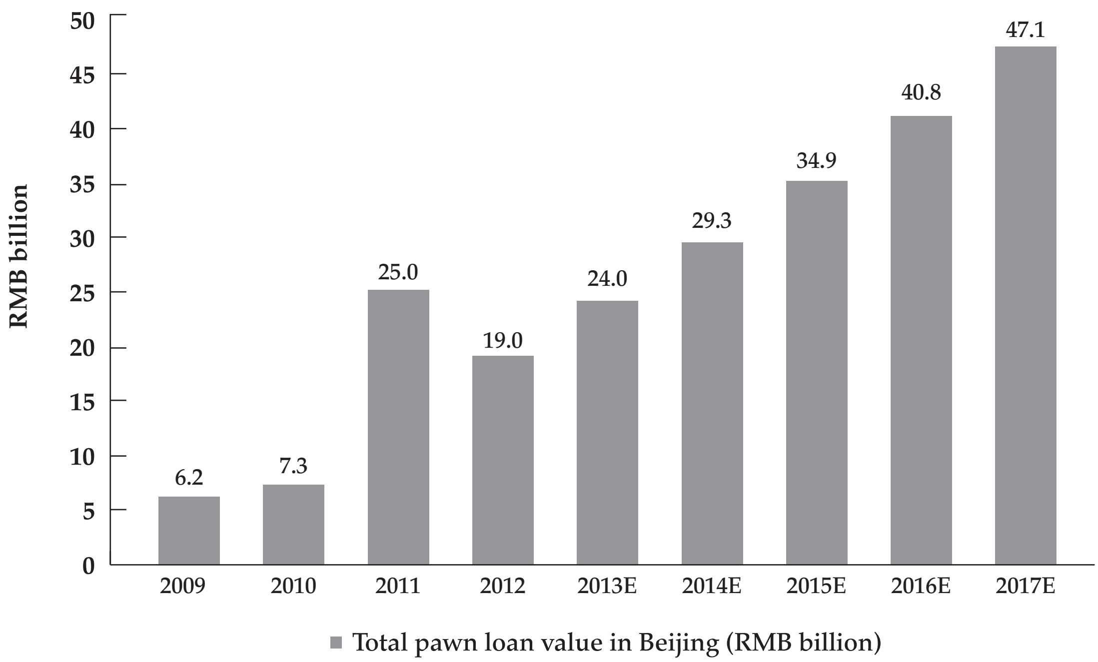
As aforesaid, pawn loans have been officially recognised as an indispensable financial channel for SMEs by the State Council in the document entitled the Several Opinions on Further Promoting the Development of SMEs issued in 2009. On 15 December 2011, MOC released the Guiding Opinions for Encouraging the Development of the Pawnbroking Industry under the 12th Five-Year Plan (關於「十二五」期間促進典當業發展的指導意見(商流通發(2011)481號)) to further encourage and provide a framework for the development of the pawn broker industry in the PRC. The regulatory guidance and support will have a positive effect on the development of the industry as a whole.

PAWN LOAN INDUSTRY IN BEIJING

History and development

Beijing is the capital city and one of the most developed cities in the PRC. With SMEs playing an increasingly important role in the national economy, as well as in Beijing, and the authorities paying more attention to improving the development of the pawn loan industry, the pawn loan industry in Beijing has had considerable growth in recent years.

The total pawn loan value in Beijing grew from RMB6.2 billion in 2009 to RMB19.0 billion in 2012, representing a CAGR of 44.9%, which was 22.6 percentage points higher than that of the national level (i.e. the total pawn loan value in the PRC grew at a CAGR of 22.3% from RMB151.0 billion in 2009 to RMB276.5 billion in 2012). The share of the PRC's total pawn loan value in Beijing increased from 4.1% to 6.9% over the same period. In 2012, the total pawn loan value[1] in Beijing decreased by 24.0% from 2011, mainly due to loosening monetary policies and a slowing down macro economy. However, demand for pawn loans remained strong and regained its growth momentum in 2013. As at the end of June 2013, the total pawn loan value in Beijing stood at RMB11.5 billion, demonstrating a noticeable growth of 29.2% over the same period in 2012.According to the Euromonitor Report, the total pawn loan value in Beijing is expected to reach RMB47.1 billion in 2017, with a CAGR of 18.4% over the period from 2013 to 2017, 0.3 percentage points higher than that of the national level. The chart below shows the historical and forecasted data on the total pawn loan value in Beijing from 2009 to 2017:



Source: Euromonitor's estimates from desk research and trade interviews

In terms of the total number and total registered capital for pawn loan companies, according to the Euromonitor Report, the number of pawn loan companies in Beijing grew from 130 in 2008 to 260 in 2012, with a CAGR of 18.9% for that period. Comparably, the total registered capital for pawn loan companies soared from RMB2.0 billion in 2008 to RMB5.9 billion in 2012, recording a sizable CAGR of 31.1%.

Moreover, the average registered capital per pawn loan company in Beijing reached RMB22.7 million in 2012, which was approximately 1.4 times that of the nation level of RMB16.3 million per pawn loan company.

Note:

(1) The total pawn loan value refers to the cumulative value of pawn loans issued in one year.

Growth potential and driving factors

Steady growth in Beijing's macro economy

According to the Beijing Municipal Bureau of Statistics, the nominal GDP in Beijing grew from RMB811.8 billion in 2006 to RMB1,780.1 billion in 2012, ranking second among the four first-tier cities. This steady growth of the macro economy in Beijing laid the foundation for support of the development of the pawn loan industry as SMEs are unlikely to expand their businesses if they are not confident about the macro economy and there will be a higher risk of default when the macro economy is unstable. Accordingly, steady growth in the macro economy could facilitate constant financing demands from pawn loan borrowers and relatively low default ratios for the pawn loan industry.

Relatively abundant private capital

After years of stable development, Beijing has become one of the wealthiest cites in the PRC, and owners of private enterprises have accumulated sizable fortunes over the course of Beijing's development. Industries with good prospects, such as the pawn loan industry, are extremely attractive to investors with surplus private capital. As a result, the pawn loan industry in Beijing is likely to see an increasing number of new entrants with ample private capital to invest.

Relatively higher turnover rate of pawning capital

The turnover rate of pawning capital refers to the ratio of total pawn loan value compared to the total registered capital. This is an important index that shows how efficiently registered capital is converted into pawn loans. In 2012, the turnover rate of pawning capital in Beijing was 322.0%, 43.9 percentage points higher than the national rate of 278.1%. This indicated that the pawn loan companies in Beijing in general have a higher efficiency in using their registered capital, compared to those in the other cities. Such efficiency in using registered capital is good for maximising benefits for the pawn loan companies and brings healthy growth to the industry in the future.

Positive innovation providing more customer-friendly services

Amidst the positive development of the pawn loan industry, providing more customer-friendly services is turning into a market trend. This helps the industry develop a competitive edge in relation to other financing channels. For example, some of the leading pawn loan companies are utilising chain operations to provide more convenient and standardised services to their customers. More pawn loan companies have also starting launching value-added services (including the Target Group), such as financing consultation, which will further serve the needs of customers, and strengthen the profitability of the pawn loan companies.

Competitive landscape

For the purpose of measuring the competitiveness of a pawn loan company, registered capital is widely used by the industry insiders as one of the key benchmarks as registered capital not only accounts for the capital strength of a pawn loan company, but also facilities the company's pawn loan lending capability.

According to the Euromonitor Report, the number of pawn loan groups/companies in Beijing increased from 130 in 2008 to 260 in 2012. As of the end of 2012, the total registered capital for pawn loan groups/companies in Beijing reached RMB5.9 billion, of which, the top 11 pawn loan groups/companies contributed 22.9%. The average registered capital per pawn loan group/company of the top 11 pawn loan groups/companies amounted to RMB122.8 million, more than five-folded that of the average registered capital of the other pawn loan groups/companies. The shares of these top 11 players further rose to 27.7% as of end of June 2013, indicating an increase in the concentration rate of the pawn loan market in Beijing. As of the end of 2012, the Target Group ranked fourth in Beijing in terms of the total registered capital. Set out below is the summary of the top 11 pawn loan groups/companies in Beijing ranked by their respective total registered capital as of end of 2012:

Rank	Group/Company	Total registered capital as of end of 2012[1] *(RMB million)*	No. of pawn loan licences held as of the end of 2012[2]	No. of outlets in Beijing as of the end of 2012[3]	Market share by total registered capital as of the end of 2012
1	Company A	270	16	16	4.6%
2	Company B	200	17	17	3.4%
3	Company C	160	3	3	2.7%
4	The Target Group	110	7	7	1.9%
5	Company D	100	1	1	1.7%
5	Company E	100	7	7	1.7%
7	Company F	90.5	10	10	1.5%
8	Company G	80	1	1	1.4%
8	Company H	80	6	6	1.4%
8	Company I	80	1	1	1.4%
8	Company J	80	1	1	1.4%

Source: Euromonitor's estimates from desk research and trade interviews

Notes:

(1) The total registered capital of a pawn loan group/company equates to the sum of the registered capital of all of its Beijing-based relatively holding subsidiaries with pawn loans as their main business, no matter if these subsidiaries are under same brand or not.

(2) The number of pawn loan licences held by a pawning group/company refers to the sum of licences held by all of its Beijing-based relatively holding subsidiaries with pawn loan as their main business.

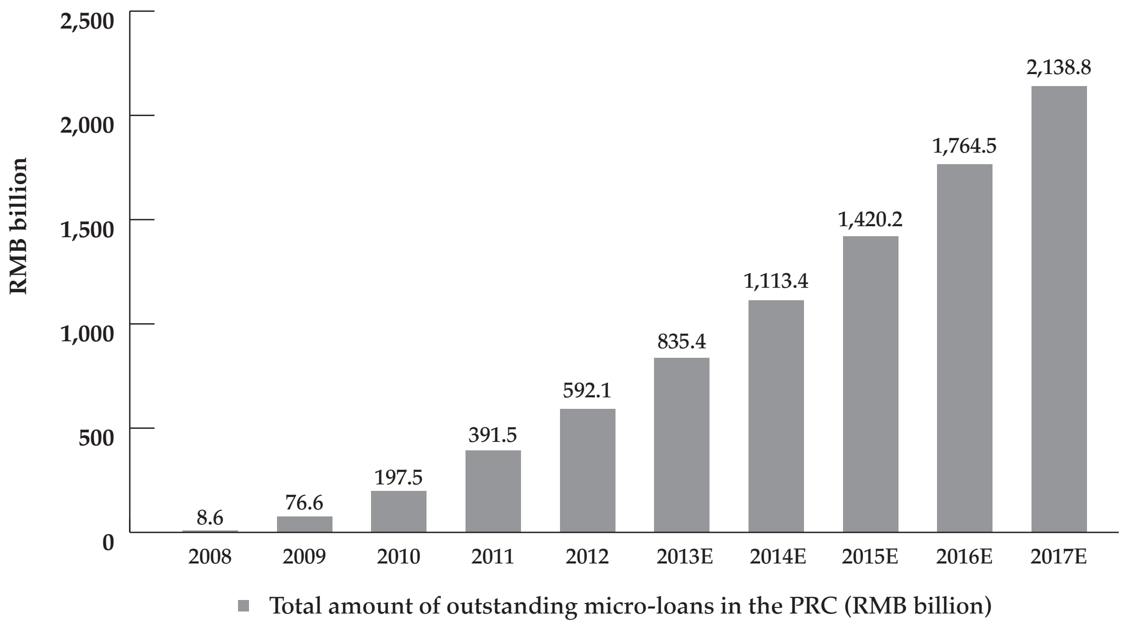
(3) Outlets that only sell foreclosed collateral or are located outside of Beijing are excluded.

MICRO-FINANCING INDUSTRY IN THE PRC

History and development

Micro-loans refer to the loans issued by micro-loan companies (or micro-financing companies), which are defined by the PBOC as limited liability companies or joint-stock limited companies designed to operate small-amount loan businesses, without receiving public deposits. Instead, their funds come from shareholders, donated capital, and from no more than two banking or financial institutions. Each loan made by a micro-loan company cannot exceed 5% of their registered capital (subject to local regulations). The original purpose of the establishment of micro-loan companies was to serve san-nong (三農) customers (i.e. agricultural producers, farmers, and rural areas), and to improve financial services in rural areas and stimulate the development of the rural economy. However, due to the nature of micro-loans (i.e. fewer loan application requirements, simpler and flexible procedures for loan applications), these micro-loan companies have become one of the most important parts of the short-term financing industry in the PRC, servicing not only the rural economy, but also SMEs and micro-sized enterprises, with quick and easy financing services.

With the release of the Guiding Opinions on the Direction of Micro-loan Companies (關於小額貸款公司試點的指導意見), in 2008 by the PBOC and the CBRC, micro-loan companies gained a legal status and has developed substantially since then. According to the PBOC, as of the end of 2012, total outstanding amount of micro-loans reached RMB592.1 billion, almost 70 times the recorded figure of 2008 of only RMB8.6 billion. The CAGR over the period was 188.1% from 2008 to 2012. In the first three quarters in 2013, the total amount of outstanding micro-loans in the PRC amounted to RMB753.5 billion, up by 41.4% over the same period in 2012. According to the Euromonitor Report, the micro-financing industry in the PRC is predicted to slow down in the next five years following the explosive growth during its early years of development. However, the projected growth will be north of 20%, as SMEs in the PRC still face widespread problems concerning financing through the banking sector. In addition, the lack of micro-credit for rural areas and farmers presents great market potential. From 2013 to 2017, the total amount of outstanding micro-loans is expected to grow at a CAGR of 26.5% and reach RMB2,138.8 billion by 2017, nearly quadruple the amount reached in 2012. The chart below shows the historical and forecasted data on the total amount of outstanding micro-loans in the PRC from 2008 to 2017:



Sources: Historical data quoted from the PBOC, forecasted data quoted from the Euromonitor Report based on the secondary research and trade interviews conducted by Euromonitor

The total number of micro-loan companies grew from 2,614 in 2010 to 6,080 in 2012, with a CAGR of 52.5%. The total registered capital of micro-loan companies increased from RMB178.1 billion in 2010 to RMB514.7 billion in 2012, with a CAGR of 70.0%. The fast growth in total registered capital of micro-loan companies was accompanied by an increase in the average registered capital per micro-loan company, which rose from RMB68.1 million in 2010 to RMB84.7 million in 2012. According to the PBOC, as of the end of September 2013, the total number of micro-loan companies in the PRC reached 7,398, with the total registered capital amounting to RMB665.9 billion.

Specific industry characteristics

Financing constraints

According to the regulations set out by the CBRC, micro-loan companies are strictly forbidden to illegally or covertly take public deposits or raise funds from the public; therefore, their source of funding other than shareholders' capital is bank financing. However, the total amount of bank financing must not exceed 50% of the net capital of a micro-loan company.

Regionalisation of micro-loan companies

In the PRC, each micro-loan company cannot enter the market without getting an approval granted by a local financial regulatory agency. The approval granted by the local financial regulatory agency only authorises the micro-loan company to run business in a specific region, implying that a micro-loan company may not expand its business to other regions. Therefore, most micro-loan companies in the PRC focus their operations on one region and are subject to specific local policies and regulations, as policies and regulations governing the micro-financing industry can vary by regions.

Relatively high risk of non-performing loans

High quality customers are usually more inclined to obtaining bank loans with a relatively lower interest rate. Therefore, micro-loans companies operate with a comparatively higher risk of non-performing loans when compared to banks.

Growth potential and driving factors

Large financing demand from SMEs and rural areas

Following the positive development of the PRC economy, SMEs, agricultural business owners, and farmers have a growing demand for financing. However, due to their relatively weak credit records, insufficient collateral, and the lack of financial services focused on their needs, the traditional bank loans cannot completely satisfy the demand from these customers. Thus, the authorities have encouraged private capital owners to set up various types of financial organisations, including micro-loan companies, to provide services suited to these customers. Such governmental support has fueled the development of the micro-financing industry.

Regulatory and policy support

The authorities encourage the development of the micro-financing industry through strengthening the regulations for the industry, and implementing supportive policies. Although the formal legal framework that applies to the micro-financing industry has not yet been fully formulated, the regulations governing the industry have been enhancing. These efforts have brought discipline and professional standards to the industry and will promote its healthy development. Many supportive policies have been released by both national and local regulatory agencies to further facilitate the development of the micro-financing industry, including easing the requirements on shareholding ratio for a sole investor, broadening the upper limit of registered capital for newly established micro loan companies, allowing the micro-loan company to have the same fiscal subsidies as other village banks in terms of agriculture-related business, and authorising selected micro-loan companies to be incorporated into the national credit information system (which allows the micro-loan companies to assess the credit record of a potential customer on a centralised database operated by the PBOC, thus enhancing the accuracy and efficiency in assessing and monitoring the credit record of customers). As the Directors understood from the Vendors, Beijing Micro-financing has participated in the system testing as invited by the PBOC in December 2013. As at the Latest Practicable Date, the aforesaid system remained under testing and it was not known as to whether Beijing Micro-financing would eventually be selected for the incorporation of the credit information system.

Large number of new entrants

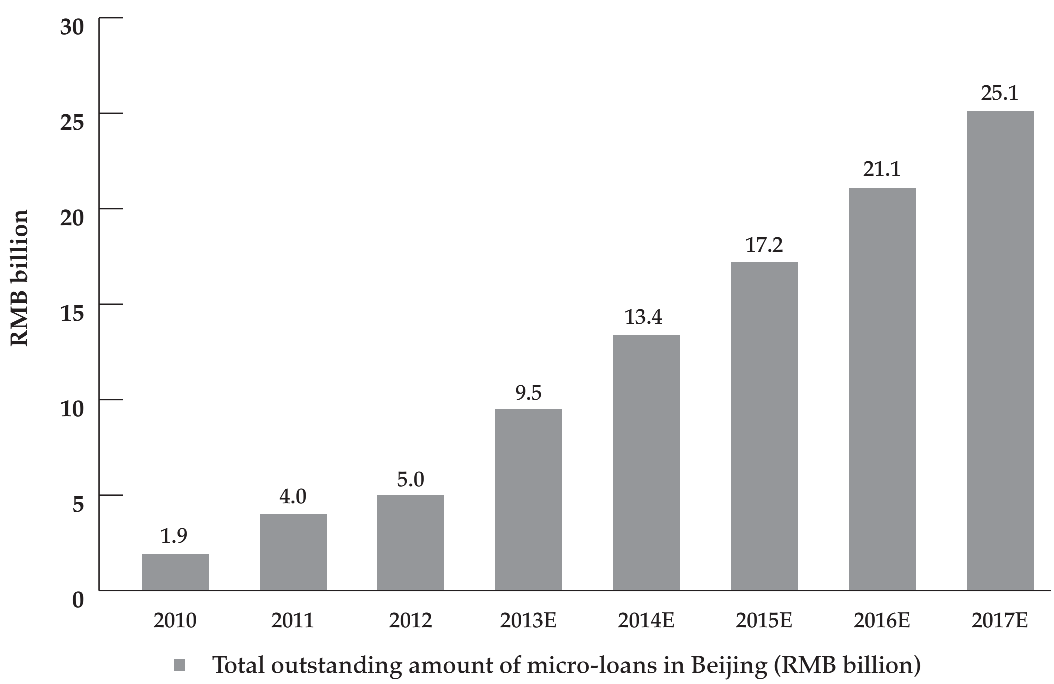
As mentioned above, the micro-financing industry in the PRC has witnessed rapid growths in total numbers of companies and average company scale. According to the PBOC, the total number of micro-loan companies grew from 2,614 in 2010 to 6,080 in 2012, while the average registered capital per micro-loan company rose from RMB68.1 million in 2010 to RMB84.7 million in 2012. The continuing entry of new industry players is predicted to further widen the geographical coverage and penetration rate of the micro-loan businesses. The strengthening average company scale, mainly attributable to the growing number of large-scale companies tapping into the market, is predicted to enhance the development of the micro-financing industry in the PRC.

MICRO-LOAN INDUSTRY IN BEIJING

History and development

The micro-financing industry was developed in January 2009 with the release of the Implementation Measures for the Pilot Operation of Micro-financing Companies in Beijing.

According to the PBOC, the total amount of outstanding micro-loans in Beijing amounted to RMB5.0 billion in 2012, with a CAGR of 62.2% from 2010 to 2012. As of the end of September 2013, the total amount of outstanding micro-loans recorded at RMB9.0 billion, up by 80.0% over the same period in 2012. According to the Euromonitor Report, the total amount of outstanding micro-loans in Beijing is expected to reach RMB25.1 billion in 2017, which is five times that of 2012's figure, indicating an above-national-level CAGR of 27.5% from 2013 to 2017. The chart below shows the historical and forecasted data on the total amount of outstanding micro-loans in Beijing from 2010 to 2017:



Sources: Historical data quoted from the PBOC, forecasted data quoted from the Euromonitor Report based on the secondary research and trade interviews conducted by Euromonitor

The total number of micro-loan companies in Beijing grew from 20 in 2010 to 41 in 2012, with a CAGR of 43.2% over the same period. The total registered capital for micro-loan companies increased from RMB1.9 billion in 2010 to RMB5.0 billion in 2012, with a CAGR of 62.2%, which was 19.0 percentage points higher than that of the total number of micro-loan companies. It is noteworthy that the average registered capital per micro-loan company in Beijing is much higher than that of the national level, reaching RMB122.0 million in 2012, which is 1.4 times that of the national level. The higher average registered capital not only demonstrates that Beijing's micro-loan companies have relatively higher business capabilities, but also showcases their higher potential in granting micro-loans. As of the end of September 2013, the total number of micro-loan companies in Beijing reached 63, with the total registered capital of approximately RMB9.2 billion.

Growth potential and driving factors

Huge and solid economic base, rich private capital and tremendous financing demand

According to the National Statistics Bureau of China, the nominal GDP in Beijing reached RMB1,780.1 billion in 2012, accounting for 3.4% of the national nominal GDP. The robust macro economy in Beijing brought a huge and solid economic base, rich private capital, and tremendous financing demand, all of which have provided a sound base for the development of the micro-financing industry. However, since Beijing was relatively late to start their micro-loan operations, the total amount of outstanding micro-loans in Beijing was accounted for only 0.8% of the total amount in the PRC, indicating a big room for future growth.

Industry likely to foresee less restrictions on financing and cross-region operations

As mentioned above, limited financing methods and restrictions on cross-region operations have been seen as the main characteristics (or in substance constraints) for the micro-financing industry. Currently, most micro-loan companies rely on shareholders' equity and bank loans as their key financing methods. To solve the financing difficulties of the micro-loan companies, some local governments have already launched policies that allow alternative financing options, including borrowings from corporate shareholders, inter-micro-loan-company lending within the same city, asset transferring through repurchasing of loans, etc.. According to the Euromonitor Report, the regulatory authorities in Beijing have also considered broadening financing restrictions on micro-loan companies. As a result, micro-loan companies in Beijing are expected to see increasingly higher variety of financing methods. With regards to cross-region operations, some micro-loan companies in Beijing have already successfully obtained cross-region licence and been allowed to issue micro-loans in broader areas. Loosening restrictions on financing and cross-region operations will further boost the development of the micro-financing industry in Beijing.

New entrants as one of the most important factors in boosting the industry development

According to the PBOC, there were 41 micro-loan companies in Beijing at the end of 2012, which is approximately twice the number of micro-loan companies in 2010. However, when compared to other municipalities, like Shanghai (80 micro-loan companies at the end of 2012) and Tianjin (63 micro-loan companies at the end of 2012), the total number of micro-loan companies in Beijing appears inadequate and that indicates large potential. In fact, more companies have been tapping into the market and the number of micro-loan companies soared to 63 as of the end of September 2013. The new entrants bring in increased total registered capital to the market as a whole and provide higher business capability for the positive development of the industry.

Competitive landscape

For the purpose of measuring the competitiveness of a micro-loan company, registered capital is used as one of the key benchmarks as it, similar to the case of a pawn loan company, represents the capital strength of a micro-loan company and also facilities the company's micro-loan lending capability.

According to the Euromonitor Report, based on the statistics published by the Beijing Municipal Bureau of Financial Work[(1)], the total registered capital of the top 11 micro-loan groups/companies in Beijing amounted to approximately RMB4,825 million as of end of 2012, representing 57.4% of total registered capital in the market. The average registered capital per micro-loan group/company in Beijing of the top 11 players

Note:

(1) In analysing the competitive landscape of the micro-financing industry in Beijing, Euromonitor relies on the data released by the Beijing Municipal Bureau of Financial Work, instead of the PBOC's data. In the PBOC's data, micro-loan companies that did not officially start their operations or did not submit formal statistical tables to the local divisions of the PBOC will not be counted as valid micro-loan companies. However, as with the Beijing Municipal Bureau of Financial Work, once they have approved the application of a micro-loan company and issued a licence to it, the relevant micro-loan company will be considered a valid micro-loan company, the data of which could be compiled. In order to maintain comparability with the national data, Euromonitor uses the PBOC's data in the analysis of the micro-financing industry in Beijing, and uses the Beijing Municipal Bureau of Financial Work's data for analysis on competitive landscape as it is more up to date in terms of the total registered capital for micro-loan companies in Beijing.

was approximately RMB438.6 million, which is over three times that of the average of the micro-loan groups/companies in the city. Set out below is the summary of the top 11 micro-loan groups/companies in Beijing ranked by their respective total registered capital as of end of 2012:

Rank	Group/Company	Total registered capital as of end of 2012[(1)] *(RMB million)*	No. of micro-loan licences held as of end of 2012[(2)]	No. of outlets in Beijing as of end of 2012[(3)]	Market share by total registered capital as of end of 2012
1	Company A	1,150	12	12	13.7%
2	Company B	1,000	1	1	11.9%
3	Company C	700	1	1	8.3%
4	Company D	500	1	1	5.9%
5	Company E	330	1	1	3.9%
6	Company F	200	1	1	2.4%
6	Company G	200	1	1	2.4%
6	Company H	200	1	1	2.4%
6	Company I	200	1	1	2.4%
10	Company J	175	1	1	2.1%
11	Company K	170	1	1	2.0%

Source: Euromonitor's estimates from desk research and trade interviews

ENTRUSTED LOAN INDUSTRY IN THE PRC

History and development

Entrusted loan is a form of banks' agency services. As there is no requirement for financial licence, this indirect method offers an alternative way of financing for numerous parties. According to the General Rules on Credit promulgated by the PBOC on 28 June 1996, which came into effect on 1 August 1996, entrusted loan is defined as an arrangement whereby the capital for a loan is supplied by a government department, an enterprise or a natural person and entrusted to a financial institution as the loan provider. The General Rules on Credit define a "loan provider" as a PRC owned financial institution established in the PRC that engages in the provision of interest-bearing loans. An entrusted loan is made by a bank (i.e. the loan provider) to a borrower specified by the trustor (i.e. the capital provider) for a particular purpose, in a specific amount, for a fixed

Notes:

(1) The total registered capital of a micro-loan group/company equates to the sum of the registered capital of all of its Beijing-based relatively holding subsidiaries with micro-loans as their primary business, no matter if these subsidiaries are under same brand or not.

(2) The number of micro-loan licences held by a micro-loan group/company refers to the sum of licences held by all of its Beijing-based relatively holding subsidiaries with micro-loans as their primary business.

(3) Outlets located outside of Beijing are excluded.

term and at an interest rate determined by the trustor. The bank exercises supervision over and receives repayment from the borrower, but the bank does not assume any risk of default in repayment by the borrower. The bank receives a fixed agency fee from the trustor and the interest charged by the trustor on the borrower should be within four times of the PBOC benchmark rate. According to the available public data on the industry released by the PBOC, the total amount of outstanding entrusted loans almost doubled from approximately RMB1,284.1 billion in 2012 to approximately RMB2,546.6 billion. In the first quarter of 2014, the total outstanding amount of entrusted loans in the PRC reached approximately RMB715.5 billion, up 36.7% from the corresponding period in 2013.

Specific industry characteristics

Sources for SMEs to obtain financing

Compared with large-size enterprises, the majority of SMEs have less or insufficient collaterals to be pledged, weak credit record and higher risk in operations; and therefore, have difficulties in obtaining loans from commercial banks. Under these circumstances, many SMEs have to turn to other financing channels for funding. This results in entrusted loans being one of the channels for SMEs to obtain financing.

Financial institution becoming a bridge between idle capital and increasing demand of financing

Direct lending and borrowing among corporations are not allowed in the PRC. Nevertheless, following the rapid development of the PRC economy, both idle capital and loan demand are increasing. As such, financial institutions such as commercial banks can bridge the idle capital and loan demand through an entrusted loan arrangement.

Lack of formal administrative measures

Although entrusted loan business is conducted through and monitored by the financial system, loan providers (i.e. financial institutions such as commercial banks) do not assume any risk in respect of the repayment of loans and the parties who provide the capital may have limited sources to evaluate the risks in respect thereof. Furthermore, since there are no administrative measures on a national level regarding entrusted loans, each financial institution has its own internal control system to administer the entrusted loan services. Thus, standardisation of entrusted loan practice is yet to be established.

SOURCES OF THE INDUSTRY INFORMATION

The Group commissioned Euromonitor, an independent third party of the Group and the Target Group, to produce a research report (i.e. the Euromonitor Report) on the short-term financing industry in the PRC with specific focus on Beijing's pawn loan industry and micro-financing industry, for use in this circular. For the preparation of this section of the circular, the Group relied on data from Euromonitor. The Group has not commissioned other customised reports for the purpose of inclusion on this circular. The Directors understand that the methodology used by Euromonitor International in compiling the Euromonitor Report included the following:

(i) Internal resources

Euromonitor has carried out extensive research in recent years for several clients on the short-term financing industry in the PRC. Therefore, Euromonitor initially assessed its existing internal resources, including market size and forecasts.

(ii) Secondary research

Published data is a useful starting point for acquiring initial estimates and insights, but all data gathered was subsequently confirmed by Euromonitor to ensure accuracy of information.

(iii) Primary research

Trade interviews with authorities, trade associations and pawn loan and micro-loan providers, such as the MOC, national and regional industry trade associations, and semi-official observers, have been carried out to facilitate fresh data, opinions, and insights and as a core research methodology for the Euromonitor Report.

(iv) Projection

In order to ensure forecasting accuracy, Euromonitor has utilised its standard practices, which involves quantitative and qualitative forecasts, taking into account the market size, growth trends, and other key market factors, on the basis of a comprehensive and in-depth review of the historical market development. All information gathered was then cross-checked with established government/industry figures or through trade interviews.

(v) Analysis and validation

All primary and secondary research sources were initially checked, validated and standardised to ensure a holistic research feed, resulting in a consistent and accurate overall analysis. This critical analysis of all sources and insights has been conducted through the comparison of multiple data sources, insights, and hypotheses, in order to arrive at a thoroughly vetted set of data and conclusions.

The following is a summary of the PRC laws and regulations applicable to the Target Group.

COMPANY ESTABLISHMENT AND FOREIGN INVESTMENT

The Company Law and the Wholly-Foreign-owned Enterprises Law of the PRC

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (中華人民共和國公司法) (the "**Company Law**"). The Company Law was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. Under the Company Law, companies in the PRC can be established either as limited liability companies or joint stock limited companies. All of the Target Group's PRC operating subsidiaries are limited liability companies. The shareholders of a limited liability company must contribute the registered capital amount of the company in cash or a combination of cash and assets, and a PRC certified public account must verify the proper receipt by the company of such capital contributions before issuing a capital verification report for submission to the business registration authorities. The Company Law applies to both PRC domestic companies and foreign-invested companies. On 28 December 2013, the Company Law was amended by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) and became effective on 1 March, 2014, which no longer contains requirements in respect of the actually paid capital or the statutory minimum amount of the registered capital for limited liability company. Accordingly, the capital verification report will no longer be one of the necessary documents which shall be submitted to the business registration authorities.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange matters, accounting practices, taxation and labour matters of foreign invested companies are regulated by, in the case of wholly-foreign-owned enterprises, the Wholly-Foreign-owned Enterprises Law of the PRC (中華人民共和國外資企業法) (the "**WFOE Law**"), which was promulgated on 12 April 1986 on the National People's Congress (全國人民代表大會) and amended on 31 October 2000 by the Standing Committee of the National People's Congress, and the Regulations for the Implementation of the WFOE Law of the PRC (中華人民共和國外資企業法實施細則), which were promulgated on 12 December 1990 by the former Ministry of Foreign Trade and Economy (對外經濟貿易部) and amended by the State Council on 12 April 2001.

The Provisions on Guiding Foreign Investment Direction

The Provisions on Guiding Foreign Investment Direction (指導外商投資方向規定) and the Catalogue for the Guidance of Foreign Investment constitute the basis for applicable policies regarding the examination and approval procedures of foreign investment projects and foreign invested enterprises in the PRC. In 1995, the former State Planning Commission (國家計劃委員會), the State Economic and Trade Commission and the former Ministry of Foreign Trade and Economic Cooperation (對外經濟貿易合作部) jointly promulgated the Interim Provisions on Guiding Foreign Investment (指導外商投資方向暫行規定) and the Catalogue for the Guidance of Foreign Investment, classifying all foreign investment projects into one of four categories: (i) encouraged projects; (ii) permitted projects; (iii) restricted projects; and (iv) prohibited projects. On 11 February 2002, the State Council promulgated the Provisions on Guiding Foreign Investment Direction, re-stating the four classifications of foreign investment projects. The Provisions on Guiding Foreign Investment Direction entered into force on 1 April 2002 and the Interim Provisions on Guiding Foreign Investment were simultaneously repealed. The Catalogue for the Guidance of Foreign Investment has been revised several times since it was first promulgated, with the most significant revisions taking place in 2002, 2004, 2007 and 2011. The version of the Catalogue for the Guidance of Foreign Investment currently in effect was jointly promulgated by the NDRC and the MOC on 24 December 2011 and came into effect on 30 January 2012.

The purpose of the Provisions on Guiding Foreign Investment Direction and the Catalogue for the Guidance of Foreign Investment is to direct foreign investment into certain priority industry sectors while restricting or prohibiting investment in certain other sectors. If the industry in which the investment is to occur falls into the encouraged category, foreign investment can be conducted through the establishment of a wholly-foreign-owned enterprise or a joint venture enterprise and in certain cases preferential tax treatment might be available. If restricted, foreign investment may be conducted through the establishment of a wholly-foreign-owned enterprise if certain requirements are met or in some cases must be conducted through the establishment of a joint venture enterprise, with varying minimum shareholdings for the Chinese party depending on the particular industry. If prohibited, foreign investment of any kind is not allowed. Any industry not falling into any of the encouraged, restricted or prohibited categories is classified as a permitted industry for foreign investment. If permitted, foreign investment can be conducted through the establishment of a wholly-foreign-owned enterprise or a joint venture enterprise. None of the businesses of the Target Group are restricted or prohibited. Nevertheless, the Structured Agreements have been entered into in respect of the Target Group's businesses, please see the paragraph headed "The Structured Agreements" in the section headed "Letter from the Board" in this circular for details.

The Circular on Cross-border RMB Direct Investment

On 3 December 2013, the MOC promulgated the Announcement on Issues Relating to Cross-border RMB Direct Investment (關於跨境人民幣直接投資有關問題的公告) which came into effect on 1 January 2014, provides that outbound investors (including investors from Hong Kong, Macau and Taiwan) can make direct investments with RMB funds they legally obtained outbound. The cross-border RMB direct investment shall conform to the requirements of laws, regulations and relevant provisions on foreign investment and comply with the foreign investment industry policies of the PRC and the provisions on security review of foreign investment mergers and acquisitions and anti-monopoly review. The competent commerce departments shall, in the official replies to cross-border RMB direct investment applications, clearly state the words "offshore RMB investment," the amount of investment and the requirements of the above, and shall promptly send the copies of such replies to the branches of the PBOC, customs offices, tax authorities, administrations for industry and commerce, foreign exchange administrations and other departments concerned at the corresponding level. However, the cross-border RMB direct investment shall neither be used, directly or indirectly, for investment in negotiable securities and financial derivatives in the PRC (except for strategic investment in listed companies) nor be used to provide entrusted loans.

REGULATIONS ON PAWN LOAN BUSINESS

The Property Law and the Guarantee Law of the PRC

The Property Law was promulgated by the National People's Congress on 16 March 2007 and came into effect on 1 October 2007. The Property Law defines ''property'' as including immovable property and movable property. ''Property rights'' are defined as the right enjoyed by the property right holder to directly control, to the exclusion of others, certain property. Property rights comprise the right to possess, the right to use, the right to enjoy the profits and advantages from, and the right to security over a certain item of property. The Property Law stipulates that legal title to an item of property confers on the title holder the right to possess, use, derive benefit and advantage from, and to dispose of the item of property. The title holder may, in accordance with the relevant laws, create a security interest over the item of property in favour of a creditor. Likewise, when engaging in finance or business transactions, to the extent required to protect their rights as creditors, creditors may in accordance with the Property Law and other relevant laws create security interest over a debtor's or relevant third party's property as security for performance of the debtor's obligations. Where such a security interest has been created and the debtor does not fulfill its obligations or otherwise defaults under the terms of the agreement with the creditor, unless otherwise specified by relevant law, the creditor will enjoy priority of repayment to the extent secured by the relevant property interest.

Security interests that may be created pursuant to the Property Law include mortgages over property (in respect of which the title holder does not pass possession to the creditor) and pledges over movable property (in respect of which the title holder surrenders possession to the creditor). Mortgage agreements and pledge agreements should be in writing and must ordinarily include the following information: the type and amount of the secured debt; the period of time in which the debtor must repay the debt; and the name, volume, scope, quality and condition of the mortgaged or pledged property. Pledge agreements should also specify the time at which pledged property is handed over by the pledgor; and mortgage agreements should specify the location of the mortgaged property as well as the legal title holder or the permitted user of the mortgaged property.

The Guarantee Law was promulgated by the Standing Committee of the National People's Congress on 30 June 1995 and came into effect on 1 October 1995. Like the Property Law, the Guarantee Law establishes a legal framework upon which creditors may establish and enforce security interest in order to protect their rights as creditors in transactions with debtors involving finance, business and transportation or processing of goods. According to the Guarantee Law, a debtor or a third party may mortgage immovable property to a creditor instead of transferring of the possession of such property, or pledge his movables, shares, stocks and other rights to the creditor in order to guarantee the payment of debts. If the debtor fails to perform his/her/its obligations, the creditor shall have priority in having his/her/its claim paid with the property or shares.

To create the interest of a mortgage or pledge, the parties concerned shall conclude a pledge contract or a mortgage contract in written form. Immovable properties or movables the transfer of which is prohibited by laws or administrative regulations shall not be mortgaged or pledged. The interest of an immovable mortgage is generally created as of the date of registration, while the interest of a movable pledge is established upon delivery of the pledged property by the pledgor. Where the shares or stocks that are registered with the securities registration and settlement authority are pledged, the interest to the pledge is established at the time when the pledge is registered with the securities registration and settlement authority. Where other kinds of shares are pledged, the interest to the pledge is established at the time when the pledge is registered with the administration department for industry and commerce.

Where the debtor repays the debts or the mortgagor or pledgor pays off the debts he/she/it guaranteed in advance, the mortgagee or pledgee shall return the pledged property or shares. If the debtor defaults the conditions for enforcement of the interest, the mortgagee or pledgee may conclude an agreement with the mortgagor or pledgor that the pledged property or shares be converted into money, or he may enjoy the priority in having his claim paid with the proceeds obtained from auction or sale of the pledged property or shares. The pledged property or shares shall be converted into money or sold by referring to the market price.

The Pawning Measures

The Provisional Measures on Pawn Shop Administration (典當行管理暫行辦法) was promulgated by the PBOC on 3 April 1996. The Provisional Measures on Pawn Shop Administration defined ''pawn shop'' as a kind of special financial enterprise providing interim pledge loan to individuals and medium-sized or small non-state-owned enterprises via the transfer of possession of property. PBOC was the competent authority to supervise and administer pawn shops, and was responsible for the approval of pawn shops.

However, pursuant to the Notice of Pawn Industry's Transfer of Regulatory Responsibilities (關於典當行業監管職責交接的通知) issued by the State Economic and Trade Commission and the PBOC on 23 June 2000, the pawn industry was re-classified as a special commerce enterprise governed by the MOC, previously known as the State Economic and Trade Commission, rather than a financial institution previously governed by the PBOC. On 8 August 2001, the State Economic and Trade Commission promulgated the Measures on Pawn Shop Management (典當行管理辦法) re-defining the establishment, alternation, dissolution and management of pawn shops. As a result, pawn industry operators may be distinguished from banks and financial institutions in the PRC on the basis that (i) pawn operators do not accept cash deposits from members of the public, and (ii) they come under a separate legal and supervisory regime.

On 9 February 2005, the Pawning Measures were then jointly issued by the MOC and the Ministry of Public Security and came into effect on 1 April 2005, repealing the Pawning Measures promulgated by the State Economic and Trade Commission. The Pawning Measures define "pawn" as an act whereby (a) an item of personal property (including equity interest, chattels, personal and movable properties) is pledged, or real estate (including buildings, fixtures and land use rights) is mortgaged or pledged by its owner (the pledgor) to a pawn shop; (b) on the basis of the value of the mortgaged property, the pledgor pays a fee and interest to the pawn shop and the pawn shop provides a loan to the pledgor; and (c) within a pre-determined period the pledgor repays the loan and interest calculated thereon and by doing so discharges the pledge or mortgage and accordingly redeems the property and/or real estate. According to the Property Law and the Guarantee Law, a mortgage is created over immovable or movable properties where the owner of such properties will not pass the possession of such properties to the creditor. By contrast, a pledge is created over movable properties or property interests where the owner of such movable properties will surrender the possession of movable properties to the creditor or go through the registration process in terms of property interests.

A pawn shop is a legal person established in accordance with the Pawning Measures and the Company Law. Pawn shops come under the supervision and administration of the competent commerce authorities and public security bureau. According to the Pawning Measures, an application for establishment of a pawn shop must meet the following conditions: (a) the proposed pawn shop shall have an articles of association that complies with the laws and regulations of PRC; (b) the proposed pawn shop shall have a registered capital not lower than the minimum provided by the Pawning Measures. Specifically, a pawn shop must have a minimum registered capital of (i) RMB3 million; (ii) RMB5 million in case it provides financing secured by real estate mortgages; or (iii) RMB10 million in case that it provides financing secured by pledges over equity interest. In each case, the minimum registered capital must be contributed in the form of cash; (c) the proposed pawn shop shall have business premises as required and necessary business facilities; (d) the proposed pawn shop shall have business management personnel and appraisal personnel who are familiar with the pawn business; (e) the proposed pawn shop shall have at least two legal person shareholders which have relative controlling shareholding of the pawn shop; (f) the proposed pawn shop shall meet the requirements of security administration provided by the Pawning Measures; and (g) the proposed pawn shop shall meet the requirements of the State on uniform planning and reasonable layout of pawn shops.

In accordance with the Pawning Measures, it is incumbent on a pawn shop to establish and implement procedures for the safe operation of the pawn business. Such procedures include (a) the proper maintenance of paperwork for the receipt, preservation and redemption of pledged property; (b) the careful inspection and safeguarding of pledged property; (c) the provision of assistance in government investigations pertaining to the arrest of people suspected of crimes; (d) the reporting of suspicious persons or circumstances to the relevant authorities; (e) the engagement of security personnel; (f) the installation of security video and sound recording equipment, including those on all business counters; and (g) the installation of security vaults and safes adequate for the safe and secure storage of pledged property, the safeguard of the doors and window, the installation of alarm devices and the fire control facilities.

Pawn shops with a registered capital in excess of RMB15 million, an operating history of more than 3 years, and net profits and no record of unlawful business operations over the most recent two years may establish branch offices in provinces and regions outside the jurisdiction of their registration. For each branch office that is established, the pawn shop must provide a minimum of RMB5 million working capital, and the combined working capital provided to all branches must not exceed fifty percent of the registered capital of the pawn shop.

An application for the establishment of a new pawn shop or a new branch of an existing pawn shop must be submitted to local counterpart of the MOC and thereafter must undergo examination and approval by the provincial level counterpart of the MOC and finally be filed with the MOC before the MOC can issue the requisite pawn operation business licence. Within five working days of examination and approval by the MOC, the relevant provincial level counterpart of the MOC must inform the public security bureau at the provincial level, which thereafter must inform the local counterpart of the public security bureau of the relevant circumstances of the establishment. Within ten working days of receiving a pawn operation business licence, the applicant must report to the municipal-level counterpart of the public security bureau and apply for a special industry license by providing, among other things, floor plans, architectural drawings and schematic diagrams detailing the layout of the pawn shop premises and the installation of secure vaults, safes and security surveillance equipment. Within ten working days of receiving a special industry licence, the applicant must apply at the relevant administration for industry and commerce for registration of the business and receipt of a business licence.

The Pawning Measures provide that, in addition to granting loans to pledgors who pledge their personal property, or mortgage their real estate property which is located in the province or region within the jurisdiction of the pawn shop's registration, or projects under construction (在建工程) that have obtained housing presale permits (商品房預售許可證), the permitted scope of a pawn shop's business includes, among other things, the sale of pledged or mortgaged property that has been forfeited by the pledgor, as well as the provision of valuation and related consultancy services. Pawn shops are not permitted to, among other things, accept mortgages over movable properties, engage in unlawful capital raising activities, accept cash deposits in any form or provide unsecured loans. Furthermore, pawn shops are prohibited from borrowing money from any person other than commercial banks, entering into short-term loan facilities with other pawn shops, borrowing funds in excess of permitted amounts from commercial banks and engaging in investment activities. Where relevant laws of the PRC require the registration of pawned property, including in respect of mortgaged real estate or pledged automobiles, such registration must be duly completed.

The appraised value of pawned property and the amount of the loan provided in respect of pawned property should be determined through negotiation between the pledgor and the pawn shop. Where the parties are unable to agree on the loan amount in respect of mortgaged real estate, a qualified real estate valuer may be retained and reference may be made to the value of the real estate as determined by such valuer. The maximum term for which property may be pawned is six months, although this may be extended for further terms of a maximum of six months by each agreement between the parties. The maximum loan amount that may be provided for a single real estate secured loan must not exceed RMB1 million in the case that a pawn shop has a registered capital of RMB10 million or less. Where a pawn shop has a registered capital of over RMB10 million, the maximum loan amount for a single real estate secured loan must not exceed 10% of the registered capital amount. The maximum outstanding amount owing on property pledged or mortgaged by any single legal person or natural person must not exceed 25% of the registered capital of a pawn shop. The total outstanding amount owing in respect of equity interest pledged by customers must not exceed 50% of the registered capital of a pawn shop; whereas the total outstanding amount owing in respect of real estate mortgaged by customers must not exceed 100% of the registered capital of a pawn shop. The statutory limit on the rate of interest charged on a loan provided in respect of pawned property must not exceed the PBOC official interest rate for six-month term loan as discounted by the pawn loan period. Interest must not be withheld or deducted in advance. The fees payable by the pledgor include various administration fees calculated on a monthly basis, the combined monthly total of which must not exceed 4.2% of the loan amount for loans secured by pledged movable property, 2.7% of the loan amount for loans secured by mortgaged real estate, or 2.4% of the loan amount for loans secured by pledged equity interest.

The pawned property will be deemed forfeited if within five days of the expiration of the pawn term the pledgor has not repaid the principal amount, accumulated interest and combined expenses of the loan or not extended the pawn term. Where pawned property is redeemed after the expiration of the pledge term (or extended pledge term), in addition to repayment of the principal amount, accumulated interest and combined expenses of the loan, the pledgor must also pay penalty interest calculated with reference to the rate of penalty interest for term loans as stipulated by PBOC as well as any related fees in accordance with the mortgage agreement.

A pawn shop shall satisfy the following conditions in order to increase its registered capital: (1) at least one (1) year has elapsed between the present capital increase and the operating date or the previous capital increase; and (2) the pawn shop has no record of illegal or irregular operation in the last year.

On 17 May 2005, MOC and the Ministry of Public Security jointly promulgated the Circular of the Ministry of Commerce and the Ministry of Public Security on Relevant Issues concerning the Implementation of the Pawning Measures (商務部、公安部關於貫徹實施《典當管理辦法》的有關問題通知), which further addresses the issues on, including but not limited to, preliminary examinations of applications for a new pawn shop, verification and issuance of special industry licences, the scope of senior managers and security standards for existing pawn shops.

MOC issued the Circular of the General Office of the MOC on Improving Systems for the Supervision and Risk Prevention of Pawn Industry (商務部辦公廳關於進一步完善典當業監管及風險防範制度的通知) ("**Circular No. 119**"), and the Circular of the General Office of the MOC on Strengthening the Supervision of Pawn industry (商務部辦公廳關於加強典當行業監管工作的通知) ("**Circular No. 81**") on 12 November 2008 and 18 August 2009 respectively. Under these circulars, MOC further specifies the issues on supervision and inspection of pawn shops for the purpose of standardising the business operations and improving the internal control mechanisms of pawn shops.

On 15 December 2011, the MOC released the Guiding Opinions for Encouraging the Development of the Pawnbroking Industry under the 12th Five-Year Plan, which reviewed and summarised the development of the pawn industry during the 11th Five-Year Period, and emphasised its supervision principles, targets and measures of the pawn industry during the 12th Five-Year Period. During 2011 to 2015, MOC and the local Departments of Commerce will focus on the enactment of the regulatory laws and rules of the pawn industry, improve the environment for pawn industry development, and further formulate and enhance the pawn industry business standards.

On 5 December 2012, MOC promulgated the Regulation for Supervision of Pawning Industry (典當行業監管規定) (for the purpose of this section, the "**Pawning Industry Regulations**"), which further specifies, on the basis of the Pawning Measures, the responsibilities of MOC and its local counterparts and raises the requirement of strengthening the supervision on certain aspects of pawn shops' business operations. Pursuant to the Pawning Industry Regulations, MOC is responsible for the supervision of the pawning industry on a nationwide basis, with a primary focus on the promulgation of pawning industry laws and regulations, and guidance on the work of local counterparts of MOC, while each local counterpart of MOC is responsible for the supervision and administration of pawning industry within each of their jurisdictions. The provincial MOC shall promulgate policies for the pawn industry within its jurisdiction, administer the Pawn Operations Business License and pawn tickets, establish a pawning industry material information reporting system, a risk pre-warning system and an emergency settlement plan, and supervise and regulate the pawn industry by multiple methods including conducting random on-site inspection on no less than 20% of pawn shops on an annually basis. The municipal MOC shall supervise the entire progress of pawn shops' business operations, establish on-site inspection and conversation systems, focus on its supervision on the compliance of pawn shops' business operations and the authenticity of pawn shops' financial data, prevent and rectify any illegal activities in a timely manner, and conduct on-site inspection on all pawn shops within its jurisdiction at least once every half year. MOC on the county level shall focus on the on-site inspection of pawn shops within its jurisdiction, and assist the supervision of its superior counterparts. The

Pawning Industry Regulations, on the basis of the Pawning Measures, raise further requirements on the shareholders applying to establish a pawn shop, including: (i) corporate shareholders rather than individual shareholder shall have relative controlling shareholding of the pawn shop, specifically, all corporate shareholders shall hold collectively more than 1/2 of the entire shareholding of the pawn shop or the largest single corporate shareholder must hold the largest shareholding of more than 1/3 of the entire shareholding of the pawn shop; (ii) the corporate shareholder shall be capable of making capital contribution to the pawn shop in the form of monetary fund, and the corporate shareholder shall submit its audit report issued by an accounting firm selected from the ones designated by MOC and its records of paying business tax and income tax; (iii) an individual shareholder shall be a PRC citizen residing in PRC, who is aged 18 or above and has full civil capacity with no criminal record, good credibility and capability of making capital contribution to the pawn shop; (iv) to apply for establishment of pawn shop, the shareholders shall issue an undertaking letter to promise to comply with relevant PRC laws and regulations and the articles of association of the pawn shop, to strengthen the management and supervision of the pawn shop and to not to conduct illegal business operation, and to pay in the registered capital of pawn shop with its own legal fund; (v) for the corporate shareholder operating complying with laws, owning sufficient funds, having a good reputation and possessing the consistent profitability, its application for establishing pawn shop will be approved for priority; and (vi) the corporate shareholder shall undertake to report to the local counterpart of MOC of its long-term equity investment in any enterprise other than that in the pawn shop.

In addition to the foregoing requirements on the shareholders applying for establish a new pawn shop, the Pawning Industry Regulations also reiterates the requirements on the approval of change of pawn shop's equity interest, including: (i) the interval between increases of registered capital of pawn shop shall be more than one year; (ii) the requirement of a shareholder paying increased registered capital to pawn shops shall be consistent with that of a shareholder applying for the establishment of a new pawn shop; the ineligible investors shall not be approved to invest in a pawn shop; the enterprise which operates less than three (3) years or fails to gain profit in the most recent consecutive two (2) years, shall be approved to invest in a pawn shop with the principle of strict examination and prudential approval; and (iii) the material alteration of a pawn shop, including the transfer of more than 50% equity of a pawn shop to the new investors, the transfer of the entire shareholding of the controlling shareholder, and multiple material changes (including enterprise name, legal representative, address and shareholding structure of pawn shop) at one time shall be strictly examined for the purpose of preventing illegal fund-raising disguised in the form of pawning or illegal scalping of Pawn Operation Business License.

With respect to pawn shops' business operations, the Pawning Industry Regulations require local counterparts of MOC to reinforce their supervision and management in the following aspects: (i) strengthen its investigation and punishment of illegal fund-raising, illegal operation beyond the business scope of pawn shop, raising funds disguised in the form of pawning, and accepting stolen goods as the pawned property intentionally; (ii) strengthen the supervision and administration of pawn shops' fund, including the sources and use of pawning funds, bank deposits and cash flow of pawn shops, and fund flow between a pawn shop and its shareholders; and (iii) strengthen the supervision and administration over legal compliance of pawn shops' business operations. According to the Pawning Measures and Pawning Industry Regulations, pawn shops may only get funds from their registered capital, operating surplus and the loans provided by commercial banks. The municipal MOC shall monitor the fund flow of pawn shops within its jurisdiction by registering the details of the bank account of pawn shops and conducting random inspection on such bank accounts. All illegal operations regarding the funding of pawn shops, including pawn shops borrowing money from shareholders, shareholders conducting pawning business in the name of the pawn shop, and shareholders conducting financial activities through the pawn shop, are strictly forbidden. The following illegal operations of pawn shops are forbidden: participating in the investment in listed securities with pawn fund or providing fund to clients for investment in listed securities, accepting a securities account as pawn collateral, abuse and misappropriation of pawn operation business licence, pawning without issuance of pawn ticket, signing pawning contract without issuance of pawn ticket, accepting the pawn without any pawned property, or other illegal operation that would result in the pawn ticket being inconsistent with pawned property.

For the purpose of reinforcing the supervision of the pawn industry as mentioned above, the Pawning Industry Regulations provide that MOC shall adopt multiple measures and establish multiple channels, including: (i) the provincial MOC shall be responsible for the manufacture and issuance of pawn tickets, and the provincial MOC and municipal MOC shall set up the ledger recording the issuance, allocation and withdrawal of the pawn ticket for the purpose of numbering and managing the pawn tickets; (ii) the municipal MOC shall strengthen the management of pawn shops' file by conducting on-site inspection to check the effectiveness, integrity and consistency of the pawn tickets, pawn contracts, the documents of pawn shops' clients and the account report of the pawn shop; and (iii) the local counterparts of MOC shall supervise pawn shops' business operations and financial data via the Information System for the Supervision and Administration of Pawning Industry (the "**System**"), and pawn shops shall, correspondingly, conduct business operations via the System (including printing out and issuing pawn tickets and reporting its operation and financial data) for the review and inspection of MOC.

Pursuant to the Pawning Industry Regulations, the municipal MOC or its superior counterparts shall have conversations with the legal representative, director or senior management of the pawn shop, and issue a rectification letter ordering it to correct its non-compliance operation if a pawn shop: (i) withdraws registered capital during its operation term; (ii) establishes branch office without approval; (iii) changes its shareholding or business location without approval; (iv) operates beyond the approved business scope, provides pawning loans at a ratio higher than statutory allowed, and/or charge interest at a rate higher than statutory allowed; (v) refuses or hinders the on-site or off-site supervision; (vi) refuses or hinders to submit reports and documents, provides false reports and documents, or conceals material facts for the review and inspection of MOC; (vii) fails to issue pawn tickets via the System, or signs pawning contracts without issuance of pawn tickets, or manufactures pawn tickets without approval; or (viii) engages in other non-compliant behavior.

Regulations and Rules on the Disposal of the Forfeited Pawned Property

The Pawning Measures

According to the Pawning Measures, where the value of forfeited pawned property does not exceed RMB30,000, the pawn shop may dispose or otherwise sell the property at its own risk. Forfeited pawned property with a value exceeding RMB30,000 may be disposed of in accordance with relevant provisions of the Guarantee Law. The Pawning Measures also provide that a pawn shop and pledgor may, prior to maturity of a loan, agree that if the pawned property with a value exceeding RMB30,000 is forfeited, the pawn shop may arrange for its sale or auction. Any amount generated from the sale or auction of the pawned property that is in excess of the outstanding principal loan amount, accrued interest and related expenses (including the cost of the auction or sale) must be returned to the pledgor. If the money received from the sale or auction is insufficient to defray these amounts, the pawn shop may file a suit against the pledgor at the people's court to recover the shortfall.

The Pawning Measures further provide that all forfeited pawned properties whose circulation is restricted by the State shall be, in accordance with relevant laws and regulations, disposed of, delivered or sold to designated entities upon approval of relevant administrative departments. Where the pawn shop sets up sales outlets of forfeited pawned properties other than its business premises, the pawn shop shall report the same to the competent commercial department at the provincial level for record-filing, and shall conscientiously accept supervision and inspections from local competent commercial departments. Consent and cooperation from the mortgagor or pledgor is required where the pawn shop is to dispose of shares of a listed company as the forfeited pawned property. Without authorisation, the pawn shop may not sell off shares of a listed company as the forfeited pawned property, dispose of the same at converted prices, or entrust auction houses to publicly auction the same.

Provisions on Auction and Sale of Properties in Civil Enforcement Proceedings by People's Courts

The pawn shop is entitled to apply for an auction of the forfeited pawned property where the claim against the mortgagor or pledgor was favored by the people's court but the mortgagor still fails to implement the judgment of the people's court. The enforcement auction shall be subject to the Provisions on Auction and Sale of Properties in Civil Enforcement Proceedings by the People's Courts (最高人民法院關於人民法院民事執行中拍賣、變賣財產的規定) which was promulgated by the Supreme People's Court on 15 November 2004, and came into effect on 1 January 2005.

According to these provisions, a people's court shall appoint an appropriate qualified evaluation agency to appraise the value of the property to be auctioned. However, valuation is not required if the value of the property is comparatively low or is easy to be determined by common methods, or if both parties and other creditors involved in the enforcement apply to the relevant people's court not to conduct valuation. After valuation of the property, a reserve price shall be determined for the auction by the people's court by reference to the valuation price. Where no valuation is conducted, the reserve price shall be determined with reference to the market price and by consulting the opinions of the relevant parties. The reserve price determined by a people's court, for the first auction, may not be lower than 80% of the valuation or market price. Where the first auction fails and a new auction is conducted, the reserve price may be reduced according to the specific circumstances, provided that each reduction of the reserve price may not exceed 20% of the previous reserve price.

In conducting the first auction, where no bidding price is announced or the highest bidding price of the bidders is lower than the reserve price and the enforcement applicant (e.g. the pawn shop) or any other creditor involved in the enforcement who is present applies to accept, or agrees to accept, the property for auction at the reserve price determined for the auction, the property shall be delivered to them to offset the debts. With regard to real estate property or other property rights that fail(s) to be auctioned for the second time, a people's court may valuate and price the property or the property rights and deliver them to the enforcement applicant (e.g., the pawn shop) or other creditors involved in enforcement as repayment of debts as the first auction. Where the enforcement applicant (e.g. the pawn shop) or other creditors involved in enforcement refuse to accept the property or property rights or the property or property rights cannot be delivered to them to set off debts in accordance with the provisions, the people's court shall conduct a third auction within sixty days. Where the property or property rights fail(s) to be auctioned for the third time and the enforcement applicant (e.g., the pawn shop) or other creditors involved in enforcement refuse to accept the property or the property rights or the property or property rights cannot be delivered to them to set off debts in accordance with the provisions, the people's court shall announce a sale within seven days of the closing of the third auction. Where no one offers to buy the property at the reserve price determined in the third auction within 60 days of the announcement and the enforcement applicant (e.g. the pawn shop) or other creditors involved in enforcement do not intend to accept the property to set off debts, the people's court shall lift the seal-up or freeze and return the property to the person subject to enforcement, except where other enforcement measures may be adopted concerning the property.

Regulations for Annual Inspection of Pawn Shops

The State Economic and Trade Commission promulgated the Measures for Annual Inspection of Pawn Shops (典當行年審辦法) on 31 December 2002 which came into effect on 1 February 2003. The annual inspection of pawn shops, among other things, includes: (a) alternation of the registered capital, shareholders and other matters of a pawn shop and its branches; (b) financial status of a pawn shop; (c) organisation and internal management of a pawn shop and its branches; (d) the compliance of the business operation of a pawn shop and its branches; (e) the use of a nationwide uniform pawn tickets; and (f) other aspects in compliance with the Pawning Measures and other laws and regulations.

If the pawn shop does not pass the annual inspection, its Pawn Operation Business License shall be revoked, if any of that the following circumstances are found in the annual inspection: (a) a pawn shop was established in a materially illegal manner (e.g., making feigned contributions and obtaining approval by fraud); (b) the business was operated in a materially illegal manner (e.g., accepting deposits or doing so in disguised form, illegally raising funds, extending credit loans, intentionally accepting unlawfully obtained goods as pawned property and forcing the pledgor to redeem the pawned property in a materially illegal manner); (c) the pawn shop has not been opened for business for more than 6 months since obtaining the pawning operation business license, or stopped business operations for more than 6 months; (d) illegal matters have not been rectified although the pawn shop makes the rectification as ordered by the administration authority; (e) the pawn shop refuses to participate in the annual inspection; and (f) other circumstances provided by the State Economic and Trade Commission.

Pursuant to the Pawning Industry Regulations, the annual inspection of pawn shops shall focus on the following aspects: (i) amount of paid-in capital; (ii) source of funds; (iii) the subsistence of corporate shareholders, the annual inspection of such corporate shareholders, and fund flow between the pawn shop and its shareholders; (iv) business structure and extended pawning loans; (v) disposal of forfeited pawned property; (vi) use of pawn tickets; (vii) charge and collection of pawning interest and fees; (viii) change in the location of the pawn shop and its branch offices; and (ix) business operation of pawn shop’s branch offices.

REGULATORY POLICIES OF THE MICRO-FINANCING INDUSTRY

General Rules on Credit

The General Rules on Credit promulgated by the PBOC on 28 June 1996 and came into effect on 1 August 1996. The General Rules on Credit define a "loan provider" as a PRC owned financial institution established in the PRC that engages in the provision of interest bearing loans. The General Rules on Credit require that loan providers must be authorised by and have been granted a financial institution license (金融機構法人許可證) or a financial institution operation license (金融機構營業許可證) by the PBOC; and must have registered with competent administration for industry and commerce (工商行政管理部門). The General Rules on Credit further stipulate that enterprises which are not authorised and registered as loan providers must not breach the laws of the PRC by engaging in intercompany loan transactions or the provision of loans through unauthorised means. An intercompany loan is a loan provided directly from one company to another where the loan provider is not authorised and registered as loan provider. The General Rules on Credit provide that the PBOC may impose sanctions on an intercompany loan provider and enforce a penalty of up to five times of the income received from the provision of the loan.

Guiding Opinions on the Direction of Micro-Loan Companies

The CBRC and PBOC jointly issued the Guiding Opinions on the Direction of Micro-Loan Companies (for the purpose of this paragraph, the "**Guiding Opinions**") on 4 May 2008. The Guiding Opinions provided guidance on pilot operation of small loan companies and has specified the incorporation, capital source, capital use and regulatory policies of small loan companies. Pursuant to the Guiding Opinions:

- to establish a micro-financing company, an applicant applies to the supervising authority of the provincial government, and, upon approval, must comply with registration formalities to obtain all necessary business licenses, approvals and certificates;

- if a small loan company is a limited liability company, its registered capital must be at least RMB5 million; and if it is a company limited by shares, its registered capital must be at least RMB10 million. No single natural person, legal entity, other social organisation and their respective affiliated parties can hold in excess of 10% of the total registered capital of the company;

- the funds of a small loan company mainly come from the capital contributed and funds donated by shareholders as well as funds raised from, at most, two banking financial institutions. A small loan company must accept public supervision and shall not engage in any form of illegal fund-raising;

- according to relevant laws and regulations, the funds obtained by a small loan company from banking financial institutions may not exceed 50% of its net capital;

- the balance of loans of a single borrower may not exceed 5% of the net capital of a small loan company;

- a small loan company must conduct its operations according to market-oriented principles and determine the ceiling on the loan interest rate, which may not exceed that set by judicial departments, and set the floor at 0.9 times the benchmark lending interest rate announced by the PBOC;

- no founder (being natural persons, legal entities and other social organisations) of the small loan companies and no natural person (who is nominated as a director, supervisor or senior management of small loan companies) shall have a criminal or bad credit record;

- the small loan company shall, according to relevant provisions, set up prudent and normative asset classification and provision systems, accurately classify the assets. Make full provision for allowances for doubtful accounts, and guarantee that its adequacy ratio of provision for asset losses always remains above 100% in order to fully cover all risks;

- the PBOC will trace and monitor the interest rates and capital flows of small loan companies, and will include them in the credit system. The small loan company shall regularly provide the credit system with information about the borrower, loan amount, guarantee and repayment, and other business information; and

- the small loan company shall establish a sound corporate governance structure and credit management system, and strengthen internal control.

On 20 September 2006, the General Office of CBRC issued the Reply to Certain Issues on Small Loan Company Organisation (中國銀行業監督管理委員會辦公廳關於小額貸款組織有關問題的批復). According to this reply, the entities conducting micro-financing business but do not accept cash deposits from member of the public are out of CBRC's supervision, and for these entities, no Financial Institution License is required from the banking governing authorities.

Implementing Measures for the Pilot Operation of Micro-financing Companies in Beijing

On 4 January 2009, the General Office of Beijing Municipality Government issued the Implementation Measures for the Pilot Operation of Micro-financing Companies in Beijing (北京市小額貸款公司試點實施辦法). Key contents of the Implementing Measures are as below:

- The Beijing Municipal Bureau of Financial Work is responsible for the coordination, examination and approval, supervision and risk handling of small loan companies' pilot operation in the administrative regions of Beijing Municipality.

- If a small loan company is a limited liability company, the registered capital shall not be less than RMB50 million; and if it is a company limited by shares, the registered capital shall not be less than RMB100 million.

- The largest shareholder's (including its affiliates) shares shall not exceed 30% of the total registered capital, and other any single shareholder's shares shall not exceed 20% but not lower than 1% of the total registered capital.

- The source of funds shall come from shareholders' paid capital, donated capital, the funds borrowed from not more than two financial institutions, and other sources approved by relevant authorities. The capital borrowed from banking financial institutions shall not exceed 50% of its net capital.

- The balance of a micro-loan granted to the same borrower shall not exceed 3% of the net capital of the micro-financing company.

REAL ESTATE AND MOVABLE PROPERTY LAWS

Measures for the Administration of Real Estate

The Measures for the Administration of Real Estate in Cities (中華人民共和國城市房地產管理法) (the "**Real Estate Measures**"), was promulgated by the Standing Committee of the National People's Congress on 5 July 1994 and came into effect on 1 January 1995 and was amended on 30 August 2007. The Real Estate Measures aim to strengthen the administration of real estate located in cities, protect the real estate market, guarantee the legal rights and interests of real estate holders and promote the sustained development of the real estate industry. 'Real estate transactions' are defined in the Real Estate Measures to include the sale or mortgage of real estate and the lease of buildings and structures constructed on land. At the time real estate is sold or mortgaged, legal title to the buildings and the land use rights to the underlying land on which such buildings are situated are also sold or mortgaged. Accordingly, the Real Estate Measures provide that where legal title to a building is lawfully obtained, the title holder may mortgage the land use rights to the land on which such building is situated. The land use rights certificate and the building title certificate are required for the creation of a mortgage over real estate, and the mortgage must be evidenced in a written agreement between the mortgagor and mortgagee. All mortgages over real estate must be registered with the relevant authorities designated by local government at county level or above. Where buildings and land use rights are forfeited pursuant to a mortgage agreement, registration of transfer of ownership must be completed in compliance with the Real Estate Measures.

Administrative Measures for Commodity House Leasing

The Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法) (the "**House Leasing Measures**"), were promulgated by the Ministry of Housing and Urban-rural Construction (住房和城鄉建設部) on 1 December 2010 and came into effect on 1 February 2011. The House Leasing Measures apply to the leasing of commodity houses on state-owned land in urban planning areas and the supervision and administration thereof. Pursuant to the House Leasing Measures, the lessor and the lessee shall enter into a lease contract in accordance with law; the lessee shall use the premise in accordance with the purpose and requirements as stipulated in the lease contract; during the term of lease, the lease contract shall be effective even if the leased house is transferred to others by reason of donation, division of property, inheritance or sale; within thirty days after the lease contract is signed, the lessor and the lessee shall record the lease with competent house administration authority where the leased house locates.

EMPLOYMENT LAWS

The Employment Contract Law

The Employment Contract Law (勞動合同法) was promulgated by the Standing Committee of the National People's Congress on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012. The Employment Contract Law is primarily aimed at the regulation of employee and employer rights and obligations, including matters with respect to the establishment, performance and termination of labour contracts.

Under the Employment Contract Law, (a) employers must pay employees double income in circumstances where an employer fails to enter into an employment contract within one year with an employee who works for the employer for a period exceeding one month. Where such period exceeds one year, the parties are deemed to have entered into a labour contract with an ''unfixed term''; (b) employees who fulfill certain criteria, including having worked for the same employer for ten years or more, may demand that the employer execute a labour contract with an unfixed term; (c) employees must adhere to regulations concerning commercial confidentiality and non-competition; (d) the range of situations in which employers must lawfully compensate employees has increased; (e) an upper limit has been set on the amount of compensation an employer may seek for an employee's breach of the agreed service term. The upper limit may not exceed the cost of training supplied to the employee; (f) employees in respect of whom employers have not in accordance with law made social insurance contributions may terminate their employment contracts; (g) employers who demand money or property from employees by way of guarantee or whatsoever may be fined a maximum of RMB2,000 for each employee; and (h) employers who intentionally deprive employees of any part of their salary must, in addition to their full salary, pay employees compensation in the order of 50% to 100% of the amount of salary so deprived.

Regulations on Social Insurance and Housing Fund

The PRC regulatory authorities have passed a variety of laws and regulations regarding social insurance and housing funds from time to time, such as the PRC Social Insurance Law (中華人民共和國社會保險法), the Regulations of Insurance for Labour Injury (工傷保險條例), the Regulations of Insurance for Unemployment (失業保險條例), the Provisional Measures on Maternal Insurance for the Enterprise Employees (企業職工生育保險試行辦法), the Interim Regulations on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Regulations on Management of Housing Fund (住房公積金管理條例) and other related laws and regulations. Pursuant to these laws and regulations, PRC enterprises must make sufficient contributions to the relevant local social insurance and housing fund regulatory authorities for their employees' pension plans, medical insurance plans, unemployment insurance plans, work-related injury insurance plans, maternity insurance plans and housing provident funds. Failure to comply with such laws and regulations may result in various fines and legal sanctions and supplemental contributions to the local social insurance and housing fund regulatory authorities.

Law on Employment Promotion

The Law of the PRC on Employment Promotion (中華人民共和國就業促進法) (the "**Law on Employment Promotion**"), was promulgated by the Standing Committee of the National People's Congress on 30 August 2007 and came into effect on 1 January 2008. The Law on Employment Promotion contains provisions on employment issues including policy support, fair employment, employment services and management, and vocational education and training. Particularly, the Law on Employment Promotion (a) states explicitly that discriminatory employment practices should not be adopted and, in circumstances where such practices are adopted, employees have the right to file a suit with the people's court; (b) provides that public employment service agencies established by the People's Government at county level or above should provide employees with free services such as consultation on employment policies and laws and regulations, vocational training and placement, and price guidance for market wages; and (c) perfects an employment and unemployment registration system, stipulating that employers must complete employment registration with public employment service agencies for employees after they have been recruited, while employees who are individual operators or engaged in temporary jobs may complete employment registration with community public employment service agencies, and shall be entitled to applicable support policies upon registration.

RULES ON FOREIGN EXCHANGE AND DIVIDEND DISTRIBUTION

THE FOREIGN CURRENCY ADMINISTRATION RULES

The principal regulation governing foreign currency exchange in the PRC is the Foreign Currency Administration Rules (外匯管理條例) which was issued by the State Council in 29 January 1996, became effective on 1 April 1996 and was amended in 14 January 1997 and 5 August 2008. Under these rules, RMB is freely convertible only for payments of current account items, including trade and service related foreign exchange transactions and dividend payments, but not for capital account expenses, including direct investment, loan or investment in securities outside the PRC. RMB may only be converted for capital account expenses once the prior approval of SAFE or the prior registration with SAFE has been obtained. Under the Foreign Currency Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing such transactions. They may also retain foreign exchange (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC government authorities, which have significant administrative discretion in implementing the laws, may restrict or eliminate the ability of foreign invested enterprises to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and require approvals from SAFE.

Capital Contribution in Foreign Currencies

On 29 August 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency denominated Capital of Foreign-Invested Enterprises (關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) ("**Circular No. 142**"). Pursuant to Circular No. 142, the RMB converted from foreign-denominated currencies of a foreign-invested enterprise may only be used within the business scope of the foreign-invested enterprise as approved by the applicable government authority and may not be used for domestic equity investment unless otherwise stipulated by law or regulation. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital of a foreign-invested enterprise converted from foreign currencies. The use of such RMB may not be changed without SAFE's approval, and may not in any case be used to repay RMB loans if the proceeds of such loans have not been used within the approved business scope. Violations of Circular No. 142 will result in severe penalties, such as heavy fines. In addition, SAFE promulgated the Notice on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses (關於加強外匯業務管理有關問題的通知) on 9 November 2010 ("**Circular No. 59**"), which requires the authenticity of settlement of net proceeds from overseas offerings to be closely examined and the net proceeds to be settled and used in the manner described in the offering documents. On 18 July 2011, SAFE issued the Supplemental Notice on the Relevant Operation Issues Concerning Improving the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises ("**Circular No. 88**"), which became effective on 1 August 2011. According to such notice, enterprises that apply for capital settlements need to submit to the banks designated by SAFE relevant original copies of evidence to prove due payment of proceeds from previous settlements and related invoices in addition to the documents required under Circular No. 142. Banks are also required to file reports of all capital settlements processed by them on a daily basis with the local branches of SAFE.

SAFE Registration

Pursuant to the SAFE Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) ("**Circular 75**"), issued on 21 October 2005, (a) PRC residents should register with the local branch of SAFE before establishing or controlling a privately held overseas special purpose vehicle ("**SPV**"), for the purpose of overseas equity financing (including convertible debt financing); (b) when a PRC resident contributes the assets of or its equity interest in a domestic enterprise into an overseas SPV, or engages in overseas financing after contributing assets or equity interest into an overseas SPV, such PRC resident shall register his or her interest in the overseas SPV and the change thereof with the local branch of SAFE; and (c) when the overseas SPV undergoes a material event outside of the PRC, such as a change in share capital or merger and acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. In 29 May 2007, SAFE issued Circular of the Comprehensive Division of SAFE on Printing and Distributing the Operating Instructions on the Circular of SAFE on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents Engaged in Financing and in Return Investment via Overseas Special Purpose Companies (國家外匯管理局綜合司關於印發《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》操作規程的通知) ("**SAFE Circular No.106**") and in 11 May 2013, SAFE further promulgated Circular of the SAFE on Printing and Distributing the Administration of Foreign Exchange in Foreign Direct Investments of Foreign Investors and Relevant Supporting Documents (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) ("**SAFE Circular No. 21**"). SAFE Circular No.106 and SAFE Circular No. 21 strengthen the supervision of registrations pursuant to the Circular 75 and impose obligations on onshore subsidiaries of the overseas SPVs to coordinate and supervise the relevant PRC residents to complete registration. Under the Circular 75, failure to comply with the registration procedures set forth above may result in restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to overseas SPV, as well as the imposition of penalties in accordance with the law.

The ultimate shareholders of the Target Group who are PRC residents, namely, Mr. Dai Hao, the Vendors' Guarantor and Ms. Jin, completed registration procedures under SAFE Circular No. 75 on 10 July 2012 and 12 November 2012.

Regulations on Dividend Distribution

The principal laws and regulations governing distribution of dividends paid by wholly-foreign-owned enterprises in the PRC include (a) the Company Law; (b) the WFOE Law; and (c) Regulations for the Implementation of the WFOE Law. Under the above laws and regulations, domestic companies and wholly-foreign-owned enterprises in the PRC may pay dividends only from accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds. Until such time as the accumulated reserve funds reach and remain above 50% of the enterprise's registered capital amount, these reserves are not distributable as cash dividends. Under the relevant PRC law, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

Laws and Regulations Relating to Taxation

Enterprise Income Tax

On 16 March 2007, the National People's Congress enacted the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which became effective as of 1 January 2008; on 6 December 2007, the State Council enacted the Implementation Rules for the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) which also became effective as of 1 January 2008, or collectively, the EIT Law. According to the EIT Law, enterprises are categorised into resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in the PRC in accordance with the PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control entity is within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but (i) have entities or premises in the PRC, or (ii) have no entities or premises but have income generated from the PRC. According to the EIT Law, foreign invested enterprises in the PRC are subject to the enterprise income tax at a uniform rate of 25%. A non-resident enterprise that has an establishment or premises within the PRC shall pay enterprise income tax at a rate of 25% on its income that is derived by such establishment or premises inside the PRC and income that is sourced outside the PRC but is actually connected with the said establishment or premises. A non-resident enterprise that has no establishment or premises within the PRC but has income from the PRC, and a non-resident enterprise that has establishment or premises in the PRC but its income has no actual connection to such establishment or premises in the PRC, shall be subject to PRC withholding tax at the rate of 10% on its income sourced from the PRC.

According to the EIT Law, dividends paid to its foreign investors are subject to a withholding tax rate of 10%, unless otherwise provided in the relevant tax agreements entered into by the central government of the PRC. The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), or the Arrangement on 21 August 2006. According to the Arrangement, the withholding tax rate on dividends paid by a PRC company to a Hong Kong resident entity is 5% if such Hong Kong resident entity directly holds at least 25% of the equity interest in the PRC company, and 10% if the Hong Kong resident entity holds less than 25% of the equity interest in the PRC company.

Dividend Tax

Pursuant to Circular of the SAT on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated by the SAT and became effective on 2 February 2009, all of the following requirements shall be satisfied in order to enjoy the preferential tax rates provided under the tax agreements: (i) the tax resident that receives dividends should be a company as provided in the tax agreement; (ii) the equity interests and voting shares of the PRC resident company directly owned by tax resident reaches a percentage specified in the tax agreement; and (iii) the equity interests of the Chinese resident company directly owned by such tax resident at any time during the twelve months prior to receiving the dividends, reach a percentage specified in the tax agreement.

According to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (非居民享受稅收協定待遇管理辦法(試行)), which came into force on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the preferential tax treatments under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the preferential tax treatments provided in the tax agreements.

Value-Added Tax

Pursuant to the Provisional Regulations on Value-added Tax of PRC (中華人民共和國增值稅暫行條例) and its implementation rules which were last revised on 28 October 2011, and the Circular of the Ministry of Finance and the SAT on Policies concerning Adoption of Low Value-added Tax Rate for Certain Goods and Levy Value-added Tax with Simple Method (關於部分貨物適用增值稅低稅率和簡易辦法徵收增值稅政策的通知), promulgated by the Ministry of Finance and the SAT and took effect on 19 January 2009, where the pawn loan provider sells forfeited pawned items that the pawning customers fail to redeem before the expiry date, the pawn loan provider is required to pay value-added tax at the rate of 4%.

Pursuant to the Circular on Printing and Issuing the Pilot Proposals for the Transformation from Business Tax to Value Added Tax (關於印發《營業稅改征增值稅試點方案》的通知) ("**the Pilot Proposals**"), issued by the Ministry of Finance and the SAT on 16 November 2011, the transformation from business tax to VAT became effective on 1 January 2012 in pilot business of pilot areas. Pursuant to the Pilot Proposals, two levels of low VAT rates of 11% and 6% are added in the current VAT rates which are respectively 17% and 13%. The tax rate for business such as transportation, construction is 11% and the tax rate for other certain modern service business is 6%.

Business Tax

Pursuant to Provisional Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例), which become effective from 1 January 1994 and was amended on 10 November 2008 which amendment became effective on 1 January 2009 and its implementation rules, all entities and individuals provide taxable services, transfer intangible assets or sell real estate within the PRC must pay business tax. The scope of services which constitute taxable services and the rates of business tax is prescribed in the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation.

REGULATIONS ON MERGERS AND ACQUISITIONS

On 8 August 2006, the MOC, SAT, SAFE, CSRC, the State Assets Supervision and Administration Commission (國務院國有資產監督管理委員會) and the State Administration for Industry and Commerce (國家工商行政管理總局) jointly adopted the Provisional Rules for the Merger and Acquisition of PRC Domestic Enterprises by Foreign Investor (關於外國投資者併購境內企業的規定) (the "**M&A Rules**"), which came into effect on 8 September 2006. The M&A Rules provide that an offshore special purpose vehicle established for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

On 22 June 2009, MOC issued the Amendments to Regulations of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於修改《關於外國投資者併購境內企業的規定》的決定), revising the provisions on the anti-monopoly review for mergers and acquisitions of domestic enterprises by foreign investors.

Under the M&A Rules, ''mergers and acquisitions of PRC domestic enterprises by foreign investors'' refers to a situation where a foreign investor purchases the equity interests in a domestic enterprise, or subscribes for the increased capital of a domestic enterprise, and thus changes the domestic enterprise into a foreign-invested enterprise; where a foreign investor establishes an enterprise, through which the foreign investor purchases the assets of a domestic enterprise and operates its assets; or where a foreign investor purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise to operate the assets.

The M&A Rules require, among other things, that an offshore SPV, formed for public listing on an overseas stock exchange and controlled directly or indirectly by PRC enterprises or individuals by mergers and acquisitions of PRC domestic enterprises, must obtain the approval of CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange. As of the date of this circular, CSRC and other PRC regulatory authorities have not issued any definitive rule or interpretation concerning whether transactions like this Acquisition are subject to the M&A Rules and the CSRC Procedure.

On 25 August 2011, MOC promulgated the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (實施外國投資者並購境內企業安全審查制度的規定), or the MOC Security Review Rules, to implement the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知) promulgated on 3 February 2011 ("**Circular No. 6**"). The MOC Security Review Rules came into effect on 1 September 2011 and replaced the Interim Provisions of the Ministry of Commerce on Matters Relating to the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (商務部實施外國投資者並購境內企業安全審查制度有關事項的暫行規定) promulgated by MOC on 4 March 2011. According to these circulars and rules, security review is required for the mergers and acquisitions by foreign investors of domestic military industrial enterprises and military industry related supporting enterprises, enterprises located near key and sensitive military facilities and other entities relating to national defense, and the mergers and acquisitions by foreign investors of domestic enterprises which have impact on national security, in fields of important agricultural products, energy and resources, infrastructure, transport service, technology and major equipment manufacturing, etc. and may result in foreign investors' acquirement of ''de facto control'' over the enterprises. In addition, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to security review, MOC will look into the substance and actual impact of the transaction. The MOC Security Review Rules further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

In addition, various media sources have recently reported that CSRC has prepared a report for the State Council suggesting regulating the use of the Structured Agreements in the context of foreign investment in the PRC and overseas listings. However, whether CSRC did submit such a report, the specific content of such report and whether and when any further action will be taken by the State Council, CSRC, MOC or any other PRC government authority regarding the use of the Structured Agreements is currently unclear.

Ming Kei Holdings Limited
明基控股有限公司 *

(incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 8239)

Executive Directors:
Mr. Wong Wai Sing *(Chairman)*
Mr. Ho Pui Tin, Terence *(Chief Executive Officer)*
Mr. Han Jianli

Non-executive Director:
Mr. Tsang Ho Ka, Eugene *(Vice-Chairman)*

Independent non-executive Directors:
Mr. Kwok Kam Tim
Mr. Du Hui
Mr. Chen Yihua

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
Unit 01, 3/F.,
Wheelock House,
20 Pedder Street,
Central, Hong Kong

30 May 2014

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN AND SHAREHOLDER'S LOANS TO PRIMA FINANCE HOLDINGS LIMITED
(2) RE-ELECTION OF DIRECTORS; AND
(3) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

The Board announced that on 23 December 2013, the Company, the Purchaser, a direct wholly-owned subsidiary of the Company, and the Purchaser's Guarantor entered into the Acquisition Agreement with the Vendors and the Vendors' Guarantor pursuant to which the Purchaser conditionally agreed to acquire, and the Vendors conditionally agreed to sell, the Sale Shares and the Sale Loans at a maximum Consideration of HK$900 million. The Sale Shares, being an aggregate of 100 shares of the Target, represent the

* *for identification purpose only*

entire issued share capital of the Target. The Sale Loans represent all the shareholder's loans owing by the Target to Exuberant Global as at the Completion Date. Upon Completion, the Target will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Group.

The Acquisition constitutes a very substantial acquisition for the Company pursuant to Rule 19.06(5) of the GEM Listing Rules, and is therefore subject to the Shareholders' approval at the SGM by way of voting by poll. The purpose of this circular is to provide you with among other matters, (i) details of the Acquisition Agreement, (ii) financial and other information on the Group and the Target Group; (iii) the accountant's report on the Target Group; (iv) the pro forma financial information of the Enlarged Group; (v) the information relating to the re-election of the Directors; and (vi) the notice of the SGM.

THE ACQUISITION AGREEMENT

Date:	23 December 2013 (as supplemented by the extension letter dated 19 May 2014)
The Company:	Ming Kei Holdings Limited
The Purchaser:	Star Capital Global Limited, a direct wholly-owned subsidiary of the Company
The Purchaser's Guarantor:	Mr. Wong Wai Sing, an executive Director and the chairman of the Company, being the guarantor of the Purchaser
The Vendors:	(i) Exuberant Global Limited, a company incorporated in the BVI with limited liability; (ii) Bustling Capital Limited, a company incorporated in the BVI with limited liability; and (iii) Time Prestige Holdings Limited, a company incorporated in the BVI with limited liability
The Vendors' Guarantor:	Mr. Dai Di, the beneficial owner of Exuberant Global, being the guarantor of the Vendors

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendors are investment holding companies and each of the Vendors and their beneficial owner(s) (i.e. the Vendors' Guarantor, Ms. Jin and Mr. Dai Hao) are third parties independent of the Company and its connected persons.

Assets to be acquired

Pursuant to the Acquisition Agreement, the assets to be acquired by the Purchaser are the Sale Shares, representing the entire issued share capital of the Target, and the Sale Loans, representing the shareholder's loans owing by the Target to Exuberant Global as at the Completion Date. As at the date of the Acquisition Agreement, the Sale Loans amounted to approximately HK$5,000,000.

For further details of the Target Group, please refer to the paragraph headed "Information on the Target Group" below.

Consideration

Pursuant to the Acquisition Agreement, the maximum Consideration is HK$900,000,000, which comprises the Initial Consideration of HK$564,000,000 and the Earn-out Consideration of HK$336,000,000, all subject to adjustments.

The Initial Consideration

The Initial Consideration of HK$564,000,000 (subject to adjustments as described below) shall be apportioned as follows:

(i) the consideration for the Sale Loans shall be equivalent to the face amount of the Sale Loans as at the Completion Date on a dollar-for-dollar basis; and

(ii) the balance of the Initial Consideration after deducting (i) above shall be the initial consideration for the Sale Shares.

The Initial Consideration of HK$564,000,000 (subject to adjustments as described above) shall be satisfied upon Completion by the Company in the following manner:

(i) as to HK$50,000,000 by the issue of the Promissory Notes to Exuberant Global or its nominee(s);

(ii) as to HK$420,200,000 by allotment and issue of the Convertible Bonds to Exuberant Global, Bustling Capital and Time Prestige respectively or their respective nominee(s) in the amount of HK$255,630,000, HK$117,550,000 and HK$47,020,000 respectively; and

(iii) as to HK$93,800,000 by allotment and issue of 174,200,000, 67,000,000 and 26,800,000 Consideration Shares to Exuberant Global, Bustling Capital and Time Prestige respectively or their respective nominee(s) in the amount of HK$60,970,000, HK$23,450,000 and HK$9,380,000 respectively.

The Convertible Bonds in an amount of HK$131,000,000 issued in (ii) above to Exuberant Global will be held by the Purchaser as a security for the fulfilment of the 2013 Target Profit.

Adjustments to the Initial Consideration

Pursuant to the Acquisition Agreement, on the basis that the 2013 Actual Profit shall be no less than RMB42,333,840 (equivalent to approximately HK$53,714,286, based on the exchange rate of RMB0.78813 = HK$1, as referred to in the Acquisition Agreement) (i.e. the 2013 Target Profit), the Initial Consideration shall be HK$564,000,000. The Acquisition Agreement provides that:

(i) In the event that the 2013 Actual Profit falls below the 2013 Target Profit, an amount of the Convertible Bonds equivalent to 10.5 times the difference (in absolute amount) between the 2013 Actual Profit and the 2013 Target Profit (the "**2013 Profit Shortfall**") will continue to be withheld from Exuberant Global or its nominee(s) (subject to a maximum of HK$131,000,000) (the "**Deferred Convertible Bonds**"). Set out below is the formula of the calculation of the Deferred Convertible Bonds:

The Deferred Convertible Bonds = the 2013 Profit Shortfall × 10.5

The Convertible Bonds issued to Exuberant Global at Completion and held by the Purchaser as a security for the fulfilment of the 2013 Target Profit will be returned to Exuberant Global after deducting the amount of the Deferred Convertible Bonds.

(ii) In the event that the 2013 Actual Profit exceeds the 2013 Target Profit, the Convertible Bonds issued to Exuberant Global at Completion and held by the Purchaser as a security for the fulfilment of the 2013 Target Profit will be returned to Exuberant Global and part of the Earn-Out Consideration, in an amount equivalent to 10.5 times the excess of the 2013 Actual Profit over the 2013 Target Profit (the "**2013 Excess Profit**") will be paid to Exuberant Global or its nominee(s) by the issue of Convertible Bonds (subject to a maximum of HK$236,000,000, being the maximum principal amount of the Convertible Bonds payable under the Earn-Out Consideration) will be paid to Exuberant Global (the "**Early-paid Earn-Out Convertible Bonds**"). Set out below is the calculation of the Early-paid Earn-Out Convertible Bonds:

Early-paid Earn-Out Convertible Bonds = 2013 Excess Profit × 10.5

Based on the accountant's report on the Target Group as set out in Appendix II to this circular, the 2013 Actual Profit is RMB41,831,000 (equivalent to approximately HK$53,076,269, based on the exchange rate of RMB0.78813 = HK$1, as referred to in the Acquisition Agreement) and therefore the 2013 Profit Shortfall is RMB502,840 (equivalent to approximately HK$638,017, based on the exchange rate of RMB0.78813 = HK$1, as referred to in the Acquisition Agreement). Pursuant to the Acquisition Agreement, the principal amount of the Convertible Bonds to be allotted and issued to Exuberant Global is HK$255,630,000, of which the Convertible Bonds in the amount of HK$6,699,179 shall be withheld by the Purchaser as the Deferred Convertible Bonds and the Convertible Bonds in the amount of HK$248,930,821 shall be delivered to Exuberant Global.

The Earn-out Consideration

Pursuant to the Acquisition Agreement, the Company shall pay the remaining Earn-out Consideration to Exuberant Global equal to:

$$\left(\begin{array}{c}2014\\\text{Actual}\\\text{Profit}\end{array} - \left(\begin{array}{c}2013\\\text{Target}\\\text{Profit}\end{array} + \begin{array}{c}\text{2013 Profit Shortfall/}\\\text{2013 Excess Profit}\\\text{(as the case may be)}\end{array}\right)\right) \times 10.5$$

Provided that for the purpose of this formula, 2013 Profit Shortfall shall not be more than RMB9,832,860 and 2013 Excess Profit shall not be more than RMB17,714,160, and the exchange rate shall be set at RMB0.78813 = HK$1 (the exchange rate as referred to in the Acquisition Agreement), being the mid-rate on 17 December 2013 as announced by the SAFE.

In the event that the result of the above calculation is less than zero, no remaining Earn-out Consideration will be paid and the Deferred Convertible Bonds shall be cancelled and be deemed redeemed at nil consideration. In such event, the Initial Consideration will be effectively deducted by the same amount of Deferred Convertible Bonds.

In the event that the result of the above calculation is equal to zero, no remaining Earn-out Consideration will be paid but the Deferred Convertible Bonds will be returned to Exuberant Global. In such event, the total Consideration will be HK$564,000,000.

In the event that the result of the above calculation is more than zero, apart from the payment of the remaining Earn-out Consideration based on the above calculation, the Deferred Convertible Bonds (if any) shall be returned to Exuberant Global.

The Earn-out Consideration (if any) shall be paid in the following priority:

(i) up to HK$236,000,000 (subject to the available remaining balance after the issue of the Early-paid Earn-Out Convertible Bonds) by allotment and issue of the Convertible Bonds to Exuberant Global or its nominee(s);

(ii) up to HK$50,000,000 by cash to Exuberant Global or its nominee(s); and

(iii) up to HK$50,000,000 by the issue of the Promissory Notes to Exuberant Global or its nominee(s).

Basis of the Consideration

The Consideration was determined after arm's length negotiations between the Company and the Vendors, and taking into account a number of factors including the 2013 Target Profit, the historical performance of the Target Group, the business growth and profitability of the Target Group, as well as the prospect of the short-term money lending business in the PRC. In addition, the Initial Consideration represents a price-earnings multiple of 10.5 times of the 2013 Target Profit of not less than RMB42,333,840 (equivalent to approximately HK$53,714,286, based on the exchange rate of RMB0.78813 = HK$1 as referred to in the Acquisition Agreement), which in turn represents a growth rate of approximately 25.9% over the net profit from continuing operation attributable to the equity holders of the Target for the year ended 31 December 2012. It is noted that the price-earnings multiple of 10.5 times is within the range of that of the comparable companies engaged in the similar business in Hong Kong and the PRC which are listed on the Stock Exchange as at the Last Trading Day and the Latest Practicable Date, as shown below:

	Trading price-earnings multiple		
	As at 20 December 2013 *(being the last trading day prior to the date of the Acquisition Agreement)*	**As at the Last Trading Day**	**As at the Latest Practicable Date**
Credit China Holdings Limited (stock code: 8207) ("**Credit China**")	7.04	7.15	24.96
Flying Financial Service Holdings Limited (stock code: 8030) ("**Flying Financial**")	8.01	8.01	31.31
Oi Wah Pawnshop Credit Holdings Limited (stock code: 1319) ("**Oi Wah**")	12.24	12.24	18.68
China Huirong Financial Holdings Limited (stock code: 1290) ("**China Huirong**")	14.01	13.83	5.42
Differ Group Holding Company Limited (stock code: 8056)("**Differ Group**")	23.56	23.56	15.09
Simple Average	**12.97**	**12.96**	**19.09**

(Source: Bloomberg and the respective annual reports or prospectuses of the comparable companies)

The comparable companies were selected exhaustively based on the following criteria: (i) the shares of the companies are listed on the Stock Exchange; (ii) the companies engage in pawn loan business; and (iii) the companies reported positive earnings as shown in their latest published audited annual reports or prospectuses. Although Oi Wah is principally engaged in the pawn loan business in Hong Kong which may not be directly comparable to the Target Group, the business scope and nature of Oi Wah are substantially similar to that of the Target Group and it is considered that Oi Wah should be included in the comparable companies analysis.

However, even if Oi Wah is excluded in the analysis, it is noted that the price-earnings multiple of 10.5 times represented by the Consideration falls within the range represented by Credit China, Flying Financial, China Huirong and Differ Group as at 20 December 2013, the Last Trading Day and the Latest Practicable Date as shown above. On this basis, the Board considers that if taking into account the above factors, in particular, the growth potential that the Target Group may achieve, the Consideration is fair and reasonable.

As mentioned above, the 2013 Actual Profit is RMB41,831,000 (equivalent to approximately HK$53,076,269, based on the exchange rate of RMB0.78813 = HK$1, as referred to in the Acquisition Agreement) and the 2013 Profit Shortfall is RMB502,840 (equivalent to approximately HK$638,017, based on the exchange rate of RMB0.78813 = HK$1, as referred to in the Acquisition Agreement). As such, the Convertible Bonds in the amount of HK$6,699,179 shall be withheld by the Purchaser as the Deferred Convertible Bonds. For details, please refer to the paragraphs above on the adjustments to the Consideration. Given that the aforesaid 2013 Profit Shortfall is modest which only represents approximately 1.2% of the 2013 Target Profit and in light of the prospect of the short-term money lending business in the PRC as detailed in the section headed "Industry Overview" of this circular, the Board remains optimistic about the long-term growth prospects and profitability of the businesses of the Target Group.

The Consideration Shares

The Consideration Shares represent (i) approximately 38.26% of the existing issued share capital of the Company; and (ii) approximately 9.43% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Bonds at the initial Conversion Price. The Consideration Shares shall rank *pari passu* with all other Shares in issue as at the date of the allotment and shall be entitled to all dividends, other distributions, interests and entitlements. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The allotment and issue of the Consideration Shares are subject to the approval by the Shareholders at the SGM.

The Vendors undertake to and covenants with the Purchaser that, it will not, within the period commencing on the Completion Date and ending on the date falling six months after the Completion Date, transfer or otherwise dispose of or create any encumbrance or other rights in respect of the Consideration Shares or any interests therein or grant any options or rights in respect of any of the Consideration Shares without prior written approval from the Purchaser.

The Issue Price of HK$0.35 per Consideration Share represents:

(i) a discount of approximately 29.29% to the closing price of HK$0.495 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 17.45% to the average of the closing prices of HK$0.424 per Share for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 15.87% to the average of the closing prices of HK$0.416 per Share for the last ten consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 31.37% to the closing price of HK$0.51 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a premium of approximately 16.67% over the net asset value per Share attributable to the Shareholders of approximately HK$0.30 as at 31 December 2013.

The Issue Price was determined with reference to the above-mentioned net asset value per Share attributable to the Shareholders.

It is noted that the Issue Price of HK$0.35 per Consideration Share represents a discount of approximately 29.29% to the closing price of HK$0.495 per Share (the "**Closing Price**") as quoted on the Stock Exchange on the Last Trading Day. It is also noted that the Closing Price was the highest closing price for the three months up to and including the Last Trading Day. In fact, the Issue Price represented a much lower discount of approximately 17.45% and 15.87% to the respective average closing price per Share for the five consecutive and the ten consecutive trading days up to and including the Last Trading Day. Furthermore, the Company recorded net losses for the year ended 31 March 2013 and according to the interim report of the Company for the six months ended 30 September 2013, the Company also reported unaudited net losses. Thus, the trading price of the Shares in the market, particularly the Closing Price may not be the most representative benchmark for the value of the Shares.

Moreover, the terms of the Acquisition including the Issue Price were determined after arm's length negotiations between the Company and the Vendors, and taking into account, among others, the historical performance of the Target Group, the business growth and profitability of the Target Group, as well as the prospect of the short-term money lending business in the PRC. Based on the above, the Board considers that the Issue Price is fair and reasonable.

The Convertible Bonds

The principal terms of the Convertible Bonds are summarised below:

Issuer:	the Company
Principal amount:	Up to HK$656,200,000
Interest:	non-interest bearing
Maturity:	5 years from the date of issue
Security:	unsecured
Conversion right:	The holder(s) of the Convertible Bonds shall have the rights to convert the whole or the part (in multiples of HK$1,000,000) of the outstanding principal amount of the Convertible Bonds into the Conversion Shares at any time from the seventh day after the date of issue of the auditors' certificate in relation to the 2013 Actual Profit and up to the seventh day prior to the maturity date of the Convertible Bonds.
Conversion Restriction:	The holder(s) of the Convertible Bonds shall not have the right to convert the Convertible Bonds to the extent that immediately after such conversion (i) there will not be sufficient public float of the Shares as required under the GEM Listing Rules; or (ii) the holder of the Convertible Bonds together with parties acting in concert with it will, in aggregate, control or be interested in 30% or such percentage of the voting rights of the Company which the holder of the Convertible Bonds would be obliged to make a general offer under the Takeovers Code.
Conversion Price:	HK$0.35 per Conversion Share, subject to anti-dilutive adjustments upon the occurrence of any of the following events: (i) consolidation or subdivision or reclassification of Shares; (ii) capitalisation of profits or reserves; (iii) capital distribution; (iv) rights issues or grant of options or warrants to subscribe for Shares; or (v) issue of new Shares or convertible or exchangeable securities at less than a certain rate of the then current market price of the Shares.

Ranking: The Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects with all other existing Shares in issue on the date of the conversion notice and shall be entitled to all dividends, other distributions, interests and entitlements.

Transferability: Subject to the compliance with the GEM Listing Rules and other applicable laws and regulations, the Convertible Bonds may be transferred or assigned by the holder(s) of the Convertible Bonds in whole or in part in multiples of HK$1,000,000 to any party provided that no transfer or assignment of the Convertible Bonds shall be made to any connected person of the Company (save and except for the associates of the holder(s) of the Convertible Bonds) without the prior consent of the Company.

Redemption: Unless previously converted, the Company shall pay 105% of the outstanding principal amount under the Convertible Bonds to the holder(s) of the Convertible Bonds on the maturity date of the Convertible Bonds.

Repurchase: The Company or any of its subsidiaries may at any time prior to the maturity date repurchase the Convertible Bonds at any price as mutually agreed between the Company or its relevant subsidiary and the holder(s) of the Convertible Bonds. The Convertible Bonds repurchased will be cancelled forthwith.

Event of Default: Customary events of default

Upon the occurrence of an event of default, subject to a special resolution passed by a majority of not less than three-fourths of votes cast by the holder(s) of the Convertible Bonds at a meeting of the holder(s) of the Convertible Bonds or a written resolution signed by the holder(s) of Convertible Bonds which amounted to three-fourths of the then outstanding principal amounts of the Convertible Bonds, the Convertible Bonds shall become immediately repayable at a redemption premium calculated with reference to an annual rate of return of 6%.

Interest shall be chargeable on any amount outstanding from the Convertible Bonds from the date of the event of default until the actual date of payment.

Voting rights: The Convertible Bonds shall not carry any voting rights.

Listing: No application will be made by the Company for the listing of the Convertible Bonds on the Stock Exchange. Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

The initial Conversion Price of HK$0.35 per Conversion Share (which is same as the Issue Price) represents:

(i) a discount of approximately 29.29% to the closing price of HK$0.495 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 17.45% to the average of the closing prices of HK$0.424 per Share for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 15.87% to the average of the closing prices of HK$0.416 per Share for the last ten consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 31.37% to the closing price of HK$0.51 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a premium of approximately 16.67% over the net asset value per Share attributable to the Shareholders of approximately HK$0.30 as at 31 December 2013.

Based on the initial Conversion Price of HK$0.35 per Conversion Share, the Convertible Bonds are convertible into a maximum of 1,874,857,141 Conversion Shares, which represent (i) approximately 267.69% of the existing issued share capital of the Company; and (ii) approximately 65.94% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Bonds at the initial Conversion Price.

Given the conversion restriction provided under the terms of the Convertible Bonds as set out above, the allotment and issue of the Conversion Shares will not result in a change of control of the Company.

The Promissory Notes

The principal terms of the Promissory Notes are summarised as follows:

Issuer:	The Company
Principal amount:	Up to HK$100,000,000
Interest:	8% per annum
Maturity:	5 years from the date of issue
Transferability:	The Promissory Notes may be assigned or transferred by the holder(s) of the Promissory Notes to any party in whole or in part (in multiples of HK$1,000,000) of its outstanding principal amount provided that the transfer or assignment of the Promissory Notes to any connected person of the Company (save and except for the associates of the holder(s) of the Promissory Notes) shall be in compliance with the GEM Listing Rules.
Redemption:	The Company shall have the right at any time prior to the maturity date of the Promissory Notes redeem the outstanding principal amount of Promissory Notes in whole or in part (in multiples of HK$1,000,000).

Non-competition

The Vendors undertake that each of the Vendors and their respective associates (i) will not make use of the company name of the Target Group to conduct any business related to the Target Group's business after the Completion Date; and (ii) will not within a period commencing from the Completion Date and up to 31 December 2014, without the prior consent of the Target Group, make use of any confidential information of the Target Group in relation to business know-how, and information on any agents, business partners and customers of the Target Group to conduct any business that will compete with the business of the Target Group, in particular, the Vendors and their respective associates shall not actively solicit customers of the Target Group.

Conditions precedent

Completion is conditional upon the satisfaction or waiver (as the case may be) of the following conditions:

(i) the Purchaser having been satisfied with the results of the due diligence review on the financial and operational aspects of the Target Group;

(ii) all necessary consents and approvals required to be obtained on the part of the Vendors in respect of Acquisition having been obtained;

(iii) all necessary consents and approvals required to be obtained on the part of the Purchaser in respect of the Acquisition having been obtained;

(iv) a BVI legal opinion and a Cayman Islands legal opinion having been issued by the BVI legal adviser and the Cayman Islands legal adviser appointed by the Purchaser in the form and substance to the reasonable satisfaction of the Purchaser relating to the Acquisition Agreement;

(v) a PRC legal opinion having been issued by the PRC legal adviser appointed by the Purchaser (in form and substance satisfactory to the Purchaser) relating to the Acquisition Agreement, the PRC subsidiaries of the Target, the Pawnbrokers Structured Agreements, the Beijing Micro-financing Structured Agreements, the Sale Shares, and the registration of the Pawnbrokers Equity Pledge Agreements and the Beijing Micro-financing Equity Pledge Agreement with the administration for industry and commerce;

(vi) the despatch of a circular of the Company relating to the Acquisition in accordance with the GEM Listing Rules;

(vii) the Shareholders having passed the ordinary resolution(s) to approve the Acquisition Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Promissory Notes, the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares and the Consideration Shares) at the SGM;

(viii) the GEM Listing Committee having approved the listing of, and permission to deal in, the Conversion Shares and the Consideration Shares;

(ix) the warranties set out in the Acquisition Agreement being true and accurate in all material respect and not misleading;

(x) the Purchaser having been satisfied that there has not been any material adverse change on any member of the Target Group since the date of the Acquisition Agreement;

(xi) trading of the Shares on the Stock Exchange not having been suspended for more than seven consecutive Business Days (save for any suspension relating to the Acquisition Agreement, trading halt and the price volatility of the Shares); and

(xii) the Pawnbrokers Equity Pledge Agreements and the Beijing Micro-financing Equity Pledge Agreement having been registered by the Vendors with the administration for industry and commerce.

The Purchaser may in its absolute discretion at any time waive the conditions set out in (i), (ii), (ix) and (x) above by notice in writing and the Vendors may in their absolute discretion at any time waive the condition (iii) and (xi) above by notice in writing. Neither the Purchaser nor the Vendors may waive any of the conditions set out in (iv), (v), (vi), (vii), (viii) and (xii) above.

As at the Latest Practicable Date, the Purchaser and the Vendors have no intention to waive any of the above waivable conditions and the condition set out in (xii) above has been satisfied.

If any of the above conditions is not fulfilled or waived (as the case may be) by 4:00 p.m. on 30 June 2014 or such other date as the Purchaser, the Purchaser's Guarantor, the Company, the Vendors and the Vendors' Guarantor may agree in writing, the Acquisition Agreement shall terminate and neither party shall have any further obligations towards the other thereunder except for antecedent breach.

Completion

Subject to the fulfilment or waiver (as the case may be) of the above conditions, Completion will take place on the Completion Date. Upon Completion, the Target will become an indirect wholly-owned subsidiary of the Company. Based on the Structured Agreements and the legal opinion prepared by the PRC Legal Adviser, PricewaterhouseCoopers, the reporting accountant of the Company on the financial information of the Target Group, concurs with the views of the Directors and the management of the Target Group that the Target Group controls the Pawnbrokers and Beijing Micro-financing upon the effective date of the Structured Agreements and therefore the financial results of the Target Group (including the financial results of the Pawnbrokers and Beijing Micro-financing) will be consolidated into the consolidated financial statements of the Group upon Completion under the HKFRS.

There is no provision in the Acquisition Agreement in relation to appointment of nominees by the Vendors or their respective beneficial owners as Director(s). As at the Latest Practicable Date, the Company has no intention to appoint any of the Vendors or their respective beneficial owner(s) as Director(s).

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of the Consideration Shares; (iii) immediately after the allotment and issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Bonds at the initial Conversion Price taking into account the Initial Consideration; (iv) immediately after the allotment and issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Bonds at the initial Conversion Price taking into account the Initial Consideration and the maximum Earn-out Consideration; and (v) immediately after the allotment and issue of the Consideration Shares and the Conversion Shares upon conversion of the Convertible Bonds to the extent that the Vendors will be interested in 29% of the entire issued share capital of the Company:

	(i) As at the Latest Practicable Date		(ii) Immediately after the allotment and issue of the Consideration Shares		(iii) Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Bonds taking into account the Initial Consideration *(Note 3)*		(iv) Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Bonds taking into account the Initial Consideration and the maximum Earn-out Consideration *(Note 3)*		(v) Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares upon conversion of the Convertible Bonds to the extent that the Vendors will be interested in 29% of the entire issued share capital of the Company	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Mr. Lau Kim Hung, Jack ("**Mr. Lau**") and his associates *(Note 1)*	120,000,000	17.13	120,000,000	12.39	120,000,000	5.53	120,000,000	4.22	120,000,000	12.17
The Purchaser's Guarantor and his associate *(Note 2)*	112,076	0.02	112,076	0.01	112,076	0.01	112,076	0.00	112,076	0.01
Exuberant Global	–	–	174,200,000	17.99	904,571,428	41.71	1,578,857,142	55.53	185,946,033	18.85
Bustling Capital	–	–	67,000,000	6.92	402,857,142	18.57	402,857,142	14.17	71,517,705	7.25
Time Prestige	–	–	26,800,000	2.77	161,142,857	7.43	161,142,857	5.67	28,607,082	2.90
The Vendors	–	–	268,000,000	27.68	1,468,571,427	67.71	2,142,857,141	75.37	286,070,820	29.00
Public Shareholders	580,268,208	82.85	580,268,208	59.92	580,268,208	26.75	580,268,208	20.41	580,268,208	58.82
Total	700,380,284	100.00	968,380,284	100.00	2,168,951,711	100.00	2,843,237,425	100.00	986,451,104	100.00

Notes:

1. Mr. Lau, a substantial Shareholder, is the beneficial owner of 23,900,000 Shares and is interested in 96,100,000 Shares, through Vitasmart Limited ("**Vitasmart**"), a company wholly and beneficially owned by him. Ms. Chan Yiu Kan, Katie ("**Ms. Chan**") is the spouse of Mr. Lau. Mr. Lau and Ms. Chan are the father-in-law and mother-in-law respectively of Mr. Tsang Ho Ka, Eugene ("**Mr. Tsang**"), a non-executive Director and vice-chairman of the Company.

2. The Purchaser's Guarantor, who is also an executive Director and the chairman of the Company, is the beneficial owner of 36,400 Shares and is interested in 75,676 Shares, through Ming Kei International Holding Company Limited ("**MKIH**"), a company wholly and beneficially owned by him.

3. These columns are for illustration purpose only.

INFORMATION ON THE TARGET GROUP

(A) Group Structure, history and development

The Target was incorporated on 19 June 2012 in the Cayman Islands and is the holding company of the Target Group. The Target Group first commenced its business operation in Beijing in 2002 as a pawn loan service provider through the establishment of Beijing Jinfu. The Target Group then established other Pawnbrokers for expansion of its pawn loan business. The scope of business of the Target Group has subsequently been extended to include the financial consultancy services since October 2012, the entrusted loans services since November 2012, as well as the micro-financing services since January 2013.

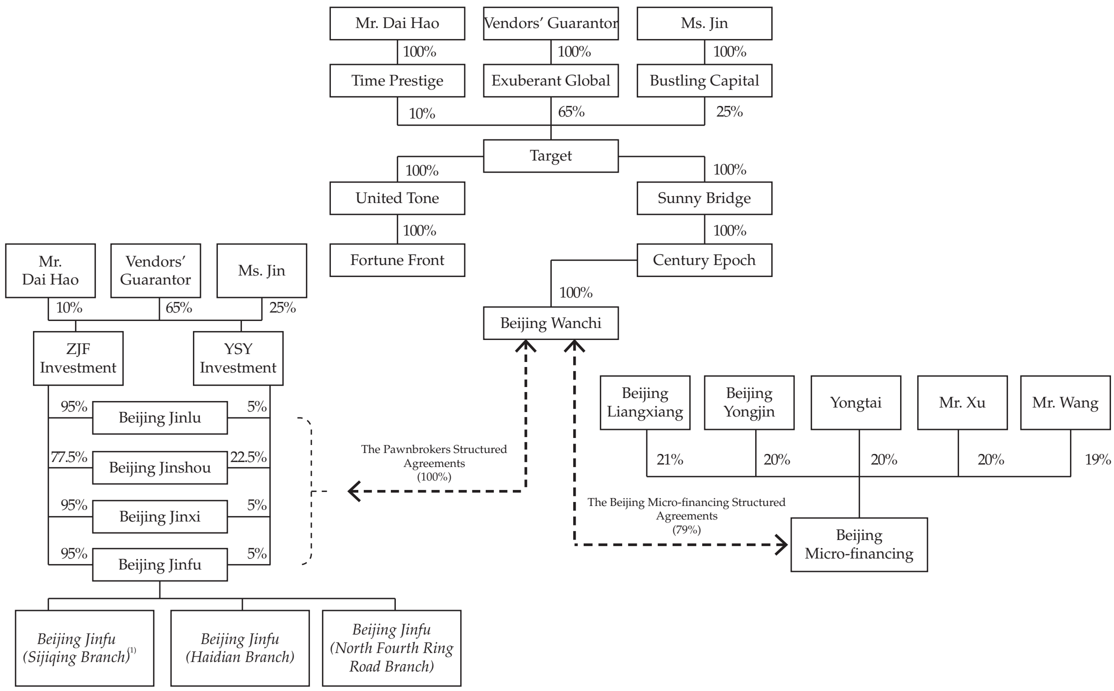
While the financial consultancy business and entrusted loan business are both conducted through Beijing Wanchi, an indirect wholly-owned subsidiary of the Target, the other two primary business segments of the Target Group (being the pawn loan business and micro-financing business) are conducted through the Pawnbrokers and Beijing Micro-financing respectively under the Structured Agreements, details of which have been set out in the paragraph headed "The Structured Agreements" below.

Tianjin Jinfu and Harbin Jinfu were previously owned indirectly by the Dai Family, the ultimate beneficial owners of the Vendors, with an effective equity holding of 100%, and 85.37% respectively. The Dai Family disposed of its respective equity interest in Tianjin Jinfu and Harbin Jinfu to third parties in 2012. While neither Tianjin Jinfu nor Harbin Jinfu had been transferred to the Target prior to the aforesaid disposals, the directors of the Target consider that both Tianjin Jinfu and Harbin Jinfu had been managed together with the Pawnbrokers under the common control of the Dai Family. As a result, the financial information of Tianjin Jinfu and Harbin Jinfu has been incorporated into the financial information of the Target Group under the item "discontinued operations" up to the respective dates of disposal, as shown in the accountant's report on the Target Group in Appendix II to this circular. The Dai Family ceased to have any interests in Tianjin Jinfu and Harbin Jinfu as at the Latest Practicable Date.

Group Structure

Set out below are the simplified group structures of the Target Group as at the Latest Practicable Date and the Enlarged Group immediately after the Completion:

As at the Latest Practicable Date

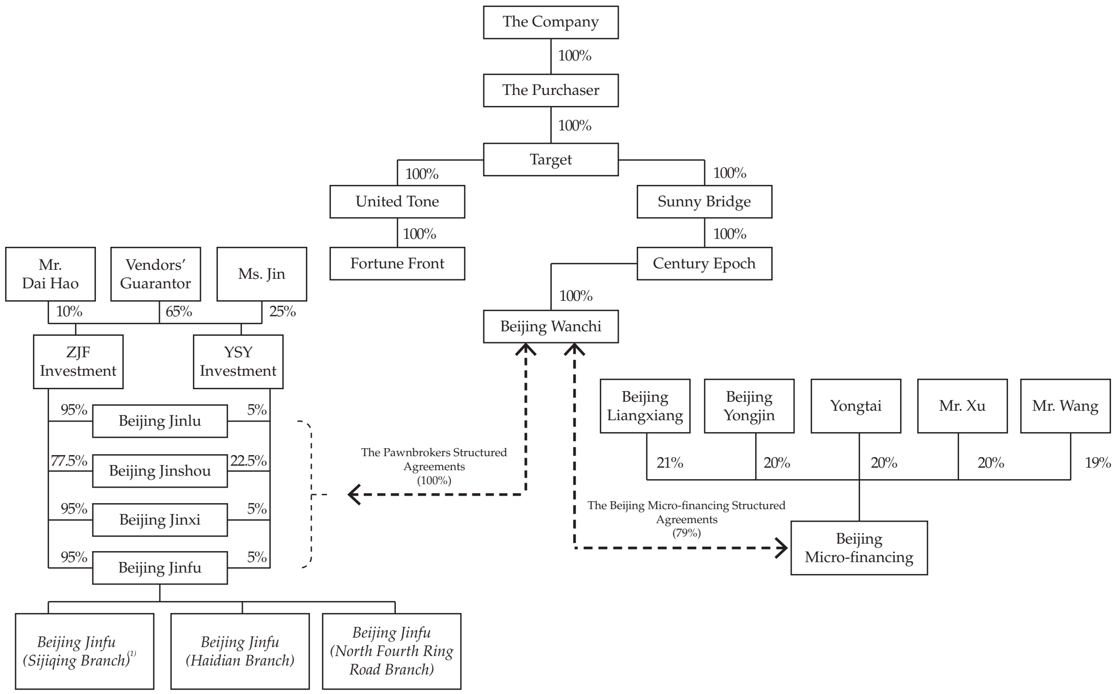


Note:

(1) Beijing Jinfu (Sijiqing Branch) changed its name to 北京市金福典當有限責任公司四季青分公司 (Beijing City Jinfu Pawning Company Limited (Sijiqing Branch)*) from 北京市金福典當有限責任公司東四分公司 (Beijing City Jinfu Pawning Company Limited (Dongsi Branch)*) as it relocated its office from Dongsi Town to Sijiqing Town in 2013.

* *for identification purpose only*

Immediately after the Completion



The Target, United Tone, Sunny Bridge, Fortune Front and Century Epoch

The Target is an investment holding company incorporated in the Cayman Islands on 19 June 2012 with limited liability and is beneficially owned as to 65% by Exuberant Global, 25% by Bustling Capital and 10% by Time Prestige. Exuberant Global, Bustling Capital and Time Prestige are wholly and beneficially owned by the Vendors' Guarantor, Ms. Jin and Mr. Dai Hao respectively. The Target holds the entire equity interests in United Tone and Sunny Bridge, the intermediate holding companies both incorporated in the BVI on 23 May 2012 with limited liability. United Tone and Sunny Bridge have no other material interests apart from their respective holdings of the entire equity interests in Fortune Front, an investment holding company incorporated in Hong Kong on 28 December 2011 with limited liability, and Century Epoch, an investment holding company incorporated in Hong Kong on 16 May 2012 with limited liability. As at the Latest Practicable Date, both Fortune Front and Century Epoch did not have any business operations.

Note:

(1) Formerly named as Beijing Jinfu (Dongsi Branch)

Beijing Wanchi

Beijing Wanchi is a wholly-foreign-owned enterprise established in the PRC on 28 September 2012 with limited liability with registered capital of HK$3 million. Its scope of business covers computer software, network information technology development, technical consultation, technical services, technology promotion, technology transfer, technical training, sales of self-developed software products, investment consultation, economic and trade consultation, corporate management consultation, business information consulting and corporate image planning (excluding those requiring the obtaining of administrative permits). It is wholly and beneficially owned by Century Epoch.

Beijing Wanchi commenced the provision of and financial consultancy services and entrusted loan services in Beijing in October 2012 and November 2012 respectively. Further details on the entrusted loan services and financial consultancy services are set out in the paragraphs headed "Entrusted loan services" and "Financial consultancy services" below.

Apart from the above-mentioned principal activities, Beijing Wanchi is entitled to (i) all economic benefits and risks arising from the business of the Pawnbrokers through the Pawnbrokers Structured Agreements; and (ii) 79% of the economic benefits and risks arising from the business of Beijing Micro-financing through the Beijing Micro-financing Structured Agreements. Details of the Pawnbrokers Structured Agreements and the Beijing Micro-financing Structured Agreements are set out under the paragraphs headed "The Pawnbrokers Structured Agreements" and "The Beijing Micro-financing Structured Agreements" below.

The Pawnbrokers

The Pawnbrokers comprise Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi, and are principally engaged in the provision of pawn loan services in Beijing, the PRC.

Beijing Jinfu

Beijing Jinfu is a company established in the PRC on 6 September 2002 with limited liability with registered capital of RMB40 million (equivalent to approximately HK$50 million) and is owned as to 95% by ZJF Investment and 5% by YSY Investment. Beijing Jinfu established three branch companies in Beijing, namely, Beijing Jinfu (Sijiqing Branch) (formerly named as Beijing Jinfu (Dongsi Branch), Beijing Jinfu (Haidian Branch) and Beijing Jinfu (North Fourth Ring Road Branch).

Beijing Jinlu

Beijing Jinlu is a company established in the PRC on 30 November 2005 with limited liability with registered capital of RMB15 million (equivalent to approximately HK$18.75 million) and is owned as to 95% by ZJF Investment and 5% by YSY Investment.

Beijing Jinshou

Beijing Jinshou is a company established in the PRC on 21 October 2005 with limited liability with registered capital of RMB40 million (equivalent to approximately HK$50 million) and is owned as to 77.5% by ZJF Investment and 22.5% by YSY Investment.

Beijing Jinxi

Beijing Jinxi is a company established in the PRC on 19 April 2007 with limited liability with registered capital of RMB15 million (equivalent to approximately HK$18.75 million) and is owned as to 95% by ZJF Investment and 5% by YSY Investment.

Beijing Micro-financing

Beijing Micro-financing is a company established in the PRC on 16 December 2009 with limited liability with registered capital of RMB50 million (equivalent to approximately HK$62.5 million) and is owned as to 21% by Beijing Liangxiang, 20% by Yongtai (a company wholly and beneficially owned by the Dai Family), 20% by Beijing Yongjin, 20% by Mr. Xu (a director of Beijing Micro-financing and ex-management of the Pawnbrokers) and 19% by Mr. Wang. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the equity shareholders of Beijing Micro-financing and their respective beneficial owner(s) are third parties independent of the Company and its connected persons. It is principally engaged in the provision of micro-financing services.

Milestones

Set out below are the key milestones of the Target Group since September 2002:

Time	**Milestones**
September 2002	Beijing Jinfu was established on 6 September 2002 with initial registered capital of RMB10 million.
October 2005	Beijing Jinshou was established on 21 October 2005 with initial registered capital of RMB20 million.
November 2005	Beijing Jinlu was established on 30 November 2005 with initial registered capital of RMB15 million.
April 2007	Beijing Jinxi was established on 19 April 2007 with initial registered capital of RMB15 million.

May 2009	The Target Group underwent a major corporate restructuring exercise, in connection with which, among other activities, ZJF Investment subscribed for additional registered capital in the Pawnbrokers, following which ZJF Investment has become a majority registered holder of equity interest in each of the Pawnbrokers.
December 2009	Beijing Micro-financing was established on 16 December 2009 with registered capital of RMB50 million.
September 2012	Beijing Wanchi was established on 28 September 2012.
October 2012	Beijing Wanchi commenced the financial consultancy business.
November 2012	Beijing Wanchi commenced the entrusted loan business.

(B) Business segments

The Target Group is a service provider of short-to-medium-term financing and financing-related solutions in Beijing, the PRC. Through Beijing Wanchi, the Pawnbrokers and Beijing Micro-financing, the Target Group is principally engaged in the following four business segments in Beijing, the PRC:

Principal business segment	Business model
Pawn loan business	Through the Pawnbrokers, the Target Group provides short-term loans to its customers who pledge their assets to the Pawnbrokers. In return, the Pawnbrokers may charge the customers interest fees and composite administrative fees, calculated at certain percentages of the principal loan amounts within the limits as set out in the Pawning Measures.

Principal business segment	Business model
Micro-financing business	Through Beijing Micro-financing, the Target Group provides short-to-medium-term loans to its customers in the form of either; (i) a mortgage loan; (ii) a guaranteed loan with evidence of guarantee in repayment by a third-party guarantor for the relevant customer in case of his/her/its default; and (iii) a credit loan (or an unsecured loan) with evidence of sufficient source of funding for repayment provided by the relevant customer. In return, Beijing Micro-financing may charge the customer interest at a rate within the range of 0.9 time to four times of the relevant PBOC benchmark RMB lending rate.
Entrusted loan business	Through Beijing Wanchi, the Target Group entrusts a bank at an agency fee to lend its own funds to its customers. The customers pay Beijing Wanchi the relevant interest fees through the trustee bank.
Financial consultancy business	Through Beijing Wanchi, the Target Group offers advices to its customers regarding different methods and sources of financing suitable to and available for them, and assists them in obtaining the financing. In addition, Beijing Wanchi provides advices with respect to investment in real estate development projects and properties in the PRC. Beijing Wanchi will receive consultancy fees from the customers upon their successfully obtaining the financing or investing in the recommended projects or properties.

The breakdown of revenue contribution by category during the Track Record Period is shown below:

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Pawn loan business	81,177	99.8	67,081	97.5	42,659	65.2
Micro-financing business	–	–	–	–	11,046	16.9
Entrusted loan business	–	–	29	0.1	172	0.3
Financial consultancy business	–	–	1,469	2.1	11,088	17.0
Bank deposits	77	0.1	161	0.2	399	0.6
Related party	89	0.1	75	0.1	–	–
Total	81,343	100.0	68,815	100.0	65,364	100.0

The number of customers[1] for each of the four business segments of the Target Group during the Track Record Period is summarised below:

	Year ended 31 December					
	2011		2012		2013	
	Number of customers	%	*Number of customers*	%	*Number of customers*	%
Pawn loan business	1,171	100.0	828	99.5	574	77.7
Micro-financing business	–	–	–	–	148	20.0
Entrusted loan business	–	–	1	0.1	1	0.1
Financial consultancy business	–	–	3	0.4	16	2.2
Total[2]	1,171	100.0	832	100.0	739	100.0

Notes:

(1) The number of customers was counted by names. Any customer having more than one transaction in a business segment of the Target Group during the relevant year has been counted as one customer for that particular business segment.

(2) Some of the customers may have more than one type of services offered by the Target Group and were counted twice in the total number of customers. For details of such customers, please refer to the paragraph headed "Customers" in this section of this circular.

Pawn loan services

The Pawnbrokers have commenced the provision of pawn loan services in Beijing since September 2002. There are seven pawnbroking chain outlets in Beijing, namely, Beijing Jinfu, Beijing Jinfu (Sijiqing Branch) (formerly named as Beijing Jinfu (Dongsi Branch)), Beijing Jinfu (Haidian Branch), Beijing Jinfu (North Fourth Ring Road Branch), Beijing Jinlu, Beijing Jinshou and Beijing Jinxi. As advised by the PRC Legal Adviser, the Pawnbrokers have obtained all necessary permits to engage in the pawn loan business in Beijing.

Overview

The Pawning Measures specify three types of pawn loans, namely, real estate pawn loan, movable property pawn loan and property right pawn loan, each of which corresponds to different types of collateral and is subject to different pricing requirements. For details, please refer to the section headed "Regulatory Overview" of this circular.

During the Track Record Period, the Pawnbrokers had accepted the following types of collateral for their pawn loan service:

Type of pawn loan (as specified in the Pawning Measures)	**Type of collateral which the Pawnbrokers had accepted for the relevant type of pawn loan**
Real estate pawn loan	Real estate[(1)]
Property right pawn loan	Equity interests
Movable property pawn loan	(i) Automobiles (ii) Equipment (including industrial machinery) (iii) Inventory (iv) Other personal properties (e.g. gold, jewellery, luxury watches, etc.)

Note:

(1) As set out in the pawn operation business licences, as well as the Pawning Measures, the types of real estate that could be accepted by the Pawnbrokers as collateral include only properties in their location of establishment, i.e. Beijing, but exclude projects under construction with respect to which the housing presale permits have not been obtained.

The term of a pawn loan is mutually agreed upon by the relevant customer and Pawnbroker and shall not exceed six months in accordance with the Pawning Measures. The Pawnbrokers may charge their respective customers monthly interest fees and composite administrative fees. The interest rate that the Pawnbrokers could charge for a pawn loan is capped at the prevailing six-month PBOC benchmark RMB lending rate of the financial institutions; whereas the monthly composite administrative fees are individually negotiated but subject to the relevant limits as permitted by the Pawning Measures. In details, the monthly composite administrative fee rate of a real estate pawn loan may not exceed 2.7% of the principal amount of the relevant pawn loan; 4.2% for a movable property pawn loan; and 2.4% for a property right pawn loan.

Real estate collateral

The Pawnbrokers accept real estate in Beijing as collateral for granting pawn loans to customers. While the real estate market in Beijing has been booming in general with property prices soaring in recent years, momentum of price fluctuations varies across districts in the city. To accommodate the varying levels of risks with respect to property price fluctuations within Beijing, the Pawnbrokers have accepted different loan-to-value ratios, usually in the range of 50% to 70% for different types of real estate collateral categorised by the property nature, location and the principal amount of the corresponding pawn loans in accordance with the authorised approval thresholds respectively delegated to the general managers of the Pawnbrokers, details of which have been set out in the paragraph headed "Assessment and approval of loan applications" below. In normal practice, as confirmed by the Target Group, the Pawnbrokers may accept real estate that has an existing mortgage or superior entitlement only when the appraised residual value of the real estate is sufficient to cover the applied loan amount and comply with the required loan-to-value ratio.

Since real estate collateral usually has a larger value than other types of collateral, the principal amount of each pawn loan secured by real estate of the Pawnbrokers is usually larger than the other types of pawn loans. Despite this, the principal amount of a single pawn loan secured by real estate is subject to a cap of 10% of the registered capital of the relevant Pawnbroker in accordance with the Pawning Measures. In addition, the total outstanding balance of pawn loans secured by real estate is restricted to be not more than the registered capital of the relevant Pawnbroker. As such, based on the current registered capital of Beijing Jinfu (including its three branch companies) and Beijing Jinshou of RMB40,000,000 each, the maximum principal amount of a single pawn loan secured by real estate that could be granted by each of these of two Pawnbrokers is RMB4,000,000 and the maximum outstanding balance of pawn loans secured by real estate is RMB40,000,000. As for Beijing Jinlu and Beijing Jinxi, the registered capital of which is RMB15,000,000 each, the maximum principal amount of a single pawn loan secured by real estate that could be granted by each of these two Pawnbrokers is RMB1,500,000 and the maximum outstanding balance of pawn loans secured by real estate is RMB15,000,000.

Movable property collateral

The types of movable properties which the Pawnbrokers accept as collateral, in general, consist of automobiles, equipment (including industrial machinery), inventory, gold, jewellery and luxury watches. The Pawnbrokers have particularly categorised these accepted types of movable property collateral into two classifications: (i) automobiles, equipment and inventory collateral which is in general larger in size and more valuable; and (ii) other personal property collateral which is typically pledged for pawn loans in relatively small amounts.

In accordance with the authorised approval thresholds delegated to the general managers of the Pawnbrokers, in general, the loan-to-value ratio of loans secured by automobiles, equipment or inventory may not exceed 85% at the time of the collateral appraisal. When a loan secured by automobiles, equipment or inventory is granted, the Pawnbrokers take possession of the collateral. In particular, the Target Group has leased a car park solely for the custody of the automobile collateral. If the equipment or inventory collateral is bulky in size and cannot be stored at the outlets of the Pawnbrokers, it may, during the pledge period, be kept in custody by a third party as mutually agreed upon and engaged by both the relevant customer and the relevant Pawnbroker or kept in a rented warehouse.

As for the loans secured by other personal properties, the Pawnbrokers have not specified any loan-to-value ratio. However, a respective cap on the principal amount of a single loan secured by other personal properties has been set for each Pawnbroker within a range of RMB30,000 to RMB100,000, according to the aforesaid authorised approval thresholds as at the Latest Practicable Date. The Pawnbrokers will also take possession of the personal property collateral as the relevant loans are granted. There is a security vault at each outlet of the Pawnbrokers where collateral of small size is stored.

Equity interest collateral

During the Track Record Period and as of the Latest Practicable Date, all of the equity interest collateral pledged to the Pawnbrokers had been equity interests in private enterprises for which there is no readily available fair value. To manage the credit risk associated with such private equity interest collateral, the Pawnbrokers may require guarantees for loans secured by private equity interest collateral on a case by case basis. The Target Group normally requires guarantees for loans secured by private equity interest collateral when (i) the loan amount is significant; or (ii) the loan approval committee considers it is necessary. The guarantor for such guarantee can be a finance guarantee company, the business partner of the borrower or the company of which the shares have been pledged to the Pawnbrokers for the subject loan. The guarantors have the obligations to compensate the Pawnbrokers for any shortfall if the principal amount, together with the corresponding fees, cannot be fully recovered by the Pawnbrokers, pursuant to the standard loan agreements of the Pawnbrokers. Same types of information and documentation from the guarantors are required as those from the borrowers to verify the financial capacities of the guarantors.

On the other hand, as confirmed by the Target Group, the Pawnbrokers are willing to provide pawn loans secured by equity interests in listed companies in future. According to the directors of the Target Group, for loans secured by equity interests in listed companies, if granted in the future, the Pawnbrokers will use publicly available information to value the equity interest collateral. Such publicly available information includes the business backgrounds, financial information and stock trading price and volume movements of the relevant listed company and its comparable companies. The Pawnbrokers will then monitor the trading price and trading volume of the equity on a regular basis.

The Pawnbrokers have not set any specific loan-to-value ratio to loans secured by any types of equity interests. However, as this type of loan falls under the category of property right pawn loan in the Pawning Measures, the outstanding balance of the pawn loans secured by equity interests in aggregate cannot exceed 50% of the registered capital of the relevant Pawnbroker.

Applicable to all of the aforesaid pawn loan types and as set out in the Pawning Measures, the total outstanding pawn loan balance granted to the same customer by a Pawnbroker could not exceed 25% of the registered capital of the relevant Pawnbroker. In this regard, the total outstanding pawn loan balance of a customer is capped at RMB10,000,000 for each of Beijing Jinfu and Beijing Jinshou; and RMB3,750,000 for each of Beijing Jinlu and Beijing Jinxi.

Operating performance of the pawn loan business

The following tables set out the breakdown of income of the Target Group by types of pawn loans during the Track Record Period:

	Year ended 31 December 2011	**Year ended 31 December 2012**	**Year ended 31 December 2013**
	RMB'000	*RMB'000*	*RMB'000*
Interest income from:			
Pawn loans			
Loans secured by real estate collateral	77,514	62,708	23,102
Loans secured by equity interest collateral	–	816	13,243
Loans secured by personal and inventory collateral	869	945	2,752
Loans secured by automobiles and equipment collateral	2,794	2,612	3,562
	81,177	67,081	42,659

The following tables set out the key operating statistics of the pawn loans secured by real estate, movable properties and equity interests respectively.

	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
Pawn loans secured by real estate			
Number of outstanding loans as at the end of the year	318	98	97
Number of loans with revenue contribution for the year	772	530	236
Number of new loans [(1)] granted during the year	482	225	144
Total amount of new loans granted during the year *(RMB'000)*	306,915	197,696	153,215
Average amount of new loans granted during the year *(RMB'000)*	637	879	1,064
Average loan period [(2)] per new loan *(days)*	74.17	109.70	72.83
Number of renewals [(3)] for existing loans granted prior to the commencement of the year	296	286	85
Loan renewal ratio [(4)] for existing loans granted prior to the commencement of the year	89.97%	89.94%	86.73%
Number of renewals for new loans granted during the year	375	163	107
Loan renewal ratio for new loans granted during the year *(%)*	77.80%	72.44%	74.31%
Range of interest rates charged for new loans *(% per month)*	0%–0.5%	0%–0.5%	0%–0.4%
Range of composite administrative fee rates charged for new loans *(% per month)*	0.45%–2.7%	0.1%–2.7%	1%–2.7%
Loan impairment ratio (%)	2.79%	7.83%	1.37%
Average loan-to-value ratio of new loans *(%)*	33.73%	24.58%	27.95%
Range of loan-to-value ratio (%)	0.34%–77.18%	0.48%–74.49%	1.76%–77.32%

Notes:

(1) New loans refer to the transactions in which a new pawn ticket (當票) has been issued during the relevant year.

(2) Average loan period per new loan is calculated by dividing the total number of days from drawdown of the new loans to repayment by the total number of the new loans repaid during the relevant year.

(3) Renewals refer to the transactions in which a pawn renewal ticket (續當票) has been issued during the relevant year.

(4) Loan renewal ratio is the percentage of the total size of renewed loans (new loans or existing loans, as the case may be) to the total size of the relevant type of loans.

	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
Pawn loans secured by movable properties			
Number of outstanding loans as at the end of the year	227	166	157
Number of loans with revenue contribution for the year	999	842	668
Number of new loans granted during the year	833	632	519
Total amount of new loans granted during the year *(RMB'000)*	29,454	52,733	25,839
Average amount of new loans granted during the year *(RMB'000)*	35	83	50
Average loan period per new loan *(days)*	52.96	59.57	50.67
Number of renewals for existing loans granted prior to the commencement of the year	174	150	119
Loan renewal ratio for existing loans granted prior to the commencement of the year	59.59%	62.5%	69.19%
Number of renewals for new loans granted during the year	371	293	278
Loan renewal ratio for new loans granted during the year *(%)*	44.54%	46.36%	53.56%
Range of interest rates charged for new loans *(% per month)*	0%–0.5%	0%–0.5%	0.1%–0.4%
Range of composite administrative fee rates charged for new loans *(% per month)*	1.1%–4.2%	0.1%–4.2%	1.9%–4.2%
Loan impairment ratio (%)	14.81%	8.84%	1.78%
Average loan-to-value ratio of new loans *(%)*	91.63%	90.25%	93.15%
Range of loan-to-value ratio (%)	5%–100%	12.67%–100%	17.86%–100%

	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
Pawn loans secured by equity interests			
Number of outstanding loans as at the end of the year	9	4	8
Number of loans with revenue contribution for the year	9	13	8
Number of new loans granted during the year	9	4	4
Total amount of new loans granted during the year *(RMB'000)*	17,500	40,000	7,120
Average amount of new loans granted during the year *(RMB'000)*	1,944	10,000	1,780
Average loan period per new loan *(days)*	–	–	–
Number of renewals for existing loans granted prior to the commencement of the year	–	–	4
Loan renewal ratio for existing loans granted prior to the commencement of the year	–	–	100%
Number of renewals for new loans granted during the year	–	–	4
Loan renewal ratio for new loans granted during the year *(%)*	–	–	100%
Range of interest rates charged for new loans *(% per month)*	0.5%	0.1%	0.1%
Range of composite administrative fee rates charged for new loans *(% per month)*	1%	2.4%	1.9%
Loan impairment ratio (%)	–	1%	0.99%
Average loan-to-value ratio of new loans *(%)*	16.39%	55.3%	25.89%
Range of loan-to-value ratio (%)	7.5%–20%	18.3%–92.17%	15%–30%

Operating procedures of the pawn loan business

The pawn loan business model can be divided into several stages as illustrated in the flowchart below:

Communicating with the customers to understand their needs

↓

Collection of loan application documents and verification of information

↓

Assessment and approval of loan applications

↓

Execution of loan documents, perfection of security and storage of pledged collateral (if any)

↓

Drawdown of loans

↓

After-loan management and services

(i) Communicating with the customers to understand their needs

A person or company who wants to apply for a loan must file an application form at one of the outlets of the Pawnbrokers (including any of the branches of Beijing Jinfu). The application process for each pawn loan is initiated at one of these outlets. There are two to three customer service officers at each of the outlets. As the potential customer approaches a Pawnbroker for making a pawn loan application, these customer service officers are the front-line staff for communicating with the potential customer and handling any inquiries raised or applications.

Before assisting the potential customer in making the formal pawn loan application, a customer service officer will first inquire about the potential customer's background, including but not limited to, marital status, occupations, available or proposed collateral, purpose of the loans, and source of funding for repayment. The information obtained will be recorded on a customer registration form (客戶諮詢登記表) and the customer service officer will then request the potential customers to provide the relevant proofs and documents for further assessment and approval.

(ii) Collection of loan application documents and verification of information (including valuation of collateral)

Although the documents to be requested for each proposed pawn loan transaction varies depending on the types of collateral and the background of the customer, in general, such documents include the following:

for individual customers:

- a respective copy of the customer's and the spouse's identity card;
- a copy of the marriage certificate or certificate of absence of marriage (未婚證明) (whichever is appropriate); and
- appropriate proof of ownership of the collateral – (i) for collateral in the form of real estate, the proof of ownership may include the original building ownership certificate, the land use right certificate (if any), the property purchase contract (if any), the purchase invoice (if any), the payment receipt (if any) and the consent of collateralisation from the co-owner(s) (if any); (ii) for collateral in form of an automobile, proof of ownership may include the original motor vehicle registration certificate, the driving licence, the automobile purchase invoice, the imported vehicle tariff certificate (if applicable), the automobile insurance policy and the automobile duty payment record; (iii) for collateral in form of inventory, equipment (including industrial machinery) or other types of personal properties, the proof of ownership may include the original purchase invoice and the payment receipt; and (iv) for collateral in the form of equity interests, the proof of ownership may include the business licence of the enterprise which the equity interests correspond to, the financial information and operating data of the said enterprise, the filings with the relevant administration for industry and commerce, the list of shareholder(s) and the relevant resolutions of the board and the shareholder(s) authorising the pledge of the equity interests; or

for corporate customers:

- a copy of the corporate customer's business licence;
- a copy of the corporate customer's articles of association;
- a copy of the corporate customer's organisation code certificate (組織機構代碼證);
- a copy of the identity card of the legal representative;

- appropriate proof of ownership of the collateral as above-mentioned; and

- where applicable, background information of the guarantor(s), and financial statements.

After obtaining the required documents, the customer service officers will then conduct a background check on the customer so as to verify the identity of the customer and ascertain the ownership of the collateral. The Target Group normally conducts the background check through the centralised database on enforcee's information (全國法院被執行人信息查證系統), a public database collaboratively operated by all PRC courts to ensure the customer is not under any court order. For the purpose of ascertaining the ownership, the Target Group will check the ownership certificates namely the building ownership certificate (房屋所有權證) for real estate and the automobile registration certificate (機動車登記證) for motor vehicle, together with the purchase invoice/agreement. As to the other personal properties, the Target Group will check on the purchase invoice; whereas for equipment and inventory, the Target Group will review the relevant purchase contract, purchase invoice, and approved certificate for product, etc.. Moreover, for equity interests, the Target Group will verify and ascertain authenticity of the title documents provided by the customer by checking the articles of association and shareholding information of the relevant enterprise through the public database of the relevant administration for industry and commerce.

After completing the verification process, the Target Group will conduct on-site inspection and valuation on the proposed collateral in accordance with the following:

- Real estate properties are valued on a case-by-case basis. Real estate properties located in urban areas are initially valued at the outlet with reference to its original purchase price by the customer and current market prices for similar properties, followed by a site visit. The site visit is attended by at least two of the staff at the relevant outlet, for the purpose of ascertaining the current condition of the real estate property. An on-site inspection form (現場勘測表) will then be completed by the visiting staff to illustrate their observations. Price enquiries will be made to at least two different property valuers and/or real estate agencies. The Target Group may also request an independent valuation report from a registered professional appraiser mutually designated by the customer and the Target Group for real estate properties that are more difficult to value, for example, real estate properties with limited comparable or historical market transactional information. The cost of the independent valuation is borne directly by the customer.

- Valuation of automobiles, equipment (including industrial machinery) and inventory proposed to be pledged by the customer as collateral for a pawn loan is normally conducted with reference to market second-hand prices and the condition of the collateral itself. The Target Group begins the valuation by evaluating the appearance and performance of the automobiles and equipment (including industrial machinery) and inventory on-site, followed by the completion of a physical inspection form (機動車輛現場查驗單) after which the Target Group will check with not less than two second-hand automobile or machinery dealers to obtain the current market price in respect of the automobiles or machinery to be pledged. In order to ensure the competency of the Pawnbrokers to more accurately evaluate automobiles, the Target Group has also employed some qualified automobile appraisers (機動車鑒定評估師) who have the recognised professional qualifications in valuation and appraisal of automobiles in the PRC.

- Valuation of other personal properties proposed to be pledged as collateral could be conducted internally by the Target Group with reference to market prices and conditions of the personal properties, if the marketability and storage value of such personal properties are fairly high, for example, precious metals and luxury watches. The general manager or business manager of the relevant Pawnbroker with relevant experience in conducting valuation of the types of respective personal property or possessing the relevant valuation qualification will conduct the valuation. In other cases, the Target Group will hire external experts to appraise or valuate the personal properties. The cost of the appraisal, if any, will be borne by the relevant customer.

- With respect to the valuation of private equity interest collateral, if the Target Group considers the relevant customer as high risk and that the loan application thereof is of a large principal amount, the Target Group will mutually engage a qualified accountant with the customer to conduct a financial audit on the enterprise (the equity interest of which is to be pledged) and verify the shareholders' equity figure in such enterprise or engage a third party appraisal firm to conduct valuation. For customers who are considered to be of low credit risk (e.g. customers pledging equity interests of enterprises with sound credit records) or applying for loan amounts which are considered to be immaterial as compared to the overall outstanding loan portfolios or the registered capital of the relevant Pawnbroker, the Target Group may, on its own, check and ensure the shareholders' equity regarding the relevant enterprises (the equity interests of which are to be pledged) is sufficient, based on the information regarding the financial position of the relevant enterprise, such as registered capital. As aforesaid, the Target Group accepts equity interests in listed companies as collateral and may grant loans secured thereby in the future. In such case, the Target Group will valuate the listed equity interest collateral based on publicly available information including the business backgrounds, financial information and stock trading price and volume movements of the relevant listed company and its comparable companies.

As mentioned above, the Target Group may request its customers to engage an independent professional appraiser designated by the Target Group to carry out appraisal or valuation on the collateral where necessary. The cost of the corresponding independent valuation is borne directly by the customer. The appraisers as designated by the Target Group may vary from time to time and are selected having considered their qualifications and whether they are based within the Target Group's business location.

Over the Track Record Period, one appraiser has been designated by the Target Group for appraisal on the proposed collateral to support the relevant loan application, namely 北京中林誠諾會計師事務所有限公司 (Beijing Zhong Lin Cheng Nuo Limited*), which is a qualified audit firm in the PRC and has been designated to provide an opinion regarding the accuracy of the shareholders' equity value of an unlisted company of which the shareholders have applied for pawn loans secured by their equity interests therein. Other appraisers have also been previously engaged to provide appraisal or valuation of the collateral under other circumstances over the Track Record Period. In particular, 北京市國盛房地產評估有限責任公司 (Beijing Guosheng Real Estates Appraiser Limited*), a qualified property valuer in the PRC and 新疆中立信資產評估有限公司 (Xinjiang Zhong Li Xin Asset Appraiser Limited*), a qualified asset valuer in the PRC, have been engaged to provide valuations on certain collateral forfeited or possible to be forfeited respectively; whereas Jones Lang LaSalle Sallmanns Limited (仲量聯行西門(北京)諮詢有限公司), a chartered surveyors firm and external valuers as permitted in the PRC, has previously been engaged to provide an updated valuation on the real estate collateral of a customer of the Target Group.

* *for identification purposes only*

(iii) Assessment and approval of loan applications

Having considered the loan applicant's financing needs, the proposed amount and duration of the loan, the initial valuation of the pledged collateral and the risks that may be involved based on the information compiled, reviewed and verified, the customer service officer prepares a written report for consideration by the supervising business manager. The business manager reviews the written report (including the customer service officer's valuation of the collateral), assesses the loan application and provides his or her overall opinion. The written report (including the customer service officer's valuation of the collateral) and the overall opinion of the business manager are submitted to the general manager (as the person-in-charge responsible for supervising the daily operations of the relevant Pawnbroker) of the relevant Pawnbroker for approval.

According to the internal policies, the general manager of each Pawnbroker is given with the authority to approve a pawn loan which is within pre-determined thresholds. Such thresholds are reviewed annually by the senior management of the Target Group in conjunction with the risk management department of the Target Group and approved by the general manager of the Target Group.

The authorised approval threshold granted to the general manager of each Pawnbroker may vary, depending on the business experience of the relevant general manager and the registered capital of the relevant Pawnbroker. Set out below is the key summary of the range of authorised approval thresholds delegated to the general managers of the Pawnbrokers (as being subject to the prevailing restrictions set out in the Pawning Measures) as at the Latest Practicable Date:

1. a single loan amount up to a cap ranging from RMB1,500,000 to RMB2,000,000 and a maximum loan-to-value ratio of 70%, as well as a minimum monthly composite administrative fee rate of 2.5% for a pawn loan secured by a residential real estate property located within the sixth ring road and of 70 years of property use right;

2. a single loan amount up to a cap ranging from RMB1,000,000 to RMB1,500,000 and a maximum loan-to-value ratio of 60%, as well as a minimum monthly composite administrative fee rate of 2.7% for a pawn loan secured by a residential real estate property located outside of the sixth ring road and of 70 years of property use right;

3. a single loan amount up to a cap ranging from RMB1,500,000 to RMB2,000,000 and a maximum loan-to-value ratio of 50%, as well as a minimum monthly composite administrative fee rate of 2.5%

for a pawn loan secured by a real estate property which is an apartment, office building, commercial property or of other property types, and located within the sixth ring road;

4. a single loan amount up to a cap ranging from RMB1,000,000 to RMB1,500,000 and a maximum loan-to-value ratio of 50%, as well as a minimum monthly composite administrative fee rate of 2.7% for a pawn loan secured by a real estate property which is an apartment, office building, commercial property or of other property types, and located outside of the sixth ring road (excluding areas within Mi Yun County, Beijing (北京市密雲縣), in the case of Beijing Jinlu);

5. applicable to Beijing Jinlu only, a single loan amount of up to RMB1,500,000 and a maximum loan-to-value ratio of 70%, as well as a minimum monthly composite administrative fee rate of 2.3% for a pawn loan secured by a residential real estate property located within Mi Yun County, Beijing;

6. a single loan amount up to a cap ranging from RMB200,000 to RMB500,000 and a maximum loan-to-value ratio ranging from 70% to 85%, as well as a minimum monthly composite administrative fee rate ranging from 3% to 3.5% (subject to the loan amount) for a pawn loan secured by an automobile; and

7. a single loan amount up to a cap ranging from RMB30,000 to RMB100,000 and a minimum monthly composite administrative fee rate of 3.5% for a pawn loan secured by other personal properties.

Any pawn loan application which does not fall within any of the above categories is required to be submitted to the risk management department and any pawn loan application with loan amount exceeding RMB5 million will be submitted to the loan approval committee for further approval.

The loan-to-value ratio of a proposed loan, which is the principal amount of the proposed loan expressed as a percentage of the total appraised value of the underlying collateral, is one of the key factors that the Target Group considers when assessing whether the proposed loan application should be approved. By maintaining the loan-to-value ratio of the pawn loans at prudent levels, the Target Group controls the exposure to losses resulting from over valuation on collateral, market fluctuations and obsolescence and borrower defaults. As stated above, each general manager of Pawnbrokers is given an authority to approve a loan application within a loan-to-value ratio. In the event that the loan-to-value ratio in respect of a pawn loan application exceeds the predetermined limits, the approval of such loan would be made by the risk management department of the Target Group, if the pawn loan amount is less than RMB5 million, or the loan approval committee, if the pawn loan amount is more than RMB5 million.

(iv) Execution of loan agreements and security documents, perfection of security and storage of pledged collateral

After approving a loan application, the Target Group arranges the preparation and issuance of a pawn ticket and execution of relevant documentation. The documentation required to be executed varies depending on the type of collateral to be pawned. A pawn ticket normally sets out the borrower's personal and contact information, the principal amount of the loan, the monthly interest rate and composite administrative fee rate, the loan-to-value ratio, term of the pawn loan, the initial fees paid by the borrower, the actual amount that the borrower is remitted to, and the description of the collateral. For real estate pawn loan and automobile pawn loan, a pawn ticket will only be issued to the customer after the mortgage registration or pledge registration is completed.

In the case of a real estate pawn loan, before issuance of the pawn ticket, the Target Group and the customer enter into a loan agreement and a mortgage agreement. The loan agreement sets out details of the monthly interest rate and monthly composite administrative fee rate, the term of the facility and the procedures for dealing with and enforcing the collateral. The loan agreement and the mortgage agreement allow the Target Group to enforce the security and dispose of the collateral in court in the event of default in repayment.

It is the general policy that the relevant loan and mortgage documents are notarised by the local notary office before the loan proceeds are released to the customer. The costs of notarisation are borne by the customer. As advised by the PRC Legal Adviser, pursuant to the Notice of the NDRC and the Ministry of Justice on Adjusting the Standards on Notarisation Service Fees (關於調整公證服務收費標準的通知(計價費(1998) 814號)) with effect from 10 May 1998, notarisation fees are charged as a percentage of the amount of the loan (being 0.3% as at the Latest Practicable Date). While notarisation is not required under the PRC law, in accordance with the Civil Procedural Law of the PRC (中華人民共和國民事訴訟法) and the Notarisation Law of the PRC (中華人民共和國公證法), if a borrower defaults on a loan, the lender may, by presenting the relevant notarised agreements and documents containing compulsory enforcement provisions, a compulsory enforcement application and an enforcement certificate issued by the relevant notary office, apply to the PRC court which has jurisdiction over the matter for a summary enforcement order, thereby allowing the lender to exercise its rights against the mortgaged collateral without going through prolonged legal procedures. In accordance with the Property Law, the Administrative Measures on Urban Real Estate Mortgages (城市房地產抵押管理辦法) and the MOHURD's Decision on Amending the Administrative Measures on Urban Real Estate

Mortgages (關於修改城市房地產抵押管理辦法的決定), the Target Group registers real estate mortgages at, and obtain certificates of registered encumbrances (房屋他項權證) from, the relevant local real estate registration bureau.

In the case of a pawn loan secured by automobile collateral, the Target Group and the customer enter into a pledge agreement prior to the issuance of a pawn ticket. The pledge agreement is required to be entered into for the purpose of recording the automobile pledge with the relevant traffic management bureau.

In accordance with the Law of the PRC on Road Traffic Safety (中華人民共和國道路交通安全法), the Regulations for the Implementation of the Law of the PRC on Road Traffic Safety (中華人民共和國道路交通安全法實施條例) and the Provisions on Motor Vehicle Registration (機動車登記規定), the Target Group arranges to record all automobile pledges at the relevant local traffic management bureau.

Mortgage registration or pledge recording costs are borne directly by the customers.

In the case of an equity interest pawn loan, the Target Group will enter into the loan and pledge agreements and register the relevant pledge record with respect to the equity interest collateral with the relevant administration for industry and commerce.

In the case of a pawn loan secured by other types of movable properties (including equipment, industrial machinery or other personal properties), the pawn ticket is the loan contract itself. The Target Group generally does not require notarisation and related security documents for such types of collateral, since the value of such types of collateral, in most cases, is lower. However, the Target Group retains physical custody of all types of the collateral (except for real estate collateral and equity interest collateral) in the premises of itself or a third party mutually engaged by the Target Group and the relevant customer, until the relevant customer satisfies all payment obligations under the relevant loan documents.

Each of the Pawnbrokers is equipped with a security vault located in a locked room for the purpose of storing the collateral. In the case of a real estate pawn loan, upon completion of the mortgage registration, a certificate of registered encumbrances is obtained from the Beijing Municipal Commission of Housing and Urban-Rural Development (北京市住房租城鄉建設委員會). The Target Group will then arrange the storage of the certificate and the relevant title document in the security vault in the relevant Pawnbrokers/head office. In the case of an automobile pawn loan, after recording the pledged automobile at the Beijing Traffic Management Bureau (北京市公安局公安交通管理局), the car keys are kept in the security vault located in the locked room in the relevant Pawnbroker. The automobiles are parked in the car park leased by the Target Group solely for the purpose of custody of the pledged automobiles. Such car park is equipped with closed-circuit television system, security guards, fire detectors and fire extinguishers.

For collateral in the forms of equipment or inventory which is bulky in size and cannot be stored at the premises of the Pawnbrokers, it will be kept in custody by a third party as mutually agreed upon and engaged by both the relevant customer and the relevant Pawnbroker. The collateral in the other types of movable properties, primarily other personal properties will be stored in the aforesaid security vault at the relevant outlet. The Target Group has set up alarm systems connecting directly to police stations and installed security vaults, security surveillance equipment and other facilities at each of the Pawnbrokers to comply with the Pawning Measures. For better protection, valuable items are moved to high-security vaults at banks during long public holidays.

(v) Drawdown of loans

After completing the aforesaid procedures, a pawn ticket will be signed by the general manager of the relevant Pawnbroker, after which it will be sent to the cashier for final check. The cashier will check on the details as stated on the pawn ticket and prepare for the release of the loan. Normally, the loan amount (after deducting the initial fees, if any) is remitted to the customer through bank transfer. The customer will be required to submit the details of the bank accounts for the transfer of funds and the bank account card for verification purpose. However, in the case of personal property loan, the loan may be released in cash upon special request by the customer. After verification of information on the pawn ticket, the cashier will issue the pawn ticket and release the loan to the customer. The cashier will sign on the pawn loan payment slip when releasing the loan and the customer will sign on the pawn loan receipt slip upon receipt of the pawn loan.

Upon receipt of all necessary documents and satisfaction of the loan application conditions, the Target Group is generally able to approve real estate property pawn loans within two to three business days and within hours for other types of pawn loans on a business day.

(vi) After loan management and service

(a) Payment of interest and composite administrative fees

Upon drawdown, the customer is required to settle the composite administrative fees immediately. It is usually incurred by the customer by deducting the amount of the composite administrative fees from the proceeds of the loan. Interest rate within the statutory limit permitted by the Pawning Measures is charged by the Pawnbrokers. According to the Pawning Measures, the interest rate charged on a pawn loan must not exceed the six-month PBOC benchmark RMB lending rate of financial institutions as discounted by the pawn loan period. Based on the latest six-month PBOC benchmark RMB lending rate as published by the PBOC on 6 July 2012, the statutory pawn loan interest rate ceiling was approximately 0.5% per month. During the Track Record Period, the maximum interest rate and composite administrative fee rate in accordance with the Pawning Measures for (i) real estate property pawn loans were approximately 0.5% and 2.7% per month; (ii) movable property pawn loans (inclusive of automobiles, equipment, inventory and other personal properties) were approximately 0.5% and 4.2% per month; and (iii) equity interest pawn loans were approximately 0.5% and 2.4% per month, respectively. The Pawning Measures set out that the interest fees on pawn loans must not be charged or collected in advance before they are due.

Under a standard loan agreement, if a customer fails to pay interest and/or composite administrative fees when they fall due, the Target Group is entitled to charge the customer a late payment charge of a certain percentage of the outstanding principal amount of the loan accumulated on a daily basis, as mutually agreed with the customer and set forth in the terms of the relevant loan agreement, and demand payment of the outstanding interest and composite administrative fees. If the default is for five days after the payment due date, the Target Group is further entitled to treat the mortgaged or pledged property as forfeited (絕當) and enforce the security. Please refer to paragraph (e) below for the relevant details on forfeiture and enforcement procedures.

(b) After-loan inspections by the internal control and compliance department and the risk management department

The internal control and compliance department and the risk management department conduct regular internal audit and inspection of collateral valuations and loan documentation of all new real estate and automobile pawn loan transactions and certain new pawn loans secured by other types of movable properties, usually those of higher value, to ensure soundness and completeness of the procedure and compliance with the Pawning Measures and the internal guidelines. If there is a change in the economy or the regulatory environment, the internal control and compliance department and the risk management department will assess its impact on all related loan transactions and issue guidance materials to all outlets.

(c) Loan monitoring by front-line staff

The customer service officers of the Pawnbrokers monitor outstanding loans by obtaining regular updates on the customer financial conditions, both through direct contact with the customer (either on phone or physical visits/meetings) and publicly available information. In the case of a real estate pawn loan, the relevant customer service officer or business manager makes regular visits to and conducts physical inspection at the pledged real estate property (i.e. quarterly or more frequently, depending on the term and the value of the pawn loan, and the credibility of the customer as vindicated by his/her/its fee payment record). If the relevant customer service officer or business manager discovers any material adverse change relating to the loan, he/she is required to report such change to the general manager of the relevant Pawnbroker who will report the same to the risk management department of the Target Group. If the general manager and the risk management department of the Target Group decide that the value of the collateral has significantly deteriorated, the customer will be requested to either repay a portion of the outstanding loan amount or provide additional collateral to maintain the loan-to-value ratio at a level below the threshold for the respective type of collateral as provided by the internal policies of the Target Group. Due to the short duration of the Target Group's pawn loans, significant deterioration of the collateral value during the terms of the loans is not common.

(d) Loan collection

In addition to the regular monitoring as aforesaid, the customer service officers are also required to contact the customers to remind them of the repayment of any amounts to be due, including principal amounts, interests or other fees, five days prior to the relevant due dates.

In the event that a customer fails to pay or repay the relevant interest, fee or principal amount on time, the relevant customer service officer and business manager will make a visit to the relevant customer and inquire into the reasons for the delay in payment or repayment. If it is understood that the delay is caused by a temporary illiquidity of the customer, the business manager will report to the general manager of the relevant Pawnbroker and the risk management department of the Target Group for a resolution. Conversely, if the customer service officer and the business manager are of the view that there is a substantial risk that the relevant Pawnbroker will not be able to collect the outstanding amount due to significant deterioration of the customer's financial condition or any other reasons, the business manager will report immediately to the general manager of the Pawnbroker, who then, together with the business manager, will report to and discuss with the risk management department of the Target Group appropriate forfeiture procedures and schedules.

In general practice, if the loan is not repaid on demand after the visit, the Target Group will send a letter informing the customer of its intent to seek legal remedy if the loan is not repaid before a proposed deadline. Upon expiration of such deadline, the Target Group may regard the loan as a defaulted loan and will either negotiate with the customer for an arrangement to dispose of the collateral through auction; or commence legal proceedings for the forfeiture and disposal of the collateral; or in some cases, dispose of the relevant loan to an independent third party in order to recover the outstanding amount loan. For the internal policies of the Pawnbrokers regarding forfeiture, please refer to the sub-paragraph headed "Default of loan and enforcement of security" below.

The Pawnbrokers do not engage external collection agents for the collection process.

(e) Loan renewal

If a customer repays all the principal and interest in accordance with the pawn ticket and the loan agreement (if any), the collateral is released and the transaction is deemed to be completed. Pursuant to the Pawning Measures, a pawn loan borrower has to repay or renew a loan within five days upon maturity, or the pawn loan becomes overdue after the five-day period. In practice, the Target Group may sometimes allow a longer period for a customer to renew or repay the relevant loan if he/she/it has informed the relevant Pawnbroker in advance and provided a valid reason for the delay to which the Pawnbroker agreed. An overdue pawn loan cannot be renewed, and the collateral of such overdue pawn loan is deemed forfeited. Pursuant to the Guarantee Law, the relevant Pawnbroker is entitled but not obliged to enter into an agreement with the borrower to arrange for an auction or sales of the forfeited collateral in order to recover the outstanding loan amount of the overdue pawn loan. If such agreement cannot be reached, the relevant Pawnbroker has the right to initiate legal proceedings to repossess or dispose of the collateral to recover the outstanding amount. For more details on relevant regulations on collateral repossession and disposal, please refer to the section headed "Regulatory Overview" of this circular.

Pursuant to a standard loan agreement and the internal policies of the Pawnbrokers, a customer may renew a loan upon maturity by going through the same application process for a new pawn loan. The customer is required to submit a renewal application within five days of expiration of the pawn loan. In reviewing a renewal application, the approval and collateral appraisal processes will be the same as those applicable to the case of a new pawn loan application; as such, all internal control and risk management procedures in relation to granting a new pawn loan are equally applicable to the renewal process. The relevant Pawnbroker reviews the same types of documents required for a new pawn loan application to re-assess, among other things, the customer's financial condition, and conducts a new appraisal on the collateral pledged. The Pawnbroker may revise the terms of the pawn loan as it is renewed, so as to accommodate the changed risk level with respect to the pawn loan. If it is discovered that the customer's financial condition or the value of the collateral has deteriorated significantly compared with information provided in the previous application(s), the Pawnbroker may request additional collateral or simply reject the renewal application and demand immediate repayment of all outstanding amount by the customer.

For pawn loan renewal, the Target Group issues a pawn renewal ticket to the customer as a replacement to the previous pawn ticket (or pawn renewal ticket, as the case may be). A pawn renewal ticket has a reference number identical to that of the initial pawn ticket, for easier tracking on the specific loan portfolio by the relevant Pawnbroker.

According to the Pawning Measures, a pawn renewal ticket may be issued for a maximum term of six months. However, the Pawning Measures or other relevant regulations do not impose any restrictions on the number of times a pawn loan can be renewed. If the customer has repaid the principal (together with any outstanding interests and composite administrative fees) in full upon maturity (or during the term) of the pawn loan, the relevant Pawnbroker will release the collateral or de-register the relevant mortgage or pledge record (if applicable) at the relevant government authorities upon complete satisfaction of all obligations by the customer as stipulated in the relevant loan agreement or pawn ticket (or pawn renewal ticket, as the case may be).

(f) Default of loan and enforcement of security

As aforesaid, under the standard loan agreement, if a customer fails to repay the loan principal, interest and/or composite administrative fees when they fall due, the Target Group is entitled to charge the customer a late payment charge of a certain percentage of the outstanding principal amount of the loan on a daily basis as mutually agreed with the customer and set forth in the terms of the relevant loan agreement, and demand payment of the outstanding interest and composite administrative fees. If the delay continues for five days after the payment due date, the Target Group is further entitled to treat the mortgaged or pledged collateral as being forfeited and enforce the security. The Target Group has adopted a penalty level in line with the late payment fee level on credit cards charged by local commercial banks and has been charging late payment penalty at certain percentage of the outstanding loan principal per day as stipulated in the respective loan agreement with the customers. The PRC Legal Adviser confirmed that the imposition of a daily penalty for late payment in the aforesaid manner does not violate the Pawning Measures and other relevant PRC laws and regulations.

Forfeited property valued at less than RMB30,000 can be, in accordance with the Pawning Measures, sold to an independent third party without initiating legal proceedings. The Target Group may keep excess proceeds from the sale of forfeited property valued at less than RMB30,000, but may not recover any shortfall from the customer.

If no agreement can be reached with the relevant customer and the forfeited property is valued at more than RMB30,000, the Target Group may file a suit against the customer at the competent court to enforce the rights over the forfeited property. In accordance with the Guarantee Law, a forfeited property valued at more than RMB30,000 is auctioned through an independent auction house as designated by the competent court. The Pawning Measures also provide that forfeited properties valued at more than RMB30,000 may be disposed of outside normal court process if an agreement is reached with the relevant customer. In practice, in order to reduce costs incurred by the customer and the Target Group during security enforcement and recovery of the amount due, the Target Group tries to agree with the customer to dispose of forfeited properties valued at more than RMB30,000 outside normal court process whenever possible. With the agreement of the relevant customer, a forfeited property valued at more than RMB30,000 can be disposed of outside normal court process by sale or auction through an independent auction house as designated by the Target Group. Excess proceeds after deducting auction fees and other costs, if any, are returned to the customer. If the money received from the auction is insufficient to repay the amount due to the Target Group, auction fees and other costs, the Target Group may file a claim against the customer at the competent court to recover the shortfall.

Other than the aforesaid procedures, the Target Group may also dispose of the relevant loan to an independent third party for a consideration not less than the outstanding loan amount. Upon transfer of such loan to the independent third party and receipt of the consideration in an amount as mutually agreed between the loan purchaser and the Target Group, the Target Group will cease to bear any risks arising from the relevant loan and the loan purchaser will have the rights as a lender to demand repayment of all outstanding loan amounts and interest due from the relevant loan borrower.

The total number of defaults by the pawn loan customers as at 31 December 2011, 2012 and 2013, were 2, 4 and 3, respectively, representing approximately 0.36%, 1.49% and 1.15% of the total number of outstanding pawn loans and approximately 2.83%, 6.29% and 1.13% of total outstanding balance of pawn loans as at the respective date.

During the Track Record Period, the Target Group had recovered the outstanding amounts of eight defaulted loans (all pawn loans) by the aforesaid procedures, among which four defaulted loans with a total outstanding amount of approximately RMB4.6 million had been recovered by auctions outside of the normal court process as agreed with the relevant customers, two defaulted loans with a total outstanding amount of approximately RMB6.2 million had been recovered by the court process, and the other two defaulted loans with a total outstanding amount of approximately RMB7.6 million had been recovered by disposal of the relevant loans to independent third parties.

Micro-financing services

Beijing Micro-financing commenced the provision of micro-financing services (including provision of secured loan with real estate as collateral (or mortgage loan), guaranteed loans and credit loans (or unsecured loans)) in Beijing in December 2009. As advised by the PRC Legal Adviser, as at the Latest Practicable Date, no licence, permit or approval (other than the business licence and the consent letter from the relevant authority in respect of the establishment and business operation) is required by the Target Group to engage in the provision of micro-financing business.

Interest rate on micro-financing services shall not be less than 0.9 time and shall not be more than four times of the relevant PBOC benchmark RMB lending rate. The maximum amount of micro-loan(s) granted to a customer shall not exceed 3% of the net capital of Beijing Micro-financing.

Beijing Micro-financing provides direct loans to micro and small enterprises as well as individuals to address their need for quick access to funds. The paid-in capital of Beijing Micro-financing was RMB50 million for the financial year ended 31 December 2013. Beijing Micro-financing focused on micro-loans for the year ended 31 December 2013. Most of the micro-loans have a term of not more than one year.

Operating procedures of the micro-financing business

(i) General loan application process

Similar to the pawn loan business of the Pawnbrokers, Beijing Micro-financing offers loans secured by real estate collateral; therefore, the operating procedures are, in general, similar and involve the same notarisation and mortgage registration processes.

However, as Beijing Micro-financing also grants loans for which collateral is not required (i.e. guaranteed loans and credit loans), extra effort is needed to assess the creditworthiness and repayment abilities of those customers. In this regard, unlike the Pawnbrokers where the duties of assessment of loan applications are assumed by the front-line customer service officers, the supervisor-level business managers and the general managers, there is an additional specific risk control personnel at Beijing Micro-financing who further reviews and verifies the loan application documents before any loan approvals, so as to provide an extra safeguard in ensuring the authenticity and completeness of such documents.

As aforesaid, customers applying for mortgage loans from Beijing Micro-financing go through similar procedures as to the case with the Pawnbrokers in applying for real estate pawn loans. Same set of documents are, in general, required for mortgage loan customers of Beijing Micro-financing and real estate pawn loan customers of the Pawnbrokers. Notwithstanding, with respect to the guaranteed loan or credit loan customers, they apply for loans from Beijing Micro-financing either with proofs of guarantee or proofs of sufficient income source and their applications will be assessed based on the following documents as requested by Beijing Micro-financing:

for individual customers:

- the identify cards, household registrations and relevant proofs of marriage status of the customer and the customer's spouse (if applicable), and if applicable, in the case of a guaranteed loan, the identity cards of the guarantor and the guarantor's spouse;

- proofs of stable residential address of the customer and the guarantor (in the case of a guaranteed loan);

- the bank statements for the past six months (including the customer's, the spouse's and/or the guarantor's (in the case of a guaranteed loan));

- proofs of assets, including building ownership certificates and automobile registration certificates, etc.;

- the lease agreements if the customer leases any retail properties; and the articles of association of any corporations, if owned by the customer, which have been registered and verified by the relevant administration for industry and commerce; and at least one photo of the outlet and at least two photos of the working environment of the said retail properties and/or corporations taken during on-site inspection;

- absence of court's record as an enforce; and

- an individual credit report (as stated in which the customer has not had any late repayments for more than two times over the last twelve months); or *for corporate customers:*

- an original copy of the corporate customer's business licence as stamped by the relevant administration for industry and commerce upon completion of annual audits, with the submission to Beijing Micro-financing of a duplicate copy thereof, the original copy and duplicate copy of both the tax registration certificate and the permit for bank account opening, and if the corporate customer engages in a special industry, an original copy and a duplicate copy of the special industry licence;

- an original copy of the identity card of the corporate customer's legal representative;

- an original copy and duplicate copy of the corporate customer's articles of association and any amendments thereof, or joint venture agreements, capital verification report and capital contribution agreements as previously submitted to the relevant administration for industry and commerce;

- an original copy and a duplicate copy of the loan card (貸款卡);

- the shareholders' and board's resolutions;

- an original copy of the recent and the preceding year's financial statements;

- if the customer and the guarantor are corporates or individually-owned businesses, the sales slips or point of sales slips of the past one month as stamped by the corresponding corporate;

- if the customer and the guarantor are corporates or individually-owned businesses, the bank statements for the past six months as stamped by the issuing banks;

- if the customer and the guarantor are individually-owned businesses, an individual credit report as stamped by the Credit Information System Bureau of the PBOC (中國人民銀行征信管理中心) (as stated in which the customer and the guarantor have not had any late repayments for more than two times over the past twelve months); and

- if the customer and the guarantor are corporates or individually-owned businesses, photos of the place of business (i.e. at least one photo of the outlet and at least two photos of the working environment).

In addition, as confirmed by the Target Group, similar to the on-site inspection made at the mortgaged real estate property in the case of a mortgage loan, at least two customer service officers of Beijing Micro-financing make visits to the place of work or business of the relevant customer and guarantor (if any) in the case of a guaranteed loan or credit loan, as part of the investigation relating to the customer's occupation or business, thus his/her/its credibility and repayment ability.

Upon receipt of all required documents and completion of the relevant inspection or visits, as well as the notarisation and registration processes (if applicable), the customer service officer prepares a written report for further review by the supervising business manager and the delegated risk control personnel, both of whom will check the completeness of the information, assess the risk exposure associated with the relevant loan application, ensure compliance of the terms with the relevant regulations and internal policies and regulations, and provide their opinion thereon. The written report (containing the opinions from the customer service officer, the business manager and the risk control personnel) will then be submitted to the general manager(1) of Beijing Micro-financing for consideration of approval.

(ii) Thresholds for approval of loan applications

As set out in the Implementation Measures for the Pilot Operation of Micro-financing Companies in Beijing, there are certain restrictions which Beijing Micro-financing is subject to when granting a micro-loan:

1. the maximum amount of a micro-loan granted to a customer shall not exceed 3% of the net capital of a micro-financing company;

2. the interest rate on a micro-loan shall not be less than 0.9 time and shall not be more than four times of the relevant PBOC benchmark RMB lending rate; and

3. the total principal amounts of loans granted to san-nong customers each year shall not be less than 70% of the total accumulated loan amount granted during the relevant year (the "**San-nong Requirement**").

In regards to these regulatory restrictions, the Target Group has established a set of internal policies for Beijing Micro-financing by which the general manager is delegated an authority to approve a micro-loan within pre-determined thresholds. Similar to the case of the Pawnbrokers, such thresholds are reviewed annually by the senior management of the Target Group in conjunction with the risk management department and approved by the general manager of the Target

Note:

(1) Mr. Xu has been the general manager of Beijing Micro-financing prior to the Target Group's acquisition of Beijing Micro-financing in January 2011. Following the acquisition, the Target Group has been consulting the relevant government authorities for change of the general manager of Beijing Micro-financing. As confirmed by the Target Group, Mr. Xu is currently not involved in the operations and management of Beijing Micro-financing and the deputy general manager of Beijing Micro-financing currently assumes all duties of general manager. As at the Latest Practicable Date, Mr. Li Fangyi was the deputy general manager of Beijing Micro-financing.

Group. Since the Target Group has been in the progress of consultation with the relevant government authorities for a change of the general manager of Beijing Micro-financing following its acquisition in January 2013, the deputy general manager of Beijing Micro-financing currently assumes all duties of general manager, including the authorised approval threshold.

As at the Latest Practicable Date, the deputy general manager of Beijing Micro-financing has been granted the authority to approve a micro-loan application within the following thresholds:

with respect to a mortgage loan:

1. a monthly interest rate of not more than four times and not less than 1.5 times of the relevant PBOC benchmark RMB lending rate; however, the granting of a loan with a monthly interest rate at the low-end is subject to the fulfillment of one of the conditions below:

    a. the mortgaged real estate property being located within Fangshan District, Beijing; or

    b. both the customer and the mortgagor being the same person and of local household at Fangshan District, Beijing;

2. a loan-to-value ratio of up to 70% for a mortgage loan secured by a residential real estate property located within the sixth ring road and Fangshan District, Beijing and of 70 years of property use right;

3. a loan-to-value ratio of up to 60% for a mortgage loan secured by a residential real estate property located outside of the sixth ring road and Fangshan District, Beijing and of 70 years of property use right; and

4. a loan-to-value ratio of up to 60% for a mortgage loan secured by a real estate property which is an apartment, commercial building, office building or of other property types;

with respect to a guaranteed loan:

1. a single loan amount or outstanding loan amount to the same borrower or to the same actual loan user up to RMB200,000 with a monthly interest rate set at four times of the relevant PBOC benchmark RMB lending rate; and

with respect to a credit loan:

1. a single loan amount or outstanding loan amount to the same borrower or to the same actual loan user up to RMB100,000 with a monthly interest rate set at four times of the relevant PBOC benchmark RMB lending rate.

In line with the internal policies of the Pawnbrokers, any loan application which does not fall within any of the above categories is required to be submitted to the risk management department of the Target Group and any loan application with loan amount exceeding RMB5 million will be submitted to the loan approval committee for further approval.

Beijing Micro-financing currently only grants mortgage loans, guaranteed loans and credits loans to its customers. However, there are no regulatory restrictions which prohibit Beijing Micro-financing from accepting other types of collateral in granting secured loans. Therefore, in setting the thresholds for Beijing Micro-financing, the Target Group has separately included a threshold with respect to the secured loans pledged by small-sized vehicles that a single loan amount or outstanding loan amount to the same borrower or to the same actual loan user is capped at RMB300,000 with a maximum loan-to-value ratio of 60% and a monthly interest rate set at four times of the relevant PBOC benchmark RMB lending rate. According to the Target Group, such threshold has been included only as an indication that Beijing Micro-financing may accept other types of collateral to grant a secured loan. However, due to the limited expertise of Beijing Micro-financing in evaluating and assessing collateral other than real estate, Beijing Micro-financing did not currently have any plans to expand its accepted types of collateral.

Alongside the above-mentioned thresholds, Beijing Micro-financing normally does not grant a loan to an individual customer in an amount more than six times of his/her monthly income or the aggregate monthly income of the customer and his/her spouse, and not more than 20% of the net asset value of the relevant family. It is also requested that the borrower or the guarantor, if an individual, should be a PRC resident with capacity and of an age from 30 to 60. As to a corporate customer, the loan amount is normally capped at 10% of the total annual cash inflow or 20% of the net asset value of the relevant corporate.

Based in Fangshan District, Beijing Micro-financing mainly serves customers located within the district, where individuals and enterprises are mainly engaged in agriculture-related businesses. In order to ensure its compliance with the San-nong Requirement, Beijing Micro-financing regularly reviews and monitors its loan profiles.

(iii) Execution of loan agreements and drawdown of loans

Subject to the approval of the general manager of Beijing Micro-financing (or the authorised person), the customer service officer arranges for the execution of the relevant loan documents, and in the case of a mortgage loan, the relevant mortgage registration and notarisation (in the case of a mortgage loan). Upon completion and verification of the above (including the mortgage registration and notarisation, in the case of a mortgage loan), the general manager will approve and sign the drawdown application (提款申請) and the loan release procedures thereafter follow those of the Pawnbrokers.

(iv) After loan management

Micro-financing customers are only required to settle the monthly interest during the terms of the micro-financing loans, the rate of which is set with reference to the relevant PBOC benchmark RMB lending rate, as mentioned above. As confirmed by the Target Group, the monthly interest rates charged by Beijing Micro-financing on its customers are in general within the range of 1.0% to 2.0%. For the year ended 31 December 2013, the interest income incurred by Beijing Micro-financing amounted to RMB11,046,000, which represented 20.4% of the total interest income of the Target Group for the year.

Similar to the Pawnbrokers, Beijing Micro-financing follows the same loan monitoring procedures on its customers and have regular contacts with them to have an update on their latest financial condition (including the valuation of the mortgaged real estate property in the case of a mortgage loan). Furthermore, the internal control and compliance department and the risk management department of the Target Group also conduct after-loan inspections on all of the new loans granted to ensure soundness and completeness of the procedure and compliance with the relevant regulations and internal guidelines.

In light of the stringent internal policies and continual after-loan inspections by the Target Group, loan default is uncommon in Beijing Micro-financing. As at 31 December 2013, Beijing Micro-financing had two defaulted loans, both of which were mortgage loans with remaining balance in aggregate of RMB340,000. The defaulted loans accounted for only 1.16% and 0.38% of the total number of outstanding loans and the total outstanding loan amount of Beijing Micro-financing as at 31 December 2013 respectively. In a mortgage loan default case, Beijing Micro-financing follows the procedures with respect to the real estate pawn loan; whereas in a guaranteed loan default case, as provided in the standard guaranteed loan agreement, Beijing Micro-financing has the legal rights to demand immediate repayment by the guarantor of the outstanding loan balance (including any interest that are due) on the relevant customer's behalf. As there is no security with respect to a credit loan, Beijing Micro-financing has adopted a prudent approach in considering a credit loan and been conducting a thorough background check and risk assessment on the relevant customer for each credit loan application. Beijing Micro-financing only opts to grant a credit loan on the basis that the relevant customer has demonstrated a very solid proof of sufficient cash flow through a stable occupation or operating cash flow (as the case may be) for support of his/her/its interest payment and loan repayment. As a result, Beijing Micro-financing only granted 30 new credit loans during the year ended 31 December 2013, representing 20% of the total number of new micro-loans for the year. The aggregate principal amounts attributable to those new credit loans amounted to approximately RMB38.4 million and accounted for only 22.7% of the aggregate principal amounts of all new micro-loans granted during the year. Set out below is the breakdown of number of new loans granted and the aggregate principal amounts thereof by types of loan of Beijing Micro-financing during the year ended 31 December 2013:

		For the year ended 31 December 2013
Number of new loans granted		
(a)	mortgage loan	46
(b)	guaranteed loan	74
(c)	credit loan	30
Subtotal		150
Aggregate principal amounts of the new loans granted		*RMB'000*
(a)	mortgage loan	41,290
(b)	guaranteed loan	89,510
(c)	credit loan	38,410
Subtotal		169,210

Entrusted loan services

Beijing Wanchi commenced the provision of entrusted loan services in Beijing in November 2012. The entrusted loan is made to customers through a commercial bank, as trustee, using funds which have been provided and entrusted to the commercial bank from Beijing Wanchi for such purpose. The trustee bank receives a fixed agency fee and collects principal and interest on behalf of Beijing Wanchi, and Beijing Wanchi bears the risk of any default by the borrower. The interest rate charged by Beijing Wanchi as the trustor should be within four times that of the relevant PBOC benchmark rate.

The size of loan(s) that the pawn loan business may extend to the customers is subject to legal and regulatory restrictions based on the registered capital of the entity that is extending the loan. On the contrary, as confirmed by the PRC Legal Adviser, there is no statutory upper limit on the size of entrusted loans. In this regard, Beijing Wanchi has not set any internal restrictions on the size of an entrusted loan that it may grant to a customer. There is no legal restriction on the amount of entrusted loan which can be advanced by Beijing Wanchi. In practice, Beijing Wanchi will consider, amongst other things, the quality and sufficiency of the security and guarantee provided by the borrower and the guarantor.

With reference to the General Rules on Credit and the relevant judicial interpretations of PRC courts, enterprises which are not authorised and registered as loan providers must not violate the PRC laws by engaging in inter-company loan transactions or the provision of loans through unauthorised means, but they may lend money to other enterprises by the provision of entrusted loans through the trustee banks; and the relationship between such enterprises as the lenders and the trustee banks is that of trustors and trustees. Entrusted loans can be secured by the assets of the actual borrower or that of a third party. In the case of a default of an entrusted loan provided by Beijing Wanchi, the Target Group is required to seek the assistance of the trustee bank.

The entrusted loan services provides an alternative option to the customers who prefer to obtain financing through commercial banks but may not be able to meet the conditions required by the banks and require financing amount which is larger than the lending capability of the Pawnbrokers or Beijing Micro-financing. To meet the needs of customers requiring larger loan amount, the Target Group has commenced the provision of entrusted loan services since November 2012 through Beijing Wanchi.

The borrower is usually required to make monthly or quarterly payments of interest, usually charged as a percentage of the amount of loan granted, during the term of the loan.

According to the Certain Opinions of the Supreme People's Court on the Trial of Loan Cases by the Peoples' Court, the entrusted loan interest rate shall not be more than four times that of the PBOC benchmark RMB lending rate for the same period. Trustee bank usually charges an administration fee of approximately 0.1% or more of the principal amount of the loan, which is payable by Beijing Wanchi at the time prior to the drawdown of the loan.

During the Track Record Period, the Target Group had provided two entrusted loans with the same trustee bank and the same corporate customer. For the first entrusted loan, the loan period was from 27 November 2012 to 26 February 2013, with a monthly interest rate of 1.8%. The principal of the entrusted loan was RMB2 million. The loan was repaid in April 2013 and a total interest income of RMB180,000 was recorded for the Track Record Period. For the second entrusted loan, the loan period was from 12 December 2013 to 3 November 2014, with a monthly interest rate of 1.8%. The principal of the entrusted loan was RMB6 million. Interest income of RMB20,520 was recorded for the financial year ended 31 December 2013.

During the loan application stage, the Target Group conducts a credit check on the entrusted loan applicant by reviewing his/her/its personal, family or corporate (as the case may be) and financial background. The Target Group may require the entrusted loan applicant to provide credit report(s) from a bank, tax databases, the PBOC or other appropriate organisations. The Target Group assesses an entrusted loan application on a case-by-case basis with reference to the proposed amount and duration of the loan, the value of the guarantees or collateral, the findings from the site visits to the applicant's property or place of business and the assessment of the risks that may be involved.

After an entrusted loan application is approved by the loan approval committee, the Target Group will approach a trustee bank and arrange for the provision of the entrusted loan. The trustee bank normally has its own internal approval procedures. Once the trustee bank has obtained the internal approval, the trustee bank, the borrower and Beijing Wanchi will enter into the relevant agreements. As in the case of the recently completed entrusted loan transaction, a two-party agreement in respect of the entrusted loan arrangement was entered into between Beijing Wanchi and the trustee bank, pursuant to which Beijing Wanchi agreed to entrust the trustee bank to provide a loan to a designated borrower by depositing an agreed amount to an account opened with the trustee bank, and the trustee bank agreed to lend such amount to the designated borrower in accordance with the terms agreed with Beijing Wanchi. After the signing of the two-party entrusted loan agreement, the trustee bank, Beijing Wanchi and the borrower entered a three-party entrusted loan agreement, which has essentially mirrored the terms and conditions in the two-party agreement in respect of the entrusted loan arrangement but based on which the parties thereto further agreed on and confirmed the interest rate payable by the borrower to the trustee bank and the administrative fee payable by Beijing Wanchi to the trustee bank.

In the event that a security is provided in favour of the trustee bank to secure the liability of the borrower under the three-party entrusted loan agreement, relevant security agreement will also be entered into and the trustee bank will arrange the registration of the relevant security documents, if required.

After drawdown, the customer service officer keeps in close contact with the borrower to keep track of the credit condition of the borrower and ensure that interests are paid to the trustee bank promptly. Upon the trustee bank receiving the interest from the borrower, the trustee bank will pay to Beijing Wanchi the corresponding interest amount. If the borrower chooses to repay the principal (together with any outstanding interest) in full upon maturity (or at any time before maturity) of the loan to the trustee bank, the trustee bank will arrange the release of security (if applicable), and return the fund to Beijing Wanchi.

As advised by the PRC Legal Adviser, as at the Latest Practicable Date, the Target Group has not been restricted under the relevant PRC laws and regulations from engaging in the provision of entrusted loan services and no licence, permit or approval (other than the business licence) is required by the Target Group to do so.

Financial consultancy services

Beijing Wanchi commenced the provision of financial consultancy services in Beijing in October 2012. It assists customers in obtaining the required financing, exploring financing solutions and introducing appropriate financing providers to help them to secure funds. If appropriate, Beijing Wanchi may recommend its customers to apply for pawn loans, entrusted loans or the micro-financing services from the Target Group. In addition to the financing consultancy service, Beijing Wanchi provides investment consultancy service by introducing investment projects to the customers. The clients come to the Target Group from different sources, including but not limited to referrals from other financial institutions and recommendations from the existing customers as well as customers from marketing of the Target Group. There may be cases in which a customer was initially approaching a Pawnbroker or Beijing Micro-financing for pawn loan service or micro-financing services, but his/her/its financing demand could not be fully satisfied by the Pawnbroker or Beijing Micro-financing due to the regulatory restrictions on its lending capacity. In such circumstances, the customer service officer of the relevant Pawnbroker or Beijing Micro-financing may refer the customer to Beijing Wanchi for financial consultancy services. The customer is required to pay a consultancy fee to Beijing Wanchi which is determined based on negotiation between Beijing Wanchi and the customer on a case-by-case basis. The Target Group may collect a fixed sum of consultancy fee in full or a fee based on percentage of the fund amount by monthly instalments. The method and the time which the customer needs to pay the consultancy fee will be specified in the financial consultancy agreement. The consultancy fee will only be charged by Beijing Wanchi when he/she/it successfully obtains the relevant financing.

Riding on the Target Group's knowledge and experience, Beijing Wanchi has expanded the scope of its financial consultancy services to provision of investment consultancy service by introducing real estate investment projects in the PRC to the customers. As at the Latest Practicable Date, Beijing Wanchi completed one consultancy service of such kind and received consultancy income of RMB1.2 million in total in this respect during the Track Record Period. Similar to the other types of financial consultancy services offered by Beijing Wanchi, the consultancy fee amount and the corresponding payment terms regarding such investment consultancy service is determined based on negotiation between Beijing Wanchi and the relevant customer on a case-by-case basis, and the fee is to be charged only when the customer successfully invests in the relevant projects or properties.

Operating procedures

As described by the Target Group, business of financial consultancy services can be divided into several stages which are illustrated in the below flowchart:

Understanding customer's needs and completion of financial consultancy service application

↓

Assessment of application

↓

Execution of financial consultancy agreement

↓

Preparation of feasibility study and financing plan or investment proposal

↓

Provision of financial consultancy services

↓

Collection of consultancy fee

A customer requiring financial consultancy services is required to submit a financial consultancy service application form (財務諮詢服務申請表), in which the customer can select the required services, including financing consultancy services (for example, advices on financing structure and use of collateral) and investment consultancy services. Based on the information filled in, Beijing Wanchi will request the customer provide the following documents for the purpose of conducting the preliminary due diligence check:-

for individual customers:

- a copy of the customer's and the spouse's identity card and household register;
- a copy of the marriage certificate or certificate of absence of marriage (whichever is appropriate); and
- appropriate proof of ownership of the collateral or proof of fund for investment (as the case may be).

for corporate customers:

- a copy of the corporate customer's business licence;
- a description of the company;
- latest audit report or financial statements; and
- appropriate proof of ownership of the collateral or proof of fund for investment (as the case may be).

Beijing Wanchi may, whenever necessary, require a financial consultancy customer to provide other appropriate supporting documents. After obtaining the required information, Beijing Wanchi will conduct a preliminary assessment of the financial position of the customer and the possibility of obtaining required financing or identifying suitable investment opportunities for the customer. Beijing Wanchi will assess the application and prepare a report on the customer which may include details, such as (i) the corporate information of the customer (if a corporate) including the shareholding structure, scope of business, total number of employees, major products and services provided, financial information and the background information of the senior management; or (ii) the personal information including the marital status, occupation and source of income (if an individual). The report will also discuss the financing requirements or available investment amount (as the case may be) of the customer and provides an analysis on the collateral (if applicable) to be provided by the customer. After approval, Beijing Wanchi will enter into the financial consultancy agreement with the customer. According to the result of assessment and the respective needs of the customer, Beijing Wanchi will prepare the financing plan or investment proposal to the customer and also the feasibility study report to the potential financing provider. If the customer agrees on the proposal, Beijing Wanchi will proceed to liaise, on the customer's behalf, with the potential financing provider or property vendor (as the case may be). In the case of financial consultancy business, Beijing Wanchi will also provide its recommendations on the financing structure and the possible risks that may be faced by the proposed financing provider and identify the possible financing providers for the customer. Similarly, in the case of investment consultancy business, Beijing Wanchi will provide recommendations on the investment ideas and the possible risks that may be faced by the customer and identify suitable real estate for investment.

Upon receiving verbal confirmation from the proposed financing provider agreeing to provide financing to the customer (or from the proposed property vendor, as the case may be, indicating intention to sell the property on the customer's investment), Beijing Wanchi will assist the customer in arranging the necessary procedures including site visits and negotiation, and also completing the necessary documentation.

A customer is required to pay a consultancy fee to the Target Group upon successful obtaining of the funds or the making of the recommended investment. The amount of the consultancy fee and the payment schedule is negotiated with the customer on a case-by-case basis according to the pricing strategies and principles of Beijing Wanchi and as accepted by the customer, but usually with reference to factors, including but not limited to the financing or investment amount, term of the loan (or investment, if applicable), method of security (if applicable) and financial condition of the customer.

As advised by the PRC Legal Adviser, as at the Latest Practicable Date, the Target Group has not been restricted under the relevant PRC laws and regulations from engaging in the provision of financial consultancy services and no licence, permit or approval (other than the business licence) is required by the Target Group to do so.

Since the commencement of this business segment in October 2012, Beijing Wanchi had served a total of 17 customers, with 9 individual customers and 8 corporate customers. As at the Latest Practicable Date, there were mainly three staff members responsible for handling the financial consultancy services. Total revenue of RMB1,469,000 and RMB11,088,000 was generated from this business segment during the two financial years ended 31 December 2012 and 2013 respectively.

(C) Financial position and performance of the Target Group

Set out below is the audited consolidated financial information of the Target Group for the three years ended 31 December 2013 as prepared in accordance with the HKFRS:

	For the year ended 31 December					
	2013 (Audited)		2012 (Audited)[1]		2011 (Audited)[1]	
	RMB'000	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*
Revenue derived from business segments involving the use of the Structured Agreements						
Pawn loan business	42,659	53,324	67,081	83,851	81,177	101,471
Micro-financing business	11,046	13,808	–	–	–	–
Revenue derived from other business segments not involving the use of the Structured Agreements						
Financial consultancy business	11,088	13,860	1,469	1,836	–	–
Entrusted loan business	172	215	29	36	–	–
Profit from continuing operation before tax	56,940	71,175	45,108	56,385	48,026	60,033
Profit from continuing operation after tax	43,078	53,848	33,616	42,020	36,060	45,075
(Loss)/profit from discontinuing operation before tax[2]	–	–	(466)	(583)	6,972	8,715
(Loss)/profit from discontinuing operation after tax	–	–	(507)	(634)	5,189	6,486

Notes:

(1) The above financial information for 2011 and 2012 does not include the financial results of Beijing Micro-financing as the date of the Beijing Micro-financing Structured Agreements became effective on 1 January 2013.

(2) The discontinued operation represents the pawn loan businesses of Tianjin Jinfu and Harbin Jinfu, which were previously owned indirectly by the Dai Family with an effective equity holding of 100% and 85.37% respectively. The Dai Family disposed of its respective equity interest in Tianjin Jinfu and Harbin Jinfu to third parties in 2012. There were no gains from the discontinuation.

	As at 31 December 2013 (Audited)	
	RMB'000	*HK$'000*
Net assets	259,622	324,528

The Target Group obtained control over 79% of the effective economic benefit in Beijing Micro-financing only on 1 January 2013. As such, the financial information of Beijing Micro-financing was not consolidated in the financial results of the Target Group for the two years ended 31 December 2012. Set out below is the audited financial information of Beijing Micro-financing for the two years ended 31 December 2012 prior to its incorporation into the Target Group.

	For the year ended 31 December			
	2012 (Audited)		2011 (Audited)	
	RMB'000	*HK$'000*	*RMB'000*	*HK$'000*
Profit from continuing operation before tax	8,465	10,581	6,421	8,026
Profit from continuing operation after tax	6,223	7,779	4,812	6,015

(D) Pricing strategies and principles

In general, interest rates and composite administrative fees rate are determined primarily by reference to the risk assessment between the customers and the Target Group on a case-by-case basis.

The interest rate and the composite administrative fee rate charged by the Target Group for various businesses is determined mainly based on the following factors and considerations:

1. the limits restricted by relevant laws and regulations;

2. the market practice;

3. the thresholds set by the internal guidelines or policies of the Target Group;

4. the credibility and repayment ability of the customers;

5. the characteristics of the loans including but not limited to the principal amount and duration;

6. the existence of collateral and/or guarantees, and the condition of the collateral (if any);

7. the level of competition regarding the provision of relevant service;

8. the expected amount of time and human resources to be involved; and

9. with respect to the financial consultancy business, the complexity of the specific consultancy service and the amount of workload to be involved.

(E) Marketing

The primary sales and marketing strategy of the Target Group is to build up the brand and reputation through a variety of sales and marketing channels, including advertisement through outdoor advertisement boards and other publications, and organisation and participation in business seminars and study tours to provide potential customers with information about the brands, culture and services.

The Target Group has an established customer base as evidenced by the record that more than 48%, 52% and 45% of the pawn loan customers during the three years ended 31 December 2013 were repeat customers. The management of the Target Group views the strength of the sales and marketing team as one of the factors for the success of the Target Group in the long run. The marketing team of the operations department is responsible for the dissemination and management of business information, advertising and brand building, marketing expense management and coordinating matters in relation to the participation in trade and other marketing events. Business managers and customer service officers stationing at the Pawnbrokers and customer service office are responsible for answering enquiries and providing customer service to potential and existing customers. As at the Latest Practicable Date, the marketing team comprised 6 business managers and 23 customer service officers.

(F) Customers

The customers of the Target Group include individual and corporate customers. As a matter of risk management, the Target Group only accepts loan applications from individuals who are at least 18 years old and under the age of 65 or corporate customers that are domestic enterprises. Loan applications are accepted from non-residents of Beijing.

During the Track Record Period, the total number of customers of each of the business segments is set out below:

	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
Total number of pawn loan customers			
(a) individuals	1,161	816	565
(b) corporate customers	10	12	9
Subtotal	1,171	828	574
Total number of micro-financing customers			
(a) individuals	N/A	N/A	143
(b) corporate customers	N/A	N/A	5
Subtotal	N/A	N/A	148
Total number of entrusted loan customers			
(a) individuals	N/A	0	0
(b) corporate customers	N/A	1	1
Subtotal	N/A	1	1
Total number of financial consultancy customers			
(a) individuals	N/A	0	9
(b) corporate customers	N/A	3	7
Subtotal	N/A	3	16

Potential clients approach the Target Group through the chain outlets or associated service hotline or company websites. Brochures containing information about the brands and services are available to the customers at the chain outlets. The customer service officers are responsible for liaising with and providing service to the customers. From time to time, the Target Group also receives customer referrals from local commercial banks, government bodies and agencies and trade associations and regional chambers of commerce.

During the Track Record Period, the sources of customers for each of the business segments are set out below:

	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
Pawn loan customers			
(a) Repeat customers	564	434	261
(b) New customers by referrals	95	26	36
(c) New customers through marketing and chain outlets	512	368	277
Subtotal	1,171	828	574
Micro-financing customers			
(a) Repeat customers	N/A	N/A	34
(b) New customers by referrals	N/A	N/A	0
(c) New customers through marketing and outlets	N/A	N/A	114
Subtotal	N/A	N/A	148

	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
Entrusted loan customers			
(a) Repeat customers	N/A	1	1
(b) New customers by referrals	N/A	0	0
(c) New customers through marketing and chain outlets	N/A	0	0
Subtotal	N/A	1	1
Financial consultancy customers			
(a) Repeat customers	N/A	1	5
(b) New customers by referrals	N/A	0	9
(c) New customers through marketing and chain outlets	N/A	2	2
Subtotal	N/A	3	16

The Target Group has been engaging in the pawnbroking business in Beijing since 2002. The Target Group has an established customer base and more than 48%, 52% and 45% of the pawn loan customers were repeat customers for the three years ended 31 December 2011, 2012 and 2013, respectively. During the Track Record Period, the new pawn loan customers sourced through the chain outlets and marketing of the Target Group accounted for approximately 43.7%, 44.4% and 48.3% of the total pawn loan customers for respective financial year. The other new pawn loan customers were introduced to Target Group by referrals.

Regarding the micro-financing business, approximately 77% of the customers are new customers through marketing and outlet for the financial year ended 31 December 2013. For the financial consultancy business, the number of customers increased significantly in the year 2013. Over 68% of the financial consultancy customers were new customers who were sourced either by referrals or through marketing and chain outlet.

(G) Insurance

Pursuant to the relevant PRC laws and regulations, Beijing Wanchi, the Pawnbrokers and Beijing Micro-financing are required to pay for the employees' social insurance (which includes pension, medical insurance, unemployment insurance, maternity insurance and occupational injury insurance) and housing provident fund.

According to the Regulations on the Management of the Housing Provident Fund (住房公積金管理條例) first promulgated on 3 April 1999 and subsequently amended on 24 March 2002, Beijing Wanchi, the Pawnbrokers and Beijing Micro-financing shall go through housing provident fund registration with the local housing fund management center and open housing provident fund accounts for its employees in a bank. A company may be subject to an order from the housing provident fund management centre requiring the company to comply with the rules in relation to the above-mentioned registration and accounts opening within a time limit, if the company has failed to do so. If a company still fails to comply with the above-mentioned rules within the prescribed time limit, a penalty ranging from RMB10,000 to RMB50,000 would be imposed. Where a company fails to pay up housing provident funds within the time limit, the housing provident fund management center will order it to make payment within a certain period of time, and if the company still fails to do so, the housing provident fund management center may apply to the court for enforcement of the unpaid amount.

According to the PRC Social Insurance Law (中華人民共和國社會保險法), which was promulgated on 28 October 2010 and took effect on 1 June 2011, Beijing Wanchi, the Pawnbrokers and Beijing Micro-financing shall pay social insurance premiums for their employees.

Where an employer fails to register for social insurance, the relevant social insurance administrative department shall order the employer to remedy this failure within a specified time limit. If it fails to do so, the relevant social insurance administrative department shall impose a fine on the employer equivalent to one to three times the amount of the overdue social insurance contribution, and each of the directly responsible management personnel and other directly responsible personnel of the employer shall be imposed with a fine ranging from RMB500 to RMB3,000.

Where an employer fails to make social insurance contributions in full and on time, the social insurance contribution collection agencies shall order it to make all or outstanding contributions within a specified period and impose a late payment fee at the rate of 0.05% per day from the date on which the contribution becomes due. If such employer fails to make the overdue contributions within such time limit, the relevant administrative department may impose a fine equivalent to one to three times the overdue amount.

During the Track Record Period, Beijing Wanchi, the Pawnbrokers and Beijing Micro-financing (since its incorporation into the Target Group on 1 January 2013) had complied with all applicable national and local laws and regulations relating to social insurance and housing provident fund in all material respects.

In addition to the social insurance and housing provident fund, the Target Group has also maintained six insurance policies to insure against any losses or damages to the equipment and fixtures (including the personal properties pledged by the customers to the relevant Pawnbrokers, if any) at the offices and/or outlets of Beijing Wanchi, Beijing Jinfu, Beijing Jinfu (Sijiqing Branch), Beijing Jinshou, Beijing Jinxi and Beijing Jinlu. The insurance policies are renewed annually with the amounts of coverage revised each time to align with the updated valuations of the insured equipment, fixtures and pledged properties at the premises.

With respect to the offices and/or outlets of the other Pawnbrokers and Beijing Micro-financing, as well as the car park of the Target Group (which has been leased for the custody of automobiles pledged by the customers to the Pawnbrokers), save and except for the outlet of Beijing Jinfu (North Fourth Ring Road Branch) (which was under relocation as at the Latest Practicable Date), similar insurance or protection has either been bought by the relevant lessors in the benefits of the Target Group or provided by the relevant property management companies which the Target Group has considered adequate.

(H) Licences and permits

As at the Latest Practicable Date, the Target Group had obtained the following licences for the operation of the business:

Type of Licence	Held by	Validity
Pawn operation business licence	Beijing Jinfu	Until January 2019
	Beijing Jinfu (Sijiqing Branch)	Until January 2019
	Beijing Jinfu (North Fourth Ring Road Branch)	Until January 2019
	Beijing Jinfu (Haidian Branch)	Until January 2019
	Beijing Jinlu	Until January 2019
	Beijing Jinshou	Until January 2019
	Beijing Jinxi	Until January 2019
Special industry licence	Beijing Jinfu	Not subject to expiration
	Beijing Jinfu (Sijiqing Branch)	
	Beijing Jinfu (North Fourth Ring Road Branch)	
	Beijing Jinfu (Haidian Branch)	
	Beijing Jinlu	
	Beijing Jinshou	
	Beijing Jinxi	

As advised by the PRC Legal Adviser, the Target Group has obtained all the required licences and permits for the operations under the PRC laws and regulations.

(I) Property interests

As at the Latest Practicable Date, the Target Group had one self-owned property which was previously forfeited by Beijing Jinxi upon a customer's inability to repay the relevant pawn loan and was currently held by the Target as an available for sale asset. In addition, the Target Group has leased a total of 9 properties in the PRC. These properties have mainly been occupied by the Target Group as its offices and chain outlets.

Please see below for the details of the leased properties.

No.	Brief description of property	Gross floor area/ leasable area/ number of lots *(m²)*	Use of property	Terms of tenure (year of leasehold expiry)	Annual amount *(RMB)*
1	Unit 306 on level 3 of a 3-storey office building located at No.69 West Fourth Ring North Road, Haidian District, Beijing, The PRC	164.38	Office of Beijing Wanchi and head office of the Target Group	31 December 2014	120,000.00
2	A unit on level 1 of a 7-storey office building located at No.28 Zhongguancun South Street, Haidian District, Beijing, the PRC	270.00	Office and outlet of Beijing Jinfu	14 May 2016	480,000.00
3	A unit on level 1 of a 3-storey office building located at No. 69 West Fourth Ring North Road, Haidian District, Beijing, the PRC	582.00	Office and outlet of Beijing Jinfu (Sijiqing Branch)(1)	31 October 2014	424,860.00
4	Unit B-14, Block B, Jiahua Building, No. 9 Shangdi 3rd Street, Haidian District, Beijing, the PRC	70.00	Office and outlet of Beijing Jinfu (Haidian Branch)	31 August 2015	340,070.50

Note:

(1) This property was leased to Beijing Jinfu and designated by the Target Group as the outlet of Beijing Jinfu (Sijiqing Branch).

No.	Brief description of property	Gross floor area/ leasable area/ number of lots (*m*²)	Use of property	Terms of tenure (year of leasehold expiry)	Annual amount (*RMB*)
5	Unit 27-6, Xinyuan Building, Gulou East Street, Mi Yun County, Beijing, the PRC	355.59	Office and outlet of Beijing Jinlu	14 April 2015	180,000.00
6	Unit 52-7, Yangzhuang North Area, Shijingshan District, Beijing, the PRC	255.19	Office and outlet of Beijing Jinshou	28 February 2015	200,000.00
7	A unit on level 1 of a 23-storey office building located at Building 23 (B), Block 2, Sanlihe Xicheng District, Beijing, the PRC	140.00	Office and outlet of Beijing Jinxi	15 September 2015	390,000.00
8	Ground floor, No. 101, Changhong West Road, No. 73, Fangshan District, Beijing, the PRC	80.00	Office and outlet of Beijing Micro-financing	31 December 2014	Nil(1)
9	Certain car parking lots at the basement level 2 of 合眾大廈 (Hezhong Building*) in Beijing	A total of 24 parking lots	Car parks for automobiles pledged by the customers to the Target Group	31 December 2014	43,200.00

Note:

(1) This property was leased to Beijing Micro-financing by its minority shareholder, Beijing Liangxiang.

* *for identification purposes only*

As at the Latest Practicable Date, the Target Group has not registered all of the above lease agreements with the relevant PRC authorities. The Target Group may be ordered by the competent authority to rectify within a specified time limit; failing to do so, a fine ranging from RMB1,000 to RMB10,000 may be imposed. For more details, please see the paragraph headed "The Target Group has not completed the registration of its lease agreements with the relevant PRC authorities" under the section headed "Risk Factors" of this circular.

The PRC Legal Adviser advised that, except as disclosed in the section headed "Risk Factors" of this circular, each of the above lease agreements is legal, valid and binding on the landlord and the tenant, and each landlord has the right to lease the property to the Target Group.

(J) Intellectual property rights

As at the Latest Practicable Date, the Target Group had four registered trademarks regarding the Target in Hong Kong, two registered trademarks in the PRC and are the registered owner of four material domain names. For further details, please refer to the appendix headed "General Information" of this circular.

(K) Legal proceeding

As at the Latest Practicable Date, the Target Group had four on-going litigation cases on customers' defaults requesting the defendants or respondents to repay the relevant loans. The aggregate amount claimed by the Target Group was approximately RMB2.2 million. Both the Target Group and the PRC Legal Adviser are of the view that the aforesaid litigation cases have arisen in the ordinary course of business of the Target Group and involved in aggregate an immaterial amount only; thus do not consider such litigation cases would have any material adverse effect on the business, financial condition or results of operations of the Target Group. Save and except for the aforesaid, the Target Group confirmed that, during the Track Record Period and as at the Latest Practicable Date, no member of the Target Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the directors of the Target Group to be pending or threatened by or against the Target Group, that would have a material adverse effect on its business, financial condition or results of operations.

HISTORICAL NON-COMPLIANCE

(a) Types of non-compliance

During the Track Record Period, there were incidents in which the Pawnbrokers were not in full compliance with certain aspects of the Pawning Measures.

The following table sets forth details of historical incidents of non-compliance with the Pawning Measures in respect of new pawn loans granted during the Track Record Period, categorised by the types of non-compliance:

Year of occurrence	Number of new non-compliant loans	Percentage of total number of loans for the year	Aggregate revenue from non-compliant portion of the pawn loans *(RMB'000)*	Percentage of total interest income for the year	Aggregate outstanding amount of the non-compliant pawn loans at the end of the year *(RMB'000)*	Percentage of outstanding gross amount of the loan to customers at the end of the year
Category (i): the principal amount of a single pawn loan secured by real estate exceeded 10% of the registered capital of the relevant Pawnbroker. (Article 44(5) of the Pawning Measures)						
2011	8[(1)]	0.60%	8,129[(2)]	9.99%	31,450	11.67%
Category (ii): the interest rate of the pawn loan exceeded the six-month PBOC benchmark RMB lending rate of financial institutions as discounted by the pawn loan period, being the statutory limit as permitted by the Pawning Measures (Article 37 of the Pawning Measures)						
2011	88[(3)]	6.65%	123[(4)]	0.15%	–	–

In addition, during the Track Record Period, the Target Group failed to comply with Article 44(5) of the Pawning Measures, which stipulates that the outstanding balance of real estate pawn loans shall not exceed the registered capital of the relevant Pawnbroker. The following table sets forth details of historical incidents of this type of non-compliance during the Track Record Period:

	31st December 2011[(5)]	
	Total amount of non-compliant portion of the loans *(RMB'000)*	Percentage of outstanding gross loan amount at the end of the year
Category (iii): total outstanding balance of real estate pawn loan exceeded the registered capital of the relevant Pawnbroker[(6)]	35,645	13.23%

Notes:

(1) Among which, 3 pawn loans were granted to the same customer based on the same real estate collateral and loan agreement.

(2) As an aggregate amount of revenue generated from non-compliant portion of pawn loans secured by real estate collateral with amount exceeding the 10% of the registered capital during 2011, including the revenue from the renewed non-compliant pawn loans which were initially granted before 2011 and new non-compliant loans granted in 2011.

The Target Group confirmed that no new non-compliant pawn loans of this category since 2012. The aggregate revenue from the non-compliant pawn loans granted in the previous years amounted to RMB9.5 million for the year ended 31 December 2012, representing 14.14% of the interest income for the same year.

(3) Among which, 60 pawn loans were pledged by gold, platinum jewellery and other small items, accounting for 68.18% of the non-compliant pawn loans of this category in terms of the number of pawn loans. However, the revenue arising from the exceeding portion of the interest rate promulgated by the PBOC from such business totaled only RMB500, accounting for 0.41% of the total revenue from the non-compliant pawn loans of this category.

(4) As an aggregate amount of revenue arising from the exceeding portion of the interest rate promulgated by the PBOC, including the revenue from the renewed non-compliant pawn loans which were initially granted before 2011 and new non-compliant loans granted in 2011.

(5) No new non-compliant incident of this category occurred during the years ended 31 December 2012 and 2013.

(6) Pursuant to the consultation by the representatives of the Target Group, the PRC Legal Adviser and the PRC legal adviser to the financial adviser of the Company with the Commission of Commerce of Haidian District, Beijing (北京市海澱區商務委員會), the competent authority of Beijing Jinfu on 31 March 2014, when the Commission of Commerce of Haidian District, Beijing examined the Beijing Jinfu's real estate pawn loan balance during the Track Record Period, they considered the total operating capital (including the loan from the bank) of Beijing Jinfu as a denominator. Pursuant to the consultation by the representative of the Target Group, the PRC Legal Adviser and the PRC legal adviser to the financial adviser of the Company with the Commerce Commission of Beijing Municipal Commission of Commerce (北京市商務委員會), the Beijing Municipal Commission of Commerce took the same examination principle during the Track Record Period.

As confirmed by the Target Group and the PRC Legal Adviser, (1) no new non-compliant pawn loans of category (i) had been granted by the Pawnbrokers since July 2011 and the non-compliance incidents of such category had been eliminated since November 2012 and no incidents of such category existed thereafter. The 8 incidents were rectified to satisfy the requirement of item 5 of Article 44 of the Pawning Measures either by maturity or by the Pawnbrokers' requesting the customer to reduce the amount of the loan or to repay the loan in advance; (2) the incidents of category (ii) were rectified in February 2011 and no incidents of such category existed thereafter; (3) no incidents of category (iii) had existed after 31 December 2011; and (4) save and except for the aforesaid non-compliance incidents, the PRC subsidiaries of the Target Group (including the Pawnbrokers and Beijing Micro-financing) had conducted their businesses in accordance with the relevant laws and regulations of the PRC during the Track Record Period.

(b) Background of and reasons for non-compliance

The Target Group provides short-term financing services, among which, pawn loan services are provided to customers through its seven pawnbroking chain outlets (including the Pawnbrokers and the branch companies of Beijing Jinfu) in Beijing, and approximately 90% of the pawn loan transactions in 2011 had been issued based on collateral in the forms of real estate and movable properties. As of 2011, the Target Group had conducted approximately 8,500 transactions in total.

In order to expand the client bases, the Target Group had, since 2011, adjusted its business strategy and shifted the core business from small-amount consumer loans for individuals to business loans for industrial and commercial households and SMEs. The new businesses brought new challenges to the risk control and management of the Target Group. During the transitional period, the Target Group encountered difficulties in allocating sufficient resources to enhance its internal control and risk management functions in a timely manner.

The senior management of the Target Group investigated into each incident of non-compliance that had occurred during the Track Record Period and noted that each historical incident of non-compliance had been mainly caused by the deficiencies in the then internal control system. The Target Group had hired new staff as a result of the speedy expansion of its business, and such expansion caused difficulty for comprehensive and systematic training of the new staff to strict comply with the Pawning Measure and to adapt to the new situations arising from the adjustment of business models. In particular, for gold and platinum jewellery and other small-amount pawn loan businesses that usually generate lower interest income for the Target Group, attention to discretion and compliance had been rather insufficient, and thus resulted in the circumstances in which interest rate exceeding the statutory limits as permitted by the Pawning Measures had been charged. Since the number of staff of internal management and risk management failed to increase accordingly at that time, such mistakes occurred during the course of business expansion had not been identified and rectified in time.

The reasons that induced the occurrence of the non-compliance incidents of category (i) and (iii) have been summarised as follows:

(1) amid the continual growth in real estate prices in Beijing, the collateral value had continued to rise and the loan amount as demanded by the customers increased rapidly;

(2) the Target Group ran short of legal and compliance staff monitoring the potential risk of violating the Pawning Measures and the other staff failed to fully understand the requirements of the regulations; and

(3) an information system for the operation and management of pawn loan business had not been developed in time to meet the new business standards with respect to the Target Group's expansion and compliance requirements resulted therefrom; thereby, mistakes occurred during the course of business expansion could not be identified and rectified in time.

As confirmed by the Target Group and the PRC Legal Adviser, during the Track Record Period, none of the incidents of the above-mentioned non-compliance had been penalised or warned by the relevant competent regulatory authorities. Therefore, the PRC Legal Adviser is of the opinion that the possibility of serious legal consequences resulted from the above incidents is remote.

With respect to the non-compliance incidents of category (ii), as investigated by the senior management of the Target Group, the occurrence of such is mainly caused by the deficient understanding of the Pawning Measures, and that the Target Group lacked sufficient staff for its compliance and risk management functions and therefore review and examination of non-compliance became inadequate.

(c) Remedial measures

The following table sets forth the details of remedial measures the Target Group has taken in relation to the incidents of non-compliance that occurred during the Track Record Period:

Non-compliance categories	Remedial measures implemented	Category of non-compliance addressed	Remedial Result
Category (i)	Set out in points (1) – (8) below	All	No new incidents of category (i) had occurred since July 2011, and the relevant incidents had been eliminated in November 2012 and non-compliance of this category ceased to exist thereafter.
Category (ii)	Set out in points (1) – (7) below	All	Incidents of category (ii) had been eliminated in February 2011 and non-compliance of this category ceased to exist thereafter.
Category (iii)	Set out in points (1) – (8) below	All	Non-compliance of this category ceased to exist since 2012.

The Target Group has taken the following measures in order to prevent the recurrence of the non-compliance incidents:

Senior management's commitment to enhance internal control and compliance functions of the Target Group

The senior management has highly valued compliant operation and improved staff allotment and revised the relevant authorisations granted thereto. Daily ordinary work review and regular review meetings have been conducted, during which the staff will be provided with the updated industry policies and the corresponding risk management and internal control policies of the Target Group, information with respect to major non-compliance cases in the industry and the impacts thereof. The Target Group notifies all the management staff and key employees of the necessity and importance of compliance, enhancing compliant operation of the Target Group and effective management of the internal control.

Designation of an assistant general manager to enhance internal control system and strengthen work of compliance

The Target Group designated Mr. Zhou, who has over 17 years of experience in risk management in pawn loan business, as an assistant general manager with responsibilities covering risk management aspects. As one of the senior management members of the Target Group, Mr. Zhou is responsible for the implementation of rectifications measures and improving the internal control system so as to enhance the compliance function of the Target Group.

Establishment of the internal control and compliance department to strengthen the supervision and execution of compliance work

The Target Group established the internal control and compliance department in August 2012. The department is led directly by the general manager of the Target Group (i.e. Mr. Zhang), who was joined by a practicing lawyer and a qualified PRC accountant. With a focus on the national monitoring policies, the interpretations and subsequent amendments thereto, as well as any change of the relevant regulations, the staff at the internal control and compliance department is expected to capitalise on their professional knowledge, experience and capabilities, and alert the senior management of the Target Group of any key issues that arise.

Expansion of the risk management department and engagement of an industry veteran as an external consultant

Since November 2011, the Target Group had employed two licensed legal professionals for its risk management department, responsible for the risk management and execution of compliance work during the course of business. In December 2011, the Target Group engaged Mr. Han Li (韓利), an industry veteran, as an external consultant to the Target Group. Mr. Han Li updates the senior management, as well as the internal control and compliance department and the risk management department of the Target Group on the regulatory requirements of the industry and discusses with them precedent industry cases. For details of Mr. Han Li's background and qualifications and the Target Group's engagement with Mr. Han Li, please refer to the paragraph headed "External consultant of the Target Group" in this section.

Since 2012, the Target Group had a number of discussions with external industry consultants. Based on the discussions, the Target Group revised its risk management systems such that it added delegated risk management and assessment duties to each of its Pawnbrokers and elected experienced business managers to assume such duties with responsibilities on risk management and execution of compliance work during the course of operation. The Target Group is of the view that such measure constitutes an effective precaution of risk.

Strengthening of authorisation and risk assessment

Since December 2011, the Target Group had been regularly updating the authorisations granted to its staff. Any loan applications with terms not falling within the authorised thresholds granted must be submitted to the loan approval committee for approval. The loan approval committee considers compliance matters as a prerequisite for approval of the relevant loan application, and therefore, a specific personnel at the committee is assigned to cautiously review the loan amount and the fee rates (including interest rate and composite administrative fee rate) against the relevant limits, so as to prevent the recurrence of non-compliance incidents of category (i), (ii) or (iii). The risk management department monitors the authorisations to the management staff of each Pawnbroker based on his experience and the specific circumstances of the relevant Pawnbroker. The risk management department also increases the frequency of regular operation examinations and formulates more detailed internal guidelines covering aspects from high-level daily management to the fill-in of pawn ticket, so as to avoid the recurrence of non-compliance incidents of category (ii).

Development of a tailor-designed electronic management system

The Target Group adopted a tailor-designed electronic management system, which helps streamline daily pawn loan business operations, strengthens internal communication and facilitates sharing of information between the head office and the Pawnbrokers, and it thus ensures a better internal control and centralised risk management functions of the Target Group. The system was developed by a third party software company in the second half of 2011 and its loan approval function began testing in November 2011. The electronic management system was designed in line with the risk management system and operating procedures of the Target Group. It maintains all customer information and records of assessment and approvals by staff and management related to a loan application. Relevant rules as set out in the Pawning Measures (such as the restriction on the interest and composite administrative fee level of a pawn loan, the restriction of the principal amount of a single pawn loan secured by real estate in proportion to the registered capital of the relevant Pawnbroker, the restriction of the outstanding pawn loan balance granted by a Pawnbroker to the same legal person or natural person in proportion to the registered capital of the relevant Pawnbroker, the restriction of the total outstanding balance of pawn loans secured by property rights and real estate, etc.) have also been embedded into the system as parameters, so as to ensure the compliance with the Pawning Measures in the loan approval process. If any of the suggested composite administrative fee rate, the interest rate or the principal loan amount as entered into the system is not within the said embedded thresholds in accordance with the Pawning Measures, a window carrying a warning statement will automatically pop up and the relevant loan application will not be able to be processed further until the exceeded term is revised to be within the allowed threshold. The embedded parameters will be modified by the third party software company upon approval from the general manager of the Target from time to time to accommodate any change in the regulatory requirements. The Target Group has also been gradually expanding the functionality of the electronic management system, so as to achieve a centralised storage of all loan business data for analysis of business trends and overall risk assessment, such as loan-to-value ratio fluctuations, and thereby enhance the risk management capabilities of the Target Group.

Currently, the approval and granting of each new pawn loan of the Pawnbroker is operated in the system as follows:

(1) Loan application: The customer service officer investigates into the customer's loan demand, reviews the customer's general information and the condition of the collateral, and files the reviewed information into the system. The information will not be submitted for further processing until an investigation opinion of the customer service officer and a reviewed opinion from another customer service officer are provided and recorded in the system. If the composite administrative fee rate and/or the interest rate exceeds the restrictions as set out in the Pawning Measures and embedded into the system, or the said investigation opinion is missing, the application will not be submitted for further processing.

(2) Loan approval: Upon completion of the above-mentioned procedures, the information will be submitted to the business manager for further review. If the business manager is satisfied with the information, the application will be submitted to the general manager of the relevant Pawnbroker for approval. If certain terms exceed the authorised approval thresholds of the general manager, the loan application will be submitted to the risk management department of the Target Group and the loan approval committee (as the case may be) for final approval. If the application is approved, the loan information will be further verified by the cashier before drawdown of the loan to the customer. In each step of review and approval, the relevant staff is responsible for verifying and ensuring, where applicable, that (a) the principal amount of a single pawn loan secured by real estate does not exceed 10% of the registered capital of the relevant Pawnbroker; (b) the total outstanding pawn loan balance granted to the same customer by the relevant

Pawnbroker does not exceed 25% of the registered capital of the Pawnbroker; (c) the total outstanding balance of pawn loans secured by real estate does not exceed the registered capital of the relevant Pawnbroker; and (d) the total outstanding balance of the pawn loans secured by property rights does not exceed 50% of the registered capital of the relevant Pawnbroker. If any of the above-mentioned restrictions is not met, the application will not be submitted to the next step for further processing.

(3) Collateral stock-in: Upon approval of the loan application, the customer service manager and the warehouse keeper will be responsible for handling the stock-in of the collateral.

(4) Drawdown of loan: After the stock-in and/or receipt of the relevant certificate of the pledged or mortgaged collateral (as the case may be), the loan will be granted to the customer.

As a result of the aforesaid, the electronic management system helps facilitate (i) the determination of the maximum loan amount that can be provided by each Pawnbroker to a single customer; (ii) the blocking of the loan transaction that would exceed the pre-determined threshold; and (iii) the calculation of and setting the limits on the interest and composite administrative fee payable under each loan transaction, all of which can assist the Pawnbrokers in complying with Articles 37 and 44(5) of the Pawning Measures, so as to prevent the recurrence of non-compliance incidents of categories (i), (ii) and (iii) as possibly arisen from manual errors by staff. The Target Group has upgraded and will continue to upgrade the system to adapt to any new regulatory and business requirements.

Strengthening of regular training on compliance

The internal control and compliance department has conducted training sessions together with the risk management department according to the internal policies of the Target Group. The training topics include updated risk management policies, key focus in assessing loan applications of new customers, areas of precautions during daily business operations, and discussion on business and approval procedures. The sessions are lectured by the manager of the internal control and compliance department, as well as the assistant manager of the risk management department. In addition, since January 2012, the Target had invited external consultants with expertise in compliance to give lectures to its management and staff for five times with a total of 378 training hours. In 2013, the Target Group broadened the training contents by covering extensive business non-compliance cases incurred in the industry and also established staff examinations. As of September 2013, the Target Group had conducted a total of 13 risk management and compliance-related training with a total of approximately 911 training hours, the staff's awareness of internal control was strengthened through supervisions and monitoring by each level of staff members, as well as the staff examinations held upon completion of the training courses.

As confirmed by the Target Group and the PRC Legal Adviser, following the implementation of the above-mentioned remedial measures, the Target Group had rectified all non-compliance incidents since December 2012 and the non-compliance incidents of the aforesaid categories ceased to exist thereafter.

(d) Consequence of historical non-compliance and potential penalties

The PRC Legal Adviser advised that, as set out in the Pawning Measures, the competent authorities of commerce at the provincial level have the right to order the relevant Pawnbroker whose operation fails to comply with the Pawning Measures to take remedial measures and impose on such Pawnbroker a penalty up to RMB30,000. In accordance with the verbal consultation conducted among the competent official of Beijing Municipal Commission of Commerce, the representatives of the Target Group and the PRC Legal Advisers on 26 July 2012 and 16 May 2014 respectively, the officials, being the researcher at the section level and deputy division chief respectively of the Service Trade Office of the Beijing Municipal Commission of Commerce, had made the decision that no action would be taken in respect of the non-compliance incidents which occurred from 2011 to end of July 2012. The official further confirmed, even if penalty was imposed, the penalty would not be calculated based on the number of incidents; instead, the non-compliance incidents that happened for each Pawnbroker within one year would be considered in aggregate as one case and according to the Pawning Measures the penalty would be no more than RMB30,000.

Pursuant to the Pawning Measures, the competent authority of commerce at provincial level has been authorised by the MOC to supervise and administer all affairs pertaining to annual examinations of and punishment for any non-compliance of a pawn loan company. In this regard, the Beijing Municipal Commission of Commerce, as an administration of commerce at provincial level, has been authorised to administer the pawn loan companies in its administrative region (i.e. Beijing), and therefore, the Beijing Municipal Commission of Commerce is the competent authority of the Pawnbrokers. According to the official website of the Beijing Municipal Commission of Commerce, the Service Trade Office is the responsible department for supervising and managing the industries relating to auction business, pawn loan business, rental business, automobile circulation, second-hand goods circulation, and renewable resources recycling. The PRC Legal Adviser is of the opinion that Beijing Municipal Commission of Commerce is the appropriate and competent governmental authority to handle the non-compliance incidents of the Target Group over the Track Record Period and that the researcher at the section level and deputy division chief of the Service Trade Office of the Beijing Municipal Commission of Commerce are competent officials to make the aforesaid confirmation.

According to the Pawning Measures, when a pawn loan company violates the first paragraph of Article 37 that the interest rate of a pawn loan is not determined based on the six-month statutory interest rate of loans of banking institutions as announced by the PBOC, it could be ordered to make remedies and be subject to a fine ranging from RMB5,000 up to RMB30,000 by the competent authority of commerce at provincial level. When a pawn loan company violates Article 44(5) that the total outstanding balance of real estate pawn loan exceeds the registered capital of the relevant pawn loan company and/or the principal amount of a single pawn loan secured by real estate exceeds 10% of the registered capital of the relevant pawn loan company, it could also be ordered to make remedies and be subject to a fine ranging from RMB5,000 up to RMB30,000 by the competent authority of commerce at provincial level.

As advised by the PRC Legal Adviser, there has not been a clear standard for punishment set out in the Pawning Measures and therefore the verbal consultation has been made with the Beijing Municipal Commission of Commerce as the competent authority of the Pawnbrokers, to obtain a clarification with respect to the punishment standard on the non-compliance incidents of the Target Group during the Track Record Period. The PRC Legal Adviser is of the opinion that the punishment principles (including the maximum penalty) as confirmed by the official is not inconsistent with the relevant rules and regulations.

In light of the above, the PRC Legal Adviser advised that the possibilities of receiving any penalties from the Beijing Municipal Commission of Commerce is very low. The Target Group believes that in the event of being punished by the Beijing Municipal Commission of Commerce, the fine is unlikely to exceed RMB100,000 and will not cause any material adverse impact on the operations of the Target Group.

As confirmed by the PRC Legal Adviser, pursuant to article 52 of the PRC Contract Law, a contract shall be void if the content of which violates the provision of laws or administrative regulations. Pursuant to Article 71 of Legislation Law of the PRC (中華人民共和國立法法), each ministry under the State Council could, in accordance with the administrative regulations, decisions and orders of the State Council and within the scope of its respective authority, enact rules. The Pawning Measures were promulgated by the MOC and the Ministry of Public Security and are categorised as rules of the ministry rather than laws and administrative regulations. As such, the contracts entered into between a customer and the Target Group with terms violating the provisions of Pawning Measures would not be void.

The interest rate charged on a pawn loan by the Target Group does not exceed four times of prevailing six-month PBOC benchmark RMB lending rate of the financial institutions, thus, not in breach of the provision as set out in the Certain Opinions of the Supreme People's Court on the Trial of Loan Cases (最高人民法院關於人民法院審理借貸案件的若干意見). The PRC Legal Adviser confirmed that in the event that a customer initiates a legal proceeding against the Pawnbroker for the refund of the excess interest charged by the relevant Pawnbroker as a result of the non-compliance incident of category (ii), the possibility of the court's ordering the Pawnbroker to refund the excess interest is remote.

According to the relevant regulations in the PRC, the period of actions for a pawn loan customer on a request to the People's Court for protection of civil rights is two years, on the expiration of which the pawn loan customer is without redress. The competent authority of commerce implements a two-year time limit for administrative penalty. Administrative penalties will not be imposed if the illegal conduct in question is not discovered within a period of two years. Considering that the incidents of category (ii) had been eliminated since 9 February 2011, and the incidents of the category (iii) had been eliminated after 31 December 2011, the relevant period of actions against the Pawnbrokers with respect to such incidents of these two categories had past two years and the pawn loan customers had ceased to have the right to file a request for refund of excess interest on the PRC courts. Furthermore, in accordance with the aforementioned provisions, the competent authority of commerce would not subject the Pawnbrokers, with respect to the non-compliance incidents of categories (ii) and (iii), to administrative penalty.

In addition, the Commission of Commerce of Haidian District, Beijing had issued a written certification on 9 December 2013, certifying that Beijing Jinfu (including its branch companies) had been in compliance with all relevant laws and regulations such as those in the Pawning Measures in its operations since the 1 January 2012, and had never been subject to any form of penalisation for non-compliance with the above-mentioned laws and regulations. The Commission of Commerce of Mi Yun County, Beijing (北京市密雲縣商務委員會) also issued a similar written certification on 9 December 2013, certifying that Beijing Jinlu had been in full compliance with all relevant laws and regulations such as those in the Pawning Measures since 1 January 2012. On 19 December 2013, the Commission of Commerce of Shijingshan District, Beijing (北京市石景山區商務委員會) issued a written certification, certifying that Beijing Jinshou had always executed its business in accordance with laws, and had never been subject to any form of penalisation by the authorities of commerce since 1 January 2011. Moreover, when undergoing annual inspection as is required by the rules and regulations in the Pawning Measures, Beijing Jinshou was awarded a rating of "A", which demonstrated that Beijing Jinshou had not been engaged into any activities which violated laws and regulations. The Commission of Commerce of Xicheng District, Beijing (北京市西城區商務委員會) issued a written certification on 10 December 2013, certifying that (i) since 1 January 2012, Beijing Jinxi had passed the annual inspections in accordance with the relevant provisions in the Pawning Measures and the Regulation for Supervision of Pawning and (ii) since 1 January 2013, the Commission of Commerce of Xicheng District, Beijing had not, in the course of its supervision, discovered any problems of Beijing Jinxi with respect to operations beyond its scope of business, charging excessive fee rate or granting single loans exceeding permitted percentage. Moreover, when undergoing annual inspection as is required by the rules and regulations in the Pawning Measures, Beijing Jinxi was awarded a rating of "A", which demonstrated that Beijing Jinxi had not been engaged into any activities which violated laws and regulations.

According to Article 64 of the Pawning Measure, the competent authorities of commerce at the level of cities (prefectures) is responsible for regulating any illegal conduct undertaken by the pawn loan companies, by ordering to make remedies and/or subjecting them to penalisation. Since Beijing is a municipality directly under the central government (equivalent to the level of provincial), the above-mentioned commissions of commerce of the relevant districts or county is equivalent to the competent authorities of commerce at the level of cities (prefectures). According to Article 8 of the Regulation for Supervision of Pawning (issued by the MOC and implemented on 5 December 2012), the competent authorities of commerce at the prefectural level (including districts and counties of municipalities directly under the central government and counties directly under a province) shall be responsible for the routine supervision and administration of the pawn loan industry within their respective area. Meanwhile, according to the websites of the commission of commerce of the respective districts or county, these commissions oversee the regional management of the pawn loan industry, which includes ensuring that the relevant screening provisions with respect to safety are strictly adhered to in the course of examinations, inspecting previously approved pawn operation business licences, and also collaborating with the relevant authorities to lawfully ban and suppress any unlicenced pawn loan business operations. In summary, Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi shall be supervised by the Commission of Commerce of Haidian District, Beijing, the Commission of Commerce of Mi Yun County, Beijing, the Commission of Commerce of Shijingshan District, Beijing and the Commission of Commerce of Xicheng District, Beijing, respectively. These commissions will have jurisdictions over pawn loan businesses and will have the authorities to inspect and examine the operations of the Pawnbrokers for any illegal conduct. They are qualified to issue certificates or verbal confirmations of compliance, both of which may be relied upon.

Taking into account the aforesaid, the PRC Legal Adviser confirmed that:

(1) given that the competent official of Beijing Municipal Commission of Commerce had verbally made the decision that no actions in respect of the non-compliance incidents would be taken, and that the Pawnbrokers had taken remedial measures since July 2011, as well as that new non-compliance incidents had ceased to exist since 1 January 2012, the non-compliance incidents stated above would not cause any material adverse impact on the operations of the Pawnbrokers;

(2) the Commission of Commerce of Haidian District, Beijing, the Commission of Commerce of Mi Yun County, Beijing, the Commission of Commerce of Shijingshan District, Beijing and the Commission of Commerce of Xicheng District, Beijing had issued written certifications with respect to Beijing Jinfu (including its branch companies), Beijing Jinlu, Beijing Jinshou and Beijing Jinxi respectively, which certified that each of the Pawnbrokers had conducted their businesses in compliance with regulations and had not been imposed any forms of penalisation since 1 January 2012;

(3) each Pawnbroker (including its branch companies) had passed all the annual inspections conducted by the Beijing Municipal Commission of Commerce during the Track Record Period and been awarded the ratings of "A". In addition, each Pawnbroker (including its branch companies) had obtained the respective pawn operation business licence issued by the MOC and its equity transfer and legal representative alternation and other alternation had all been approved by the Beijing Municipal Commission of Commerce during the Track Record Period, and currently there did not exist any circumstances in which the pawn operation business licences and the aforesaid activities would be voided, revoked and reclaimed;

(4) the amount of interest charged on a loan by the Pawnbrokers did not exceed four times of prevailing six-month PBOC benchmark RMB lending rate of the financial institutions, thus not in breach of the relevant provision as set out in the Certain Opinions of the Supreme People's Court on the Trial of Loan Cases; and the PRC Legal adviser confirmed that in the event that a customer initiates a legal proceeding against the Pawnbroker for the refund of the excess interest charged by the relevant Pawnbroker as a result of the

non-compliance incident of category (ii), the possibility of the court's ordering the Pawnbroker to refund the excess interest is very low; and

(5) in accordance with the PRC Contract Law, violations of the Pawning Measures would not render the contracts executed between the Pawnbrokers and the customers invalid and the Pawning Measures do not require forfeiture of interest income derived from any non-compliant loans; consequently the income derive from such loans is legal income, and therefore the validity of the loan agreements would not be affected by the above non-compliance incidents.

Having considered the background of and the reasons for the historical incidents of non-compliance with the Pawning Measures in respect of new pawn loans granted during the Track Record Period and the exceedance of outstanding balance of real estate pawn loans over the registered capital of the relevant Pawnbroker as at 31 December 2011, the implementation of the remedial measures by the Target Group since 2011 and the confirmations by the Target Group and the PRC Legal Adviser that all incidents of non-compliance were rectified or eliminated as of November 2012 and no incident of non-compliance had occurred since then, Optima Capital, as the financial adviser appointed by the Company to conduct due diligence over the Target Group in accordance with Practice Note 2 of the GEM Listing Rules, is of the view that nothing has come to its attention which would lead it to believe that (i) the directors of the Target Group do not meet the suitability requirement under Rules 5.01 and 5.02 of the GEM Listing Rules; and (ii) the Target Group is not suitable for listing under Rule 11.06 of the GEM Listing Rules as a result of the above-mentioned incidents of non-compliance, where material.

EXISTING DIRECTORS AND SENIOR MANAGEMENT OF THE TARGET GROUP

At present, there is no intention to change the composition of the Board upon Completion. Ms. Sung Ting Yee ("**Ms. Sung**"), being the chief financial officer and chief investment officer of the Company, has been responsible for the establishment of Colors Finance Limited, a company principally engaged in the money lending business in Hong Kong, including the obtainment of the necessary licences and overseeing the design of the computerised record-keeping system. Colors Finance Limited was incorporated on 1 February 2011 and subsequently commenced its business on 1 June 2012. Upon the commencement of business of the aforesaid company, she is responsible for overseeing the daily operation of the business of the company, including but not limited to, the credit review and risk assessment of loans, the financial reporting function and the compliance with relevant rules and regulations. As such, Ms. Sung has relevant knowledge and expertise to operate and oversee the businesses of the Target Group. Meanwhile, the Group will retain the board of directors and the senior management of the Target Group to manage the daily operation of the businesses of the Target Group.

The board of directors of the Target Group is responsible and has the authority for the management and operations of the business of the Target Group. As at the Latest Practicable Date, the board currently consisted of two executive directors and one non-executive director.

Name	Age	Position	Date of first becoming a director	Roles and responsibilities
Mr. Zhang Wei (張偉) ("**Mr. Zhang**")	46	Executive director of the Target and general manager of Beijing Wanchi	15 November 2012	Operation and management
Ms. Li Wei (李巍) ("**Ms. Li**")	37	Executive director of the Target and assistant general manager of Beijing Wanchi	15 November 2012	Human resources administration and management
Ms. Jin	43	Non-executive director of the Target	19 June 2012	Strategic planning and development

Directors of the Target Group

Mr. Zhang, aged 46, is one of the two executive directors of the Target, as well as the general manager of Beijing Wanchi and is responsible for the Target Group's operation and management. Mr. Zhang joined the Target Group in June 2008 and was responsible for the operation and risk management of the Target Group before being appointed as an executive director in November 2012.

Mr. Zhang has more than 20 years of experience in the financial management field. He obtained a diploma in banking management (銀行管理專業文憑) from the former Harbin Senior Finance College (哈爾濱金融專科學校) (now known as Harbin Finance University (哈爾濱金融學校)) in July 1990. Prior to joining the Target Group, Mr. Zhang worked at the Industrial and Commercial Bank of China, Beijing Cui Wei Road Branch from December 1990 to May 2008. He was the manager of the business department and responsible for the development, handling and maintaining the loan business of the branch.

Ms. Li, aged 37, is one of the two executive directors of the Target and the assistant general manager of Beijing Wanchi, and is responsible for the Target Group's human resources administration and management. Ms. Li joined the Target Group in September 2009 and was appointed as an executive director in November 2012.

Ms. Li obtained her bachelor's degree in corporate management (企業管理學士學位) from Tianjin Normal University (天津師範大學) in July 1999. In June 2008, she obtained a master's degree in management (管理學碩士學位) from Tianjin University (天津大學). Ms. Li also completed a CEO advanced finance training programme (總裁高級金融專修課程) from the School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in August 2011. Since March 2012, Ms. Li has been attending a private equity and corporate listing advanced training programme (私募股權投資與企業上市高級研修課程) organised by the HSBC Business School of Peking University (北京大學滙豐商學院).

Ms. Li has more than ten years of experience in human resources management and had worked in the human resources department of Panasonic Industrial Devices (Tianjin) Co. Ltd. (天津松下電子部品有限公司) between September 1999 and March 2003 as a human resources management manager (人事企劃經理), Tianjin Jindong Real Estate Development Co., Ltd (天津市津東房地產開發集團有限公司) between March 2003 and October 2005 as a human resources manager, Allcen Consulting Co. Ltd (世紀縱橫(北京)管理諮詢有限公司) as a human resources project consulting manager (人力資源諮詢項目經理) between March 2006 and November 2007. Ms. Li also worked in a subsidiary of XinAo Gas Holdings Limited (currently known as ENN Energy Holdings Limited (新奧能源控股有限公司)) (stock code: 2688), where she was also involved in human-resources-related matters.

Ms. Jin, aged 43, was appointed as a non-executive director of the Target in June 2012. Ms. Jin regularly attends the board meetings of the Target on strategic planning matters but does not engage in the day-to-day management of the Target Group. Ms. Jin has more than ten years of experience in procurement and management. She has been a director and the general manager of the procurement department of Zhongfa Enterprise.

Ms. Jin studied at Heilongjiang University (黑龍江大學) from June 1994 to June 1997 and completed a professional adults' education programme in finance. She also obtained an executive master of business administration (高級管理人員工商管理碩士學位) from Wuhan University (武漢大學) in June 2007.

Senior management of the Target Group

Mr. Zhou Zhongbin (周忠斌, formerly named as 周中斌 in Chinese ("**Mr. Zhou**")), aged 65, was appointed as an assistant general manager of the Target in May 2011, has subsequently been designated to oversee risk management aspects of the Target Group since 2012. Mr. Zhou joined Harbin Jinfu in January 1996 and was responsible for formulating the operational procedures and regulations. Since March 2007, Mr. Zhou has been the general manager of Beijing Jinfu and Beijing Jinlu.

Mr. Zhou has more than 16 years of experience in pawnbroking and risk management. Mr. Zhou graduated from tertiary class (大專班生) from Correspondence Institute of the Party School of C.C. of the C.P.C. (中共中央黨校函授學院) in June 1993 through long distance learning, majoring in economics and management. He is a qualified economist in the PRC.

Ms. Weng Jingmei (翁京梅) ("**Ms. Weng**"), aged 38, is the chief financial officer of the Target Group. She joined the Target Group in 2012. Ms. Weng is a certified public accountant of the State of Washington of the United States of America and is a certified internal auditor of the Institute of Internal Auditors in the United States of America.

Ms. Weng obtained a bachelor's degree in economics from the Central University of Finance and Economics (中央財經大學) in July 1998. She obtained the master's degree in economics from Loughborough University in the United Kingdom in December 2004. Prior to joining the Target Group, Ms. Weng held the position of chief financial officer in a company which was principally engaged in bio-technology business and was responsible for auditing and financial reporting. Ms. Weng has more than 10 years of experience in internal auditing, internal control, financial management and listing-related issue.

External consultant of the Target Group

Mr. Han Li, aged 36, was appointed by ZJF Investment as the legal adviser to handle the legal matters of the Target Group on 1 December 2011. Mr. Han Li received his bachelor's degree of Law from Peking University, the PRC and he is a qualified lawyer in the PRC. Mr. Han Li is a member of the Chinese Lawyer's Association (中華全國律師協會), Beijing Lawyers Association (北京律師協會). He is also a member of Beijing Federation of Industry & Commerce (北京市工商業聯合會) and committee member of and legal adviser to Beijing Credit Guarantee Association (北京信用擔保業協會) and the legal adviser to Beijing Pawn Trade Association (北京市典當協會). Mr. Han Li has been legal adviser to various enterprises in the PRC and has extensive experience in the short-term financing industry. Mr. Han Li was appointed by ZJF Investment under an agreement for a term of two years from 1 December 2011 to 30 November 2014 and such agreement shall be renewed upon expiration of the term unless terminated by Mr. Han Li or ZJF Investment. Beijing Wanchi shall enter into a new agreement with Mr. Han Li upon Completion and the accordingly original agreement entered into between Mr. Han Li and ZJF Investment shall be terminated.

COMPETING INTERESTS HELD BY THE SHAREHOLDERS, DIRECTORS AND SENIOR MANAGEMENT OF THE TARGET GROUP

All of the existing shareholders (i.e. the Dai Family, as the ultimate shareholders of the Target), the directors of the Target and the senior management members of the Target Group have confirmed that they did not have any interests in any other businesses which compete, or may compete, with the Target Group's businesses, save and except for the interests held indirectly by the Dai Family in several other companies which conduct similar businesses to the Target Group's business, namely 沈陽金融商貿開發區中金福小額貸款有限公司(Shenyang Business and Finance Development District Zhongjinfu

Micro-financing Company Limited*) ("**Shenyang Micro-financing**"), 哈爾濱市南崗區中金福小額貸款有限責任公司 (Harbin City Nangang District Zhongjinfu Micro-financing Company Limited*) ("**Harbin Micro-financing**") and 武漢小額信貸服務平臺股份有限公司 (Wuhan Micro-financing Services Company Limited*) ("**Wuhan Micro-financing**") (collectively, the "**Similar Businesses**").

While both Shenyang Micro-financing and Harbin Micro-financing are engaged in the micro-financing business (the same as Beijing Micro-financing), they are both based outside of Beijing, where the Target Group operates. As cross-region operation by Beijing Micro-financing is not allowed by regulations, both Shenyang Micro-financing and Harbin Micro-financing are not considered to be in competition with Beijing Micro-financing or the Target Group. Wuhan Micro-financing tends to focus more on policy and product research in Wuhan, the business focus of which is different from that of the Target Group; thus Wuhan Micro-financing is not considered to be in competition with the Target Group either. In view of these, the directors of the Target Group do not consider the Similar Businesses as competing businesses to the Target Group's businesses and the Company has no intention to acquire the Similar Businesses after Completion.

COMPETITIVE STRENGTH OF THE TARGET GROUP

One of the leading pawn loan service providers in Beijing

According to the Euromonitor Report, the Target Group is the fourth largest pawn loan groups in Beijing as measured by the aggregate registered capital in 2012. As at the Latest Practicable Date, the Target Group had seven outlets providing pawn loans in Beijing. Furthermore, as the total outstanding balance of loan that can be provided by a pawn loan company to the same legal or natural person or the maximum amount of loan that can be provided for a single real estate pawn loan is subject to thresholds being determined with reference to the registered capital of a pawn loan company, the Target Group can leverage the aggregate capital base of the Pawnbrokers to provide a larger amount of loan to a single customer and to offer greater flexibility to the customers as compared to other pawn loan companies with smaller aggregate capital base. The solid foundation provides the Target Group with a competitive advantage to capture the potential market growth opportunities for short-term financing services in Beijing.

A provider of integrated financial services to satisfy the needs of the customers

The integrated financial services include the provision of short-term financing services covering pawn loans, micro-financing, entrusted loans, and also financial consultancy services. The business diversity enables the Target Group to provide comprehensive financial services to the customers, where they can obtain quick and efficient financing and financial advices to suit their various financing requirements. Apart from the provision of secured loans (including pawn loans and mortgage loans), the Target Group can also provide guaranteed or credit loans to the customers through Beijing Micro-financing since January 2013. The Target Group commenced the provision of the financial consultancy services by assisting customers to obtain the required financing,

* *for identification purpose only*

exploring financing solutions and introducing appropriate financing providers, allowing the Target Group to provide the customers with larger amount of financing, through Beijing Wanchi since October 2012. The Target Group has also recently started to offer investment consultancy service with respect to fixed asset investments, which allows the Target Group to gradually integrate into a provider of multi-financial services which could accommodate different financial requests (either financing demand or investment intention) of different customers.

An established network and customer base in Beijing

Having been engaging in the pawnbroking business in Beijing since 2002, the Target Group has an established customer base as evidenced by the record that more than 48%, 52% and 45% of the pawn loan customers for the three years ended 31 December 2011, 2012 and 2013, respectively, were repeat customers. Furthermore, 7, 7 and 8 of the top ten customers during the Track Record Period were repeat customers. The Target Group has maintained a strong presence in Beijing in 12 years of operation. The long local presence and leading market position help enhance the brand recognition among the local customers. Through 12 years of operations in Beijing, the Target Group has in-depth local knowledge that helps provide services catered for the needs of the local customers and helps the Target Group make quick and informed decisions on collateral appraisal, particularly the real estate properties. It is believed that an established customer base provides the Target Group with a stable stream of business in the pawnbroking business as well as potentially offering cross-selling opportunities for micro-financing, entrusted loan business and financial consultancy business.

Being awarded the rating of "A" by the Beijing Municipal Commission of Commerce in annual inspection for three consecutive years

The Pawnbrokers had consistently been awarded the rating of "A", which is the highest grade, from the Beijing Municipal Commission of Commerce, which takes into account the legal and regulatory compliance and financial condition of the Pawnbrokers, during the Track Record Period. It is also expected that such rating allows the Target Group to obtain bank borrowings and/or negotiate for better terms. The access to additional capital enables the Target Group to take advantage of growth opportunities and contributes to continued expansion.

An experienced management team

The long presence in the pawn loan industry in the PRC has provided the Target Group with solid industry knowledge and extensive operational experience in the short-term financing service. In addition, the Target Group has an established and experienced senior management team possessing relevant experiences in the pawnbroking and short term financing industry, and capable of managing the business and operations of the Target Group. In particular, Mr. Zhang, the director and general manager of the Target Group, has over 20 years of experience in loan and credit risk management and has worked at the Industrial and Commercial Bank of China Limited, for approximately 18 years. Ms. Li, the director and assistant general manager of the Target Group, has more than ten years of experience in human resources administration and management. Mr. Zhou, another assistant general manager of the Target Group and the general manager of Beijing Jinfu and Beijing Jinlu, has accumulated more than 17 years of experience in the pawn loan service industry, and Ms. Weng, the chief financial officer of the Target Group, has more than 10 years of experience in internal auditing, internal control, financial management and listing-related issues. They have a proven track record of managing the operations of the Target Group and achieving growth for the Target Group.

The Target Group relies on the in-depth local knowledge and extensive experience of the management team in daily operations to identify potential credit risks with respect to loan applicants and quality of the collaterals during the loan approval and collateral appraisal processes. The general managers of the Pawnbrokers have an average of 10 years or more of experience in financial-related industries. Moreover, the general managers of the Pawnbrokers have built long and on-going working relationships with the local SMEs and their proprietors, who trust the professionalism of the management and staff of the Target Group based on past experience.

FINANCIAL AND TRADING PROSPECTS OF THE TARGET GROUP

The Target Group has been focusing on the short-term financing business in the PRC. Over the Track Record Period, the pawn loan business has been the core business of the Target Group while increasing focuses have gradually been extended to new businesses, including the financial consultancy, entrusted loan and micro-financing businesses.

As discussed in the section headed "Financial Information of the Target Group" and also as shown in the accountant's report on the Target Group set out in Appendix II of this circular, the revenue contribution (as a percentage of the total interest and fee income of the Target Group) of the new businesses (i.e. the financial consultancy business, entrusted loan business and micro-financing business) has been gradually rising, as a result of the Target Group's strategies to expand the new business segments with a view to fulfilling the growing and diversifying financing demands from SMEs and small business owners.

As at the Latest Practicable Date, the Target Group was not aware of any significant change to the short-term financing industry in the PRC that could have material adverse impact on the performance and outlook of its businesses. The Target Group has remained positive on the short-term financing demand from SMEs and small businesses owners and has continued to (and expects to continue to) develop its core pawn loan business and augment the capacities of the newly developed or newly incorporated financial consultancy, entrusted loan business and micro-financing businesses.

As at the Latest Practicable Date, the Target Group recorded steady turnover generated from each of the pawn loan business, micro-financing business, entrusted loan business and financial consultancy business, and the new businesses have continued to account for an increasing portion of the total interest and fee income of the Target Group, in line with the trend as noted over the Track Record Period.

Looking ahead, the Target Group expects to continue to expand the scale of operation of its new businesses through a number of business development plans and strategies, details of which have been set out in the sections headed "Business Strategies and Future Development Plans of the Target Group" and "Business Plan of the Group with respect to the Target Group" below in this letter from the Board.

BUSINESS STRATEGIES AND FUTURE DEVELOPMENT PLANS OF THE TARGET GROUP

The primary goal of the Target Group is to maintain and strengthen its position as a leading short-term financing service provider in Beijing and to expand its geographical presence in the PRC. The Target Group plans to achieve its goal by implementing the following strategies:

Enhancing service capacity by diversifying the short-term financing services

As a result of the growing number of SMEs due to the economic growth in the PRC and the difficulties for SMEs to obtain financing from commercial banks, there is a growing demand amongst SMEs and small business owners for alternative means of short-term financing. In light of this, in addition to the pawn loan business which is the core business of the Target Group, the Target Group also plans to further develop the financial consultancy business and entrusted loan business and micro-financing business. The revenue of the financial consultancy services and entrusted loan services has been growing remarkably during the year ended 31 December 2013. Leveraging on its competitive strengths, in particular, its experience and success in the pawn loan business and the established network and customer base in Beijing, the Target Group believes that the financial consultancy business, entrusted loan business and micro-financing business will continue to grow and complement the pawn loan business by offering the customers a wider selection of financial services and solutions.

Strategically expanding business operations to other regions in the PRC

The Target Group plans to strategically expand the business operations to other economically robust regions in the PRC with a large number of SMEs and small business owners, by acquisitions of short-term financing businesses with an appropriate customer demographic profile that supplements the current business model of the Target Group. The Target Group has conducted preliminary market research and feasibility studies for the other cities of the PRC, such as Shenyang, but as at the Latest Practicable Date, no merger and acquisition targets have been identified and the Company did not intend to acquire the Similar Businesses after Completion.

Continuing to recruit, promote, train and retain skilled and competent employees

The Target Group plans to actively seek skilled and competent individuals to support the business growth and the implementation and execution of other business strategies with a view to enhancing the service capacity and expanding the business. The Target Group plans to hire senior management staff externally through open recruitment or promote competent individuals within the Target Group to fill such vacancies. Other staff shall be identified and employed through an open recruitment process advertised online or at career exhibitions. The Target Group continues to provide comprehensive training to both new and existing employees to further improve their professional skills, industry knowledge and to raise their awareness about the compliance with regulatory requirements. The Target Group believes that these measures will help them to build up a strong team for future growth and development.

BUSINESS PLAN OF THE GROUP WITH RESPECT TO THE TARGET GROUP

The Group is principally engaged in property investments and coal trading business between the PRC and Indonesia. Upon Completion, the Enlarged Group's business will be further diversified through the Target Group into short-term financing services in the PRC including (i) pawn loan services; (ii) entrusted loan services; (iii) financial consultancy services; and (iv) money lending services in permitted area in Beijing, the PRC.

The Group considers that the Acquisition provides an excellent investment opportunity for the Group to enhance its revenue sources, improve its financial results and provide better return to the Shareholders in the long run. The Group has discussed with the management of the Target Group to understand the future business plan of the Target Group and concurs with the business direction of the Target Group to further develop the micro-financing business in the future. The Board intends to increase the registered capital of Beijing Micro-financing after Completion. Such increase in the registered capital will expand the scale of operation and provide additional funds to capture more business opportunities. As at the Latest Practicable Date, the amount of the increase in registered capital has not yet been determined because it is subject to the approval from the relevant authorities in the PRC. It is intended that the additional capital for such increase in registered capital will be contributed by the Target using the dividends distributed to it by Beijing Micro-financing. In addition, the Target Group is considering obtaining additional funding by means of borrowing from external parties to enhance the lending capacity of the entrusted loan business of Beijing Wanchi, detailed terms of which have not yet been determined as at the Latest Practicable Date.

Moreover, regarding the geographical expansion plan of the Target Group as aforesaid, while there have not been any concrete business plans nor have any merger and acquisition targets been identified as at the Latest Practicable Date, the Target Group will continue to conduct the relevant market research and feasibility studies for extending its business reach into other cities of the PRC, such as Shenyang. The Dai Family currently has indirect equity interests in certain micro-financing companies which operate outside of Beijing (i.e. the Similar Businesses) and as at the Latest Practicable Date, the Company did not intend to acquire the Similar Businesses after Completion. The Group intends to formulate the future business expansion plans regarding the Target Group with the management of the Target Group after Completion.

It is expected that the Target Group will continue to finance its operations and future capital expenditures (if any) with its internal resources upon Completion. In this regard, the Group considers that there are no potential impacts on the Group's funding requirement or liquidity.

SOURCE OF FUNDING

The Target Group has historically met the capital expenditure, working capital and other liquidity requirements from the paid-in capital, the bank borrowings, borrowings from related parties, and retained earnings.

As at 31 December 2013, the bank borrowings of the Target Group amounted to approximately RMB20.7 million, the amount due to related parties were approximately RMB6.8 million and the retained earnings were approximately RMB66.9 million.

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Paid-in capital	110,000	110,000	160,000 *(Note)*
Bank borrowings	70,160	–	20,745
Amount due to related parties	4,273	9,598	6,799
Retained earnings	83,845	80,940	66,905

Note: As at 31 December 2013 and the Latest Practicable Date, the Pawnbrokers, in aggregate, had registered capital of RMB110 million and Beijing Micro-financing had registered capital of RMB50 million.

INTERNAL CONTROL AND RISK MANAGEMENT MEASURES OF THE TARGET GROUP

Internal control and risk management is essential for the business to operate effectively and efficiently.

The internal control and risk management functions of the Target Group are mainly performed by (i) the loan approval committee; (ii) the risk management department; and (iii) the internal control and compliance department.

Loan approval committee

The loan approval committee of the Target Group is responsible for, among other matters, reviewing and approving (i) pawn loan transactions where the amount of the loan to be approved exceeds a pre-determined threshold; (ii) entrusted loan transaction; (iii) financial consultancy service and (iv) the guaranteed loans or credit loans where the amount of the loan to be approved exceeds a pre-determined threshold/above the delegated level of authorisation.

The loan approval committee currently consists of one chairman, a role that is taken up by the general manager of the Target Group, and three standing committee members, which include the head of the risk management department, the head of the operations department and the director of the finance department. Each loan approval committee meeting must be attended by at least two members of the loan approval committee and one representative from the pawnbroking chain or outlet involved in the loan application(s) to be reviewed at the meeting. Other members of the relevant pawnbroking chain outlet, the internal control and compliance department, the risk management department, the operations department and the finance department may be invited to attend and/or express their opinion when necessary. The loan approval committee has the power to approve, reject and impose conditions to the approval of loans.

Risk management department

The risk management department is led by Mr. Zhou and consists of four other members, two of which are qualified lawyers in the PRC. The other members have more than five years of experience in risk management work. Mr. Zhou's biography can be found in the paragraph headed "Senior Management of the Target Group" of this circular.

The risk management department plays an important role in managing credit risks, legal risks, operational risks and other types of risks that the Target Group may be exposed to. The risk management department is responsible for documenting, maintaining and updating internal risk management guidelines and organising trainings for the staff. It conducts internal inspection of collateral valuations and loan documentation of new real estate and automobile pawn loan transactions and certain new industrial machinery or personal property pawn loan transactions and entrusted loan, usually those of higher value, to ensure compliance with the Pawning Measures and the internal guidelines. Any material irregularities identified in respect of payment of interests and comprehensive service fees by the customer, the financial condition of the customer or the value of the collateral, the risk management department will work with the relevant chain outlet to work out a contingency plan. If the irregularity is found to affect a class of collateral or if there is a change in the overall economy or the regulatory environment, the risk management department will assess its impact on all pawn loan and entrusted loan transactions and issue guidance materials to all chain outlets. The department is also in charge of monitoring the overall credit risk portfolio, compiling monthly data for review by senior management of the Target Group and producing a quarterly report on the same at the quarterly operations meetings.

Internal control and compliance department

In August 2012, the Target Group set up the internal control and compliance department to strengthen supervision and implementation of internal control and compliance. The new internal control and compliance department was led by the general manager of the Target Group directly, accompanied by a practicing lawyer and a certified public accountant who worked in an accounting firm and the State Development Bank of China for years. They are responsible for the interpretation of relevant laws and regulations as well as keeping track of other changes in the regulatory policies. With their professional knowledge, experience and ability, they can assist the Target Group in complying with the relevant rules and regulations, and provide timely notification to the management.

The Target Group adopts the following internal control and risk management measures for the businesses of the Target Group.

Selecting customers by conducting credit and background checks

To ensure the borrower's creditworthiness, the Target Group conducts credit checks and requires the customers to supply identification documents and other information to ascertain their identity, family and financial background. The business transactions department will decide whether or not to proceed with the application after assessing the initial information provided in accordance with the internal guidelines.

If there is an occurrence of one or more of the following circumstances, the loan application will be rejected:

(i) insufficient document or information to ascertain the identity of customer;

(ii) insufficient document or information to ascertain the ownership of the property to be pawned; or

(iii) insufficient title documents to complete the mortgage registration or to allow the Pawnbroker to claim the right over the property in the event of default.

Maintaining the quality of the collateral portfolio

As a matter of risk management, the Target Group mainly accepts real estate properties, automobiles, industrial machinery, equity interests and personal properties such as jewellery and luxury watches, as collateral for the pawn loans, because such properties are marketable and realisable in second-hand and scrap markets and therefore reduce the risk exposure. As at the Latest Practicable Date, in terms of number of transactions, over 20% of the collateral backing the pawn loans are real estate properties and all of the real estate properties mortgaged to the Target Group as collateral are located in Beijing.

Apart from being selective on the type of properties that may be accepted as collateral for the loans, the Target Group also has standard procedures for checking the source, ownership, market value and, if applicable, the performance in respect of the particular property to be pawned. The Pawning Measures prohibit the acceptance of objects of unknown origin as collateral. The Target Group has procedures in place to trace and ascertain ownership of the asset proposed to be pledged or mortgaged as collateral for the loans. A pawn loan applicant must provide the Pawnbrokers with the original purchase invoice and other proof of title in respect of the property proposed to be pawned. In accordance with the internal guidelines for the review of loans, the customer service officer verifies information received from the loan applicant in respect of the property, inspects it together with another member of the staff, checks its source, ownership, market value and, if applicable, performance, completes an on-site inspection form and prepares a written report based on the information reviewed and verified.

Adopting a prudent approach to collateral valuation

Over the years, the Target Group has developed a set of policies and procedures for collateral valuation. The Target Group relies on different sources to estimate the value of the proposed collateral, including internet research on recent transaction prices of the collateral and the employees' experience in evaluating similar collateral in the past. Regarding personal properties, the Target Group uses the lowest valuation from the various sources for determining the amount of loan to be granted.

Maintaining at all times a loan-to-value ratio based on internal guidelines

The loan-to-value ratio of a loan is the principal amount of the loan expressed as a percentage of the total appraised value of the underlying collateral. According to the internal guidelines, the Target Group tries to limit the loan-to-value ratios to (i) less than 70% for real estate pawn loans; (ii) less than 85% for automobiles; and (iii) less than 100% for precious metal, so as to help minimise the exposure to losses resulting from collateral mis-evaluations, market fluctuations and obsolescence and borrower defaults. To ensure flexibility in daily practice, the Target Group may approve a loan application that exceeds the suggested loan-to-value ratio limits if the loan applicant is a repeat customer with a good credit history and/or the quality of the property proposed to be pawned is high.

In order to monitor for any material downward movement of the loan-to-value ratio of each real estate pawn loan, the customer service officer of the relevant Pawnbroker will review the condition of the mortgaged collateral regularly in the following situations: (i) at the end of the expected pawn loan period as initially indicated by the relevant customer in the loan application; and/or when the pawn loan period has reached six months; and every quarter for any subsequent period thereafter; (ii) whenever there is a market fluctuation or a change in the economy or regulatory environment which may affect the value of the mortgaged collateral; or (iii) whenever there is a change in the credit conditions of the relevant borrower. As second-hand market prices of automobiles are more volatile, the customer service officer revalues pledged automobiles every month during the loan period. Since the duration of pawn loans granted in respect of personal properties is normally short, the Target Group only revalues the collateral whenever there is a market fluctuation or a change in the economy or regulatory environment which may affect the value of such collateral and whenever there is a change in the credit conditions of the relevant borrower. As to equity interest collateral, the Target Group monitors the latest market value of the listed shares on each of the subsequent trading dates and revaluates the unlisted shares on an annual basis.

Arranging notarisation of real estate pawn loan and mortgage documentation

In the case of a real estate pawn loan, it is the general policy of the Target Group that the relevant loan and mortgage documents are notarised by the local notary office before the release of the loan proceeds to the customer. The costs of notarisation are borne directly by the customer. While notarisation is not required under the PRC law, in accordance with the Civil Procedural Law of the PRC and the Notarisation Law of the PRC, if a borrower defaults on a loan, the lender may, by presenting the relevant notarised agreements and documents containing compulsory enforcement provisions, a compulsory enforcement application and an enforcement certificate issued by the relevant notary office, apply to the people's court which has jurisdiction over the matter for a summary enforcement order, thereby allowing the lender to exercise its rights against the mortgaged collateral without going through prolonged legal procedures. During the Track Record Period, the Target Group has arranged for notarisation of all real estate pawn loan and security documents. The Target Group does not generally require the notarisation of automobile, industrial machinery or personal property pawn loan and related security documents since the value of the pledged automobile, industrial machinery or personal properties, in most cases, are comparatively lower than that of mortgaged real estate properties and the Target Group retains physical custody of the underlying collateral until the borrower satisfies all payment obligations under the relevant loan documents. Forfeited property valued at less than RMB30,000 can be, in accordance with the Pawning Measures, sold to an independent third party of the Target Group without initiating legal proceedings.

Arranging registration of all real estate mortgages, automobile pledges and equity interest pledges

In case of a borrower's default, the Target Group can enforce its rights over a mortgaged real estate property after such rights have been properly registered under PRC law. In accordance with the Administrative Measures on Urban Real Estate Mortgages and MOHURD's Decision on amending the Administrative Measures on Urban Real Estate Mortgages, the Target Group registers all real estate mortgages at, and obtains certificates of registered encumbrances from, the relevant local real estate registration bureau. In accordance with the Law of the PRC on Road Traffic Safety, the Regulations for the Implementation of the Law of the PRC on Road Traffic Safety and the Provisions on Motor Vehicle Registration, the Target Group will arrange to record all automobile pledges at the relevant local traffic management bureau. In addition, the Target Group will register the relevant pledge on the equity interest collateral with the relevant administration for industry and commerce. Mortgage registration or pledge recording costs are borne directly by the customer.

Conducting post-drawdown inspections of loan and security documentation

The risk management department conducts a quarterly internal inspection of collateral valuations and loan documentation of all new real estate and automobile pawn loan transactions and certain new personal property pawn loan transactions, usually those of higher value, to ensure their completeness and compliance with the Pawning Measures and the internal guidelines. If there is a change in the overall economy or the regulatory environment, the internal control and compliance department and the risk management department will assess its impact on all related loan transactions and issue guidance materials to all chain outlets.

Keeping track of the credit condition of the customers and monitor the overall credit risk portfolio

The responsible customer service officer maintains contact with the customers and sends payment reminders to them. The customer service officer liaise with the customers a few days before the interest payment date and the loan maturity date in order to keep track of the credit condition of the borrower and ensure that interests are paid promptly. The customer service officer will report to his or her supervisor or senior manager at the chain outlet if he or she identifies any material irregularities in respect of payment of interests and comprehensive service fees by the customer and the financial condition of the customer. The manager will then present the case to the risk management department for advice and will, together with the internal control and compliance department, devise a contingency plan.

Assigning and updating the risk level of each loan transaction to monitor the overall credit risk portfolio

The responsible customer service officer of the business transactions department is also in charge of assigning a risk level to each loan transaction under his or her management. The Target Group currently analyses and monitors credit risks based on a three-level credit risk classification system to ensure that they do not exceed desired levels. All outstanding loan transactions are classified into "normal", "concerned" and "subprime" categories on a monthly basis at the Pawnbroker level and reported to the risk management department. Normal cases are those loan transactions where the relevant borrower is able to carry out its contractual obligations and there are no overdue payments of principal, interest and comprehensive service fees. Concerned cases are those loan transactions where the relevant borrower is currently able to settle monthly interest and comprehensive service fee payments, but uncertainties or risks exist as to whether the relevant borrower is able to repay the loan principal and settle monthly payments of interests and comprehensive service fees as they fall due. Subprime cases are those loan transactions where there has been a significant deterioration of the financial condition of the relevant borrower resulting in the borrower not being able to repay the loan principal and settle monthly payments of interests and comprehensive service fees in full and on time. Subprime cases may warrant enforcement of the underlying collateral.

Protecting and safeguarding customer property

For easy administration and monitoring, all automobiles pledged to the Pawnbrokers are kept in one central location — an electronically monitored enclosed carpark with security patrol. Industrial machinery is kept in a separately monitored location. Personal property items are stored in a security vault at the relevant chain outlet. Alarm systems are set up connecting directly to police stations and installed security vaults, security surveillance equipment and other facilities at each of the Pawnbrokers to comply with the Pawning Measures. For better protection, valuable items are moved off to high-security vaults at banks during long public holidays. In addition, each of the Pawnbrokers has subscribed insurance policies to insure against all the assets of properties located within the premises of Pawnbrokers, including those assets which are managed or kept by the Pawnbrokers for and on behalf of other persons.

Application of electronic management system

The Target Group adopted a tailor-designed electronic management system, which helps streamline daily pawn loan business operations, strengthens internal communication and facilitate the sharing of information between the head office and the Pawnbrokers. The system was developed by a software company and has been firstly launched in November 2011. As at the Latest Practicable Date, approximately RMB0.2 million was spent on this system. The electronic management system will facilitate the loan approval process by providing comprehensive, detailed and updated information in respect of the customers and allows the Target Group to conduct data analysis on the loan transactions. The electronic management system is designed in line with risk management system and the operating procedures. This electronic management system allows the Target Group to record the loan approval procedures and the information of the customers covering (a) in the case of individuals, personal information such as occupation, source of income and marital status; financial situation such as owned assets and properties; details of historical transactions with Pawnbrokers; litigation record and credit record with commercial banks; (b) in the case of corporate customers, corporate information such as information on the major shareholders, legal representative, registered capital, local tax certificate and national tax certificate; scope of business such as major products and services provided, total number of employees and any rights to conduct import and export business; financial information such as cashflow statements and balance sheet; details of previous transactions with Pawnbrokers; and litigation record and credit record with commercial banks.

Furthermore, such system can (i) help in determining the maximum loan amount that can be provided by each Pawnbroker to a single customer; (ii) ensure the loan transaction would not exceed the pre-determined threshold; and (iii) assist in calculating and setting the limits on the interest and composite administrative fee payable under each loan transaction, all of which can assist the Pawnbrokers in complying with the Pawning Measures.

Building and cultivating talent pools

Risk management policies and procedures are documented, distributed to all relevant staff and reinforced through continuous training. The Target Group has an induction training programme for all new employees. The Target Group also has an annual training plan for all staff. Whenever there is a change in the PRC laws and regulations, the internal control and compliance and/or risk management department will issue guidance materials to and/or conduct trainings for the staff. Guidelines for the review of loans, credit risk classification and the treatment of non-performing loans will be issued. Other departments also provide internal training to the staff on matters related to valuation of collateral, risk identification and control procedures and business operations and management. In addition, each Pawnbroker may organise internal trainings from time to time. Where appropriate, external guests, for example, lawyers from the PRC law firms, may be invited to give lectures and staff trainings.

Credit risk management

The Target Group has implemented a risk control policy that is designed to effectively reduce the various aspects of credit risks it faces, such as default of loans it grants and deterioration of collateral. The risk control policy sets out various operational instructions, guidelines, policies and risk control measures for the business, and is tied to the loan approval, collateral appraisal and collateral disposal policies. The internal control and compliance department is responsible for revising the risk control policy and overseeing its implementation. The Target Group plans to continue to revise and improve the risk control policy to adapt to changing economic conditions.

The Target Group manages the credit risks associated with the loans mainly by implementing rigorous loan approval and collateral appraisal procedures to reduce risks of loan default and collateral deterioration. It also obtains regular updates on the loan status to monitor the loan status. For details, see paragraphs headed "Pawn loan services" and "Micro-financing services" in this section.

The internal control and compliance department coordinates with the finance and legal departments in the loan approval process to ensure legal and internal policy compliance.

Legal risk management

As mentioned above, the risk management department consists of qualified lawyers in the PRC. The risk management department and the internal control and compliance department are involved in many aspects of the operations, including contract negotiation, collateral verification, compliance overview, and litigation to recover defaulted loans (if any). In response to the historical non-compliance, the Target Group implemented a series of remedial measures to rectify existing and prevent future occurrences of non-compliance. For details, see ''Historical Non-Compliance" in this section.

Liquidity risk management

As a loan is granted to a customer, either a pawn loan, micro-loan or an entrusted loan, the relevant loan documents will be centrally managed. The Target Group collects all loan documents and information and provides regular monitoring and inspection on selected loan portfolios. Such centralised management gives the Target Group a better understanding of its liquidity and enables the Target Group to utilise its equity capital efficiently, which in turn enables the Target Group to reduce its overall liquidity credit risk and achieve high efficiency in capital utilisation.

Anti-Money Laundering

The Target Group has established the Anti-Money Laundering Policy which provides guidelines to the employees on handling and detecting suspicious transactions which might conceal the source of money obtained from illicit means. Notwithstanding that the Pawnbrokers and Beijing Micro-financing lend money to its customers, the staff of the members of the Target Group are required to reasonably understand the customer's use of loan proceeds and follow up on the actual use of proceeds by the customers, and cooperate with the government authorities to freeze the collateral, if requested.

Customer identification

The customer service officer shall fully understand the basic information of potential customers through communication and obtain relevant supporting documents. After obtaining the supporting documents, the staff shall check the identity of the customers in accordance with the relevant internal guidelines and shall not proceed the transaction who fail to produce the proof of identity or the origin of the collaterals.

Use of loan

In making a loan application, the customer service officer shall understand the customer's use of proceeds, the source of funding for repayment and the operating condition of the customers. The staff members of Pawnbrokers keep contact with the customers from time to time with a view to obtaining an updated status of the loan repayment.

Staff training

If there is a change in anti-money laundering laws and regulations in the PRC, the internal control and compliance department and the risk management department will issue guidance materials to and/or conduct trainings for the staff. Where appropriate, external guests, for example, lawyers from PRC law firms, may be invited to give lectures and staff trainings.

THE STRUCTURED AGREEMENTS

Background

According to the Catalogue for the Guidance of Foreign Investment jointly promulgated by the MOC and the NDRC on 24 December 2011, foreign investments in the pawn loan business and the micro-financing business are neither restricted nor prohibited. Reasons for the adoption of the Structured Agreements by the Target Group to conduct the pawn loan business and the micro-financing business are as follows:

Pawn loan services business

The pawn loan business is subject to, among other things, the licensing requirements under the Pawning Measures. The Pawning Measures do not explicitly permit foreign invested companies (including those from Hong Kong, Macau and Taiwan) to operate a pawn loan business in the PRC. According to Article 71 of the Pawning Measures, rules and regulations governing the investment by foreign invested companies in the pawn loan business in the PRC will be separately promulgated by the MOC together with other competent authorities. However, as at the Latest Practicable Date, (i) no relevant rules and regulations governing the investment by foreign invested companies in the pawn loan business in the PRC have been announced by the MOC or any other competent authorities; and (ii) there is no administrative licensing regime for foreign invested companies to participate in the pawnbroking industry in Beijing and no approval can be granted and no pawn operation business licences can be issued to such foreign invested companies.

Micro-financing services business

According to Article 22 of the Implementation Measures for the Pilot Operation of Micro-financing Companies in Beijing, shareholders of micro-financing companies established in Beijing shall be PRC domestic natural persons, enterprise legal persons or other social organisations and the largest shareholder shall be the PRC domestic natural persons, enterprise legal persons or other social organisations of the county where such companies are established. Therefore, the shareholders of Beijing Micro-financing shall be the PRC domestic natural persons, enterprise legal persons or other social organisations of Beijing and foreign investors are not allowed to directly invest in Beijing Micro-financing.

As advised by the PRC Legal Adviser, under current practice, foreign investors are not allowed to invest by means of equity investment in any pawn loan companies in the PRC or micro-financing companies in Beijing. As such, (i) Beijing Wanchi, each of the Pawnbrokers, ZJF Investment and YSY Investment and the Dai Family entered into the relevant Pawnbrokers Structured Agreements to enable the financial results of the Pawnbrokers and the entire economic benefits and risks of the businesses of the Pawnbrokers to flow onto Beijing Wanchi; and (ii) Beijing Wanchi, Beijing Micro-financing and the Majority Shareholders (Beijing Micro-financing) entered into the relevant Beijing Micro-financing Structured Agreements to enable 79% of the financial results of Beijing Micro-financing and 79% of the economic benefits and risks of the business of Beijing Micro-financing to flow onto Beijing Wanchi.

The Target Group confirmed that the use of the Structured Agreements was solely for addressing the above-mentioned foreign ownership restriction. Beijing Wanchi undertakes that in the event it is permissible under the relevant PRC rules and regulations for Beijing Wanchi to engage in the pawn loan services business or micro-financing services business in future, Beijing Wanchi shall exercise the options under the Pawnbrokers Exclusive Option Agreements or the Beijing Micro-financing Exclusive Option Agreement as soon as practicable and the relevant Structured Agreements shall be terminated.

Summary of the Structured Agreements

(i) The Pawnbrokers Structured Agreements

Each of the Pawnbrokers and Beijing Wanchi and/or, as the case may be, ZJF Investment, YSY Investment and the Dai Family have entered into the respective Pawnbrokers Structured Agreements with effect from 1 August 2013. The Pawnbrokers are owned by ZJF Investment and YSY Investment, both of which are wholly owned by the Dai Family. The Vendors are wholly owned by the Dai Family. Upon Completion, the Vendors will become a substantial Shareholder and Beijing Wanchi will become a wholly-owned subsidiary of the Company.

The Company will disclose details relating to the Pawnbrokers Structured Agreements on an on-going basis after Completion as follows:

(1) the Pawnbrokers Structured Agreements in place during each financial period will be disclosed in the Company's annual report and accounts in accordance with the relevant provisions of the GEM Listing Rules;

(2) the independent non-executive Directors will review the Pawnbrokers Structured Agreements annually and confirm in the Company's annual report and accounts for the relevant year that: (a) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Pawnbrokers Structured Agreements and have been operated so that the total before-tax profit of the Pawnbrokers (after deducting all relevant costs and reasonable expenses in connection with their business operations) have been retained by Beijing Wanchi; (b) no dividends or other distributions have been made by the Pawnbrokers to its registered shareholders which are not otherwise subsequently assigned or transferred to the Enlarged Group; and (c) any new contracts or renewed contracts have been entered into on the same terms as the existing Pawnbrokers Structured Agreements and are fair and reasonable so far as the Enlarged Group is concerned and is in the interests of the Shareholders and the Company as a whole;

(3) the Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the Pawnbrokers Structured Agreements and will provide a letter to the Directors with a copy to the Stock Exchange, at least ten Business Days before the Company bulk prints its annual report, confirming that the transactions have received the approval of the Directors and been entered into in accordance with the relevant Pawnbrokers Structured Agreements and that no dividends or other distributions have been made by the Pawnbrokers to its registered shareholders which are not otherwise subsequently assigned or transferred to the Enlarged Group;

(4) for the purposes of Chapter 20 of the GEM Listing Rules, and in particular the definition of "connected person", the Pawnbrokers will be treated as the Company's wholly-owned subsidiaries, but at the same time, the directors, chief executives or substantial shareholders (as defined in the GEM Listing Rules) of the Pawnbrokers and their respective associates will be treated as the Company's "connected persons" and transactions between such connected persons and the Enlarged Group other than those under the Pawnbrokers Structured Agreements shall comply with Chapter 20 of the GEM Listing Rules; and

(5) the Pawnbrokers will undertake that, for so long as the Shares are listed on the Stock Exchange, the Pawnbrokers will provide the Enlarged Group's management and the Company's auditors with full access to their relevant records for the purpose of the Company's auditors' review of the connected transactions.

Set out below are the details of each of the Pawnbrokers Structured Agreements:

The Pawnbrokers Exclusive Service Agreements

Beijing Wanchi and each of the Pawnbrokers have entered into the Pawnbrokers Exclusive Service Agreements, pursuant to which, with effect from 1 August 2013, each of the Pawnbrokers agreed to engage Beijing Wanchi on an exclusive basis to provide operation and management services in connection with the business of the relevant Pawnbroker in the PRC, including but not limited to assisting in formulating the management models and operation plans, structuring and standardising the management systems, and formulating the market development plans for the relevant Pawnbroker, providing the relevant Pawnbroker with market and customer resources information, conducting market research for the relevant Pawnbroker, and conducting training for the staff of the relevant Pawnbroker. Pursuant to the Pawnbrokers Exclusive Service Agreements, the Pawnbrokers may not engage any other third party to provide similar services without the prior written consent of Beijing Wanchi.

In consideration of the provision of the aforementioned services by Beijing Wanchi, each of the Pawnbrokers agreed, subject to compliance with the PRC laws and regulations, to pay to Beijing Wanchi the fees equivalent to the total profits before income tax as audited in accordance with the HKFRS after deducting all relevant costs and reasonable expenses in connection with the business operation of the relevant Pawnbroker. The relevant Pawnbroker shall bear all bank charges incurred as a result of the fee payment to Beijing Wanchi. Beijing Wanchi shall receive all the economic benefits and bear all the economic risks of the relevant Pawnbroker and may provide financial support to the relevant Pawnbroker if it encounters operational losses or difficulties. Under such circumstances, Beijing Wanchi has the right to decide whether the Pawnbroker concerned should continue operations and the Pawnbroker concerned should unconditionally agree to the decision made by Beijing Wanchi for such purpose. The Pawnbrokers Exclusive Service Agreements have a term of 10 years beginning from their effective date (i.e. 1 August 2013) and shall be renewed automatically for another 10 years upon every expiration of the term unless terminated by Beijing Wanchi with a 30-day written notice to the other parties or all the equity interests in or assets of the Pawnbrokers are transferred to Beijing Wanchi and/or its nominee(s).

The Pawnbrokers Exclusive Option Agreements

Beijing Wanchi, ZJF Investment, YSY Investment, the Dai Family and each of the Pawnbrokers have entered into the Pawnbrokers Exclusive Option Agreements, pursuant to which, with effect from 1 August 2013, ZJF Investment and YSY Investment irrevocably and unconditionally granted to Beijing Wanchi the exclusive rights to acquire or to nominate persons to acquire all or part of the equity interests in and/or assets of the relevant Pawnbroker at the minimum consideration as permitted by the PRC laws and regulations. If the PRC laws and regulations are silent in this regard, the price will be set at the nominal price of RMB1. Subject to compliance with the relevant PRC laws and regulations, Beijing Wanchi may exercise the options at any time and in any manner at its sole discretion. In the event it is permissible under the relevant PRC rules and regulations for Beijing Wanchi to directly engage in the pawn loan services business in future, Beijing Wanchi shall exercise the options under the Pawnbrokers Exclusive Option Agreements as soon as practicable and the Pawnbrokers Structured Agreements shall be terminated.

Pursuant to the Pawnbrokers Exclusive Option Agreements, each of the Pawnbrokers may not, without the prior written consent of Beijing Wanchi, declare or distribute any dividends to its shareholders. ZJF Investment, YSY Investment and the Dai Family shall procure each of the Pawnbrokers not to declare or distribute such dividends. In addition, ZJF Investment, YSY Investment and the Dai Family have undertaken to assign or transfer at no cost to Beijing Wanchi any and all of the dividends declared and distributed at any time or any interest received by them by virtue of their holding of the equity interests in the Pawnbrokers. Furthermore, ZJF Investment, YSY Investment and the Dai Family have undertaken to assign or transfer at no cost to Beijing Wanchi any of the proceeds or consideration received from the sales or disposal of the equity interests in the Pawnbrokers (including the aforesaid consideration to be paid by Beijing Wanchi to them upon exercise of the options under the Pawnbrokers Exclusive Option Agreements).

The Pawnbrokers Exclusive Option Agreements became effective on 1 August 2013 and will expire on the date on which all the equity interests or assets of the Pawnbrokers are transferred to Beijing Wanchi and/or its nominee(s) pursuant to the Pawnbrokers Exclusive Option Agreements.

The Pawnbrokers Proxy Agreements

Beijing Wanchi, ZJF Investment, YSY Investment, the Dai Family and each of the Pawnbrokers have entered into the Pawnbrokers Proxy Agreements, pursuant to which, with effect from 1 August 2013, Beijing Wanchi or its nominee(s) is irrevocably and unconditionally authorised to exercise shareholders' rights in the relevant Pawnbroker. These rights include, among other things, (i) proposing to convene and attending the meetings of shareholders of the relevant Pawnbroker and signing the minutes or resolutions thereof; exercising as equity holder the voting rights on all matters requiring shareholders' consideration and approval, including but not limited to nomination, appointment and removal of directors, supervisors and senior management of the relevant Pawnbroker, and execution and filing of documents to the relevant authorities and the company registry; (ii) passing resolutions on the disposal of the assets of the relevant Pawnbroker; (iii) passing resolutions on the dissolution and liquidation of the relevant Pawnbroker, forming a liquidation committee and exercising the rights and powers of the committee, including but not limited to dealing with the assets of the relevant Pawnbroker; (iv) deciding on transfer or disposal of the equity interests held by ZJF Investment and YSY Investment in the relevant Pawnbroker; (v) instructing the directors and legal representatives of the relevant Pawnbroker to follow its instruction; and (vi) other shareholders' rights under applicable PRC laws and rules and the article of association of the relevant Pawnbroker.

Moreover, pursuant to the Pawnbrokers Proxy Agreements, each of ZJF Investment and YSY Investment has signed a power of attorney, with effect from 1 August 2013, in favour of Beijing Wanchi and any of its designated director, successor or liquidator to exercise their respective shareholders' rights in the relevant Pawnbroker under the article of association of the relevant Pawnbroker and applicable laws, and such power of attorney shall be valid within the term of the relevant Pawnbrokers Proxy Agreement.

Pursuant to the Pawnbrokers Proxy Agreements, Beijing Wanchi or its nominee(s) may exercise such shareholders' rights without the prior consultation with ZJF Investment, YSY Investment or the Dai Family. Further, ZJF Investment, YSY Investment or the Dai Family shall not exercise such shareholders' rights without the prior written consent of Beijing Wanchi.

In the event that Beijing Wanchi decides to liquidate or dissolve any of the Pawnbrokers pursuant to the shareholders' rights granted to it under the Pawnbrokers Proxy Agreements, ZJF Investment, YSY Investment and the Dai Family guarantee that they shall procure the relevant Pawnbroker to coordinate with the liquidator in completing all relevant liquidation procedures, and shall transfer to Beijing Wanchi all the remaining assets of the relevant Pawnbroker at no cost. ZJF Investment, YSY Investment and the Dai Family shall fully coordinate with the execution and performance of all the procedures and documents for the purpose of the liquidation and the transfer of assets.

The Pawnbrokers Proxy Agreements became effective on 1 August 2013 and will expire on the date on which all the equity interests in or assets of the Pawnbrokers are transferred to Beijing Wanchi and/or its nominee(s).

The Pawnbrokers Equity Pledge Agreements

Beijing Wanchi, ZJF Investment, YSY Investment, the Dai Family and each of the Pawnbrokers have entered into the Pawnbrokers Equity Pledge Agreements, pursuant to which, with effect from 1 August 2013, the first priority security interests (the "**Pledged Pawnbrokers Equity Interests**") over the equity interests in the Pawnbrokers were granted to Beijing Wanchi for guaranteeing the performance of the Pawnbrokers Exclusive Service Agreements, the Pawnbrokers Exclusive Option Agreements and the Pawnbrokers Proxy Agreements.

Pursuant to the Pawnbrokers Equity Pledge Agreements, upon the non-performance or breach of any of the terms of the Pawnbrokers Structured Agreements, Beijing Wanchi is entitled to exercise its rights to sell all or part of the Pledged Pawnbrokers Equity Interests and shall receive the proceeds therefrom on the first priority basis. In addition, Beijing Wanchi shall be entitled to all income derived from the Pledged Pawnbrokers Equity Interests, including but not limited to, dividends, share of profits and any other benefits.

The Pawnbrokers Equity Pledge Agreements provide that none of the Pledged Pawnbrokers Equity Interests may be transferred or be pledged without prior written consent of Beijing Wanchi, and that any such transfer or pledge of the Pledged Equity Interests shall be deemed invalid.

The Pawnbrokers Equity Pledge Agreements became effective on 1 August 2013 (subject to the registrations of the Pledged Pawnbrokers Equity Interests in the register of members of the Pawnbrokers which have been completed as at the date of the Announcement) and shall be terminated upon the performance by each of the Pawnbrokers and/or the registered shareholders of the Pawnbrokers (i.e. ZJF Investment, YSY Investment and the Dai Family) (as the case may be) in full of all of their obligations under or termination of each of the Pawnbrokers Exclusive Service Agreements, the Pawnbrokers Exclusive Option Agreements and the Pawnbrokers Proxy Agreements, or the repayment by whom of all damages arising from their breaches of the Pawnbrokers Structured Agreements, or Beijing Wanchi having exercised its options under the Pawnbrokers Exclusive Option Agreements and obtained all the equity interests in or assets of the Pawnbrokers.

Succession and protection of the Target Group's interest in the event of death, bankruptcy or divorce of the registered shareholders of the Pawnbrokers

The registered shareholders of the Pawnbrokers (i.e. ZJF Investment and YSY Investment) and the Dai Family warrant to Beijing Wanchi that they have made or executed (or procured their ultimate shareholders and directors (if applicable) to make and execute) proper arrangements and all necessary documents, to ensure that their successors, guardians, creditors, spouses or other persons which may obtain the registered equity interests in the Pawnbrokers will not hinder or impede the performance of the Pawnbrokers Structured Agreements in the event that they pass away, become incapacitated, go bankrupt, liquidate (if applicable), get divorced or encounter any other circumstances which may affect the exercise of their shareholders' rights.

In addition, each member of the Dai Family undertakes and warrants that he/she will ensure that his/her wills, divorce agreements and debt agreements will be subject to the Pawnbrokers Structured Agreements, so that in the event of any change to the shareholding in the Pawnbrokers due to his/her death, bankruptcy, divorce, or other circumstances, prior to the exercise of the options by Beijing Wanchi under the Pawnbrokers Exclusive Option Agreements, the Pawnbroker Structured Agreements shall prevail over his/her wills, divorce agreements and debt agreements.

Furthermore, each of the Pawnbrokers Structured Agreements contains a provision which sets out that the respective agreement shall be legally binding on the legal assignees or heirs of the parties thereto.

Settlement of the potential dispute arising from the Pawnbrokers Structured Agreements

Each of the Pawnbrokers Structured Agreements will cease to have effect when Beijing Wanchi has exercised its options under the Pawnbrokers Exclusive Option Agreements (and such equity interests in the Pawnbroker(s) have been duly registered under the name of Beijing Wanchi and/or its nominee(s) with the relevant administration for industry and commerce in the PRC) and/or all the assets of the Pawnbrokers are transferred to Beijing Wanchi and/or its nominee(s). When a dispute arises under any of the Pawnbrokers Structured Agreements, the relevant parties thereto shall settle the dispute through negotiation in an amicable manner. If the dispute cannot be settled within thirty days from the date on which the dispute arises, any party to the relevant Pawnbrokers Structured Agreement shall have the right to refer the dispute to the China International Economic and Trade Arbitration Commission (Beijing branch) for arbitration. The decision by such arbitration shall be final and binding on the parties concerned. Subject to the PRC laws, the arbitrators may grant a verdict and award remedies to Beijing Wanchi including (i) remedies over equity interests in land or other assets of the Pawnbroker concerned; (ii) injunctive relief, such as injunction that requires the Pawnbroker concerned to operate certain business or to transfer its assets; and (iii) winding-up of the Pawnbroker concerned. In addition, each of the Pawnbrokers Structured Agreements contains provisions to the effect that courts of competent jurisdiction are empowered to grant interim remedies in support of the arbitration: (a) before formation of an arbitral tribunal under China International Economic and Trade Arbitration Commission (Beijing branch); or (b) where appropriate, courts of (1) Hong Kong, (2) the place of incorporation of the Target (i.e. the Cayman Islands); (3) the place of establishment of the Pawnbrokers (i.e. Beijing, the PRC); and (4) the place(s) where the Target's or the Pawnbrokers' principal assets are located shall have jurisdictions for such limited purpose.

However, the PRC Legal Adviser has warned that under the PRC laws, the arbitral tribunal has no power to grant injunctive relief or winding up order of the Pawnbrokers. In addition, interim remedies or enforcement order granted by overseas courts such as courts of Hong Kong and courts of the Cayman Islands may not be recognisable or enforceable in the PRC.

Effect and validity of the Pawnbrokers Structured Agreements

The PRC Legal Adviser advised that (i) the Pawnbrokers Structured Agreements, taken as a whole, enable the financial results of the Pawnbrokers and the economic benefits and risks of the businesses of the Pawnbrokers to flow onto Beijing Wanchi; (ii) except that some of the dispute resolution provisions under the Pawnbrokers Structured Agreements may not be enforceable as mentioned under the paragraph "Settlement of potential dispute arising from the Pawnbrokers Structured Agreements" above, each of the Pawnbrokers Structured Agreements is legal, valid and enforceable and binding upon the parties thereto, and the Pawnbrokers Structured Agreements as a whole comply with the PRC laws, rules and regulations, as well as the articles of association of the Pawnbrokers, and that Beijing Wanchi could exercise the right to acquire part of or the entire equity interests in and/or assets of the Pawnbrokers if it is allowed by the relevant PRC laws and regulations in future; and (iii) the Pawnbrokers Structured Agreements would not be deemed as "concealing illegal intentions with a lawful form" and void under the PRC Contract Law. Accordingly, the reporting accountants of the Company on the financial information of the Target Group has confirmed that the financial position and operating results of the Pawnbrokers are included in the consolidated financial statements of the Target Group. However, the PRC Legal Adviser has also advised that there is a possibility that the MOC or other competent authorities may have different opinions on the interpretation of applicable PRC regulations and may not agree that the Pawnbrokers Structured Agreements comply with the PRC licensing, registration or other legal or regulatory requirements, with existing policies or with requirements or policies that may be adopted in future, and the authorities may deny the validity, effectiveness and enforceability of the Pawnbrokers Structured Agreements.

Having taken into account (i) the terms of the Pawnbrokers Structured Agreements; (ii) the opinion from the PRC Legal Adviser in respect of the Pawnbrokers Structured Agreements; and (iii) the opinion from the reporting accountants of the Company, the Board considers that the contractual arrangement under the Pawnbrokers Structured Agreements which enables the financial results of the Pawnbrokers and the economic benefits and risks of its business to flow onto Beijing Wanchi is fair and reasonable.

(ii) The Beijing Micro-financing Structured Agreements

Set out below are the details of each of the Beijing Micro-financing Structured Agreements:

The Beijing Micro-financing Exclusive Service Agreement

Beijing Wanchi, the Majority Shareholders (Beijing Micro-financing) and Beijing Micro-financing have entered into the Beijing Micro-financing Exclusive Service Agreement, pursuant to which, with effect from 1 January 2013, the Majority Shareholders (Beijing Micro-financing) agreed to engage Beijing Wanchi on an exclusive basis to provide operation and management services in connection with the business of Beijing Micro-financing in the PRC, including but not limited to assisting in formulating the management models and operation plans, structuring and standardising the management systems and formulating the market development plans for Beijing Micro-financing, providing Beijing Micro-financing with the market and customer resources information, conducting market research for Beijing Micro-financing, and conducting training for the staff of Beijing Micro-financing. Pursuant to the Beijing Micro-financing Exclusive Service Agreement, Beijing Micro-financing may not engage any other third party to provide similar services without the prior written consent of Beijing Wanchi.

In consideration of the provision of the aforementioned services by Beijing Wanchi, the Majority Shareholders (Beijing Micro-financing) agreed, subject to compliance with the PRC laws and regulations, to pay to Beijing Wanchi the fees equivalent to 79% of the total profits after income tax of Beijing Micro-financing as audited in accordance with the HKFRS. The Majority Shareholders (Beijing Micro-financing) shall bear all bank charges incurred as a result of the fee payment to Beijing Wanchi. Beijing Wanchi shall receive the economic benefits and bear the economic risks related to the 79% of the total shares of Beijing Micro-financing and may provide financial support to Beijing Micro-financing if Beijing Micro-financing encounters operational losses or difficulties. Under such circumstances, Beijing Wanchi has the right to decide whether Beijing Micro-financing should continue operations and the Majority Shareholders (Beijing Micro-financing) should unconditionally agree and procure Beijing Micro-financing to unconditionally agree to the decision made by Beijing Wanchi for such purpose. The Beijing Micro-financing Exclusive Service Agreement has a term of 10 years beginning from its effective date (i.e. 1 January 2013) and shall be renewed automatically for another 10 years upon every expiration of the term unless terminated by Beijing Wanchi with a 30-day written notice to the Majority Shareholders (Beijing Micro-financing) or all the equity interest held by the Majority Shareholders (Beijing Micro-financing) in Beijing Micro-financing (i.e. 79% of the equity interest in Beijing Micro-financing) is transferred to Beijing Wanchi and/or its nominee(s).

The Beijing Micro-financing Exclusive Option Agreement

Beijing Wanchi, the Majority Shareholders (Beijing Micro-financing) and Beijing Micro-financing have entered into the Beijing Micro-financing Exclusive Option Agreement, pursuant to which, with effect from 1 January 2013, the Majority Shareholders (Beijing Micro-financing) irrevocably and unconditionally granted to Beijing Wanchi the exclusive right to acquire or to nominate persons to acquire all or part of 79% equity interest in Beijing Micro-financing (i) at the consideration equivalent to the then fair value of 79% equity interest in Beijing Micro-financing; or (ii) at the consideration as agreed by negotiation between Beijing Wanchi and the Majority Shareholders (Beijing Micro-financing). Subject to compliance with the relevant PRC laws and regulations, Beijing Wanchi may exercise the options at any time and in any manner at its sole discretion. In the event it is permissible under the relevant PRC rules and regulations for Beijing Wanchi to directly engage in the micro-financing services business in future, Beijing Wanchi shall exercise the option under the Beijing Micro-financing Exclusive Option Agreement as soon as practicable and the Beijing Micro-financing Structured Agreements shall be terminated.

Pursuant to the Beijing Micro-financing Exclusive Option Agreement, Beijing Micro-financing may not, without the prior written consent of Beijing Wanchi, declare or distribute any dividends to the Majority Shareholders (Beijing Micro-financing). The Majority Shareholders (Beijing Micro-financing) shall procure Beijing Micro-financing not to declare or distribute such dividends. In addition, the Majority Shareholders (Beijing Micro-financing) have undertaken to assign or transfer at no cost to Beijing Wanchi any and all of the dividends declared and distributed at any time or any interest received by them by virtue of their holding of the equity interest in Beijing Micro-financing. Furthermore, the Majority Shareholders (Beijing Micro-financing) have undertaken to assign or transfer at no cost to Beijing Wanchi any of the proceeds or consideration received from the sales or disposal of their equity interest held in Beijing Micro-financing (including the aforesaid consideration to be paid by Beijing Wanchi to the Majority Shareholders (Beijing Micro-financing) upon exercise of the option under the Beijing Micro-financing Exclusive Option Agreement).

The Beijing Micro-financing Exclusive Option Agreement became effective on 1 January 2013 and will expire on the date on which 79% equity interest in Beijing Micro-financing is transferred to Beijing Wanchi and/or its nominee(s).

The Beijing Micro-financing Proxy Agreement

Beijing Wanchi, the Majority Shareholders (Beijing Micro-financing) and Beijing Micro-financing have entered into the Beijing Micro-financing Proxy Agreement, pursuant to which, with effect from 1 January 2013, Beijing Wanchi or its nominee(s) is irrevocably and unconditionally authorised to exercise shareholders' rights of the Majority Shareholders (Beijing Micro-financing) in Beijing Micro-financing. These rights include, among other things, (i) proposing to convene and attending the meetings of shareholders of Beijing Micro-financing and signing the minutes or resolutions thereof; exercising as equity holder voting rights of the Majority Shareholders (Beijing Micro-financing) on all matters requiring shareholders' consideration and approval including but not limited to nomination, appointment and removal of directors, supervisors and senior management of Beijing Micro-financing, and execution and filing of documents to the relevant authorities and the company registry; (ii) passing resolutions on the disposal of the assets of Beijing Micro-financing; (iii) passing resolutions on the dissolution and liquidation of Beijing Micro-financing, forming a liquidation committee and exercising the rights and powers of the committee, including but not limited to dealing with the assets of Beijing Micro-financing; (iv) deciding on transfer or disposal of the equity interest in Beijing Micro-financing held by the Majority Shareholders (Beijing Micro-financing); (v) instructing the directors and legal representatives of Beijing Micro-financing to follow its instructions; and (vi) other shareholders' rights of the Majority Shareholders (Beijing Micro-financing) under applicable PRC laws and rules and the article of association of Beijing Micro-financing.

Moreover, pursuant to the Beijing Micro-financing Proxy Agreement, each of the Majority Shareholders (Beijing Micro-financing) has signed a power of attorney, with effect from 1 January 2013, in favour of Beijing Wanchi, any of its designated director, successor or liquidator, to exercise their respective shareholders' rights in Beijing Micro-financing under the article of association of Beijing Micro-financing and applicable laws, and such power of attorney shall be valid within the term of such Beijing Micro-financing Proxy Agreement.

Pursuant to the Beijing Micro-financing Proxy Agreement, Beijing Wanchi or its nominee(s) may exercise such shareholders' rights of the Majority Shareholders (Beijing Micro-financing) without the prior consultation with the Majority Shareholders (Beijing Micro-financing). Further, the Majority Shareholders (Beijing Micro-financing) shall not exercise such shareholders' rights without the prior written consent of Beijing Wanchi.

In the event that Beijing Wanchi decides to liquidate or dissolve Beijing Micro-financing pursuant to the shareholders' rights granted to it under the Beijing Micro-financing Proxy Agreement, the Majority Shareholders (Beijing Micro-financing) guarantee that they shall procure Beijing Micro-financing to pass the resolutions relating to the liquidation and dissolution at the shareholders' meeting and coordinate with the liquidator in completing all relevant liquidation procedures, and shall transfer to Beijing Wanchi 79% of the remaining assets of Beijing Micro-financing at no cost. The Majority Shareholders (Beijing Micro-financing) shall fully coordinate with the execution and performance of all the procedures and documents for the purpose of the liquidation and the transfer of assets.

The Beijing Micro-financing Proxy Agreement became effective on 1 January 2013 and will expire on the date on which 79% equity interest in Beijing Micro-financing is transferred to Beijing Wanchi and/or its nominee(s).

The Beijing Micro-financing Equity Pledge Agreement

Beijing Wanchi, the Majority Shareholders (Beijing Micro-financing) and Beijing Micro-financing have entered into the Beijing Micro-financing Equity Pledge Agreement, pursuant to which, with effect from 1 January 2013, the first priority security interest (the "**Pledged Micro-financing Equity Interest**") over 79% equity interest in Beijing Micro-financing was granted to Beijing Wanchi for guaranteeing the performance of the Beijing Micro-financing Exclusive Service Agreement, the Beijing Micro-financing Exclusive Option Agreement and the Beijing Micro-financing Proxy Agreement.

Pursuant to the Beijing Micro-financing Equity Pledge Agreement, upon the non-performance or breach of any of the terms of the Beijing Micro-financing Structured Agreements, Beijing Wanchi is entitled to exercise its rights to sell all or part of the Pledged Micro-financing Equity Interest and shall receive the proceeds therefrom on the first priority basis. In addition, Beijing Wanchi shall be entitled to all income derived from the Pledged Micro-financing Equity Interest, including but not limited to, dividends, share of profits and any other benefits.

The Beijing Micro-financing Equity Pledge Agreement provides that none of the Pledged Micro-financing Equity Interest may be transferred or be pledged without prior written consent of Beijing Wanchi, and that any such transfer or pledge of the Pledged Micro-financing Equity Interest shall be deemed invalid.

The Beijing Micro-financing Equity Pledge Agreement became effective on 1 January 2013 (subject to the registrations of the Pledged Micro-financing Equity Interest in the register of members of Beijing Micro-financing which have been completed as at the date of the Announcement) and shall be terminated upon the performance by the Majority Shareholders (Beijing Micro-financing) and Beijing Micro-financing in full of all of their obligations under or termination of each of the Beijing Micro-financing Exclusive Service Agreement, the Beijing Micro-financing Exclusive Option Agreement and the Beijing Micro-financing Proxy Agreement, or the repayment by whom of all damages arising from their breaches of the Beijing Micro-financing Structured Agreements, or Beijing Wanchi having exercised its option under the Beijing Micro-financing Exclusive Option Agreement and obtained 79% equity interest in Beijing Micro-financing.

Succession and protection of the Target Group's interest in the event of death, bankruptcy or divorce of the Majority Shareholders (Beijing Micro-financing)

The Majority Shareholders (Beijing Micro-financing) warrant to Beijing Wanchi that they have made or executed (or procured their ultimate shareholders and directors (if applicable) to make and execute) proper arrangements and all necessary documents, to ensure that their successors, guardians, creditors, spouses or other persons which may obtain the registered equity interest in Beijing Micro-financing will not hinder or impede the performance of the Beijing Micro-financing Structured Agreements in the event that they pass away, become incapacitated, go bankrupt, liquidate (if applicable), get divorced or encounter other circumstances which may affect the exercise of their shareholders' rights.

In addition, each of Mr. Wang and Mr. Xu undertakes and warrants that their respective wills, divorce agreements and debt agreements will be subject to the Beijing Micro-financing Structured Agreement, so that in the event of any change to the shareholding in Beijing Micro-financing due to his death, bankruptcy, divorce, or other circumstances, prior to the exercise of the option by Beijing Wanchi under the Beijing Micro-financing Exclusive Option Agreement, the Beijing Micro-financing Structured Agreements shall prevail over his wills, divorce agreements and debt agreements.

Further, each of the Beijing Micro-financing Structured Agreements contains a provision which sets out that the respective agreement shall be legally binding on the legal assignees or heirs of the parties thereto.

Settlement of potential dispute arising from the Beijing Micro-financing Structured Agreements

Each of the Beijing Micro-financing Structured Agreements will cease to have effect when Beijing Wanchi has exercised its option under the Beijing Micro-financing Exclusive Option Agreement and the 79% equity interest in Beijing Micro-financing has been duly registered under the name of Beijing Wanchi and/or its nominee(s) with the relevant administration for industry and commerce in the PRC. When a dispute arises under any of the Beijing Micro-financing Structured Agreements, the relevant parties thereto shall settle the dispute through negotiation in an amicable manner. If the dispute cannot be settled within thirty days from the date on which the dispute arises, any party to the relevant Beijing Micro-financing Structured Agreement shall have the right to refer the dispute to the China International Economic and Trade Arbitration Commission (Beijing branch) for arbitration. The decision by such arbitration shall be final and binding on the parties concerned. Subject to the PRC laws, the arbitrators may grant a verdict and award remedies to Beijing Wanchi including: (i) remedies over equity interest in or land or other assets of Beijing Micro-financing; (ii) injunctive relief, such as injunction that requires Beijing Micro-financing to operate certain business or to transfer its assets; and (iii) winding-up of Beijing Micro-financing. In addition, the Beijing Micro-financing Structured Agreements also contain provisions to the effect that courts of competent jurisdiction are empowered to grant interim remedies in support of the arbitration: (a) before formation of an arbitral tribunal under China International Economic and Trade Arbitration Commission (Beijing branch); or (b) where appropriate, courts of (1) Hong Kong, (2) the place of incorporation of the Target (i.e. the Cayman Islands); (3) the place of establishment of Beijing Micro-financing (i.e. Beijing, the PRC); and (4) the place(s) where the Target's or Beijing Micro-financing's principal assets are located shall have jurisdictions for such limited purpose.

However, the PRC Legal Adviser has warned that under the PRC laws, the arbitral tribunal has no power to grant injunctive relief or winding up order of Beijing Micro-financing. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognisable or enforceable in the PRC.

Effect and validity of the Beijing Micro-financing Structured Agreements

The PRC Legal Adviser advised that (i) Beijing Micro-financing Structured Agreements, taken as a whole, enable 79% of the financial results of Beijing Micro-financing and 79% of the economic benefits and risks of its business to flow onto Beijing Wanchi; (ii) except that some of the dispute resolution provisions in the Beijing Micro-financing Structured Agreements may not be enforceable as mentioned under the paragraph "Settlement of potential dispute arising from the Beijing Micro-financing Structured Agreements" above, each of the Beijing Micro-financing Structured Agreements is legal, valid and enforceable and binding upon the parties thereto, and the Beijing Micro-financing Structured Agreements as a whole comply with the PRC laws, rules and regulations, as well as the article of association of Beijing Micro-financing, and that Beijing Wanchi could exercise the right to acquire part of or all the 79% equity interest in Beijing Micro-financing if it is allowed by the relevant PRC laws and regulations in future; and (iii) the Beijing Micro-financing Structured Agreements would not be deemed as "concealing illegal intentions with a lawful form" and void under the PRC Contract Law. Accordingly, the reporting accountants of the Company on the financial information of the Target Group has confirmed that the financial position and operating results of Beijing Micro-financing have been included in the consolidated financial statements of the Target Group since the date of the Beijing Micro-financing Structured Agreements. However, the PRC Legal Adviser has also advised that there is a possibility that the MOC or other competent authorities may have different opinions on the interpretation of applicable PRC regulations and may not agree that these agreements under the Beijing Micro-financing Structured Agreements comply with the PRC licensing, registration or other legal or regulatory requirements, with existing policies or with requirements or policies that may be adopted in future, and the authorities may deny the validity, effectiveness and enforceability of the Beijing Micro-financing Structured Agreements.

Having taken into account (i) the terms of the Beijing Micro-financing Structured Agreements; (ii) the opinion from the PRC Legal Adviser in respect of the Beijing Micro-financing Structured Agreements; and (iii) the opinion from the reporting accountants of the Company, the Board considers that the contractual arrangement under the Beijing Micro-financing Structured Agreements which enables 79% of the financial results of Beijing Micro-financing and the economic benefits and risks of its business to flow onto Beijing Wanchi is fair and reasonable.

Measures to mitigate potential conflict of interests between the Target Group and the registered shareholders of the Pawnbrokers, the Dai Family and the Majority Shareholders (Beijing Micro-financing)

Pursuant to the Pawnbrokers Exclusive Option Agreements and the Beijing Micro-financing Exclusive Option Agreement respectively, ZJF Investment, YSY Investment, the Dai Family and the Majority Shareholders (Beijing Micro-financing), irrevocably undertake that, without Beijing Wanchi's prior written consent (i) they shall not sell, transfer, enter into mortgage on, or dispose of, in any way, the equity interests they hold in the Pawnbrokers or Beijing

Micro-financing (as the case may be) respectively, or allow any encumbrances thereupon, except the pledge with respect to the Pledged Pawnbrokers Equity Interests or the Pledged Beijing Micro-financing Equity Interest (as the case may be) as set out under the Pawnbrokers Equity Pledge Agreements and the Beijing Micro-financing Equity Pledge Agreement; and (ii) they shall not appoint or remove any directors, supervisors or any other management who shall be appointed by the shareholders of the Pawnbrokers or Beijing Micro-financing (as the case may be). However, once requested by Beijing Wanchi, they shall appoint or employ the person designated by Beijing Wanchi as the director or senior management personnel of the Pawnbrokers or Beijing Micro-financing (as the case may be).

In addition, each of the registered shareholders of the Pawnbrokers, the members of the Dai Family (as the ultimate shareholders of the Pawnbrokers) and the Majority Shareholders (Beijing Micro-financing) has executed in blank an authorisation letter (as appended to the Pawnbrokers Exclusive Option Agreements and Beijing Micro-financing Exclusive Option Agreement respectively) with respect to its/his/her shareholding in the Pawnbrokers or Beijing Micro-financing (as the case may be). Pursuant to the aforesaid authorisation letter, each of such shareholders has irrevocably authorised any representatives as nominated by Beijing Wanchi to execute the transfer of its/his/her respective equity interests in and/or assets of the Pawnbrokers or Beijing Micro-financing (as the case may be) to any other persons or entities as directed by and at the sole discretion of Beijing Wanchi. The Target Group will keep all these executed authorisation letters and in the event that any of such shareholders fails to discharge its/his/her obligations under the Structured Agreements, the Target Group may procure Beijing Wanchi to sign and date the respective authorisation letter and nominate a representative to execute the share transfer agreement or asset transfer agreement (as the case may be) on behalf of such shareholder in default.

As confirmed by the Target Group, the Target Group had not have any records in which Beijing Wanchi's interests in the Pawnbrokers and Beijing Micro-financing were not protected under the Structured Agreements as at the Latest Practicable Date.

The Group and the Target Group will adopt the following measures to ensure sound and effective operation of the implementation of the Structured Agreements after Completion so as to protect the Group's interests under the Structured Agreements:

1. the Target Group is required to report timely to the Board of any major issues arising from implementation of the Structured Agreements, including but not limited to the compliance and performance of the Structured Agreements;

2. suitable approval and reporting system will be in place and become effective after Completion so as to ensure that the Group would have full access and control over the books and records of the Target Group and to obtain periodic financial information to ensure proper financial

record are kept. In particular, (a) the cash and bank could be monitored by the Group on a daily basis; (b) the purchase of fixed asset over a prescribed limit and all the disposal and write-off of all fixed asset are required to be pre-approved by the Group; (c) related party transaction (if any) is required to be pre-approved by the Group;

3. suitable representative(s) from the Group will (i) review the operation of the accounting system of the Target Group to ensure its efficiency, and (ii) make enquires as to any material variance of the budget with the actual result so as to identify any unusual loss of assets. The representative(s) will report results timely to senior management of the Group or, if necessary, to the Board;

4. the proper record system for shareholders' meeting and directors' meeting of the Target Group will continue to be in place, and a copy of the notice for meeting and resolution will also be passed to the Group before and after the meeting to keep the Group informed of all important development of the Target Group;

5. the Group will work closely with its in-house legal department of the Target Group to understand and obtain update of rules and regulations of the PRC and will unwind the Structured Agreements when it is permissible under the relevant PRC rules and regulations for Beijing Wanchi to engage in the pawn loan services business or micro-financing services business in the PRC in future; and

6. the Target Group's internal audit department will continue to monitor the operational, financial and compliance aspects of the Target Group and report timely to the Group of any issues identified.

REASONS FOR THE ACQUISITION

The Group is principally engaged in (i) property investments; and (ii) coal trading business between the PRC and Indonesia.

The Group has recorded losses for the last five consecutive financial years. For the two years ended 31 March 2012 and 2013, the Group recorded the consolidated loss for the year from the continuing operations of approximately HK$35.6 million and HK$25.2 million respectively. In view of the unsatisfactory performance of the Group and as part of the business plan as stated in the annual report of the Company for the year ended 31 March 2013, the Group has been exploring and evaluating new businesses and investment opportunities which could be of good potential and/or long-term benefits to the Group and the Shareholders.

To this end, the Company has identified the Target Group as an appropriate acquisition target to the Group and the Directors are of the view that the Acquisition would allow the Group to diversify into a new line of business with significant growth potential.

According to the statistics published by National Bureau of Statistics of the PRC, the nominal gross domestic products of the PRC in 2012 amounted to approximately RMB51.9 trillion (equivalent to approximately HK$64.9 trillion), representing an increase of approximately 9.7% as compared to 2011. Due to the robust economic growth in the PRC, the financing demand in the PRC has experienced a marked increase and the short-term money lending business in the PRC is set for its growing path. According to a research report prepared by Euromonitor International Ltd., (i) the total pawn loan value in the PRC in 2012 amounted to approximately RMB276.5 billion (equivalent to approximately HK$345.6 billion), representing an increase of approximately 13.6% as compared to 2011; (ii) the total outstanding amount of micro-loans in the PRC in 2012 amounted to approximately RMB592.1 billion (equivalent to approximately HK$740.1 billion, representing an increase of approximately 51.2% as compared to 2011. As mentioned in the paragraph headed "Information on the Target Group" above, the Target Group has commenced its pawn loan business since 2002 and according to the above-mentioned report, the Target Group is the fourth largest pawn loan provider in Beijing in terms of the total registered capital in 2012. With a view to extend its business scope, the Target Group commenced the provision of financial consultancy services and entrusted loan services in October 2012 and November 2012 respectively. The Directors believe the Target Group is well-positioned to capitalise on the potential market growth for the short-term money lending business in Beijing and are optimistic about the long-term development of the short-term money lending business in Beijing, the implementation of business plan of the Target Group catering for the needs of the customers as well as the growth and prospects of the businesses of the Target Group.

Moreover, according to the audited consolidated financial results of the Target Group (details of which are set out in the paragraph headed "Financial information of the Target Group" above), for the year ended 31 December 2013, the Target Group recorded a net profit of approximately RMB43.1 million (equivalent to approximately HK$53.9 million). The Target Group has been profit making over the past three financial years. Taking into account the established scale of the operation of the Target Group and its continuous growth potential, the Company considers that the Acquisition provides an excellent investment opportunity for the Group to enhance its revenue sources, improve its financial results and provide better return to the Shareholders in the long run.

Having considered the above factors, the Board considers that the terms of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target will become an indirect wholly-owned subsidiary of the Company and the financial results thereof will be consolidated into the financial statements of the Company. The unaudited pro forma financial information of the Enlarged Group which illustrates the financial impact of the Acquisition on the earnings, and assets and liabilities of the Enlarged Group has been set out in Appendix III to this circular.

(A) Effect on earnings

The Group recorded audited total revenue of approximately HK$95.4 million and loss after tax from continuing operations of approximately HK$25.2 million for the year ended 31 March 2013. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the total revenue of the Enlarged Group for the year ended 31 March 2013 would have been increased by approximately HK$81.9 million (comprising net interest income of approximately HK$68.0 million and financial consultancy income of approximately HK$14.0 million) to approximately HK$177.4 million as if the Completion had taken place on 1 April 2012. Therefore, given the historical financial performance of the Target Group, the Acquisition is expected to enhance the revenue base of the Enlarged Group. The loss after tax from continuing operations of the Enlarged Group for the year ended 31 March 2013 would have been reduced from approximately HK$25.2 million to approximately HK$24.3 million; and the loss attributable to the equity holders of the Company would have been slightly increased from approximately HK$25.7 million to approximately HK$26.4 million as if the Completion had taken place on 1 April 2012.

(B) Effect on assets and liabilities

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, if the Completion had taken place on 31 December 2013, the unaudited pro forma total asset value of the Enlarged Group as at 31 December 2013 would have been increased by approximately HK$884.6 million to approximately HK$1,116.8 million. The total liabilities of the Enlarged Group as at 31 December 2013 would have been increased by approximately HK$760.0 million to approximately HK$792.4 million. Taking into account the increases in the total assets and the total liabilities, the net assets of the Enlarged Group as at 31 December 2013 would have been increased by approximately HK$124.6 million to approximately HK$324.4 million. As a result, the overall financial position of the Enlarged Group would have been improved.

NOTIFIABLE TRANSACTIONS AND DISCLOSURE PURSUANT TO THE GEM LISTING RULES

Although the provision of pawn loan services, micro-financing services and entrusted loan services to the customers are in the ordinary course of business of the Target Group, these loans do not fall under the definition of "ordinary and usual course of business" under Rule 19.04(8) of the GEM Listing Rules. In this connection, upon Completion, the loans provided by the Target Group to its customers may constitute notifiable transactions for the Company under Chapter 19 of the GEM Listing Rules and subject to the relevant notification, announcement and shareholders' approval requirements (where applicable).

Based on the loan portfolio of the Target Group as at the Latest Practicable Date, there was no outstanding loan where its percentage ratios (other than equity capital ratio which is not applicable) calculated pursuant to Rule 19.07 of the GEM Listing Rules equal to or exceeded 5% on the basis of the Enlarged Group. As a result, none of the outstanding loans of the Target Group provided to its customers would constitute a notifiable transaction of the Company under Chapter 19 of the GEM Listing Rules or is otherwise subject to the relevant notification, announcement and shareholders' approval requirements (where applicable) upon Completion.

Further, the loan services provided by the Target Group to its customers may trigger a general disclosure obligation pursuant to Rule 17.15 to Rule 17.17A of the GEM Listing Rules and subject to the relevant announcement and reporting requirements, in the event that the relevant advances to an entity by the Target Group individually exceeds 8% on the basis of the Enlarged Group under the assets ratio as defined in Chapter 19 of the GEM Listing Rules.

The Group will put in place procedures to ensure that the requirements of the GEM Listing Rules, including those relating to Chapter 17 and Chapter 19 above will be complied with.

GEM LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition pursuant to Rule 19.06(5) of the GEM Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval at the SGM by way of poll. In this connection, the SGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Agreement and the transactions contemplated thereunder.

No Shareholder has a material interest in the Acquisition which is different from the other Shareholders and is required to abstain from voting on the relevant resolution to be proposed at the SGM to approve the Acquisition Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendors and their respective associates did not hold any Shares, options or securities convertible or exchangeable into Shares as at the Latest Practicable Date. If the Vendors and their respective associates hold any Shares on the date of the SGM, they will be required to abstain from voting on the relevant resolution(s) to be proposed at the SGM in relation to the Acquisition Agreement and the transactions contemplated thereunder.

The Company appointed a financial adviser acceptable to the Stock Exchange to conduct due diligence over the Target Group in accordance with Practice Note 2 of the GEM Listing Rules and to fulfill the duties and obligations equivalent to those of a sponsor for a new listing application under the GEM Listing Rules. In this connection, the Company has appointed Optima Capital to undertake such role.

RE-ELECTION OF DIRECTORS

Mr. Han Jianli ("**Mr. Han**") was appointed as an executive Director and Mr. Du Hui ("**Mr. Du**") was appointed as an independent non-executive Director with effect from 9 October 2013. Pursuant to bye-law 83(2) of the Bye-laws, the Board shall have the power from time to time and at any time to appoint any person as a Director to fill a casual vacancy on the Board, and any Director so appointed shall hold office until the first general meeting of the Shareholders after his appointment and be subject to re-election at such meeting. As such, Mr. Han and Mr. Du shall hold office until the SGM and, being eligible, will offer themselves for re-election and ordinary resolutions as set out in resolution no. 2a and 2b will be put forward to the Shareholders at the SGM.

The biographical details of the retiring Directors proposed to be re-elected at the SGM are set out under the section headed "Particulars of Directors and Senior Management" in Appendix IV to this circular. Save as disclosed in this circular, Mr. Han and Mr. Du (i) did not hold any other positions in the Company or its subsidiaries as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or controlling Shareholders as at the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies in the three years prior to the date at the Latest Practicable Date. As at the Latest Practicable Date, each of Mr. Han and Mr. Du did not have any interest in the Shares within the meaning of Part XV of the SFO.

Mr. Han and Mr. Du have respectively entered into a letter of appointment with the Company for an initial term of one year commencing on 9 October 2013. Their appointments are subject to the provisions of retirement and rotation of Directors under the Bye-laws. Pursuant to the terms of the letter of appointment, Mr. Han and Mr. Du are entitled to an annual Director's fee of HK$240,000 and HK$180,000 respectively which is determined with reference to the market rate and their time, effort and expertise to be exercised on the Group's affairs and the Company's remuneration policy.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matters with respect to the appointment of Mr. Han and Mr. Du that needs to be brought to the attention of the Shareholders and there was no further information relating to our Directors that is required to be disclosed pursuant to Rules 17.50(2)(h) to (v) of the GEM Listing Rules.

THE SGM

The SGM will be held at Unit 01, 3/F., Wheelock House, 20 Pedder Street, Central, Hong Kong at 4:00 p.m. on 18 June, 2014 for the purpose of considering and, if thought fit, to approve (i) the Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares and the Conversion Shares; and (ii) the re-election of the Directors. The notice convening the SGM is set out on pages SGM-1 to SGM-4 of this circular.

Whether or not you propose to attend the meeting, you are advised to complete the form of proxy attached to the notice of the SGM in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish, and in such case, the form of proxy previously submitted by such member(s) shall be deemed to be revoked.

RECOMMENDATION

The Directors consider that the terms of the Acquisition Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable. The Directors also consider that the entering into of the Acquisition Agreement and the re-election of the Directors are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all the proposed resolutions at the SGM.

ADDITIONAL INFORMATION

As the Completion is subject to the fulfilment of a number of conditions described in this circular, the Acquisition may or may not be completed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

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

By Order of the Board
Ming Kei Holdings Limited
Mr. Wong Wai Sing
Chairman and Executive Director

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial information of the Target Group are set out in note 2 to the financial information of the Target Group as set out in the Appendix II to this circular. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The operations of the Target Group have been conducted primarily through the operating entities in the PRC, which were controlled by the Dai Family. In order for the Target Group to manage the business, financial and operating activities of the Pawnbrokers and Beijing Micro-financing by means of management and consultancy fees payable by the Pawnbrokers and Beijing Micro-financing to Beijing Wanchi, the Target Group adopted the contractual arrangement under the Pawnbrokers Structured Agreements and the Beijing Micro-financing Structured Agreements, pursuant to which Beijing Wanchi is entitled to (i) all economic benefits and risks arising from the business of the Pawnbrokers through the Pawnbrokers Structured Agreements; and (ii) 79% of the economic benefits and risks arising from the business of Beijing Micro-financing through the Beijing Micro-financing Structured Agreements, respectively. Details of the Structured Agreements set out under the paragraphs headed "The Structured Agreements" under the section headed "Letter from the Board" in this circular.

The pawn loan businesses of Tianjin Jinfu and Harbin Jinfu (the "**Discontinued Operations**"), which were previously owned indirectly by the Dai Family with an effective equity holding of 100%, and 85.37% respectively, were disposed of by the Dai Family in 2012. Although the Discontinued Operations had not been transferred to the Target Group, the directors of the Target consider that the Discontinued Operations had historically formed part of the pawn loan business which was managed together and under the common control of the Dai Family. Therefore the financial information of the Target Group has also reflected the assets, liabilities and operating results of the Discontinued Operations up to the respective dates of disposal. Accordingly, the financial information of the Discontinued Operations has been presented as discontinued operations, and the net amount of the assets and liabilities of the Discontinued Operations has been accounted for as a distribution to the Dai Family on 31 July 2012 and 9 August 2012, respectively, when all the rights and obligations in respect of the beneficial interests in Harbin Jinfu and Tianjin Jinfu were transferred.

The financial information includes the financial position, results and cash flows of the companies comprising the Target Group as if the current group structure had been in existence throughout the Track Record Period or since the dates when the combining companies first came under the control of the Dai Family, whichever is a longer period. Inter-company transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

Subsidiaries

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has restricted activities and a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity. Consequently, investment trusts, investment funds, asset-backed securities, and principal guaranteed and non-principal guaranteed wealth management products are considered as "structured entities".

A subsidiary is an entity (including a structured entity) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In addition, certain companies over which the Target has control through the Structured Agreements (i.e. the Pawnbrokers and Beijing Micro-financing) are also treated as subsidiaries as described in note 3.3 to the financial information of the Target Group as set out in the Appendix II to this circular. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Target Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

For more details on accounting policies on subsidiaries, see note 2.2 to the financial information of the Target Group as set out in the Appendix II to this circular.

Financial assets

(i) Classification

The Target Group classifies its financial assets in the four categories, namely, financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale investments. Management determines the classification of its investments at initial recognition.

The Target Group did not hold financial assets which were classified as financial assets at fair value through profit or loss, held-to-maturity investments or available-for-sale investments during the Track Record Period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

The Target Group's loans and receivables mainly comprise loans to customers, distressed loans purchased, amount due from related parties, loans from related parties, other receivables and cash and cash equivalents in the consolidated statements of financial position.

Loans and receivables are classified as current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

(ii) Recognition and measurement

Loans and receivables are initially recognised at fair value which the cash is given to originate the loans including any transaction costs, and measured subsequently at amortised cost using the effective interest method.

Interest on loans is included in the consolidated statements of comprehensive income and is reported as interest income. In the case of impairment, it is reported as a deduction from the carrying value of the loan and recognised separately in the consolidated statements of comprehensive income as impairment charge for credit losses.

Impairment of financial assets

The Target Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Target Group uses to determine that there is objective evidence of an impairment loss include:

– Delinquency in contractual payments of principal or interest;

– Cash flow difficulties experienced by the borrower;

– Breach of loan covenants or conditions;

– Initiation of bankruptcy proceedings;

– Deterioration of the borrower's competitive position;

– Deterioration in the value of collateral; and

– Filing of a lawsuit against the borrower.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 1 month and 6 months; in exceptional cases, longer periods are warranted.

The Target Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Target Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss relating to distressed loans is measured based on value of the underlying collateral. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statements of comprehensive income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of collateral, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Target Group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in property prices, payment status, or other factors indicative of changes in the probability of losses in the Target Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Target Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's collateral value), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statements of comprehensive income. Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed as such only if it has to be further renegotiated again.

Financial liabilities

The Target Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities, carried at amortized cost. For more details on accounting policies on financial liabilities, see notes 2.5.3 to the financial information of the Target Group as set out in the Appendix II to this circular.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

(i) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of statement of financial position in the countries where the Target Group's subsidiaries operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(iii) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within interest income and interest expense in the consolidated statements of comprehensive income using the effective interest method, including interest income, interest expenses, administration fee income and other service fee income.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Target Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

KEY FACTORS AFFECTING RESULTS OF OPERATIONS

Economic environment of the PRC and Beijing

The Target Group's business relies on individual customers and SMEs to generate income, in particular, from Beijing where the Target Group's business and operations have been concentrated in. While the growth of the PRC economy in recent years has led to increased business activities and investments, which has supported the growth of the short-term financing industry in general, as SMEs and individuals that wish to expand their businesses and/or invest in new businesses have been looking to companies such as the Target Group for quick and convenient access to financing to meet their immediate financing needs, these borrowers may be more susceptible than larger corporate customers to adverse changes in market conditions, competition and general economic conditions. Therefore, any worsening in the economic environment in the PRC and Beijing may stall the growth momentum for such pool of customers and even affect their abilities to repay. As such, the Target Group's business, results of operations and financial condition may be adversely affected.

Interest rate environment

The results of operations of the Target Group are directly affected by the difference between the effective interest the Target Group charges on the loans it grants to its customers and the interest expense that it incurs in financing its business. Pursuant to the Pawning Measures, for each loan the Target Group grants, the fee that it can charge consists of loan interest and composite administrative fee. The monthly loan interest is set based on the prevailing six-month PBOC benchmark RMB lending rate of the financial institutions, whereas the monthly composite administrate fee is capped at certain threshold depending on the type of the pawn loan. The Implementation Measures for the Pilot Operation of Micro-financing Companies in Beijing set out that the interest rate charged on borrowers for micro-financing services shall be within the range of 0.9 time to four times of the relevant PBOC benchmark RMB lending rate, and the Certain Opinions of the Supreme People's Court on the Trial of Loan Cases by the Peoples' Court set out that the entrusted loan interest rate shall not be more than four times that of the PBOC benchmark RMB lending rate for the same period.

The net interest income is impacted by the interest expense, which is largely determined by the interest that the Target Group pays for its interest-bearing bank borrowings. The interest rates on its bank borrowings have been determined based on the PBOC benchmark interest rate as of the effective dates of the relevant loan agreements, and are fixed or floating during the terms of the loans. However, the PBOC benchmark interest rates are subject to numerous factors on which the Target Group has no control, including the regulatory framework and monetary policies of the banking and financial sectors in the PRC, and domestic and international economic and political conditions. Any adjustments to the PBOC benchmark interest rates could impact the interest expenses of the Target Group. The Target Group may not be able to adjust in a timely manner the interest and fees the Target Group charges on the loans it grants to customers to response to such adjustment; and thus, the net interest income of the Target Group may be affected.

Source of funding and expansion of operation

The size of the Target Group's pawn loan and micro-financing business is restricted by the respective registered capital of the Pawnbroker, in accordance with the Pawning Measures, whereas the balance of the micro-loan granted to the same customer is subject to a cap with reference to the net capital of Beijing Micro-financing, in accordance with the Implementation Measures for the Pilot Operation of Micro-financing Companies in Beijing.

Conversely, the size of the Target Group's entrusted loan and financial consultancy businesses is not subject to any regulatory thresholds. However, such businesses and operations are restricted by the size of available funding for Beijing Wanchi.

The source of funding for the Target Group's businesses and operations are mainly contributed by the capital injection from its shareholders and internally generated funds, as well as bank loan of an amount up to certain regulatory caps in reference to the owner's equity in the latest annual financial accounting report of the respective Pawnbroker or the net capital of Beijing Micro-financing (as the case may be). The profitability and financial results of the Target Group depend on its ability to maintain such funding. The Target Group will continue to maintain the registered capital and internally generated funds for its business operations. In addition, the directors of the Target Group plan to further expand its micro-financing business after Completion and are exploring the possibilities of increasing the registered capital of Beijing Micro-financing, which will be subject to the approval of relevant authorities in the PRC. The directors of the Target Group are also considering expanding the lending capacity of the entrusted loan business through borrowing from external parties, detailed terms of which were yet to be determined as at the Latest Practicable Date.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Target Group's financial information and its financial result are influenced by accounting policies, assumptions, estimates and management judgment which necessarily have to be made in the course of preparation of the financial information.

The Target Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Accounting policies and the Target Group's management's judgments for certain items are especially critical for the Target Group's results and financial situation due to their materiality in amount. Set out below are the summary of the critical accounting policies and estimates adopted in the preparation of the financial information for the Track Record Period.

Impairment allowances on loans to customers and receivables

The Target Group reviews its loan and receivable portfolios including distressed loans to assess impairment periodically. In determining whether an impairment loss should be recorded in the profit or loss, the Target Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. decline in collateral value or payment delinquency or default), or local economic conditions that correlate with defaults on assets in the Target Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Target Group's impairment allowance relies on the collateral valuation and management judgment on the marketability of the pawned and collateral properties and capability of payment of the customers of Beijing Micro-financing at the estimated valuation and the actual valuation may differ from the estimation.

The methods used by management of the Target Group in making the accounting estimates have not been changed during the Track Record Period and are unlikely to change in the future.

Income taxes and value added tax

The Target Group is subject to corporate income tax and other turnover taxes in the PRC. Significant judgment is required in determining the provision for income tax and other turnover taxes, including those tax positions, which may arise from the Structured Agreements. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

Determination of the controlled subsidiaries by the Target Group

When preparing the consolidated financial information of the Target Group, the Target Group applied HKFRS 10 'Consolidated Financial Statements' to determine whether the Target Group has "control" over those entities considered to be subsidiaries. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Key factors used in determining control and whether the entities are subsidiaries include whether the Target Group has power over the entities either through voting rights or contractual agreements and whether it has the rights to obtain the majority of benefits or is exposed to the majority of ownership risks.

When the above factors are met, the directors of the Target Group determine that it has control over the entities and include them as subsidiaries in its consolidated financial information. For those entities, where the Target Group holds no equity interest but are subject to the Structured Agreements as described (i.e. the Pawnbrokers and Beijing Micro-financing), significant judgments are necessary as to whether these contracts give the Target Group the ability to exercise control over these entities, including consideration of the PRC legal and regulatory requirements, foreign exchange control, or other influences, such as, force majeure etc. After taking these considerations into account, in the judgment of the directors of the Target Group, the Structured Agreements give it the power to control these entities.

The indirect wholly-owned subsidiary of the Target, Beijing Wanchi, has entered a series of Structured Agreements with the respective Pawnbrokers, Beijing Micro-financing and respective equity holders, which enables the Target to:

– exercise effective financial and operational control over the Pawnbrokers and Beijing Micro-financing;

– exercise the entire equity holders' voting rights of the Pawnbrokers, and 79% equity holders' voting rights of Beijing Micro-financing during the general meetings of the Pawnbrokers and Beijing Micro-financing respectively;

– receive and be exposed to substantially all of the economic interest returns generated by the Pawnbrokers, and 79% of the economic benefits and risks of ownership of Beijing Micro-financing through service fees in consideration for the management and consulting services provided by Beijing Wanchi at Beijing Wanchi's discretion;

– have an irrevocable option to purchase the entire equity interest in each of the Pawnbrokers, the 79% equity interest in Beijing Micro-financing when and to the extent permitted under PRC laws; and

– obtain pledges over the entire equity interest of each of the Pawnbrokers, the 79% equity interest of Beijing Micro-financing from their respective equity holders.

The Target Group does not have any equity interest in each of the Pawnbrokers and Beijing Micro-financing. However, as a result of the Structured Agreements, the Target Group has rights to variable returns from its involvement with the Pawnbrokers and Beijing Micro-financing and has the ability to affect these returns through its power over the Pawnbrokers and Beijing Micro-financing and is considered to control the Pawnbrokers and Beijing Micro-financing. Consequently, the Target regards the Pawnbrokers and Beijing Micro-financing as indirect subsidiaries under HKFRS.

Nevertheless, the Structured Agreements may not be as effective as direct legal ownership in providing the Target Group with direct control over the consolidated entities and business, and uncertainties presented by the PRC legal system could impede the Target Group's beneficiary rights of the results, assets and liabilities of the consolidated entities and business. The Target Group believes that the Structured Agreements are in compliance with relevant PRC laws and regulations and are legally binding and enforceable.

The following table is a summary of the results of the Target Group during the Track Record Period which has been extracted from, and should be read in conjunction with, the accountant's report on the Target Group set out in Appendix II to this circular.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets forth the consolidated statements of comprehensive income of the Target Group for the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Continuing operations			
Interest income	81,343	67,346	54,276
Interest expense	(8,575)	(4,285)	(371)
Net interest income	**72,768**	**63,061**	**53,905**
Financial consultancy income	–	1,469	11,088
Other operating income, net	146	86	343
Net revenue	**72,914**	**64,616**	**65,336**
Administrative and other operating expenses	(21,772)	(19,611)	(16,641)
Impairment (charge)/reversal on loans to customers	(3,261)	(115)	7,035
Other gains, net	145	218	1,210
Profit before income tax	**48,026**	**45,108**	**56,940**
Income tax expenses	(11,966)	(11,492)	(13,862)
Profit for the year from continuing operations	**36,060**	**33,616**	**43,078**
Discontinued operations			
Profit/(loss) for the year from discontinued operations	5,189	(507)	–
Profit for the year	**41,249**	**33,109**	**43,078**
Profit/(loss) attributable to:			
Equity holders of the Target			
– Continuing operations	36,060	33,616	41,831
– Discontinued operations	4,533	(530)	–
Non-controlling interest			
– Continuing operations	–	–	1,247
– Discontinuing operations	656	23	–
	41,249	33,109	43,078

The following is the management discussion and analysis of the performance of the Target Group during the Track Record Period.

DESCRIPTION OF CERTAIN LINE ITEMS IN THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The interest income of the Target Group mainly represents the interest income from (i) pawn loans; (ii) entrusted loans; and (iii) credit loans, guaranteed loans and mortgage loans. The following table sets out the interest income breakdown of the Target Group by category during the Track Record Period.

Interest income

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Interest income from:			
Pawn loans			
Loans secured by real estate collateral	77,514	62,708	23,102
Loans secured by equity interest collateral	–	816	13,243
Loans secured by personal and inventory collateral	869	945	2,752
Loans secured by automobiles and equipment collateral	2,794	2,612	3,562
	81,177	67,081	42,659
Entrusted loans	–	29	172
Credit loans, guaranteed loans and mortgage loan	–	–	11,046
Bank deposits	77	161	399
A related party (Note)	89	75	–
	81,343	67,346	54,276

Note: Interest income from a related party was generated from ZJF Investment. The Loans to ZJF Investment were pawn loans secured by equity interest collateral with composite administrative fee rate of 12% per annum and an interest rate of 6% per annum and were fully repaid in January 2012.

(i) Interest income from pawn loans

Interest income generated from pawn loans to customers consists of composite administrative fee, loan interest and late payment charge. The Target Group generated interest income from pawn loans of RMB81.2 million, RMB67.1 million and RMB42.7 million in the years ended 31 December 2011, 2012 and 2013, respectively, accounting for 99.8%, 99.6% and 78.6% of the total interest income for the corresponding years. The decrease in interest income from pawn loans was primarily due to (i) the worsening of the lending capacity of the Target Group as a result of the decrease in bank borrowings during the years ended 31 December 2012 and 2013; and (ii) the stringent loan approval processes adopted by the Target Group in mid-2012 resulting in an increase in rejected pawn loan applications during the years ended 31 December 2012 and 2013. With a view to reducing the reliance on the related parties, the Target Group repaid the bank borrowings which were (i) secured by third party guarantee companies under credit counter-guarantee contracts among Zhongfa Enterprise, ZJF Investment and the third party guarantee companies; and (ii) mortgaged by real estate and land use rights of Yongtai and it resulted in the decrease in bank borrowings as mentioned above. For more details, see "Results of Operations – Year ended 31 December 2013 compared with year ended 31 December 2012" and "Results of Operations – Year ended 31 December 2012 compared with year ended 31 December 2011".

(ii) Interest income from entrusted loans

The Target Group commenced the entrusted loan business from November 2012. It generated interest income from entrusted loans to customers of RMB29,000 and RMB172,000 in the years ended 31 December 2012 and 2013, respectively. As the entrusted loan business was in its early development stage in 2012, the revenue generated therefrom was relatively small in 2012.

(iii) Interest income from credit loans, guaranteed loans and mortgage loans

The Target Group commenced the provision of micro-financing services (including provision of credit loans, guaranteed loans and mortgage loans services) in Beijing through Beijing Micro-financing, a company which Beijing Wanchi obtained the control thereof through the Beijing Micro-financing Structured Agreements, since 1 January 2013. It generated interest income from credit loans, guaranteed loans and mortgage loans to customers of RMB11.0 million in the year ended 31 December 2013.

Interest expenses

The interest expenses consist of interest expense on bank borrowings and interest expense to a related party. The following table sets forth the interest expenses for the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Interest expenses on bank borrowings	6,010	4,285	371
Interest expenses to ZJF Investment	2,565	–	–
	8,575	4,285	371

Interest expense on bank borrowings for the years ended 31 December 2011 and 2012 represented interest the Target Group paid on bank borrowings from the Bank of Beijing, the Industrial and Commercial Bank of China, the Industrial Bank, the China Merchant Bank and the Shanghai Pudong Development Bank during the Track Record Period. Pursuant to the relevant loan agreements, the bank borrowings as at 31 December 2011 were with maturity within six months to one year and bore contractual fixed or floating interest rates ranging from 7.2% to 8.2% per annum. The decrease in interest expense on bank borrowings was mainly attributable to the repayment of the bank borrowings during the Track Record Period. For more details, see "Results of Operations – Year ended 31 December 2013 compared with year ended 31 December 2012" and "Results of Operations – Year ended 31 December 2012 compared with year ended 31 December 2011".

Before the Track Record Period, ZJF Investment, in December 2010, provided an entrusted loan of RMB30 million to the Target Group through the Industrial Bank to satisfy the increasing financing needs resulting from the expansion of the business scale of the Target Group. The aforesaid loan was granted to the Target Group at arm's-length and bore an interest rate of 8.667% and was repayable with a fixed term of 12 months. The loan was fully repaid by the Target Group in December 2011. The directors of the Target Group do not expect to enter into any loan transactions with ZJF Investment or other related parties going forward. Upon the repayment of the entrusted loan from ZJF Investment, the Target Group utilised its retained earnings, bank borrowings and paid-in capital of the PRC subsidiaries to satisfy the financing needs resulting from the expansion of the business scale. For details, please refer to the paragraph headed "Source of Funding" under the section headed "Letter from the Board" in this circular.

The interest expenses were RMB8.6 million, RMB4.3 million and RMB0.4 million in the years ended 31 December 2011, 2012 and 2013, respectively, representing 10.5%, 6.4% and 0.7% of the interest income for the corresponding years.

Financial consultancy income

The Target Group commenced the provision of financial consultancy services in Beijing in October 2012. It generated income from financial consultancy services to customers of RMB1.5 million and RMB11.1 million in the years ended 31 December 2012 and 2013, respectively. As the business was in its early development stage in 2012, the revenue generated therefrom was relatively small in 2012.

Other operating income, net

Net other operating income represents proceeds from disposal of repossessed assets and net realised gains from disposal of distressed loans. The other operating income was RMB146,000, RMB86,000 and RMB343,000 in the years ended 31 December 2011, 2012 and 2013, respectively, representing 0.2%, 0.1% and 0.5% of net revenue for the corresponding years.

Administrative and other operating expenses

The following table sets forth the administrative expenses of the Target Group for the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Employee benefit expenses	4,009	4,682	6,835
Business taxes, value-added tax and related surcharges	4,464	3,708	3,727
Operating lease	2,428	1,818	2,523
Advertising costs	1,820	1,238	1,091
Telephone, utilities and office expenses	680	656	860
Transportations, meals and accommodations	850	624	521
Marketing and consultancy fee	276	371	367
Depreciation and amortization	297	373	247
Auditors' remuneration	133	18	92
Related parties consultancy, service and management fee	6,650	5,860	–
Other expenses	165	263	378
	21,772	19,611	16,641

The administrative expenses were RMB21.8 million, RMB19.6 million and RMB16.6 million in the years ended 31 December 2011, 2012 and 2013, respectively, representing 29.9%, 30.4% and 25.5% of net revenue for the corresponding years.

The decrease in administrative expenses from the year ended 31 December 2011 to the year ended 31 December 2012 was in line with the decrease in net revenue in the year ended 31 December 2012. The decrease in administrative expenses as a percentage of net revenue and administrative expenses from the year ended 31 December 2012 to the year ended 31 December 2013 was mainly due to the reorganisation of the Target Group. Prior to the reorganisation of the Target Group, the management functions of the Target Group was performed by Zhongfa Enterprise and ZJF Investment and the relevant consultancy, service and management fee was recorded in the years ended 31 December 2011 and 2012. Following the establishment of Beijing Wanchi on 28 September 2012, some senior managerial staff were transferred from ZJF Investment and Zhongfa Enterprise to Beijing Wanchi to perform the managerial functions of the Target Group. Accordingly, there was an increase in employee benefit expenses and no consultancy, service and management fee was paid to the related parties in the year ended 31 December 2013. The decrease in administrative expenses as a percentage of net revenue from the year ended 31 December 2012 to the year ended 31 December 2013 was primarily due to the improvements in the operational efficiency of the Target Group resulting from the reorganisation of the Target Group.

Impairment charge on loans to customers

Impairment charge on loans to customers consists of individually assessed impairment charges and collectively assessed impairment charges. The following table sets forth the contribution of each type of impairment charge for the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Individually assessed impairment charge/(reversal)	3,000	1,282	(7,747)
Collectively assessed impairment charge/(reversal)	261	(1,167)	712
	3,261	115	(7,035)

Individually assessed impairment charge/(reversal)

The Target Group reviews the loan portfolios to assess impairment periodically. Such individually assessed impairment charges/reversals were determined by an evaluation of the incurred loss as at the year end on a case-by-case basis. The Group recognised individually assessed impairment charges of RMB3.0 million and RMB1.3 million in the years ended 31 December 2011 and 2012 and a reversal of individually assessed impairment of RMB7.7 million in the year ended 31 December 2013. Individually assessed impairment charges in 2011 and 2012 were resulted from impairment losses recognised for the same years. Individually assessed impairment reversal in 2013 was due to a write-back for a loss previously recognised but subsequently recovered.

Collectively assessed impairment charge/(reversal)

The Target Group recognised collectively assessed impairment charges of RMB0.3 million and RMB0.7 million in the years ended 31 December 2011 and 2013 and a reversal of collectively assessed impairment of RMB1.2 million in the year ended 31 December 2012. If the Target Group determines the loan to customer does not need to be individually impaired after the individual assessment, the Target Group includes such loan in a group of loans and collectively assess them for impairment. Based on the historical data, the Target Group determines a collective loss rate of 1% and it provides a collectively assessed impairment allowance of 1% of the above-mentioned group of loans as at the financial year end. The collectively assessed impairment charges or reversals were recognised as a result of the changes in the collectively assessed impairment allowance from the beginning to the end of an indicated year, which was primarily due to the change of outstanding loans to customers excluding the loans individually impaired as at the year end.

Other gains, net

The other net gains mainly represent the subsidies from the PRC Government. The Group recognised the other net gains of RMB0.1 million, RMB0.2 million and RMB1.2 million in the years ended 31 December 2011, 2012 and 2013, respectively.

Income tax expenses

Pursuant to the respective rules and regulations of the Cayman Islands and the British Virgin Islands, the Target Group was not subject to any income tax in the Cayman Islands and the BVI during the Track Record Period. No provision for Hong Kong profits tax was made for the subsidiary incorporated in Hong Kong as they did not have assessable profits subject to Hong Kong tax during the Track Record Period.

According to the EIT Law, the income tax provision in respect of operations of the Target Group in the PRC has been calculated at the applicable corporate tax rate of 25% on the estimated assessable profits based on existing PRC legislation, interpretations and practices.

Pursuant to the EIT Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Target Group is therefore liable to withholding taxes on dividends distributable by those subsidiaries established in the PRC.

During the Track Record Period, the directors of the Target agreed not to require its PRC subsidiaries to distribute their retained earnings and intended to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on withholding tax was accrued as of the end of each reporting year.

Income tax expense was RMB12.0 million, RMB11.5 million and RMB13.9 million in the years ended 31 December 2011, 2012 and 2013, respectively, representing effective tax rates of 24.9%, 25.5% and 24.3% for the same years.

The PRC Legal Adviser confirmed that the operating entities of the Target Group in the PRC have registered with the relevant tax authorities. According to the written certificates issued by the relevant tax authorities, the PRC Legal Adviser confirmed that the operating entities of the Target Group have not been penalised by the relevant tax authorities during the Track Record Period.

Discontinued operations

Profit for the year from the discontinued operations represents profit generated by Tianjin Jinfu and Harbin Jinfu. Tianjin Jinfu and Harbin Jinfu were previously owned indirectly by the Dai Family with an effective equity holding of 100% and 85.37% respectively. The Dai Family disposed of its respective equity interest in Tianjin Jinfu and Harbin Jinfu to third parties in 2012.

RESULTS OF OPERATIONS

Year ended 31 December 2012 compared with year ended 31 December 2011

With a view to enhancing the internal controls, strengthening the compliance capabilities and reducing the reliance on the related parties, the Target Group adopted more stringent loan approval process and repaid all the bank borrowings which were (i) secured by third party guarantee companies under credit counter-guarantee contracts among Zhongfa Enterprise, ZJF Investment and the third party guarantee companies; and (ii) mortgaged by real estate and land use rights of Yongtai during the year ended 31 December 2012. As a result of the implementation of the above-mentioned measures, there is an increase in rejected pawn loan applications and decline in the lending capacity of the Target Group, and accordingly, the Target Group recorded a decrease in interest income in the year ended 31 December 2012.

Interest income

The interest income decreased by 17.2% from RMB81.3 million in the year ended 31 December 2011 to RMB67.3 million in the year ended 31 December 2012 primarily due to the above-mentioned reasons.

Interest income from pawn loans

Interest income from pawn loans to the customers were RMB81.2 million and RMB67.1 million for the years ended 31 December 2011 and 2012, respectively.

(i) Interest income from pawn loans secured by real estate collateral

Interest income from pawn loans secured by real estate collateral decreased by 19.1% from RMB77.5 million in the year ended 31 December 2011 to RMB62.7 million in the year ended 31 December 2012 and accounted for 95.5% and 93.5% of the interest income from pawn loans in the years ended 31 December 2011 and 2012, respectively.

The average annualised composite administrative fee rate and average annualised interest rate on pawn loans secured by real estate collateral slightly decreased from 31.0% and 3.2% in the year ended 31 December 2011 to 30.9% and 2.8% in the year ended 31 December 2012. As a result of the implementation of the above-mentioned measures since mid 2012, the gross amount of pawn loans secured by real estate collateral decreased by 66.8% from RMB248.0 million as of 31 December 2011 to RMB82.4 million as of 31 December 2012.

(ii) Interest income from pawn loans secured by equity interest collateral

The Target Group did not record any interest income from pawn loans secured by equity interest collateral in the year ended 31 December 2011. The Target Group recorded an interest income from pawn loans secured by equity interest collateral of RMB0.8 million in the year ended 31 December 2012 and accounted for 1.2% of the interest income from pawn loans in the same year.

The average annualised composite administrative fee rate and average annualised interest rate on pawn loans secured by equity interest collateral were 28.8% and 1.2% in the year ended 31 December 2012. The gross amount of pawn loans secured by equity interest collateral was RMB39.9 million as of 31 December 2012.

(iii) Interest income from pawn loans secured by personal property and inventory collateral

Interest income from pawn loans secured by personal property and inventory collateral were RMB0.9 million and RMB0.9 million in the years ended 31 December 2011 and 2012, representing 1.1% and 1.4% of the interest income from pawn loans in the years ended 31 December 2011 and 2012, respectively.

The average annualised composite administrative fee rate and average annualised interest rate on pawn loans secured by personal property and inventory collateral were 49.4% and 5.8% in the year ended 31 December 2011 and were 49.2% and 5.3% in the year ended 31 December 2012. The gross amount of pawn loans secured by personal property and inventory collateral increased from RMB4.6 million as of 31 December 2011 to RMB21.4 million as of 31 December 2012, which was mainly attributable to the provision of pawn loans secured by inventory collateral to customers of RMB20.0 million in November 2012 and such loan remained outstanding as at 31 December 2012.

(iv) Interest income from pawn loans secured by automobiles and equipment collateral

Interest income from pawn loans secured by automobiles and equipment collateral slightly decreased by 7.1% from RMB2.8 million in the year ended 31 December 2011 to RMB2.6 million in the year ended 31 December 2012 and accounted for 3.4% and 3.9% of the interest income from pawn loans in the years ended 31 December 2011 and 2012, respectively.

The average annualised composite administrative fee rate and average annualised interest rate on pawn loans secured by automobiles, equipment collateral decreased from 45.1% and 5.8% in the year ended 31 December 2011 to 39.5% and 5.3% in the year ended 31 December 2012. The gross amount of pawn loans secured by automobiles, and equipment collateral were RMB16.9 million and RMB16.6 million as at 31 December 2011 and 2012, respectively.

Interest income from entrusted loans

The Target Group commenced the entrusted loan business from November 2012. Interest income generated from entrusted loans to customers was RMB29,000 in the year ended 31 December 2012. The gross amount of entrusted loans was RMB2.0 million as at 31 December 2012.

Interest income from credit loans, guaranteed loans and mortgage loans

The Target Group has not yet commenced the provision of micro-financing services (including provision of credit loans, guaranteed loans and mortgage loans services) in the years ended 31 December 2011 and 2012.

Interest expense

With a view to reducing the reliance on the related parties, the Target Group stopped the practice of borrowings funds from ZJF Investment, and repaid all the bank borrowings which were (i) secured by third party guarantee companies under credit counter-guarantee contracts among Zhongfa Enterprise, ZJF Investment and the third party guarantee companies; and (ii) mortgaged by real estate and land use rights of Yongtai during the year ended 31 December 2012. As a result, the interest expense substantially decreased by 50% from RMB8.6 million in the year ended 31 December 2011 to RMB4.3 million in the year ended 31 December 2012.

Financial consultancy income

The Target Group commenced the provision of financial consultancy services in Beijing in October 2012. It generated income from financial consultancy services to customers of RMB1.5 million in the year ended 31 December 2012.

Administrative and other operating expenses

Administrative and other operating expenses decreased by 10.1% from RMB21.8 million in the year ended 31 December 2011 to RMB19.6 million in the year ended 31 December 2012, primarily due to (i) a 16.9% decrease in business taxes, value-added tax and related surcharges from RMB4.5 million in the year ended 31 December 2011 to RMB3.7 million in the year ended 31 December 2012 which is consistent with the decrease of the interest income; (ii) a 25.1% decrease in operating lease payments as a result of the relocation of a branch company under Beijing Jinfu; (iii) a 32.0% decrease in advertising costs from RMB1.8 million in the year ended 31 December 2011 to RMB1.2 million in the year ended 31 December 2012 as a result of negotiation between the Target Group with the advertising agency; and (iv) a 11.9% decrease in related parties consultancy service and management fee paid to the related parties from RMB6.7 million in the year ended 31 December 2011 to RMB5.9 million in the year ended 31 December 2012 as the managerial function of the Target Group was performed by Beijing Wanchi since late 2012 as part of the reorganisation of the Target Group. These effects were partially offset by a 17.5% increase in employee benefit expense from RMB4.0 million in the year ended 31 December 2011 to RMB4.7 million in the year ended 31 December 2012 resulting from transfer of senior managerial staff from Zhongfa Enterprise and ZJF Investment to Beijing Wanchi as part of the reorganisation of the Target Group. Administrative and other operating expenses represented 29.9% and 30.4% of net revenue in the years ended 31 December 2011 and 2012, respectively.

Impairment charge on loans to customers

The impairment charge on loans to customers of the Target Group decreased from RMB3.3 million in the year ended 31 December 2011 to RMB0.1 million in the year ended 31 December 2012, due to a decrease in individually assessed impairment charge of RMB3.0 million in the year ended 31 December 2011 to RMB1.3 million in the year ended 31 December 2012 and a change from collectively assessed impairment charges of RMB0.3 million in the year ended 31 December 2011 to a write-back of RMB1.2 million in the year ended 31 December 2012.

The change from collectively assessed impairment charge to a write-back was primarily attributable to the decrease in outstanding loans to customers (having excluded the loans individually impaired) as at the year end. Please refer to the paragraph headed "Impairment charge on loans to customers" above for the impairment and provisioning policies of the Target Group.

The decrease in individually assessed impairment charges was primarily attributable to the write back for a loss previously recognised but subsequently recovered as well as the improvement of the risk management and the stringent loan approval processes adopted by the Target Group in 2012, which led to an improvement of the quality of the collateral and a decrease in the amount of loans with loss events.

Other gains, net

Other net gains was RMB0.1 million in the year ended 31 December 2011, which was relatively stable compared with RMB0.2 million in the year ended 31 December 2012.

Income tax expenses

Income tax expense decreased by 4.0% from RMB12.0 million in the year ended 31 December 2011 to RMB11.5 million in the year ended 31 December 2012, consistent with the decrease in the profit before income tax in 2012. The effective tax rates were 24.9% and 25.5% in the year ended 31 December 2011 and 2012, respectively.

Profit for the year from continuing operations

As a result of the foregoing, the profit for the year from continuing operations decreased by 6.9% from RMB36.1 million in the year ended 31 December 2011 to RMB33.6 million in the year ended 31 December 2012.

Year ended 31 December 2013 compared with year ended 31 December 2012

As a result of the ongoing measures of the Group for improvement of the internal controls and compliance capabilities and reduction in the reliance on the related parties since 2012, there is an increase in rejected pawn loan applications and decline of the lending capacity of the Target Group in the year ended 31 December 2013. In addition, the increase in the number of pawn loan groups/companies in Beijing and total registered capital therefor have also intensified the competition of the pawn broking business in Beijing. Due to the above-mentioned factors, the Target Group recorded a decrease in interest income in the year ended 31 December 2013.

With a view to improving its profitability and diversifying the revenue sources, the Target Group commenced the provision of the financial consultancy services and entrusted loan services in October 2012 and November 2012 respectively and the provision of credit loans, guaranteed loans and mortgage loans since 2013. As a result, in spite of the decrease in interest income, the Target Group recorded increases in both net revenue and profit for the year in 2013.

Interest income from pawn loans to customers

Interest income from pawn loans to the customers were RMB67.1 million and RMB42.7 million for the years ended 31 December 2012 and 2013 respectively.

(i) Interest income from pawn loans secured by real estate collateral

Interest income from pawn loans secured by real estate collateral decreased by 63.2% from RMB62.7 million in the year ended 31 December 2012 to RMB23.1 million in the year ended 31 December 2013 and accounted for 93.5% and 54.2% of the interest income from pawn loans in the years ended 31 December 2012 and 2013, respectively. The decrease in the interest income from pawn loans secured by real estate collateral as a percentage to the total interest income was mainly due to the above mentioned reasons and the decreases in the average annualised composite administrative fee rate and the annualised interest rate as discussed below.

The average annualised composite administrative fee rate and average annualised interest rate on pawn loans secured by real estate collateral decreased from 30.9% and 2.8% in the year ended 31 December 2012 to 28.7% and 1.8% in the year ended 31 December 2013. The gross amount of pawn loans secured by real estate collateral increased by 17.7% from RMB82.4 million as of 31 December 2012 to RMB97.0 million as of 31 December 2013.

(ii) Interest income from pawn loans secured by equity interest collateral

Interest income from pawn loans secured by equity interest collateral increased significantly from RMB0.8 million in the year ended 31 December 2012 to RMB13.2 million in the year ended 31 December 2013 and accounted for 1.2% and 31.0% of the interest income from pawn loans in the years ended 31 December 2012 and 2013, respectively. The significant increase in interest income from pawn loans secured equity interest collateral in the year ended 31 December 2013 was due to the provision of loans secured by equity interest collateral to the customers of RMB39.9 million in December 2012. It also resulted in an increase in the interest income from pawn loans secured by equity interest collateral as a percentage to the total interest income in the year ended 31 December 2013.

The average annualised composite administrative fee rate and average annualised interest rate on pawn loans secured by equity interest collateral were 10.1% and 3.3% in the year ended 31 December 2012 and 25.8% and 1.2% in the year ended 31 December 2013. The gross amount of pawn loans secured by equity interest collateral increased by 15.3% from RMB39.9 million as of 31 December 2012 to RMB46.0 million as of 31 December 2013.

(iii) Interest income from pawn loans secured by personal property and inventory collateral

Interest income from pawn loans secured by personal property and inventory collateral increased significantly from RMB0.9 million in the year ended 31 December 2012 to RMB2.8 million in the year ended 31 December 2013 and accounted for 1.4% and 6.5% of the interest income from pawn loans in the years ended 31 December 2012 and 2013, respectively. The significant increase in interest income from pawn loans secured by personal property and inventory collateral was mainly due to the provision of pawn loans secured by inventory collateral to customers of RMB20.0 million in November 2012.

The average annualised composite administrative fee rate and average annualised interest rate on pawn loans secured by personal property and inventory collateral were 49.8% and 5.3% in the year ended 31 December 2012, and 50.2% and 4.5% in the year ended 31 December 2013. The gross amount of pawn loans secured by personal property and inventory collateral decreased substantially from RMB21.4 million as of 31 December 2012 to RMB1.1 million as of 31 December 2013 primarily as a result of the repayment of the above-mentioned pawn loans of RMB20.0 million by the customer in 2013.

(iv) Interest income from pawn loans secured by automobiles and equipment collateral

Interest income from pawn loans secured by automobiles and equipment collateral increased by 36.4% from RMB2.6 million in the year ended 31 December 2012 to RMB3.6 million in the year ended 31 December 2013 and accounted for 3.9% and 8.3% of the interest income from pawn loans in the years ended 31 December 2012 and 2013, respectively.

The average annualised composite administrative fee rate and average annualised interest rate on loans secured by automobiles and equipment collateral were 39.5% and 3.9% in the year ended 31 December 2012, and 43.7% and 2.9% in the year ended 31 December 2013. The gross amount of loans secured by automobiles and equipment collateral increased by 13.9% from RMB16.6 million as of 31 December 2012 to RMB18.9 million as of 31 December 2013, primarily due to the expansion of the provision of pawn loans secured by automobiles and equipment collateral in the same year.

Interest income from entrusted loans

Interest income generated from entrusted loans to customers increased significantly from RMB29,000 in the year ended 31 December 2012 to RMB172,000 in the year ended 31 December 2013 and accounted for 0.04% and 0.3% of the interest income in the year ended 31 December 2012 and 2013, respectively. As the entrusted loans contracts were entered into by the Target Group and the customers in November 2012 and December 2013, the Target Group recorded a significant increase in interest income from entrusted loans during the year ended 31 December 2013.

Interest income from credit loans, guaranteed loans and mortgage loans

The Target Group commenced the provision of credit loans, guaranteed loans and mortgage loans to customers through Beijing Micro-financing in the year ended 31 December 2013 and recorded an interest income therefrom of RMB11.0 million in the same year. The gross amount of credit loans, guaranteed loans and mortgage loans was RMB88.4 million as at 31 December 2013.

Interest Expense

The interest expense decreased significantly from RMB4.3 million in the year ended 31 December 2012 to RMB0.4 million in the year ended 31 December 2013. For the reasons for the decrease in interest expense in the year ended 31 December 2013, see "Results of Operations – Year ended 31 December 2012 compared with year ended 31 December 2011" above. For details of the bank borrowings, see paragraph headed "Total liabilities" below.

Financial consultancy income

The Target Group commenced the provision of financial consultancy services in Beijing in October 2012. It generated income from financial consultancy services to customers of RMB1.5 million and RMB11.1 million in the years ended 31 December 2012 and 2013, respectively. The increase in financial consultancy income in the year ended 31 December 2013 was primarily due to the increasing marketing efforts of the Target Group to promote the services in the same year.

Administrative and other operating expenses

Administrative and other operating expenses decreased by 15.3% from RMB19.6 million in the year ended 31 December 2012 to RMB16.6 million in the year ended 31 December 2013, primarily due to the transfer of the senior managerial staff from related parties to Beijing Wanchi in 2012. For details, see "Results of Operations – Year ended 31 December 2012 compared with year ended 31 December 2011" above. As a result, the Target Group recorded (i) a decrease in related parties consultancy, service and management fee by RMB5.9 million in the year ended 31 December 2013; and (ii) a 46.0% increase in employee benefit expense from RMB4.7 million in the year ended 31 December 2012 to RMB6.8 million in the year ended 31 December 2013. Administrative and other operating expenses represented 30.4% and 25.5% of net revenue in the years ended 31 December 2012 and 2013, respectively. The decrease in percentage was primarily due to the improvement of the operational efficiency of the Target Group.

Impairment charge on loans to customers

The impairment charge on loans to customers changed from an impairment charge of RMB0.1 million in the year ended 31 December 2012 to a write-back of RMB7.0 million in the year ended 31 December 2013, due to the combined effects of a change from individually assessed impairment charge of RMB1.3 million in the year ended 31 December 2012 to a reversal of RMB7.7 million in the year ended 31 December 2013, and a change from collectively assessed impairment reversal of RMB1.2 million in the year ended 31 December 2012 to a charge of RMB0.7 million in the year ended 31 December 2013.

The change from individually assessed impairment charge to a write-back was primarily attributable to the write-back for a loss previously recognised but subsequently recovered in 2013. The change from collectively assessed impairment reversal to a charge was primarily attributable to the increase in outstanding loans to customers (having excluded the loans individually impaired) as at the year end. Please refer to the paragraph headed "Impairment charge on loans to customers" above for the impairment and provisioning policies of the Target Group.

Other gains, net

Other net gains increased from RMB0.2 million in the year ended 31 December 2012 to RMB1.2 million in the year ended 31 December 2013, which was mainly due to the increase in subsidies granted from the PRC Government to the PRC subsidiaries in the same year.

Income tax expenses

Income tax expense increased by 20.9% from RMB11.5 million in the year ended 31 December 2012 to RMB13.9 million in the year ended 31 December 2013, consistent with the increase in the profit before income tax in 2013. The effective tax rates were 25.5% and 24.3% in the years ended 31 December 2012 and 2013, respectively.

Profit for the year from continuing operations

As a result of the foregoing, the profit for the year from continuing operations increased by 28.3% from RMB33.6 million in the year ended 31 December 2012 to RMB43.1 million in the year ended 31 December 2013.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth the consolidated statements of financial position as of the indicated dates:

	As at 31 December		
	2011	2012	2013
ASSETS			
Non-current assets			
Property, plant and equipment	1,674	287	916
Deferred income tax assets	2,523	2,551	842
Other assets	762	541	489
Total non-current assets	4,959	3,379	2,247
Current assets			
Other assets	2,716	2,298	6,051
Loans to customers	258,995	152,014	253,212
Amount due from related parties	23,319	3	3,046
Cash and cash equivalents	40,944	63,610	30,933
Total current assets	325,974	217,925	293,242
Total assets	330,933	221,304	295,489
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Target Company			
Share capital	–	–	–
Other reserves	162,240	125,699	178,512
Retained earnings	83,845	80,940	66,905
	246,085	206,639	245,417
Non-controlling interests	4,205	–	14,205
Total equity	250,290	206,639	259,622
LIABILITIES			
Current Liabilities			
Bank borrowings	70,160	–	20,745
Amount due to related parties	4,273	9,598	6,799
Current income tax liabilities	4,405	2,615	3,604
Other liabilities	1,805	2,452	4,719
Total liabilities	80,643	14,665	35,867
Total equity and liabilities	330,933	221,304	295,489
Net current assets	245,331	203,260	257,375
Total assets less current assets	250,290	206,639	259,622

DESCRIPTION OF CERTAIN LINE ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONS

Loans to customers

The substantial majority of the assets are current assets which in turn consist primarily of loans to customers, which were RMB259.0 million, RMB152.0 million and RMB253.2 million as of 31 December 2011, 2012 and 2013, respectively, and accounted for 79.5%, 69.8% and 86.3%of the current assets as of the same dates. Loans to customers comprise (i) principals of pawn loans; (ii) principals of entrusted loans; and (iii) principals of credit loans and guarantee loans.

The following table sets forth the gross loan amount outstanding by type and the percentage of each type as to the total outstanding gross amount as of the indicated dates:

	As at 31 December					
	2011		**2012**		**2013**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Pawn Loans						
– Loans secured by real estate collateral	247,992	92.0	82,388	50.8	97,034	37.7
– Loans secured by equity interest collateral	–	–	39,858	24.6	46,020	17.9
– Loans secured by personal property collateral and inventory collateral	4,598	1.7	21,378	13.2	1,123	0.4
– Loans secured by automobiles and equipment	16,879	6.3	16,596	10.2	18,927	7.4
	269,469	100.0	160,220	98.8	163,104	63.4
Entrusted loans	–	–	2,000	1.2	6,000	2.3
Credit loans, guaranteed loans and mortgage loans	–	–	–	–	88,352	34.3
Gross loans to customer	269,469	100.0	162,220	100.0	257,456	100.0

Loans to customers consist primarily of pawn loans secured by real estate collateral, pawn loans secured by equity interest collateral, pawn loans secured by personal property and inventory collateral, pawn loans secured by automobiles and equipment collateral and credit loans, guaranteed loans and mortgage loans during the Track Record Period. The gross amount of pawn loans secured by real estate collateral was RMB248.0 million, RMB82.4 million and RMB97.0 million as of 31 December 2011, 2012 and 2013, respectively, accounting for 92.0%, 50.8% and 37.7% of the gross amount of loans to customers as of the same dates. The gross amount of pawn loans secured by equity interest collateral was RMB39.9 million and RMB46.0 million as of 31 December 2012 and 2013, respectively, accounting for 24.6% and 17.9% of the gross amount of loans to customers as of the same dates. The gross amount of pawn loans secured by personal property and inventory collateral was RMB4.6 million, RMB21.4 million and RMB1.1 million as of 31 December 2011, 2012 and 2013, respectively, accounting for 1.7%, 13.2% and 0.4% of the gross amount of loans to customers as of the same dates. The gross amount of pawn loans secured by automobiles and equipment collateral was RMB16.9 million, RMB16.6 million and RMB18.9 million as of 31 December 2011, 2012 and 2013, respectively, accounting for 6.3%, 10.2% and 7.4% of the gross amount of loans to customers as of the same dates. The gross amount of credit loans, guaranteed loans and mortgage loans was RMB88.4 million as of 31 December 2013, accounting for 34.3% of the gross amount of loans to customers as of the same date.

The gross amount of loans to customers decreased by 39.8% from RMB269.5 million as at 31 December 2011 to RMB162.2 million as at 31 December 2012, primarily due to the decline in the lending capacity resulting from the repayment of bank borrowings in 2012. For details, see "Results of Operations – Year ended 31 December 2012 compared with year ended 31 December 2011". Gross amount of pawn loans secured by real estate collateral decreased by 66.8% from RMB248.0 million as at 31 December 2011 to RMB82.4 million as at 31 December 2012, which was primarily attributable to the measures implemented by the Target Group since mid 2012. For details, see "Results of Operations – Year ended 31 December 2013 compared with year ended 31 December 2012" and "Results of Operations – Year ended 31 December 2012 compared with year ended 31 December 2011". During the Track Record Period, as the Target Group provided pawn loans secured by equity interest collateral to the customers since December 2012 and the gross amount of pawn loans secured by equity interest collateral was RMB39.9 million as at 31 December 2012. For the reason of a significant increase in gross amount of pawn loans secured by personal property and inventory collateral from RMB4.6 million as at 31 December 2011 to RMB21.4 million as at 31 December 2012, see "Results of Operations – Year ended 31 December 2012 compared with year ended 31 December 2011". Gross amount of pawn loans secured by automobiles and equipment collateral remained relatively stable as at 31 December 2011 and 2012.

The gross amount of loans to customers increased by 58.7% from RMB162.2 million as at 31 December 2012 to RMB257.5 million as at 31 December 2013, primarily due to the commencement of micro-financing business through Beijing Micro-financing since 1 January 2013. Gross amount of pawn loans secured by real estate collateral increased by 17.8% from RMB82.4 million as at 31 December 2012 to RMB97.0 million as at 31 December 2013, which was primarily attributable to the increased marketing effort of the Target Group in late 2013. As regards the reasons for the increase in gross amount of pawn loans secured by equity interest collateral that increased by 15.3% from RMB39.9 million as at 31 December 2012 to RMB46.0 million as at 31 December 2013, see "Results of Operations – Year ended 31 December 2013 compared with year ended 31 December 2012". As regards the reasons for the decrease in gross amount of pawn loans secured by personal property and inventory collateral from RMB21.4 million as at 31 December 2012 to RMB1.1 million as at 31 December 2013, see "Results of Operations – Year ended 31 December 2013 compared with year ended 31 December 2012". Gross amount of pawn loans secured by automobiles and equipment collateral as a percentage of gross amount of loans to customers decreased from 10.2% as at 31 December 2012 to 7.4% as at 31 December 2013. The Target Group commenced the provision of the credit loans, guaranteed loans and mortgage loans in the year ended 31 December 2013 and the gross credit loans, guaranteed loans and mortgage loans was RMB88.4 million as at 31 December 2013.

Impairment allowance

The Target Group reviews the loan portfolios to assess impairment periodically. It determine a level of impairment in the balance sheet, and recognise corresponding impairment charges for credit losses separately in the income statement. Individually assessed impairment allowances are determined on a case-by-case basis by an evaluation of the loss incurred on the balance sheet date. The Group normally assess the collateral status and the likelihood of payments on that loan, taking into account several factors, including but not limited to, the quality and value of the collateral, the borrower's financial condition and the current ability to pay, past experience with the borrower. If the Target Group determined the loan to customer does not need to be individually impaired after the individual assessment, the Target Group includes such loan in a group of loans and collectively assesses them for impairment. Based on the historical data, the Target Group determines a collective loss rate of 1% and it provides a collectively assessed impairment allowance of 1% of the above-mentioned group of loans as at the financial year end. For details of the accounting policies relating to impairment, provisioning and factors to be considered as an indication of impairment, please refer to notes 2.5.2 and 4.1.1 to the financial information of the Target Group as set out in the Appendix II to this circular. The following table sets forth the impairment allowance individually and collectively assessed as of the indicated dates:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Gross loans to customers	269,469	162,220	257,456
Individually assessed impairment allowance	(7,450)	(8,732)	(1,175)
Collectively assessed impairment allowance	(3,024)	(1,474)	(3,069)
Total impairment allowance	(10,474)	(10,206)	(4,244)
Loans to customers	258,995	152,014	253,212

The total impairment allowance was RMB10.5 million, RMB10.2 million and RMB4.3 million as at 31 December 2011, 2012 and 2013, respectively, accounting for 3.9%, 6.3% and 1.6% of the gross amount of loans to customers as of the corresponding dates, respectively.

The following table sets forth a reconciliation of allowance account for losses on loans provided to customers as at the dates indicated:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Continuing operations			
Individually assessed impairment allowance			
At beginning of the year	4,450	7,450	8,732
Impairment loss recognised	3,000	1,282	–
Net write-back of loan provision	–	–	(7,747)
Loans written off as uncollectible	–	–	–
Allowance from acquisition of Beijing Micro-financing	–	–	190
At the end of the year	7,450	8,732	1,175
Collectively assessed impairment allowance			
At beginning of the year	2,380	2,641	1,474
Impairment loss recognised	261	–	712
Net write-back of loan provision	–	(1,167)	–
Loans written off as uncollectible	–	–	–
Allowance from acquisition of Beijing-Micro-financing	–	–	883
At the end of the year	2,641	1,474	3,069

The following table sets forth the impairment charge/(reversal) on loans to customers as at the indicated dates:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Net charge or impairment loss			
Individually assessed	3,000	1,282	(7,747)
Collectively assessed	261	(1,167)	712
	3,261	115	(7,035)

The following table sets forth the analysis of gross loans to customers as at the indicated dates:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Loans to customers neither past due nor impaired	232,815	128,730	231,821
Loans to customers past due and impaired, gross	10,130	14,880	5,204
Loans to customers past due but not impaired, gross:	26,524	18,610	20,431
Gross loans to customers	269,469	162,220	257,456

Certain loans to customers that are past due but not impaired. The amounts of loans that were overdue but not individually impaired were RMB26.5 million, RMB18.6 million and RMB20.4 million as at 31 December 2011, 2012 and 2013, respectively, accounting for 9.8%, 11.5% and 7.9% of the gross loans to customers as of the corresponding dates. According to the policy of the Target Group, loans that were overdue are not considered impaired, unless there is objective evidence that an impairment loss might happen. Loans that are past due but not impaired are normally fully secured by collateral with a reasonably ascertainable market value provided by customers who have good borrowing records with the Target Group and the management of the Target Group considers that such loans are fully recoverable.

The following table sets forth the aging analysis of loans to customers past due but not impaired as at the indicated dates:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Loans secured by real estate collateral			
– Overdue up to 1 month	15,050	8,157	7,139
– Overdue 1 to 3 months	–	4,960	4,574
– Overdue 4 to 6 months	4,380	–	–
– Overdue over 6 months	6,424	–	704
	25,854	13,117	12,417
Loans secured by equity interest collateral			
– Overdue 1 to 3 months	–	–	1,873
	–	–	1,873
Loans secured by personal property and inventory collateral			
– Overdue up to 1 month	5	80	74
– Overdue 4 to 6 months	–	–	15
	5	80	89
Loans secured by automobiles and equipment collateral			
– Overdue up to 1 month	665	15	6,000
– Overdue 1 to 3 months	–	150	–
– Overdue 4 to 6 months	–	5,248	–
	665	5,413	6,000
Credit loans and guaranteed loans			
– Overdue 1 to 3 months	–	–	52
	–	–	52
Total loans past due but not impaired	26,524	18,610	20,431

Note: An overdue pawn loan cannot be renewed. Any renewed pawn loans have recorded as new loans and have not been included in the aging analysis above.

The following table sets forth the value of assets pledged for each aging analysis category relating to those loans to customers past due but not impaired as at the indicated dates:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Loans secured by real estate collateral			
– Overdue up to 1 month	28,390	15,562	11,560
– Overdue 1 to 3 months	–	8,242	5,173
– Overdue 4 to 6 months	14,432	–	–
– Overdue over 6 months	18,183	–	2,287
	61,005	23,804	19,020
Loans secured by equity interest collateral			
– Overdue 1 to 3 months	–	–	11,800
	–	–	11,800
Loans secured by personal property and inventory collateral			
– Overdue up to 1 month	6	87	75
– Overdue 4 to 6 months	–	–	16
	6	87	91
Loans secured by automobiles and equipment collateral			
– Overdue up to 1 month	830	30	6,300
– Overdue 1 to 3 months	–	180	–
– Overdue 4 to 6 months	–	11,505	–
	830	11,715	6,300
Credit loans and guaranteed loans			
– Overdue 1 to 3 months	–	–	–
	–	–	–
	61,841	35,606	37,211

Amounts due from related parties

The following table sets forth the amounts due from related parties as of the indicated dates:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Included Operations			
Amount due from ZJF Investment and Its affiliates			
– Loans to ZJF Investment	17,500	–	–
– Interest free advances	28	2	–
– Other advances receivable	–	–	2,965
Amount due from a director/Controlling Shareholders			
– Other advances receivable	–	1	81
Excluded Operations			
Amount due from ZJF Investment and Its affiliates			
– Interest free advances	791	–	–
Amount due from other entities Controlled by the Controlling Shareholders			
– Loans to other entities	5,000	–	–
Amount due from related parties	23,319	3	3,046

The loans to ZJF Investment was pawn loans secured by equity interest collateral with interest rate of 6% per annum and composite administrative fee of 12% per annum and was repaid in January 2012.

During the relevant periods, ZJF Investment undertook treasury function to centrally manage and control the surplus fund and working capital of the Target Group and therefore the Target Group recorded an interest free advances to ZJF Investment (included operations) of RMB28,000 and RMB2,000 as at 31 December 2011 and 2012, respectively. Following the establishment of Beijing Wanchi in September 2012, ZJF Investment no longer undertakes this role.

The other advance receivables from ZJF Investment represents expenses paid by the Target Group on behalf of ZJF Investment. As at the Latest Practicable Date, the amount has been fully settled by ZJF Investment.

The interest free advances to ZJF Investment (excluded operations) of RMB0.8 million represents the surplus fund and working capital of Tianjin Jinfu and Harbin Jinfu managed by ZJF Investment.

The loans to other entities controlled by the controlling shareholders of RMB5.0 million as at 31 December 2011 were non–interest bearing equity backed pawn loans provided by Tianjin Jinfu and Harbin Jinfu.

Total liabilities

All liabilities during the Track Record Period were current liabilities. Total liabilities consist primarily of bank borrowings and amounts due to related parties. Bank borrowings were RMB70.2 million and RMB20.7 million as of 31 December 2011 and 2013, respectively, accounting for 87.0% and 57.8% of the total liabilities as of the corresponding dates. The Target Group repaid the bank borrowings and funded the loans to customers increasingly from the retained earnings and/or paid-in capital of the Pawnbrokers in the year ended 31 December 2012 for reducing reliance on the related parties. For details, see "Results of Operations – Year ended 31 December 2013 compared with year ended 31 December 2012" and "Results of Operations – Year ended 31 December 2012 compared with year ended 31 December 2011". The bank borrowings of RMB20.7 million as at 31 December 2013 represented the loans for the micro-financing business of the Target Group. The bank borrowings had maturities of no more than six months and bore contractual fixed or floating interest rates ranging from 7.2% to 8.2% per annum in the year ended 31 December 2011 and had maturities of one year and bore contractual fixed interest rates of 7.8% per annum in the year ended 31 December 2013, respectively. As at 31 December 2011, RMB20 million of the bank borrowings were secured by third party guarantee companies. The guarantee companies signed credit counter-guarantee contracts with Zhongfa Enterprise and ZJF Investment and RMB50 million of the bank borrowings were mortgaged by the real estate and land use rights of Yongtai.

The gearing ratio, represented by total interest-bearing borrowings as a percentage of total assets, was 21.2% and 7.0% as at 31 December 2011 and 2013, respectively. The Target Group had no charge on its assets as at 31 December 2011, 2012 and 2013.

The following table sets forth the amounts due to related parties as of the indicated dates:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Amount due to ZJF Investment and its affiliates			
– Dividends payables	–	2,750	2,750
– Interest free advance	697	–	–
– Other advance payables	2,576	64	64
	3,273	2,814	2,814
Amount due to other entities controlled By Controlling Shareholders			
– Dividend payables	1,000	2,000	–
Amount due to a director/Controlling Shareholders			
– Interest free advances	–	4,784	3,985
	4,273	9,598	6,799

Amounts due to related parties

The dividends payable due to ZJF Investment and its affiliates was RMB2.8 million and RMB2.8 million as at 31 December 2012 and 2013, respectively. Such payable is expected to be repaid by the Target Group by late 2014.

The interest free advances due to ZJF Investment and its affiliates of RMB0.7 million as at 31 December 2011 represents expenses paid by ZJF Investment and its affiliates on behalf of the Target Group.

The other advances payable to ZJF Investment and its affiliates was RMB2.6 million, RMB0.1 million and RMB0.1 million as at 31 December 2011, 2012 and 2013, respectively. Such payable were related to the pawn broking business of the Group and unsecured, non-interest bearing and with no fixed term of repayment.

The interest free advances due to a director/controlling shareholders were interest free and represented the Sale Loans pursuant to the Acquisition Agreement. On 20 December 2012, Exuberant Global paid HKD5 million to a third party on behalf of the Target to redeem a convertible bond issued by the Target on 30 October 2012, and as a result, the Target's liability payable to Exuberant Global amounted to RMB3.9 million as at 31 December 2013 and RMB4.1 million as at 31 December 2012. Other than the above, the remaining interest free advances from a director/controlling shareholders were operation funds for shelf companies for paying acquisition agent fees.

Net current assets and liabilities

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Current assets			
Other assets	2,716	2,298	6,051
Loans to customers	258,995	152,014	253,212
Amount due from related parties	23,319	3	3,046
Cash and cash equivalents	40,944	63,610	30,933
	325,974	217,925	293,242
Current liabilities			
Bank borrowings	70,160	–	20,745
Amount due to related parties	4,273	9,598	6,799
Current income tax liabilities	4,405	2,615	3,604
Other liabilities	1,805	2,452	4,719
	80,643	14,665	35,867
Net current assets	245,331	203,260	257,375

During the Track Record Period and as of 31 December 2013, the substantial majority of the current assets were loans to customers. The current assets increased by RMB75.3 million from RMB217.9 million as at 31 December 2012 to RMB293.2 million as of 31 December 2013, which was mainly due to the increase in loans to customers as at 31 December 2013. For detailed discussion of the loans to customers during the Track Record Period, see "Loans to Customers" in this section.

During the Track Record Period and as at 31 December 2013, all the liabilities were current liabilities. For detailed discussion of the Target Group's current liabilities during the Track Record Period, see "— total liabilities" in this section. The current liabilities increased by RMB21.2 million from RMB14.7 million as at 31 December 2012 to RMB35.9 million as at 31 December 2013, primarily attributable to the increase of bank borrowings by RMB20.7 million as at 31 December 2013.

As a result of above, the net current assets increased by 26.6% from RMB203.3 million as at 31 December 2012 to RMB257.4 million as at 31 December 2013.

LIQUIDITY AND CAPITAL RESOURCES

The Target Group has historically met the capital expenditure, working capital and other liquidity requirements from the paid-in capital, the bank borrowings, borrowings from related parties, and retained earnings.

The following table sets forth a summary of the cash flow for the indicated years:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents at beginning of the year	34,058	40,944	63,610
Net cash inflow from operating activities	25,939	32,410	6,141
Net cash (outflow)/inflow from investing activities	(53)	(185)	12,982
Net cash outflow from financing activities	(19,000)	(9,559)	(51,800)
Cash and cash equivalents at End of the year	40,944	63,610	30,933

Net cash flow from operating activities

The cash flows from operating activities during the Track Record Period were mainly attributable to (i) pawn loan services; (ii) financial consultancy services; (iii) entrusted loan services; and (iv) micro-financing services to the customers.

For the year ended 31 December 2011, the Target Group recorded a net cash inflow from operating activities of RMB25.9 million, which comprised cash flows from operating activities before changes in operating assets and liabilities of RMB51.5 million, adjusted for net working capital outflow of RMB4.8 million, income tax paid of RMB12.8 million and net cash outflow from operating activities (discontinued operations) of RMB8.0 million. For details, please refer to the paragraphs headed "Results of Operations" above. The net working capital outflow was attributable to (i) increase in bank borrowings of RMB30.1 million; (ii) decrease in loan to customers of RMB11.4 million; (iii) decrease in amount due from related parties of RMB4.3 million; and (iv) decrease in amount due to related parties of RMB49.8 million. For details, please refer to the paragraphs headed "Loans to customers", "Amounts due from related parties", "Total liabilities" and "Amounts due to related parties" respectively.

For the year ended 31 December 2012, the Target Group recorded a net cash inflow from operating activities of RMB32.4 million, which comprised cash flows from operating activities before changes in operating assets and liabilities of RMB45.5 million, adjusted for net working capital outflow of RMB3.5 million, income tax paid of RMB12.9 million and net cash outflow from operating activities (discontinued operations) of RMB3.3 million. For details, please refer to the paragraphs headed "Results of Operations" above. The net working capital outflow was attributable to (i) a decrease in loans to customers of RMB68.8 million; and (ii) the repayment of the bank borrowings of RMB70.2 million. For details, please refer to the paragraphs headed "Loans to customers" and "Total liabilities" above respectively.

For the year ended 31 December 2013, the Target Group recorded a net cash inflow from operating activities of RMB6.1 million, which comprised cash flows from operating activities before changes in operating assets and liabilities of RMB50.1 million, adjusted for net working capital outflow of RMB32.4 million and income tax paid of RMB11.5 million. For details, please refer to the paragraphs headed "Results of Operations" above. The net working capital outflow was attributable to (i) increases in loans to customers of RMB45.6 million and bank borrowings of RMB20.7 million, primarily due to the commencement of micro-financing services through Beijing Micro-financing; (ii) an increase in other assets of RMB3.7 million; and (iii) cash outflows arising from the settlement of balance with related parties of RMB5.8 million. For details, please refer to the paragraphs headed "Loans to customers", "Amounts due from related parties" and "Amounts due to related parties" respectively.

Net cash flow from investing activities

The Target Group had net cash outflow from investing activities of RMB0.05 million and RMB0.2 million in the years ended 31 December 2011 and 2012, respectively, primarily due to the purchase of property, plant and equipment. The Target Group had net cash inflow of RMB13.0 million in the year ended 31 December 2013, primarily due to the cash flows from obtaining 79% effective control in Beijing Micro-financing through the Beijing Micro-financing Structured Agreements in the same year.

Net cash flow from financing activities

For the year ended 31 December 2011, the Target Group recorded a net cash outflow from financing activities of RMB19.0 million, representing the dividend paid to its then equity holders in the same year.

For the year ended 31 December 2012, the Target Group recorded a net cash outflow from financing activities of RMB9.6 million, representing the aggregate effect of cash outflow for dividend paid to its then equity holders of RMB5.3 million, cash outflow for financing activities of the discontinued operations of RMB8.4 million and cash inflow from proceeds convertible bond of RMB4.1 million in the same year.

For the year ended 31 December 2013, the Target Group recorded a net cash outflow from financing activities of RMB51.8 million, representing the dividend paid to its then equity holder.

CASH AND CASH EQUIVALENTS

As a result of the above, the cash and cash equivalents increased by RMB22.7 million in the year ended 31 December 2012, and decreased by RMB32.7 million in the year ended 31 December 2013, respectively.

CAPITAL EXPENDITURE

Capital expenditure of the Target Group amounted to RMB56,000, RMB188,000 and RMB771,000 for the years ended 31 December 2011, 2012 and 2013, respectively, and represented expenditure on furniture and office equipment and vehicles.

Remuneration policies and employee information

The number of employees of the Target Group was 51, 63 and 66 as at 31 December 2011, 2012 and 2013, respectively. Total staff costs (including directors' emoluments) amounted to approximately RMB4.0 million, RMB4.7 million and RMB6.8 million for the years ended 31 December 2011, 2012 and 2013, respectively. The remuneration policy of the employees of the Target Group is determined by the management of the Target Group on the basis of their merit, qualifications and competence.

Foreign exchange exposure

During the Track Record Period, the Target Group did not expose to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in RMB.

Significant acquisition and disposal

Save for acquiring the 79% effective control in Beijing Micro-financing through the Beijing Micro-financing Structured Agreements, the Target Group did not have any significant acquisition or disposal of investment during the Track Record Period. For details, please refer to the paragraph headed "The Structured Agreements" under the section headed "Letter from the Board" in this circular.

SOURCE OF FUNDS AND INDEBTEDNESS

The sources of funds of the Target Group included the paid-in capital of the operating entities in the PRC, retained earnings, bank borrowings and borrowings from the related parties. As at 31 December 2013, the Target Group had an amount due to related parties of approximately RMB6.8 million.

The Target Group has credit facilities of RMB25.0 million with The Bank of Beijing. The Target Group had drawn down RMB20.7 million and had an unutilised credit facility of RMB4.3 million as at 31 December 2013. The credit facilities with The Bank of Beijing will expire on 8 November 2014.

CONTRACTUAL OBLIGATIONS

The table below sets forth future aggregate minimum lease payments under non-cancellable operating leases:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
No later than 1 year	2,044	1,862	2,077
Later than 1 year and no later than 5 years	3,079	1,672	675
Later than 5 years	–	–	–
	5,123	3,534	2,752

As at the Latest Practicable Date, the Target Group had no other material contractual obligations or commitment.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, the Target Group had no off-balance sheet arrangements except collateral securing the loans to customers.

OTHER KEY FINANCIAL DATA AND OPERATING METRICS

The table below sets forth key operating metrics as of and in the years ended 31 December 2011, 2012 and 2013.

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Return on equity *(Note 1)*	16.5%	16.0%	17.0%
Return on total assets *(Note 2)*	12.3%	15.0%	14.2%
Net profit growth *(Note 3)*	N/A	(6.8%)	28.1%
Net revenue growth *(Note 4)*	N/A	(11.4%)	1.1%
Current ratio *(Note 5)*	4.0	14.9	8.2

Notes:

1. Return on equity is calculated as the profit attributable to the shareholders of the Target divided by the equity attributable to the owners of the Target of the respective years.

2. Return on total assets is calculated as the profit attributable to the shareholders of the Target divided by the total assets of the Target Group of the respective years.

3. Net profit growth is calculated as the difference between the net profit from continuing operations of respective years and the net profit from continuing operations of previous corresponding years divided by the net profit from continuing operations of previous corresponding years.

4. Net revenue growth is calculated as the difference between the net revenue of respective years and the net revenue of previous corresponding years divided by the net revenue of previous corresponding years.

5. Current ratio is calculated as the total current assets divided by the total current liabilities as at the respective dates.

For details of the revenue growth and net profit growth of the Target Group see "Results of Operations – Year ended 31 December 2013 compared with year ended 31 December 2012" and "Results of Operations – Year ended 31 December 2012 compared with year ended 31 December 2011".

Return on equity

The Target Group's return on equity remained relatively stable during the Track Record Period. Return on equity ratio was 16.5%, 16.0% and 17.0% as at 31 December 2011, 2012 and 2013, respectively.

Return on total assets

Return on total assets ratio was 12.3%, 15.0% and 14.2% as at 31 December 2011, 2012 and 2013, respectively. The increase in return on total assets ratio in 2012 was mainly due to the proportionally smaller decrease in the profit attributable to shareholders of the Target as compared to the decrease in the total assets in 2012, as a result of the improvement of the loan yield. The slight decrease in return on total assets ratio in 2013 was mainly due to the commencement of micro-financing business in 2013 yielding a lower return on assets as compared to the pawn broking business.

Current ratio

The current ratio was 4.0, 14.9 and 8.2 as at 31 December 2011, 2012 and 2013, respectively. The increase in current ratio in 2012 was mainly due to the combined effects of decrease in bank borrowings from RMB70.2 million as at 31 December 2011 to nil as at 31 December 2012 and the corresponding decrease in loans to customers from RMB259.0 million as at 31 December 2011 to RMB152.0 million as at 31 December 2012.

FINANCIAL INSTRUMENTS

As at the Latest Practicable Date, the Target Group had not entered into any financial instruments for hedging purpose.

DISTRIBUTABLE RESERVES

The Target was incorporated on 19 June 2012 and there were no distributable reserves available for distribution to the shareholders as at 31 December 2013.

I. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 March 2013 has been disclosed in the 2011, 2012 and 2013 annual reports respectively and the financial information for the nine months ended 31 December 2013 has been disclosed in the third quarterly report of the Company, which are published on both the Stock Exchange website (www.hkexnews.hk) and the Company's website (www.mingkeiholdings.com).

II. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

The following is the management discussion and analysis of the performance of the Group extracted from the third quarterly report for the nine months ended 31 December 2013 and the annual reports of the Company for each of the three years ended 31 March 2013, 2012 and 2011.

For the nine months ended 31 December 2013

Business and financial review

The Group recorded total turnover of approximately HK$69,161,000 (2012: approximately HK$70,044,000) for the nine months ended 31 December 2013 representing a slightly decrease of by approximately HK$883,000 over the corresponding prior period. The decrement of revenue for the coal trading business which decreased by approximately HK$2,594,000 to approximately HK$66,506,000 (2012: approximately HK$69,100,000) for the nine months ended 31 December 2013 was mostly contributed by the decrease in selling price per metric tonne of coal sold. The new investment property located in Tuen Mun generated additional and steady rental income of approximately HK$2,655,000 (2012: approximately HK$944,000). Since then, the gross profit of the Group was improved to approximately HK$5,709,000 for the nine months ended 31 December 2013 (2012: approximately HK$4,682,000).

In the absence of one-off gain arising from the disposal of Star International Business Company Limited and its subsidiaries, which has been completed on 11 May 2012, the Group reported a decrease in other income, and other gains and losses, net for the nine months ended 31 December 2013 to approximately HK$1,351,000 (2012: approximately HK$2,931,000).

The administrative and other expenses for the nine months ended 31 December 2013 increased by approximately HK$9,777,000 to approximately HK$38,532,000 (2012: approximately HK$28,755,000) was mainly due to the legal and professional fees for the Acquisition.

Loss attributable to the owners of the Company for the nine months ended 31 December 2013 was approximately HK$33,006,000 (2012: approximately HK$22,535,000).

The Acquisition

The Group has recorded losses for the last five consecutive financial years. For the two years ended 31 March 2012 and 2013, the Group recorded the consolidated loss for the year from the continuing operations of approximately HK$35.6 million and HK$25.2 million respectively. In view of the unsatisfactory performance of the Group and as part of the business plan as stated in the annual report of the Company for the year ended 31 March 2013, the Group has been exploring and evaluating new businesses and investment opportunities which could be of good potential and/or long-term benefits to the Group and the Shareholders.

To this end, the Company has identified the Target Group as an appropriate acquisition target to the Group and the Directors are of the view that the Acquisition would allow the Group to diversify into a new line of business with significant growth potential.

Property investments

Given HK$2,655,000 gross rental income received for the nine months ended 31 December 2013 and the annual gross rental income of approximately HK$3,500,000 generating from the investment property located in Tuen Mun acquired on 24 October 2012 representing a yield of approximately 4.0% to the consideration, the Board considered the returns satisfactory and the acquisition of the new investment property located in Tuen Mun was a good opportunity for the Group to achieve long-term stable income and growth.

Coal trading business

Pursuant to pages 18 and 19 of the circular (the "**Indonesia Circular**") of the Company dated 14 October 2010, in particular maintaining a positive price gap between the purchase price and the selling price of at least US$2 per metric tonne of coal sold, any changes in selling price per metric tonne of coal sold for did not have significant impact to the cash flows or the operating model of the coal trading business. Given the legally binding master framework purchase agreements separately signed with the customer and supplier to sell and purchase 30,000 metric tonnes of Indonesian coal (subject to (+/-)10% fluctuation) per month, and will be renewed automatically upon expiration with same trading terms and conditions the existing coal trading business will continue and provide a steady source of income and positive impact on the earnings to the Group. The Group would continue to monitor the sale price of steam coal as well as the controls over costs and related expenses towards the coal trading operations to ensure its continued profitability. By maintaining the same strategies as set out in the Indonesia Circular, the Group takes opportunities to expand its customer base and supplier networks through the business plan of a new coal trading business in the PRC and uses the best endeavour to make appropriate decision and process on a timely manner.

Save as disclosed herein, there was no other significant investment held as at 31 December 2013, or plan for material investments or capital assets as at 31 December 2013, nor were there other material acquisitions and disposals of subsidiaries during the nine months ended 31 December 2013.

Prospects

As part of its business plan, the Board will continue to explore and evaluate new businesses and investment opportunities which could be of good potential and/or long-term benefit to the Group and the Shareholders.

Following the completion of the rights issue on 9 July 2013, additional working capital has been employed and for the current operations and to capitalise on newly presented business opportunities, the Acquisition and other potential acquisition from time to time.

The Board would take a cautious and conservative approach in the evaluation and timing of potential projects or investments, including the Acquisition and constantly keep reviewing the Group's strategies and operations with a view to improve its business performance and Shareholders' returns. As the Directors have experience in receiving proposals from potential vendors in respect of potential investment projects from time to time, the Board considers there are possibilities that the Group would identify suitable investment opportunities having greater potential returns which may broaden the Group's business scope, provide additional income sources, and may enhance the earnings per share of the Group, have arisen and will arise from time to time by taking advantage of the good market sentiments in future.

For the year ended 31 March 2013

Business and financial review

Decrease in turnover was mainly due to the reduction in selling price per metric tonne after entered into monthly selling contracts. Since 2010, the reduced selling price per metric tonne of coal sold for did not have significant impact to the cash flows or the operating model of the coal trading business pursuant to pages 18 and 19 of the Indonesia Circular, in particular maintaining a positive price gap between the purchase price and the selling price of at least United States dollar (the "**US$**") 2 per metric tonne of coal sold. Given the letter of intents ("**LOIs**") separately signed with the customers and suppliers to sell and purchase 30,000 metric tonnes of Indonesian coal per month, and will be renewed automatically upon expiration with same trading terms and conditions, the coal trading business will continue and provide a stable and regular source of income to the Group.

The Group recorded total turnover of approximately HK$95,447,000 (2012: approximately HK$100,631,000) for the year ended 31 March 2013 representing a decrease by approximately HK$5,184,000 over the corresponding prior year. The decrement of revenue were mostly contributed by the reduction in selling price per metric tonne of coal sold for the coal trading business which fell by approximately HK$5,689,000 to approximately HK$93,618,000 (2012: approximately HK$99,307,000). Reference is made to the circular ("**Property Circular**") of the Company dated 25 September 2012 and announcements of the Company dated 16 October 2012 and 24 October 2012. Since the completion (the "**Property Completion**") of the acquisition (the "**Property Acquisition**") of the entire issued share capital of Foremost Star Investments Limited ("**Foremost Star**") on 24 October 2012 pursuant to the terms of the sale and purchase agreement (the "**Property Agreement**") dated 24 May 2012 and entered into between Star International Business Development Company Limited as the purchaser and Mr. Yuan Huafeng as vendor ("**Mr. Yuan**"), supplemented by the supplemental agreement for the Property Agreement dated 15 August 2012 and the letter of agreement dated 10 September 2012, the property (the "**Tuen Mun Property**") located in Tuen Mun, Hong Kong began to generate additional and steady rental income and cash inflow of approximately HK$1,829,000. By reflecting the improved gross profit margin after the Property Acquisition, the gross profit was approximately HK$6,828,000 for the year ended 31 March 2013 (2012: approximately HK$6,448,000) representing a slightly increase of approximately HK$380,000.

In the absence of impairment loss on intangible assets of approximately HK$3,660,000 and one-off gain arising from the disposal of Star International Business Company Limited ("**SIB**") and its subsidiaries (collectively the "**SIB Group**"), which has been completed on 11 May 2012, the Group reported an increase in other income and other gains and (losses), net for the year ended 31 March 2013 to approximately HK$3,678,000 (2012: approximately (HK$1,217,000)).

The selling and distribution costs for the year ended 31 March 2013 decreased slightly to approximately HK$686,000 (2012: approximately HK$728,000), which were arising from the coal trading business. The trend was in line with the decrease in turnover during the year ended 31 March 2013.

The administrative and other expenses for the year ended 31 March 2013 decreased by approximately 13.3% to approximately HK$34,263,000 (2012: approximately HK$39,499,000), which was mainly due to decrease in staff costs to approximately HK$3,399,000 (2012: approximately HK$5,252,000) and depreciation to approximately HK$1,832,000 (2012: approximately HK$4,580,000).

Loss attributable to the owners of the Company for the year ended 31 March 2013 was approximately HK$25,654,000 (2012: approximately HK$36,356,000).

Property investments

Reference is made to the announcement of the Company dated 11 May 2012 in relation to the completion of the discloseable and connected transaction of the disposal of the entire issued share capital of SIB Group to the Purchaser's Guarantor (i.e. Mr. Wong Wai Sing) for the consideration of HK$15.74 million pursuant to the agreement entered on 29 February 2012. The only investment property located in the PRC was disposed of and ceased to contributed rental income to the Group.

The Property Acquisition has been completed on 24 October 2012 at a consideration (the "**Property Acquisition Consideration**") of HK$88,000,000, and warranted by the Mr. Yuan that the Tuen Mun Property and Foremost Star and its subsidiary (collectively, "**Foremost Star Group**") were free from any mortgage, charge, pledge or other security. The members of Foremost Star Group are investment holding companies having no material assets other than their beneficial interests in the Tuen Mun Property, valued at HK$101,000,000 on 30 June 2012 in accordance with the valuation performed by an independent valuer.

The Property Acquisition Consideration was fully settled by:

1. the allotment and issue of the 34,300,000 new Shares (the "**Property Acquisition Consideration Shares**") for part of the balance of the Property Acquisition Consideration, being approximately HK$13.0 million;

2. internal fundings of the Group for part of the balance of the Property Acquisition Consideration, being approximately HK$13.9 million; and

3. the equity fund raising exercise to be conducted by the Company by way of, including but not limited to, rights issue, open offer, and placement of new Shares (the "**Fund Raising Exercise**") for the outstanding balance of the Property Acquisition Consideration, being approximately HK$61.1 million in aggregate, including:

   (i) on 14 August 2012, 115,251,000 offer Shares of par value HK$0.01 each were issued under an open offer (the "**Open Offer**") at a subscription price of HK$0.43 each for net proceeds of approximately HK$46.0 million. Approximately HK$38.0 million was applied for paying up part of the outstanding balance of the Property Acquisition Consideration; and

   (ii) during the year ended 31 March 2013, 33,760,000 and 46,100,000 placing Shares (79,860,000 placing shares in aggregate) were placed at subscription prices at HK$0.28 and HK$0.36 respectively, for net proceeds of approximately HK$8.6 million and approximately HK$15.5 million respectively. Approximately HK$7.6 million and HK$15.5 million was applied for paying up part of the outstanding balance of the Property Acquisition Consideration.

Following the Property Completion, at which the Property Acquisition Consideration Shares were allotted and issued by the Company at HK$0.38 to Mr. Yuan, and the Group resumed the business in the property investment and the Group has been beneficially interested in the Tuen Mun Property, which was valued at HK$101,000,000 on 31 March 2013 in accordance with the valuation performed by an independent valuer.

Given the annual gross rental income from the Tuen Mun Property of approximately HK$3.5 million represents a yield of approximately 4.0% to the Property Acquisition Consideration, the Board considered the returns satisfactory and the Property Acquisition is a good opportunity for the Group to achieve long-term stable income and growth. The Board is of the same view as set out in the Property Circular that there is more appreciation potential for properties in Hong Kong and save for the Property Acquisition and subject to the availability of additional financial resources to the Group, may continue to explore the possibility of investing in more properties in Hong Kong or the PRC that could strengthen the return on rental income, with good growth and/or profit potential.

Coal trading business

Pursuant to the Indonesia Circular, given the LOIs, the existing coal trading business will continue and provide a steady source of income and positive impact on the earnings to the Group. Although both trade receivables and payables have increased to approximately HK$64,771,000 (2012: approximately HK$51,969,000) and approximately HK$57,399,000 (2012: approximately HK$46,296,000) respectively the Board expected the increase in outstanding trade receivables was temporary and would be settled in full without discounts. The Board has remained positive about the future prospect of the existing coal trading business in view of there was no change in the business relationship with customers or suppliers nor the credit period granted to both customers and suppliers. The Group will continue monitoring the sale price of steam coal as well as the controls over costs and related expenses towards the coal trading operations to ensure its continued profitability. By maintaining the same strategies as set out in the Indonesia Circular, the Group takes opportunities to expand its customer base and supplier networks through the business plan of a new coal trading business in the PRC and uses the best endeavour to make appropriate decision and process on a timely manner.

The Group have reviewed an article published in www.marketwatch.com (http://www.marketwatch.com/story/outlook-2013-the-case-for-a-coalrecovery-2012-12-17), who is one of the major financial news providers in the United States, in order to assess the operations, prospects and risks of the Coal Acquisition (as defined below). According to the article, the global coal sector may come to a recovery in 2013. As the coal industry has been sluggish in 2012, it is reasonable to expect that the major coal plant closures have happened already and the industry is on the way to recovery. In addition, the quantitative easing policies as launched by the central banks among the developed nations will also give a boost to the economy recovery, which will increase coal consumption. Especially the heavy reliance on coal for electricity generation in the PRC, the rapid development and urbanization boosted the coal demand and consumption to a high level.

In order to catch the surge in demand as aforesaid, the Group entered into sale and purchase agreement for the proposed acquisition (the "**Coal Acquisition**") of the entire issued share capital of Wider Trading Limited on 27 March 2013 and processing the due diligent process for the new establishment in the PRC.

The Company has been exploring opportunities to broaden the Group's business scope and additional income sources within the same industry.

The Coal Acquisition was finally terminated on 26 September 2013.

Prospects

Announced on 23 April 2013, a supplemental agreement was entered in relation to the proposed issue (the "**Rights Issue**") by way of rights of three (3) new Shares (the "**Rights Shares**") to be allotted and issued under the Rights Issue, being 151,356,987 Shares, for every ten (10) existing Shares held on 14 June 2013 (the "**Record Date**") at the subscription price of HK$0.20 per Rights Share under the Rights Issue. A circular of the Company dated 15 May 2013 and prospectus of the Company dated 17 June 2013, together with the provisional allotment letter(s) has been despatched accordingly. Following completion of the Rights Issue, additional working capital may be employed and available for the operations to capitalise on newly presented business opportunities. The net proceeds of the Rights Issue would be approximately HK$27.9 million. The Directors are of the view that the Rights Issue will enable the Company to raise funds for the potential acquisition which will provide an opportunity to all Shareholders to participate in the growth of the Company in proportion to their shareholdings. As such, the Rights Issue is consistent with the strategic plans of the Group, and is therefore fair and reasonable, and in the interests of the Company and the Shareholders as a whole. The net proceeds from the Rights Issue will (a) enable the Group to use the best endeavour to make appropriate decision and on a timely manner; (b) has sufficient financial resources to negotiate with other potential vendors; and (c) to facilitate the completion of potential acquisition.

As part of its business plan, the Board will continue to explore and evaluate new businesses and investment opportunities which could be of good potential and/or long-term benefit to the Group and the Shareholders. The Board will take a cautious and conservative approach in the evaluation and timing of potential projects or investments and constantly keep reviewing the Group's strategies and operations with a view to improve its business performance and Company's shareholders' returns. As the Directors have experienced in receiving proposals from potential vendors in respect of potential investment projects from time to time, the Board considers there are possibilities that the Group would identify suitable investment opportunities having greater potential returns which may broaden the Group's business scope, provide additional income sources, and may enhance the earnings per share of the Group, have arisen and will arise from time to time by taking advantage of the good market sentiments in future.

Liquidity and financial resources

The Group generally finances its daily operations from internally generated cash flows. During the year ended 31 March 2013, the Company has conducted the Fund Raising Exercise to satisfy the funding requirement for the Coal Acquisition. Since the Coal Acquisition plan lapsed later in September 2013, the Group has decided to apply it to the Acquisition. As at 31 March 2013, the Group had cash and cash equivalents (the "**Liquidity Resources**") of approximately HK$27,791,000 (2012: approximately HK$8,543,000). Taking into account the Liquidity Resources and the Rights Issue, the Group has sufficient financial resources to satisfy its funding requirements and to achieve its business objectives, including Coal Acquisition. Save as disclosed in the annual report for the year ended 31 March 2013, the Group has no borrowings or material capital expenditure commitments as at 31 March 2013.

The debt ratio, calculated as total liabilities over total assets of the Group as at 31 March 2013 was approximately 0.26 (2012: approximately 0.36).

Capital structure

The total equity of the Company increased to approximately HK$204,490,000 on 31 March 2013 (2012: approximately HK$106,664,000, which was mainly attributable to the (i) placing up to 78,370,000, 46,100,000 and 33,760,000 new Shares under the general mandate, which were completed on 27 December 2012, 29 August 2012, and 18 April 2012 respectively; (ii) the issue of Property Acquisition Consideration Shares to Mr. Yuan Huafeng on 24 October 2012; and (iii) the Open Offer completed on 14 August 2012. Details are set out in notes 25 and 26 to the consolidated financial statements in the annual report for the year ended 31 March 2013.

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

The success of the Group will depend, inter alia, on the realisation of the expected synergies, costs control, and growth opportunities and potentials upon integration of the acquired businesses. The Group concentrates on its core business and cautiously expands the scale and geographical spread of its businesses through organic growth and investment in selective acquisitions with great potential. There can be no assurance that a failure to operate the acquired businesses successfully and thereby not achieve the expected financial benefits, may not adversely affect the Group's financial positions and results.

Announced on 11 May 2012, with all the conditions precedent being fulfilled, the discloseable and connected transactions contemplated under the agreement dated 29 February 2012 and entered into between Star Fortune International Group Company Limited ("**Star Fortune**"), a direct wholly-owned subsidiary of the Company, and the Purchaser's Guarantor in relation to the sale and purchase of the entire issued share capital of SIB in the sum of HK$1.00 and the all obligations, liabilities and debts owing or incurred by the SIB Group to the Group at a total consideration of HK$15.74 million (other than the SIB Group) have been completed. The Company has ceased to be interested in SIB Group and the investment property in the PRC.

Announced on 24 October 2012, with all the conditions precedent being fulfilled, the Property Acquisition has been completed. The Group has been beneficially interested in Foremost Star Group and the Tuen Mun Property and started to generate stable source of income and the Annual Yield of 4% to the Group during the year ended 31 March 2013.

Announced on 10 January 2013, the Company is undergoing preliminary discussions with an independent third party of the Company relating to a potential disposal of the entire interest in an indirectly wholly-owned subsidiary and its subsidiaries, of which one of its subsidiaries currently is the beneficial owner of a property held for own use locating in the PRC, of the Company. As at the date of the annual report for the year ended 31 March 2013, no definitive agreement has been signed. Further announcements would be made by the Company in compliance with the requirements of the GEM Listing Rules.

Save as disclosed above and in the section of "Business and Financial Review" of the annual report for the year ended 31 March 2013, there was no other significant investments held as at 31 March 2013, or plan for material investments or capital assets as at 31 March 2013, nor were there other material acquisitions and disposals of subsidiaries during the year ended 31 March 2013.

Charge of group assets

As at 31 March 2013, the Group did not have any material charges on assets (2012: HK$Nil).

Foreign exchange exposure

The majority of the Group's sales and purchases are denominated in the group entity's functional currency. Save as disclosed in note 34 (a) (ii) to the consolidated financial statements in the annual report for the year ended 31 March 2013, the Group has transactional currency exposures and were mainly arising from the exposure of exchange between US$ and HK$ with limited exposure to RMB. Since the exchange rate of US$ against HK$ is relatively stable during the year ended 31 March 2013, the exposure on foreign exchange is insignificant.

The Group has not implemented any foreign currency hedging policy at the moment. The Group will monitor its foreign currency exposure closely and will consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

As at 31 March 2013, the Group had no investment in any financial derivatives, foreign exchange contracts, interest or currency swaps, hedgings or other financial arrangements for hedging purposes to reduce any currency risk nor made any over-the-counter contingent forward transactions.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 March 2013.

For the year ended 31 March 2012

Business and financial review

For the year ended 31 March 2012, the Group achieved revenue of approximately HK$100.63 million (2011: approximately HK$54.80 million (restated)) for coal trading business, and business of property investments, representing a significant increased by approximately HK$45.83 million or 83.63% over the corresponding prior year ended 31 March 2011. The increment was mostly contributed by the revenue stream which derived from the coal trading business which commenced in November 2010 and the increase in income from the property investments.

For the year ended 31 March 2012, the Group recorded total revenue of approximately HK$100.63 million (2011: approximately HK$54.80 million (restated)) which was derived from the coal trading business and property investments respectively which accounted for approximately of 98.69% and 1.31% respectively (for the continuing operations) (2011: approximately of 97.72% and 2.28% respectively (for the continuing operations)). Details of the Group's revenue are disclosed in the financial statements under note 5 and note 6 "SEGMENT INFORMATION" and "TURNOVER, OTHER INCOME, AND OTHER GAINS AND LOSSES, NET" respectively in the annual report for the year ended 31 March 2012.

The Group generated an operating profit for the continuing operations of approximately HK$0.14 million for the year ended 31 March 2012 (2011: operating loss of approximately HK$35.18 million (restated)). The Group generated an operating profit of approximately HK$1.26 million for the year ended 31 March 2012 (2011: operating loss of approximately HK$31.03 million) for the coal trading business segments. The Group generated an operating loss of approximately HK$1.12 million for the year ended 31 March 2012 (2011: approximately HK$4.15 million (restated)) for the property investments segments.

The Group's gross profit was approximately HK$6.45 million for the year ended 31 March 2012 (2011: approximately HK$3.46 million (restated)). The gross profit increased dramatically as compared to the corresponding prior year ended was mostly contributed by the revenue stream derived from the coal trading business and increase in income from the property investments. The gross profit margin was approximately of 6.41% for the year ended 31 March 2012 (2011: approximately of 6.31% (restated)).

For the year ended 31 March 2012, the Group's selling and distribution costs amounted to approximately HK$0.73 million (2011: approximately HK$0.33 million), the selling and distribution costs are in relation to the selling expenses for the coal trading business.

For the year ended 31 March 2012, the Group's administrative and other expenses amounted to approximately HK$39.50 million (2011: approximately HK$57.13 million (restated)), which represented the decreased by approximately HK$17.63 million or 30.86%, as compared to the corresponding prior year ended. The decrement was contributed by the decreased of the overseas and local travelling expenses incurred for the business trips and recorded of nil legal and professional fees in relation to the acquisition of the coal trading business and share-based payments respectively for the year ended 31 March 2012.

For the year ended 31 March 2012, the Group's finance costs amounted to approximately HK$0.35 million (2011: approximately HK$0.15 million), the increased by approximately HK$0.20 million or by 133.33% was contributed by the imputed interest on the promissory notes for the year ended 31 March 2012.

For the year ended 31 March 2012, the Group recorded a fair value gain on investment properties of approximately HK$0.66 million (2011: fair value loss on investment properties of approximately HK$1.70 million), which represented increased in fair value of the Group's investment properties which are hold for investment purposes for the year ended 31 March 2012.

For the year ended 31 March 2012, the Group recorded a gain on disposal of the investment properties of approximately HK$0.01 million (2011: HK$Nil).

For the year ended 31 March 2012, the Group recorded an impairment loss on intangible assets of approximately of HK$3.66 million (2011: HK$8.92 million) arising from China Indonesia Friendship Coal Trading Company Limited (the "**CIFC**") and its subsidiary (collectively the "**CIFC Group**") which is principally engaged in the business of coal trading between PRC and Indonesia. An impairment testing has been carried out as at 31 March 2012 and impairment loss was recognised in the income statement. Details of the Group's impairment loss on intangible assets and disclosed in the financial statements under note 18 "INTANGIBLE ASSETS" in the annual report for the year ended 31 March 2012.

The impairment loss on intangible assets is mostly due to the reduced of the quantity of coal sold during the year ended 31 March 2012. The impairment loss on intangible assets recognised for the year ended 31 March 2012 did not have significant impact to the CIFC Group's cash-flows and did not affect the operating model of the CIFC Group as referred to on pages 18 and 19 of the Indonesia Circular, in particular maintaining a positive price gap between the purchase price and the selling price of at least US$2 per metric tonne of coal sold.

Apart from these, the CIFC Group had no other debts or borrowings and had a net cash position and a bank interest income of approximately HK$1.32 million (2011: HK$1.08 million) and approximately HK$131 (2011: HK$34) respectively for the year ended 31 March 2012.

The Group recorded the share of loss of associates, net of tax, of approximately HK$0.86 million for the corresponding prior year ended 31 March 2011, which represented the share of 49% results attributed by Star Fortune International Investment Company Limited (the "**SFII**") and its subsidiaries (collectively the "**SFII Group**") to the Group. The SFII Group is principally engaged in mining, sale and distribution of coals in the PRC. The 49% equity interest in the SFII were disposed of on 16 August 2010 and the SFII Group ceased to be the associates of the Group simultaneously.

The Group recorded a loss for the corresponding prior year ended 31 March 2011 from discontinued operations of approximately HK$19.71 million (restated) which mainly represented the loss on disposal of associates for the prior year ended 31 March 2011.

For the year ended 31 March 2012, the Group recorded a loss attributable to owners of the Company of approximately HK$36.36 million (2011: approximately HK$106.04 million) represented a significant decreased in loss by approximately HK$69.68 million or 65.71%. The overall decrease in loss attributable to the owners of the Company as compared to the corresponding prior year ended 31 March 2011 was mainly attributable by (i) the increase of the revenue stream derived from the coal trading business and the increase of revenue stream from the general trading business and property investment respectively; (ii) the decrease of the administrative and other expenses; (iii) the recorded of nil loss from the discontinued operation for the disposal of the 49% equity interest in the SFII for the current year ended and (iv) the record of nil impairment losses on goodwill and decrease in impairment loss on intangible assets for the CIFC Group for the year ended 31 March 2012.

Liquidity, financial resources and capital structure

As at 31 March 2012, the Group had net current assets of approximately HK$53.94 million (2011: approximately HK$41.03 million) including cash and bank balances of approximately HK$8.54 million (2011: approximately HK$18.03 million). The Group had no other bank overdraft facilities and bank borrowing as at 31 March 2011 and 2012 respectively.

The debt ratio (defined as total liabilities over total assets) of the Group as at 31 March 2012 was approximately 0.36 (2011: approximately 0.26).

In April 2012, the Company entered into a placing agreement (the "**Placing**") pursuant to which the placing agent conditionally agreed to place, on a best effort basis, of not less than six placees for up to 33,760,000 new Shares at a price of HK$0.28 per placing Share. The net proceeds from the Placing of approximately HK$8.8 million will be used for potential acquisition activities as identified by the Group from time to time and as the general working capital of the Group.

The Directors are of the view that additional funding will strengthen the financial position of the Group for any future investment and development, which will be beneficial and in the interests of the Group and the Shareholders as a whole.

During the year ended 31 March 2012, a total of 20,000,000 new Shares were issued and allotted pursuant the warrant subscripted in September 2010 and a total of 7,940,104 share options (the "**Share Options**") were exercised by an eligible participant. As a result additional 27,940,104 new Shares were issued and allotted by the Company during the year ended 31 March 2012.

As at 31 March 2012, the total issued Shares was 196,742,198.

Charge of group assets

As at 31 March 2012, the Group did not have any material charge of assets (2011: HK$Nil).

Foreign exchange exposure

The reporting currencies of the Group is HK$.

The Group had transactional currency exposures. Such exposures arise from the business operations in the PRC denominated RMB and the coal trading operation in between PRC and Indonesia denominated in the US$.

As at 31 March 2012, the Group had a minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in the functional currencies, i.e. RMB and US$, used by the Group entities or in the US$ for HK$ functional currency Group entities.

As HK$ is pegged to US$, the Group considered the risk of movements in exchange rates between HK$ and US$ to be insignificant for transactions denominated in US$. The RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 March 2012, the Group did not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

The Group adopted a conservative treasury policy with most of the bank deposits being kept in HK$ or RMB or US$, or in the local currencies of the operating subsidiaries (as the case may be) to minimise exposure to foreign exchange risks.

As at 31 March 2012, the Group had no investment in any financial derivatives, foreign exchange contracts, interest or currency swaps, hedgings or other financial arrangements for hedging purposes to reduce any currency risk nor made any over-the counter contingent forward transactions.

The Board would like to emphasise the Group's financial positions remain stable and has sufficient cash resources to meet its present and future cash flow requirements.

Treasury policies

The Group adopted a conservative approach towards its treasury policies. The Group strove to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

Significant Investment

There was no significant investment held by the Group for the year ended 31 March 2012.

Material acquisitions or disposals of subsidiaries and affiliated companies

On 29 February 2012, Star Fortune entered into the agreement (the "**Star Agreement**") pursuant to which Star Fortune has agreed to sell and the Purchaser's Guarantor has agreed to purchase the entire issued share capital of the SIB Group, and the sale loan for the consideration of HK$15.74 million.

The Star Agreement constituted a discloseable and connected transaction on the part of the Company under Chapter 19 of the GEM Listing Rules.

The Star Agreement was completed in May 2012 and SIB Group ceased to be the subsidiary of the Group since then.

Save as disclosed above, there was no other material acquisitions or disposals of subsidiaries and affiliated companies held by the Group for the year ended 31 March 2012.

Disposal of real property

On 3 August 2011, the Star Energy International Investment Company Limited, an indirect wholly-owned subsidiary of the Company, entered into the provisional sale and purchase agreement with the purchasers, in relation to the disposal of an investment property held by the Group in Sorrento (the "**Sorrento Property**"), 1 Austin Road West, Kowloon, Hong Kong (the "**Property Disposal**") for a cash consideration of HK$11.3 million.

The Property Disposal constituted a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules.

The Property Disposal completed in September 2011 and the Sorrento Property ceased to be an investment property of the Group since then.

There was no other disposal of property by the Group as at 31 March 2012. (2011: There was no disposal of property by the Group as at 31 March 2011).

Proposed Acquisition

There was no proposed acquisition held by the Group as at 31 March 2012.

Segment information

The Group's operating segments are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

— The coal trading segment comprised the business of coal trading;

— The general trading segment comprised the business of trading of other merchandise goods (ceased in January 2012);

— The property investment segment comprised investment in various properties for rental income purposes; and

— The mining segment comprised the mining, exploration and sale of coal in the PRC and the operation was disposed of by the Group in 2012. Accordingly, the mining segment was classified as a discontinued operation and the comparative figures of this segment were re-classified from a continuing operation to discontinued operation during 2011, details of which are set out in Note 11 of the annual report for the year ended 31 March 2012. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Employee information and remuneration policy

As at 31 March 2012, the Group employed a total of 29 employees (2011: 25). The salaries and benefits of the Group's employees are maintained at a competitive level and employees are rewarded on a discretionary performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. Year-ended bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme and medical scheme to its employees in HK. Social insurance contributions were made by the Group for its employees in the PRC in accordance with the relevant PRC regulations.

The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute. The Group also operates a share option scheme where share options to subscribe for shares of the Company may be granted to the eligible participants of the Group. No share options have been granted to the eligible participants under the share option scheme during the year ended 31 March 2012. Staff costs, excluding Directors' remuneration, decreased by approximately 6.9% to approximately HK$5.25 million (2011: approximately HK$5.64 million).

On 26 October 2002, the Company conditionally adopted the share option scheme under which share options to subscribe for the Shares may be granted under the terms and conditions stipulated therein.

Details of future plans for material investment or capital assets

Save as disclosed above, the Directors do not have any future plans for material investment or capital assets as at 31 March 2012.

Contingent liabilities

The Group had no material contingent liabilities as at 31 March 2012.

Commitments

Operating lease commitments:

The Group leases its office premises and a director's quarter under operating lease arrangements, with leases negotiated for terms ranging from two to three years. None of the leases includes contingent rentals.

As at 31 March 2012, the Group had commitment for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2012	**2011**
	HK$'000	*HK$'000*
Within one year	6,391	4,342
In the second to fifth year inclusive	6,815	7,494
	13,206	11,836

The operating leases relate to office premises for terms of three years to year 2015.

For the year ended 31 March 2011

Business review

For the year ended 31 March 2011, the Group achieved revenue of approximately HK$76.98 million (2010: approximately HK$15.10 million (restated)) for the business of coal trading, general trading and property investments respectively, representing an increased by approximately HK$61.88 million or 409.80% over the corresponding prior year ended 31 March 2010. The increment was mostly contributed by the revenue stream which derived from the business of coal trading which commenced in November 2010 as well as an increased of the received of the rental income from its investments properties and trading income from the general trading respectively.

For the year ended 31 March 2011, the Group recorded total revenue of approximately HK$76.98 million (2010: approximately HK$15.10 million (restated)) which was derived from the business of coal trading, general trading and property investments respectively which accounted for approximately of 69.57%, 28.81% and 1.62% respectively (2010: Nil%, approximately of 94.11% and 5.89% respectively). Details of the Group's revenue are disclosed in notes 5 and 6 "SEGMENT INFORMATION" and "TURNOVER, OTHER GAINS AND LOSSES, NET" respectively in the annual report for the year ended 31 March 2011.

An increase in turnover by approximately HK$61.88 million or 409.80%, as compared to the corresponding prior year ended 31 March 2010 was mostly contributed by the revenue stream which derived from the business of coal trading which commenced in November 2010 as well as an increase of the received of the rental income from its investment properties and trading income from the general trading respectively.

The Group generated an operating profit of approximately HK$0.25 million for the year ended 31 March 2011 (2010: operating loss of approximately HK$3.05 million (restated)) for the general trading. The Group generated an operating loss of approximately HK$31.03 million and HK$4.15 million respectively for the year ended 31 March 2011 (2010: HK$Nil and HK$3.73 million (restated) respectively) for the coal trading and property investments segments respectively.

The Group's gross profit was approximately HK$4.96 million for the year ended 31 March 2011 (2010: approximately HK$1.18 million (restated)). The gross profit increase as compared to the corresponding prior year ended 31 March 2010 was mostly contributed by the revenue stream which derived from the business of coal trading which commenced in November 2010 as well as an increase of the receipt of the rental income from its investments properties and trading income from the general trading. The gross profit margin was approximately of 6.44% for the year ended 31 March 2011 (2010: approximately of 7.81% (restated)), the decrement was mostly contributed by the coal trading business which commenced in November 2010 due to the positive price gap between the purchase price and the selling price of at least US$2 per metric tonne of coal sold, the Group will keep continue to bargain for the possibility of exceeding US$2 per metric tonne for the coal trade.

For the year ended 31 March 2011, Class A shares of the Proteus Growth Fund Ltd. which subscribed on 2 November 2009 by the Group was fully redeemed and a gain of approximately HK$0.78 million (2010: HK$Nil (restated)) has been recognised from the redemption.

For the year ended 31 March 2011, the Group's selling and distribution costs amounted to approximately HK$0.33 million (2010: HK$Nil (restated)), the selling and distribution costs are in relation to the selling expenses for the coal trading business which commenced in November 2010.

Even though there is a positive contribution of profit streams from the acquired CIFC Group, the coal trading segment still resulted in a net loss position of approximately HK$29,943,000 for the year ended 31 March 2011 (2010: HK$Nil). The loss in 2011 was mostly a result of non-cash impairment loss on goodwill and intangible assets respectively, a net profit before all of the major non-cash items (the "**Net Profit 2011**") of approximately HK$1,926,000 for the year ended 31 March 2011 (2010: HK$Nil) will present a better reflection of the CIFC Group's actual operation results.

	Year ended 31 March 2011 *HK$'000*
Loss for coal trading segment	(29,943)
Adjusted for major non-cash items	
• Impairment loss on goodwill	8,915
• Impairment loss on intangible assets	24,425
• Taxation — deferred tax credit	(1,471)
Net Profit 2011 after striping out major non-cash items	1,926

The impairment loss on goodwill and intangible assets recognised for the year ended 31 March 2011 did not have impact to the CIFC Group's cash-flows and did not affect the operating model of the CIFC Group as referred to on pages 18 and 19 of the Indonesia Circular, in particular maintaining a positive price gap between the purchase price and the selling price of at least US$2 per metric tonne of coal sold, did not reduce the expected net profits to be derived from the business of CIFC Group, did not have impact on the profit guarantee as provided by the vendor and did not have impact to the CIFC Group's cash flow.

Apart from these, the CIFC Group had no other debts or borrowings. The CIFC Group would have a net cash position and a bank interest income of approximately HK$1.08 million (2010: HK$Nil) and approximately HK$34 (2010: HK$Nil) respectively for the year ended 31 March 2011.

The impairment loss on goodwill and intangible assets is mostly due to the change in terms and conditions of the customer letter of intents and change in the discount rate respectively.

For the year ended 31 March 2011, the Group recorded an impairment loss on property, plant and equipment of HK$Nil (2010: approximately HK$1.13 million (restated)).

For the year ended 31 March 2011, the Group recorded a fair value loss on investment properties of approximately HK$1.70 million (2010: approximately HK$3.36 million), which represented decreased in fair value of the Group's investment properties which are hold for investment purposes during the year ended 31 March 2011.

For the year ended 31 March 2011, the Group recorded the share of loss of associates, net of tax, of approximately HK$0.86 million (2010: approximately HK$23.36 million (restated)), which represented the share of 49% results attributed by the Star Fortune International Investment Company Limited (the "**SFII**") and its subsidiaries (collectively referred to as the "**SFII Group**") to the Group. The SFII Group is principally engaged in mining, sale and distribution of coals in the PRC. The 49% equity interest in the SFII were disposed on 16 August 2010 and the SFII Group ceased to be the associates of the Group.

For the year ended 31 March 2011, the Group recorded a loss for the year from discontinued operation of approximately HK$21.07 million (2010: approximately HK$27.46 million (restated)) mainly represented a loss for the disposal of SFII Group.

For the year ended 31 March 2011, the Group recorded a loss attributable to owners of the Company from the continuing operations of approximately HK$106.04 million (2010: approximately HK$71.08 million (restated)) represented an increase in loss by approximately HK$34.96 million or 49.18%. The overall increase in loss attributable to the owners of the Company as compared to the corresponding prior year ended 31 March 2010 was mainly attributable by (i) the increase of the administrative and other expenses, (ii) the impairment loss on the goodwill and the intangible assets and (iii) the loss on disposal of 49% equity interest in SFII Group.

Liquidity, financial resources and capital structure

As at 31 March 2011, the Group had net current assets of approximately HK$41.03 million (2010: approximately HK$79.08 million) including cash and bank balances of approximately HK$18.03 million (2010: approximately HK$33.28 million). The Group had no other bank overdraft facilities and bank borrowing as at 31 March 2010 and 2011 respectively.

As at 31 March 2011, the Group has no obligations under convertible bonds (2010: HK$4 million) in nominal principal amount, and no obligations under convertible bonds stated at amortised cost which was repayable beyond one year but within 5 years (2010: approximately HK$2.83 million). The debt ratio (defined as total liabilities over total assets) of the Group as at 31 March 2011 was approximately 0.26 (2010: approximately 0.03).

On 2 September 2010, the Company as an issuer entered into three conditional non-listed warrant placing agreements with the subscribers and the guarantors in relation to a private placing of an aggregate of 15,000,000 (subsequently adjusted to 30,000,000 warrants immediately after the Bonus Issue (as defined below)) warrants to the subscribers, at the warrant issue price of HK$0.24.

The warrants entitle the subscribers to subscribe for the new shares at the subscription price of HK$0.92 (subsequently adjusted to HK$0.46 per share for the warrants immediately after the Bonus Issue) per new share for a period of 18 months commencing from the date of issue of the warrants. Each warrant carries the right to subscribe for one new share of the Company.

On 3 September 2010, the Board had conditionally resolved to grant an aggregate of 7,940,104 (subsequently adjusted to 15,880,208 warrants immediately after the Bonus Issue) options to the grantees.

As at 31 March 2010, the total issued share capital was 66,445,838 Shares.

2,395,209 new Shares were issued and allotted on 16 April 2010 upon conversion of zero coupon convertible bonds (the "**Bonds**") by the Bonds' subscriber.

1,584,000 and 8,976,000 new Shares were issued and allotted on 22 April 2010 and 11 May 2010 respectively to the unlisted warrants' subscriber.

On 23 December 2010, the Board proposed a bonus issue (the "**Bonus Issue**") to the Shareholders (other than excepted Shareholders). The Bonus Issue is proposed to be made on the basis of one Bonus Share for every one existing share held by the qualifying Shareholders (other than excepted Shareholders) whose names appear on the register of members of the Company on the record date on 24 January 2011. The Bonus Issue will be credited as fully paid by way of capitalisation of an amount in the share premium account after the duly approved by Shareholders in the special general meeting on the record date.

5,000,000 new Shares were issued and allotted on 14 January 2011 to the unlisted warrants' subscriber.

Following the passing of the ordinary resolution in the special general meeting on 24 January 2011 in relation to the Bonus Issue subsequently on 1 February 2011, 84,401,047 new ordinary Shares of HK$0.01 each were issued to the qualifying Shareholders, of which HK$844,010.47 was credited to issued share capital of the Company and of which HK$844,010.47 by way of capitalisation of an amount in the share premium account of the Company respectively.

As a result of the above additional 102,356,256 new Shares were issued and allotted by the Company during the year ended 31 March 2011.

As at 31 March 2011, the total issued Shares was 168,802,094.

Charge of group assets

As at 31 March 2011, the Group did not have any material charge of assets (2010: HK$Nil).

Foreign exchange exposure

The reporting currencies of the Group is HK$.

The Group has transactional currency exposures. Such exposures arise from the business operations in the PRC denominated in the RMB and the coal trading operation in between PRC and Indonesia denominated in the US$.

As at 31 March 2011, the Group had a minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in the functional currencies, i.e. RMB and US$, used by the Group entities or in the US$ for HK$ functional currency Group entities.

As HK$ is pegged to US$, the Group considers the risk of movements in exchange rates between HK$ and US$ to be insignificant for transactions denominated in US$. The RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 March 2011, the Group does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

The Group adopts a conservative treasury policy with most of the bank deposits being kept in HK$ or RMB or US$, or in the local currencies of the operating subsidiaries (as the case may be) to minimise exposure to foreign exchange risks.

As at 31 March 2011, the Group had no investment in any financial derivatives, foreign exchange contracts, interest or currency swaps, hedgings or other financial arrangements for hedging purposes to reduce any currency risk nor made any over the counter contingent forward transactions.

The Board would like to emphasise the Group's financial positions remain stable and has sufficient cash resources to meet its present and future cash flow requirements.

Treasury policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

Significant Investment

On 22 November 2010, Star Enterprise delivered the redemption notice to the Proteus Growth Fund Ltd. for a fully redemption of the Class A shares which subscribed by the Group on 2 November 2009. The redemption constituted a discloseable transaction of the Company under Rule 19.06(2) under the GEM Listing Rules and is subject to the reporting and announcement requirements but exempt from the Shareholders' approval requirement under the GEM Listing Rules.

Save as disclosed above, there was no other significant investment held by the Group for the year ended 31 March 2011.

Material acquisitions or disposals of subsidiaries and affiliated companies

On 20 May 2010, Star Fortune International Development Company Limited (the "**SFID**"), an indirect wholly-owned subsidiary of the Company, entered into a conditional disposal agreement (the "**Disposal Agreement 2**") with the purchaser (the "**Purchaser**"), a wholly-owned subsidiary of the International Resources Enterprise Limited (formerly known as China Sonangol Resources Enterprise Limited) (a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange, for the disposal of the sale shares (the "**Disposal Shares 2**"), representing 49% equity interest in SFII, held by SFID for a total cash consideration of HK$50 million.

The Disposal Agreement 2 was completed on 16 August 2010 and the SFII ceased to be the associates of the Group.

On 26 August 2010, Star Coal International Investment Company Limited (the "**Star Coal**"), an indirect wholly owned subsidiary of the Company, as a purchaser, entered into the conditional sale and purchase agreement with Mr. Woo Man Wai, David, pursuant to which Star Coal agreed to acquire and the Mr. Woo Man Wai, David agreed to sell its entire issued share capital of CIFC and the sale loan for a total consideration of HK$70 million (subject to adjustment). Upon the completion, the Company has 100% equity interest in CIFC, the accounts of the CIFC Group will be consolidated into the consolidated financial statements of the Group.

Save as disclosed above, there was no other material acquisitions or disposals of subsidiaries and affiliated companies held by the Group as at 31 March 2011.

Significant impairment loss on goodwill and intangible assets

Due to the unexpected global change in the interest rate, discount rate, cost of equity after the announced of the second round of the quantitative easing by the Federal Reserve of the United States of America and after the acquisition of CIFC Group as well as the change in terms of the customer letter of intents dated 24 November 2010. The Group recorded an impairment loss on goodwill and intangible assets arising from the acquisition of the CIFC Group during the current year of approximately HK$24.43 million (2010: HK$Nil) and approximately HK$8.92 million (2010: HK$Nil) respectively which represented the impairment testing has been carried out as at 31 March 2011 and impairment loss was recognised in the income statement.

The estimates of recoverable amount were assessed based on discounted cash flow method which is performed by Greater China Appraisal Limited, an independent firm of professionally qualified valuers. Details of the Group's impairment loss on goodwill and intangible assets and disclosed in the financial statements under note 17 "GOODWILL" and note 18 "INTANGIBLE ASSETS" respectively in the annual report for the year ended 31 March 2011.

Proposed Acquisition

On 25 February 2011, Starry Gold Resources Investment Limited, an indirect wholly-owned subsidiary of the Company, entered into the non-legally binding memorandum of understanding (the "**MOU**") with the vendors in relation to a possible acquisition of a target group which will be principally engaged in mining, exploitation and sale of talc in the Hubei Province, the PRC upon the completion of the reorganisation and successful renewal of the mining permit.

Details of the MOU have been set out in the announcements of the Company dated 25 February 2011 and 29 April 2011 respectively.

Segment information

The Group's operating segments are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

— The coal trading segment comprised the business of coal trading;

— The general trading segment comprised the business of trading of other merchandise goods;

— The property investment segment comprised investment in various properties for rental income purposes; and

— The mining segment comprised the mining, exploration and sale of coal in the PRC and the operation was disposed of by the Group in the current year. Accordingly, the mining segment was classified as a discontinued operation and the comparative figures of this segment were re-classified from a continuing operation to discontinued operation during the current year, details of which are set out in note 11 of the annual report for the year ended 31 March 2011.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Employee information and remuneration policy

As at 31 March 2011, the Group employed a total of 25 employees (2010: 27). The salaries and benefits of the Group's employees are maintained at a competitive level and employees are rewarded on a discretionary performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. Year-ended bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme and medical scheme to its employees in HK. Social insurance contributions were made by the Group for its employees in the PRC in accordance with the relevant PRC regulations.

The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute. The Group also operates a share option scheme where share options to subscribe for Shares may be granted to the eligible participants of the Group. Share options have been granted to the eligible participants under the share option scheme during the year ended 31 March 2011.

Staff costs, excluding Directors' remuneration, decreased by approximately 36.34% to approximately HK$5.64 million (2010: approximately HK$8.86 million).

Details of future plans for material investment or capital assets

Save as disclosed above on the "Proposed Acquisition", the Directors do not have any future plans for material investment or capital assets as at 31 March 2011.

Contingent liabilities

The Group had no material contingent liabilities as at 31 March 2011.

Commitments

Operating lease commitments:

The Group leases its office premises under operating lease arrangements, with leases negotiated for terms of three years. None of the leases includes contingent rentals.

As at 31 March 2011, the Group had commitment for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Within one year	4,342	2,145
In the second to fifth year inclusive	7,494	3,900
	11,836	6,045

The operating leases relate to office premises for terms of three years to year 2014.

III. MATERIAL ADVERSE CHANGE

Save as disclosed herein, the Directors have not been aware of any material adverse change in the financial position or trading position of the Group since 31 March 2013, being the date to which the latest published audited financial statements of the Group was made up.

The following is the text of a report, for the purpose of inclusion in this circular, received from the reporting accountant of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

pwc

羅兵咸永道

30 May 2014

The Directors
Ming Kei Holdings Limited

Dear Sirs,

We report on the financial information of Prima Finance Holdings Limited (the "Target Company") and its subsidiaries (together, the "Target Group") which comprises the consolidated statements of financial position as at 31 December 2011, 2012 and 2013, the statements of financial position of the Target Company as at 31 December 2012 and 2013, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for each of the years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Ming Kei Holdings Limited (the "Company") and is set out in Sections I to IV below for inclusion in Appendix II to the circular of the Company dated 30 May 2014 (the "Circular") in connection with the proposed acquisition of the Target Company by Star Capital Global Limited, a direct wholly-owned subsidiary of the Company.

The Target Company was incorporated in the Cayman Islands on 19 June 2012 as an exempted company with limited liability under the Companies Law Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1.2 of Section III headed "History and Reorganisation" below, which was completed on 23 December 2013, the Target Company became the holding company of the subsidiaries now comprising the Target Group (the "Reorganisation").

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

As at the date of this report, the Target Company has direct and indirect interests in the subsidiaries as set out in Note 1.2 of Section III below. All of these companies are private companies.

No audited financial statements have been prepared by the Target Company as it has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation. The audited financial statements of the other companies comprising the Target Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1.2 of Section III.

The directors of the Target Company are responsible for the preparation of the consolidated financial statements of the Target Company for the Relevant Periods that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSAs") issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs and accounting policies adopted by the Company and its subsidiaries (together, the "Group") as set out in the annual report of the Company for the year ended 31 March 2013.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company as at 31 December 2012 and 2013 and of the state of affairs of the Target Group as at 31 December 2011, 2012 and 2013, and of the Target Group's results and cash flows for the Relevant Periods then ended.

I. FINANCIAL INFORMATION OF THE TARGET GROUP

The following is the financial information of the Target Group prepared by the directors of the Target Company as at 31 December 2011, 2012 and 2013 and for each of the years ended 31 December 2011, 2012 and 2013 (the "Financial Information"):

(a) Consolidated Statements of Comprehensive Income

		Year ended 31 December		
		2011	**2012**	**2013**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Continuing operations				
Interest income	*III.6*	81,343	67,346	54,276
Interest expense	*III.7*	(8,575)	(4,285)	(371)
Net interest income		72,768	63,061	53,905
Financial consultancy income	*III.8*	–	1,469	11,088
Other operating income, net	*III.8*	146	86	343
Net revenue		72,914	64,616	65,336
Administrative and other operating expenses	*III.9*	(21,772)	(19,611)	(16,641)
Impairment (charge)/reversal on loans to customers	*III.19 (c)*	(3,261)	(115)	7,035
Other gains, net	*III.8*	145	218	1,210
Profit before income tax		48,026	45,108	56,940
Income tax expenses	*III.13*	(11,966)	(11,492)	(13,862)
Profit for the year from continuing operations		36,060	33,616	43,078
Discontinued operations				
Profit/(loss) for the year from discontinued operations	*III.25(d)*	5,189	(507)	–
Profit for the year		41,249	33,109	43,078
Other comprehensive income for the year, net of tax		–	–	–
Total comprehensive income for the year		41,249	33,109	43,078

		Year ended 31 December		
		2011	**2012**	**2013**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Profit/(loss) attributable to:				
Equity holders of the Target Company				
– Continuing operations		36,060	33,616	41,831
– Discontinued operations	*III.25(d)*	4,533	(530)	–
Non-controlling interest				
– Continuing operations		–	–	1,247
– Discontinued operations	*III.25(d)*	656	23	–
		41,249	33,109	43,078

(b) Consolidated Statements of Financial Position

		As at 31 December		
		2011	**2012**	**2013**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*III.16*	1,674	287	916
Deferred income tax assets	*III.17*	2,523	2,551	842
Other assets	*III.18*	762	541	489
		4,959	3,379	2,247
Current assets				
Other assets	*III.18*	2,716	2,298	6,051
Loans to customers, net	*III.19*	258,995	152,014	253,212
Amount due from related parties	*III.30*	23,319	3	3,046
Cash and cash equivalents	*III.20*	40,944	63,610	30,933
		325,974	217,925	293,242
Total assets		330,933	221,304	295,489
EQUITY AND LIABILITIES				
Equity attributable to the equity holders of the Target Company				
Share capital	*III.21*	–	–	–
Other reserves	*III.22*	162,240	125,699	178,512
Retained earnings		83,845	80,940	66,905
		246,085	206,639	245,417
Non-controlling interests		4,205	–	14,205
Total equity		250,290	206,639	259,622
LIABILITIES				
Current liabilities				
Bank borrowings	*III.23*	70,160	–	20,745
Amount due to related parties	*III.30*	4,273	9,598	6,799
Current income tax liabilities		4,405	2,615	3,604
Other liabilities	*III.24*	1,805	2,452	4,719
Total liabilities		80,643	14,665	35,867
Total equity and liabilities		330,933	221,304	295,489
Net current assets		245,331	203,260	257,375
Total assets less current liabilities		250,290	206,639	259,622

(c) Consolidated Statements of Changes in Equity

	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
At 1 January 2011		–	158,250	67,242	3,549	229,041
Comprehensive income						
Profit for the year		–	–	40,593	656	41,249
Other comprehensive income		–	–	–	–	–
Total comprehensive income for the year		–	–	40,593	656	41,249
Appropriation to statutory reserves	*III.22*	–	3,990	(3,990)	–	–
Transactions with owners						
Dividends to equity holders	*III.15*	–	–	(20,000)	–	(20,000)
As at 31 December 2011		–	162,240	83,845	4,205	250,290
At 1 January 2012		–	162,240	83,845	4,205	250,290
Comprehensive income						
Profit for the year		–	–	33,086	23	33,109
Other comprehensive income		–	–	–	–	–
Total comprehensive income for the year		–	–	33,086	23	33,109
Appropriation to statutory reserves	*III.22*	–	3,266	(3,266)	–	–
Transactions with owners						
Disposal operations	*III.25*	–	(39,807)	(2,725)	(4,228)	(46,760)
Dividends to equity holders	*III.15*	–	–	(30,000)	–	(30,000)
As at 31 December 2012		–	125,699	80,940	–	206,639
As at 1 January 2013		–	125,699	80,940	–	206,639
Comprehensive income						
Profit for the year		–	–	41,831	1,247	43,078
Other comprehensive income		–	–	–	–	–
Total comprehensive income for the year		–	–	41,831	1,247	43,078
Appropriation to statutory reserves	*III.22*	–	4,066	(4,066)	–	–
Transactions with owners						
Operation acquired	*III.28*	–	48,747	–	12,958	61,705
Dividends to equity holders	*III.15*	–	–	(51,800)	–	(51,800)
As at 31 December 2013		–	178,512	66,905	14,205	259,622

(d) Consolidated Statements of Cash Flows

		Year ended 31 December		
		2011	**2012**	**2013**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Profit before income tax		48,026	45,108	56,940
Adjusted for:				
– Impairment charge/(reversal) on loans to customers		3,261	115	(7,035)
– Depreciation		246	257	163
Cash flows from operating activities before changes in operating assets and liabilities		51,533	45,480	50,068
Change in operating assets and liabilities:				
– Other assets		(189)	(22)	(3,679)
– Loans to customers		11,354	68,821	(45,606)
– Other liabilities		(616)	1,201	1,988
– Amount due from related parties		4,281	(1,475)	(3,043)
– Bank borrowings		30,098	(70,160)	20,745
– Amount due to related parties		(49,775)	(1,903)	(2,799)
Cash inflow generated from operations (continuing operations)		46,686	41,942	17,674
Income tax paid (continuing operations)		(12,748)	(12,859)	(11,533)
Cash inflow/(outflow) from operating activities (discontinued operations)	*III.25*	(7,999)	3,327	–
Total cash inflow from operating activities		25,939	32,410	6,141

		Year ended 31 December		
		2011	2012	2013
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment (continuing operations)		3	10	33
Cash flows from acquisition	*III.28*	–	–	13,720
Purchase of property, plant and equipment (continuing operations)		(52)	(188)	(771)
Cash flows from investing activities (discontinued operations)	*III.25*	(4)	(7)	–
Total cash (outflow)/inflow from investing activities		(53)	(185)	12,982
Cash flows from financing activities				
Proceeds from issuance of ordinary shares (continuing operations)		–	–	–
Capital injection to a subsidiary by its then equity holders (continuing operations)		–	–	–
Proceeds from convertible bond		–	4,054	–
Dividend paid to its then equity holders (continuing operations)		(19,000)	(5,250)	(51,800)
Cash flows from financing activities (discontinued operations)	*III.25*	–	(8,363)	–
Total cash outflow from financing activities		(19,000)	(9,559)	(51,800)
Net increase/(decrease) in cash and cash equivalents		6,886	22,666	(32,677)

		Year ended 31 December		
		2011	**2012**	**2013**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents at beginning of year		34,058	40,944	63,610
Cash and cash equivalents at end of year	*III.20*	40,944	63,610	30,933

(i) Non-cash transactions

The principal non-cash transactions comprise (1) the redemption of the convertible bond discussed in Note 24(b); (2) the acquisition of Beijing Micro Credit discussed in Note 28.

II. FINANCIAL INFORMATION OF THE TARGET COMPANY

Statements of Financial Position

		As at 31 December	
		2012	**2013**
	Note	*RMB'000*	*RMB'000*
ASSETS			
Current assets			
Amount due from related parties	*III.30(c)*	–	3,442
Cash and cash equivalents	*III.20*	4,357	150
		4,357	3,592
Total assets		4,357	3,592
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Target Company			
Share capital	*III.21*	–	–
Accumulated losses		(451)	(404)
Total equity		(451)	(404)
LIABILITIES			
Amount due to related parties	*III.30(c)*	4,808	3,996
Total liabilities		4,808	3,996
Total equity and liabilities		4,357	3,592
Net current liabilities		(451)	(404)
Total assets less current liabilities		(451)	(404)

III. NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

Prima Finance Holdings Limited (the "Target Company") was incorporated in the Cayman Islands on 19 June 2012 as an exempted company with limited liability under the Companies Law Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Target Company's registered office is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Target Company is an investment holding company and its subsidiaries are principally engaged in pawnshop ("Pawn-broker Business") and micro credit business ("Micro Credit Business"), and related financial services through granting collateral-backed and guaranteed loans to customers in the People's Republic of China (the "PRC"). The ultimate controlling parties of the Target Group (the Target Company and its subsidiaries, collectively, the "Target Group") are Mr. Dai Di, Mr. Dai Hao and Ms. Jin Yu (collectively, the "Controlling Shareholders").

Prior to the incorporation of the Target Company and the completion of the Reorganisation as described in Note 1.2 below, the Pawn-broker Business was carried out by the following companies controlled by the Controlling Shareholders during each year of the years ended 31 December 2011, 2012 and 2013 ("the Relevant Periods"). The percentage of equity interest held by the Controlling Shareholders is set out below:

	For the year ended 31 December 2011	For the year ended 31 December 2012	For the year ended 31 December 2013
Beijing City Jinfu Pawning Company Limited ("Beijing Jinfu") 北京市金福典當有限責任公司	100%	100%	100%
Beijing City Jinlu Pawning Company Limited ("Beijing Jinlu") 北京金祿典當有限責任公司	100%	100%	100%
Beijing City Jinshou Pawning Company Limited ("Beijing Jinshou") 北京市金壽典當有限責任公司	100%	100%	100%
Beijing City Jinxi Pawning Company Limited ("Beijing Jinxi") 北京市金禧典當有限責任公司	100%	100%	100%
Tianjin City Jinfu Pawning Company Limited ("Tianjin Jinfu") 天津市金福典當有限責任公司	100%	–	–
Harbin City Jinfu Pawning Company Limited ("Harbin Jinfu") 哈爾濱金福典當行有限責任公司	85.37%	–	–

Prior to the incorporation of the Target Company and the completion of the Reorganisation as described in Note 1.2 below, the Micro Credit Business was carried out by Beijing ZhongJinfu Micro Credit Company Limited ("Beijing Micro Credit") 北京中金福小額貸款有限責任公司.

The English names of the PRC companies referred to above in this note and statutory auditors in Note 1.2 represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

1.2 History and Reorganisation

The Target Group underwent the following reorganisation (the "Reorganisation") to obtain the beneficial interests of both the Pawn-broker Business and the Micro Credit Business by taking the following steps:

(1) On 19 June 2012, the Target Company was incorporated in the Cayman Islands with an authorised share capital of HK$10,000 divided into 1,000,000 shares having a par value of HK$0.01 each (the "Share"). On 19 June 2012, one share of HK$0.01 was allotted and issued to Mapcal Limited, which was transferred to Time Prestige Holdings Limited ("Time Prestige") on the same date. On 27 June 2012, the Target Company also allotted and issued 9 shares of HK$0.01 each to Time Prestige, 65 shares of HK$0.01 each to Exuberant Global Limited ("Exuberant Global") and 25 shares of HK$0.01 each to Bustling Capital Limited ("Bustling Capital"), respectively.

(2) On 23 May 2012, United Tone Investments Limited ("United Tone") was incorporated in the British Virgin Islands (the "BVI") with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. On 14 June 2012, 10 shares, 65 shares and 25 shares of United Tone were allotted and issued, credited as fully paid up, to Time Prestige, Exuberant Global and Bustling Capital, respectively.

(3) On 23 May 2012, Sunny Bridge Investment Limited ("Sunny Bridge") was incorporated in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. On 14 June 2012, 10 shares, 65 shares and 25 shares of Sunny Bridge were allotted and issued, credited as fully paid up, to Time Prestige, Exuberant Global and Bustling Capital, respectively.

(4) On 22 June 2012, Time Prestige, Exuberant Global and Bustling Capital transferred all their respective investments in the share capital in United Tone and Sunny Bridge to the Target Company.

(5) Fortune Front Investments Limited ("Fortune Front") was incorporated in Hong Kong on 28 December 2011. The authorised share capital of Fortune Front was HK$10,000 divided into 10,000 shares of HK$1 each, among which 100 shares were allotted and issued to United Tone on 14 June 2012.

(6) Century Epoch Holdings Limited ("Century Epoch") was incorporated in Hong Kong on 16 May 2012. The authorised share capital of Century Epoch was HK$10,000 divided into 10,000 shares of HK$1 each, among which 100 shares were allotted and issued to Sunny Bridge on 14 June 2012.

(7) On 28 September 2012, Beijing Wanchi Technology Company Limited ("Beijing Wanchi", 北京萬馳科技有限公司) was established as a wholly foreign-owned enterprise in the PRC with Century Epoch being its sole equity-holder. The registered capital of Beijing Wanchi on its date of establishment was HK$3 million.

(8) Pursuant to the Disposal Agreements ("Disposal Agreements") entered into with third parties entities, Taitai Department Store Co., Ltd ("Taitai") and Beijing Shuangjiang Car Rental Co., Ltd ("Beijing Shuangjiang") on 15 April 2012 and 2 July 2012, the Controlling Shareholders disposed of all their equity interest in Tianjin Jinfu and Harbin Jinfu respectively ("Excluded Operations"). According to the Disposal Agreements, it was agreed that all the rights and obligations in respect of the beneficial interests in Harbin Jinfu and Tianjin Jinfu have been transferred with effect from 31 July 2012 and 9 August 2012, respectively. Further details on the Excluded Operations are set out in Note 1.3.

(9) Pursuant to a series of contractual agreements signed on 23 December 2013 (the "Pawn-broker Contractual Agreements") between Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and their respective equity holders, with effect from 1 August 2013 Beijing Wanchi obtained the control of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi so as to derive benefits from their business activities. Accordingly, Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi became subsidiaries of Beijing Wanchi. Further details of the Pawn-broker Contractual Agreements are set out in Note 3.3 below.

(10) The Controlling Shareholders, who aggregately held 79% of the equity of Beijing Micro Credit, transferred the control of Beijing Micro Credit to Beijing Wanchi through a series of contractual agreements from 1 January 2013. Further details of the Business Contractual Agreements are set out in Note 3.3 below.

Upon completion of the Reorganisation, the Target Company became the holding company of the Target Group.

As at the date of this report, the Target Company has direct or indirect interests and controls obtained through the Business Contractual Agreements in the following subsidiaries:

Name of the subsidiary	Note	Country/place	Date of incorporation/ establishment	Registered capital	Paid-up capital	Type of legal entity	Equity interest held (%) Directly held	Indirectly held	Principal activities
United Tone	*(ii)*	BVI	23 May 2012	US$50,000	US$100	Limited Company	100%	–	Investment holding
Sunny Bridge	*(ii)*	BVI	23 May 2012	US$50,000	US$100	Limited Company	100%	–	Investment holding
Fortune Front	*(ii)*	Hong Kong	28 December 2011	HK$10,000	HK$100	Limited Company	–	100%	Investment holding
Century Epoch	*(ii)*	Hong Kong	16 May 2012	HK$10,000	HK$100	Limited Company	–	100%	Investment holding
Beijing Wanchi	*(i)*	PRC	28 September 2012	HK$3 million	HK$3 million	Limited Company	–	100%	Entrusted loans, Management and consulting
Beijing Jinfu	*(i)*	PRC	6 September 2002	RMB40 million	RMB40 million	Limited Company	–	(iii)	Pawn-Broker
Beijing Jinlu	*(i)*	PRC	30 November 2005	RMB15 million	RMB15 million	Limited Company	–	(iii)	Pawn-Broker
Beijing Jinshou	*(i)*	PRC	21 October 2005	RMB40 million	RMB40 million	Limited Company	–	(iii)	Pawn-Broker
Beijing Jinxi	*(i)*	PRC	19 April 2007	RMB15 million	RMB15 million	Limited Company	–	(iii)	Pawn-Broker
Beijing Micro Credit	*(i)*	PRC	16 December 2009	RMB50 million	RMB50 million	Limited Company	–	(iv)	Micro Credit Business

Note:

(i) Statutory financial statements of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi for the years ended 31 December 2011, 2012 and 2013 were audited by Beijing Hao Hai Dong Fang CPAs Company Limited (北京昊海東方會計師事務所有限責任公司).

Statutory financial statements of Beijing Micro Credit for the year ended 31 December 2010, 2011, 2012 and 2013 were audited by Beijing Heng Xin Cheng CPAs Company Limited (北京恒信誠會計師事務所有限責任公司).

Statutory financial statements of Beijing Wanchi for the year ended 31 December 2012 and 2013 were audited by Beijing Zhong Pu Hui CPAs Company Limited (北京中普惠會計師事務所有限責任公司).

(ii) No audited statutory financial statements were prepared for these subsidiaries as they were either not required to issue audited financial statements under the respective local statutory requirements or newly established that their first statutory audits were not yet required.

(iii) Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi were subsidiaries of Beijing Wanchi under the Pawn-broker Business Contractual Agreements as disclosed in Note 1.2 (9).

(iv) Beijing Micro Credit became a subsidiary of Beijing Wanchi following the effective of the Micro Credit Business Contractual Agreements as disclosed in Note 1.2 (10) on 1 January 2013. The financial positions, results of operations and cash flows of Beijing Micro Credit for the period from 1 January 2011 up to the effective date of the Micro Credit Contractual Agreements by the Controlling Shareholders were detailed in Note 29.

1.3 Basis of presentation

Prior to and after the completion of the Reorganisation, there were no changes in the management and operations of the Pawn-Broker Business which was and is continued to be controlled by the Controlling Shareholders. The Reorganisation involved primarily the incorporation of the Target Company and certain newly incorporated subsidiaries of the Target Group by the Controlling Shareholders and the establishment of the Pawn-broker Contractual Agreements between those companies operating the Pawn-Broker Business and such newly incorporated companies, all of which were not involved in any business before the Reorganisation. Therefore the Reorganisation is not accounted for as a business combination. The consolidated financial statements of the Target Company have been presented using the carrying amounts of the assets, liabilities and operating results of the Pawn-Broker Business conducted by the companies now comprising the Group for all periods presented.

The Financial Information includes the financial position, results and cash flows of the companies comprising the Target Group as if the current group structure had been in existence throughout the Relevant Periods or since the dates when the combining companies first came under the control of the Controlling Shareholders, whichever is a longer period.

Since inception, the Pawn-broker Business was managed together and conducted through Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi, Tianjin Jinfu and Harbin Jinfu. Upon the completion of the Reorganisation, the Target Group controls Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, and Beijing Jinxi ("Continuing Operations" or "Included Operations") through the Pawn-broker Contractual Agreements, while Tianjin Jinfu and Harbin Jinfu ("Discontinued Operations" or "Excluded Operations") were disposed of in 2012 as described in Note 1.2(8) above. Although the Excluded Operations had not been transferred to the Target Company during the Reorganisation, the Directors of the Target

Company consider that the Excluded Operations had historically formed part of the Pawn-broker Business which was managed together and under the common control of the Controlling Shareholders. Therefore the Financial Information has also reflected the assets, liabilities and operating results of the Excluded Operations up to the respective dates of disposal. Accordingly, the financial information of the Excluded Operations has been presented as discontinued operations, and the net amount of the assets and liabilities of the Excluded Operations has been accounted for as a distribution to the Controlling Shareholders on 31 July 2012 and 9 August 2012, respectively, when all the rights and obligations in respect of the beneficial interests in Harbin Jinfu and Tianjin Jinfu were transferred. Details of the assets, liabilities and operating results of the Excluded Operations are summarised in Note 25.

For the Micro Credit Business conducted by Beijing Micro Credit that was controlled by the Target Group during the Relevant Periods through the Micro Credit Contractual Agreements described in Note 1.2(10), its assets, liabilities and operating results are included in the Financial Information as part of the Included Operations from the effective date of the Micro Credit Contractual Agreements.

Inter-company transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Financial Information which is in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the HKICPA and consistent with the accounting policies of the Target Group are set out below. The Financial Information has been prepared under the historical cost convention.

The preparation of the Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 3.

The following new standards, amendments, interpretations and annual improvements that have been issued by the HKICPA are expected to be the most relevant to the Target Group. These pronouncements are not effective up to the date of issue of this report and have not been early adopted:

HKFRS 9	Financial Instruments
HKAS 32	Amendment to HKAS 32
HKAS 39	Amendments to HKAS 39
HK(IFRIC)	Levies
Various (Amendment)	Annual improvements 2012
Various (Amendment)	Annual improvements 2013

HKFRS 9, "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Target Group intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

Amendment to HKAS 32 "Financial instruments: Presentation" on asset and liability offsetting. These amendments are to the application guidance in HKAS 32, "Financial instruments: Presentation", and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Target Group anticipates that the adoption of the amendments will not have a significant impact on the Target Group's consolidated statements of financial position.

Amendments to HKAS 39 "Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting". These amendments provide relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria. The Target Group anticipates that the adoption of the amendments will not have a significant impact on the Target Group's consolidated statements of financial position.

HK(IFRIC) 21, "Levies", sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Target Group is not currently subjected to significant levies so the impact on the Target Group is not material.

Annual improvements 2012, these amendments include changes from the 2010-2012 cycle of the annual improvements project that affect 7 standards. The amendments are effective for annual periods beginning on or after 1 July 2014. Amendments to HKFRSs include the amendments to HKFRS 2 – Share-Based Payment, the amendments to HKFRS 3 – Business Combinations, the amendments to HKFRS 8 – Operating Segments, the amendments to HKFRS 13 – Fair Value Measurement, the amendments to HKAS 24 – Related Party Disclosures, the amendments to HKAS 16 – Property, Plant and Equipment, and the amendments to HKAS 38 – Intangible Assets. The Target Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated statements of financial position.

Annual improvements 2013 are those improvements to HKFRS 2011-2013 Cycle published. It comprises amendments that result in accounting changes for presentation and classification. For amendments that are effective for the financial year beginning from 1 January 2014, there is no material impact on the Target Group's accounting policies.

2.2 Subsidiaries

2.2.1 Consolidation

Structured entities: A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has restricted activities and a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity. Consequently, investment trusts, investment funds, asset-backed securities, and principal guaranteed and non-principal guaranteed wealth management products are considered as "structured entities".

A subsidiary is an entity (including a structured entity) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In addition, certain companies over which the Target Company has control through contractual arrangements are also treated as subsidiaries as described in Notes. 3.3.The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Target Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

(a) Business combinations

Except for those subsidiaries engaging in the Pawn-broker Business which are under the common control of the Controlling Shareholders pursuant to the Reorganisation as described in Notes 3.3, the Target Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The Target Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

(b) Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Target Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregated of the consideration transferred, the fair value of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(c) Disposal of subsidiaries

When the Target Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Target Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Recapitalisation

Recapitalisation is referred to those group reorganisations where there is no change in management and ultimate owners of the business and is not qualified as business combination under common control. The financial information is presented using the carrying values of the business of the Target Group for all periods presented. No amount is recognised in consideration for goodwill or excess of Target Groups' interest in the net fair value of the businesses' identifiable assets, liabilities and contingent liabilities over cost at the time of recapitalisation, to the extent of the continuation of the Target Group's interest.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Target Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Target Group has determined that the executive directors of the Target Company's Board as its chief operating decision maker.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Target Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the consolidated statements of comprehensive income.

2.5 Financial instrument

2.5.1 Financial assets

(a) Classification

The Target Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale investments. Management determines the classification of its investments at initial recognition.

The Target Group did not hold financial assets which were classified as "financial assets at fair value through profit or loss", "held-to-maturity investments" or "available-for-sale investments" during the Relevant Periods.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (ii) those that the entity upon initial recognition designates as available-for-sale; or (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

The Target Group's loans and receivables mainly comprise "loans to customers", "distressed loans purchased", "amount due from related parties", "loans from related parties", "other receivables" and "cash and cash equivalents" in the consolidated statements of financial position. Loans and receivables are classified as current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

(b) Recognition and measurement

Loans and receivables are initially recognised at fair value which the cash is given to originate the loans including any transaction costs, and measured subsequently at amortised cost using the effective interest method.

Interest on loans is included in the consolidated statements of comprehensive income and is reported as interest income. In the case of impairment, it is reported as a deduction from the carrying value of the loan and recognised separately in the consolidated statements of comprehensive income as impairment charge for credit losses.

2.5.2 *Impairment of financial assets*

The Target Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Target Group uses to determine that there is objective evidence of an impairment loss include:

– Delinquency in contractual payments of principal or interest;

– Cash flow difficulties experienced by the borrower;

– Breach of loan covenants or conditions;

– Initiation of bankruptcy proceedings;

– Deterioration of the borrower's competitive position;

– Deterioration in the value of collateral; and

– Filing of a lawsuit against the borrower.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 1 month and 6 months; in exceptional cases, longer periods are warranted.

The Target Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Target Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss relating to distressed loans is measured based on value of the underlying collateral. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statements of comprehensive income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of collateral, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Target Group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in property prices, payment status, or other factors indicative of changes in the probability of losses in the Target Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Target Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's collateral value), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statements of comprehensive income.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed as such only if it has to be further renegotiated again.

2.5.3 Financial liabilities

The Target Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss ("FVTPL") and other financial liabilities, carried at amortized cost.

Financial liabilities at FVTPL

Financial liabilities at FVTPL have two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

The criteria for a financial liability to be classified as held for trading or designated at FVTPL are the same as those for a financial asset to be classified as held for trading or designated at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with changes in fair value arising on re-measurement recognised directly in the consolidated income statement in the period in which they arise. The net gain or loss recognised in the consolidated statement of comprehensive income excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities are measured at amortized cost, using the effective interest method.

The Target Group's other financial liabilities mainly comprise "bank borrowings" and "amount due to related parties" in the consolidated statements of financial position. Other financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Bank borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.5.4 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired, or when the Target Group has transferred substantially all risks and rewards of ownership, or when the Target Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in equity through other comprehensive income is recognised in the comprehensive income statement.

Financial liabilities are de-recognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability de-recognised and the consideration paid is recognised in the comprehensive income statement.

2.5.5 Off-setting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.6 Property, plant and equipment

Land and buildings comprise mainly offices. All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The annualized depreciation ratios are as follows:

Furniture	19.00%
Vehicles	23.75%
Office equipment	31.67%
Land use rights and building	4.75%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "other gains, net" in the consolidated statements of comprehensive income.

2.7 Repossessed assets

Repossessed collateral assets are accounted for as "current assets held for sale" and reported under "other assets" upon derecognition of relevant loans. The repossessed collateral assets are measured at lower of carrying amount and fair value less costs to sell.

2.8 Impairment of non-financial assets

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

2.9 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

2.10 Employee benefits

(a) Pension obligations

The PRC employees of the Target Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Target Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Target Group has no obligation for post-retirement benefits beyond the contribution made.

Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not refundable to the Target Group even if the employee leaves the Target Group.

(b) Other social security obligations

The PRC employees of the Target Group are entitled to participate in various government-sponsored social security funds, including medical, housing and other welfare benefits. The Target Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries and the contributions are recognised in the consolidated statements of comprehensive income for the period when employees have rendered service entitling them to the contribution. The Target Group's liabilities in respect of these funds are limited to the contributions payable in the reporting period.

2.11 Provisions and contingent liabilities

Provisions are recognised when: the Target Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Target Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.12 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of statement of financial position in the countries where the Target Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.13 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the consolidated statements of comprehensive income using the effective interest method, including interest income, interest expenses, administration fee income and other service fee income.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Target Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.14 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.15 Fee and commission income

The Target Group earns fee and commission income from a series of services, mainly relating to financial and advisory consulting services, to its customers. For those services that are provided over a period of time, fee and commission income is accrued over that period as the services are provided. For other services, fee and commission income are recognised at the time the services are completed.

2.16 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the Target Group complies with all attached conditions and the grant will be received. Government grants are recorded in "Other gains" in the profit or loss.

2.17 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.18 Dividend distribution

Dividend distribution to the Target Company's shareholders is recognised as a liability in the Target Group's financial statements in the period in which the dividends are approved by the Target Company's shareholders.

Before the Reorganisation, dividend distributed to Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi's shareholders is recognised as a liability in the their respective financial statements in the period in which the dividends are approved by the their respective shareholders.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Target Group's Financial Information and its financial result are influenced by accounting policies, assumptions, estimates and management judgment which necessarily have to be made in the course of preparation of the Financial Information.

The Target Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Accounting policies and management's judgments for certain items are especially critical for the Target Group's results and financial situation due to their materiality in amount. Areas susceptible to changes in essential estimates and judgments, which affect the carrying amount of assets and liabilities, are set out below. The effect of changes to either the key assumptions or other uncertainties will be presented below if it is practicable to determine. It is possible that actual results may require material adjustments to the estimates referred to below.

3.1 Impairment allowances on loans to customers and receivables

The Target Group reviews its loan and receivable portfolios including distressed loans to assess impairment periodically.

In determining whether an impairment loss should be recorded in the profit or loss, the Target Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. decline in collateral value or payment delinquency or default), or local economic conditions that correlate with defaults on assets in the Target Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Target Group's impairment allowance relies on the collateral valuation and management judgment on the marketability of the pawned and collateral properties and micro credit customers' capability of payment at the estimated valuation and the actual valuation may differ from the estimation.

3.2 Income taxes and value added tax

The Target Group is subject to corporate income tax and other turnover taxes in the PRC. Significant judgment is required in determining the provision for income tax and other turnover taxes, including those tax positions, which may arise from the Business Contractual Agreements. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

3.3 Determination of the controlled subsidiaries by the Target Group

When preparing the consolidated Financial Information, the Target Group applied HKFRS 10 'Consolidated Financial Statements' to determine whether the Target Group has "control" over those entities considered to be subsidiaries. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Key factors used in determining control and whether the entities are subsidiaries include whether the Target Group has power over the entities either through voting rights or contractual agreements and whether it has the rights to obtain the majority of benefits or is exposed to the majority of ownership risks.

When the above factors are met the directors of the Target Group determine that it has control over the entities and include them as subsidiaries in its consolidated Financial Information. For those entities, where the Target Group holds no equity interest but are subject to the Business Contractual Agreements as described, significant judgments are necessary as to whether these contracts give the Target Group the ability to exercise control over these entities, including consideration of the PRC legal and regulatory requirements, foreign exchange control, or other influences, such as, force majeure etc. After taking these considerations into account, in the judgment of the directors of the Target Group, the Business Contractual Agreements give it the power to control these entities.

The wholly owned subsidiary, Beijing Wanchi, has entered a series of Business Contractual Agreements with Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi, Beijing Micro Credit and respective other equity holders, which enables the Target Company to:

– exercise effective financial and operational control over Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro Credit;

– exercise the entire equity holders' voting rights of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi, and 79% equity holders' voting rights of Beijing Micro Credit during the general meetings of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro Credit respectively;

– receive and be exposed to substantially all of the economic interest returns generated by Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi, and 79% of the economic benefits and risks of ownership of Beijing Micro Credit through service fees in consideration for the management and consulting services provided by Beijing Wanchi at Beijing Wanchi's discretion;

– have an irrevocable option to purchase the entire equity interest in Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi, the 79% equity interest in Beijing Micro Credit when and to the extent permitted under PRC laws; and

– obtain pledges over the entire equity interest of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi, the 79% equity interest of Beijing Micro Credit from their respective equity holders.

The Target Group does not have any equity interest in Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro Credit. However, as a result of the Business Contractual Agreements, the Target Group has rights to variable returns from its involvement with Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro Credit and has the ability to affect these returns through its power over Beijing Jinfu, and Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro Credit and is considered to control Beijing Jinfu, and Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro Credit. Consequently, the Target Company regards Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro Credit as indirect subsidiaries under HKFRS.

Nevertheless, the Business Contractual Agreements may not be as effective as direct legal ownership in providing the Target Group with direct control over the consolidated entities and business, and uncertainties presented by the PRC legal system could impede the Target Group's beneficiary rights of the results, assets and liabilities of the consolidated entities and business. The Target Group believes that the Business Contractual Arrangements are in compliance with relevant PRC laws and regulations and are legally binding and enforceable.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Target Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Target Group's financial performance.

The Target Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits. The Target Group regularly reviews its risk management policies and procedures to reflect changes in markets and products.

The Board of Directors is responsible for establishing the overall risk appetite of the Target Group and reviewing and approving the risk management objectives and strategies. Within this framework, the Target Group's senior management has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Department, the Financial Management Department and other relevant functional units are responsible for monitoring financial risks.

The types of risk which the Target Group exposes to are credit risk, liquidity risk and market risk. Market risk primarily includes interest rate risk.

4.1.1 Credit risk

The Target Group takes on exposure to credit risk, which is the risk that the counterparty will cause a financial loss for the Target Group by failing to discharge on obligation. Credit risk is one of the most significant risks for the Target Group's business.

Significant changes in the economy, or in the health of real estate, automobiles and equipment and personal properties industry segment that represents a concentration in the Target Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. Credit risk exposures arise principally in lending activities.

Monitoring and measurement of credit risk over loans and advances are performed by the Risk Management Department and reported to the senior management and the Board of Directors regularly.

(a) Credit risk mitigation policies

Pawn-broker business

The Target Group employs a range of policies and practices to mitigate credit risk. For pawnshop services, the most traditional of these is the taking of specific classes of collateral from customers. The principal collateral types for pawn loans to customers are:

– Real estate, including land use rights, residential and commercial properties;

– Automobiles and equipment;

– Equity interest;

– Personal properties and inventories, including but not limited to precious metal and jewelry.

Collateral

The Target Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Risk Management Department and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Risk Management Department. The principal collateral types for loans and advances are:

	Maximum loan-to-value ratio
Precious metals (gold, platinum)	Not applicable
Automobiles, equipment and inventories	70%–85%
Real estate (include land use rights)	50%–70%
Equity interest	30%–50%

Collateral are initially assessed by business department and are then independently evaluated by Risk Management Department. The Target Group puts in place procedures to validate the authenticity of the legal title documents of the collateral assets pledged in particular for real estate properties. The Target Group has also experienced specialists to assess precious metal and jewellery. Evaluation of collateral is normally conducted with reference to market prices and the condition of the collateral itself. Evaluations from a registered independent professional appraiser may be requested for collaterals that are more difficult to value internally.

The Target Group implements safe custody measures on the collateral pledged and these collaterals are stored in a security vault at the relevant chain outlets or branches under the business department. Alarm systems are installed connecting directly to police stations at each of the pawn and micro credit-broking chain outlets.

Micro credit business

For its Micro Credit Business, the Credit Approval Committee reviews the credit assessment of the customer's repayment ability and willingness, financial and operating conditions by the Business Department and approves the granting of loan facilities to the corporate and personal customers. The credit assessment and evaluation conducted by the Business Department involves the collection and evaluation of the applicants' credit standing and financial information, coupled with other means of investigations which include quantitative and qualitative analysis of the borrowers' financial conditions and operational activities and the guarantors where applicable primarily through on-site investigation.

The Target Group manages credit risks of its existing loan portfolio on an individual basis through a team of designated customer officers within the Business Department who conduct post monitoring measures including the monitoring of loan repayment status and the latest developments and changes in the borrowers' business and financial conditions during the loan period so as to early detect indication of default risk of the borrowers and report to Credit Approval Committee for any risk mitigation measures where appropriate.

The Target Group employs a range of policies and methods to mitigate credit risk, including primarily, taking collateral, which may include land use rights and building and obtaining guarantee from companies or individuals/shareholders of the corporate borrowers for its Micro Credit Business.

(b) *Impairment and provisioning policies*

Impairment provisions are recognised for financial reporting purposes only for losses that have incurred at the date of statement of financial position based on objective evidence of impairment.

The impairment provision shown in the consolidated statements of financial position at each year end is derived from each of the four loan categories by collateral type and other secured type. The majority of the impairment provision arises from real estate, automobiles and equipment, and equity interest backed loans. The table below shows the Target Group's gross amount of loans to customers and the associated impairment allowances for each of the four loan categories by collateral type and other secured types:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Loans to customers, gross			
Collateral loans			
– Real estate backed loans	247,992	84,388	127,060
– Equity interest backed loans (a)	–	39,858	46,020
– Automobiles and equipment backed loans	16,879	16,596	18,927
– Personal property and inventories backed loans	4,598	21,378	1,123
Guaranteed and unsecured loans	–	–	64,326
	269,469	162,220	257,456
Less: Impairment allowances			
Collateral loans			
– Real estate backed loans	(7,258)	(6,452)	(1,681)
– Equity interest backed loans	–	(397)	(457)
– Automobiles and equipment backed loans	(3,170)	(3,145)	(345)
– Personal property and inventories backed loans	(46)	(212)	(11)
Guaranteed and unsecured loans	–	–	(1,750)
	(10,474)	(10,206)	(4,244)
	258,995	152,014	253,212

(a) As at 31 December 2011, the Target Group had equity backed loans amounting to RMB17.5 million. These loans were loans to a related party classified under "Amount due from related parties" (Note 30(c)).

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Included Operations			
Loans to customers, gross			
Collateral loans			
– Real estate backed loans	213,040	84,388	127,060
– Equity interest backed loans	–	39,858	46,020
– Automobiles and equipment backed loans	16,089	16,596	18,927
– Personal property and inventories backed loans	1,911	21,378	1,123
Guaranteed and unsecured loans	–	–	64,326
	231,040	162,220	257,456
Less: Impairment allowances			
Collateral loans			
– Real estate backed loans	(6,910)	(6,452)	(1,681)
– Equity interest backed loans	–	(397)	(457)
– Automobiles and equipment backed loans	(3,162)	(3,145)	(345)
– Personal property and inventories backed loans	(19)	(212)	(11)
Guaranteed and unsecured loans	–	–	(1,750)
	(10,091)	(10,206)	(4,244)
	220,949	152,014	253,212
Excluded Operations			
Loans to customers, net of impairment allowances	38,046	–	–
	258,995	152,014	253,212

Management determines whether objective evidence of impairment exists, based on the criteria set out by the Target Group in Note 2.5.

The Target Group's credit risk management policies require the review of individual outstanding loans at least semi-annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at date of the statement of financial position on a case-by-case basis. The assessment normally encompasses collateral held and the anticipated receipts for that individual account, taking into account the customer's financial standing, current ability to pay, quality and value of collateral, past experience, the financial standing of the third party guarantor, and information specific to the customer as well as pertaining to the economic environment in which the customer operates. Personal property backed pawn loans are not individually significant so as to warrant an individual assessment.

Collectively assessed impairment allowances are provided for: (i) portfolios of outstanding loans that have been individually assessed with no objective evidence of impairment by homogenous collateral type; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

Please refer to Note 19 for individually assessed and collectively assessed impairment allowances arising from loans and advances.

(c) *Maximum exposure to credit risk before collateral held or other credit enhancements*

The carrying amount of demand deposit with banks, loans to customers, amount due from related parties and other receivables best represent the maximum exposure to credit risk.

As at 31 December 2011, 2012 and 2013, 79.90%, 70.57% and 87.60% of the Target Group's total maximum credit exposure is derived from loans and advances to customers.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Target Group resulting from its loan portfolio. The Target Group's bank balances are mainly deposited with major financial institutions in the PRC, which management believes are of high credit quality. The Target Group considers the risk associated with the bank balances held at major financial institutions is manageable.

(d) *Loans to customers*

Loans to customers are summarised as follows:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	232,815	128,730	231,821
Past due but not impaired	26,524	18,610	20,431
Impaired	10,130	14,880	5,204
Gross	269,469	162,220	257,456
Less: Impairment allowances *(Note 19(a))*	(10,474)	(10,206)	(4,244)
Net	258,995	152,014	253,212
Included Operations			
Neither past due nor impaired	202,327	128,730	231,821
Past due but not impaired	18,583	18,610	20,431
Impaired	10,130	14,880	5,204
Gross	231,040	162,220	257,456
Less: Impairment allowances *(Note 19(a))*	(10,091)	(10,206)	(4,244)
Net	220,949	152,014	253,212

(i) Loans to customers neither past due nor impaired

Loans to customers that are neither past due nor impaired related to a wide range of customers. Collectively assessed impairment allowances are provided on loans and advances neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified.

(ii) Loans to customers past due but not impaired

Loans that are past due but not impaired relate to the customers which have good borrowing records with the Target Group. The directors believe that no specific impairment occurred in respect of these balances either because the loans are fully secured by real estate, automobiles and equipment collateral with a reasonably ascertainable market value, or in the case of personal property and inventories backed pawn loans, there has not been a significant change in the customers' credit or collateral quality and the balances are considered fully recoverable. Gross amount of loans to customers that were past due but not impaired are analysed by aging as follows:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Real estate backed loans, gross			
– Past due up to 1 month	15,050	8,157	7,139
– Past due 1–3 months	–	4,960	4,574
– Past due 4–6 months	4,380	–	–
– Past due over 6 months	6,424	–	704
	25,854	13,117	12,417
Automobiles and equipment backed loans, gross			
– Past due up to 1 month	665	15	6,000
– Past due 1–3 months	–	150	–
– Past due 4–6 months	–	5,248	–
– Past due over 6 months	–	–	–
	665	5,413	6,000
Equity interest backed loans, gross			
– Past due 1-3 months	–	–	1,873
	–	–	1,873

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Personal property and inventories backed loans, gross			
– Past due up to 1 month	5	80	74
– Past due 1–3 months	–	–	–
– Past due 4–6 months	–	–	15
– Past due over 6 months	–	–	–
	5	80	89
Guaranteed and unsecured loans, gross			
– Past due up to 1 month	–	–	–
– Past due 1–3 months	–	–	52
	–	–	52
Past due but not impaired	26,524	18,610	20,431

	As at 31 December		
	2011	2012	2013
Included Operations	*RMB'000*	*RMB'000*	*RMB'000*
Real estate backed loans, gross			
– Past due up to 1 month	11,959	8,157	7,139
– Past due 1–3 months	–	4,960	4,574
– Past due 4–6 months	3,700	–	–
– Past due over 6 months	2,924	–	704
	18,583	13,117	12,417
Automobiles and equipment backed loans, gross			
– Past due up to 1 month	–	15	6,000
– Past due 1–3 months	–	150	–
– Past due 4–6 months	–	5,248	–
– Past due over 6 months	–	–	–
	–	5,413	6,000
Equity interest backed loans, gross			
– Past due 1-3 months	–	–	1,873
	–	–	1,873

	As at 31 December		
	2011	2012	2013
Included Operations	*RMB'000*	*RMB'000*	*RMB'000*
Personal property and inventories backed loans, gross			
– Past due up to 1 month	–	80	74
– Past due 1–3 months	–	–	–
– Past due 4–6 months	–	–	15
– Past due over 6 months	–	–	–
	–	80	89
Guaranteed and unsecured loans, gross			
– Past due up to 1 month	–	–	–
– Past due 1–3 months	–	–	52
	–	–	52
Past due but not impaired	18,583	18,610	20,431

Collateral accepted by the Target Group for its past due but not impaired real estate backed loans are analyzed as below:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Real estate backed loans			
– Fair value of collateral	57,305	23,797	36,556
	57,305	23,797	36,556

Upon initial recognition of loans to customers, the fair value of real estate collateral is based on valuation techniques commonly used for the corresponding assets. The fair value is not updated by reference to market price of similar assets in subsequent periods, as maturity dates of loans to customers are all within six months, which is considered a relatively short period.

(iii) Loans to customers individually impaired

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Gross individually impaired loans	10,130	14,880	5,204
As a percentage of total gross loans %	3.76	9.17	2.02
Impairment allowance made in respective of such loans	7,450	8,732	1,175

Individually impaired loans related to real estate, automobiles and equipment backed loans for the Relevant Periods.

(e) Loans to collateral value

	31 December 2011		
	Balance of loan	**Fair value of collateral**	**Loans to value ratio**
Included Operations	*RMB'000*	*RMB'000*	*%*
Real estate backed loans	213,040	559,365	60.58
	213,040	559,365	60.58
Excluded Operations			
Real estate backed loans	34,952	91,949	46.65
	34,952	91,949	46.65

	31 December 2012		
	Balance of loan	**Fair value of collateral**	**Loans to value ratio**
Included Operations	*RMB'000*	*RMB'000*	*%*
Real estate backed loans	84,388	221,741	49.91
	84,388	221,741	49.91

	31 December 2013		
	Balance of loan	**Fair value of collateral**	**Loans to value ratio**
Included Operations	*RMB'000*	*RMB'000*	*%*
Real estate backed loans	127,060	443,442	40.16
	127,060	443,442	40.16

(f) *Loans and advances renegotiated*

Renegotiation refers to the amendment on the original terms of the pawn tickets. Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or an exemption from payments or partial reduction of interest rates.

As at 31 December 2011, 2012 and 2013, loans and advances amounting to RMB9.64 million, RMBnil and RMBnil were renegotiated for partial exemption or reduction of interest. After assessing the recoverable amount from the collateral, no specific impairment is provided by the Target Group.

(g) *Concentration of risks of financial assets with credit risk exposure*

Geographical sectors

During the Relevant Periods, all the counterparties of the financial assets with credit risk exposure were mainly located in Beijing, PRC.

Concentration to largest customers

The customer base of the Included Operations is diversified and no customer individually has transactions that exceeded 10% of the Target Group's revenue for each of the years ended 31 December 2011, 2012 and 2013.

Loans receivable of the Included Operations from the top five customers accounted for 19.18%, 47.56%, and 25.73% of the total loans to customers as at 31 December 2011, 2012 and 2013, respectively.

The following table sets forth an analysis of the top five customers with the largest outstanding balance as at 31 December 2011, 2012 and 2013.

Included Operations	**Loans to customers as at 31 December 2011**	
	Amount	**% of gross loans to customers**
	RMB'000	%
Customer A	10,000	4.33
Customer B	9,500	4.11
Customer C	9,000	3.90
Customer D	8,300	3.59
Customer E	7,500	3.25
	44,300	19.18

	Loans to customers as at 31 December 2012	
	Amount	% of gross loans to customers
	RMB'000	*%*
Customer A	20,000	12.33
Customer B	20,000	12.33
Customer C	20,000	12.33
Customer D	10,900	6.72
Customer E	6,248	3.85
	77,148	47.56

	Loans to customers as at 31 December 2013	
	Amount	% of gross loans to customers
	RMB'000	*%*
Customer A	20,000	7.77
Customer B	20,000	7.77
Customer C	10,000	3.88
Customer D	10,000	3.88
Customer E	6,260	2.43
	66,260	25.73

The customers referred above may be different individuals or corporate entities as at 31 December 2011, 2012 and 2013.

4.1.2 Market risk

The Target Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates. The Target Group's exposure to market risk is primarily attributable to interest rate risk arising from loans to customers, bank balances and bank borrowings.

The Board of Directors of the Target Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Target Group's business objectives.

The Financial Management Department is responsible for the identification, measurement, monitoring, controlling and reporting of market risks.

(a) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Target Group takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The most significant interest-bearing assets and liabilities are loans to customers, bank borrowings and borrowings from related parties, which mostly bear fixed interest rates to generate cash flows independent from market interest rates. Interest rate is negotiated before loan disbursement. As at respective dates of statement of financial position, the remaining period to the contractual maturity dates of loans to customers are mainly within 6 month and all within 12 months, whilst maturity dates of bank borrowings are within 12 months.

Demand deposit with banks, balances due from or due to related parties at variable rate exposed the Target Group to cash flow interest rate risk.

The Target Group reviews the impact on profit or loss of a possible interest rate shift on its portfolio of loans to customers, bank borrowings and interest bearing bank deposits and related party balances.

Based on the simulations performed and with other variables held constant, the profit after income tax and equity of the continuing operations arising from interest-bearing financial liabilities for the years ended 31 December 2011, 2012 and 2013 would decrease/increase by approximately RMB734 thousand, RMB388 thousand, RMB591 thousand respectively should the interest rate increase/decrease by 0.25%. Interest rates on interest-bearing financial assets, primarily loans to customers, are not primarily affected by the changes in the benchmark rate in the market. Instead, they are much more influenced by demand and supply as well as bilateral negotiation.

4.1.3 Liquidity risk

Liquidity risk is the risk that the Target Group is unable to meet its obligations when they fall due as a result of cash requirements from contractual commitments. Such outflows would deplete available cash resources for customer lending. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets.

The Target Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors forecasts of the Target Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flow. The Target Group expected to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Target Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the date of statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The Target Group

	On demand or within 1 month	1–3 months	3–6 months	6–12 months	After 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2011						
Loans to customers	258,682	10,865	–	–	–	269,547
Cash and cash equivalents	40,944	–	–	–	–	40,944
Amount due from related parties	17,533	5,819	–	–	–	23,352
Other assets	15	3	1,004	2	367	1,391
Total financial assets	317,174	16,687	1,004	2	367	335,234
Bank borrowings	–	(11,324)	(21,190)	(40,226)	–	(72,740)
Amount due to related parties	(3,576)	(697)	–	–	–	(4,273)
Other liabilities	(384)	(70)	(126)	(206)	–	(786)
Total financial liabilities	(3,960)	(12,091)	(21,316)	(40,432)	–	(77,799)
Net liquidity gap	313,214	4,596	(20,312)	(40,430)	367	257,435

	On demand or within 1 month	1–3 months	3–6 months	6–12 months	After 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2012						
Loans to customers	109,675	16,931	40,997	–	–	167,603
Cash and cash equivalents	63,610	–	–	–	–	63,610
Amount due from related parties	1	2	–	–	–	3
Other assets	–	–	–	–	159	159
Total financial assets	173,286	16,933	40,997	–	159	231,375
Bank borrowings	–	–	–	–	–	–
Amount due to related parties	(9,598)	–	–	–	–	(9,598)
Other liabilities	(351)	–	–	(214)	–	(565)
Total financial liabilities	(9,949)	–	–	(214)	–	(10,163)
Net liquidity gap	163,337	16,933	40,997	(214)	159	221,212

	On demand or within 1 month	1–3 months	3–6 months	6–12 months	After 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2013						
Loans to customers	171,487	40,410	35,150	19,829	–	266,876
Cash and cash equivalents	30,933	–	–	–	–	30,933
Amount due from related parties	81	–	–	2,502	–	2,583
Other assets	2	–	982	99	154	1,237
Total financial assets	202,503	40,410	36,132	22,430	154	301,629
Bank borrowings	(45)	(404)	(1,591)	(20,053)	–	(22,093)
Amount due to related parties	(3,985)	–	(2,814)	–	–	(6,799)
Other liabilities	(107)	(2)	(616)	–	–	(725)
Total financial liabilities	(4,137)	(406)	(5,021)	(20,053)	–	(29,617)
Net liquidity gap	198,366	40,004	31,111	2,377	154	272,012

Sources of liquidity are regularly reviewed by the Financial Management Department to ensure the availability of sufficient liquid funds to meet all obligations. The Target Group relies heavily on its Controlling Shareholders to provide funding support in its businesses.

4.2 Fair value of financial assets and liabilities

The Target Group's financial assets and liabilities are categorised as "loans and receivables" and "other financial liabilities" respectively, which are stated at amortised cost. As the Target Group's financial assets and liabilities mature within one year, the carrying amounts approximate to their fair value at each date of statement of financial position.

4.3 Capital risk management

In managing the Target Group's capital risk, management considers capital to include paid up capital from equity holders, reserves and retained earnings. The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain a strong capital base to support the development of its business and to support the Target Group's stability and growth.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Target Group significantly relies on sources of funds from its shareholders to carry out Pawn and micro credit-broker Business and meet obligations arising from its day to day operations.

5 SEGMENT INFORMATION

Following the management approach of HKFRS 8, operating segments are reported in accordance with the internal reporting provided to the Target Group's executive directors (the chief operating decision-maker) which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Target Group meet the definition of a reportable segment under HKFRS 8.

The principal business activity of the Target Group is to grant pawn and micro credit loans secured by collateral or guarantee to customers, provide financial consultancy and other intermediary services, mainly small and medium sized enterprises and individuals in Beijing.

Included Operations	**Year ended 31 December 2011**	**As at 31 December 2011**	
	Revenue	**Total assets**	**Loans and advances, net**
Included Operations			
Pawn-broker business	81,177	280,084	220,950
Micro-credit business	–	–	–
Entrusted Loans	–	–	–
Financial consultancy business	–	–	Not applicable
Excluded Operations	10,498	50,849	38,045

	Year ended 31 December 2012	As at 31 December 2012	
	Revenue	Total assets	Loans and advances, net
Included Operations			
Pawn-broker business	67,081	214,639	150,034
Micro-credit business	–	–	–
Entrusted Loans	29	2,269*	1,980
Financial consultancy business	1,469	Not applicable	Not applicable
Excluded Operations	5,113	–	–

	Year ended 31 December 2013	As at 31 December 2013	
	Revenue	Total assets	Loans and advances, net
Included Operations			
Pawn-broker business	42,659	191,325	160,966
Micro-credit business	11,046	89,721	86,306
Entrusted Loans	172	13,209*	5,940
Financial consultancy business	11,088	Not applicable	Not applicable
Excluded Operations	–	–	–

* This relates to the total assets of the operating entities engaging in both the entrusted loans business and financial consultancy business.

Interest income from the top five customers of the Included Operations accounted for 24.41%, 29.45% and 30.63% of total interest income for the years ended 31 December 2011, 2012 and 2013, respectively.

The following tables set forth an analysis of the top five customers with the largest revenue for the years ended 2011, 2012 and 2013.

Included Operations

	Interest income and financial consultancy income for the year ended 31 December 2011	
	Amount	% of total revenue
	RMB'000	*%*
Customer F	4,718	5.79
Customer G	4,542	5.57
Customer H	3,869	4.75
Customer I	3,500	4.30
Customer J	3,262	4.00
	19,891	24.41

	Interest income and financial consultancy income for the year ended 31 December 2012	
	Amount	**% of total revenue**
	RMB'000	*%*
Customer F	8,491	12.32
Customer G	4,713	6.84
Customer H	2,864	4.16
Customer I	2,373	3.44
Customer J	1,854	2.69
	20,295	29.45

	Interest income and financial consultancy income for the year ended 31 December 2013	
	Amount	**% of total revenue**
	RMB'000	*%*
Customer F	5,575	8.48
Customer G	5,575	8.48
Customer H	3,198	4.87
Customer I	3,024	4.60
Customer J	2,762	4.20
	20,134	30.63

The customers referred above may be different individuals or entities for the year ended as at 31 December 2011, 2012 and 2013 and these customers may overlap with those individuals or entities that are disclosed in Note 4.1.1 (g) Concentration to largest customers.

6 INTEREST INCOME

	Year ended 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Real estate backed loans			
– Interest and fee income	74,764	62,604	25,976
– Late payment charge	2,750	133	192
	77,514	62,737	26,168
Equity interest backed loans			
– Interest and fee income	–	816	13,243
– Late payment charge	–	–	–
	–	816	13,243
Automobiles and equipment backed loans			
– Interest and fee income	2,752	2,570	3,538
– Late payment charge	42	42	24
	2,794	2,612	3,562
Personal property and inventories backed loans			
– Interest and fee income	859	925	2,717
– Late payment charge	10	20	35
	869	945	2,752
Guaranteed and unsecured loans			
– Interest and fee income	–	–	8,151
– Late payment charge	–	–	1
	–	–	8,152
Others			
– Interest income from bank deposits	77	161	399
– Interest income from a related party *(Note 30(b))*	89	75	–
	166	236	399
	81,343	67,346	54,276

7 INTEREST EXPENSE

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Interest expense on bank borrowings	6,010	4,285	371
Interest expense to a related party *(Note 30(b)(ii))*	2,565	–	–
	8,575	4,285	371

8 FINANCIAL CONSULTANCY INCOME, OTHER OPERATING INCOME, NET AND OTHER GAINS, NET

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Financial consultancy income (a)	–	1,469	11,088
Other operating income, net			
Investment income – net realized gains from disposal of distressed loans (b)	–	–	291
Proceeds from disposal of repossessed assets	964	943	1,013
Less: cost of repossessed assets disposed	(818)	(857)	(961)
	146	86	343
Other gains, net			
Government subsidies	148	192	867
Other gains/(loss), net	(3)	26	343
	145	218	1,210

(a) During the year ended 31 December 2013, the financial consultancy fee income included a fee of RMB3,155,000 relating to refinancing advisory services rendered to a third party corporate customer where the funds ultimately provided to this customer came from a related party of the Target Group, ZJF Investment Company ("ZJF Investment")中金福(北京)投資管理有限公司.

(b) In July 2013, Beijing Wanchi purchased a series of distressed loans collateralized by residential properties, in aggregate, amounting to RMB1,900,000 from a related party, Shenyang Zhongjinfu Micro Credit Company Limited ("Shenyang Micro Credit"), 沈陽中金福小額貸款有限公司. In December 2013, Beijing Wanchi disposed of the underlying collaterals relating to a portion of these loans with a principal amount of RMB900,000 and recognised a gain of RMB290,896.

9 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Employee benefit expenses *(Note 10)*	4,009	4,682	6,835
Business taxes, value added tax and related surcharges *(Note 11)*	4,464	3,708	3,727
Operating lease	2,428	1,818	2,523
Advertising costs	1,820	1,238	1,091
Telephone, utilities and office expenses	680	656	860
Transportations, meals and accommodations	850	624	521
Marketing and consultancy fee	276	371	367
Depreciation *(Note 16)* and amortization	297	373	247
Auditors' remuneration	133	18	92
Related parties consultancy, service and management fee *(Note 30(b)(i))*	6,650	5,860	–
Other expenses	165	263	378
	21,772	19,611	16,641

10 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Salary, bonus, subsidy and welfare	3,386	3,961	5,791
Pension	300	345	422
Other social security employee education fee and others	323	376	622
	4,009	4,682	6,835

11 BUSINESS TAXES、VALUE ADDED TAX AND RELATED SURCHARGES

The PRC companies now comprising the Target Group, are mainly subject to the following business tax, value added tax and related surcharges on their revenues:

Category	**Tax rate**	**Tax basis**
Business tax	5%	Taxable revenue
Value added tax		
– Beijing Wanchi	3%	Taxable revenue
Urban construction and maintenance taxes		
– Beijing Jinfu, Beijing Jinshou, Beijing Jinxi, Harbin Jinfu, Tianjin Jinfu, Beijing Wanchi	7%	Business tax and value added tax
– Beijing Jinlu, Beijing Micro Credit	5%	Business tax and value added tax
Education surcharges	3%	Business tax and value added tax
Local education surcharges		
– Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi, Beijing Wanchi, Beijing Micro Credit	2%	Business tax and value added tax

12 DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The executive and non-executive directors did not receive any remuneration for each of the years ended 31 December 2011 and 2012 from the Target Group. The remuneration was paid by ZJF Investment and other related parties of the Target Group (Note 30 (b) (iii)).

The remuneration paid to the two executive directors for the year ended 31 December 2013 is as follows:

	Salary, bonus, subsidy and welfare	Pension	Other social security, employee education fee and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2013				
Executive directors				
Zhang Wei (張偉)	314	8	25	347
Li Wei (李巍)	312	8	25	345
Non-executive directors				
Jin Yu (靳宇) (i)	–	–	–	–
	626	16	50	692

(i) The remuneration of these directors was not paid by and will not be charged back to the Target Group (Note 30 (b) (iv)).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Target Group for the year ended 31 December 2013 (2011 and 2012: none) include 2 directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2011 and 2012: five) individuals during the year are as follows:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Salary, bonus, subsidy and welfare	649	719	694
Pension	34	38	17
Other social security, employee education fee and others	27	40	33
	710	797	744

The emoluments fell within the following bands:

	Year ended 31 December		
	2011	**2012**	**2013**
Emoluments bands			
Nil – HK$1,000,000	5	5	3

For each of the years ended 31 December 2011 and 2012 and 2013, no emoluments were paid by the Target Group to the five highest paid individuals as an inducement to join or upon joining the Target Group or compensation for loss of office.

13 INCOME TAX EXPENSE

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Current income tax	12,782	11,520	12,153
Deferred income tax	(816)	(28)	1,709
	11,966	11,492	13,862

The difference between the actual income tax charge in the consolidated statements of comprehensive income and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	48,026	45,108	56,940
Tax calculated at statutory tax rates	12,007	11,277	14,235
Tax effect of:			
Items not deductible or subject to taxation	(41)	215	(373)
Tax charge	11,966	11,492	13,862

The Target Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

Enterprises incorporated in the British Virgin Islands are not subject to any income tax according to relevant rules and regulations.

No Hong Kong profits tax has been provided, as the Target Group has no taxable profit earned or derived in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% for the Relevant Periods.

According to the Enterprise Income Tax Law of the PRC (the "EIT Law"), the income tax provision of the Target Group in respect of its operations in Mainland China has been calculated at the applicable corporate tax rate of 25% on the estimated assessable profits based on existing legislations, interpretations and practices.

Pursuant to the EIT Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors.

During the Relevant Periods, the directors of the Target Company agreed not to require its PRC subsidiaries to distribute their retained earnings and intended to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on withholding tax was accrued as of the end of each reporting period.

14 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the group reorganisation of the Target Group and the preparation of the results of each of the years ended 31 December 2011, 2012 and 2013 on the basis as disclosed in Note 1.3 above.

15 DIVIDEND

No dividend has been paid or declared by the Target Company since its incorporation.

Continuing operations distributed dividends for each of the years ended 31 December 2011, 2012 and 2013, respectively.

Dividends of RMB20 million for the year ended 31 December 2011 were declared by Beijing Jinlu, of which RMB19 million was paid in 2011 while the remaining RMB1 million was paid in 2012.

Dividends of RMB20 million for the year ended 31 December 2012 were declared and paid by Beijing Jinlu in 2013. Dividends of RMB10 million for the year ended 31 December 2012 were declared by Beijing Jinshou, of which RMB5.3 million was paid in 2012 while the remaining RMB4.7 million was paid in 2013.

Dividends of RMB10 million for the year ended 31 December 2013 were declared and paid by Beijing Jinfu in 2013. Dividends of RMB7.8 million for the year ended 31 December 2013 were declared and paid by Beijing Jinlu in 2013. Dividends of RMB19 million for the year ended 31 December 2013 were declared and paid by Beijing Jinshou in 2013. Dividends of RMB15 million for the year ended 31 December 2013 were declared and paid by Beijing Jinxi in 2013.

The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

16 PROPERTY, PLANT AND EQUIPMENT

	Furniture and office equipment	Vehicles	Land and building	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost				
At 1 January 2011	882	1,808	1,961	4,651
Additions	56	–	–	56
Disposals	(14)	–	–	(14)
At 31 December 2011	924	1,808	1,961	4,693
Additions	48	140	–	188
Disposals	(16)	(158)	–	(174)
Distribution of the Discontinued Operations	(188)	(769)	(1,961)	(2,918)
At 31 December 2012	768	1,021	–	1,789
Additions	59	712	–	771
Additions from acquisition of Beijing Micro Credit *(Note 28)*	64	137	–	201
Disposals	(120)	(532)	–	(652)
At 31 December 2013	771	1,338	–	2,109
Accumulated depreciation				
At 1 January 2011	(611)	(1,152)	(764)	(2,527)
Depreciation	(128)	(283)	(92)	(503)
Disposals	11	–	–	11
At 31 December 2011	(728)	(1,435)	(856)	(3,019)
Depreciation	(87)	(258)	(41)	(386)
Disposals	14	150	–	164
Distribution of the Discontinued Operations	163	679	897	1,739
At 31 December 2012	(638)	(864)	–	(1,502)
Depreciation	(85)	(78)	–	(163)
Depreciation from acquisition of Beijing Micro Credit *(Note 28)*	(55)	(92)	–	(147)
Disposals	113	506	–	619
At 31 December 2013	(665)	(528)	–	(1,193)
Net book amount				
At 31 December 2011	196	373	1,105	1,674
At 31 December 2012	130	157	–	287
At 31 December 2013	106	810	–	916

Depreciation of furniture, office equipment and vehicles has been charged to the consolidated statements of comprehensive income within "administrative and other operating expenses."

17 DEFERRED INCOME TAX ASSETS

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Deferred income tax			
Included Operations			
– to be recovered after 12 months	2,523	2,551	842
	2,523	2,551	842

Deferred income tax assets or liabilities were recognised for the Included Operations. Excluded Operations have no taxable or deductible temporary difference as at 31 December 2011, 2012 and 2013.

(a) Movement in deferred income tax assets during the Relevant Periods, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

	Impairment charge on loans to customers
	RMB'000
At 1 January 2011	1,707
Credited to the consolidated statements of comprehensive income	816
At 31 December 2011	2,523
Credited to the consolidated statements of comprehensive income	28
At 31 December 2012	2,551
(Charged) to the consolidated statements of comprehensive income	(1,709)
At 31 December 2013	842

(b) Deferred income tax assets and related temporary differences are attributable to the following items:

	Year ended 31 December 2011	
	Temporary difference	**Deferred tax assets**
	RMB'000	*RMB'000*
Deferred income tax assets		
Asset impairment allowances		
Included Operations	3,264	816
	3,264	816

	Year ended 31 December 2012	
	Temporary difference	**Deferred tax assets**
	RMB'000	*RMB'000*
Deferred income tax assets		
Asset impairment allowances		
Included Operations	112	28
	112	28

	Year ended 31 December 2013	
	Temporary difference	**Deferred tax assets**
	RMB'000	*RMB'000*
Deferred income tax assets		
Asset impairment allowances		
Included Operations	(6,836)	(1,709)
	(6,836)	(1,709)

18 OTHER ASSETS

Non-current assets

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Included Operations			
Prepayments	194	–	–
Rental deposits	152	152	152
Intangible assets and other receivables	111	389	337
	457	541	489
Excluded Operations			
Prepayments	99	–	–
Rental deposits	30	–	–
Intangible assets and other receivables	176	–	–
	305	–	–
Total	762	541	489

Current assets

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Included Operations			
Other receivables	1,010	–	1,977
Prepayments	1,234	813	990
Repossessed assets (a)			
– Real estate	–	1,400	1,400
– Others	115	85	684
Loans and receivables – distressed loans purchased from a related party *(Note 8(b))*	–	–	1,000
	2,359	2,298	6,051
Excluded Operations			
Prepayments	310	–	–
Other receivables	14	–	–
Repossessed assets			
– Real estate	–	–	–
– Others	33	–	–
	357	–	–
Total	2,716	2,298	6,051

(a) These assets are intended to be sold within 12 months of their repossession.

19 LOAN TO CUSTOMERS

(a) Analysis of loans to customers

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Included Operations			
Loans to customers, gross	231,040	162,220	257,456
Less: Impairment allowances			
– Individually assessed	(7,450)	(8,732)	(1,175)
– Collectively assessed	(2,641)	(1,474)	(3,069)
	220,949	152,014	253,212
Excluded Operations			
Loans to customers, gross	38,429	–	–
Less: Impairment allowances			
– Individually assessed	–	–	–
– Collectively assessed	(383)	–	–
	38,046	–	–
Total loans to customers, net	258,995	152,014	253,212

The loans to customers are arising from the Target Group's pawn and micro credit loans business. The loan periods mainly granted to customers range from one month to one year.

The loans provided to customers bore fixed monthly interest and fee rates ranging from 1.60% to 4.70%, from 2.30% to 4.60%, from 1.20% to 4.60% for each of the years ended 31 December 2011, 2012 and 2013 respectively. Loans to customers are all denominated in RMB.

During the year ended 31 December 2011, loans to customers of RMB41,500 thousand were purchased by its related parties.

(b) Reconciliation of allowance account for losses on loans to customers

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Included Operations			
Individually assessed:			
At beginning of year	(4,450)	(7,450)	(8,732)
Impairment losses (recognised)/reversed (c)	(3,000)	(1,282)	7,747
Allowance from acquisition of Micro Credit Business	–	–	(190)
At end of year	(7,450)	(8,732)	(1,175)
Collectively assessed:			
At beginning of year	(2,380)	(2,641)	(1,474)
Impairment losses reversed/(recognised) (c)	(261)	1,167	(712)
Allowance from acquisition of Micro Credit Business	–	–	(883)
At end of year	(2,641)	(1,474)	(3,069)

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Excluded Operations			
Collectively assessed:			
At beginning of year	(354)	–	–
Impairment losses (recognised)/reversed	(29)	–	–
At end of year	(383)	–	–

(c) Impairment (charge)/reversal on loans to customers

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Included Operations			
Net (charge)/reversal of impairment loss:			
– Individually assessed	(3,000)	(1,282)	7,747
– Collectively assessed	(261)	1,167	(712)
	(3,261)	(115)	7,035

20 CASH AND CASH EQUIVALENTS

Target Group	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Included Operations			
Cash in hand	36	212	154
Demand deposits with banks	35,865	63,398	30,779
	35,901	63,610	30,933
Excluded Operations			
Cash in hand	286	–	–
Demand deposits with banks	4,757	–	–
	5,043	–	–
Total	40,944	63,610	30,933

Cash and cash equivalents were denominated in following currencies:

Target Group	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Included Operations			
Denominated in:			
RMB	35,901	59,167	30,167
HK$	–	4,443	766
	35,901	63,610	30,933
Excluded Operations			
Denominated in:			
RMB	5,043	–	–
Total	40,944	63,610	30,933

Target Company	As at 31 December	
	2012	2013
	RMB'000	*RMB'000*
Cash in hand	–	–
Demand deposits with banks	4,357	150
Total	4,357	150

Cash and cash equivalents were denominated in following currencies:

Target Company	**As at 31 December**	
	2012	**2013**
	RMB'000	*RMB'000*
Included Operations		
Denominated in:		
RMB	–	–
HK$	4,357	150
Total	4,357	150

21 SHARE CAPITAL

On 19 June 2012, the Target Company was incorporated in the Cayman Islands with an authorised share capital of HK$10,000 divided into 1,000,000 shares having a par value of HK$0.01 each (the "Share"). On 19 June 2012, one share of HK$0.01 was allotted and issued to Mapcal Limited, which was transferred to Time Prestige on the same date. On 27 June 2012, the Target Company also allotted and issued 9 shares of HK$0.01 each to Time Prestige, 65 shares of HK$0.01 each to Exuberant Global and 25 shares of HK$0.01 each to Bustling Capital, respectively.

As at 31 December 2013, the Target Company has a fully paid up share capital of 100 shares at a par value of HK$1.

22 OTHER RESERVES

	Capital reserve (a)	**Statutory reserves (b)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2011	147,500	10,750	158,250
Appropriation to statutory reserves (b)	–	3,990	3,990
At 31 December 2011	147,500	14,740	162,240
At 1 January 2012	147,500	14,740	162,240
Appropriation to statutory reserves (b)	–	3,266	3,266
Disposal operations *(Note 25(c))*	(37,500)	(2,307)	(39,807)
At 31 December 2012	110,000	15,699	125,699
At 1 January 2013	110,000	15,699	125,699
Appropriation to statutory reserves (b)	–	4,066	4,066
Acquisition of Beijing Micro-Credit Business *(Note 29)*	–	48,747	48,747
At 31 December 2013	110,000	68,512	178,512

(a) Capital reserves

Capital reserves in the consolidated financial statements represented primarily the paid-in capital of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi, the subsidiaries of the Target Company and Harbin Jinfu, Tianjin Jinfu, the discontinued operations.

As at 1 January 2011, the paid-in capital of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi was RMB110 million. The paid-in capital of Harbin Jinfu from the Controlling Shareholders was RMB37.5 million.

(b) Statutory reserves

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC comprising the Target Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital of the PRC subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.

For each of the years ended 31 December 2011, 2012 and 2013 RMB3.99 million, RMB3.27 million, RMB4.07 million were appropriated to the statutory surplus reserve funds from net profits of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi respectively. For the year ended 31 December 2011, RMB0.38 million was appropriated to the statutory surplus reserve funds from net profits of discontinued operations respectively.

23 BANK BORROWINGS

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings			
– Principal	70,000	–	20,700
– Interest payable	160	–	45
	70,160	–	20,745

As at 31 December 2011, bank borrowings were with maturity within six month to one year and bore contractual fixed or floating interest rates ranging from 7.2% to 8.2%, per annum.

As at 31 December 2011, RMB20 million of the bank borrowings were secured by third party guarantee companies. The guarantee companies signed credit counter-guarantee contracts with Zhongfa Enterprise (Group) Ltd. ("Zhongfa Enterprise") and ZJF Investment, which are related parties of the Target Group.

As at 31 December 2011, RMB50 million of the bank borrowings were mortgaged by the real estate and land use rights of Yongtai Real Estate (Group) Company Limited ("Yongtai Real Estate"), which is one of the related parties of the Target Group.

As at 31 December 2013, bank borrowings were unsecured with maturity of one year and bore contractual fixed interest rates of 7.8%, per annum.

The fair values of current borrowings approximated their carrying amounts as the discounting impact is not significant.

During the year ended 31 December 2011, 2012 and 2013, the Target Group did not default on any principal, interest or redemption amount with respect to its bank borrowings.

24 OTHER LIABILITIES

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Included Operations			
Other payables	440	880	407
Business tax, value added tax and other tax payable	506	1,137	3,638
Salary and welfare payable	305	435	674
	1,251	2,452	4,719
Excluded Operations			
Other payables	346	–	–
Business tax and other tax payable	50	–	–
Salary and welfare payable	158	–	–
	554	–	–
	1,805	2,452	4,719

(a) As at 31 December 2011, 2012 and 2013, the Target Group's other liabilities were denominated in RMB and non-interest bearing. The fair value approximates their carrying amounts due to their short maturities.

(b) **Convertible bond**

On 30 October 2012, the Target Company issued a zero coupon convertible bond with a maturity period of 8 years at a par value of HK$5 million to an independent third party. The Target Company had the option to redeem the convertible bond at any time prior to the maturity date. On 20 December 2012, the convertible bonds were redeemed by the Target Company at par value.

The Directors of the Target Company estimated that there was no significant change in the fair value of the convertible bonds between the issuance date and the redemption date given the short duration and no significant changes in the Target Group's business and the then market situation. In respect of the interest cost, the changes in fair value and the profit/loss on redemption of the convertible bonds that were recorded in the Target Group's income statement for the year ended 31 December 2012, the Directors of the Target Company consider that the cost to estimate the individual amounts of each of the interest cost, the changes in fair value and the profit/loss on redemption of the convertible bonds would outweigh the benefit. Accordingly, the amounts of each of the interest cost, the changes in fair value and the profit/loss on redemption of the convertible bonds are not disclosed separately.

25 DISCONTINUED OPERATIONS

The Controlling Shareholders disposed of all their equity interests in Harbin Jinfu and Tianjin Jinfu to external parties on 31 July 2012 and 9 August 2012, respectively. Accordingly, the results of operations of Harbin Jinfu and Tianjin Jinfu are presented as Discontinued Operations. The assets and liabilities of these entities have been accounted for as a distribution to the Controlling Shareholders on 31 July 2012 and 9 August 2012, respectively, when all the rights and obligations in respect of the beneficial interests in Harbin Jinfu and Tianjin Jinfu have been transferred.

	Year ended 31 December 2011	**Period to the date of disposal in 2012**
	RMB'000	*RMB'000*
Operating cash flows	(7,999)	3,327
Investing cash flows	(4)	(7)
Financing cash flows	–	(8,363)
	(8,003)	(5,043)

(a) Assets of disposal group distributed to the Controlling Shareholders

	As at 31 December 2011	**As at the date of disposal in 2012**
	RMB'000	*RMB'000*
Property, plant and equipment *(Note 16)*	1,307	1,179
Loans to customers	38,046	28,076
Amount due from related parties	5,791	14,311
Cash and cash equivalents	5,043	8,363
Other assets	662	765
	50,849	52,694

(b) Liabilities of disposal group distributed to the Controlling Shareholders

	As at 31 December 2011	**As at the date of disposal in 2012**
	RMB'000	*RMB'000*
Amount due to related parties	2,576	5,859
Current income tax liabilities	452	(684)
Other liabilities	554	759
	3,582	5,934

(c) Equities of disposal group distributed to the Controlling Shareholders and other shareholders

	As at 31 December 2011	As at the date of disposal in 2012
	RMB'000	*RMB'000*
Other reserves		
– Controlling Shareholders	39,793	39,807
– Other shareholders	3,393	3,395
Retained earnings		
– Controlling Shareholders	3,269	2,725
– Other shareholders	812	833
	47,267	46,760

(d) Analysis of the result of discontinued operations, and the result recognised on the re-measurement of assets or disposal group, is as follows:

	Year ended 31 December 2011	Period to the date of disposal in 2012
	RMB'000	*RMB'000*
Revenue	10,791	5,318
Expenses	(3,819)	(5,784)
Profit/(loss) before tax of discontinued operations	6,972	(466)
Tax	(1,783)	(41)
Profit/(loss) after tax of discontinued operations	5,189	(507)
Profit/(loss) for the year from discontinued operations	5,189	(507)
Profit/(loss) for the year from discontinued operations attributable to:		
– Equity holders of the Target Company	4,533	(530)
– Non-controlling interests	656	23
Profit/(loss) for the year from discontinued operations	5,189	(507)

26 CONTINGENCIES

As at 31 December 2011, 2012 and 2013, the Target Group did not have any outstanding significant contingent liabilities.

27 COMMITMENTS

Operating lease commitments

The Target Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
No later than 1 year	2,044	1,862	2,077
Later than 1 year and no later than 5 years	3,079	1,672	675
	5,123	3,534	2,752

28 BUSINESS COMBINATIONS

On 1 January 2013, through the Micro Credit Contractual Agreements, the Target Group controlled 79% of the share capital of Beijing Micro Credit to expand its lending business to Micro Credit Business.

The following table summarises the consideration of the fair value of assets acquired, liabilities assumed and the non-controlling interest at the effective date of the Micro Credit Contractual Agreements on 1 January 2013.

Pursuant to the Micro Credit Contractual Agreements which is effective from 1 January 2013, the Target Group obtained the control of the 79% equity interest in Beijing Micro Credit from the Controlling Shareholders of the Target Company.

The consideration for the acquisition of Beijing Micro Credit is to be paid by the Controlling Shareholders as obliged under the Micro Credit Contractual Agreements. As such, the consideration of this acquisition is reflected in the financial information as a contribution made by the Controlling Shareholders, with effect from 1 January 2013.

Recognised amounts of identifiable assets acquired and liabilities assumed	**1 January 2013**
	RMB'000
Loans to customers	48,557
Cash and cash equivalents	13,720
Property, plant and equipment	54
Other assets	170
Current income tax liabilities	(517)
Other liabilities	(279)
Total identifiable net assets	61,705
Non-controlling interest (21% of identifiable net assets)	12,958
Fair value of the acquisition of 79% equity interest in Beijing Micro Credit	48,747

Based on the independent valuation conducted by Jones Lang Lasalle Corporate Appraisal and Advisory Limited on 1 January 2013, no material acquired identifiable intangible assets (including trademarks, licenses and contractual customer relationship) arose from the effective date of the Micro Credit Contractual Agreements and the fair value of the identifiable assets acquired and liabilities assumed approximated their carrying values.

Non-controlling interest is calculated based on the 21% interest on the identifiable assets and liabilities of Beijing Micro Credit that is not attributable to the Target Group pursuant to the Micro Credit Business Contractual Agreements.

The interest income included in the consolidated income statement since 1 January 2013 contributed by Beijing Micro Credit was RMB8,852 thousand. Beijing Micro Credit also contributed a net profit of RMB4,690 thousand over the same period.

29 ADDITIONAL FINANCIAL INFORMATION OF BEIJING MICRO CREDIT BEFORE THE EFFECTIVE DATE OF MICRO CREDIT AGREEMENTS

The financial information of Beijing Micro Credit for the year ended 31 December 2011 and 2012 is as follows:

(a) Statements of Comprehensive Income

	Year ended 31 December	
	2011	**2012**
	RMB'000	*RMB'000*
Interest income	7,997	10,278
Interest expense	–	–
Net interest income	7,997	10,278
Other operating income, net	4	–
Net revenue	8,001	10,278
Administrative and other operating expenses	(1,598)	(1,661)
Impairment charge on loans to customers	(23)	(299)
Other gains, net	41	147
Profit before income tax	6,421	8,465
Income tax expenses	(1,609)	(2,242)
Profit for the year from continuing operations	4,812	6,223
Total comprehensive income for the year	4,812	6,223

(b) Statements of Financial Position

	As at 31 December	
	2011	**2012**
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Property, plant and equipment	105	54
Deferred income tax assets	141	148
	246	202
Current assets		
Other assets	12	22
Loans to customers, net	49,242	48,557
Cash and cash equivalents	6,989	13,720
	56,243	62,299
Total assets	56,489	62,501
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the Target Company		
Share capital	50,000	50,000
Other reserves	534	1,216
Retained earnings	4,948	10,489
Total equity	55,482	61,705
LIABILITIES		
Current liabilities		
Current income tax liabilities	620	517
Other liabilities	387	279
Total liabilities	1,007	796
Total equity and liabilities	56,489	62,501

(c) Statements of Changes in Equity

	Share capital *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total Equity *RMB'000*
At 1 January 2011	50,000	85	585	50,670
Comprehensive income				
Profit for the year	–	–	4,812	4,812
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	4,812	4,812
Appropriation to statutory reserves	–	449	(449)	–
As at 31 December 2011	50,000	534	4,948	55,482
At 1 January 2012	50,000	534	4,948	55,482
Comprehensive income				
Profit for the year	–	–	6,223	6,223
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	6,223	6,223
Appropriation to statutory reserves	–	682	(682)	–
As at 31 December 2012	50,000	1,216	10,489	61,705

(d) Statements of Cash Flows

	Year ended 31 December	
	2011	**2012**
	RMB'000	*RMB'000*
Cash flows from operating activities		
Profit before income tax	6,421	8,465
Adjusted for:		
– Impairment charge on loans to customers	23	299
– Depreciation	53	51
– Interest income	(7,997)	(10,278)
Cash flows from operating activities before changes in operating assets and liabilities	(1,500)	(1,463)
Change in operating assets and liabilities:		
– Other assets	(9)	(10)
– Loans to customers	(30,006)	230
– Other liabilities	81	(108)
– Amount due from related parties	28,500	–
Cash outflow generated from operations	(2,934)	(1,351)
Interest received	7,764	10,435
Income tax paid	(1,155)	(2,352)
Total cash inflow from operating activities	3,675	6,732
Cash flows from investing activities		
Purchase of property, plant and equipment	–	(1)
Total cash outflow from investing activities	–	(1)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	–	–
Total cash inflow from financing activities	–	–
Net increase in cash and cash equivalents	3,675	6,731
Cash and cash equivalents at beginning of year	3,314	6,989
Cash and cash equivalents at end of year	6,989	13,720

(e) LOAN TO CUSTOMERS

(i) Analysis of loans to customers

	As at 31 December	
	2011	**2012**
	RMB'000	*RMB'000*
Loans to customers, gross	50,016	49,630
Less: Impairment allowances		
– Individually assessed	(60)	(190)
– Collectively assessed	(714)	(883)
Total loans to customers, net	49,242	48,557

	As at 31 December	
	2011	**2012**
	RMB'000	*RMB'000*
Individually assessed:		
At beginning of year	–	(60)
Impairment losses recognised	(60)	(130)
At end of year	(60)	(190)
Collectively assessed:		
At beginning of year	(751)	(714)
Impairment losses (recognised)/reversed	37	(169)
At end of year	(714)	(883)

(ii) Impairment (charge)/reversal on loans to customers

	As at 31 December	
	2011	**2012**
	RMB'000	*RMB'000*
Net (charge)/reversal of impairment loss:		
– Individually assessed	(60)	(130)
– Collectively assessed	37	(169)
	(23)	(299)

30 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or excise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Target Group are also considered as related parties.

(a) During the Relevant Periods, the Target Company's directors were of the view that the following companies were related parties of the Target Group:

Names of related parties	Nature of relationship
Mr. Dai Di (戴迪)	Controlling Shareholder
Mr. Dai Hao (戴皓, formerly known as 戴浩)	Controlling Shareholder
Ms. Jin Yu (靳宇)	Controlling Shareholder
Time Prestige	Direct equity holder of the Target Company
Exuberant Global	Direct equity holder of the Target Company
Bustling Capital	Direct equity holder of the Target Company
Zhongfa Enterprise (中發實業集團有限公司)	Controlled by Controlling Shareholders
ZJF Investment	Controlled by Controlling Shareholders
Yongtai Real Estate (永泰房地產有限責任公司)	Controlled by Controlling Shareholders
Ye Rui Pharmaceutical Co., Ltd. (業鋭藥業有限公司)	Controlled by Controlling Shareholders
UnionLife Insurance Co., Ltd. (合眾人壽保險股份有限公司)	Controlled by Controlling Shareholders
Harbin Jinfu	Controlled by Controlling Shareholders
Tianjin Jinfu	Controlled by Controlling Shareholders
Zhongfa Jinfu Consulting Co., Ltd. (中發金福投資諮詢中心)	Controlled by Controlling Shareholders
Yun Shui Yue Investment Management (Beijing) Company Limited ("YSY Investment", 雲水月投資管理(北京)有限公司)	Controlled by Controlling Shareholders
Wuhan Micro Credit Service Co., Ltd. 武漢小額信貸服務平臺股份有限公司	Controlled by Controlling Shareholders
Zhong Jinfu Guarantee Co., Ltd. (中金福擔保有限公司)	Controlled by Controlling Shareholders
Heilongjiang Zhongfa Technology Co., Ltd (黑龍江中發科技)	Controlled by Controlling Shareholders
Tianjin dongnan City Construction Investment Co., Ltd (天津東南新城城市建設投資)	Controlled by Controlling Shareholders
Beijing Fuxi Hotel Management Co., Ltd. (北京福禧酒店經營管理有限公司)	Controlled by Controlling Shareholders
Heilongjiang Zhongfa Property Management Co., Ltd (黑龍江中發物業管理有限公司)	Controlled by Controlling Shareholders
Huigu Shengzhi Investment Co., Ltd (慧谷盛志投資股份有限公司)	Controlled by Controlling Shareholders
Harbin Yongen Real Estate Management Co., Ltd (哈爾濱永恩房地產諮詢管理有限公司)	Controlled by Controlling Shareholders
Shenyang Micro Credit	Significant influence exercised by Controlling Shareholders
Harbin Zhongjinfu Micro-credit Co., Ltd. (哈爾濱中金福小額貸款有限公司)	Significant influence exercised by Controlling Shareholders
Beijing Simaite Investment Co., Ltd. (北京斯邁特投資有限公司)	Significant influence exercised by Controlling Shareholders
Beijing Boan Property Service Co., Ltd (北京博安物業服務有限公司)	Significant influence exercised by Controlling Shareholders
Beijing Yongjin Jiye Technology Incubator Co., Ltd. (北京永進基業科技孵化器有限公司)	Significant influence exercised by Controlling Shareholders
Tianjin Grand Canal Construction and Investment Company Co., Ltd (天津大運河建設投資有限公司)	Significant influence exercised by Controlling Shareholders
Tianjin Hongyun Yicheng Technology Company Co., Ltd. (天津鴻遠易呈科技發展有限公司)	Significant influence exercised by Controlling Shareholders

(b) Significant transactions with related parties

The Target Group had the following significant transactions with related parties during the Relevant Periods:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Transactions with related parties of the Controlling Shareholders			
Included Operations			
Related parties consultancy, service and management fee (i)	6,650	5,860	–
Interest expense on entrusted borrowing from ZJF Investment (ii)	2,565	–	–
Interest income arising on loans to ZJF Investment *(Note 30(c)(iv))*	89	75	–
Leasing expenses to Yongjin Jiye	–	–	250
Emoluments paid to directors' and senior management by related parties (iii)(iv)	1,213	1,631	156

As disclosed in Note 23, as at 31 December 2011, RMB20 million of the bank borrowings were secured by guarantee companies. The guarantee companies signed credit counter-guarantee contracts with Zhongfa Enterprise and ZJF Investment.

As at 31 December 2011, RMB50 million of the bank borrowings were secured by the pledge of real estates and land use rights owned by Yongtai Real Estate.

(i) Related parties consultancy, service and management fee

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Included Operations			
Zhongfa Enterprise consultancy and service fee	3,000	–	–
ZJF Investment management fee	3,650	5,860	–
	6,650	5,860	–

During the Relevant Periods, Zhongfa Enterprise and ZJF Investment which are owned by the Controlling Shareholders had collected above fees from the Included Operations in respect of consulting and other management services rendered. ZJF Investment acted as the back office management functions, including risk management, financial and human resources management, in respect of the pawn companies of the Target Group. The fees paid were to compensate the management expenses and other related cost incurred by Zhongfa Enterprise and ZJF Investment on a mutually agreed pricing basis

With the implementation of the Reorganisation and after setting up of Beijing Wanchi, the management functions have been transferred to Beijing Wanchi and no fees were paid by the Target Group to these entities after then.

(ii) In 2010, ZJF Investment granted to the Target Group an entrusted loan that bears an interest rate of 8.667% per annum with a fixed term of 12 months. The loan was provided through a third party bank according to the relevant laws and regulations. It was repaid in December 2011.

(iii) ***Directors' and senior management emoluments paid by ZJF Investment on behalf of the Target Group***

Emoluments below for each of the years ended 31 December 2011 and 2012 were included in the consulting and service fee paid to ZJF Investment as disclosed in Note 30(b)(i).

	Salary, bonus, subsidy and welfare	Pension	Other social security, employee education fee and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2011				
Executive directors:				
Zhang Wei (張偉)	312	8	10	330
Li Wei (李巍)	300	8	10	318
	612	16	20	648
Year ended 31 December 2012				
Executive directors:				
Zhang Wei (張偉)	324	8	17	349
Li Wei (李巍)	322	8	17	347
Senior management:				
Zhou Zhongbin (周忠斌)	163	–	–	163
Weng Jingmei (翁京梅)	210	7	14	231
	1,019	23	48	1,090

No emoluments for directors and senior management have been paid by ZJF Investment on behalf of the Target Group for the year ended 31 December 2013.

(iv) Directors' emoluments paid by Yongtai Real Estate and Zhongfa Enterprise on behalf of the Target Group

In addition to the above, the following directors received emoluments from Yongtai Real Estate and Zhongfa Enterprise, part of which is in respect of their services to the Target Group. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Target Group and their services to Yongtai Real Estate and Zhongfa Enterprise.

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Director:			
Dai Di (戴迪)	436	385	Not applicable
Non-executive director:			
Jin Yu (靳宇)	129	156	156

During the Relevant Periods, no director received any emoluments from the related parties as an inducement to join or leave the Target Group or compensation for loss of office, and no director waived or has agreed to waive any emoluments.

Dai Di(戴迪) resigned the position of Director from 29 November 2012.

(c) Significant balances with related parties

The Target Group	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Amount due to related parties:			
Included Operations			
Amount due to ZJF Investment and its affiliates			
– Dividends payable	–	2,750	2,750
– Interest free advances (i)	697	–	–
– Other advances payable (ii)	2,576	64	64
Amount due to other entities controlled by Controlling Shareholders			
– Dividends payable	1,000	2,000	–
Amount due to a director/Controlling Shareholders			
– Interest free advances (iii)	–	4,784	3,985
	4,273	9,598	6,799

The Target Group	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Excluded Operations			
Amount due to ZJF Investment and its affiliates			
– Interest free advances (i)	860	–	–
– Dividends payable	1,430	–	–
Amount due to other entities controlled by Controlling Shareholders			
– Dividends payable	286	–	–
	2,576	–	–

The Target Group	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Amount due from related parties:			
Included Operations			
Amount due from ZJF Investment and its affiliates			
– Loans to ZJF Investment (iv)	17,500	–	–
– Interest free advances (i)	28	2	–
– Other advances receivable (ii)	–	–	2,965
Amount due from a director/the Controlling Shareholders			
– Other advances receivable (ii)	–	1	81
	17,528	3	3,046
Excluded Operations			
Amount due from ZJF Investment and its affiliates			
– Interest free advances (i)	791	–	–
Amount due from other entities controlled by the Controlling Shareholders			
– Loans to other entities (v)	5,000	–	–
	5,791	–	–
	23,319	3	3,046

The Target Company:	As at 31 December	
	2012	2013
	RMB'000	*RMB'000*
Amount due from related parties:		
Amount due from ZJF Investment and its affiliates		
– Other advances payable (ii)	–	997
Amount due from a director/Controlling Shareholders		
– Other advances payable (ii)	–	2,445
	–	3,442
Amount due to related parties:		
Amount due from ZJF Investment and its affiliates		
– Other advances payable (ii)	64	64
Amount due from other entities controlled by the Controlling Shareholders	689	–
Amount due from a director/Controlling Shareholders		
– Interest free advances (iii)	4,054	3,931
– Other advances payable (ii)	1	1
	4,808	3,996

(i) During the Relevant Periods, ZJF Investment, an entity owned by the Controlling Shareholders undertook treasury function to centrally manage and control the surplus fund and working capitals of the Pawn-broker Business. With the implementation of the Reorganisation, ZJF Investment no longer undertakes this role.

(ii) Other advances receivable and other advances payable were related to the Pawn-broker Business, unsecured and non-interest bearing and with no fixed term of repayment.

(iii) The advances were interest-free. On 20 December 2012 Mr. Dai Di paid HK$5 million to a third party on behalf of the Target Company to redeem a Convertible Bond issued by the Target Company on 30 October 2012 (note 24(b)), and as a result, the Target Company's liability payable to Mr. Dai Di amounting to RMB3,931,150 as at 31 December 2013 and RMB4,054,250 as at 31 December 2012 was effected.

Other than the above, the remaining interest free advances due from or due to the Controlling Shareholders were operation funds for shelf companies for paying acquisition agent fees.

(iv) Loans to ZJF Investment were equity backed pawn loans with interest rate of 18% per annum and was repaid in January 2012.

(v) Loans to other entities controlled by the Controlling Shareholders were non-interest bearing equity backed pawn loans generated by the Excluded Operations.

(d) Key management compensation

Key management includes directors of Beijing Wanchi, the key executives to the president, the chief financial officer and general manager of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro Credit. The compensation paid or payable to key management for employee services during the Relevant Periods is as follows:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Salary, bonus, subsidy and welfare	538	488	1,825
Pension	22	25	63
Other social security, employee education fee and others	18	27	121
	578	540	2,009

31 EVENTS AFTER THE BALANCE SHEET DATE

There are no material subsequent events undertaken by the Target Group after 31 December 2013.

VI. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or its subsidiaries in respect of any period subsequent to 31 December 2013 and up to the date of this report. No dividend or distribution has been declared or made by the Target Company or its subsidiaries in respect of any period subsequent to 31 December 2013.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

A. Unaudited pro forma financial information of the Enlarged Group

The following is an illustrative and Unaudited Pro Forma Financial Information comprising the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, in connection with the proposed acquisition of the Target Group by Star Capital Global Limited, a direct wholly-owned subsidiary of the Company (the "Acquisition").

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the unaudited consolidated statement of financial position of the Group as at 31 December 2013 extracted from the published third quarterly report for the period ended 31 December 2013 of the Group and the audited consolidated statement of financial position of the Target Group as at 31 December 2013 as extracted from the accountant's report set out in Appendix II to the Circular as if the Acquisition has been completed on 31 December 2013.

The unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group are prepared based on the audited results and cash flows of the Group for the year ended 31 March 2013 extracted from the published audited consolidated financial statements for the year ended 31 March 2013 set out in its annual report and the audited results and cash flows of the Target Group for the year ended 31 December 2013 as extracted from the accountant's report set out in Appendix II to the Circular as if the Acquisition has been completed on 1 April 2012.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information contained in the Circular.

The Unaudited Pro Forma Financial Information has been prepared using the accounting policies consistent with those of the Group as set out in the annual report of the Company for the year ended 31 March 2013 and the new/revised accounting standards introduced under Hong Kong Financial Reporting Standards that were effective from 1 April 2013, where applicable.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, results of operations and cash flows of the Enlarged Group had the Acquisition been completed as at 31 December 2013 or 1 April 2012, where applicable, or at any future date.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

As at 31 December 2013

	The Group as at 31 December 2013	Target Group as at 31 December 2013		Pro forma adjustments		Notes	The Enlarged Group
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)			(Unaudited)
	HK$'000	RMB'000	HK$'000	HK$'000	HK$'000		HK$'000
	(Note 1)	(Note 2)	(Note 3)				
Assets							
Non-current assets							
Property, plant and equipment	11,033	916	1,173				12,206
Investment property	101,000	–	–				101,000
Intangible assets	47,425	–	–	170,851		5	218,276
Goodwill	–	–	–	349,564		5	349,564
Other assets	–	489	626				626
Deferred tax assets	–	842	1,078				1,078
	159,458	2,247	2,877				682,750
Current assets							
Prepayments, deposits and other receivables	16,602	6,051	7,748				24,350
Refundable deposits	27,186	–	–				27,186
Amounts due from related parties	–	3,046	3,900				3,900
Loans to customers	–	253,212	324,226				324,226
Trade receivables	25,217	–	–				25,217
Cash and cash equivalents	3,753	30,933	39,608		(14,170)	8	29,191
	72,758	293,242	375,482				434,070

	The Group as at 31 December 2013	Target Group as at 31 December 2013		Pro forma adjustments		Notes	The Enlarged Group
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)			(Unaudited)
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*				
Current liabilities							
Bank borrowings	–	20,745	26,563				26,563
Amount due to a non-controlling equity owner of a subsidiary	1,950	–	–				1,950
Amount due to a related company	30	6,799	8,706	(5,000)		5	3,736
Tax payable	312	3,604	4,615				4,927
Accrued expenses, other payables and deposits received	5,862	4,719	6,042				11,904
Convertible bonds – conversion option portion of initial consideration	–	–	–	314,470		4	314,470
Convertible bonds – contingent consideration	–	–	–	52,545		4	52,545
Trade payables	16,476	–	–				16,476
	24,630	35,867	45,926				432,571
Non-current liabilities							
Notes payable	–	–	–	47,229		4	47,229
Convertible bonds – debt portion of initial consideration	–	–	–	262,102		4	262,102
Deferred tax liabilities	7,825	–	–	42,713		5	50,538
	7,825	–	–				359,869
Net current assets	48,128	257,375	329,556				1,499
Total assets less current liabilities	207,586	259,622	332,433				684,249
Net Assets	199,761	259,622	332,433				324,380

	The Group as at 31 December 2013	Target Group as at 31 December 2013		Pro forma adjustments		Notes	The Enlarged Group
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)			(Unaudited)
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*				
Equity							
Issued capital	6,559	–	–	2,680		*4, 5, 6*	9,239
Share premium	–	–	–	117,920		*4*	117,920
Reserves	188,319	245,417	314,244	(314,244)	(14,170)	*5, 6, 8*	174,149
Equity attributable to owners of the Group	194,878	245,417	314,244				301,308
Non-controlling interest	4,883	14,205	18,189				23,072
Total Equity	199,761	259,622	332,433				324,380

UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

For the year ended 31 March 2013

	The Group for year ended 31 March 2013	Target Group for the year ended 31 December 2013		Pro forma adjustments		Notes	The Enlarged Group
	(Audited)	(Audited)	(Unaudited)	(Unaudited)			(Unaudited)
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*				
Continuing Operations							
Trading revenue	93,618	–	–				93,618
Cost of sales	(88,586)	–	–				(88,586)
Direct operating expenses	(33)	–	–				(33)
Gross trading profit	4,999	–	–				4,999
Lending revenue							
Interest income	–	54,276	68,429				68,429
Interest expense	–	(371)	(468)				(468)
Net interest income	–	53,905	67,961				67,961
Financial consultancy income	–	11,088	13,979				13,979
Rental income	1,829	–	–				1,829
	6,828	64,993	81,940				88,768
Other gains, net	3,678	1,553	1,958				5,636
Selling and distribution costs	(686)	–	–				(686)
Impairment reversal on loans to customers	–	7,035	8,869				8,869
Administrative and other expenses	(34,263)	(16,641)	(20,980)		(19,700)	8	(74,943)
Finance cost	–	–	–	(33,750)		7	(33,750)
(Loss)/profit before income tax from continuing operations	(24,443)	56,940	71,787				(6,106)
Income tax	(764)	(13,862)	(17,477)				(18,241)
(Loss)/profit for the year from continuing operations	(25,207)	43,078	54,310				(24,347)

	The Group for year ended 31 March 2013	Target Group for the year ended 31 December 2013		Pro forma adjustments		Notes	The Enlarged Group
	(Audited)	(Audited)	(Unaudited)	(Unaudited)			(Unaudited)
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*				
Discontinued operations							
Loss for the year from discontinued operation	(64)	–	–				(64)
(Loss)/profit for the year	(25,271)	43,078	54,310				(24,411)
Profit/(loss) attributable to:							
Equity holders of the Company	(25,654)	41,831	52,738				(26,366)
Non-controlling interests	383	1,247	1,572				1,955
	(25,721)	43,078	54,310				(24,411)

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

For the year ended 31 March 2013

	The Group for year ended 31 March 2013	Target Group for the year ended 31 December 2013		Pro forma adjustments		Notes	The Enlarged Group
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)			(Unaudited)
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*				
(Loss)/profit for the year	(25,271)	43,078	54,310	(33,750)	(19,700)	*7, 8*	(24,411)
Other comprehensive income for the year, net of tax							
Exchange differences on translation of financial statements of overseas subsidiaries	96	–	–				96
Reclassification adjustment of exchange reserve on disposal of interest in an overseas subsidiary	(1,198)	–	–				(1,198)
	(1,102)	–	–				(1,102)
Total comprehensive income for the year	(26,373)	43,078	54,310				(25,513)
Attributable to:							
Equity holders of the Company	(26,756)	41,831	52,738				(27,468)
Non-controlling interests	383	1,247	1,572				1,955
	(26,373)	43,078	54,310				(25,513)

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

For the year ended 31 March 2013

	The Group for the year ended 31 March 2013	Target Group for the year ended 31 December 2013		Pro forma adjustments	Notes	The Enlarged Group
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)		(Unaudited)
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*			
Cash flows from operating activities						
(Loss)/profit before income tax from continuing and discontinued operations	(24,507)	56,940	71,788	(33,750)	*4, 7*	13,531
Adjustments for:						
– Interest income	(4)	–	–			(4)
– Interest expense	–	–	–	33,750	*4, 7*	33,750
– Write-off of property, plant and equipment	8	–	–			8
– Gain on disposal of subsidiaries	(2,143)	–	–			(2,143)
– Reversal of impairment on loans to customers	–	(7,035)	(8,869)			(8,869)
– Depreciation	1,832	163	206			2,038
Operating (loss)/profit before working capital changes	(24,814)	50,068	63,125			38,311
Increase in trade receivables	(12,802)	–	–			(12,802)
Increase/(decrease) in prepayments, deposits and other receivables	7,800	(3,679)	(4,638)			3,162
Increase in loans to customers	–	(45,606)	(57,498)			(57,498)
Increase in amount due from related parties	–	(3,043)	(3,836)			(3,836)
Decrease in assets of a disposal group classified as held for sale	11	–	–			11
Increase in liabilities of a disposal group classified as held for sale	50	–	–			50
Increase in trade payables	11,103	–	–			11,103
Increase in accrued expenses, other payables and deposits received	1,659	1,988	2,506			4,165
Increase in bank borrowing	–	20,745	26,154			26,154
Increase/(decrease) in amount due to related parties	30	(2,799)	(3,529)			(3,499)
Cash (used in)/generated from operations	(16,963)	17,674	22,284			5,321
Interest received	4	–	–			4
Tax paid	(2,017)	(11,533)	(14,540)			(16,557)

	The Group for the year ended 31 March 2013	Target Group for the year ended 31 December 2013		Pro forma adjustments	Notes	The Enlarged Group
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)		(Unaudited)
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*			
Net cash (used in)/generated from operating activities	(18,976)	6,141	7,744			(11,232)
Cash flows from investing activities						
Acquisition of assets through acquisition of subsidiaries	(74,322)	13,720	17,298	60,497	*9*	3,473
Proceeds from disposal of subsidiaries	14,891	–	–			14,891
Proceeds from disposal of property, plant and equipment	–	33	42			42
Purchases of property, plant and equipment	(982)	(771)	(972)			(1,954)
Net cash (used in)/generated from investing activities	(60,413)	12,982	16,368			16,452
Cash flows from financing activities						
Proceeds from issue of new shares on an open offer	47,107	–	–			47,107
Interest paid	–	–	–	(4,000)	*7*	(4,000)
Dividend paid	–	(51,800)	(65,307)			(65,307)
Proceeds from issue of new shares on placements	50,967	–	–			50,967
Net cash generated from/(used in) financing activities	98,074	(51,800)	(65,307)			28,767
Net increase/(decrease) in cash & cash equivalent	18,685	(32,677)	(41,195)			33,987
Cash & cash equivalent at beginning of the period	9,079	63,610	80,197	(80,197)	*9*	9,079
Effect of foreign exchange rate, net	27	–	–			27
Cash & cash equivalent at end of the year	27,791	30,933	39,002			43,093

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The unaudited consolidated statement of financial position of the Group as at 31 December 2013 is extracted without adjustment from the published unaudited condensed consolidated financial statements of the Group for the nine months ended 31 December 2013, and the audited consolidated income statement, audited consolidated statement of comprehensive income and audited consolidated statement of cash flows of the Group are extracted without adjustment from the audited consolidated financial statements of the Group for the year ended 31 March 2013.

2. The amounts are extracted from the accountant's report of the Target Group as set out in Appendix II to the Circular.

3. For the purpose of the Unaudited Pro Forma Financial Information:

   - the consolidated statement of financial position of the Target Group is translated into Hong Kong dollars at the exchange rate of RMB1 = HK$1.2805; and

   - the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows of the Target Group are translated into Hong Kong dollars at the average exchange rate of RMB1 = HK$1.2608.

   Such translation is for illustration purpose only and does not constitute a representation that any amount has been, could have been, or may otherwise be exchanged or converted, or vice versa, at the above rate.

4. The adjustments represent considerations paid by the Group with respect to this Acquisition. Pursuant to the acquisition agreement (the "Acquisition Agreement") dated 23 December 2013, the total maximum consideration for the acquisition (the "Acquisition") of the Sale Shares and Sale Loans is HK$900,000,000 which will be satisfied by:

   (i) a maximum of HK$100,000,000 by issue of the Promissory Notes;

   (ii) a maximum of HK$93,800,000 by allotment and issue of the Consideration Shares at the issue price of HK$0.35 per share;

   (iii) a maximum of HK$656,200,000 by issue of the Convertible Bonds; and

   (iv) a maximum of HK$50,000,000 in cash.

   The above consideration includes initial consideration of HK$564,000,000 ("Initial Consideration") and contingent consideration up to a maximum of HK$336,000,000 ("Contingent Consideration"), comprising:

   Initial Consideration (to be settled at the date of Acquisition)

   (i) HK$50,000,000 by issue of the Promissory Notes;

   (ii) HK$93,800,000 by allotment and issue of the Consideration Shares at the issue price of HK$0.35 per share; and

   (iii) HK$420,200,000 by issue of the Convertible Bonds (note a)

   (note a):

   According to terms of the Acquisition Agreement and as disclosed in the section headed Conditions precedent to the Circular, settlement with respect to up to HK$131,000,000 (face value) of the Convertible Bonds can be deferred in case the audited 2013 profit after tax of the Target Group does not meet certain target levels ("Deferred Convertible Bonds"). The Deferred Convertible Bonds can also be cancelled if the actual 2014 profit after tax of the Target Group does not meet certain target levels.

Contingent Consideration (to be paid in the following sequence)

(i) a maximum of HK$236,000,000 by issue of the Convertible Bonds ("Contingent Convertible Bonds");

(ii) a maximum of HK$50,000,000 in cash; and

(iii) a maximum of HK$50,000,000 by issue of the Promissory Notes

According to the Acquisition Agreement, Contingent Consideration will only be paid if the Target Group is able to attain certain agreed levels of profit after tax for the year ended 31 December 2013 and the year ending 31 December 2014 collectively.

Hong Kong Financial Reporting Standard 3 (Revised) "Business Combination" (the "HKFRS 3") requires the consideration transferred in a business combination to be measured at fair value at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement, which considers the facts and circumstances that existed as of that date or, if known, during the measurement period.

An analysis of the total estimated cost of the Acquisition assuming the Acquisition had taken place on 31 December 2013 is set out as follows:

	Face value	**Fair Value as at 31 December 2013**
	HK$'000	*HK$'000*
Consideration:		
Initial Consideration to be recognised *(note b)*		
– Promissory Notes	50,000	47,229
– Consideration Shares	93,800	120,600
– Convertible Bonds *(note c)*	420,200	576,572
	564,000	744,401
Contingent Consideration to be recognised *(notes b & d)*		
– Contingent Convertible Bonds	38,467	52,545
Total consideration:		796,946

(note b):

The Directors have engaged an independent valuer, Greater China Appraisal Limited ("GCA"), to determine the fair value of the Initial Consideration – Promissory Notes, Consideration Shares and Convertible Bonds, and Contingent Consideration to be recognised, in accordance with HKFRS 13 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Fair value is defined in HKFRS 13 as ''the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date''. GCA has reviewed the methodologies and the key valuation parameters and business assumptions adopted.

The fair value of the Promissory Notes and Convertible Bonds included in the Initial Consideration is valued by Trinomial Option Pricing Model. Key valuation parameters include discount rates (for both Promissory Notes and Convertible Bonds), volatility (for Convertible Bonds only) and spot share price and conversion price (for Convertible Bonds only). The fair value of the Consideration Shares included in the Initial Consideration is valued based on last traded price of shares as of 31 December 2013.

Based on a valuation report dated 30 May 2014 prepared by GCA, the Directors have estimated the face value of Initial Consideration and Contingent Consideration to be paid out to be HK$564,000,000 and HK$38,467,000 respectively, which has an estimated fair value of approximately HK$744,401,000 and HK$52,545,000 respectively, as at 31 December 2013.

(note c):

Based on the 2013 profit information of the Target Group, the Directors consider part of the Convertible Bonds as covered by the Initial Consideration would need to be withheld by the Company as Deferred Convertible Bonds according to terms of the Acquisition Agreement (see note a above). However, the Directors have made an assessment about the Target Group's 2014 profit forecast and consider it is appropriate to assume such Deferred Convertible Bonds would need to be fully settled in 2015.

Accordingly, the amount of Convertible Bonds includes Deferred Convertible Bonds of HK$131,000,000 (face value).

(note d):

The amount of Contingent Convertible Bonds to be issued is subject to the actual 2014 profit after tax level of the Target Group, therefore the Contingent Consideration is classified as a financial liability, measured at fair value through profit or loss within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement". Subsequent changes to the fair value of the Contingent Consideration will be recognised in profit or loss of the Enlarged Group.

The valuation of the Contingent Consideration is valued by GCA in accordance with HKFRS 13 and is mainly based on the financial position of the Group, the trading price of the Company's shares, the latest financial information of the Target Group, the Target Group's financial performance forecast and other relevant indicators. Based on the Target Group's 2014 financial performance forecast, the Directors estimate that HK$52,545,000 of the Contingent Consideration will be required by way of issuance of the Contingent Convertible Bonds with face value amounting HK$38,467,000. No Promissory Notes or cash will need to be issued/paid. Trinomial Option Pricing Model is used for the valuation of Contingent Convertible Bonds.

The possible range of face value of the Contingent Consideration is between nil and HK$336,000,000, and possible range of the fair value of the Contingent Consideration is between nil and HK$419,599,000 approximately.

Since a significant portion of the total consideration is in the form of convertible bonds or Consideration Share issuance, the valuation of embedded conversion option in the Company's convertible bonds is highly sensitive to the movement of the Company's share price, the consideration to be recognised as at the completion of the Acquisition can be substantially different from the hypothetical fair value as at 31 December 2013 as disclosed in the above table.

5. The adjustments represent allocation of purchase price paid by the Group into the fair value adjustments on the Target Group's identifiable assets and liabilities, and recognition of goodwill as of 31 December 2013. For this purpose, the Directors have engaged GCA to determine the fair value of the net tangible assets and intangible assets of the Target Group as well as the Sale Loans acquired, in accordance with HKFRS 13. GCA has reviewed the methodologies and the key valuation parameters and business assumptions adopted.

Net tangible assets (i.e. other than intangible assets) refer to deferred tax liabilities and other net assets. For other net assets, their carrying values approximate their fair values as at 31 December 2013 given their short term in nature. For the deferred tax liabilities, it is associated with the identifiable intangible assets and is calculated using PRC corporate income tax rate of 25% on the fair value of the identifiable intangible assets.

The identifiable intangible assets are the operating licenses of the Pawn Broker Business of the Target Group, and they are valued based on an Income Approach – Multi-period Excess Earnings Method. Multi-Period Excess Earnings Method ("**MPEEM**") is a derivative of the discounted cash flow ("**DCF**") method which is commonly adopted for the valuation of intangible assets. Using this technique, key valuation parameters include discount rate, indefinite useful life of pawn license, contributory asset charges, etc. GCA estimates the future economic benefits attributed to the pawn licence. Such future economic benefits are then discounted at a rate which reflects all business risks in relation to the pawn licence. To estimate the economic benefits, the revenues for the pawn licence are projected over their useful lives. Based on the projected revenues, the costs associated with supporting the pawn licence are net off. The net income projection is then adjusted by contributory asset charges in order to derive the excess earnings attributable to the pawn licence. The contributory asset charges include returns on the assets that are used or used up in generating the income projection of the pawn licence. Examples of such assets include fixed assets and assembled workforce.

With respect to the Sale Loans acquired, GCA has considered that its carrying value approximate its fair value because of its short term nature.

Accordingly, the goodwill arising from the Acquisition of the 100% equity interest in the Target Group is calculated as follows:

	HK$'000
Consideration *(see note 4)*	796,946
100% fair value of net assets of the Target Group	(442,382)
100% fair value of the Sale Loans (as defined in the Circular)	(5,000)
Goodwill arising on the Acquisition *(note a)*	349,564

(note a):

Goodwill arising from the acquisition of the Target Group represents the excess of the fair value of the considerations to be paid by the Group over the fair value of identifiable intangible assets, net tangible assets and contingent liabilities (if any) of the Target Group. Upon completion of the Acquisition, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under acquisition accounting in accordance with HKFRS 3. The Directors consider the recognition of goodwill by the Enlarged Group is linked to the benefits originated from fast growing pawn broker business and the business potential of the consulting business of the Target Group. The Directors are of the view that the goodwill would not have any future impact on the cash flow of the Enlarged Group.

For the purpose of the Unaudited Pro Forma Financial Information, which is prepared solely for illustrative purposes, it is assumed that the Consideration of HK$796,946,000 represents the estimated fair value of the purchase price (Note 4), while the net fair values of the identifiable assets, liabilities and contingent liabilities of the Target Group and the Sale Loans (as defined in the Circular) being acquired is HK$447,382,000 as at 31 December 2013, which comprises:

i. the fair value of the 100% interests in the intangible assets resulting from the operating licenses of the pawn broker business of the Target Group amounting to HK$170,851,000 (before net of deferred tax liabilities), or amounting to HK$128,138,000 (net of deferred tax liabilities);

ii. the fair value of other net tangible assets of the Target Group, amounting to HK$314,244,000; and

iii. the fair value of Sale Loans acquired, amounting to HK$5,000,000.

The fair value of the identifiable assets (including intangible assets) and liabilities of the Target Group used in the preparation of the Unaudited Pro Forma Financial Information are subject to changes up to the completion of the Acquisition which shall be assessed on the date of completion of the Acquisition. Consequently, the actual allocation of the Consideration, the resulting goodwill to be recognised in connection with the Acquisition at the acquisition date could be materially different from the estimated amounts stated herein and will likely result in different amounts than those stated in the Unaudited Pro Forma Financial Information.

The Directors have also referred to the separate valuation report by GCA dated 30 May 2014 to determine the operating licenses of the Pawn Broker Business of the Target Group in accordance with HKAS 38 "Intangible assets". Based on past experience that the operating licenses can be renewed with no significant costs, and the conditions necessary to obtain renewal can be satisfied, for the purposes of this Unaudited Pro Forma Financial Information, the Directors have assumed that operating licenses have an indefinite useful life. The Directors shall, for each period, review and determine whether events and circumstances continue to support an indefinite useful life assessment for these operating licenses under HKAS 38. If they do not, the change in the useful life assessment shall be accounted for as a change in an accounting estimate in accordance with HKAS 8. Should such a change occur, there may be significant additional amortisation expenses and other effects on the Unaudited Pro Forma Financial Information of the Enlarged Group.

For the purpose of the Unaudited Pro Forma Financial Information, the Directors have made an assessment on whether there is any impairment in respect of the goodwill and intangible assets arising from the Acquisition with reference to Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36"). With respect to the impairment assessment for goodwill, the Directors assume that upon the completion of the Acquisition all of the business of the Target Group will be within a distinct lending cash generating unit ("Lending CGU") and have engaged GCA to assist them to assess whether there is any impairment of goodwill in the Lending CGU. GCA has assessed the Target Group's business value (recoverable value) as well as the discounted cash flows arising from the identifiable intangible assets and has also taken into consideration the historical performance and the financial performance of the Target Group and reviewed the reasonableness and appropriateness of the methodology and the key parameters and business assumptions adopted by the Directors.

Based on the assessment results of GCA, the Directors determine whether there is any impairment of the identifiable intangible assets and goodwill in accordance with HKAS 36, which is consistent with the accounting policy of the Company. On this basis and for the purpose of the Unaudited Pro Forma Financial Information, the Directors concluded that there is no impairment in the value of the identifiable intangible assets and goodwill. In their opinion, the recoverable amount of this Lending CGU is higher than its carrying value in the unaudited pro forma consolidated statement of financial position. The Company will adopt consistent accounting policies and principal assumptions and valuation method (as used in the Unaudited Pro Forma Financial Information) to assess the impairment of the Enlarged Group's goodwill in future, and communicate such basis with its current auditor.

The adjustments relating to purchase price allocation also included the consolidation entries for the elimination of investment cost, share capital and reserves of the Target Group, and are non-recurring in nature.

6. The pro forma adjustment represents:

   (a) An increase in share capital as a result of the issuance of the Consideration Shares to the Vendors amounting to HK$93,800,000, at HK$0.35 per share. The hypothetical fair value of the Consideration Shares to be issued was approximately HK$120,600,000 as at 31 December 2013.

   (b) Elimination of reserves of the Target Group amounting to HK$314,244,000.

7. Assuming the Acquisition had taken place on 1 April 2012, interest expenses arising from issuance of Promissory Notes and Convertible Bonds, as described in total cost of the Acquisition per Note 4, are recognised as below:

	HK$'000
Interest expenses arising from the Acquisition:	
– amortized interest expenses from Promissory Notes (8% per annum interest payment) issued on 31 March 2012 *(note a)*	4,460
– amortized interest expenses from liability portion of Convertible Bonds – Initial Consideration issued on 31 March 2012 *(note b)*	29,290
	33,750

Note a: When calculating the amortized interest expenses from Promissory Notes, an effective interest of 9.44% per annum was used.

Note b: When calculating the amortized interest expenses from liability portion of Convertible Bonds, an effective interest rate of 11.18% per annum was used.

Based on the terms of the Promissory Notes and Convertible Bonds, the Directors expect the Group only need to pay cash of HK$4,000,000 to settle the 8% coupon payment of the HK$50,000,000 Promissory Notes issued as the Initial Consideration in the first year after the date of the Acquisition.

8. The adjustments in the Unadjusted Pro Forma Consolidated Income Statement, Unadjusted Pro Forma Consolidated Statement of Comprehensive Income and Unadjusted Pro Forma Consolidated Statement of Cash Flows for the year ended 31 March 2013 represent estimated acquisition-related costs, including legal and professional fee and transaction costs of approximately HK$19,700,000 payable by the Group. The adjustment in the Unadjusted Pro Forma Consolidated Statement of Financial Position as at 31 December 2013 is HK$14,170,000 because HK$5,530,000 out of the HK$19,700,000 acquisition-related costs have been paid as at 31 December 2013. These adjustments are not expected to have continuing effect on the Enlarged Group's consolidated income statement and consolidated cash flow statement.

9. The pro forma adjustments represent pro forma cash flow items reclassification (1) to reflect the net cash receipt from the Acquisition amounting to HK$60,497,000, as represented by the cash and cash equivalents of the Target Group as at end of its preceding accounting period amounting to HK$80,197,000 to be consolidated into the Enlarged Group on the acquisition date 1 April 2012, net off with the Acquisition-related cost of HK$19,700,000, and (2) the elimination of the cash and cash equivalents of the Target Group as at end of its preceding accounting period amounting to HK$80,197,000.

10. Apart from the above, no other adjustments have been made to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 31 December 2013.

B. Independent reporting accountant's assurance report on the compilation of unaudited pro forma financial information

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A CIRCULAR

TO THE DIRECTORS OF MING KEI HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Ming Kei Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), and Prima Finance Holdings Limited and its subsidiaries (the "Target Group") (collectively the "Enlarged Group") prepared by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2013, the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited consolidated statement of cash flows for the year ended 31 March 2013, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-15 of the Company's circular dated 30 May 2014 (the "Circular"), in connection with the proposed acquisition of the Target Group (the "Transaction") by Star Capital Global Limited, a direct wholly-owned subsidiary of the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in the notes set out on pages III-10 to III-15 in Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction on the Group's financial position as at 31 December 2013 and the Group's financial performance and cash flows for the year ended 31 March 2013 as if the Transaction had taken place at 31 December 2013 and 1 April 2012 respectively. As part of this process, information about the Group's results and cash flows for the year ended 31 March 2013 has been extracted by the Directors from the Group's audited consolidated financial statements for the year ended 31 March 2013 set out in its annual report, while the Group's financial position as at 31 December 2013 has been

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

extracted from the Group's consolidated unaudited financial statements for the period ended 31 December 2013 set out in its third quarterly report, on which no audit or review report has been published. The same information about the Target Group has been extracted by the Directors from the Target Group's financial statements for the years ended 31 December 2011, 2012 and 2013, on which an accountant's report was published in Appendix II to the Circular.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For the purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for the purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 31 December 2013 and 1 April 2012, respectively, would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and

- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Company, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 May 2014

II. INDEBTEDNESS STATEMENT OF THE ENLARGED GROUP

As at the close of business on 31 March 2014, being the latest practicable date for the purposes of preparing this statement of indebtedness prior to the printing of this circular, the Enlarged Group had (i) an amount due to a non-controlling owner of a subsidiary of approximately HK$1,950,000, which is unsecured, interest-free and has no fixed terms of repayment; and (ii) an unsecured bank borrowings of RMB25,000,000.

Save as aforesaid, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, the Enlarged Group did not have any other outstanding borrowings, mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 31 March 2014.

The Directors are not aware of any material changes in the indebtedness, contingent liabilities and commitments of the Enlarged Group since 31 March 2014, the date to which the statement of indebtedness is made and up to the Latest Practicable Date.

III. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that the Enlarged Group will, taking into account the financial resources available to the Enlarged Group, including internally generated funds, the available banking facilities, have sufficient working capital for its present operating requirements and for the next twelve months from the date of this circular in the absence of unforeseen circumstances.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and upon the allotment and issue of the Consideration Shares and the full conversion of all of the Convertible Bonds under the Initial Consideration and the full conversion of the Convertible Bonds under the maximum Earn-out Consideration will be as follows:

Authorised:		*HK$*
10,000,000,000	Shares	100,000,000
Issued, fully paid or credited as fully paid:		
700,380,284	Shares in issue as at the Latest Practicable Date	7,003,802.84
268,000,000	Consideration Shares to be allotted and issued upon Completion	2,680,000.00
1,200,571,427	Conversion Shares to be issued assuming full conversion of the Convertible Bonds to be issued under the Initial Consideration	12,005,714.27
674,285,714	Conversion Shares to be issued assuming full conversion of the Convertible Bonds to be issued under the (maximum) Earn-out Consideration	6,742,857.14
2,843,237,425	Shares	28,432,374.25

3. DISCLOSURE OF INTERESTS

(i) Directors' interests

As at the Latest Practicable Date, the interests or short positions of each Director and chief executive of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required 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 he or she was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the Shares

Name of Director	Nature of interests	Number of ordinary shares held	Approximate percentage of shareholding in the Company
The Purchaser's Guarantor *(Note)*	Interests in controlled corporation	75,676(L)	0.01%
	Beneficial	36,400(L)	0.01%

Note: MKIH is wholly and beneficially owned by the Purchaser's Guarantor (i.e. Mr. Wong Wai Sing), who is also an executive Director and the chairman of the Company and the sole executive director of MKIH. Therefore, the Purchaser's Guarantor, is deemed to be interested in the 75,676 Shares in which MKIH is interested.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company or their respective associates (within the meaning of the GEM Listing Rules) had any interests and short positions in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required 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 he or she was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the Shares, debentures or underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO.

(ii) Substantial Shareholders' interests

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares, debentures or underlying shares of the Company 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 and be recorded in the register required to be kept under section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company were as follows:

Long positions in the Shares

Name of Shareholders	Nature of interests	Number of ordinary shares held	Approximate percentage of shareholding in the Company
Vitasmart *(Note 1)*	Beneficial	96,100,000	13.72%
Ms. Chan *(Note 1)*	Interests of spouse	120,000,000	17.13%
Mr. Lau *(Note 1)*	Interests in controlled corporation	96,100,000	13.72%
	Beneficial	23,900,000	3.41%
Exuberant Global *(Note 2)*	Beneficial	1,578,857,142	225.43%
The Vendors' Guarantor *(Note 2)*	Interests in controlled corporation	1,578,857,142	225.43%
Time Prestige *(Notes 3 & 4)*	Beneficial	161,142,857	23.01%
Mr. Dai Hao *(Notes 3 & 4)*	Interests in controlled corporation	161,142,857	23.01%
	Interests of spouse	402,857,142	57.52%

Name of Shareholders	Nature of interests	Number of ordinary shares held	Approximate percentage of shareholding in the Company
Bustling Capital *(Notes 3 & 4)*	Beneficial	402,857,142	57.52%
Ms. Jin *(Notes 3 & 4)*	Interests in controlled corporation	402,857,142	57.52%
	Interest of spouse	161,142,857	23.01%

Notes:

1. Mr. Lau, a substantial Shareholder, is the beneficial owner of 23,900,000 Shares and is interested in 96,100,000 Shares, through Vitasmart, a company wholly and beneficially owned by him. Ms. Chan is the spouse of Mr. Lau. Mr. Lau and Ms. Chan are the father-in-law and mother-in-law respectively of Mr. Tsang, a non-executive Director and vice-chairman of the Company. Ms. Chan, being the spouse of Mr. Lau, is deemed to be interested in 96,100,000 Shares held by Vitasmart and 23,900,000 Shares held by Mr. Lau.

2. The 1,578,857,142 Shares represent the 174,200,000 Consideration Shares, 730,371,428 Conversion Shares to be issued upon full conversion of the Convertible Bonds under the Initial Consideration to be issued upon Completion, and a maximum of 674,285,714 Conversion Shares to be issued upon full conversion of the Convertible Bonds to be issued subject to the fulfilment of the profit achievement to Exuberant Global.

   Exuberant Global is wholly and beneficially owned by the Vendors' Guarantor. Accordingly, the Vendors' Guarantor is deemed to be interested in the 1,578,857,142 Shares.

3. The 161,142,857 Shares represent the 26,800,000 Consideration Shares and 134,342,857 Conversion Shares to be issued upon full conversion of the Convertible Bonds to be issued to Time Prestige upon Completion.

   Time Prestige is wholly and beneficially owned by Mr. Dai Hao. Accordingly, Mr. Dai Hao is deemed to be interested in the 161,142,857 Shares. In addition, by virtue of being the spouse of Ms. Jin, Mr. Dai Hao is also deemed to be interested in 402,857,142 Shares held by Bustling Capital.

4. The 402,857,142 Shares represent the 67,000,000 Consideration Shares and 335,857,142 Conversion Shares to be issued upon full conversion of the Convertible Bonds to be issued to Bustling Capital upon Completion.

   Bustling Capital is wholly and beneficially owned by Ms. Jin. Accordingly, Ms. Jin is deemed to be interested in the 402,857,142 Shares. In addition, Ms. Jin, being the spouse of Mr. Dai Hao, is also deemed to be interested in the 161,142,857 Shares that will be held by Time Prestige.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person(s) (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares, debentures or underlying shares of the Company 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 and be recorded in the register to be kept under section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Company or had any options in respect of such Shares.

4. DIRECTORS' SERVICE CONTRACTS

None of the Directors or the proposed Directors had entered or been proposed to enter into any service contract with the Company or any other member of the Group excluding contract expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation) as at the Latest Practicable Date.

5. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

(a) As at the Latest Practicable Date, none of the Directors and the proposed Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 March 2013, the date to which the latest published audited financial statements of the Group were made up.

(b) As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any subsisting contract or arrangement which was significant in relation to the business of the Enlarged Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and proposed Directors and their respective associates were considered to have an interest or a business which competes or is likely to compete or have any other conflict of interest, either directly or indirectly, with the business of the Enlarged Group.

7. MATERIAL CONTRACTS

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

(i) the sale and purchase agreement dated 24 May 2012 (supplemented by the supplemental agreement dated 15 August 2012 and the letter of agreement dated 10 September 2012) and entered into between Star International Business Development Company Limited, an indirect wholly-owned subsidiary of the Company, as purchaser and Mr. Yuan Huafeng as vendor in respect of the acquisition of the entire issued share capital of Foremost Star Investments Limited for a consideration of HK$88,000,000;

(ii) the underwriting agreement dated 5 July 2012 and entered into between the Company as the issuer and Orient Securities Limited as underwriter in relation to the open offer on the basis of one (1) Share for two (2) existing Shares held on 23 July 2012 at HK$0.43 per offer Share;

(iii) the placing agreement dated 20 August 2012 and entered into between the Company as the issuer and Orient Securities Limited as placing agent in relation to the placing of 46,100,000 placing Shares at HK$0.36 per placing Share;

(iv) the subscription agreement dated 30 October 2012 entered into between the Target as issuer and Ms. Chiu Wen Yan ("**Ms. Chiu**") as subscriber in relation to the subscription by Ms. Chiu of the convertible bonds (the "**Target Bonds**") with the principal amount of HK$5 million issued by the Target;

(v) the non-legal binding memorandum of understanding dated 14 December 2012 and entered into between Grand Just Limited, a direct wholly-owned subsidiary of the Company, as purchaser and Mr. Lau Loi Hei as vendor in relation to the acquisition of the 100% equity interest of Wider Trading Limited;

(vi) the placing agreement dated 17 December 2012 and entered into between the Company as the issuer and Orient Securities Limited as the underwriter in relation to the placing of 78,370,000 Shares at HK$0.35 per placing Share;

(vii) the agreement dated 20 December 2012 entered into between the Target as borrower, Exuberant Global as purchaser and lender and Ms. Chiu as vendor in relation to (i) the acquisition of the Target Bonds by Exuberant Global from Ms. Chiu; (ii) the termination of the Target Bonds by the Target; and (iii) a shareholder's loan in the principal amount of HK$5 million from Exuberant Global to the Target;

(viii) the non-legal binding memorandum of understanding dated 14 January 2013 (lapsed on 13 April 2013) and entered into between Elite Best Enterprises Limited, a direct wholly-owned subsidiary of the Company, as purchaser and Ms. Liu Mei Mei as vendor in relation to the acquisition of 51% equity interest of First May Holdings Limited;

(ix) the underwriting agreement dated 16 January 2013 (supplemented by a supplemental agreement dated 23 April 2013) entered into between the Company and Orient Securities Limited as the underwriter in relation to the underwriting and certain other arrangements in respect of the rights issue in the portion of three (3) rights Shares for every ten (10) existing Shares held on 14 June 2013 at HK$0.20 per rights Share;

(x) the sale and purchase agreement dated 27 March 2013 (lapsed on 26 September 2013) and entered into between Grand Just Limited, a wholly-owned subsidiary of the Company, as purchaser and Mr. Lau Hoi Hei, an independent third party of the Company, as vendor in relation to the acquisition of the entire interest in Wider Trading Limited and its subsidiaries for a consideration of HK$13,000,000;

(xi) the memorandum of understanding dated 5 July 2013 entered into between the Purchaser and the Vendors in relation to the Acquisition;

(xii) the Beijing Micro-financing structured Agreements;

(xiii) the Pawnbrokers Structured Agreements;

(xiv) the Acquisition Agreement (supplemented by the extension letter dated 19 May 2014); and

(xv) the placing agreement dated 8 May 2014 entered into between Emperor Securities Limited as the placing agent and the Company in relation to the placing of a maximum of 44,500,000 new Shares at HK$0.450 per placing Share.

8. INTELLECTUAL PROPERTY RIGHTS OF THE TARGET GROUP

(a) Trademarks

As at the Latest Practicable Date, the Target Group was the registered proprietor and beneficial owner of the following trademarks:

Trademark	Name of registered proprietor	Place of registration	Class	Registration number	Expiry date (dd/mm/yyyy)
A 1D 第一金融控股有限公司 PRIMA FINANCE HOLDINGS LIMITED B 1D 第一金融控股有限公司 PRIMA FINANCE HOLDINGS LIMITED	United Tone	Hong Kong	36, 42	302332511	31/07/2022
A 1D 第一金融 PRIMA FINANCE B 1D 第一金融 PRIMA FINANCE	United Tone	Hong Kong	36, 42	302422287	31/10/2022
金祿	Beijing Jinlu	PRC	36	6031408	06/03/2020
金壽	Beijing Jinshou	PRC	36	6050390	06/03/2020

(b) Domain name

As at the Latest Practicable Date, the following domain names are owned and used by the Target Group:

Domain name	Name of registered proprietor	Expiry date (dd/mm/yyyy)
jinfudiandang.com	Beijing Jinfu	17/06/2014
jinludiandang.com	Beijing Jinlu	11/03/2015
jinxidiandang.com	Beijing Jinxi	08/08/2014
bjzjfmc.com	Beijing Micro-financing	30/04/2016

9. LITIGATION

Save and except for the four on-going litigation cases regarding customers' defaults which both the Target Group and the PRC Legal Adviser consider to be of no material adverse effect on the business, financial condition or results of operations of the Target Group (as disclosed in the paragraph headed "Legal proceeding" under the section headed "Letter from the Board" in this circular), as at the Latest Practicable Date, so far as the Directors were aware of, and based on information provided by the Vendors, no member of the Enlarged Group was involved or may become a party in any material litigation and of any potential claims against any of members of the Enlarged Group that would affect the Enlarged Group's financial and operational positions.

10. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinions or advice which is contained in this circular:

Name	Qualification
Optima Capital	a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Jingtian & Gongcheng	registered law firm in the PRC

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its report and/or legal opinion (as the case may be) and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interest in any assets which had been, since 31 March 2013, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any members of the Enlarged Group.

11. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

The Purchaser's Guarantor (i.e. Mr. Wong Wai Sing, hereafter "**Mr. Wong**"), aged 28, is a member of the Hong Kong Institute of Directors. Mr. Wong holds a bachelor's degree of science in international business from the Canterbury University, London, an international master's degree of business administration from the Stratford University, Falls Church, Virginia, the United States of America and a master of arts and a doctor of philosophy from the Universidad Empresarial De Costa Rica. He also obtained a certificate of three-tiers' integrate coal mine's safety (三級煤礦安全技術綜合考試) from the Bureau of Xinjiang Coal Mine Safety Supervision, the PRC (中國新疆煤礦安全監察局) and a diploma of lifestyle medicine for stress management from the Harvard Medical School Department of Continuing Education. Mr. Wong is also the Trade Adviser of the Honorary Consulate of Equatorial Guinea to Bucharest Romania and the Diplomatic Adviser to the Special Representatives for the PRC of the Sovereign Order of Saint John of Jerusalem, Knights of Malta, Federation of the Autonomous Priories.

Mr. Wong has experience in a wide range of business, including the coal mining, natural resources industry, international coal trading, business consultation, property investment, provision of internet e-gaming, rendering of travel agent services, entertainment programme production, events organisation, TV series production, operation of an artist training school, provision of motor vehicles beauty services, provision of underwriting services for general insurance and reinsurance business, manufacture and trading of hygienic disposables for household and clinical uses, trading of methyl tert-butyl ether's and wholesale and retail of household consumables. He is also the owner of Colors Securities Limited, which is principally engaged in type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO and Colors Commodities Limited, which is principally engaged in type 2 (dealing in futures contracts) and type 5 (advising on futures contracts) regulated activities under the SFO.

Mr. Wong has taken up the management role as an executive director of a number of subsidiaries of the Company.

Mr. Wong had been a consultant of a Hong Kong-based medium-sized CPA firm for more than a year. He had been also the chairman and an executive director of TLT Lottotainment Group Limited, a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the GEM (stock code: 8022), from 17 April 2009 to 31 May 2011.

Mr. Wong is also an executive director, the chairman and the chief executive officer of Newtree Group Holdings Limited ("**Newtree**"), a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the main board (the "**Main Board**") of the Stock Exchange (stock code: 1323).

Mr. Ho Pui Tin, Terence ("**Mr. Ho**"), aged 47, is the executive Director, the chief executive officer, the authorised representative, the compliance officer, and the member of the nomination committee and remuneration committee of the Company. Mr. Ho completed a professional diploma in accountancy in the Hong Kong Polytechnic University in 1989 and is also a Certified Public Accountant (the "**CPA**") of the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). Mr. Ho has over 24 years of extensive practical experiences and extensive knowledge in the accounting, corporate finance, financial, property investment and development, manufacturing, retail, securities and infrastructures industry. Prior to joining the Company, Mr. Ho had been the financial director and non-executive director of Wah Nam International Holdings Limited, a company incorporated in Bermuda with limited liability and the issued shares of which were listed on the Main Board (stock code: 159), from 1997 to 1999. Mr. Ho is currently the director of Metro Capital Securities Limited and responsible for overseeing the accounting, compliance and reporting of the securities broker. Mr. Ho has taken up the management role as the director of a number of subsidiaries of the Company respectively.

Mr. Han, aged 49, is the executive Director since 9 October 2013. Mr. Han has over 20 years of experience in money lending business in the PRC. Mr. Han has been the risk controller of Zhong Wei (Beijing) Credit Management Company Limited Weijinsuo Platform since May 2013. Prior to that, Mr. Han had been an Intermediate Account Manager in the Industrial and Commercial Bank of China Limited, Haidian branch's Credit Department from 1992 to 2006, had been a vice president in Zhong Hui Guarantee Company Limited from 2006 to 2010, and had been a vice general manager in Beijing Shi Guo Xu Microfinance Company Limited from 2010 to May 2013. Mr. Han graduated in 1987 from the Military Institute of Physical Education of The People's Liberation Army, with three academic years of physical education instructor (staff) training.

Non-executive Directors

Mr. Tsang, aged 32, is a Certified Practising Accountant of CPA Australia, the CPA of the HKICPA, an international associate of the American Institute of Certified Public Accountants, a member of the Hong Kong Institute of Directors, an associate management accountant of the Institute of Certified Management Accountants, Australia, an associate of the Taxation Institute of Hong Kong, a full member of the Institute of Accountants Exchange, a Certified Tax Adviser of the Taxation Institute of Hong Kong and also a member of the Hong Kong Mining Investment Professionals Association.

Mr. Tsang holds a bachelor's degree of commerce from the University of New South Wales, Australia and has also completed an accounting extension course in relation to Australian Taxation Law and Australian Corporations Law in the University of Sydney, Australia. Mr. Tsang has over 11 years of experience in accounting and financial management and has previously worked in Deloitte Touche Tohmatsu, an international CPA firm. Mr. Tsang is also the founder of Gattaca Company Limited, an independent consultancy company specialising in corporate restructuring and financial reengineering and a consultant of GenNex Financial Media Limited, a company which is principally engaged in the provision of financial printing services.

Also, Mr. Tsang was the company secretary and the qualified accountant of Maxitech International Holdings Limited (now named as Richfield Group Holdings Limited), a company incorporated in the Cayman Islands with limited liability and the issued shares of which were previously listed on the GEM (stock code: 8136) and subsequently transferred to the Main Board (stock code: 183) in March 2007. Mr. Tsang is an executive director and joint company secretaries of Newtree, and also the chairman and non-executive director of Rising Power Group Holdings Limited ("**Rising Power**"), a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the GEM (stock code: 8047).

Independent non-executive Directors

Mr. Kwok Kam Tim ("**Mr. Kwok**"), aged 37, is the independent non-executive Director and chairman of the remuneration committee, audit committee and nomination committee of the Company. Mr. Kwok is a fellow member of the

Association of Chartered Certified Accountants (the "**ACCA**"), an associate member of the HKICPA, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Mr. Kwok holds a bachelor's degree of engineering in electronics engineering from the Hong Kong University of Science and Technology, bachelor's degree of arts in accountancy from the Hong Kong Polytechnic University and a master's degree of corporate governance from the Hong Kong Polytechnic University. Mr. Kwok has over 12 years of experience in accounting and financial managements and previously worked in an international accounting firm. Mr. Kwok is currently a financial controller of the Loudong General Nice Resources (China) Holdings Limited, a company listed on the Main Board (stock code: 988). Mr. Kwok is also an independent non-executive director of Newtree.

Mr. Chen Yihua ("**Mr. Chen**"), aged 40, has been the independent non-executive Director since 2 July 2013. Mr. Chen is also a member of the remuneration committee, audit committee and nomination committee of the Company. Mr. Chen holds a bachelor's degree of machinery manufacturing engineering from Tianjin University, PRC. Mr. Chen has 13 years of experience in management in international express logistic industry. Mr. Chen is also familiar with import and export business in machinery and equipment. Mr. Chen held managerial position in different multinational companies, such as China National Overseas Engineering Corporation and FedEx Express-DTW Co. Ltd. Mr. Chen is currently the senior director of infrastructure and process engineering of DHL-Sinotrans International Air Courier Ltd.

Mr. Du Hui ("**Mr. Du**"), aged 40, has been the independent non-executive Director since 9 October 2013. Mr. Du is also a member of the remuneration committee, audit committee and nomination committee of the Company. Mr. Du has over 10 years of experience in financial management in the PRC. Mr. Du has been the sales controller of Beijing Lanxum Technology Company Limited ("**Beijing Lanxum**"), a company listed on the Chinext of Shenzhen Stock Exchange (stock code: SHE:300010), since December 2010. Prior to that, Mr. Du had been a financial controller in Beijing Lanxum from 2002 to November 2010. Mr. Du graduated in 1998 from Sun Yat-sen University with a bachelor's degree of laws and graduated in 2002 from Renmin University of China, with an undergraduate degree of Accounting.

Senior management

Mr. Ho is a member of the senior management of the Company. For details of his biography, please refer to the paragraph headed ''Executive Directors'' in this appendix.

Ms. Sung, aged 39, is the chief financial officer and chief investment officer of the Company. Ms. Sung holds a master's degree of business administration from University of Birmingham, United Kingdom and a bachelor's degree of arts (Honours) in accountancy from Birmingham City University (formerly known as University of Central England in Birmingham), United Kingdom. Ms. Sung is a CPA of the HKICPA and a fellow member of the ACCA. Ms. Sung has over 15 years' experience in finance, accounting, external and internal auditing in both Hong Kong and the PRC. Ms. Sung previously worked as an audit manager in an international accounting firm and an internal audit manager in BALtrans Holdings Limited, which was subsequently delisted on the Main Board after her term of service. Prior to joining the Company, Ms. Sung was a finance manager of China Mining Resources Group Limited (stock code: 340), a company listed on the Main Board. Ms. Sung was the executive director and finance director of Rising Power.

Ms. Sung is the executive director of Newtree. Ms. Sung is also the company secretary and the chief financial officer of Colors Securities Limited and Colors Commodities Limited, both of which are companies principally engaged in the provision of financial services. Ms. Sung is also the chief financial officer of Colors Finance Limited, a licensed company engaged in money lending business in Hong Kong.

Ms. Sung first joined the Company as internal audit manager and was appointed as the chief investment officer of the Company on 2 March 2010. Ms. Sung was re-designated as a chief financial officer and a group financial controller of the Company with effect from 27 September 2010 and 6 August 2012 respectively and then subsequently re-designated from her position as a group financial controller to the chief financial officer and chief investment officer of the Company with effect from 2 July 2013.

Mr. Cheng Man Wah ("**Mr. Cheng**"), aged 33, the company secretary and authorised representative of the Company. Mr. Cheng graduated from The Hong Kong Polytechnic University in 2003 with the Bachelor of Arts degree in accountancy. Mr. Cheng is the CPA of the HKICPA, a fellow member of the ACCA, an ordinary member of Hong Kong Securities and Investment Institute, and a member of The Hong Kong Institute of Directors.

Mr. Cheng has more than 10 years' experience in corporate finance and compliances matters for the listed companies in Hong Kong. Mr. Cheng had worked for PricewaterhouseCoopers and Golden Resources Development International Limited (stock code: 677) for the period from 2007 to 2009. Mr. Cheng then had joined as a financial controller from 2010 to 2012 for Powerwell Pacific Holdings Limited (stock code: 8265) whose shares have been successfully listed on the GEM since January 2011. Mr. Cheng then worked for Strong Petrochemical Holdings Limited (stock code: 852) as the chief financial officer and company secretary and Pearl River Tyre (Holdings) Limited (stock code: 1187) as the joint company secretary in 2012 and 2013 respectively. Mr. Cheng is also the joint company secretary of Newtree.

12. GENERAL

(a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is situated at Unit 01, 3/F., Wheelock House, 20 Pedder Street, Central, Hong Kong.

(c) The branch share registrar of the Company is Tricor Tengis Limited situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The audit committee of the Company was set up for the purpose of renewing and providing supervision over the financial reporting and internal control of the Group, comprises the three independent non-executive Directors, Mr. Kwok, Mr. Chen and Mr. Du. Their biographical details are set out under the section headed "Particulars of Directors and Senior Management" in this appendix.

(e) In the event of inconsistency, the English texts of this circular and accompanying form of proxy shall prevail over the Chinese texts thereof.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Unit 01, 3/F., Wheelock House, 20 Pedder Street, Central, Hong Kong, during normal business hours from 9:00 a.m. to 5:30 p.m. on any Business Day from the date of this circular up to and including the date of the SGM:

(a) the memorandum of continuance of the Company and Bye-laws;

(b) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(c) the accountant's report of the Target Group from PricewaterhouseCoopers as set out in Appendix II to this circular;

(d) the report on the unaudited pro forma financial information of the Enlarged Group from PricewaterhouseCoopers as set out in Appendix III to this circular;

(e) the annual reports of the Company for the years ended 31 March 2012 and 2013 and the third quarterly report for the nine-month period ended 31 December 2013;

(f) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and

(g) this circular.

Ming Kei Holdings Limited
明基控股有限公司 *

(incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 8239)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting ("**SGM**") of Ming Kei Holdings Limited (the "**Company**") will be held at Unit 01, 3/F., Wheelock House, 20 Pedder Street, Central, Hong Kong at 4:00 p.m. on 18 June 2014 for the purposes of considering and, if thought fit, passing with or without amendments, the following resolutions as of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

   (a) the conditional sale and purchase agreement (the "**Acquisition Agreement**") dated 23 December 2013 as supplemented by the extension letter dated 19 May 2014 and entered into among (i) Star Capital Global Limited ("**Star Capital**"), a direct wholly-owned subsidiary of the Company as purchaser; (ii) Mr. Wong Wai Sing as the purchaser's guarantor; (iii) Exuberant Global Limited, Bustling Capital Limited and Time Prestige Holdings Limited collectively as vendors; (iv) Mr. Dai Di, as the vendors' guarantor; and (v) the Company in relation to the acquisition of the entire equity interest in and shareholder's loans to Prima Finance Holdings Limited at a maximum consideration of HK$900,000,000 by Star Capital (a copy of which is marked "A" and produced to the SGM and signed by the chairman of the SGM for identification purpose) and all transactions contemplated thereunder be and are hereby ratified, confirmed and approved;

   (b) the allotment and issue by the Company of 268,000,000 ordinary shares (the "**Consideration Shares**") of HK$0.01 each in the share capital of the Company at an issue price of HK$0.35 per Consideration Share to the Vendors or their respective nominee(s) pursuant to the terms and conditions of the Acquisition Agreement to settle part of the consideration payable by Star Capital under the Acquisition Agreement in accordance with the terms and conditions of the Acquisition Agreement be and are hereby approved, confirmed and ratified;

* *for identification purpose only*

(c) the issue of the convertible bonds (the "**Convertible Bonds**") in the principal amount of HK$420,200,000 and the additional convertible bonds (the "**Earn-out Convertible Bonds**") in the maximum principal amount of HK$236,000,000 by the Company to the Vendors or their respective nominee(s) to settle part of the consideration payable by Star Capital under the Acquisition Agreement in accordance with the terms and conditions of the Acquisition Agreement and all transactions contemplated be and is hereby approved, confirmed and ratified;

(d) the allotment and issue of new ordinary shares (the "**Conversion Shares**") of HK$0.01 each in the share capital of the Company at the initial conversion price of HK$0.35 per Conversion Share which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Bonds and the Earn-out Convertible Bonds to the relevant holder(s) of the Convertible Bonds and the Earn-out Convertible Bonds be and are hereby approved, confirmed and ratified;

(e) subject to the GEM Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares to be allotted and issued, the directors (the "**Directors**") of the Company be and are hereby granted a specific mandate (the "**Specific Mandate**") to allot and issue the Consideration Shares and the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds and the Earn-out Convertible Bonds pursuant to the Acquisition Agreement. The Specific Mandate is in addition to, and shall not prejudice nor revoke any existing or such other general or special mandates which may from time to time be granted to the Directors prior to passing of this resolution;

(f) the issue of the promissory notes (the "**Promissory Notes**") in the aggregate principal amount of HK$100,000,000 by the Company to Exuberant Global Limited or its nominee(s) to settle part of the consideration payable by Star Capital in accordance with the terms and conditions of the Acquisition Agreement and all transactions contemplated be and is hereby approved, confirmed and ratified; and

(g) any Director be and is hereby authorised to do all such acts and things, as he/she may in his/her discretion consider necessary, expedient or desirable and any two Directors be and are hereby authorised to execute all such documents provided that the seal is required to be affixed thereto for the purpose of, or in connection with, the implementation of or giving effect to the Acquisition Agreement and the transactions contemplated thereunder including but not limited to the exercise or enforcement of any of the Company's rights under the Acquisition Agreement, to make and agree to such variations of the terms of the Acquisition Agreement and/or redemption of the Convertible Bonds, the Earn-Out Convertible Bonds or the Promissory Notes (or any part thereof before their maturity date) as he/she may consider to be appropriate and in the interests of the Company, the allotment and issue of the Consideration Shares, the issue of the Convertible Bonds and the Earn-out Convertible Bonds, the allotment and issue of the Conversion Shares which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds and the Earn-out Convertible Bonds, the issue of the Promissory Notes and the transactions ancillary thereto and of administrative nature which he/they consider necessary, desirable or expedient."

2. (a) To re-elect Mr. Han Jianli as a Director; and

   (b) To re-elect Mr. Du Hui as a Director.

By order of the Board
Ming Kei Holdings Limited
Mr. Wong Wai Sing
Chairman and Executive Director

Hong Kong, 30 May 2014

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
Unit 01, 3/F.,
Wheelock House,
20 Pedder Street,
Central, Hong Kong

Notes:

1. All resolutions at the SGM shall be taken by poll pursuant to the Rules (the "GEM Listing Rules") Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of The Stock Exchange Hong Kong Limited and the results of the poll will be published on the websites of GEM and the Company in accordance with the GEM Listing Rules.

2. Any member of the Company entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares (the "Shares") of the Company may appoint more than one proxy to represent him and vote on his behalf at the SGM. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.

3. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

4. To be valid, the instrument appointing a proxy and (if required by the board (the "Board") of the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the Company's Hong Kong branch share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.

5. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at the SGM or any adjournment thereof in cases where the SGM was originally held within 12 months from such date.

6. Where there are joint holders of any Shares, any one of such joint holders may vote at the SGM, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

7. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the SGM if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.